Actively Building a New Future

ANNUAL REPORT 2020

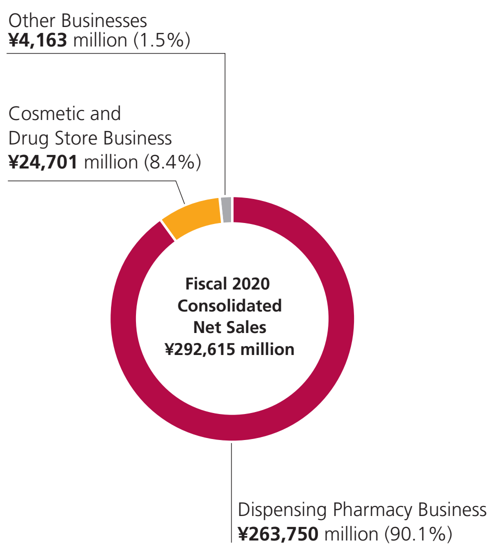
For the year ended April 30, 2020

AIN HOLDINGS

AIN HOLDINGS operates a dispensing pharmacy business, which is the leader in Japan by sales, and a cosmetic & drug store business centered on *ainz & tulpe* stores, which are mainly aimed at women. In the dispensing pharmacy business, we aim to build a dominant position in the market while playing a key role in local healthcare infrastructure. In the cosmetic & drug store business, we are opening specialist cosmetics stores under the *ainz & tulpe* brand in prime urban locations. Our unique store designs are proving popular with customers, helping to reinforce our brands and increase earnings.

Amid the fast-changing operating environment, one of our missions is to create value by harnessing the AIN Group's strengths to tackle issues faced by society. To realize that mission and generate sustained growth, the AIN Group is reinforcing its management base and rapidly implementing strategies to launch the next stage of growth.

▶ Net sales by segment



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FORWARD-LOOKING STATEMENTS

This annual report contains forecasts and projections concerning the plans, strategies and performance of AIN HOLDINGS INC. and its subsidiaries and affiliates. These forecasts and projections constitute forward-looking statements that are not historical facts, but are based on assumptions and beliefs in accordance with data currently available to management. These forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to, economic conditions, intense competition in the healthcare industry, demand, foreign exchange rates, tax systems, and laws and regulations. As such, AIN HOLDINGS INC. wishes to caution readers that actual results may differ materially from those projected.

Kiichi Otani
President and Representative Director

Thank you for continued support for the AIN Group. We hope you are all keeping safe and well amid the COVID-19 outbreak, which is having a significant impact on our work and daily lives.

In our dispensing pharmacy business, roughly 5,000 pharmacists continue to work hard each day in our dispensing pharmacies, which are close to the frontline of healthcare. This crisis has shown again how the AIN Group plays a vital role in local healthcare provision in Japan. Also, in our cosmetic and drug store business, we are taking innovative steps to protect the health and ensure the comfort of people every day.

Going forward, the AIN Group will continue to work as a unified, single team to generate sustained value by adapting to changes in our operating environment.

Sales and profits rise despite tough operating environment

For fiscal 2020, ended April 30, 2020, we reported net sales of ¥292,615 million, up 6.2% year on year, operating income of ¥16,068 million, flat year on year, and profit attributable to owners of parent of ¥9,179 million, up 1.7%.

In the dispensing pharmacy business, sales continue to increase steadily, supported by new growth drivers such as the opening of onsite dispensing pharmacies including three pharmacies opened at university hospitals in April 2020. Towards the end of the fiscal year under review, the number of prescriptions declined amid calls for people to stay at home during the COVID-19 outbreak. However, there was no significant impact on sales, as the average unit price per prescription increased. Dispensing fee revisions in April 2020 confirmed a continued shift in the reimbursement system from dispensing focused on products to dispensing focused on services. The AIN Group has been preparing for that shift for some time, so the negative impact of the revisions is likely to be modest and we expect a positive impact from early fiscal 2021. In another development, we entered into a business alliance with Shidax Corporation in February 2020. As part of the agreement, Shidax i Corporation, which mainly runs retail shops in hospitals, joined the AIN Group on March 31, 2020. Managing retail shops is a new challenge for us, but Shidax i has a strong track record in store operations in hospitals and other locations, so we anticipate synergies with our dispensing pharmacy business.

In the cosmetic and drug store business, sales declined sharply from early 2020 due to the voluntary closure of retail facilities and other factors. However, fiscal 2020 was a good year for the business, with 15 new stores opened, including *ainz & tulpe* HAKATA MARUI, our first location in Kyushu, and an improvement in the gross margin to roughly 40%. Makeup and cosmetic brand *DAZZSHOP*, well-known for its eye makeup products, also joined the AIN Group. The acquisition will make it easier for us to launch popular products and will help drive expansion in the cosmetic and drug store business.

Dispensing pharmacy business: Opening more sites and raising pharmacist quality

As the leading player in the dispensing pharmacy sector, the AIN Group aims to convert all its locations into primary care pharmacies that align with the government's vision for patient-focused dispensing pharmacies.

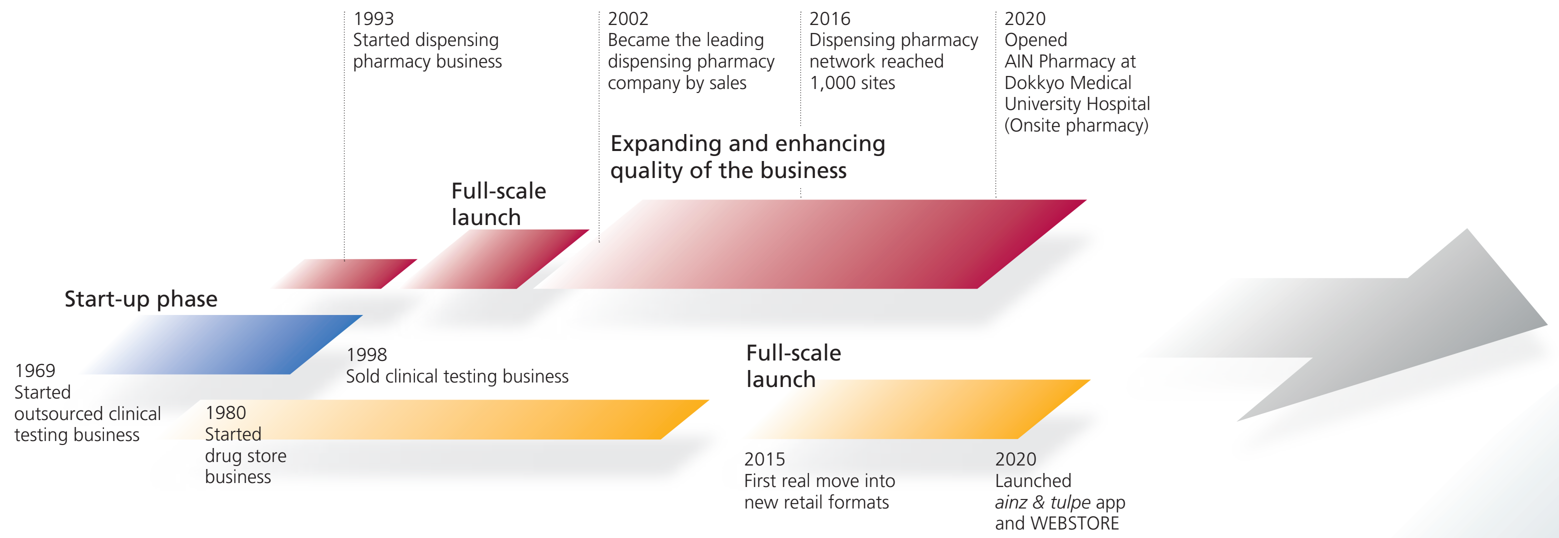
Changes to guidelines in 2016 allowed the opening of dispensing pharmacies on hospital premises. These onsite pharmacies also fit with the government's vision and are well-placed to keep up with advances in healthcare, making them the ultimate primary care pharmacy. The AIN Group has a strong reputation in the sector thanks to our extensive dispensing pharmacy capabilities and healthy financial position, so we regularly receive requests from university hospitals and other medical institutions to partner with them in the opening of onsite pharmacies. We anticipate a growing need for onsite pharmacies over the medium and long term. That and other trends means that the expected major structural realignment in the dispensing pharmacy sector is becoming clearer. Given that outlook, we will continue to pursue M&A deals with an emphasis on investment efficiency and open more dispensing pharmacies, particularly large-scale sites, to grow the Group's top line.

Recruiting and retaining human resources in a planned way is key to support sustained growth in value. Despite the lack of qualified pharmacists in Japan, we hired 560 newly graduated pharmacists during fiscal 2020, surpassing our start-of-year target of 400. We aim to hire roughly the same number in fiscal 2021. With dispensing pharmacies now expected to play a broader role in communities and provide specialist services, we are improving training programs and support systems for our pharmacists and increasing opportunities for them to learn about advanced healthcare. These programs are reviewed and improved every year.

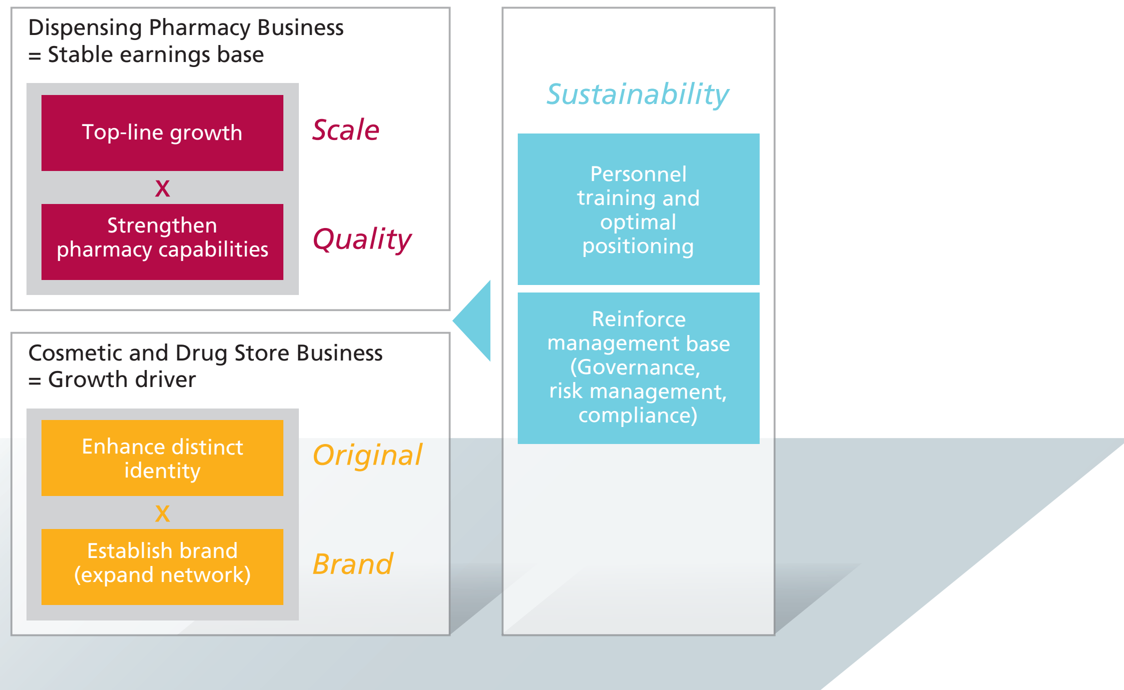
One area we need to address going forward is online medical examinations, which took a step closer to reality due to the COVID-19 outbreak. Even before the outbreak, the AIN Group had started providing online guidance for pharmaceutical use in one of the government's National Strategic Special Zones. We will now step up efforts to prepare for full-scale rollout of the system while also ensuring patients have the option to continue using AIN dispensing pharmacies.

Separately, the AIN Group is putting considerable effort into branding through TV advertising and other channels. By raising the visibility of the AIN Group and its dispensing pharmacies, we aim to create an even closer connection with all our stakeholders, including hospitals and people studying to be pharmacists.

▶ AIN Group' history in one minuit



▶ Growth strategy



Cosmetic and drug store business: Strengthening our online business and physical stores

Amid a growing number of requests from department stores and commercial facilities, we expect to open roughly the same number of *ainz & tulpe* stores in fiscal 2021 as in fiscal 2020.

To drive further growth, we launched an official smartphone app in October 2019 and an *ainz & tulpe* webstore in April 2020, followed by the start of full-scale operations in May. We plan to upgrade the online site with new functionality such as connectivity with the official app, in addition to benefits such as competitive pricing, loyalty points and other privileges for customers. The success of the webstore will also depend on improvements to physical stores. We are extending the *ainz & tulpe* chain to all major cities in Japan, but no two stores will be the same. That is because merchandise lineups and store operations are tailored to the characteristics of local markets and customers, as well as store size, while adhering to a common chain development strategy. That flexible approach is *ainz & tulpe's* strength. The cosmetic and drug store business has increased the gross margin and expanded the merchandise lineup. *Ainz & tulpe* stores now sell a range of original brands such as *LIPS and HIPS* (cosmetics), *PLIFT* (skincare) and *cocodesica* (beauty supplies), as well as the *AYURA* and *DAZZSHOP* brands acquired from other companies. Our strategy of providing value to consumers without resorting to discount pricing has won praise in the industry, leading to collaborations with cosmetics makers in product development. We aim to stick with our approach to set *ainz & tulpe* even further apart from other retailers in the market.

ESG: The basis for sustained value creation

Growing interest in environmental, social and governance (ESG) issues is encouraging us to think more deeply about how to create corporate value. Recognizing that the AIN Group has to address ESG issues in order to create value on a sustained basis, we are stepping up efforts in ESG, led by a new Sustainability Management Department established in May 2020. Led by the new Sustainability Management Department established on May 1, 2020, we are also currently consulting with experts in order to select areas of materiality and formulate an action plan during the fiscal year ending April 30, 2021.

In social issues, we have been actively offering opportunities for women to develop their careers for some time, partly because women make up a high proportion of qualified pharmacists. Our dispensing pharmacy business also plays a key role in our society. However, the COVID-19 outbreak is forcing us to rethink how we can better contribute to the society in other ways.

In environmental issues, we have been discussing for some time how the Group can have a positive impact on the environment. In March 2020, we launched a trial at some of the Group's dispensing pharmacies to build a new pharmaceutical distribution model that will help contribute to a healthier and more sustainable society. Dispensing pharmacies and drug wholesalers operate in the same healthcare sector, but they are different types of business. By overcoming that barrier through closer cooperation, we aim to cut CO_2 emissions related to pharmaceutical transportation by 95% and ensure steady progress in work-style reform by improving the efficiency of inventory management. We think the goals of our trial are achievable thanks to the expertise we have accumulated from our pharmacy-led project, which was launched in 2012 and is designed to improve efficiency and services » See pages 18-19 for more details. We launched the latest trial at seven dispensing pharmacies in Saitama Prefecture, but we plan to roll it out across the network in the future. The goals are ambitious, but we hope the main theme of creating a sustainable society will trigger a turning point in the healthcare sector as a whole.

In governance issues, we have made a number of improvements in recent years, including the creation of a new nomination and remuneration committee in May 2019. However, there is still room for improvement and we will continue to focus on this area going forward.

Realizing our vision for long-term growth

The AIN Group is strengthening its business base to support the next phase of growth. Our Digital Promotion Division, which is responsible for IT strategy, has currently around 40 staff, but we plan to roughly double headcount in the near future to help us extend the use of IT to all corners of our business.

We are also working on our long-term vision for the Group, taking into account expected risks and opportunities. When all the initiatives currently being implemented start to bear fruit, we are set to see a major transformation in the Group's business model. I hope we can count on the continued support and trust of investors and all our stakeholders for many years to come as we work to realize our vision for long-term growth.

July 31, 2020

Kiichi Otani
President and Representative Director

AIN Group Businesses

In this section, we look at the operating environment, market position and other aspects of the Group's two core businesses to provide a more in-depth understanding of the AIN Group's strategy.

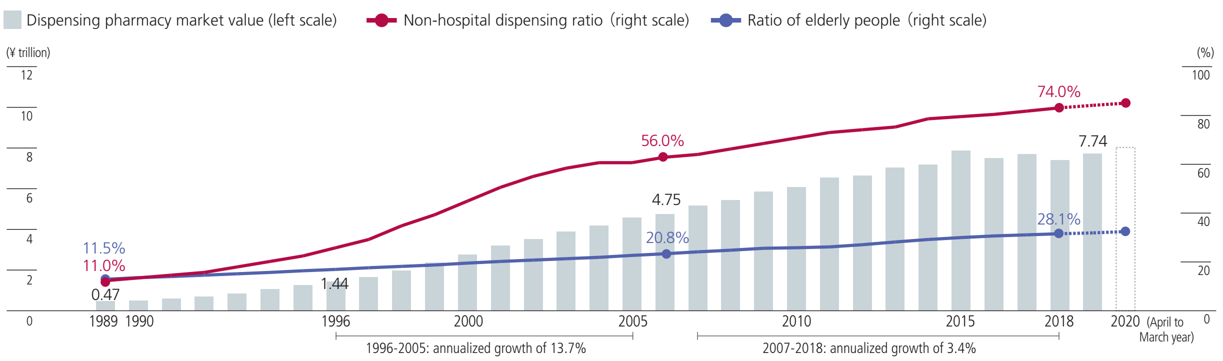
Dispensing pharmacy business – operating environment and characteristics

Japan's dispensing pharmacy market is mature but still very fragmented. Barriers to entry are high due to a number of risks, including demands on pharmacies to play an even greater role in healthcare provision, regular revisions to drug prices and dispensing fees, and a shortage of qualified pharmacists. The sector is also on the verge of a major realignment spurred by deregulation and other factors.

A fragmented market

Japan's dispensing pharmacy sector is fragmented, with the top five companies accounting for only around 13.2% of the market, including the Group's leading share of about 3.5%. As small and mid-size operators struggle to address the pharmacist shortage and regulatory changes, we expect the pace of M&A activity and business closures to accelerate in the sector. Mergers between leading firms are also a possibility. However, the Group's ability to adapt to change means there is significant scope to increase market share.

▶ Growth market



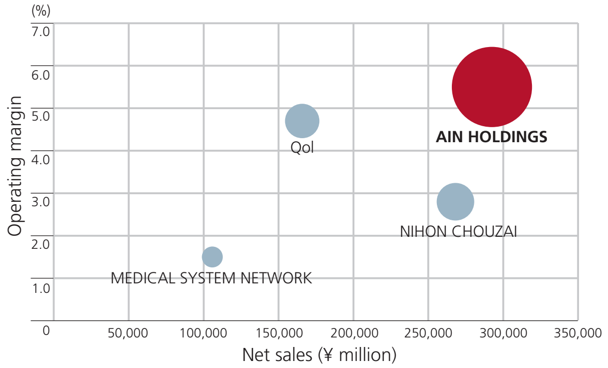
Source: AIN HOLDINGS estimates, based on data from the Japan Pharmaceutical Association, dispensing cost trends issued by the Ministry of Health, Labour and Welfare, Population Estimates of the Ministry of Internal Affairs and Communications Statistical Bureau, and Cabinet Office White Paper on the Aging Society.

Dispensing pharmacy business – market position and performance

AIN Group's dispensing pharmacy business is the dominant in Japan, with the leading position by sales, operating income, market capitalization and other metrics. Responding to calls from the government for pharmacies and pharmacists to play a wider role in healthcare, the business has also taken the lead in terms of pharmacist numbers and quality, giving it the resources to expand its pharmacy network as part of the Group's growth strategy. » See pages 10-13, 18-19

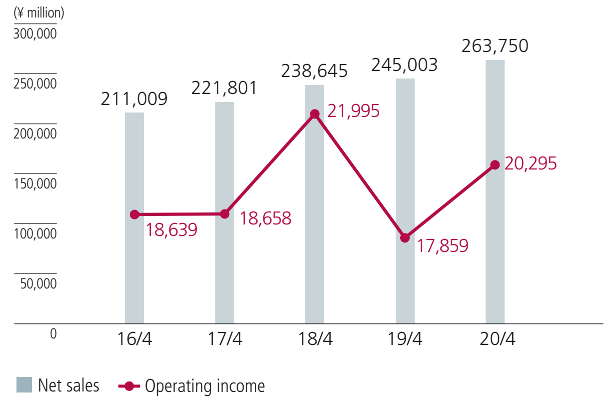
▶ Market distribution of dispensing pharmacies in Japan

—Comparison of net sales and operating margin among major companies operating dispensing pharmacies in Japan



Notes:
1. Net sales and operating margin are compiled by AIN HOLDINGS based on each company's summary of financial statements for FY 3/20 (AIN HOLDINGS: FY 4/20).
2. Size of circle is proportional to market capitalization as of July 31, 2020.

▶ Net sales/Operating income

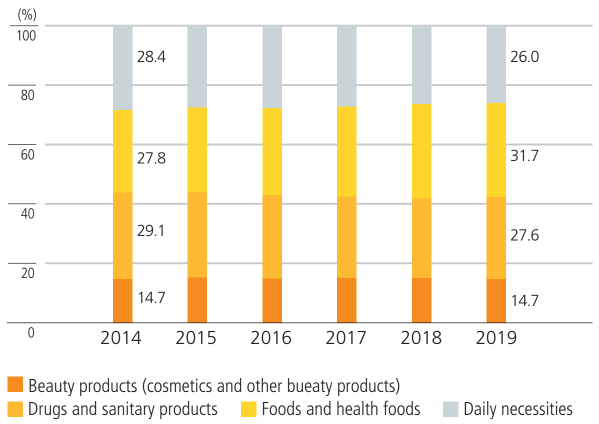


Cosmetic and drug store business – operating environment and characteristics

Japan's drug stores have increased the share of food products, everyday items, cosmetics and other products in their merchandise lineups, focusing on a high-volume, discount pricing retail model. At the same time, the quality gap between drug stores has narrowed and growth has slowed.

