Making Headway

The results of steady efforts are starting to emerge

ANNUAL REPORT 2021

For the year ended April 30, 2021

AIN HOLDINGS

AIN Group operates a dispensing pharmacy business, which is the leader in the Japanese market by sales, and a cosmetic and drug store business centered on AINZ & TULPE stores, which are mainly located in the Tokyo metropolitan area and other urban markets.

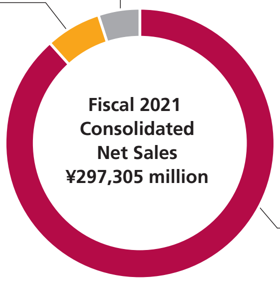
In the dispensing pharmacy business, we aim to build a dominant position in the market while playing a key role in local healthcare infrastructure. In the cosmetic and drug store business, we are working to reinforce brand power by actively opening AINZ & TULPE stores in prime locations in urban and semi-urban markets.

The AIN Group aims to help create a sustainable society by tackling and solving social issues through its business activities. Preparations for the Group's next phase of growth are moving forward, and the results are already starting to emerge.

In December 2020, we defined the Group's materiality and value creation story. By reinforcing sustainability management, we aim to continue improving the health and happiness of our customers by supporting their vitality and beauty through our business activities.

▶ Net sales by segment

Other Businesses
¥14,791 million (5.0%)



Cosmetic and Drug Store Business
¥19,419 million (6.5%)

Dispensing Pharmacy Business
¥263,095 million (88.5%)

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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.

Making Headway

The results of steady efforts are starting to emerge

Kiichi Ohtani
President
and Representative Director

Thank you for your continued support of the AIN Group. We hope you are all keeping safe and well amid the continuing impact from the COVID-19 pandemic.

Like many other countries around the world, Japan had a tough year in 2020, with the pandemic having a broad impact on the economy, including a drop in consumer spending. However, with the steady rollout of Japan's vaccination program since February 2021, we expect fiscal 2022 to be a year when the economy gradually stabilizes, even though COVID-19 will remain part of all our lives.

Through its business activities, the AIN Group will work to tackle issues faced by society and press ahead with preparations for the next leap forward, drawing on all the Group's resources.

Fiscal 2021 review

Signs of recovery after a tough year amid the pandemic

For fiscal 2021, ended April 30, 2021, the AIN Group reported net sales of ¥297,305 million, up 1.6% year on year, operating income of ¥10,932 million, down 32.0%, and profit attributable to owners of parent of ¥6,697 million, down 27.0%.

Performance was weak in the dispensing pharmacy business, which saw operating income slump roughly 30% year on year in the first quarter due to the COVID-19 pandemic. However, with the number of prescriptions steadily returning to normal levels, we forecast a gradual recovery in the business.

The cosmetic and drug store business was hit hard by voluntary restrictions on store opening hours and other measures to control the pandemic. In response, the business expanded its lineup of AINZ & TULPE products that help people live with the new realities of the pandemic, improved store layouts to make them as welcoming as possible for customers and launched proactive measures such as expanding e-commerce channels.

Growth strategy: dispensing pharmacy business

Aiming to increase market share to take on new challenges

Small and midsize pharmacies are holding their ground in the dispensing pharmacy market. Despite being the leading company in the sector, the AIN Group's market share is still only around 3.5%. We therefore see plenty of potential to become the dominant player by increasing market share. We also need to expand market share to help us take on challenges in new areas. For some time, we have been making preparations to respond to various changes in the Group's operating environment.

One of the steps we have taken is to establish a sound financial base. We need funding capabilities and robust finances to execute our key strategy of opening large-scale dispensing pharmacies that can handle advanced medical treatments.

▶ Sound financial structure
—Comparison of financial indexes among major companies operating dispensing pharmacies in Japan

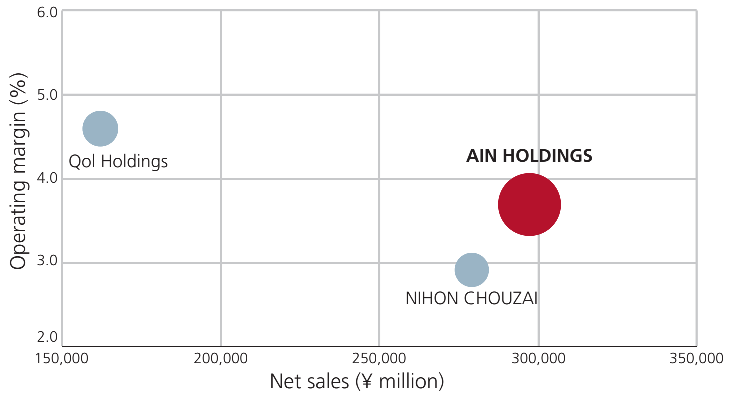
Fiscal 2020		(¥ million)
	AIN HOLDINGS	Average of 2 competitors
Market capitalization	238,781	42,955
Cash on hand in banks	46,321	24,028
Interest-bearing debt	6,422	52,840
Net cash	39,899	(28,812)
Shareholders' equity ratio	57.3%	30.4%

Fiscal 2021		(¥ million)
	AIN HOLDINGS	Average of 2 competitors
Market capitalization	235,318	53,370
Cash on hand in banks	55,271	26,271
Interest-bearing debt	12,099	51,026
Net cash	43,171	(24,756)
Shareholders' equity ratio	56.8%	31.7%

Notes:
1. Market capitalization data are as of July 31, 2020 and July 30, 2021.
2. Interest-bearing debt = Short- and long-term debts + Corporate bonds
3. Net cash = Cash on hand and in banks – Interest-bearing debt
4. 2 competitors: NIHON CHOUZAI Co., Ltd. and Qol Holdings Co., Ltd.

Source:
Compiled by AIN HOLDINGS from the above companies' financial results for fiscal 2020 and fiscal 2021.

▶ 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 3/21 (AIN HOLDINGS: FY 4/21).
2. Size of circle is proportional to market capitalization as of July 30, 2021.


AIN Pharmacy at Okayama University Hospital

I am pleased to say that we have made steady progress in this area. Even during the pandemic, the Group's finances remained stable, which will help us open a clear gap over other companies in terms of business competitiveness and strategy execution after the pandemic subsides. We already have plans to open a large number of dispensing pharmacies through to fiscal 2023 ending April 30, 2023. We will also continue to pursue M&A targets, backed by stricter criteria for investment efficiency. Our goal is to contribute to local healthcare by opening new dispensing pharmacies, including pharmacies on hospital sites, with a focus on larger locations. Our next milestone target is to achieve a market share of 10%.

We have to secure enough pharmacists to support this aggressive expansion program. In fiscal 2021 we hired 613 newly graduated pharmacists, exceeding the 560 recruited in the previous fiscal year. We will also continue to actively train our existing personnel.

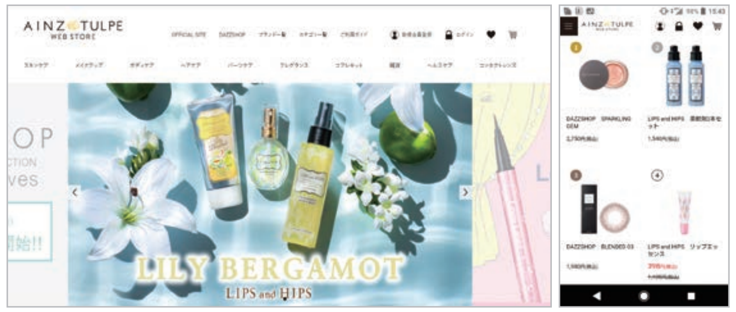

AIN Group's initiation ceremony

Growth strategy: cosmetic and drug store business

Accelerating store openings and offering unique products

The cosmetic and drug store business opened 11 AINZ & TULPE stores in fiscal 2021. Due to the pandemic, many stores in other sectors vacated prime locations in cities across Japan. Seeing this as a rare opportunity, we will aggressively open new stores in these prime locations.

Along with store openings, merchandising is an important strategy in the business. AINZ & TULPE is working to create an even more differentiated lineup of original products focused on health and beauty, targeting consumers who seek both “inner and outer beauty” and “healthy beauty.” Using the AINZ & TULPE WEBSTORE, which launched in May 2020, we are improving convenience for customers while also promoting the AINZ & TULPE worldview in conjunction with our physical stores. We also plan to launch exclusive online products this autumn.



AINZ & TULPE WEBSTORE

AINZ & TULPE Official app

Other steps we have taken include the acquisition of Shidax i Corporation in March 2020, giving the AIN Group a presence in the hospital canteen and kiosk business. In April 2021, the business opened its first A*STAND-branded retail shop in Tokyo Medical University Hospital. The retail shop sells food, beverages and daily necessities, while also providing a place for patients to take a break and access rehabilitation services and for hospital workers to recharge their batteries. We are now looking at opportunities to roll out the format in office buildings and other locations.

A*STAND
FOOD&CONVENIENCE

A*STAND-branded retail shop in Tokyo Medical University Hospital

Creating an environment that supports our shared corporate philosophy

The role of companies is changing. ESG and the SDGs are vital to growth as key elements of business management. Diversity is a particularly urgent issue for the AIN Group, as women account for 80% of our workforce, so their empowerment has a direct impact on the Group’s growth.

In fiscal 2021, we established the Sustainability Management Department as a specialist organization tasked with implementing initiatives to realize a sustainable society. We also set up a Sustainability Committee in autumn 2020 to oversee sustainability activities across the Group. We have been a strong supporter of diversity & inclusion for many years, aiming to create a working environment that motivates all our employees. Recently, we have defined the Group’s value creation story and materiality, which has helped us to reorganize and clarify our existing sustainability activities. We plan to clearly communicate our approach to external stakeholders to deepen understanding of the AIN Group.

Reinforcing the Group’s management base is a key focus of our medium-term strategy and the value creation story » See page 23 for more details, and cultivating the next generation of business leaders is part of our efforts to strengthen the management base. For the AIN Group to remain viable well into the future, we have to continue taking on new challenges. As part of that process, we need many executives and employees to have a stake in how we run our business, guided by the shared philosophy of making the AIN Group a stronger, better organization. That’s why we are reinforcing systems to train, utilize and evaluate the performance of human resources. Other measures to support the Group’s future growth include investing in digital transformation, logistics reforms and branding to support the management base.