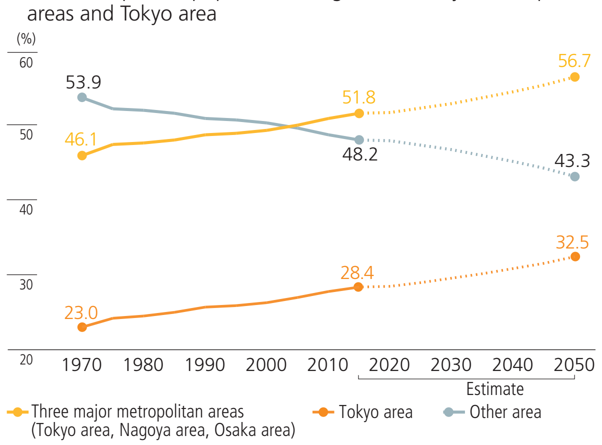
However, amid ongoing urbanization in Japan, a growing number of people in age brackets with strong spending habits are moving into urban markets.

▶ Breakdown of general drug store sales by product category



▶ Urbanization trends in Japan

—Ratio of Japanese population living in three major metropolitan areas and Tokyo area

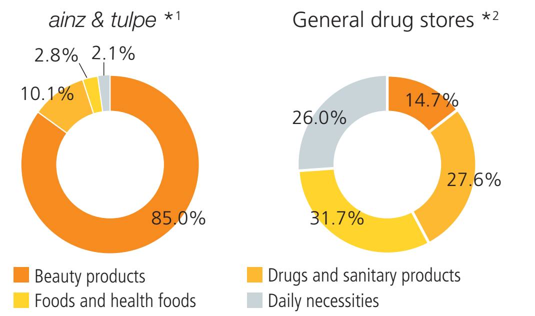


Source: Interim report from the Chairman of the Committee on the "Long-Term Outlook for National Land," Ministry of Land, Infrastructure, Transport & Tourism

Cosmetic and drug store business – market position and performance

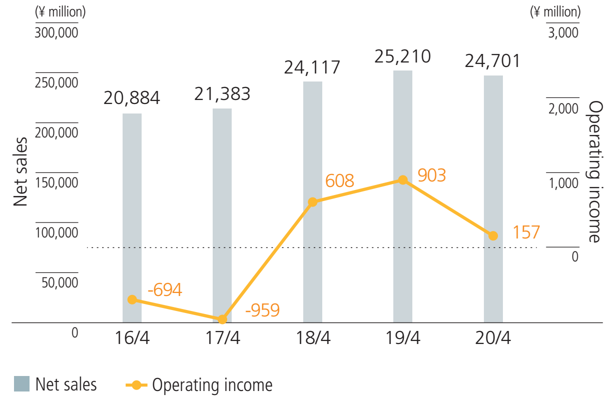
Our stores operated under the *ainz & tulpe* brand are different to conventional drug store and department store formats. Based on the concept of creating stores where female customers would be happy to browse for an hour, beauty products such as cosmetics and related beauty supplies account for more than 80% of the merchandise lineup in *ainz & tulpe* stores. The stores are also designed to stand out in the market by tailoring their lineups to local market characteristics and customers. » See pages 14-17

▶ Comparison of *ainz & tulpe* and general drug stores: product mix



*1 Data is for the fiscal year ended April 2020
*2 Source: Monthly Report on the Current Survey of Commerce (May 2020), Ministry of Economy, Trade and Industry

▶ Net sales/Operating income



Value Creation Process

The AIN Group aims to be a company that people welcome to their communities.

We are contributing to economic growth and the creation of an affluent society by developing and providing competitive products and services, harnessing the competitive advantages and high-quality management resources we have built up since the earliest days of the Company. We are also reinforcing the Group's business base to ensure sustained growth, regardless of the conditions in our operating environment.

Led by the new Sustainability Management Department established on May 1, 2020, we are also currently consulting with experts in order to select areas of materiality and formulate an action plan during the fiscal year ending April 30, 2021.

Changes in business environment / social issues

Opportunities and risks for the AIN Group

» Ssee page 25 for Risk management

Input

Management capital

HUMAN CAPITAL

Group employees	13,158
Pharmacists	5,273

NETWORK

Dispensing pharmacies	1,088
Cosmetic & drug stores	63

EXPERTISE, TECHNOLOGIES, PRODUCTS

•Dispensing pharmacy business

Prescription volume	22,947 thousands
Average prescription price	¥11,304
Generic drug dispensing ratio	82.7%
Number of pharmacies that provide home-based dispensing	over 95%

•Cosmetic and drug store business

Number of items handled	approximately 52,000 SKU
Poind card holders	approximately 6,000 thousands

DISTRIBUTION BASE

Generic drug wholesale subsidiary (WSS)	
Number of distribution centers	4

FINANCIAL CAPITAL

Shareholders' equity	¥111,151 million
Shareholders' equity ratio	57.3%
Credit rating	A (Japan Credit Rating Agency)

Competitive advantages

Foresight

Frontline capabilities

Strong financial base

Value creation initiatives

Growth Strategy

Dispensing Pharmacy Business

Top-line growth — *Scale*

Strengthen pharmacy capabilities — *Quality*

X

Cosmetic and Drug Store Business

Enhance distinct identity — *Original*

Establish brand (expand network) — *Brand*

Sustainability

Personnel training and optimal positioning

Reinforce management base (Governance, risk management, compliance)

Outcomes

Our vision

Aim to be a company that people welcome to their communities.

Contribute to healthy, comfortable lives

Contribute to a sustainable society

Continuously increase corporate value

Trust from society

Human resources that create new value

Output

Net sales	¥292,615 million
Operating income	¥16,068 million
Profit attributable to owners of parent	¥9,179 million
Number of new graduates hired	
Pharmacists	560
ainz & tulpe and others	392

AIN Pharmacy at Dokkyo Medical University Hospital

Dispensing Pharmacy Business

> Scale — Transforming the pharmacy portfolio and growing the top line

Japan's dispensing pharmacy market has some unique characteristics. The role of pharmacies and their earnings structure differ to pharmacies in the US and other countries » See page 28-29. Until recently, our strategy has been to channel management resources into dispensing pharmacies located near hospitals. That approach reflected the realities of Japan's operating environment and healthcare system, which made dispensing pharmacies located near hospitals the best option for patients and our business.

However, the dispensing pharmacy market has been undergoing some dynamic structural changes in recent years. The lifting of a ban that prevented dispensing pharmacies from opening on hospital sites is one of those changes. Onsite pharmacies align with the government's vision for patient-focused dispensing pharmacies in terms of patient convenience, but they are also well-placed to keep up with advances in healthcare.

Hospitals are keen to attract pharmacies to their sites. Rental income is one factor, but there are also advantages for hospitals in forging closer links with pharmacies, which reduces the risk of dispensing errors and other issues and deepens cooperation in areas such as advanced healthcare service provision. Because of these reasons, a growing number of hospitals, particularly university hospitals, are seeking dispensing pharmacies to locate on their premises. There are also merits for dispensing pharmacy companies. Onsite pharmacies give them the opportunity to leverage competitive advantages such as the specialist skills of their pharmacists, and profits per pharmacy are higher due to increased prescription volumes and more prescriptions with high unit prices. Advantages for patients include greater convenience and higher quality services » See page 29.

However, one possible issue is that new onsite pharmacies could lead to a dramatic drop in the number of prescriptions filled by existing pharmacies located near hospitals, but the risk to our business is limited, because as a relatively late entrant to the market, the AIN Group has only six pharmacies located near university hospitals. Instead, we view onsite pharmacies as a major opportunity to increase market share.

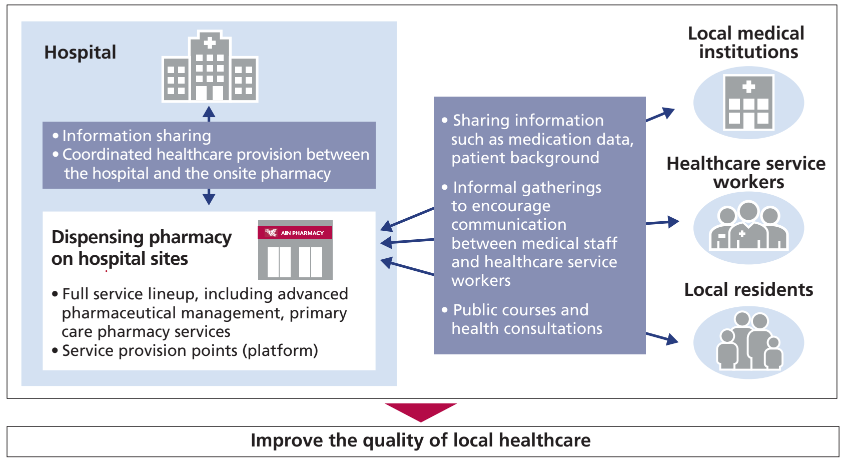
One hurdle to opening onsite pharmacies is the strict criteria that they have to meet. Hospitals want companies with a sustainable business model backed by a sound financial position, as onsite pharmacies have to stay open throughout the year and need to be staffed by large numbers of pharmacists who understand advanced healthcare practice. A successful track record of opening onsite pharmacies is also an advantage. Not many companies are capable of consistently meeting those criteria, but AIN HOLDINGS ticks all those boxes, which is helping us steadily win contracts for onsite pharmacies. In fiscal 2020, we opened onsite dispensing pharmacies in 11 locations, including Dokkyo Medical University Hospital (Tochigi Prefecture, April 2020), Nippon Medical School Chibahokusoh Hospital (Chiba Prefecture, April 2020), Tokushima University Hospital (Tokushima Prefecture, April 2020), and Yamaguchi-ken Saiseikai Shimonoseki General Hospital (Yamaguchi Prefecture, April 2020). In fiscal 2021, we will open onsite pharmacies at Okayama University Hospital (Okayama Prefecture, May 2020), Osaka Prefecture Saiseikai Tondabayashi Hospital (Osaka Prefecture, November 2020), Ehime University Hospital (Ehime Prefecture, February 2021), and Kumamoto Prefecture North Hospital (Kumamoto Prefecture, March 2021), as well as other locations. Going forward, we plan to open onsite pharmacies at a pace of 20 per year.

Over the last three years, we have closed roughly 190 dispensing pharmacies. To continue fulfilling the mission envisioned for dispensing pharmacies and to support more efficient healthcare service provision, we will shift to larger locations and overhaul our pharmacy portfolio. M&A deals will also remain as an important part of our strategy. We will continue to actively pursue M&A deals with a continued focus on investment efficiency, using both M&A and openings of large dispensing pharmacies to grow the Group's top line.

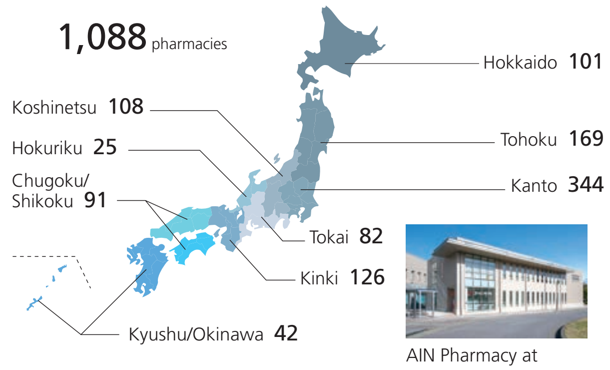
AIN Pharmacy at Tachikawa Hospital

AIN Pharmacy at Tokushima University Hospital

▶ Role of onsite dispensing pharmacies (the ultimate primary care pharmacy)

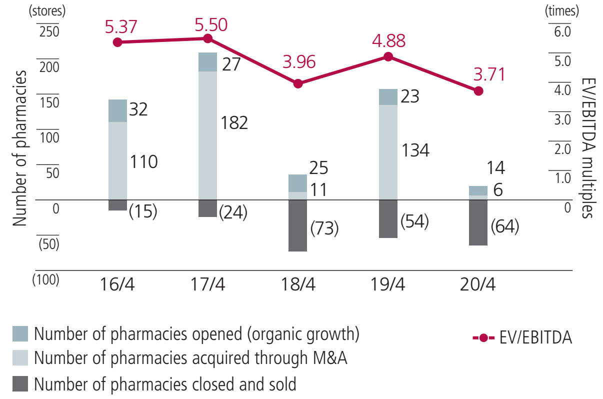


▶ AIN Group's dispensing pharmacy network



AIN Pharmacy at Nippon Medical School Chibahokusoh Hospital

▶ Number of pharmacies and EV/EBITDA multiples



Message from the Director

Masato Sakai
Director,
Division Manager of
Store Development

Prioritizing the development of pharmacies that are appealing and highly profitable

The AIN Group was a relatively late entrant to the dispensing pharmacy market. However, under the leadership of the president, we have steadily expanded our network in tandem with growth in non-hospital dispensing services, while maintaining clear criteria for pharmacy openings and keeping close watch on the Group's financial position. As the shift to non-hospital dispensing slowed, we were one of the first in the industry to start using M&A to further increase the Group's market share. That approach took AIN to the leading position in the dispensing pharmacy sector in 2003, and we have remained there ever since.

In 2016, regulations were relaxed to allow dispensing pharmacies to open on the premises of medical institutions. In addition to improving convenience for patients and lifting the profitability of medical institutions, we saw the reforms as an opportunity to increase the capabilities and earnings of our dispensing pharmacies, prompting us to launch a number of initiatives focused on the new onsite format.

Many medical institutions select onsite pharmacy operators through a public bidding process, so the capabilities of operators are an important factor in deciding which company is chosen. A large number of medical institutions are currently looking for companies to run onsite dispensing pharmacies, with over 100 public tenders already conducted in the last four years (based on our research).

In 60% of those cases, medical institutions have selected the AIN Group. Many of the onsite pharmacies we have opened have shown that they are good at attracting customers and are highly profitable.

With medical institutions accelerating efforts to attract pharmacy operators, we plan to use our proven earnings model to target and win contracts.

Our aim is to continue growing the top line by stepping up efforts to secure new business, mainly from large medical institutions.

Dispensing Pharmacy Business

> Quality

Raising quality and providing value in tandem with profit growth

The government wants the sector to create more primary care pharmacies that can support local healthcare service provision, which means dispensing pharmacies and pharmacists need to play an even greater role. To fulfill their primary care role, dispensing pharmacies have to offer higher quality services, such as promoting generic drugs, managing left over prescription medicines, managing patient health, working with local healthcare service providers, providing 24-hour dispensing services and supporting home-based healthcare service, in addition to their traditional role of drug dispensing. In order to deliver these services, pharmacists need to improve their specialist skills and their ability to communicate with patients and medical institutions.

We have consistently raised the standards of our pharmacies and pharmacists since the start of our dispensing pharmacy business, recognizing the importance of pharmacies in local healthcare infrastructure. We aim to convert all our dispensing pharmacies to the primary care format, which offers an excellent opportunity to leverage our competitive advantages, such as the high level of specialization achieved by the AIN Group over the years. It will also help us meet the rigorous criteria for opening onsite pharmacies.

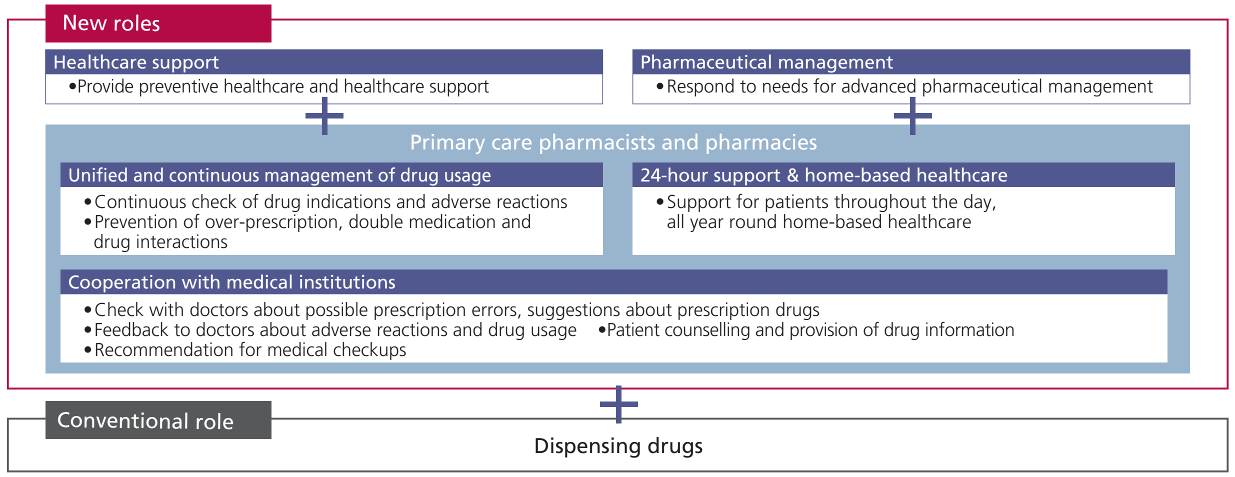
To improve the quality of dispensing pharmacies, we provide a range of internal and external training programs, which are upgraded every year, to enhance the specialist skills of our pharmacists. We also continue to implement our pharmacy-led project to raise standards. The project was launched to improve the efficiency of dispensing pharmacy operations using feedback from pharmacists at each location, resulting in a range of improvements being rolled out across the Group. Efficiency gains have led to a drop in inventories and more time for pharmacists to communicate with patients and medical institutions. We have also seen improvements in the way pharmacists think and act in frontline situations, which has enhanced our ability to adapt to changes in the operating environment, including revisions to dispensing fees.

Dispensing pharmacy profits fluctuate due to regular revisions to drug prices and dispensing fees. By increasing the number of primary care pharmacists and focusing on patient-oriented services such as advanced pharmaceutical management, we have raised the quality of our services to generate profits. We are also seeing steady growth in home-based dispensing and generic drug dispensing. Growth in generic drug dispensing typically leads to a decline in sales in value terms, putting pressure on pharmacy profits. However, we use our generic drug wholesaling subsidiary WHOLESALE STARS Co., Ltd. (WSS) to negotiate prices and procure directly from generic drug manufacturers. We already have purchased more generic drugs than any other company in Japan, but we are further strengthening our buying power by narrowing down suppliers to just a few firms, helping to boost profitability. This approach is one of our competitive advantages, as it helps to support the provision of high-quality services and maintain profit levels.

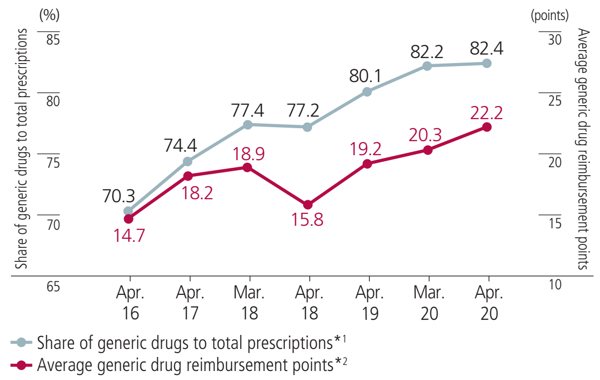
The AIN Group is also implementing measures that support government efforts to create advanced healthcare services, such as online drug guidance services and digital prescriptions, as well as actively participating in joint research with partners in the academic sector.

Going forward, we will continue to explore the possibilities of future dispensing pharmacies to support advances in healthcare and communities with aging populations. We also aim to strengthen earnings capabilities by investing in IT to rebuild the Group's business base to support growth and by improving the quality of our dispensing pharmacies.

▶ The growing roles of dispensing pharmacies

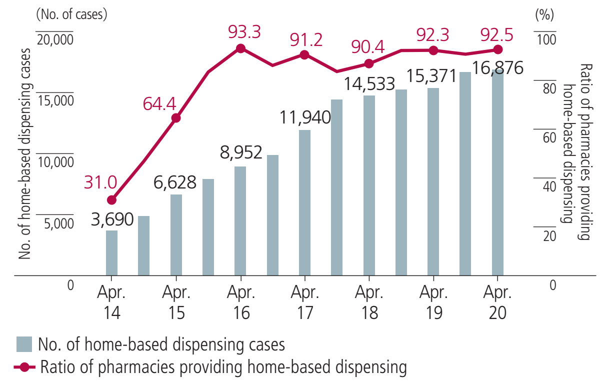


▶ Generic drug dispensing (monthly cases)



Data source: *1: All pharmacies
*2: Three main Group companies (AIN PHARMACIEZ, Asahi Pharmacy, DAICHIKU)

▶ Home-based dispensing (monthly cases)



Data source: Pharmacies available to be compiled at each month

Message from the Managing Director

Miya Oishi
Managing Director,
In charge of Dispensing Pharmacy Operating Management

Cultivating pharmacists who can think and take dynamic action themselves

We have opened a string of new pharmacies on the premises of medical institutions since regulations were relaxed in October 2016. Pharmacists who work at our onsite pharmacies have to be more closely involved in pharmacy management and be able to think and act independently to become even better pharmacists. Hospitals and local communities are looking to dispensing pharmacies to play a bigger role as a platform that adresses advances in healthcare, cooperate with hospitals, and provide support for patients before they enter a hospital and after they are discharged.

In 2012, the AIN Group launched a pharmacy-led project to review practices in its dispensing pharmacies. The goal of the project is to explore the best approaches for each location without sticking to received ideas in manuals and other sources. Specifically, we encourage every member of staff to think and act dynamically themselves and pursue constant improvements in order to realize efficient operations and deliver the best-possible services. A clear outcome of the project is that efficiency gains have led to improvements in profitability, but the cycle of thinking and acting independently has also accelerated the growth and development of our pharmacists, helping to cultivate human resources who are keen to take on new challenges whatever conditions they face.

In April 2020, 560 newly graduated pharmacists joined the AIN Group, a new record. Going forward, we will continue to use the pharmacy-led project to nurture pharmacists who can understand and deploy the various new functions of onsite pharmacies and other formats to ensure the AIN Group provides services to people everywhere as a key part of Japan's healthcare infrastructure.

ainz & tulpe LINKS UMEDA

Cosmetic and Drug Store Business

> Original

Establishing new retail formats with a differentiation strategy

The cosmetic and drug store business is the AIN Group's other core business. Drug stores have been part of the Group since the Company was established, but the retail sector has seen a narrowing gap in quality and a steep drop in profit margins in recent years. To avoid these issues and stand out in the market, we started rolling out unique retail formats under the *ainz & tulpe* brand in fiscal 2016. The formats are designed to avoid competition with other types of retailers.

Our *ainz & tulpe* formats are based on the concept of creating stores where female customers would be happy to browse for an hour. They are different to conventional drug stores and department stores, and their unique approach is helping to drive change in the retail sector as a whole. We are still making a few adjustments, but our *ainz & tulpe* brand is close to completion.

Our first real move into new retail formats was in July 2015, when we opened *ainz & tulpe* SHINJUKU HIGASHIGUCHI (Shinjuku, Tokyo; retail space: 1,290m^2). The large flagship store significantly raised the visibility of the *ainz & tulpe* brand among young women. The store is also earning praise as a trendsetter, partly due to its dominant position based on sales volume.

The first part of our differentiation strategy for the new formats is to target women aged from their late-20s to their 40s, as they tend to be curious about the latest trends and have strong spending habits.

The second part is merchandise. Conventional drugs stores tend to be discounters focused on food and a broad range of products. In contrast, beauty products such as cosmetics and accessories account for more than 80% of the merchandise lineup in our new formats. Our *ainz & tulpe* stores are particularly strong in cosmetics, offering a wide choice of products from natural cosmetics and original brands such as *LIPS and HIPS* to premium cosmetic brands. They also sell a large range of beauty-related necessities such as accessories and our original beauty supply brand cocodesica. Manufacturers have welcomed our emphasis on providing value rather than selling products at low prices, and with their support, we are expanding our lineup of exclusive *ainz & tulpe* versions of national brand products. Going forward, we plan to step up development of our own products and tie-in products as part of the differentiation strategy.

M&A deals are another approach we are using to strengthen our formats. We acquired the *AYURA* cosmetics brand from Shiseido in 2015 and the makeup and cosmetics brand *DAZZSHOP* in 2019. *DAZZSHOP* is well-known for its range of eye makeup products and colored contact lenses.

The third element of our differentiation strategy is the store operations. One of the features of our cosmetic & drug store business is the ability to rapidly launch new products, thanks to the considerable discretion given to each store. Stores are allowed to update merchandise lineups and retail areas on a weekly basis to keep customers interested. Approaches that are successful at individual stores are immediately rolled out to other stores in the *ainz & tulpe* chain, with priority given to strong-selling items. That helps to drive growth in sales volumes and support high profit margins. Another strength is that stores can adjust sales layouts to suit their location, customer base and retail floor area.

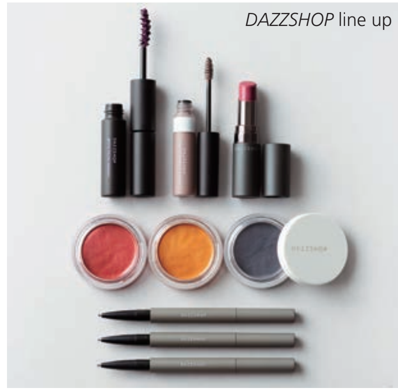
These types of initiatives are helping to attract young female shoppers, with customers visiting our stores more than once a month on average. That high rate of patronage means we are receiving a large number of tenancy requests from fashion retail malls and department stores. The cosmetic & drug store business is now well-placed to extend the *ainz & tulpe* chain throughout Japan.

AYURA Ginza

LIPS and HIPS line up

AYURA line up

AINZ & TULPE WEBSTORE



DAZZSHOP line up

▶ Differences between *ainz & tulpe* and other retail formats

	ainz & tulpe	Drug stores	Department stores
Customer base	Young women	Families, overseas visitors	High-income earners, including overseas visitors
Merchandise	Beauty products account for over 80% of lineup	Daily necessities and food account for more than 80% of lineup	Brand products only
Pricing	Normal	Discount	Premium
Sales areas	• Customers can try beauty products in store • Stores that keep customers interested and coming back	• Small retail areas, cluttered displays	• Brands sold through own boutique stores, reducing accessibility for shoppers

▶ Positive growth cycle in cosmetic and drug store business

ainz & tulpe BEAUTY FACTORY YOKOHAMA HAMMERHEAD

Cosmetic and Drug Store Business

> Brand

Strengthening our brands and expanding the store chain

The cosmetic and drug store business missed its targets for fiscal 2020 due to temporary store closures and other steps taken to prevent the spread of COVID-19, which emerged in Japan in early 2020.

However, excluding that impact, performance at existing stores was broadly firm and newly opened stores became profitable more quickly. The power of the *ainz & tulpe* brand has increased significantly and our business model is now capable of reliably generating profits.

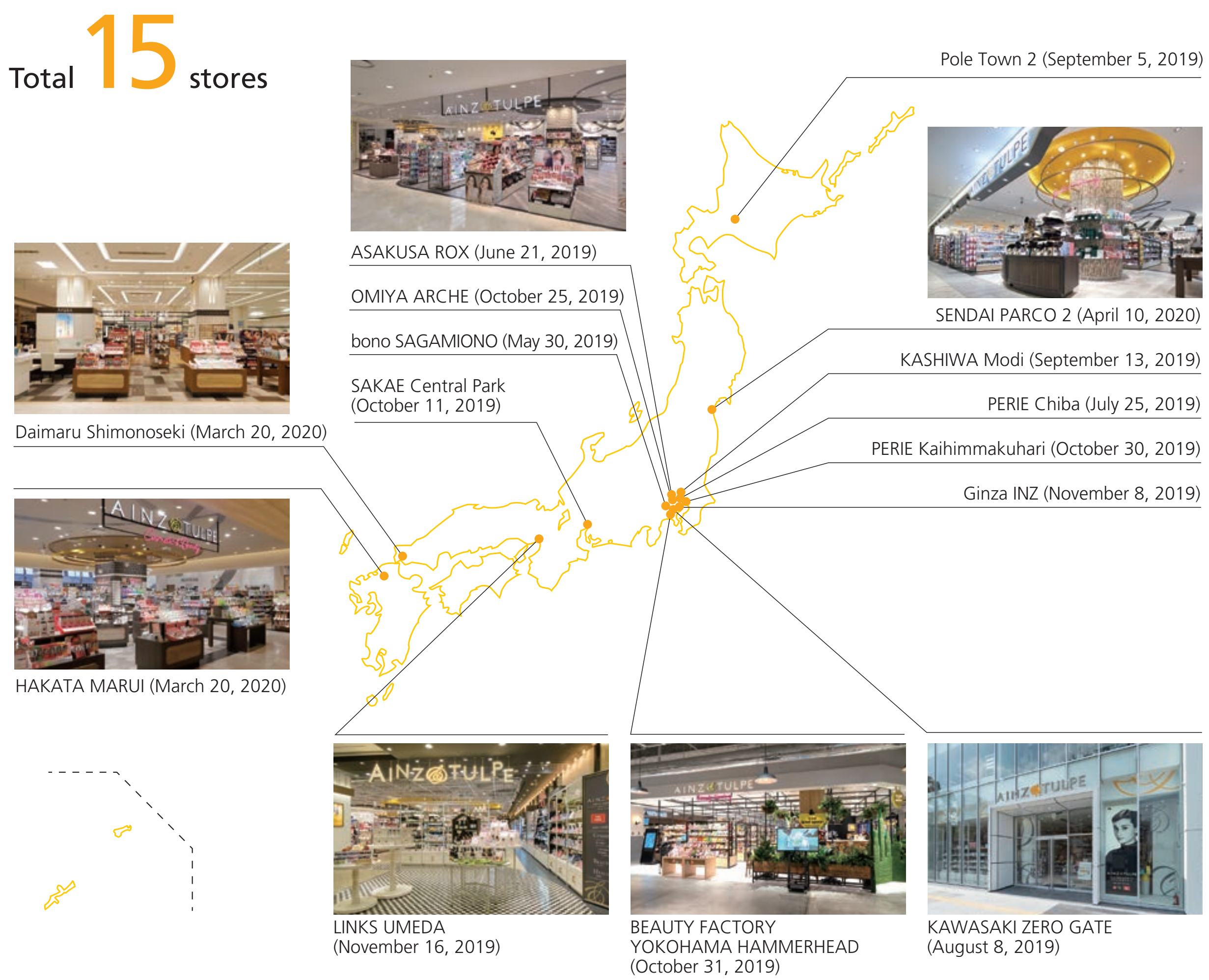
We have accelerated our withdrawal from suburban locations, and since 2015 we have opened a string of large flagship *ainz & tulpe* stores in convenient locations in the metropolitan area, including Shinjuku and Ginza in central Tokyo. In addition to the Tokyo metropolitan area, we are stepping up store openings in major regional cities in the Kansai area and Kyushu, with the business now entering a phase of full-scale expansion. In fiscal 2020 we opened 15 stores in major cities and closed six locations with conventional drug store formats, taking the total number of stores to 63.

Our *ainz & tulpe* stores attract a younger demographic and even compact stores of less than 300m² are successful despite the lack of retail space. Those factors are highly prized by property developers, which want tenant stores that can be easily adapted to different types of locations. Also, no two *ainz & tulpe* stores are the same, thanks to flexible store designs tailored to each location » See page 17. One example of that approach is the *ainz & tulpe* BEAUTY FACTORY YOKOHAMA HAMMERHEAD (Kanagawa Prefecture). Located in a mixed-use retail complex targeted at cruise ship passengers, the store has a floor area of 310m² and an adjoining café. In contrast, the *ainz & tulpe* PERIE Kaihimmakuhari (Chiba Prefecture), which is located in a station, has a floor area of 282m² and a merchandise lineup focused on cosmetics. Going forward, we will continue to actively open new stores in a different locations, including retail complexes in major regional cities and department stores, while also refurbishing existing stores, to provide products and services with high added-value.

In October 2019 we started offering an official smartphone app version of the *ainz & tulpe* point card. In the six months since launch, registrations have reached roughly 500,000. We also launched a new webstore in May 2020. We plan to use innovative approaches to make the site enjoyable for use and link it with physical stores to help develop the customer base and attract new customers. We continue to develop our IT and logistics strategy to boost efficiency and profitability.

We will also continue to follow our strategy of developing unique retail areas to avoid competition with conventional retailers and cosmetics makers. Our goal is to further strengthen earnings in the cosmetic & drug store business to make it the Group's growth driver over the medium- and long-term.

▶ *ainz & tulpe's* new store opening in fiscal 2020



Message From the Executive Officer

Kaori Ishikawa
Executive Officer,
Division Manager of Cosmetic and Drug Store Operating Management

Actively opening stores in major urban markets and continuing to reinforce our original brands

Fiscal 2020 was an extremely tough year for the business. In 2019 we had to deal with the impact of revisions to China's e-commerce law, poor summer weather and the hike to consumption tax in Japan. In late February 2020, the COVID-19 outbreak also started to affect our operations, including severe restrictions on the entry of foreign tourists and the move of domestic consumers.

Against that backdrop, we continued to actively open *ainz & tulpe* stores in major urban markets. In Yokohama we opened the *ainz & tulpe* BEAUTY FACTORY Yokohama Hammerhead, a new store concept, in October 2019. In March 2020, we moved into major department store chains with the new *ainz & tulpe* Daimaru Shimonoseki, and in the same month we opened our first store in Kyushu, the *ainz & tulpe* HAKATA MARUI. In total, 15 new stores were opened during the fiscal 2020.

DAZZSHOP, a makeup and cosmetics brand focused on eye makeup, became part of the AIN Group in November 2019. The acquisition is part of our efforts to steadily expand the lineup of original brands in *ainz & tulpe* stores.

We are also reinforcing customer service. In October 2019 we released the official *ainz & tulpe* smartphone app, followed by the launch of the *ainz & tulpe* webstore in May 2020. Both steps are geared at driving further growth by attracting and retaining customers.

Coexisting with COVID-19 is likely to be the new normal for some time. We will continue to enhance store concepts and original brands and maximize their ability to attract and retain customers as we work to create stores that attract more fans to the *ainz & tulpe* brand.

Personnel Strategy

The Basis for Sustained Value Creation

Personnel are the key management resource for increasing corporate value and driving growth on a sustained basis. Since it was established, the Company has consistently put priority on regular recruitment campaigns and employee training.

The dispensing pharmacy sector faces an increasingly severe shortage of pharmacists and demands to raise the skill levels of pharmacists. Dispensing pharmacies and companies that struggle to recruit enough pharmacists and improve their skills are likely to fall by the wayside.

The AIN Group is no exception. More than ever, we need to secure pharmacists of a high caliber to provide value to society and support business expansion. Our approach to recruitment is highly regarded by students and universities, thanks to our hiring track record and high-quality training systems. We also give pharmacists plenty of opportunities to fully demonstrate their skills, due to the large number of complex prescriptions filled at our pharmacies. That reputation has helped us perform well in pharmacist recruitment. According to a ranking of the most popular companies to work for in 2021 by Mynavi, a recruitment website aimed at new graduates, we were ranked third in the chemical and pharmaceutical category (first in the dispensing pharmacy category), and first in the Hokkaido region in a category based on head office location.

However, we need to increase headcount further to support continued business expansion, including our move into onsite pharmacies, which will require large teams of highly skilled pharmacists. Competition for pharmacists is also likely to become tougher across the sector. To address those challenges, we are stepping up recruitment activities to draw attention to the AIN Group's competitive advantages, including our ability to keep up with the shift to advanced healthcare provision. The president of AIN HOLDINGS and other senior executives are now also closely involved in the Group's recruitment efforts.

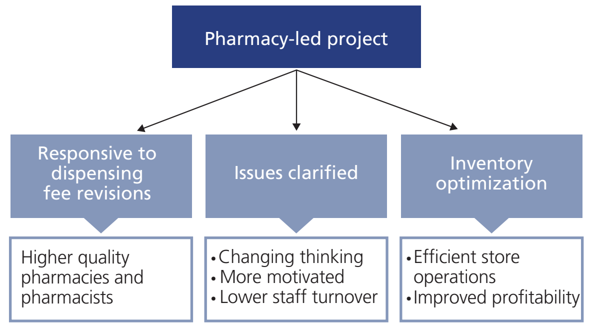
Meanwhile, we are actively recruiting personnel in the cosmetic & drug store business to support our aggressive store expansion program. Each advertised position attracts many applicants, who are drawn to our unique stores and our strategy of standing out in the retail market. That gives us the pick of the best, highly motivated people.

After joining the dispensing pharmacy business, pharmacists have access to a range of training programs tailored to their career stage. For example, we have put in place systems to help them enhance their skills over the long term, such as follow-up training after joining the company (which has been extended from three years to ten), support to acquire specialist qualifications as a cancer care pharmacist, and opportunities to participate in practical training on advanced healthcare at university hospitals.

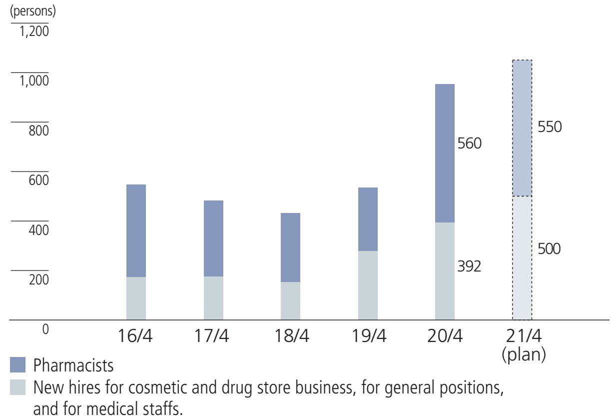
We also run a number of unique initiatives to improve the motivation and skills of our pharmacists. One initiative is our pharmacy-led project, launched back in autumn 2012, which encourages pharmacists to draw on their own frontline experience to further improve efficiency, profitability and service provision at our dispensing pharmacies. The pharmacy-led project has reduced patient waiting times and contributed to profits by reducing inventories and overtime hours. It has also been extended to the cosmetic & drug store business and head office departments, leading to efficiency gains and an improvement in service quality. The project has clarified issues faced by dispensing pharmacies and delivered clear improvements, helping to change thinking among frontline personnel and boost motivation, leading to a lower level of staff turnover.

We will also continue to upgrade personnel systems, including raising pay and offering better employee welfare benefits, to further increase motivation and improve flexibility in the workplace. Going forward, we will continue to improve the quality of human resources and the Group's ability to adapt to change in order to satisfy the expectations of investors and all our other stakeholders.

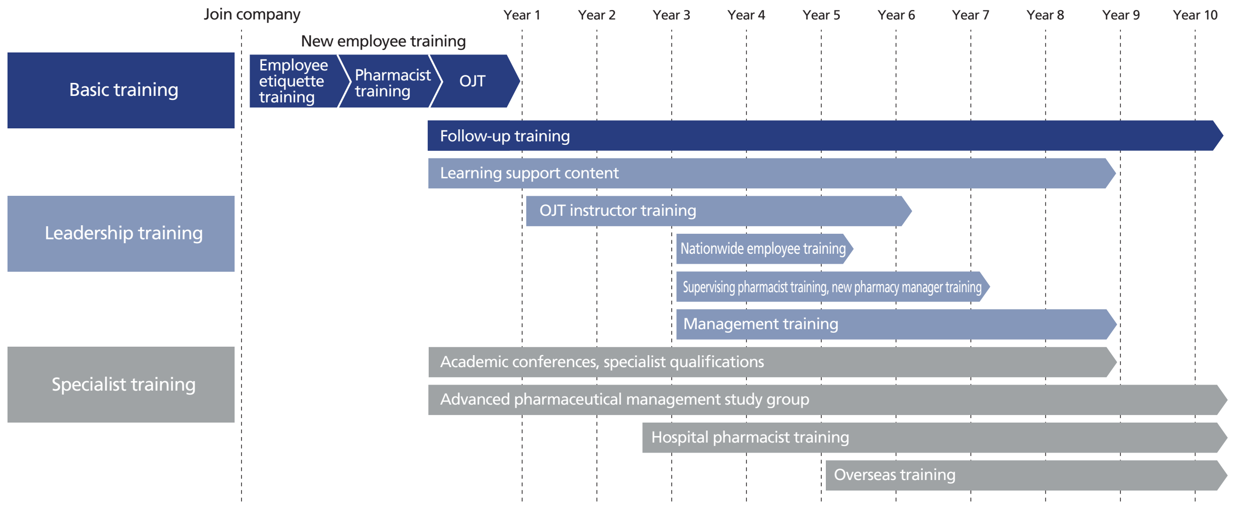
Key outcomes from pharmacy-led projects



Number of graduates hired



Training programs for pharmacists



Message from the Director

Rieko Kimei
Director,
In charge of Personnel Department

Continuing to reform personnel systems and create better working environment

To continue growing as a company, we have to attract and retain talented people and provide working environment where all employees can grow and develop. We are taking a number of steps to achieve these goals.

1. Implementing work style reforms

   In fiscal 2020, we introduced a flexible working hours system that allows employees to choose between a 32-hour week or a 40-hour week plus additional hours as needed. The new system is designed to improve work-life balance for employees by giving them more time for personal development or to pursue their own interests, as well as for child care and nursing care. We also plan to expand home working for head office staff.

2. Improving training systems

   To ensure customers continue to choose AIN pharmacies, we will train up pharmacists to give them the specialist knowledge that patients need, such as specialist cancer care advice. Also, to improve patient and customer satisfaction, we will run training programs for staff in other positions to increase their skill levels and technical expertise.

3. Recruitment activities that draw on the strengths of the whole Group

   We are putting considerable effort into hiring talented university students who want to make a contribution in the healthcare field. One way we are doing that is by creating opportunities for the president and other senior executives to speak directly to students to give them a deeper understanding about the AIN Group.

We view the ongoing changes in the operating environment and in customer values as opportunities. We will respond flexibly to these changes while also taking on new challenges to ensure patients and customers continue to choose the AIN Group for their needs.

Addressing ESG Issues

AIN HOLDINGS intends to create value by addressing social issues through its two core businesses – the dispensing pharmacy business, which plays a key role in society, and the cosmetic & drug store business, which helps people lead fulfilling lives with health and beauty.

We are implementing a range of environmental, social and governance (ESG) initiatives. In this section, we introduce some of the initiatives, which are backed by our business activities and corporate strengths.

E
Environment

▶ Helping to reduce environmental impact

- Raising awareness of environmental issues through pharmacies and stores
- Reducing CO_2 emissions at pharmacies and stores
- Head office measures to reduce CO_2 emissions
  → Shift to hybrid vehicles for sales teams, procure and sell eco-friendly products
- Reducing environmental impact at outsourced manufacturing companies
- Building a pharmaceutical distribution model with reduced environmental impact → » See case study 1
- Introducing shopping bags with low environmental impact

S
Social

▶ Addressing social issues

- Promoting diversity
- Empowering female employees
- Creating better working environments
- Pursuing pharmacy-led project
- Providing endowments for university courses
- Conducting joint research
- Helping employees balance work and childcaring commitments (work-life balance)
- Reforming work practices (introducing home working and flexible working hours) → » See case study 2

G
Governance

▶ Reinforcing corporate governance

- Evaluating the effectiveness of the Board of Directors
- Adjusting the remuneration system for executives
- Introduced the nomination and remuneration committee → » See case study 3
- Creating a more diverse Board of Directors
- Strengthening risk management (including measures to reduce dispensing errors)
- Reinforcing compliance
- Improving governance at pharmacies and stores

» Case study 1 Environment

Trial with Medipal to build a new pharmaceutical distribution model

Climate change caused by global warming is now a recognized problem worldwide. Japan also faces many domestic challenges that directly impact people's lifestyles and health, such as a growing number of people living to 100 years and a shrinking and ageing population, which is reducing the working-age demographic and putting pressure on social welfare spending. Against that backdrop, companies like AIN HOLDINGS need to think about and act in line with the SDGs as part of their business activities.