Strengthening corporate governance will also be crucial. The Board of Directors will draw on diverse views and opinions by actively engaging with outside directors and outside corporate auditors, while also further stepping up the disclosure of information to all investors and employees.

Fiscal 2021 was a year that underscored the AIN Group’s resilience. The Group was able to absorb the impact of the COVID-19 pandemic and generate stable profits. The last year also reinforced my belief that the Group has immense growth potential.

As the leader in the industry, we will continue to invest heavily in our business without forgetting our desire to seek out and take on new challenges. I hope we can count on your continued support and trust as we strive to meet your expectations.

July 29, 2021

Kiichi Ohtani
President and Representative Director

Value Creation Process

The AIN Group is dedicated to improving the health and happiness of its customers. That commitment is enshrined in our Group Statement, which guides all our business activities.

Harnessing the competitive advantages and high-quality management resources built up since the Company was founded, we aim to create social value through our business activities and contribute to an affluent, sustainable society and increase the Group's value while carefully responding to the various risks in our operating environment.

Dedicated to improving the health and happiness of our customers

Input

Management capital

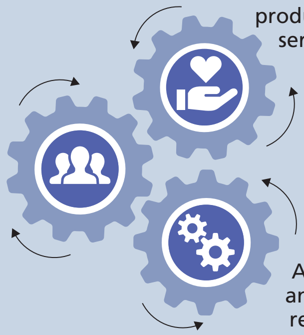
- Diverse, first-class human resources
- Accumulated dispensing know-how and technical capabilities
- Distinctive merchandise lineup
- Store development capabilities
- Strong customer base
- Sound financial structure

Defining materiality

» See page 22

Create social value through business activities » See page 10-19 X **Carefully respond to diverse risks**

Business model



Management foundation

Personnel strategy » See page 20-21

Corporate governance » See page 26-28

Output

Financial factors

Sales ¥297,305 million	ROA 3.4%
Operating income ¥10,932 million	ROE 5.9%
Net income ¥6,697 million	Total shareholder return ratio 56.8%

Non-financial factors » See page 32-33

Environment

CO_2 emissions related to operation of pharmacies
10,747 t-CO_2

Social

Number of primary care pharmacists 1,655	Full-time employee turnover rate 5.2%
Generic drug dispensing ratio 84.3%	Average monthly overtime per employee 3.9 hours
Female manager ratio 32.6%	

Governance

Ratio of independent outside directors on Board of Directors 33%	Ratio of female directors on Board of Directors 25%

Outcomes

Materiality initiatives

» See page 22-24

1. Contribute to local healthcare
2. Provide beauty and happiness
3. Safety, peace of mind and trust
4. Protect the environment and reduce environmental impact
5. Ensure sound management base
6. Cooperate with local communities and businesses

Related SDGs

- **Appraisal by and communication with customers, business partners, communities**
- **Appraisal by stock market**
- **Improve level of external appraisal**

etc.

Our vision

Aim to be a company that people welcome to their communities

Providing Social Value through Our Business (CSV)

Characteristics of Japan's Dispensing Pharmacy Sector

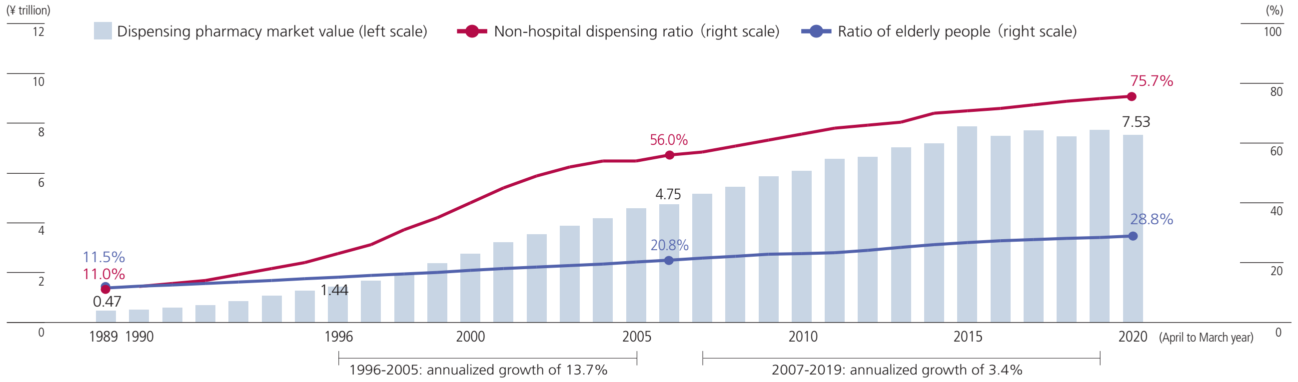
Differences in national healthcare policy and other factors mean Japan's dispensing pharmacies are different to pharmacies in the US and other countries. In this section, we look at the main characteristics of Japan's dispensing pharmacies.

Market size

Barriers to entry are high in Japan's dispensing pharmacy sector due to various risks faced by pharmacy operators, such as government policy calling for pharmacies and pharmacists to play a greater role in healthcare provision, regular revisions to drug prices and dispensing fees, and a lack of trained pharmacists.