To address some of these environmental and social issues, the Group teamed up with a pharmaceutical wholesaler in March 2020 to launch a trial aiming at establishing a more environmentally friendly pharmaceutical distribution model.

The trial aims to sharply cut CO_2 emissions from delivery vehicles by sharing data such as demand forecasts and optimum inventory levels for individual pharmacies, maximizing shipment efficiency at logistics centers, and reducing the number of deliveries in line with conditions at each pharmacy. Another goal is to make product delivery and quality checks more efficient to lift employee productivity at both the AIN Group and the wholesaler, creating more time for pharmacists to focus on their main jobs.

Going forward, we aim to build a new distribution model that creates an efficient business platform to support environmental improvements and sustained growth.

» Case study 2 Social

Implementing work style reforms

Japan is promoting work style reforms in response to increasingly diverse ways of working, such as the need to balance work with child care and nursing care commitments. The AIN Group is also making changes to create better working environments that motivate employees. As part of that, we started implementing reforms to personnel systems in May 2019, including an increase in base pay. In May 2020 we introduced a new system that allows employees to choose their scheduled working hours, giving them the option to work fewer hours to care for children or look after elderly relatives. To help employees achieve an optimum work-life balance, we will promote wider use of home working, while also encouraging them to use paid holidays and reduce overtime.

» Case study 3 Governance

Nomination and remuneration committee established

As a Group with a dispensing pharmacy business and a cosmetic and drug store business, which are both intrinsically linked to people's health, the Company has to ensure robust and transparent business activities anchored by compliance.

At a meeting on April 22, 2019, the Board of Directors passed a resolution to establish a nomination and remuneration committee as a voluntary advisory body reporting to the Board. The committee, which was set up to strengthen corporate governance by increasing the oversight functions of the Board of Directors, discusses the appointment and remuneration of representative directors, directors, corporate auditors and executive officers, drawing on insights and advice from outside officers and using an objective and transparent process to appoint executives and determine pay.

Corporate Governance

AIN HOLDINGS assumes responsibility for people's health and the well-being of the wider community through its business activities. We promote a highly efficient and transparent management system and implement ongoing initiatives toward enhancement of corporate governance.

BASIC POLICY FOR CORPORATE GOVERNANCE

Dispensing pharmacies and drug and cosmetic store chains are the key business areas being developed by AIN Group. Both of these businesses are characterized by a responsibility towards people's health, and as such, we recognize the indispensability of continuing with sound and transparent business activities that prioritize compliance.

We have adopted a corporate auditor system to oversee not only key management decisions and the business execution of directors, but also general corporate management.

SYSTEMS AND DUTIES OF BOARD OF DIRECTORS AND BOARD OF CORPORATE AUDITORS

■ Systems

The Board of Directors, the Company's main decision-making body, is comprised of 12 directors, including four outside directors. Meetings are held 11 times each year to ensure the functioning of shared oversight by directors. Outside directors participate in management by providing advice for key decisions from multiple perspectives.

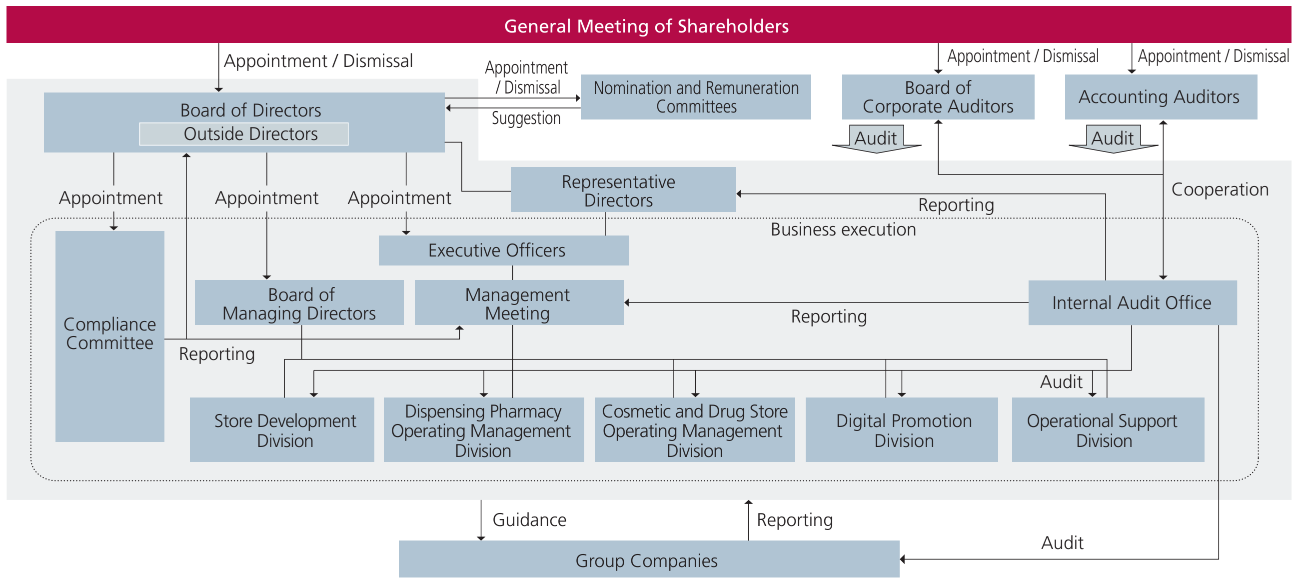
The Company has adopted the Company with Board of Corporate Auditors governance structure, which it regards as an effective audit framework for management supervision. The Board of Corporate Auditors is comprised of three corporate auditors, including two outside corporate auditors.

▶ Outline of corporate governance

Corporate governance structure	Corporate Auditor System
Chairman of the Board	Kiichi Otani
Number of directors	12 (including 4 outside directors)
Number of corporate auditors	3 (including 2 outside corporate auditors)
Board of Directors meetings*	Number of meetings: 11 Examples of resolutions: Annual budget, issues related to new businesses, store openings
Outside Director attendance at Board of Directors meetings*	90.5%
Outside Corporate Auditor attendance at Board of Directors meeting*	100%
Board of Corporate Auditor meetings*	Number of meetings: 12 Examples of resolutions: Audit policy, audit plans and business division audits
Key meetings attended by corporate auditors	Board of Directors meetings, Board of Corporate Auditor meetings, Management meetings
Independent director appointment	Outside directors Ko Mori, Yasuyuki Hamada, Noriko Endo and Junro Ito and outside corporate auditor Osamu Muramatsu have all been designated as independent officers in accordance with the provisions of the Tokyo Stock Exchange.
Accounting auditor	ERNST & YOUNG SHINNIHON LLC

*Data is for the fiscal year ended April 2020.

▶ Corporate governance structure



The Nomination and Remuneration Committee, of which more than half the members are independent outside directors or corporate auditors, discusses and makes recommendations to enhance fairness, transparency and objectivity in procedures for appointing and dismissing directors and determining remuneration for executives. Committee members are selected by the Board of Directors.

The Head of the Internal Audit Office is in charge of the Company's internal control system and internal audits. With a position corresponding to that of a director, the head of the office liaises with the Board of Corporate Auditors, and where necessary, attends meetings of the Board of Directors to submit reports related to internal audits and the internal control system, ensuring that accountability to shareholders, investors and other stakeholders is effectively maintained.

In addition, the Company has adopted an Executive Officer system to separate management decision-making and oversight from business execution, with the aim of invigorating the Board of Directors and improving the flexibility of business execution.

The Management Meeting, which meets every week and is attended by all senior managers from the General Manager grade and higher, is tasked with monitoring business operations. Directors and standing corporate auditors also attend the meetings, which are used to discuss business execution in each division and maintain reciprocal control between business segments.

The Company has established a number of other bodies to reinforce corporate governance. To minimize potential risks related to dispensing errors, a key risk factor in dispensing pharmacy business operations, the Internal Audit Office ensures comprehensive compliance with basic pharmacy regulations, while the Safety Policy Office conducts analysis and implements measures to prevent drug dispensing errors. The Compliance Committee, which is comprised of all directors and corporate auditors as well as legal advisors, works to widely promote and embed systems that ensure compliance with business ethics, laws and regulations.

■ Outside Directors and Outside Corporate Auditors

The Board of Directors is comprised of twelve members, including four outside directors. Two of the Company's three corporate auditors are outside corporate auditors. There are no conflicts of interest between the Company and its outside directors and outside corporate auditors.

The outside directors and outside corporate auditors have a number of functions and roles in the Group's corporate governance. Drawing on their specialist knowledge and experience, they contribute to the Group's business strategy, discussions on board resolutions, and internal control, mainly by monitoring business execution and providing input at meetings of the Board of Directors from a neutral, independent and objective standpoint.

The Company currently has no specific standards in place, but the basic policy for recruiting outside directors and outside corporate auditors is to ensure they can fulfill the above roles effectively.

■ Evaluating the Effectiveness of the Board of Directors

To improve the effectiveness of the Board of the Directors, the board asks directors and corporate auditors to participate in an annual self-appraisal survey that assesses board performance in 17 categories on a scale of one to five. In the fiscal 2019 survey, inside directors, outside directors and corporate auditors

Outside directors

Name	Reasons for selection
Ko Mori Independent	He was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business execution, drawing on his extensive knowledge and experience as the manager of a major trading company. He is judged to be a highly independent and objective appointment, as he has no affiliation with the parent company, its subsidiaries, major corporate shareholders or key customers of the Group.
Yasuyuki Hamada Independent	He was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business execution. Although he has no experience of business management, he is able to draw on his specialist knowledge and experience as an academic, particularly in the field of economics and finance. He has been an emeritus professor at Hokkaido University, which has received donations from the Company in the past. However, he is judged to be a sufficiently independent appointment, as the purpose of the donations was limited and they were not directly related to his research activities.
Noriko Endo Independent	She was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business activities, drawing on her extensive knowledge and experience from positions in the editing department of an economics magazine and a public research institution, as well as knowledge gained from market research in Japan and overseas. She previously worked for the Company in an advisory capacity, but the level of mutual dependence between she and the Company is low, as her contract was completed at the end of May 2018. She is judged to have no conflicts of interest with ordinary shareholders and has been designated as an independent officer.
Junro Ito Independent	He was appointed as an outside director to broadly contribute to the Company's activities by providing advice to the Board of Directors and other bodies and by monitoring business execution, drawing on his extensive knowledge of environmental, social and corporate governance (ESG) issues and his experience leading group companies as the director of a major retailer. The Company has a leasing contract with the major retailer, but the level of mutual dependence is judged to be low as the value of the contract is negligible. He is judged to have no conflicts of interest with ordinary shareholders and has been designated as an independent officer.

Outside corporate auditors

Name	Reasons for selection
Akira Ibayashi Independent	He was appointed as an outside corporate auditor to contribute to improvements in sound and efficient business management, drawing on his specialist knowledge from working at financial institutions and his experience in business management.
Osamu Muramatsu Independent	He was appointed as an outside corporate auditor to contribute to improvements in sound and efficient business management, drawing on his specialist knowledge from working at a major securities firm, experience in business management and track record as an outside auditor for the Group.

gave the board above-average marks in all categories. The results show that the Company's Board of Directors is generally fulfilling its duties in an effective manner. However, the survey highlighted the need to further improve explanations about risk information, growth strategy and other topics.

■ Selection and Dismissal of Directors, Nomination of Corporate Auditors

The selection / dismissal and nomination of candidates for the senior management team and director positions is based on a comprehensive set of criteria, including the ability to make appropriate and rapid decisions, approval from peers, and the integrity to rigorously observe laws, regulations and corporate ethics , while also taking into account the current balance of expertise, experience and abilities in the senior management team and the Board of Directors.

In addition, to enhance fairness, transparency and objectivity in procedures for appointing and dismissing directors, the Company has established the Nomination and Remuneration Committee, of which more than half the members are independent outside directors or corporate auditors. As an advisory body, the committee discusses and makes recommendations about the appointment and dismissal of directors.

Corporate auditor candidates are nominated based on a comprehensive set of criteria from the perspective of recruiting the most qualified person for the right position, while also ensuring a balance of various perspectives related to expertise in finance and accounting, knowledge about the Company's businesses, and corporate management.

Based on the above policies, the Board of Directors makes decisions on candidates put forward by the President.

REMUNERATION FOR DIRECTORS AND CORPORATE AUDITORS

Director remuneration = Basic monthly remuneration + Bonuses

Remuneration is composed of basic monthly remuneration and bonuses and is linked to earnings performance to support a remuneration system that reflects individual responsibilities and performance. Bonuses are determined based on consolidated operating income for each fiscal year, taking into account a broad set of criteria, including dividends, the balance with employee remuneration, trends at other companies in the industry and bonuses paid in previous years.

To enhance fairness, transparency and objectivity in procedures related to determining remuneration for directors, the Company has established the Nomination and Remuneration Committee, of which more than half the members are independent outside directors or corporate auditors. As an advisory body, the committee determines the types and scope of remuneration in line with the above policies, while remuneration amounts for each individual are left to the discretion of the President with the approval of the Board of Directors.

The maximum total amount of remuneration for corporate auditors was set at ¥30 million annually at the 22nd Ordinary General Meeting of Shareholders held on July 30, 1991. The actual amount each year is determined within this limit via discussions among the corporate auditors.

The amount of remuneration for directors and corporate auditors for the year ended April 2020 is as follows:

Item	Total remuneration (¥ million)	Remuneration by type (¥ million)		Number of eligible individuals
		Basic remuneration	Bonus	
Directors (excluding outside directors)	175	147	28	6
Corporate auditors (excluding outside corporate auditors)	7	7	0	1
Outside directors	18	18	-	3
Outside corporate auditors	12	12	-	2

CROSS-SHAREHOLDINGS, ETC.

The Company holds shares for reasons other than pure investment purposes (cross-shareholdings).

Cross-shareholdings include the stocks of companies that offer potential mutual benefits, such as business alliances related to the Company's operations or business relationships that need to be maintained and reinforced, and the stocks of companies that the Company requires to maintain links with local communities. In principle, the Company seeks to keep the value of cross-shareholdings at less than 5% of total assets on the consolidated balance sheet. If the value of cross-shareholdings exceeds that level, the Company's basic policy is to consider steps such as rapidly selling the shares. In addition, the Board of Directors considers whether the rationale for holding the shares is appropriate, whether benefits and risks are commensurate with the cost of capital, and if there are more effective uses of funds, which informs decisions on whether to continue holding the shares or reduce holdings through share disposals or other means.

With respect to the exercise of voting rights for cross-shareholdings, the Company emphasizes dialogue with investees and makes decisions on a case-by-case basis from the standpoint of prospects for increased corporate value and shareholder returns, rather than taking a uniform approach to all voting decisions.

Number of company stocks held and balance sheet value

	Number of companies	Total value on balance sheet (¥ million)
Unlisted	14	846
Other than unlisted	9	539

DIALOGUE WITH STAKEHOLDERS

shareholders and investors. The main IR activities in fiscal 2020 were as follows.

For institutional investors	Number of events
Results briefings	1
Phone and video conference calls	139
Meetings with analysts and investors	80
Store tours for investors	7

For individual investors	Number of events
Results briefings	1

Risk Management

We have formulated Risk Management Regulations and Risk Management Guidelines that establish the risk management framework for the whole AIN Group.

The Risk Management Section in the Administrative Department is in charge of risk matters and is responsible for issues and measures related to the implementation of risk management across the Group. The Internal Audit Office conducts field audits to check whether risk management rules are being strictly observed and to assess the effectiveness of risk management systems.

In addition, to ensure the AIN Group continues to operate during times of crisis, we formulate a business continuity plan (BCP) for the Group and actively disseminates the plan to all senior executives and employees.

BUSINESS AND OTHER RISKS

The following factors may affect the Group's operating results and financial position. Statements in the text referring to the future reflect the judgment of the Group at the end of the fiscal year under review.

1. Laws and regulations

a. Regulations under the Law for Ensuring the Quality, Efficacy, and Safety of Pharmaceuticals and Medical Devices

We operate the dispensing pharmacy business under various permits, licenses, registrations and notifications including those set forth by the Law for Ensuring the Quality, Efficacy, and Safety of Pharmaceuticals and Medical Devices (the Pharmaceutical and Medical Device Law), the Health Insurance Law, and the Pharmacists Law, under the supervision of the Ministry of Health, Labour and Welfare, and of prefectural health and welfare departments.

The drugstore business in our cosmetic and drug store business also involves drug sales, which are similarly regulated under the Pharmaceutical and Medical Device Law.

b. Easing of drug sales regulations

In sales of over-the-counter (OTC) drugs, the Pharmaceutical and Medical Device Law classifies drugs into different categories based on risk. Only qualified pharmacists are permitted to sell drugs requiring guidance and category 1 drugs, while registered sellers, as well as pharmacists, are permitted to sell category 2 and category 3 drugs.

In addition, the "Law for Partial Revision of the Pharmaceutical Affairs Law" (enacted June 12, 2014) ended restrictions on the sale of OTC drugs online. Factors such as the entry into the market of companies from other industries as a result of a continuing trend in the future to deregulate drug sales may affect the Group's performance.

2. Dispensing pharmacy business

The Group's dispensing pharmacy business operates a chain of dispensing pharmacies.

As the dispensing pharmacy business accounted for 90.1% of net sales in the fiscal year under review, we plan to continue the multi-store operation mainly based on dispensing pharmacies.

Accordingly, the Group's operating results may be affected by the success or failure of the store opening policies including M&A and by trends in store openings by competitors in the same industry.

Furthermore, sales of dispensing pharmacies significantly depend on the medical institutions that write prescriptions. Therefore, uncertainties such as the issuance of non-hospital prescriptions by the medical institutions or suspension/discontinuation of operations thereof may affect the Group's performance. In addition, due to seasonal outbreaks of influenza and other conditions, the number of prescriptions filled may be affected by seasonal trends.

3. Industry trends

The revenues in our dispensing pharmacy business come from pharmacy operations involving the dispensing and supplying of drugs based on prescriptions. The drug prices and dispensing fees are set by the Ministry of Health, Labour and Welfare. As a way to contract medical expenses, both medical treatment fees and drug prices are being revised incrementally. In the future as well, changes in profit structure resulting from factors such as revisions in the medical treatment fee system could continue to affect the Group's performance and financial position.

4. Securing qualified staff

Dispensing pharmacies and drugstores (Stores for Category 1 Drugs) are required by the Pharmaceutical and Medical Device Law to have a pharmacist on site; the Pharmacists Law stipulates that the dispensing of drugs must be handled by a pharmacist.

The Group continues to have a policy of expansion by aggressively opening new stores, but if it becomes difficult to secure qualified pharmacists, this could affect our store openings and the Group's performance.

5. Risks of loss of trust in the Company

a. Dispensing operation

In our dispensing pharmacy business, pharmacists dispense and supply prescription drugs that affect the human body. This business carries the risk that medical accidents might be caused through dispensing errors.

The Group recognizes that any medical accidents could have a severely damaging effect on society's confidence in the Group, and we place the highest priority on measures to avoid the risk from all aspects.

b. Protection of personal data

We possess patient data in the dispensing pharmacy business, including medical histories and prescription information, and we possess personal data in the cosmetic and drug store business obtained from the *ainz & tulpe* Point Card and *ainz & tulpe* official smartphone app.

The Group takes all possible steps to protect personal data through personal information protection systems and the rigorous enforcement of rules on the handling of such information. Also, key subsidiary AIN PHARMACIEZ INC. has acquired Privacy Mark accreditation in the healthcare, medical and social service fields. However, we believe it is possible that any accidental or illegal leakage of personal data may not only affect the Group's performance but also lead to a loss of society's confidence in the Group.

6. Risk in business strategy

The Group has promoted the expansion of the business scale of dispensing pharmacies through actively promoting new store openings and M&A.

Our basic policies regarding M&A strategy require us to carefully examine target companies and determine the amount to be paid for acquisitions thereof in order to stably secure a profitability level that exceeds the amortization of goodwill to be incurred. If matters do not go as planned, however, we may incur losses on valuation of shares in subsidiaries and impairment losses on goodwill, which may have an adverse impact on the Group's operating results and financial position.

7. Interest rate risks

In the Group's promotion of business expansion based on actively promoting new store openings and M&A, costs for ordinary store openings are covered by internal funds within the range of operating cash flow, while in large-scale M&A, costs are sometimes financed by borrowings from financial institutions.

In order to ensure flexible access to funds to support these activities, the Group maintains a certain level of liquidity on its balance sheet. As of the end of the fiscal year under review, cash on hand and in banks totaled ¥46,321 million, compared with a total balance of short- and long-term debt of ¥6,074 million.

We focus on the possibility of return on investment and seek to reduce interest-bearing debt through efficient investment in implementing M&A deals. However, if the Group fails to secure an adequate return on its M&A investment, or due to interest rate fluctuations associated with conditions in financial markets, the Group's financial position and operating results including interest payable may be affected.

8. Impact of consumption tax

Under Japan's Consumption Tax Act, dispensing sales in the dispensing pharmacy business related to social insurance medical examinations are exempt from consumption tax. However, the business is required to pay consumption tax on pharmaceutical and other products that it procures.

As a result, consumption tax borne by the Group is booked under cost of sales in the dispensing pharmacy business. In the past, when consumption tax was introduced and dispensing fees were revised, the government took into account the higher rate of consumption tax when it set drug prices. However, future revisions to the rate of consumption tax may not be reflected in drug prices, which could have an impact on the Group's operating results.

9. Risk information related to the COVID-19 outbreak

In the event of a wide outbreak of COVID-19, the duration of prescriptions in the dispensing pharmacy business is likely to increase due to factors such as restrictions on medical consultations to prevent the spread of infection. As a result, the business is likely to see a rise in the average unit price per prescription, but a decline in the number of prescriptions.

The cosmetic & drug store business is likely to be affected by a drop in customer footfall due to factors such as calls for people to stay at home, temporary store closures and shorter opening hours, and a contraction in inbound tourist demand. As such, the Group's operating results could be affected by the spread of COVID-19.

(As of July 30, 2020)

Board of Directors and Corporate Auditors

*Figures in brackets show the number of AIN HOLDINGS shares held as of April 30, 2020.

BOARD OF DIRECTORS

Kiichi Otani

President and Representative Director
(3,238,400 shares)

July 1980	President and Representative Director of Otani Corporation (now AIN HOLDINGS INC.)
November 1981	Director of newly established Daiichi Medical Testing Laboratories Co., Ltd. (now AIN HOLDINGS INC.)
July 1983	President and Representative Director of Daiichi Medical Testing Laboratories Co., Ltd.
May 1985	Managing Director of the Company
May 1988	President and Representative Director (current post)

Masahito Sakurai

Representative Senior Managing Director
(1,000 shares)

April 1972	Joined Ministry of Health and Welfare (now Ministry of Health, Labour and Welfare)
April 1987	Head of Administration Section, Fund for Drug ADR Relief
July 1996	Head of Air Protection Section, Japan Environment Agency
July 1998	Head of Regional Medical Affairs Office for Tokai Hokuriku
January 2001	Retired from Ministry of Health and Welfare
February 2001	Commissioner of All-Japan Federation of National Health Insurance Organizations
October 2008	Joined the Company
July 2009	Senior Managing Director
November 2015	Representative Senior Managing Director (current post)

Shoichi Shudo

Representative Senior Managing Director
In charge of Store Development
(9,500 shares)

April 1978	Joined Sapporo Medical Testing Laboratories Co., Ltd.
March 1982	Joined Daiichi Medical Testing Laboratories Co., Ltd. (Asahikawa, now AIN HOLDINGS INC.)
May 1993	Head of Corporate Planning Division
July 2000	Director
May 2003	Managing Director
May 2004	Division Manager of Dispensing Pharmacy Business
May 2012	Senior Managing Director
November 2015	Representative Senior Managing Director in charge of Store Development (current post)
May 2020	Chairman of Nippon Pharmacy Association (NPhA) (current post)

Toshihide Mizushima

Representative Senior Managing Director
In charge of Operating Management, Operational Support and Information Technology
(27,600 shares)

April 1982	Joined SSP Co., Ltd.
April 1986	Joined Otani Corporation (now AIN HOLDINGS INC.)
July 2000	Director
February 2001	Division Manager of Cosmetic and Drug Store Business
May 2003	Managing Director
May 2012	Senior Managing Director
November 2015	Representative Senior Managing Director (current post)
July 2018	In charge of Operating Management, Operational Support and Information Technology
May 2020	In charge of Operating Management, Operational Support and Digital Promotion (current post)

Miya Oishi

Managing Director
In charge of Dispensing Pharmacy Operating Management
(5,000 shares)

September 1990	Joined KYOEIDO Co., Ltd.
July 1993	Director of DAICHIKU Co., Ltd. (current post)
July 2008	Representative Director of same company
April 2011	Vice President and Representative Director of AIN MEDICAL SYSTEMS INC. (now AIN HOLDINGS INC.)
February 2012	President and Representative Director of same company
July 2012	Director of the Company
July 2014	Managing Director (current post)
November 2015	President and Representative Director of AIN PHARMACIEZ INC. (current post)
May 2019	In charge of Dispensing Pharmacy Operating Management (current post)

Rieko Kimei

Director
In charge of Personnel Department
(6,000 shares)

April 1986	Joined The Daiei, Inc.
December 1995	Joined Daiichi Medical Testing Laboratories Co., Ltd. (now AIN HOLDINGS INC.)
May 2003	General Manager of Cosmetic and Drug Store Business, Merchandising Business
May 2004	General Manager of Personnel Department
August 2009	Executive Officer
July 2014	Director (current post)
July 2016	President and Representative Director of AYURA LABORATORIES INC. (current post)
July 2018	In charge of Personnel Department (current post)

Hidehiro Awaji

Director
(4,600 shares)

December 1983	Joined Daiichi Medical Testing Laboratories Co., Ltd. (now AIN HOLDINGS INC.)
December 2000	Manager of Tohoku Branch
May 2004	Manager of Hokkaido Branch
August 2009	Executive Officer
May 2010	Senior General Manager for Western Japan
November 2015	Managing Director of AIN PHARMACIEZ INC., responsible for Western Japan
May 2018	Senior Managing Director of AIN PHARMACIEZ INC., responsible for Western Japan (current post)
July 2018	Director of the Company (current post)

Masato Sakai

Director
Division Manager of Store Development
(7,400 shares)

April 1995	Joined Nisshin Oil Mills, Ltd.
January 1999	Joined the Company
May 2004	Manager of Tohoku Branch
May 2006	Head of Corporate Planning Office
July 2011	Executive Officer
June 2014	President and Representative Director of Asahi Pharmacy Co., Ltd. (current post)
December 2016	Director of AIN PHARMACIEZ INC., responsible for Eastern Japan (current post)
July 2018	Director of the Company (current post)
May 2019	Division Manager of Store Development
August 2019	Division Manager of Store Development (current post) Division Mamager of Group Liaison Department (current post)

Ko Mori

Director Outside Independent
(- shares)

April 1971	Joined Marubeni Corporation
April 2002	Executive Officer and General Manager of Chemicals Division
April 2004	Managing Executive Officer
June 2006	Representative Director and Senior Managing Executive Officer, Materials Division
June 2007	President and Representative Director of Marubeni Safenet Co., Ltd.
July 2012	Outside Director of the Company (current post)

Yasuyuki Hamada

Director Outside Independent
(2,000 shares)

April 1991	Professor of Faculty of Economics, Hokkaido University
April 1997	Special Assistant for the president of same university
April 2003	Professor of Advanced Scientific Research Center, Hokkaido University (concurrent post)
April 2010	President of Sapporo International University Emeritus Professor of Hokkaido University
April 2014	President and Chairman of Dohto University
December 2014	President of Hamanasu Foundation (current post)
July 2015	Outside Director of the Company (current post)

Noriko Endo

Director Outside Independent
(- shares)

June 1994	Joined DIAMOND, Inc.
April 2004	Head and Director of Tokyo Office, Kyushu University
April 2006	Deputy Editor of Diamond Weekly, DIAMOND, Inc.
September 2013	Visiting Researcher at Policy Alternatives Research Institute, University of Tokyo (current post)
April 2015	Project Professor, Graduate School of Media and Governance, Keio University (current post)
July 2018	Outside Director of the Company (current post)
June 2019	Outside Director of Hankyu Hanshin Holdings, Inc. (current post) Outside Director of VLC HOLDINGS CO., LTD. (current post)
April 2020	Specially appointed professor of Keio University Research Institute (current post)

Junro Ito

Director Outside Independent
(- shares)

August 1990	Joined Seven-Eleven Japan Co., Ltd.
May 2009	Director of Seven and i Holdings Co., Ltd. (current post) Executive Officer, Senior Officer, Corporate Development Division, Seven and i Holdings Co., Ltd.
April 2011	Senior Officer, CSR Management Division, Seven and i Holdings Co., Ltd.
May 2016	Given responsibility for all Group companies of Seven and i Holdings Co., Ltd.
July 2016	Senior Officer, Affiliate Company Division Seven and i Holdings Co., Ltd.
December 2016	Managing Executive Officer, General Manager, Corporate Development Division, Seven and i Holdings Co., Ltd.
March 2018	Director, Ito-Yokado Co., Ltd. (current post)
July 2019	Outside Director of the Company (current post)

CORPORATE AUDITORS

Koichi Kawamura

Corporate Auditor (full-time)
(5,000 shares)

October 1985	Joined Daiichi Medical Testing Laboratories Co., Ltd. (now AIN HOLDINGS INC.)
July 1997	Auditor
May 2003	General Manager of Administrative Department
July 2012	Corporate Auditor (current post)

Akira Ibayashi

Corporate Auditor Outside Independent
(- shares)

April 1963	Joined The Hokkaido Bank, Ltd.
June 2001	Director, Executive Officer and Deputy President
June 2003	Retired from The Hokkaido Bank, Ltd.
July 2012	Outside Corporate Auditor of the Company (current post)

Osamu Muramatsu

Corporate Auditor Outside Independent
(- shares)

April 1972	Joined Nomura Securities Co., Ltd.
June 1994	Head of Sapporo Branch
June 1996	Director
October 2007	Retired from Nomura Securities Co., Ltd.
August 2011	President and Representative Director of Executive Partners, Inc.
June 2012	Outside Corporate Auditor of Asahi Pharmacy Co., Ltd. (current post)
July 2016	Outside Corporate Auditor of the Company (current post)
August 2018	Chairman of Executive Partners Inc. (current post)

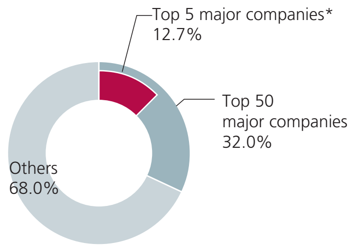
CHARACTERISTICS OF DISPENSING PHARMACIES IN JAPAN

In this section, we look at the characteristics of Japan's dispensing pharmacy market, which has developed differently to the US and other overseas markets.

A FRAGMENTED MARKET

Japan's dispensing pharmacy sector is fragmented, with the top five companies accounting for only around 10% of the market, including the Group's leading share of about 3%. Approximately 30% of pharmacies in Japan are run by individuals. As the shortage of pharmacists becomes more acute and small operators struggle to keep up with regulatory changes, we expect the pace of M&A activity and business closures to accelerate in the sector. However, the Group's ability to respond to those changes means there is significant scope to increase market share.

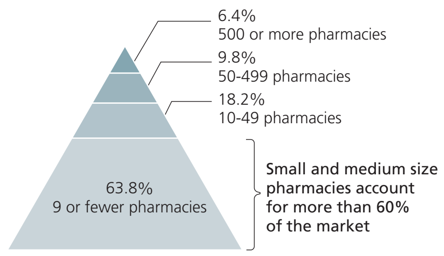
▶ Dispensing pharmacy company market share
(Fiscal 2020)



*Top 5 major companies:
AIN HOLDINGS INC., NIHON CHOUZAI Co., Ltd., KRAFT Inc., WELCIA HOLDINGS CO., LTD. Qol HOLDINGS Co., Ltd.,

Source: AIN HOLDINGS estimates, based on data from DRUG Magazine (July 1, 2020) and FY2019 dispensing fee statistics released by the Ministry of Health, Labour and Welfare.

▶ Market structure
—Breakdown by company size



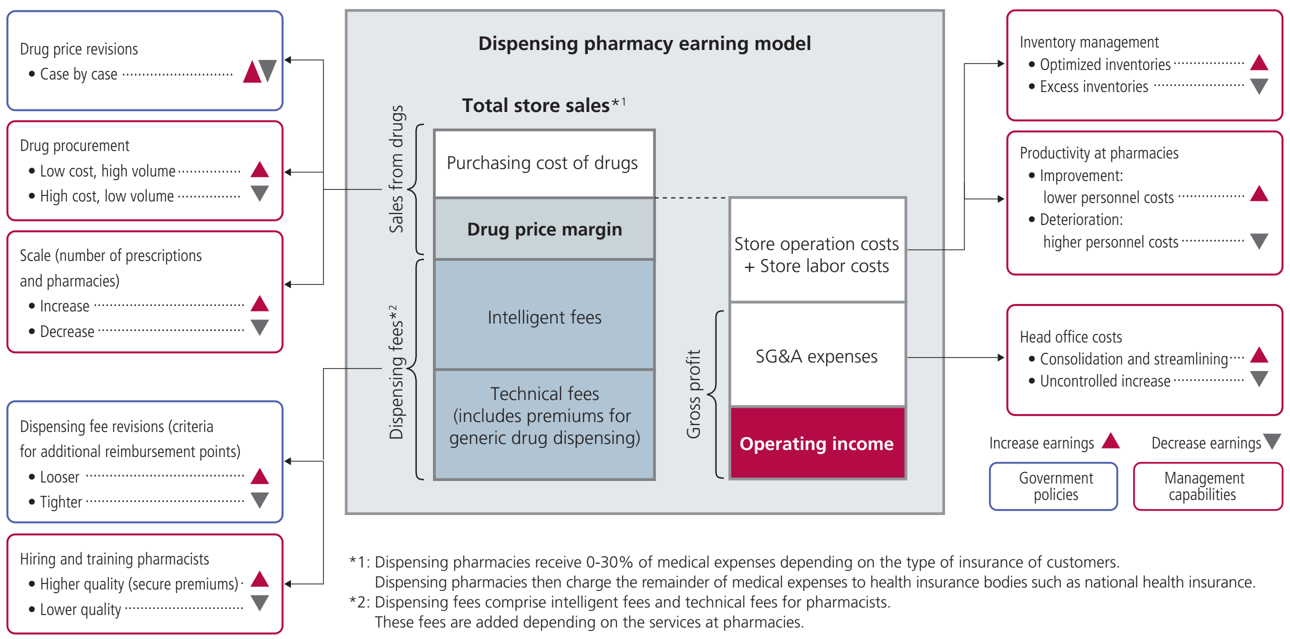
Notes: 1. The above figure dose not include1.7% of no response.
2. AIN HOLDINGS estimates based on data from a random survey conducted by the Ministry of Health, Labour and Welfare in August 2016 (1,000 dispensing pharmacies surveyed, 46.7% response rate).

Source: Report on Creating Dispensing Pharmacies for Patients, Ministry of Health, Labour and Welfare, March 31, 2017

DISPENSING PHARMACY EARNINGS MODEL

Dispensing pharmacies are being asked to play a greater role in healthcare provision in response to Japan's super-aging society and rising healthcare expenses. Pharmacies now need to provide higher quality services, such as the management of left over medicines, cooperation with healthcare providers and support for patient health management. The government is revising dispensing fees in a way that only pharmacies capable of providing these services will be able to generate profits.

▶ Factors that affect dispensing pharmacy profitability



*1: Dispensing pharmacies receive 0-30% of medical expenses depending on the type of insurance of customers. Dispensing pharmacies then charge the remainder of medical expenses to health insurance bodies such as national health insurance.
*2: Dispensing fees comprise intelligent fees and technical fees for pharmacists. These fees are added depending on the services at pharmacies.

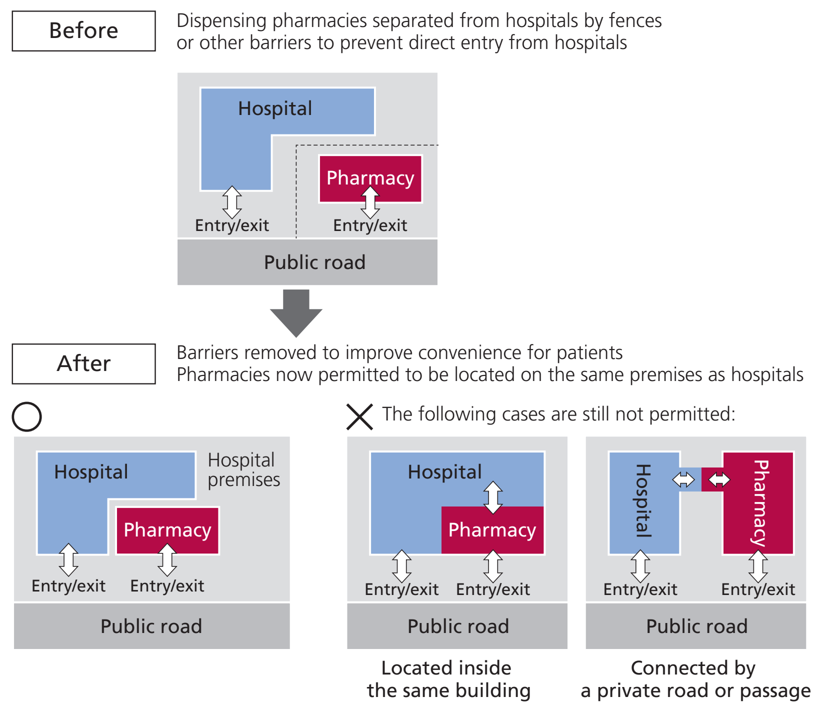
DIFFERENCES BETWEEN JAPAN AND THE US

	Japan	US
Medical insurance (patient cost)	Universal healthcare (10-30%)	Private health insurance (depends on contract terms)
Freedom to select hospitals / pharmacies	No restrictions	Affiliated service providers
Non-hospital dispensing pharmacies	75.8% (As of March 2019)	100%
Drug prescriptions	Refills × Mail order ×	Refills ○ Mail order ○
Drug prices	Set by the government (Revised regularly)	Market price

ISPENSING PHARMACIES BY TYPE

Japan has four main types of dispensing pharmacy: pharmacies located near hospitals, pharmacies on hospital sites, pharmacies not located near hospitals, and drug stores with dispensing pharmacy functions. People are free to choose any type of dispensing pharmacy to fill their prescription, regardless of their health insurance status. However, dispensing pharmacies located close to hospitals are the most popular in Japanese cities, which are less dependent on cars, meaning they are more convenient for patients, particularly those who have to visit hospital regularly, such as the elderly and patients with chronic illnesses. Many pharmacies near hospitals or on hospital sites also satisfy the government's conditions for primary care dispensing pharmacies, making them the most popular with patients.

▶ Onsite pharmacies



MERITS OF ONSITE PHARMACIES

For patients	For pharmacies	For hospitals
◆ **Convenient**	◆ **High sales per pharmacy**	◆ **Profitable**
Closest to hospital, making them very convenient	High sales per pharmacy due to large volume of prescriptions and complex prescriptions	Receive rental income from onsite pharmacies
◆ **Well stocked**	◆ **Optimized inventories**	◆ **Higher-quality healthcare services**
Drugs usually in stock	Detailed understanding of prescription trends at adjacent hospital enables efficient inventory management	Higher quality of local healthcare services through advanced healthcare and support for hospitalization
◆ **Safe and reassuring**	◆ **Opportunity to leverage and improve specialist capabilities**	◆ **Lower risks**
Access to high-quality healthcare services, such as advanced healthcare and lower risk of prescription errors	More opportunities to leverage and improve specialist skills of pharmacists, such as prepare complex prescriptions, provide home-based dispensing and deal with advanced healthcare treatments	Close links with adjacent dispensing pharmacies help hospitals rapidly identify drug treatment side-effects and minimize risk of prescription errors

11-YEAR FINANCIAL SUMMARY

(¥ million)

	2010/4	2011/4	2012/4	2013/4	2014/4	2015/4	2016/4	2017/4	2018/4	2019/4	2020/4
For the year:											
Net sales	125,495	129,387	142,790	154,560	170,225	187,904	234,843	248,110	268,385	275,596	**292,615**
Selling, general and administrative expenses	10,744	11,981	12,839	14,740	15,635	17,509	23,915	27,529	28,370	29,295	**30,793**
Operating income	6,492	8,107	10,253	9,701	10,113	11,452	14,619	14,563	19,622	16,067	**16,068**
Profit attributable to owners of parent	3,131	3,916	4,899	5,075	5,259	6,197	7,917	7,949	10,567	9,029	**9,179**
Capital expenditures	2,573	2,750	5,870	7,235	6,328	6,413	11,209	4,786	5,311	9,919	**10,536**
Depreciation and amortization	1,286	1,560	1,749	2,212	2,258	2,553	3,259	3,687	3,596	3,903	**4,087**
At the end of the year:											
Equity capital*1	21,445	29,450	33,695	38,312	42,122	47,928	53,258	60,105	96,697	103,855	**110,915**
Total net assets	21,492	29,498	33,745	38,356	42,240	48,046	53,324	60,178	96,733	103,922	**111,003**
Total assets	65,898	76,940	85,908	95,839	101,382	114,149	139,888	156,323	183,380	189,021	**193,451**
Number of shares outstanding (shares)	14,101,164	15,941,004	15,940,790	15,940,740	15,854,190	31,707,617	31,707,617	31,707,568	35,427,524	35,427,484	**35,427,484**
Number of employees (persons)	4,341	4,561	5,125	5,618	6,074	7,025	8,555	9,774	9,603	10,652	**13,158**
Number of stores: Dispensing pharmacy business	397	448	494	560	616	754	881	1,066	1,029	1,132	**1,088**
Number of stores: Cosmetic and drug store business	49	53	56	61	59	56	52	52	48	54	**63**
Per share information (¥):											
Earings*2	114.04	127.83	153.67	159.18	165.04	195.45	249.69	250.71	310.08	254.87	**259.11**
Net assets*2	760.40	923.73	1,056.89	1,201.71	1,328.43	1,511.57	1,679.69	1,895.63	2,729.44	2,931.48	**3,130.77**
Cash dividends*2	20.0	22.5	25.0	30.0	30.0	30.0	40.0	50.0	50.0	55.0	**55.0**
Stock information (based on the closing price as of April 30) (¥):											
Stock price	2,920	3,115	4,290	4,765	4,495	4,245	5,340	7,720	7,300	8,840	**6,030**
Ratios (%):											
Operating margin	5.2	6.3	7.2	6.3	5.9	6.1	6.2	5.9	7.3	5.8	**5.5**
Return on sales*3	2.5	3.0	3.4	3.3	3.1	3.3	3.4	3.2	3.9	3.3	**3.1**
Return on assets (ROA)*4	4.9	5.5	6.0	5.6	5.3	5.8	6.2	5.4	6.2	4.8	**4.8**
Return on equity (ROE)*5	16.7	15.4	15.5	14.1	13.1	13.8	15.6	14.0	13.5	9.0	**8.5**
Shareholders' equity ratio	32.5	38.3	39.2	40.0	41.5	42.0	38.1	38.4	52.7	54.9	**57.3**

Note:
Amounts of less than one million yen were rounded down.