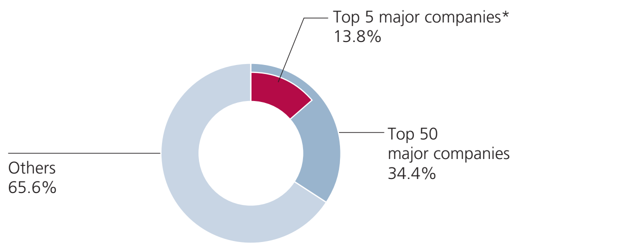
Japan's dispensing pharmacy market was worth roughly ¥7.5 trillion as of March 2021, but the market remains fragmented, with the top five companies accounting for a combined market share of only 13.8%. While the market has matured, we see more room for growth due to new opportunities arising from the end of the ban on pharmacies located on hospital sites. Market deregulation, such as the start of online pharmaceutical guidance services, and a new pharmacy certification scheme, are also set to create wider gaps in performance between dispensing pharmacy companies, giving the AIN Group the opportunity to further increase market share by leveraging its ability to adapt to change.

▶ Growth market



Source: AIN HOLDINGS estimates, based on Japan Pharmaceutical Association data, dispensing cost trends published by Ministry of Health, Labour and Welfare, population statistics published by Statistics Bureau, and Cabinet Office white paper on aging society.

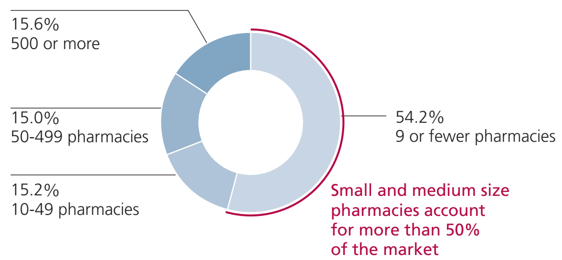
▶ Dispensing pharmacy company market share
(Fiscal 2021)



*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, 2021) and the dispensing fee statistics for the year ended March 2020 released by the Ministry of Health, Labour and Welfare.

▶ Market structure —Breakdown by company size



Source: AIN HOLDINGS estimates based on data compiled and published by health and welfare authorities as of March 2021.

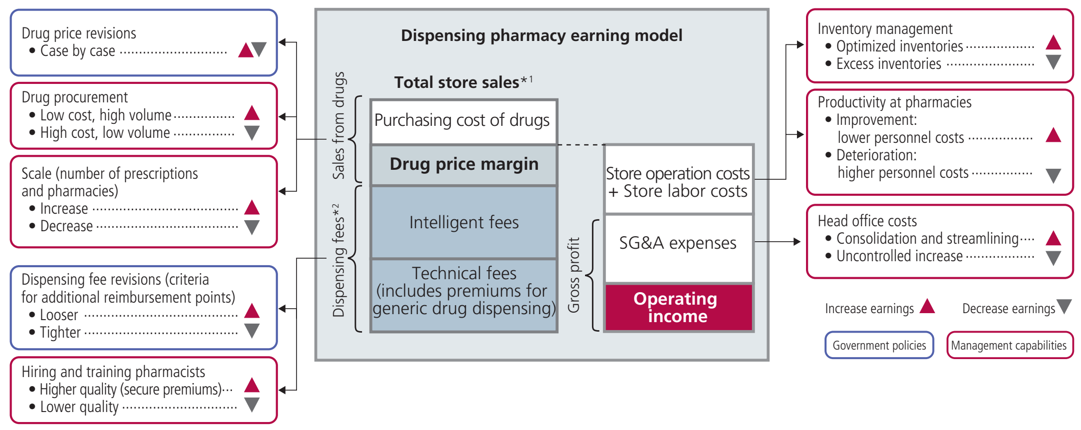
Differences between Japan and the US

	Japan	US
Medical insurance (patient cost)	Universal healthcare (0-30%)	Private health insurance (depends on contract terms)
Freedom to select hospitals / pharmacies	No restrictions	Affiliated service providers
Non-hospital dispensing ratio	75.7% (FY2020)	100%
Drug prescriptions	Refills × Mail order ×	Refills ○ Mail order ○
Drug prices	Set by the government (Revised regularly)	Market price

Earnings structure

Dispensing pharmacy earnings can be broadly divided into two categories – dispensing fees, which include technical fees and pharmaceutical management fees (intelligent fees), and sales from drugs. Dispensing fees and drug prices are regularly revised in line with government policy, leading to fluctuations in pharmacy earnings. Policy is also being adjusted to incentivize dispensing pharmacies to provide higher-quality services, which is likely to force out pharmacies that cannot adapt to that change.

▶ 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.

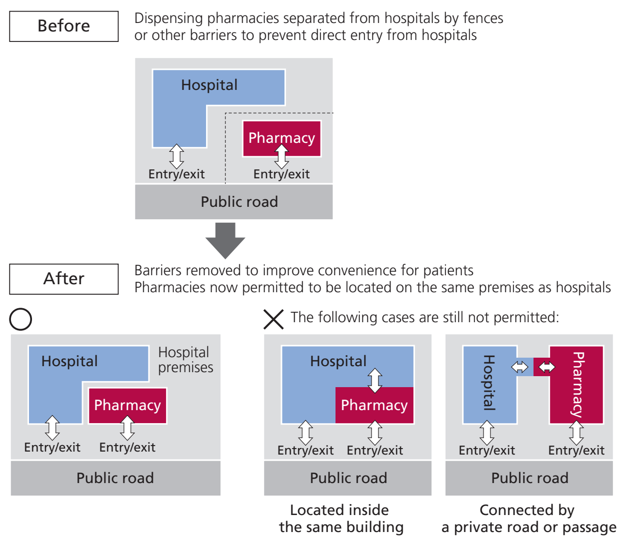
Dispensing pharmacy types and features

Dispensing pharmacies near hospitals or on hospital sites 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.

▶ Differences by type

Type / Features	Close to the hospital	Compatible with advanced healthcare
Pharmacies on hospital sites	◎	◎ (Depends on pharmacy)
Pharmacies located near hospitals	○	○ (Depends on pharmacy)
Pharmacies not located near hospitals	×	×
Drug stores with dispensing pharmacy functions	△ (Depends on pharmacy)	×

▶ 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

Growth Strategy: Dispensing Pharmacy Business

AIN Pharmacy at Okayama University Hospital

Market environment

- Changing market structure (ex. end of onsite pharmacy ban)
- Pressure on pharmacies to expand role, increase quality
- Regular revisions to drug prices and dispensing fees
- Advances in healthcare and IT

Key strategies

- Top-line growth (ex. open pharmacies in new prime locations)
- Further raise quality of pharmacies and pharmacists
- Ensure profitability (ex. use WHOLESALE STARS)
- Respond to advanced healthcare and technological innovation

Materiality

Contribution to local healthcare

Top-line growth

The AIN Group entered the dispensing pharmacy sector in 1993. Despite being a relatively late market entrant, the AIN Group is now the industry leader thanks to business expansion driven by an aggressive pharmacy-opening strategy, including pharmacies acquired through M&A.

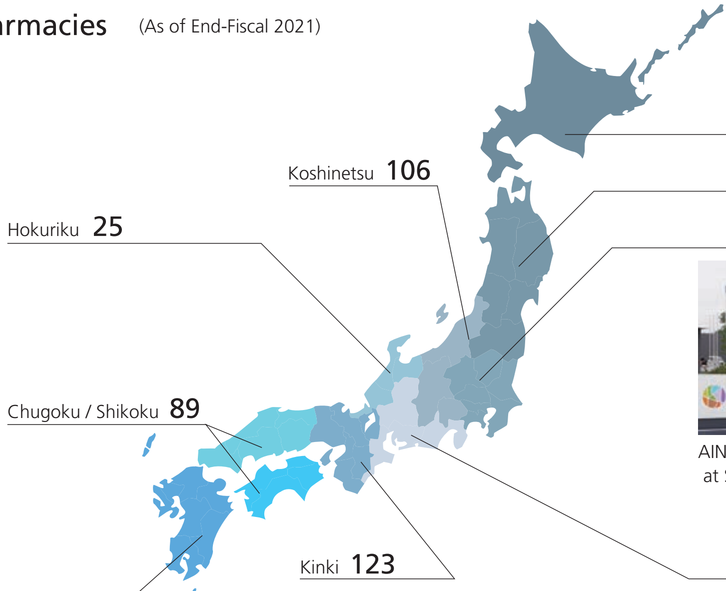
Due to the realities of Japan's operating environment and healthcare system, dispensing pharmacies near hospitals have been the best format for patients and our business. However, the dispensing pharmacy market has been undergoing some dynamic structural changes in recent years. The lifting of a ban 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 gain a number of benefits by attracting dispensing pharmacies to their premises, as closer links with pharmacies reduce the risk of dispensing errors and other issues and enable deeper cooperation in advanced healthcare. That's why a growing number of hospitals, particularly university hospitals, are stepping up efforts to attract onsite pharmacies. Advantages for patients include greater convenience and higher quality services » See page 9. Meanwhile, onsite pharmacies give us the opportunity to leverage competitive advantages such as the specialist skills of our pharmacists. Prescription volumes are also likely to be more reliable.

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 a handful of pharmacies located near large university hospitals. Instead, we view onsite pharmacies as a major opportunity to increase market share.

▶ AIN Group's dispensing pharmacy network

1,065 pharmacies (As of End-Fiscal 2021)



AIN Pharmacy at Toyama Nishi General Hospital

AIN Pharmacy at Ehime University Hospital

AIN Pharmacy at Sagamihara Kyodo Hospital

AIN Pharmacy Otemae

AIN Pharmacy Chayagasaka

AIN Pharmacy at Tondabayashi Hospital

AIN Pharmacy Okazaki Hashira

A Message from the Director

An opportunity to grow the top line in 2021

Masato Sakai
Director, Division Manager of Store Development

Since October 2016, regulations have been relaxed to allow dispensing pharmacies to open on the premises of medical institutions.

In addition to improving convenience for patients and the profitability of medical institutions, we see the reforms as an opportunity to increase the capabilities and earnings of our dispensing pharmacies. That has prompted us to implement a range of initiatives targeting the onsite format.