*1: Equity capital = Total net assets – Non-controlling interests
*2: The Company conducted a 2-for-1 stock split of common shares with an effective date of October 1, 2014. Earnings per share, net assets per share and cash dividends per share have been adjusted retroactively to reflect the impact of the stock split.
*3: Return on sales = Profit attributable to owners of parent / Net sales × 100
*4: Return on assets = Profit attributable to owners of parent / Total assets (yearly average) × 100
*5: Return on equity = Profit attributable to owners of parent / Equity capital (yearly average) × 100

ESG DATA

		FY2017	FY2018	FY2019	FY2020
Environment					
Environmental protection action plan	Yes (Japanese only)	https://www.ainj.co.jp/csr/protection.html			
Environmental data					
CO_2 emissions* (t-CO_2)		-	9,830	10,982	**11,318**
CO_2 emissions related to operation of pharmacies* (t-CO_2)		-	9,608	10,901	**11,224**
Electricity use* (kWh, thousand)		-	18,234	20,893	**22,073**
Water use* (GJ)		-	1,387	1,155	**1,269**
*Data for key operating subsidiary AIN PHARMACIEZ INC.					
Social					
Composition of Employees					
Total employees		9,774	9,603	10,652	**13,158**
Male		2,001	1,966	2,119	**2,407**
Female		7,773	7,637	8,533	**10,751**
Pharmacists		4,518	4,457	4,904	**5,273**
Non-Japanese employees		-	-	117	**97**
Workforce Data					
Total hires		481	431	534	**952**
Pharmacists		307	279	257	**560**
Full-time employees turnover rate		6.8%	8.1%	7.6%	**6.7%**
Pharmacists		7.4%	7.3%	7.6%	**6.0%**
Employees rehired at mandatory retirement age		-	-	91.7%	**62.2%**
Female Employee Empowerment					
Eruboshi certification	Grade three – highest level of certification	https://www.ainj.co.jp/csr/maintenance.html			
Ratio of female hires		79.2%	74.9%	80.5%	**76.1%**
Women in management positions		31.7%	30.9%	31.2%	**31.7%**
Directors		16.7%	18.2%	21.6%	**16.0%**
Executive officers		29.4%	31.3%	29.2%	**33.3%**
Childcare and Maternity Leave					
Kurumin certification	Yes	https://www.ainj.co.jp/csr/maintenance.html			
Employees using maternity leave		292	361	342	**400**
Employees using childcare leave		417	420	503	**584**
eEmployees with reduced hours for childcare		420	501	686	**725**
Others					
Average age		34.3	34.9	35.3	**34.8**
Average compensation (¥ thousand)		4,450	4,440	4,550	**4,610**
Average monthly overtime per employee (hours)		6.8	5.9	6.1	**5.8**

	FY2017	FY2018	FY2019	FY2020
Government				
Composition of Board of Directors				
Number of directors	9	12	12	**12**
Inside directors (male)	4	6	6	**6**
Inside directors (female)	2	2	2	**2**
Outside directors (male)	3	3	3	**3**
Outside directors (female)	0	1	1	**1**
Ratio of female directors (%)	22.2	25.0	25.0	**25.0**
Board of Directors Meetings				
Number of meeting	12	12	12	**11**
Average attendance for outside directors	97.2%	97.8%	97.8%	**90.5%**
Average attendance for outside corporate auditors	100.0%	91.7%	100.0%	**100.0%**
Composition of Board of Corporate Auditors				
Corporate auditors	3	3	3	**3**
Outside corporate auditors	2	2	2	**2**
Board of Corporate Auditor Meetings				
Number of meetings	12	12	12	**11**
Average attendance for outside corporate auditors	100.0%	91.7%	100.0%	**100.0%**
Executive Remuneration				
Director and corporate auditor remuneration	210	210	208	**213**
Inside directors (¥millon)	183	181	175	**175**
Inside corporate auditors (¥millon)	7	7	7	**7**
Outside directors (¥millon)	9	10	15	**18**
Outside corporate auditors (¥millon)	10	11	11	**12**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS ENVIRONMENT SURROUNDING THE AIN HOLDINGS GROUP

The core business of the AIN HOLDINGS Group (the Group) is the dispensing pharmacy business that includes preparing and dispensing drugs based on prescriptions. Drug prices and dispensing fees* are stipulated by the Ministry of Health, Labour and Welfare.

The Japanese government is progressively revising drug prices and dispensing fees as part of its policy to curb national medical expenses. Earnings at dispensing pharmacies are the total of dispensing fees and sales of drugs, so earnings are affected by these revisions.

The dispensing fee revisions in April 2020 included adjustments that normalize a greater emphasis on appropriately evaluating the primary care functions of dispensing pharmacies in each community, as well as revisions aimed at spurring a structural shift from dispensing focused on products to dispensing focused on services.

The gap in performance between companies in the sector is likely to widen due to developments in the operating environment amid deregulation and changes to systems such as dispensing fee reimbursements. However, the Group regards these changes in the operating environment as a perfect opportunity to push ahead with its strategy of further increasing profitability.

* Dispensing fees comprise intelligent fees and technical fees for pharmacists

BUSINESS OVERVIEW FOR THE FISCAL YEAR UNDER REVIEW

During the fiscal year ended April 30, 2020, the Japanese economy recovered at a moderate pace, supported by improving corporate earnings and employment conditions. However, the economy weakened considerably due to a rapid deterioration caused by the COVID-19 outbreak.

In this economic environment, the Group worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies and used M&A to expand the business. It also developed its cosmetic and drug store business.

For the fiscal year under review, net sales rose 6.2% year on year to ¥292,615 million, operating income increased 0.0% to ¥16,068 million, ordinary income increased 1.1% to ¥16,822 million and profit attributable to owners of parent increased 1.7% year on year to ¥9,179 million.

As of the end of the fiscal year, the number of stores in the Group totaled 1,151, a net decrease of 35 stores from the end of the previous fiscal year.

BUSINESS RESULTS BY SEGMENT

Dispensing Pharmacy Business

To ensure our pharmacists and dispensing pharmacies fulfill their primary care role, the Group continues to build links with local medical service providers, strengthen pharmaceutical management and guidance based on the integrated and continuous management of drug information using patient medication notebooks and other means, and promote wider use of generic drugs.

Also, in accordance with a government announcement from the Ministry of Health, Labour and Welfare (MHLW) on 10 April allowing patients to receive medical examinations and other health services via the internet or telephone for a limited period during the COVID-19 outbreak, the Group made preparations to accept prescriptions at all pharmacies in line with the special measures and started providing guidance for pharmaceutical use via telephone and other channels as part of measures to prevent the spread of infection.

In business development, the Group is pushing ahead with further business expansion and measures to improve the efficiency of pharmacy operations, including actively opening large pharmacies and tightening the criteria for M&A deals, as well as adjusting its pharmacy opening strategy to withdraw from small-scale pharmacies.

For the fiscal year under review, the dispensing pharmacy business reported higher sales and profits, with sales rising 7.7% year on year to ¥263,750 million and segment income increasing 13.7% to ¥20,850 million.

During the fiscal year, the Group opened a total of 20 dispensing pharmacies, including those acquired through M&A deals, and closed 22 dispensing pharmacies and sold 42 as part of an overhaul of pharmacy operations, resulting in a total of 1,088.

Cosmetic and Drug Store Business

The cosmetic and drug store business continued to face a challenging market environment due to factors such as a pullback in demand after the hike to consumption tax and the impact of the COVID-19 outbreak.

Against that backdrop, the Group continued to open *ainz & tulpe* cosmetic and drug stores in the major urban area, as well as strategically develop sales areas at each store, based on the concept of creating stores where customers would be happy to browse for an hour. The Group also released the official *ainz & tulpe* app on October 1, 2019, creating an app version of its point card to improve convenience and service levels for customers.

However, as part of measures to prevent the spread of COVID-19, the Group temporarily closed or shorted opening hours at many stores, leading to a steep drop in sales from late February.

As a result, for the fiscal year under review, the cosmetic and drug store business reported lower sales and profits, with sales declining 2.0% year on year to ¥24,701 million and segment income falling 73.0% to ¥262 million.

During the same period, the Group opened 15 *ainz & tulpe* stores: *ainz & tulpe* bono SAGAMIONO (Sagamihara, Kanagawa Prefecture), *ainz & tulpe* ASAKUSA ROX (Taito Ward, Tokyo), *ainz & tulpe* PERIE Chiba (Chiba, Chiba Prefecture) , *ainz & tulpe* KAWASAKI ZERO GATE (Kawasaki, Kanagawa Prefecture), *ainz & tulpe* Pole Town 2 (Sapporo, Hokkaido), *ainz & tulpe* KASHIWA Modi (Kashiwa, Chiba Prefecture), *ainz & tulpe* SAKAE Central Park (Nagoya, Aichi Prefecture), *ainz & tulpe* OMIYA ARCHE (Saitama, Saitama Prefecture), *ainz & tulpe* PERIE Kaihimmakuhari (Chiba, Chiba Prefecture), *ainz & tulpe* BEAUTY FACTORY YOKOHAMA HAMMERHEAD (Yokohama, Kanagawa Prefecture), *ainz & tulpe* GINZA INZ (Chuo Ward, Tokyo), *ainz & tulpe* LINKS UMEDA (Osaka, Osaka), *ainz & tulpe* HAKATA MARUI (Fukuoka, Fukuoka Prefecture), *ainz & tulpe* Daimaru Shimonoseki (Shimonoseki, Yamaguchi Prefecutre), *ainz & tulpe* SENDAI PARCO 2 (Sendai, Miyagi Prefecture) and closed six stores, resulting in a total of 63 cosmetic and drug stores at the end of the fiscal year.

Other Businesses

Net sales from other businesses decreased 22.6% year on year to ¥4,163 million and segment loss was ¥342 million compared with the loss of ¥165 million a year earlier.

FINANCIAL POSITION

The balance of total assets at the end of the fiscal year increased by ¥4,429 million from the end of the previous fiscal year to ¥193,451 million. That mainly reflected increases for merchandise and for deposits and guarantees, which outweighed declines for cash on hand and in banks and for goodwill.

Current assets at the end of the fiscal year under review totaled ¥87,802 million, an increase of ¥2,356 million from ¥85,446 million at the end of the previous fiscal year, mainly reflecting increases for merchandise and other accounts receivable.

Fixed assets at the end of the fiscal year under review totaled ¥105,632 million, an increase of ¥2,117 million from ¥103,515 million at the end of the previous fiscal year, primarily due to a rise in investments and other assets.

The balance of current liabilities at the end of the fiscal year under review was ¥74,700 million, an increase of ¥956 million from ¥73,744 million at the end of the previous fiscal year, while the balance of long-term liabilities was ¥7,747 million, down ¥3,608 million from ¥11,355 million a year earlier.

As a result, the balance of total liabilities was ¥82,447 million, down ¥2,652 million from ¥85,099 million at the end of the previous fiscal year.

The balance of net assets at the end of the fiscal year under review was ¥111,003 million, a rise of ¥7,081 million from ¥103,922 million at the end of the previous fiscal year. As a result, the shareholders' equity ratio increased 2.4 percentage points to 57.3%, compared with 54.9% at the end of the previous fiscal year. ROA was unchanged at 4.8% and ROE declined 0.5 of a percentage point to 8.5%.

BASIC POLICIES FOR PROFIT DISTRIBUTION

The Company considers the return of profits to shareholders as an important management issue. Our basic policy is to repay our investors proportionate to the profit we make, and to maintain these payments at stable levels.

Internal reserves are held to strengthen the corporate structure and in preparation for new store openings and future development of the business. We will make effective use of these funds to generate profits to be returned to shareholders in the future.

The Company's basic policy is to pay dividends from retained earnings once per year at the end of the fiscal year.

For the fiscal year under review, the Company paid a full-year dividend of ¥55 per share, unchanged from the previous fiscal year.

In view of our profit forecasts, plans for investment and other factors, we intend to pay a full-year dividend from retained earnings of ¥55 per share in the fiscal year ending April 30, 2021.

CASH FLOWS

In the fiscal year under review, cash and cash equivalents ("cash") decreased ¥1,564 million year on year to ¥45,931 million. This reflected operating cash flow generated by the dispensing pharmacy business and the cosmetic & drug store business, which was mainly used to actively invest in new store openings and M&A. Some cash was also held in reserve to provide constant access to a certain level of funds.

Cash flows from each category and their relevant factors are as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥17,747 million, compared with net cash provided of ¥14,788 million in the previous fiscal year.

The main items that were positive for cash flow were income before income taxes of ¥15,930 million, as well as depreciation and amortization of ¥4,087 million and amortization of goodwill of ¥4,357 million related to business expansion through new store openings and M&A. The main item negative for cash flow was income taxes paid of ¥6,174 million.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥11,474 million, compared with net cash used of ¥19,985 million in the previous fiscal year.

This mainly reflected payments of ¥1,442 million for purchases of shares in subsidiaries due to changes in the scope of consolidation related to shares acquired in 4 companies through M&A deals, ¥4,913 million for purchases of property, plant and equipment related to the opening of new cosmetic and drug stores and dispensing pharmacies, and ¥4,710 million for payments of leasehold and guarantee deposits.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥7,837 million, compared with net cash provided of ¥10,681 million in the previous fiscal year.

The main cash outflows were net repayment of ¥5,513 million from short-term and long-term debt repayment and proceeds, and ¥1,948 million for cash dividends paid.

AIN HOLDINGS INC.
CONSOLIDATED BALANCE SHEET
AS OF APRIL 30, 2020

ASSETS	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1(1)) 2020
Current assets:			
Cash on hand and in banks (Notes 2 and 4)	¥ 46,321	¥ 48,091	$ 432,219
Notes and accounts receivable (Note 4)	13,653	12,771	127,395
Other accounts receivable	8,997	8,438	83,950
Inventories (Note 3)	15,321	12,898	142,959
Short-term loans	208	236	1,940
Other current assets	3,299	3,012	30,782
Allowance for doubtful accounts	(1)	(2)	(9)
Total current assets	87,802	85,446	819,277
Property, plant and equipment:			
Buildings and structures, net	16,609	16,352	154,978
Land	10,960	10,394	102,267
Construction in progress	143	283	1,334
Other property, plant and equipment, net	3,161	3,155	29,495
Total property, plant and equipment	30,874	30,186	288,084
Investments and other assets:			
Investment securities (Notes 4 and 5)	2,295	1,795	21,414
Deferred tax assets (Note 10)	4,211	4,284	39,292
Net defined benefit asset (Note 9)	111	15	1,035
Long-term loans	554	1,351	5,169
Deposits and guarantees	19,144	15,133	178,632
Goodwill	42,123	45,249	393,048
Other intangible fixed assets	2,792	2,327	26,052
Other investments and other assets	5,168	4,853	48,222
Allowance for doubtful accounts	(1,644)	(1,683)	(15,340)
Total investments and other assets	74,757	73,328	697,555
Deferred Assets:			
Share issuance cost	15	59	139
Total deferred assets	15	59	139
Total assets	¥ 193,451	¥ 189,021	$ 1,805,085

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1(1)) 2020
Current liabilities:			
Accounts payable (Note 4)	¥ 47,187	¥ 44,794	$ 440,300
Short-term debt (Notes 4 and 7)	3,642	5,571	33,983
Accrued income taxes	3,356	3,261	31,314
Deposits received	13,094	12,737	122,179
Allowance for bonuses to employees	2,338	2,139	21,815
Allowance for bonuses to directors	16	17	149
Reserve for reward obligations	463	450	4,320
Other current liabilities	4,600	4,772	42,922
Total current liabilities	74,700	73,744	697,023
Long-term liabilities:			
Long-term debt (Notes 4 and 7)	2,432	5,985	22,692
Lease obligations	154	401	1,436
Net defined benefit liability (Note 9)	3,124	2,977	29,149
Other long-term liabilities	2,035	1,989	18,988
Total long-term liabilities	7,747	11,355	72,287
Net Assets: (Note 11)			
Shareholders' equity			
Common stock (Note 13)	21,894	21,894	204,292
Authorized - 44,000,000 shares in 2020 and 2019			
Issued - 35,428,212 shares in 2020 and 2019			
Capital surplus	20,500	20,500	191,284
Retained earnings	68,758	61,526	641,578
Treasury stock (728 shares in 2020 and 2019)	(2)	(2)	(18)
Total shareholders' equity	111,151	103,920	1,037,146
Accumulated other comprehensive income:			
Unrealized holding losses on securities	(77)	(6)	(718)
Remeasurements of defined benefit plans	(159)	(59)	(1,483)
Total accumulated other comprehensive loss	(236)	(65)	(2,202)
Non-controlling interests	88	67	821
Total net assets	111,003	103,922	1,035,765
Total liabilities and net assets	¥ 193,451	¥ 189,021	$ 1,805,085

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2020

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1(1)) 2020
Net sales (Note 14)	¥ 292,615	¥ 275,596	$ 2,730,381
Cost of sales	245,753	230,233	2,293,113
Gross profit	46,861	45,363	437,258
Selling, general and administrative expenses	30,793	29,295	287,328
Operating income	16,068	16,067	149,930
Other income (expense):			
Interest and dividend income	92	109	858
Real estate rental revenue	368	274	3,433
Consignment income	184	158	1,716
Technical advisory fee	64	68	597
Subsidies for employment adjustment	138	-	1,287
Gain on transfer of business	496	312	4,628
Refund of premium for cancelled insurance	78	23	727
Gain on sales of investments in capital	-	550	-
Gain on contribution of securities to retirement benefit trust	223	-	2,080
Interest expenses	(63)	(125)	(587)
Losses on sales of accounts receivables	(67)	(71)	(625)
Rent expenses on real estates	(134)	(95)	(1,250)
Losses on disposal and sales of fixed assets	(916)	(695)	(8,547)
Impairment losses on fixed assets	(263)	(766)	(2,454)
Loss on valuation of investment securities	(218)	(179)	(2,034)
Loss on temporary closing of stores	(97)	-	(905)
Other, net	(24)	(9)	(223)
	(138)	(442)	(1,287)
Profit before income taxes	15,930	15,624	148,642
Income taxes (Note 10):			
Current	6,648	6,794	62,032
Deferred	81	(230)	755
	6,729	6,564	62,788
Profit	9,201	9,060	85,854
Profit attributable to non-controlling interests	21	30	195
Profit attributable to owners of parent	¥ 9,179	¥ 9,029	$ 85,648

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2020

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 1(1)) 2020
Profit	¥ 9,201	¥ 9,060	$ 85,854
Other comprehensive income:			
Unrealized holding losses on securities	(71)	(91)	(662)
Remeasurements of defined benefit plans, net of tax	(99)	(8)	(923)
Total other comprehensive loss	(170)	(99)	(1,586)
Total comprehensive income	9,030	8,960	84,258
Comprehensive income attributable to owners of parent	9,008	8,929	84,053
Comprehensive income attributable to non-controlling interests	21	30	195

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2020

	Thousands of shares	Millions of yen				
		Shareholders' equity				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 30, 2018	35,428	¥ 21,894	¥ 20,500	¥ 54,268	¥ (1)	¥ 96,662
Profit attributable to owners of parent	-	-	-	9,029	-	9,029
Cash dividends paid	-	-	-	(1,771)	-	(1,771)
Acquisition of treasury stock	-	-	-	-	(0)	(0)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Net changes during the year	-	-	-	7,257	(0)	7,257
Balance at April 30, 2019	35,428	21,894	20,500	61,526	(2)	103,920
Profit attributable to owners of parent	-	-	-	9,179	-	9,179
Cash dividends paid	-	-	-	(1,948)	-	(1,948)
Acquisition of treasury stock	-	-	-	-	-	-
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Net changes during the year	-	-	-	7,231	-	7,231
Balance at April 30, 2020	35,428	¥ 21,894	¥ 20,500	¥ 68,758	¥ (2)	¥ 111,151

	Millions of yen				
	Accumulated other comprehensive income (loss)				
	Unrealized holding gains (losses) on securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
Balance at April 30, 2018	¥ 84	¥ (50)	¥ 34	¥ 36	¥ 96,733
Profit attributable to owners of parent	-	-	-	-	9,029
Cash dividends paid	-	-	-	-	(1,771)
Acquisition of treasury stock	-	-	-	-	(0)
Net change in items other than those in shareholders' equity	(91)	(8)	(99)	30	(68)
Net changes during the year	(91)	(8)	(99)	30	7,188
Balance at April 30, 2019	(6)	(59)	(65)	67	103,922
Profit attributable to owners of parent	-	-	-	-	9,179
Cash dividends paid	-	-	-	-	(1,948)
Acquisition of treasury stock	-	-	-	-	-
Net change in items other than those in shareholders' equity	(71)	(99)	(170)	21	(149)
Net changes during the year	(71)	(99)	(170)	21	7,081
Balance at April 30, 2020	¥ (77)	¥ (159)	¥ (236)	¥ 88	¥ 111,003

	Thousands of U.S. dollars (Note 1(1))				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 30, 2019	$ 204,292	$ 191,284	$ 574,097	$ (18)	$ 969,674
Profit attributable to owners of parent	-	-	85,648	-	85,648
Cash dividends paid	-	-	(18,176)	-	(18,176)
Acquisition of treasury stock	-	-	-	-	-
Net change in items other than those in shareholders' equity	-	-	-	-	-
Net changes during the year	-	-	67,472	-	67,472
Balance at April 30, 2020	$ 204,292	$ 191,284	$ 641,578	$ (18)	$ 1,037,146

	Thousands of U.S. dollars (Note 1(1))				
	Accumulated other comprehensive income (loss)				
	Unrealized holding gains (losses) on securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Non-controlling interests	Total net assets
Balance at April 30, 2019	$ (55)	$ (550)	$ (606)	$ 625	$ 969,693
Profit attributable to owners of parent	-	-	-	-	85,648
Cash dividends paid	-	-	-	-	(18,176)
Acquisition of treasury stock	-	-	-	-	-
Net change in items other than those in shareholders' equity	(662)	(923)	(1,586)	195	(1,390)
Net changes during the year	(662)	(923)	(1,586)	195	66,072
Balance at April 30, 2020	$ (718)	$ (1,483)	$ (2,202)	$ 821	$ 1,035,765