Most onsite pharmacies are selected through competitive bidding, so the capabilities of operators are an important factor in the selection process. Many medical institutions are currently looking for companies to run onsite dispensing pharmacies, with over 150 public tenders already conducted in the period since the laws were relaxed (our estimate, includes no-bid contracts). The number of onsite pharmacy contracts put out for tender in fiscal 2020 was roughly double the level in fiscal 2018.

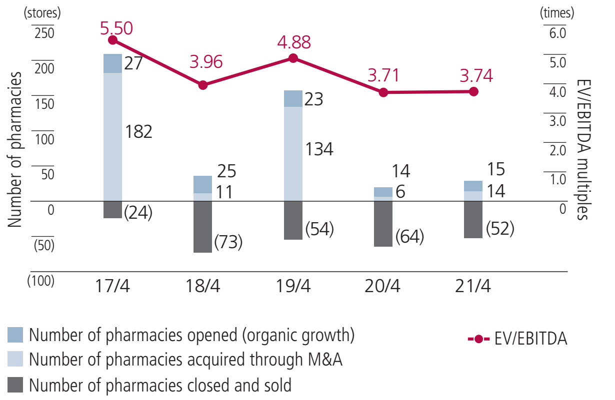
In 60% of those cases, medical institutions have selected the AIN Group. Many of the onsite pharmacies we have opened have shown they are good at attracting customers and are highly profitable. Even during the COVID-19 pandemic, we have rapidly recovered our investment in onsite pharmacies.

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.

However, hospitals apply strict criteria when selecting onsite pharmacy operators. They want stable companies with a solid track record in pharmacy openings, backed by sound finances, as well as the ability to hire and train large numbers of pharmacists who understand advanced healthcare. Not many companies are capable of consistently meeting those criteria, but the AIN Group ticks all those boxes and is steadily building up experience in the onsite format. To continue fulfilling the mission envisioned for dispensing pharmacies and to support more efficient healthcare provision, we will shift to larger locations – focusing on onsite pharmacies – and overhaul our pharmacy portfolio.

We will also continue to actively pursue M&A deals with a sustained focus on investment efficiency, using both M&A and openings of large dispensing pharmacies to grow the Group's top line and increase market share to 10%.

Number of pharmacies and EV/EBITDA multiples



Changes to AIN Group's M&A criteria

	M&A criteria (Before)	M&A criteria (From Fiscal 2020)
Pharmacy size	Annual sales of ¥120 million or higher	Annual sales of at least ¥200 million
EV/EBITDA multiple	5-7 times	5-7 times
Contribution to consolidated earnings	Fiscal year following deal	Fiscal year following deal
Potential risks	None	Onsite pharmacies Compliance issues

Further improving the quality of pharmacies and pharmacists

The Japanese 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 leftover prescription medicines, managing patient health, working with local healthcare providers, providing 24-hour dispensing services and supporting home-based healthcare services, in addition to their traditional role of drug dispensing. In order to deliver those services, pharmacists will need to improve their specialist skills, as well as their ability to communicate with patients and medical institutions.

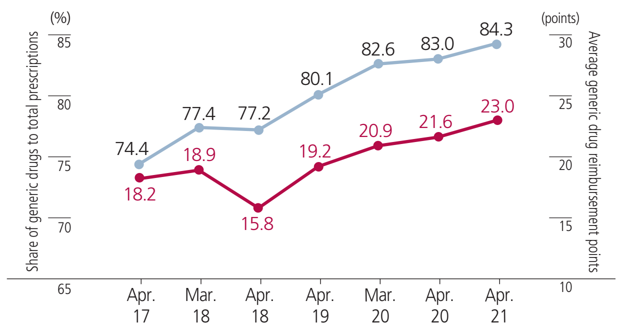
Also, as part of revisions to the Pharmaceuticals and Medical Devices Act, a new function-based pharmacy certification system will come into effect from August 2021.

Under the system, dispensing pharmacies with primary care functions can gain certification as community coordination pharmacies and those with advanced pharmaceutical management capabilities can be certified as specialist medical institution coordination pharmacies.

Recognizing the importance of dispensing pharmacies in local healthcare infrastructure, we have recruited stable numbers of pharmacists and consistently raised the standards of our pharmacies and pharmacists since the earliest days of our dispensing pharmacy business, regardless of fluctuations in earnings. We are also actively responding to the shift to home-based healthcare and sharing information with medical institutions, aiming to secure community coordination pharmacies certification for all our pharmacies.

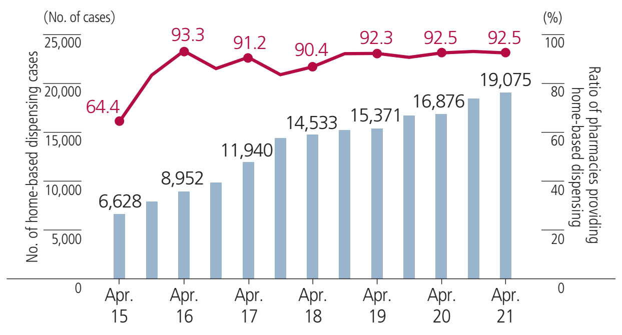
To improve the quality of dispensing pharmacies, we provide a range of internal and external training programs, which are upgraded every year, to enhance the specialist skills of our pharmacists. Depending on location, we plan to gain specialized medical institution coordination pharmacies certification for pharmacies with those capabilities.

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

The growing roles of dispensing pharmacies

New roles

Healthcare support
- Provide preventive healthcare and healthcare support

Pharmaceutical management
- Respond to needs for advanced pharmaceutical management

+

Primary care pharmacists and pharmacies

Unified and continuous management of drug usage
- Continuous check of drug indications and adverse reactions
- Prevention of over-prescription, double medication and drug interactions

24-hour support & home-based healthcare
- Support for patients throughout the day, all year round home-based healthcare

Cooperation with medical institutions
- Check with doctors about possible prescription errors, suggestions about prescription drugs
- Feedback to doctors about adverse reactions and drug usage
- Patient counselling and provision of drug information
- Recommendation for medical checkups

+

Conventional role

Dispensing drugs

Pharmacy certification system (from August 2021)

Community coordination pharmacy

Provide home-based healthcare
Share information with medical institutions
Conduct training for comprehensive local care

Pharmacies that can work with other medical institutions to manage prescription information in an integrated and continuous way, including for home-based healthcare and hospital admission and discharge, as well as general physician visits.

Specialized medical institution coordination pharmacy

Deploy specialist cancer treatment pharmacists
Share information with specialist medical institutions
Provide specialized cancer-related training

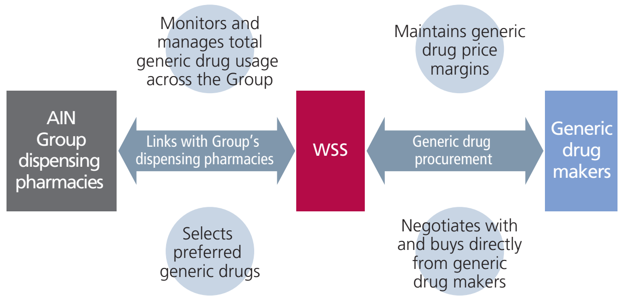
Pharmacies that can work closely with other medical institutions while providing advanced prescription drug management and highly specialized, specific dispensing services for patients with cancer and other conditions that require expert pharmaceutical management.

Ensuring profitability

Dispensing pharmacies face a challenging environment. Standards for calculating dispensing fees are revised every two years, and from April 2021, drug prices will be adjusted annually, leading to continued fluctuations in profits » See page 9. However, 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 steadily expanding 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 have already 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.

▶ Roles and merits of WSS



Responding to advanced healthcare and technological innovation

The AIN Group is implementing measures that support government efforts to create advanced healthcare services, such as online pharmaceutical guidance services and digital drug prescriptions, as well as actively participating in joint research with partners in the academic sector. We aim to fulfill our responsibility as the leading company in the sector and steadily prepare for various changes in the market, such as further deregulation and advances in technology.

Going forward, we will step up collaboration with the healthcare sector while also aiming to be the first-choice dispensing pharmacy operator for local communities. We also plan to invest in IT to improve the quality of dispensing pharmacies and strengthen earnings capabilities with the aim of rebuilding the Group's business base to support growth.

Dispensing of anticancer drugs and others

Examples of advanced healthcare initiatives

- Online pharmaceutical guidance services (From July 2018)
- Participated in MHLW's digital drug prescription field trial (From February 2019)
  *Japan plans to launch digital drug prescriptions in January 2023
- Trial of prescription drug deliveries using drones (Asahikawa, July 2020; Fukuoka, December 2020)
- Trial of prescription drug deliveries using small delivery robots (From March 2021)
- Trial of same-day prescription drug delivery service (From March 2021)

Prescription drug deliveries using small delivery robots

A Message from the Managing Director

Cultivating pharmacists who can meet higher standards

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

Revision of the Pharmaceuticals and Medical Devices Act in September 2020 mean that pharmacists are now legally required to continuously monitor pharmaceutical usage by patients, not only when prescriptions are written. A new system also comes into force from August 2021 that will certify pharmacies as community coordination pharmacies or specialized medical institution coordination pharmacies.

The changes mean that pharmacists will have to be more closely involved in individual patient treatments that ever before. At the same time, their role in the community is changing dramatically. Pharmacists increasingly need to have the skills to handle home-based healthcare, collaborate with people in various medical professions, provide pharmaceutical guidance based on expert knowledge of cancer and other illnesses, and work closely with medical institutions.

The AIN Group has been working for some time to build closer relationships with patients and cooperate with home-based healthcare service providers and medical institutions to fully leverage the capabilities of its primary care dispensing pharmacies and pharmacists. We have also increased or focus on training and education to help our pharmacists acquire specialist skills and expertise.

Moreover, thanks to our pharmacy-led project, which was launched in 2012 to overhaul practices in dispensing pharmacies, a cycle of continuous improvement driven by pharmacy staff thinking and acting independently has been embedded across the Group. In addition to improving operational efficiency and supporting premium levels of service, this process has accelerated the growth and development of pharmacists, resulting in highly motivated human resources who are keen to take on new challenges whatever the conditions they face.