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2020	2019	2020
Cash flows from operating activities:			
Profit before income taxes	¥ 15,930	¥ 15,624	$ 148,642
Depreciation and amortization	4,087	3,903	38,135
Amortization of goodwill	4,357	4,183	40,655
Loss on sales of shares of subsidiaries and associates	34	149	317
Impairment losses on fixed assets	263	766	2,454
Gain on sales of investments in capital	-	(550)	-
Decrease in allowance for doubtful accounts	(2)	(155)	(18)
Increase in net defined benefit liability	256	186	2,388
Gain on transfer of business	(419)	(312)	(3,909)
Gain on contribution of securities to retirement benefit trust	(223)	-	(2,080)
Increase in allowance for bonuses to employees	183	152	1,707
Interest and dividend income	(92)	(109)	(858)
Interest expenses	63	125	587
Gains on investments in partnerships	(10)	(17)	(93)
Gains on donations of non-current assets	(48)	(48)	(447)
Loss on valuation of investment securities	218	179	2,034
Losses on disposal and sales of fixed assets	880	656	8,211
(Increase) decrease in accounts receivable	(429)	843	(4,002)
Increase in inventories	(1,939)	(2,054)	(18,092)
(Increase) decrease in other assets	(1,237)	335	(11,542)
Increase in other accounts receivable	(530)	(407)	(4,945)
Increase in accounts payable	1,793	1,685	16,730
Increase (decrease) in other liabilities	757	(990)	7,063
Subtotal	23,893	24,146	222,944
Interest and dividends received	92	109	858
Interest paid	(64)	(125)	(597)
Income taxes paid	(6,174)	(9,341)	(57,609)
Net cash provided by operating activities	17,747	14,788	165,596
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(4,913)	(3,761)	(45,843)
Proceeds from sales of property, plant and equipment	1,014	783	9,461
Payments for purchases of investment securities	(874)	(28)	(8,155)
Purchases of subsidiaries' shares resulting in obtaining controls	(1,442)	(13,246)	(13,455)
Payments for loans receivable	(189)	(118)	(1,763)
Proceeds from collections of loans receivable	939	626	8,761
Proceeds from collections of investments in capital	1	850	9
Payments for purchase of intangible fixed assets	(1,465)	(1,228)	(13,669)
Proceeds from sales of intangible assets	188	15	1,754
Payments of leasehold and guarantee deposits	(4,710)	(4,469)	(43,948)
Proceeds from refund of leasehold and guarantee deposits	662	808	6,177
Increase in other investments	(924)	(820)	(8,621)
Proceeds from withdrawal of time deposits	314	616	2,929
Payments into time deposits	(109)	(47)	(1,017)
Other, net	35	33	326
Net cash used in investing activities	(11,474)	(19,985)	(107,063)
Cash flows from financing activities:			
Net repayments from short-term debts	(15)	(1,599)	(139)
Proceeds from long-term debts	100	0	933
Repayments of long-term debts	(5,598)	(6,771)	(52,234)
Repayments of lease obligations	(375)	(539)	(3,499)
Cash dividends paid	(1,948)	(1,771)	(18,176)
Other, net	-	(0)	-
Net cash used in financing activities	(7,837)	(10,681)	(73,126)
Net decrease in cash and cash equivalents	(1,564)	(15,878)	(14,593)
Cash and cash equivalents at beginning of year	47,495	63,233	443,174
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	-	140	-
Cash and cash equivalents at end of the year (Note 2)	¥ 45,931	¥ 47,495	$ 428,580

See accompanying notes.

AIN HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2020 AND 2019

1. Summary of significant accounting policies

(1) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been reclassified and translated into English from the consolidated financial statements of AIN HOLDINGS INC. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at April 30, 2020, which was ¥107.17 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(2) Consolidated statement of cash flows

In preparing the consolidated statement of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(3) Basis of consolidation and accounting for investments in affiliates

The consolidated financial statements comprise the accounts of the Company and its 54 and 68 subsidiaries as of April 30, 2020 and 2019, respectively. All significant intercompany accounts and transactions have been eliminated in consolidation. All companies are required to consolidate all significant investees, which are controlled through ownership of majority voting rights or existence of certain conditions.

The investments in affiliates are stated at their underlying equity value. All companies are required to account for investments in affiliates (20% to 50% owned and certain others that are 15% to 20% owned) by the equity method, in principle.

Of consolidated subsidiaries, AIN PHARMACIEZ INC., MEDIWEL Corp. and AYURA LABORATORIES INC. close its accounts on April 30. The account closing date for five consolidated subsidiaries in the dispensing pharmacy business is the end of January. The account closing dates for five consolidated subsidiaries in the dispensing pharmacy business are the end of February. The account closing date of other consolidated subsidiaries is the end of March. Financial statements as of these respective closing dates are used in preparing the consolidated financial statements. However, necessary adjustments are made to important transactions that occur between these subsidiaries' account closing dates and the account closing date for the consolidated financial statements.

(4) Securities

The Company and its consolidated subsidiaries examine the intent of holding each security and classify those securities other than equity securities issued by subsidiaries and affiliates: (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. Cost of securities sold is determined by the moving average method.

(5) Inventories

Dispensed drugs were stated at lower of cost or market, cost being determined using the gross average method. Merchandise was stated at lower of cost or market, cost being determined using the retail method. Supplies were stated at cost determined using the last purchase method.

(6) Depreciation and amortization

Depreciation of property, plant and equipment other than leased assets is computed by the declining-balance method at rates based on the useful lives, except that the straight-line method is applied to buildings acquired on or after April 1, 1998 and to facilities attached to buildings and structures acquired on or after April 1, 2016. The useful lives of major property, plant and equipment are summarized as follows:

Buildings and structures: 10 to 50 years

The straight-line method is applied over a three-year period for assets with an acquisition price of ¥100,000 or more and less than ¥200,000.

Amortization of software other than leased assets used by the Company and its consolidated subsidiaries is computed by the straight-line method over the useful lives, five years. Amortization of long-term prepaid expenses is computed by the straight-line method. Amortization of goodwill is computed by the straight-line method over a period (5 to 20 years).

Leased assets capitalized under finance leases are depreciated over the lease terms of the respective assets with no residual value.

(7) Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, an amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss.

The Company and its consolidated subsidiaries identify group of assets by store as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. With respect to non-performing assets, real estate is regarded as an independent asset group.

The recoverable amount of the asset group is measured by the respective net selling prices or the value in use. The land is assessed based on the appraisal value by an independent real estate appraiser. The fair value of assets other than the land is the disposal value from which costs of disposal are deducted. Its value in use is calculated by discounting the future cash flows at a discount rate of 1.9% and 1.5% for the year ended April 30, 2020 and 2019, respectively.

(8) Deferred charges

Amortization of share issuance cost is computed by the straight-line method over three years.

(9) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts for probable collection losses by applying the actual rate of bad debt losses experienced in a past reference period for normal receivables and by individual assessment of collectability for doubtful receivables.

(10) Bonuses to employees

Allowance for bonus to employees is provided for payments to employees of the Company and its consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

(11) Bonuses to directors

Allowance for bonus to directors is provided for payments to directors of the Company and its consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

(12) Reserve for reward obligations

In terms of the estimated redeemable amount of the purchase points given in the consolidated subsidiary's Cosmetic and Drug Store Business, the Company sets a reserve based on actual redemptions in the past.

(13) Retirement benefits

Retirement benefits covering all employees are provided through two plans: a lump-sum benefit plan and a defined-benefit pension plan. Upon retirement or termination of employment, employees are generally entitled to lump-sum or annuity payments based on their current rate of pay, length of service and cause of termination.

The Company and some of its consolidated subsidiaries employ the simplified method when computing retirement benefit obligations.

In calculating the retirement benefit obligation, the benefit formula basis is used to attribute the expected benefit attributable to the respective fiscal year. Unrecognized prior service cost is amortized on a straight-line basis over a period (six years) within the employees' average remaining service period at incurrence. Unrecognized actuarial gains and losses are recognized in expenses using the declining-balance method over a period (six years) within the average of the estimated remaining service period, commencing from the year after the year in which they are incurred.

(14) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws, which will be in effect when the differences are expected to reverse.

(15) Amounts per share of common stock

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during the year.

Diluted earnings per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon conversion of the convertible bonds.

Net assets per share are computed based on the net assets excluding non-controlling interests, and the number of common stock outstanding at the year end.

Cash dividends per share represent the actual amount declared as applicable to the respective years.

(16) Consumption taxes

The Company and its consolidated subsidiaries are accounted for using the tax excluded method.

With regard to consumption taxes and other taxes that are not subject to deduction, the related expenses are reported in the fiscal year in which they are incurred.

However, consumption taxes and other taxes that are not subject to deduction but related to fixed assets are recorded in “Other investments and other assets” within “Investments and other assets” and amortized using the straight-line method.

Accrued consumption taxes are indicated in the corresponding “other” sections within current assets and current liabilities.

(17) Unapplied accounting standards

Revenue Recognition
Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29 revised March 31, 2020)
Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 revised March 31, 2020)
Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 revised on March 31, 2020)

The Accounting Standard and the Implementation Guidance provide comprehensive principles for revenue recognition. An entity applies the following five steps to recognize revenue.

1. Identify the contracts with a customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue when or as the performance obligation is satisfied

The Company and its consolidated subsidiaries intend to adopt the Accounting Standard and the Implementation Guidance from the beginning of the fiscal year ending April 30, 2022.

Effects of adoption of the Accounting Standard and the Implementation Guidance are currently evaluated.

Fair Value Measurement
Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019)
Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 issued on July 4, 2019)
Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 revised on July 4, 2019)
Accounting Standard for Financial Instruments (ASBJ Statement No. 10 revised on July 4, 2019)
Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 revised on March 31, 2020)

The ASBJ has developed an “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter collectively, the “Fair Value Measurement Standard”), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards. The Fair Value Measurement Standard is applied with respect to the fair value of the following items;

- Financial instruments defined in “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes defined in “Accounting Standard for Measurement of Inventories”

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised requiring disclosure of financial instruments broken down by level in the fair value hierarchy.

The Company and its consolidated subsidiaries intend to adopt the Accounting Standard and the Implementation Guidance from the beginning of the fiscal year ending April 30, 2022.

Effects of adoption of the Accounting Standard and the Implementation Guidance are currently evaluated.

Disclosure of Accounting Estimates
Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 issued on March 31, 2020)

This accounting standard has been released to provide guidance on disclosure of information that deepens the understanding of users of the financial statements about estimates that embody a risk of a significant impact on the financial statements of the following accounting period.

The Company and its consolidated subsidiaries intend to adopt the Accounting Standard from the end of the fiscal year ending April 30, 2021.

Accounting Policy Disclosures, Accounting Changes and Error Corrections
Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No.24 revised March 31, 2020)

This accounting standard has been released to provide an outline of the applicable accounting principles and procedures in cases where directly relevant accounting standards are not available.

The Company and its consolidated subsidiaries intend to adopt the Accounting Standard from the end of the fiscal year ending April 30, 2021.

(18) Additional information

Accounting estimates used for impairment losses on fixed assets and the recoverability of deferred tax assets are based on information available at the time of preparation of the consolidated financial statements. The Company and its consolidated subsidiaries concluded these accounting estimates have no significant effects on its consolidated financial statements for the fiscal year ending April 30, 2020.

Accounting estimates have been formulated based on the assumption that because of COVID-19 outbreak, the number of prescriptions will be declined due to an increase in longer-term prescriptions in the dispensing pharmacy business, weak consumer mind for purchase will be continued due to “stay home” request from governments until July, 2020 in the cosmetic and drug store business, and inbound tourist demand will not recover during the fiscal year ending April 30, 2021. We still have many uncertainties regarding the impact of the spread of COVID-19 outbreak, which might affect the Company’s and its consolidated subsidiaries’ operating results and financial position for the fiscal year ending April 30, 2021.

In response to requests from national and local governments, the Company and its consolidated subsidiaries have temporarily closed or shortened the opening hours of many cosmetic and drug stores to prevent the spread of COVID-19. Fixed expenses, such as personnel expenses, depreciation, rent and others, incurred by stores during the closures have been booked as “Losses on temporary closing of stores” under “Other income (expense).”

2. Cash and cash equivalents

(1) Reconciliations of cash on hand and in banks shown in the consolidated balance sheet and cash and cash equivalents shown in the consolidated statement of cash flows as of and for the years ended April 30, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash on hand and in banks	¥ 46,321	¥ 48,091	$ 432,219
Less: Time deposits with maturities exceeding three months	(390)	(595)	(3,639)
Cash and cash equivalents	¥ 45,931	¥ 47,495	$ 428,580

(2) The following table summarizes assets acquired and liabilities assumed through the acquisition of shares of the companies, acquisition cost and net disbursement:

(i) Acquisition of shares of four companies, including two companies in the dispensing pharmacy business, for the year ended April 30, 2020

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares of the companies, acquisition cost and net disbursement.

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Current assets	¥ 1,397	$ 13,035
Fixed assets	397	3,704
Goodwill	1,351	12,606
Current liabilities	(1,451)	(13,539)
Long-term liabilities	(29)	(270)
Acquisition cost of the companies	1,664	15,526
Cash and cash equivalents held by the companies	(222)	(2,071)
Net disbursement due to the acquisition	¥ 1,442	$ 13,455

(ii) Acquisition of shares of 12 companies in the dispensing pharmacy business for the year ended April 30, 2019

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares of the companies, acquisition cost and net disbursement.

	Millions of yen
	2019
Current assets	¥ 9,799
Fixed assets	3,553
Goodwill	11,568
Current liabilities	(7,127)
Long-term liabilities	(1,760)
Acquisition cost of the companies	16,033
Cash and cash equivalents held by the companies	(2,786)
Net disbursement due to the acquisition	¥ 13,246

3. Inventories

Inventories at April 30, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Merchandise	¥ 15,035	¥ 12,673	$ 140,291
Supplies	286	225	2,668
	¥ 15,321	¥ 12,898	$ 142,959

4. Financial instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments
The Company and its consolidated subsidiaries have expanded business by opening dispensing pharmacies and cosmetic and drug stores and through M&A activities. Operating cash flows provide the majority of the funds the Company and its consolidated subsidiaries require to fund its shop openings. The Company and its consolidated subsidiaries secure additional funding as needed for M&A activities through bank borrowings and issuance of new shares and invests in highly liquid financial assets.

(b) Details of financial instruments used and the exposures to risk and how they arise
Notes and accounts receivable, which relate to trade receivables, are mostly composed of prescription dispensing fees receivable from National Health Insurance associations and the Social Insurance Medical Care Fee Payment Fund. In addition, most of other accounts receivable are collected in a short period. Therefore, these do not entail any risk.

Investment securities, which are principally equity securities held for the purpose of maintaining operating relationships with other companies, involve the risk of market price fluctuations.

Lease deposits and guarantee deposits are primarily deposits placed with the owners of properties that the Company leases for the operation of dispensing pharmacies and cosmetic and drug stores. Such deposits involve lessor credit risk.

Accounts payable, which relate to purchases, are payable within three months.

With respect to borrowings, the Company raises funds primarily as working capital or in relation to capital expenditures. Redemption periods on such debts are typically 14 years from the account closing date, at the longest.

(c) Policies and systems for risk management
Management of credit risk (the risk that a business partner will default on its business transactions)

As the Company's notes and accounts receivable, which relate to sales, are mostly composed of prescription dispensing fees receivable from National Health Insurance associations and the Social Insurance Medical Care Fee Payment Fund, and most of other accounts receivable are also collected in a short period, no particular risk management is employed.

Securities held to maturity are based on the Company's Marketable Securities Investment Standards. Such investments are based on careful decisions, following internal screenings of investees and investment amounts. Furthermore, such investments are monitored regularly, determining the investee's financial status throughout the investment period to quickly determine and minimize potential repayment difficulties.

The Company manages default risk on lease deposits and guarantee deposits through the credit control upon making contract periods and regular credit screening.

Management of market risk (the risk of exchange and interest rate fluctuations)
The Company and its consolidated subsidiaries raise funds mainly through long-term debt. With regard to investment securities, the Company and its consolidated subsidiaries regularly check the financial conditions of the issuers of unlisted securities. The Company and its consolidated subsidiaries review on an ongoing basis the status of their holdings of listed securities, taking into consideration market conditions and their relationships with the issuing companies.

Management of liquidity risk associated with fund procurement (the risk of being unable to execute payments when due)
To manage liquidity risk, the Company and its consolidated subsidiaries create cash flow plans based on annual capital expenditures forecasts. These plans are updated each month, based on revised operating performance and forecast figures. To ensure the Company's ability to respond

flexibly to sudden demands for funding in relation to M&A activities, the Company maintains a certain level of liquidity, including through issuance of new shares.

(2) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheet at April 30, 2020 and 2019 are summarized in the following table:

Assets	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Carrying value			
Cash on hand and in banks	¥ 46,321	¥ 48,091	$ 432,219
Notes and accounts receivable	13,653	12,771	127,395
Other accounts receivable	8,997	8,438	83,950
Investment securities	978	1,074	9,125
Deposits and guarantees	19,090	15,079	178,128
Total	89,041	85,454	830,838
Fair value			
Cash on hand and in banks	46,321	48,091	432,219
Notes and accounts receivable	13,653	12,771	127,395
Other accounts receivable	8,997	8,438	83,950
Investment securities	976	1,080	9,107
Deposits and guarantees	18,956	15,047	176,877
Total	88,906	85,429	829,579
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	-
Investment securities	(1)	6	(9)
Deposits and guarantees	(133)	(31)	(1,241)
Total	¥ (135)	¥ (25)	$ (1,259)

Liabilities	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Carrying value			
Accounts payable	¥ 47,187	¥ 44,794	$ 440,300
Short-term debt including current portion of long-term debt	3,642	5,571	33,983
Deposits received	13,094	12,737	122,179
Long-term debt	2,432	5,985	22,692
Total	66,356	69,089	619,165
Fair value			
Accounts payable	47,187	44,794	440,300
Short-term debt including current portion of long-term debt	3,644	5,570	34,002
Deposits received	13,094	12,737	122,179
Long-term debt	2,434	5,974	22,711
Total	66,360	69,077	619,203
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	1	(0)	9
Deposits received	-	-	-
Long-term debt	1	(11)	9
Total	¥ 3	¥ (11)	$ 27

Method of calculating the fair value of financial instruments and matters related to available-for-sale securities:

Assets:
(a) Cash on hand and in banks, notes and accounts receivable, and other accounts receivable
As these instruments are settled in the short term, their carrying value approximates fair value.

(b) Investment securities
The fair values of equity securities are determined by their prices on stock exchanges. The fair values of bonds are determined by the prices indicated by the counterparty financial institutions, or the Company determines credit risk from the standpoint of credit management, according to repayment amount and contract period, and these amounts are discounted to their present value using appropriate rates of interest.

(c) Deposits and guarantees
The Company determines credit risk from the standpoint of credit management, according to repayment amount and contract period. These amounts are discounted to their present value using appropriate rates of interest.

Liabilities:
(a) Accounts payable, short-term debt and deposits received
As these instruments are settled in the short term, their carrying value approximates fair value. The fair value of current portion of long-term debt included in short-term debt is determined by discounting the total amount of principal and interest by the assumed interest rate on new borrowings of the same type.

(b) Long-term debt
The fair value of long-term debt is determined by discounting the total amount of principal and interest by the assumed interest rate on new borrowings of the same type.

Financial instruments for which fair value is not readily determinable:

The fair values of unlisted equity securities with carrying amounts of ¥1,317 million ($12,288 thousand) and ¥720 million as of April 30, 2020 and 2019, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2020 and 2019 are summarized as follows:

	Millions of yen			
	2020			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥ 45,670	¥ -	¥ -	¥ -
Notes and accounts receivable	13,653	-	-	-
Other accounts receivable	8,997	-	-	-
Investment securities				
Debt securities	140	30	-	-
Deposits received	2,320	4,522	3,346	8,954
Total	¥ 70,780	¥ 4,552	¥ 3,346	¥ 8,954

	Thousands of U.S. dollars			
	2020			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	$ 426,145	$ -	$ -	$ -
Notes and accounts receivable	127,395	-	-	-
Other accounts receivable	83,950	-	-	-
Investment securities				
Debt securities	1,306	279	-	-
Deposits received	21,647	42,194	31,221	83,549
Total	$ 660,446	$ 42,474	$ 31,221	$ 83,549

	Millions of yen			
	2019			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥ 47,289	¥ -	¥ -	¥ -
Notes and accounts receivable	12,771	-	-	-
Other accounts receivable	8,438	-	-	-
Investment securities				
Debt securities	155	-	-	-
Deposits received	2,433	4,235	2,557	5,907
Total	¥ 71,086	¥ 4,235	¥ 2,557	¥ 5,907

5. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2020 and 2019:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Acquisition cost			
Equity securities	¥ 11	¥ 147	$ 102
Bonds	-	-	-
Limited partnerships and similar investments	0	1	0
Other	-	-	-
Total	11	149	102
Carrying value			
Equity securities	22	355	205
Bonds	-	-	-
Limited partnerships and similar investments	0	1	0
Other	-	-	-
Total	23	357	214
Difference			
Equity securities	11	207	102
Bonds	-	-	-
Limited partnerships and similar investments	0	0	0
Other	-	-	-
Total	¥ 12	¥ 207	$ 111

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Acquisition cost			
Equity securities	¥ 721	¥ 692	$ 6,727
Bonds	170	155	1,586
Limited partnerships and similar investments	170	70	1,586
Other	15	15	139
Total	1,076	934	10,040
Carrying value			
Equity securities	600	476	5,598
Bonds	170	155	1,586
Limited partnerships and similar investments	170	70	1,586
Other	13	14	121
Total	954	717	8,901
Difference			
Equity securities	(121)	(216)	(1,129)
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	(1)	(0)	(9)
Total	¥ (122)	¥ (216)	$ (1,138)

Stocks of non-consolidated subsidiaries and affiliates were ¥224 million ($2,090 thousand) and ¥50 million at April 30, 2020 and 2019, respectively.

(2) The following table summarizes total sales amounts of other securities sold, and amounts of the related gains and losses in the years ended April 30, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total sales of other securities sold	¥ 39	¥ 21	$ 363
Related gains	-	7	-
Related losses	-	8	-

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other securities with fair value	¥ 218	¥ 177	$ 2,034
Other securities without fair value	-	2	-

6. Leases

Remaining lease expenses for non-cancellable operating lease transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Due within one year	¥ 2,214	¥ 1,957	$ 20,658
Due after one year	17,842	14,180	166,483
Total	¥ 20,056	¥ 16,138	$ 187,141

7. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term bank loans with a weighted-average interest rate of 0.3%	¥ 15	¥ 20	$ 139
Current portion of long-term debt with a weighted-average interest rate of 0.3%	3,626	5,550	33,834
Current portion of lease obligation with a weighted-average interest rate of 1.1%	193	318	1,800
Long-term debt (2021-2033) with a weighted-average interest rate of 0.3%	2,432	5,985	22,692
Lease obligation (2021-2023) with a weighted-average interest rate of 1.0%	154	401	1,436
Total	¥ 6,422	¥ 12,277	$ 59,923

The aggregate annual maturities of long-term debt at April 30, 2020 and 2019 are as follows:

Year ending April 30,	Millions of yen 2020	Thousands of U.S. dollars 2020
2021	¥ 3,626	$ 33,834
2022	1,590	14,836
2023	529	4,936
2024	47	438
2025	147	1,371
2026 and thereafter	115	1,073

Year ending April 30,	Millions of yen 2019
2020	¥ 5,550
2021	3,671
2022	1,597
2023	535
2024	53
2025 and thereafter	129

The aggregate annual maturities of lease obligations at April 30, 2020 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2021	¥ 193	$ 1,800
2022	133	1,241
2023	15	139
2024	5	46
2025	-	-

8. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2020 and 2019 are as follows:

Gains on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings and structures	¥ 0	¥ 28	$ 0
Land	9	3	83
Other property, plant and equipment	2	5	18
Other intangible fixed assets	24	0	223
Total	¥ 36	¥ 38	$ 335

Losses on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings and structures	¥ 76	¥ 60	$ 709
Land	34	190	317
Other property, plant and equipment	3	5	27
Goodwill	-	8	-
Other intangible fixed assets	2	11	18
Other investments and other assets	3	0	27
Construction in progress	0	-	0
Total	¥ 120	¥ 277	$ 1,119

(2) Losses on disposal of fixed assets for the years ended April 30, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings and structures	¥ 118	¥ 167	$ 1,101
Other property, plant and equipment	28	12	261
Goodwill	160	102	1,492
Other intangible fixed assets	18	79	167
Deposits and guarantees	116	18	1,082
Other investments and other assets	18	22	167
Construction in progress	305	-	2,845
Disposal cost	30	15	279
Total	¥ 796	¥ 417	$ 7,427

(3) For the years ended April 30, 2020 and 2019, the Company recognized impairment losses for the following assets groups:

	Millions of yen		Thousands of U.S. dollars
Description of assets	2020	2019	2020
Land	¥ -	¥ 39	$ -
Buildings and structures	202	451	1,884
Goodwill	13	185	121
Other	47	90	438
Total	¥ 263	¥ 766	$ 2,454

9. Retirement benefits

Defined-benefit pension plan

(1) Reconciliation of the beginning and the ending balance of retirement benefit obligation (excluding the amount of the simplified method)

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Balance as of May 1, 2019	¥ 3,336	$ 31,128
Service costs	457	4,264
Interest cost on retirement benefit obligation	9	83
Actuarial losses incurred	168	1,567
Pension and severance payments	(160)	(1,492)
Other	16	149
Balance as of April 30, 2020	¥ 3,828	$ 35,718

	Millions of yen
	2019
Balance as of May 1, 2018	¥ 2,786
Service costs	395
Interest cost on retirement benefit obligation	11
Actuarial losses incurred	98
Pension and severance payments	(164)
Other	208
Balance as of April 30, 2019	¥ 3,336

(2) Reconciliation of the beginning and the ending balance of plan assets (excluding the amount of the simplified method)

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Balance as of May 1, 2019	¥ 1,072	$ 10,002
Expected return on plan assets	8	74
Actuarial losses incurred	(11)	(102)
Business owner’s contribution	487	4,544
Pension and severance payments	(52)	(485)
Other	-	-
Balance as of April 30, 2020	¥ 1,504	$ 14,033

	Millions of yen
	2019
Balance as of May 1, 2018	¥ 859
Expected return on plan assets	6
Actuarial gains incurred	70
Business owner's contribution	103
Pension and severance payments	(44)
Other	76
Balance as of April 30, 2019	¥ 1,072

(3) Reconciliation of the beginning and the ending balance of liabilities of the simplified method

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Balance as of May 1, 2019	¥ 697	$ 6,503
Retirement benefit expenses	144	1,343
Business owner's contribution	(7)	(65)
Pension and severance payments	(137)	(1,278)
Increases due to a newly consolidated subsidiary	3	27
Other	(12)	(111)
Balance as of April 30, 2020	¥ 688	$ 6,419

	Millions of yen
	2019
Balance as of May 1, 2018	¥ 689
Retirement benefit expenses	192
Business owner's contribution	(8)
Pension and severance payments	(208)
Increases due to a newly consolidated subsidiary	157
Other	(124)
Balance as of April 30, 2019	¥ 697

(4) Reconciliation of the retirement benefit obligation and plan assets to net defined benefit liability and net defined benefit asset reported on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligation	¥ 1,788	¥ 1,376	$ 16,683
Plan assets	(1,575)	(1,140)	(14,696)
Subtotal	213	235	1,987
Unfunded retirement benefit obligation	2,799	2,726	26,117
Net of liability and asset reported on the consolidated balance sheet	3,013	2,962	28,114
Net defined benefit liability	3,124	2,977	29,149
Net defined benefit asset	(111)	(15)	(1,035)
Net of liability and asset reported on the consolidated balance sheet	¥ 3,013	¥ 2,962	$ 28,114

(5) Retirement benefit expenses for the years ended April 30, 2020 and 2019 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service costs	¥ 457	¥ 395	$ 4,264
Interest cost on retirement benefit obligation	9	11	83
Expected return on plan assets	(8)	(6)	(74)
Amortization of actuarial losses	27	28	251
Amortization of prior service costs	-	(13)	-
Retirement benefit expenses calculated under the simplified method	144	192	1,343
Retirement benefit expenses	¥ 630	¥ 607	$ 5,878

(6) Remeasurements of defined benefit plans

The breakdown of remeasurements of defined benefit plans (before deducting tax effect) is as shown below:

(a) Current

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Prior service costs	¥ -	¥ (13)	$ -
Actuarial losses	(152)	0	(1,418)
Total	¥ (152)	¥ (13)	$ (1,418)

(b) Accumulated

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial gains	239	87	2,230
Total	¥ 239	¥ 87	$ 2,230

(7) Plan assets

(a) Percentages for major categories within total plan assets are as follows:

	2020	2019
Bonds	16%	22%
Stocks	31%	11%
General account	35%	46%
Separate account	13%	16%
Other	5%	5%
Total	100%	100%

Retirement benefit trust for a lump-sum benefit plan occupied 23% of total plan assets as of April 30, 2020.

(b) Method of establishing the long-term expected return on plan assets

The long-term expected return on plan assets is determined by taking into consideration current and expected allocation of plan assets, as well as the current and future long-term expected profitability of the diverse assets that constitute the plan assets.

(8) Actuarial assumptions used in accounting for the Company's plans as of April 30, 2020 and 2019 are principally as follows:

	2020	2019
Weighted average discount rate	0.53%	0.48%
Weighted average expected rate of return on plan assets	0.75%	0.75%
Expected rates of salary increase	1.00%-3.68%	1.00%-3.68%

10. Income taxes

The aggregate statutory income tax rates used for calculation of deferred income tax assets and liabilities for the years ended April 30, 2020 and 2019 were 30.4%.

(1) The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for consolidated financial statement purposes for the years ended April 30, 2020 and 2019:

	2020	2019
Statutory tax rate	30.4%	30.4%
Non-deductible expenses	0.7	1.8
Per capita inhabitant tax	0.5	0.6
Amortization of goodwill	8.2	8.0
Valuation allowance	(0.3)	(3.8)
Tax credits on tax system to expand income	(2.5)	(0.0)
Different tax rates applied to consolidated subsidiaries	5.1	4.3
Other	0.2	0.7
Effective tax rates	42.2%	42.0%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Impairment losses	¥ 387	¥ 407	$ 3,611
Excess of depreciation	671	734	6,261
Excess of allowance for bonuses	793	726	7,399
Excess of reserve for rewards obligation	158	153	1,474
Net defined benefit liabilities	1,064	1,028	9,928
Goodwill on transfer of business	425	479	3,965
Asset retirement obligations	363	352	3,387
Income taxes payable	349	309	3,256
Accrued expense	352	311	3,284
Net operating loss carryforwards	845	871	7,884
Allowance for doubtful accounts	560	524	5,225
Other	533	255	4,973
Sub-total deferred tax assets	6,506	6,156	60,707
Valuation allowance on net operating loss carryforwards	(795)	(801)	(7,418)
Valuation allowance on deductible temporary differences	(1,019)	(846)	(9,508)
Sub-total Valuation allowance	(1,814)	(1,648)	(16,926)
Total deferred tax assets	4,691	4,508	43,771
Deferred tax liabilities:			
Capitalized removal costs	(188)	(188)	(1,754)
Net unrealized holding gains on securities	(6)	(4)	(55)
Other accounts receivable	(367)	(248)	(3,424)
Other	(75)	(92)	(699)
Total deferred tax liabilities	(638)	(533)	(5,953)
Net deferred tax assets	¥ 4,053	¥ 3,974	$ 37,818

(3) The amounts of net operating loss carryforwards and its deferred tax assets by expiration date as of April 30, 2020 and 2019 are summarized as follows:

	Millions of yen						
	2020						
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Net operating loss carryforwards (a)	¥ -	¥ 17	¥ 22	¥ 9	¥ 48	¥ 748	¥ 845
Valuation allowance	-	(17)	(22)	(9)	(48)	(698)	(795)
Deferred tax assets	-	-	-	-	-	50	50

	Thousands of U.S. dollars						
	2020						
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Net operating loss carryforwards (a)	$ -	$ 158	$ 205	$ 83	$ 447	$ 6,979	$ 7,884
Valuation allowance	-	(158)	(205)	(83)	(447)	(6,513)	(7,418)
Deferred tax assets	-	-	-	-	-	466	466

	Millions of yen						
	2019						
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Net operating loss carryforwards (a)	¥ 0	¥ 10	¥ 17	¥ 24	¥ 19	¥ 799	¥ 871
Valuation allowance	(0)	(10)	(17)	(24)	(19)	(729)	(801)
Deferred tax assets	-	-	-	-	-	69	69

(a) The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.

11. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law (the “Law”), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, the legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

12. Commitment

The Company entered into overdraft agreements with18 and 19 banks as of April 30, 2020 and 2019, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total overdraft available	¥ 22,350	¥ 23,400	$ 208,547
Amount utilized	14	20	130
Outstanding balance	¥ 22,336	¥ 23,379	$ 208,416

13. Amounts per share

Net assets per share at April 30, 2020 and 2019 and basic and diluted earnings per share for the years then ended are as follows:

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share	¥ 3,130.77	¥ 2,931.48	$ 29.21
Basic earnings per share	259.11	254.87	2.41
Diluted earnings per share	-	-	-
Cash dividends per share attributable to the year	55	55	0.51

Cash dividends per share represent the cash dividends declared as applicable to the respective years, including dividends to be paid after the end of the year and not accrued in the accompanying consolidated financial statements. Total dividends paid were ¥1,948 million ($18,176 thousand) and ¥1,948 million for the years ended April 2020 and 2019, respectively.

The basis for calculation of basic earnings per share is as follows:

	Millions of yen		Thousands o U.S. dollars
	2020	2019	2020
Profit attributable to owners of parent	¥ 9,179	¥ 9,029	$ 85,648
Amount not attributable to common shareholders	-	-	-
Profit attributable to owners of parent pertaining to common stock	9,179	9,029	85,648
Average number of shares outstanding (shares)	35,427,484	35,427,497	

14. Segment information

(1) Overview of reporting segments

Reporting segments of the Company and its consolidated subsidiaries are composed of those individual business units for which separate financial information is available, from which the board of directors makes decisions regarding the allocation of management resources and for which operating performance can be evaluated, allowing the reporting segments to be analyzed periodically.

The Company and its consolidated subsidiaries divide their operations into two main businesses, the Dispensing Pharmacy Business and the Cosmetic and Drug Store Business, and the Other Business. The Dispensing Pharmacy Business primarily includes the dispensing pharmacy business, sale of generic drugs, staff dispatching and introduction services and consulting business. The Cosmetic and Drug Store Business primarily consists of the management of cosmetic and drug stores. The Other Business primarily involves real estate rental business. The Company and its consolidated subsidiaries plan and execute strategies for each business.

Consequently, the business operations of the Company and its consolidated subsidiaries are classified into the three following reporting segments: Dispensing Pharmacy, Cosmetic and Drug Store and Other.

(2) Methods of calculating sales, income (loss), assets and other items by reporting segment

Methods of accounting for reported business segments are in principle the same as those indicated in Note 1 "Summary of Significant Accounting Policies." Income or loss of reporting segments are based on ordinary income. Income or loss between segments and transfer amounts are based on market prices.

(3) Information on sales, income (loss), assets and other items by reporting segment as of and for the years ended April 30, 2020 and 2019 are summarized as follows:

	Millions of yen					
	2020					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 263,750	¥ 24,701	¥ 4,163	¥ 292,615	¥ -	¥ 292,615
Intersegment sales	-	-	114	114	(114)	-
Total sales	263,750	24,701	4,277	292,729	(114)	292,615
Segment income (loss)	20,850	262	(342)	20,771	(3,948)	16,822
Segment assets	¥ 173,748	¥ 12,771	¥ 11,869	¥ 198,389	¥ (4,938)	¥ 193,451
Other						
Depreciation and amortization	¥ 2,676	¥ 391	¥ 279	¥ 3,347	¥ 199	¥ 3,547
Amortization of goodwill	4,336	3	18	4,357	-	4,357
Impairment losses	91	172	-	263	-	263
Increase of tangible and intangible assets	3,688	1,488	311	5,488	337	5,825

	Thousands of U.S. dollars 2020					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 2,461,043	$ 230,484	$ 38,844	$ 2,730,381	$ -	$ 2,730,381
Intersegment sales	-	-	1,063	1,063	(1,063)	-
Total sales	2,461,043	230,484	39,908	2,731,445	(1,063)	2,730,381
Segment income (loss)	194,550	2,444	(3,191)	193,813	(36,838)	156,965
Segment assets	$ 1,621,237	$ 119,165	$ 110,749	$ 1,851,161	$ (46,076)	$ 1,805,085
Other						
Depreciation and amortization	$ 24,969	$ 3,648	$ 2,603	$ 31,230	$ 1,856	$ 33,096
Amortization of goodwill	40,459	27	167	40,655	-	40,655
Impairment losses	849	1,604	-	2,454	-	2,454
Increase of tangible and intangible assets	34,412	13,884	2,901	51,208	3,144	54,352

	Millions of yen 2019					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 245,003	¥ 25,210	¥ 5,382	¥ 275,596	¥ -	¥ 275,596
Intersegment sales	-	-	126	126	(126)	-
Total sales	245,003	25,210	5,508	275,722	(126)	275,596
Segment income (loss)	18,331	972	(165)	19,138	(2,500)	16,637
Segment assets	¥ 170,170	¥ 11,255	¥ 9,471	¥ 190,897	¥ (1,875)	¥ 189,021
Other						
Depreciation and amortization	¥ 2,538	¥ 315	¥ 305	¥ 3,159	¥ 218	¥ 3,378
Amortization of goodwill	4,165	-	18	4,183	-	4,183
Impairment losses	431	334	-	766	-	766
Increase of tangible and intangible assets	3,137	1,709	238	5,085	363	5,449

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2020 and 2019 are summarized as follows:

	Millions of yen 2020				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 4,336	¥ 3	¥ 18	¥ -	¥ 4,357
Unamortized balances of goodwill	40,699	60	1,363	-	42,123

	Thousands of U.S. dollars 2020				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 40,459	$ 27	$ 167	$ -	$ 40,655
Unamortized balances of goodwill	379,761	559	12,718	-	393,048

	Millions of yen 2019				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 4,165	¥ -	¥ 18	¥ -	¥ 4,183
Unamortized balances of goodwill	45,127	-	122	-	45,249

15. Comprehensive income

Each component of other comprehensive loss for the years ended April 30, 2020 and 2019 was the following:

	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Unrealized holding (losses) gains on securities:			
Losses arising during the year	¥ (92)	¥ (129)	$ (858)
Reclassification adjustments to (losses) gains	(4)	1	(37)
Amount before income tax effect	(97)	(127)	(905)
Income tax effect	26	36	242
Total unrealized holding losses on securities	(71)	(91)	(662)
Remeasurments of defined benefit plans:			
Losses arising during the year	(180)	(27)	(1,679)
Reclassification adjustments to gains	27	14	251
Amount before income tax effect	(152)	(13)	(1,418)
Income tax effect	52	4	485
Total remeasurments of defined benefit plans	(99)	(8)	(923)
Total other comprehensive loss	¥ (170)	¥ (99)	$ (1,586)

16. Quarterly Information

(1) Quarterly net sales for the year ended April 30, 2020 are as follows:

	Millions of yen 2020	Thousands of U.S. dollars 2020
Three months ended July 31, 2019	¥ 72,461	$ 676,131
Six months ended October 31, 2019	145,851	1,360,931
Nine months ended January 31, 2020	220,085	2,053,606
Twelve months ended April 30, 2020	292,615	2,730,381

(2) Quarterly income before income taxes and non-controlling interests for the year ended April 30, 2020 is as follows:

	Millions of yen 2020	Thousands of U.S. dollars 2020
Three months ended July 31, 2019	¥ 4,092	$ 38,182
Six months ended October 31, 2019	8,439	78,744
Nine months ended January 31, 2020	12,664	118,167
Twelve months ended April 30, 2020	15,930	148,642

(3) Quarterly profit attributable to owners of parent for the year ended April 30, 2020 is as follows:

	Millions of yen 2020	Thousands of U.S. dollars 2020
Three months ended July 31, 2019	¥ 2,240	$ 20,901
Six months ended October 31, 2019	4,622	43,127
Nine months ended January 31, 2020	7,110	66,343
Twelve months ended April 30, 2020	9,179	85,648

(4) Quarterly earnings per share for the year ended April 30, 2020 is as follows:

	Yen 2020	U.S. dollars 2020
Three months ended July 31, 2019	¥ 63.24	$ 0.590
Six months ended October 31, 2019	130.47	1.210
Nine months ended January 31, 2020	200.71	1.870
Twelve months ended April 30, 2020	259.11	2.410

(5) Quarterly earnings per share for each accounting period of the year ended April 30, 2020 is as follows:

	Yen 2020	U.S. dollars 2020
Three months ended July 31, 2019	¥ 63.24	$ 0.590
Three months ended October 31, 2019	67.24	0.620
Three months ended January 31, 2020	70.24	0.650
Three months ended April 30, 2020	58.40	0.540

The quarterly information is outside the scope of audit procedures.

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Independent Auditor's Report

The Board of Directors
AIN HOLDINGS INC.

Opinion

We have audited the accompanying consolidated financial statements of AIN HOLDINGS INC. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at April 30, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at April 30, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended April 30, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.(1) to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Sapporo, Japan

July 31, 2020

板垣博靖

Hiroyasu Itagaki
Designated Engagement Partner
Certified Public Accountant

柴本岳志

Takeshi Shibamoto
Designated Engagement Partner
Certified Public Accountant

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CORPORATE DATA
(Fiscal 2020)

Corporate Name
AIN HOLDINGS INC.

Head Office
5-2-4-30, Higashisapporo,
Shiroishi-ku, Sapporo,
Hokkaido 003-0005, Japan

Established
August 1969

Paid-in Capital
¥21,894 million

Number of Employees
Consolidated: 13,158
Non-consolidated: 184

Business Lines
Planning, management and operation of the corporate Group, focused on dispensing pharmacy and cosmetic and drug store operations, generic drug wholesaling, sales of cosmetics, and the Group's other businesses

STOCK INFORMATION
(Fiscal 2020)

Transfer Agent
Mizuho Trust & Banking Co., Ltd.

Stock Listings
First Section of the Tokyo Stock Exchange and Sapporo Securities Exchange

Securities Code Number
9627

Fiscal Year
May 1 to April 30 of the following year

Ordinary General Meeting of Shareholders
July

Date of Record
April 30
(The Company will announce other dates as and when required.)

Number of Shares Outstanding
35,428,212 shares
(including treasury stock)

Number of Shareholders
7,238

Major Shareholders

(As of April 30, 2020)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio*1 (%)
Kiichi Otani	3,238	9.14
Seven & i Holdings Co., Ltd.	2,750	7.76
North Pacific Bank, Ltd.	1,758	4.96
Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account)*2	1,594	4.50
The Hokkaido Bank, Ltd.	1,472	4.15
Japan Trustee Services Bank, Ltd. (Trust account)	1,232	3.48
The Master Trust Bank of Japan, Ltd. (Trust account)	1,175	3.32
THE BANK OF NEW YORK MELLON 140044	633	1.79
THE BANK OF NEW YORK MELLON 140041	630	1.78
The Norinchukin Bank	600	1.69

Notes: 1. Shareholding ratios are calculated excluding 728 treasury shares.
2. Shares held in the Retirement Benefit Trust managed by Mizuho Trust & Banking Co., Ltd. (Marubeni Corporation account) are part of Marubeni Corporation's retirement benefit trust.

AIN HOLDINGS