In April 2021, more than 600 newly graduated pharmacists joined the AIN Group, a new record. Going forward, we will continue to cultivate high-quality pharmacists to support the provision of services to patients nationwide as a key part of Japan's healthcare infrastructure.

Growth Strategy: Cosmetic and Drug Store Business

AINZ & TULPE Dai Nagoya Building

Market environment

- Narrowing quality gap in the retail sector, including drug stores
- Urbanization
- Diversifying values and lifestyles
- Faster spread of information via social media, etc.
- Increase in store closures/Exits in other sectors amid the pandemic

Key strategies

- Reinforce differentiation strategy
  - · Merchandise lineup (80% cosmetics, items matched to consumer trends)
  - · Store operations that keep sales areas fresh
- Targeting post-pandemic opportunities, increase store openings in prime locations with favorable lease terms

Materiality

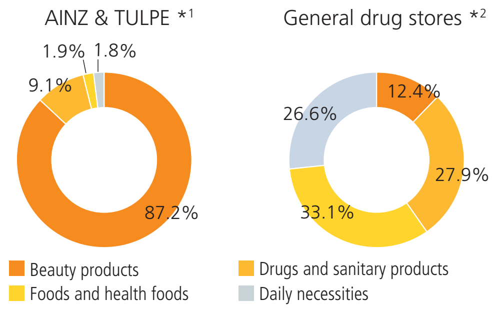
Provide beauty and happiness

LIPS and HIPS line up

AYURA line up

DAZZSHOP line up

▶ Comparison of AINZ & TULPE and general drug stores: product mix



*1 Data is for the fiscal year ended April 2021
*2 Source: Monthly Report on the Current Survey of Commerce (June 2021), Ministry of Economy, Trade and Industry

▶ Differences between AINZ & TULPE and other retail formats

	AINZ & TULPE	Drug stores	Department stores
Customer base	People who seek "inner and outer beauty" and "healthy beauty"	Families, overseas visitors	High-income earners, including overseas visitors
Merchandise	Beauty products account for approximately 90% of lineup	Daily necessities and food account for more than 50% of lineup	Brand products only
Pricing	Normal	Discount	Premium
Sales areas	Customers can personally try various beauty products in store	Small retail areas, cluttered displays	Brands sold through own boutique stores, reducing accessibility for shoppers

Reinforce the differentiation strategy

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. 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. We also changed the name of the business to the cosmetic and drug store business to clearly set it apart from conventional drug stores.

AINZ & TULPE is enhancing its unique market position with a merchandise lineup based on a completely different retail concept to conventional drug stores and department stores and by building up store operation expertise. These efforts are also steadily strengthening the brand.

In the fiscal year under review, the cosmetic and drug store business was hit hard by the pandemic, which forced stores to temporarily close or reduce opening hours to prevent the spread of infection. However, the business has continued to actively build its presence in the market, launching a number of measures targeting opportunities ahead, including offering more products that help people live with the new realities of the COVID-19 pandemic.

■ Merchandise lineup

The merchandise lineup is part of our differentiation strategy. Conventional drug stores tend to be discounters focused on food and a broad range of other products. The AINZ & TULPE format is very different, with beauty products such as cosmetics accounting for approximately 90% of the merchandise lineup. Our stores are particularly strong in cosmetics, offering a wide choice of products from natural cosmetics and premium brands to original brands such as *LIPS and HIPS*.

We are also adding original brands in product categories such as color contact lenses, homewares and fashion accessories. 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 these tie-in products as part of our 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. Using these approaches, we are able to accurately identify the latest trends in the market to provide products that consumers want, well before our competitors.

■ Store operations

Another part of our differentiation strategy is store operations. One of the features of our cosmetic and drug store business is its ability to rapidly launch new products, thanks to the considerable operational independence 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, which helps to drive growth in sales volumes and support high profit margins.

Even during the pandemic, stores have operated on the principle of being as welcoming as possible to customers, aiming to offer the highest level of service while working within the scope of measures to prevent the spread of infection. In its core cosmetics category, AINZ & TULPE is also expanding its range of products to meet needs that emerged during the pandemic. New items include eye makeup, products that alleviate skin problems, foundation, makeup protection mist, functional face masks, antibacterial products and premium eyelash lotion, which all incorporate AINZ & TULPE's unique merchandising approach.

The business has also worked to develop its presence in e-commerce channels to give customers the opportunity to enjoy the AINZ & TULPE experience without having to visit stores.

In October 2019 we started offering an official smartphone app with point card functionality. Since launch, the number of registered users has risen to roughly 800,000. We also opened a new webstore (AINZ & TULPE WEBSTORE) in May 2020. Going forward, we plan to use innovative approaches to make the site more enjoyable to use and link it with physical stores to develop the customer base and attract new customers. We are also continuing to develop our IT and logistics strategy to further increase efficiency and profitability.

Opening more stores in prime locations with favorable lease terms

Since 2015 we have opened a string of large flagship AINZ & TULPE stores in highly 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 locations with high foot traffic in major regional cities in the Kansai area and Kyushu. In fiscal 2021, we opened 11 stores in large cities, near major stations and in other locations, taking the total number of stores to 69.

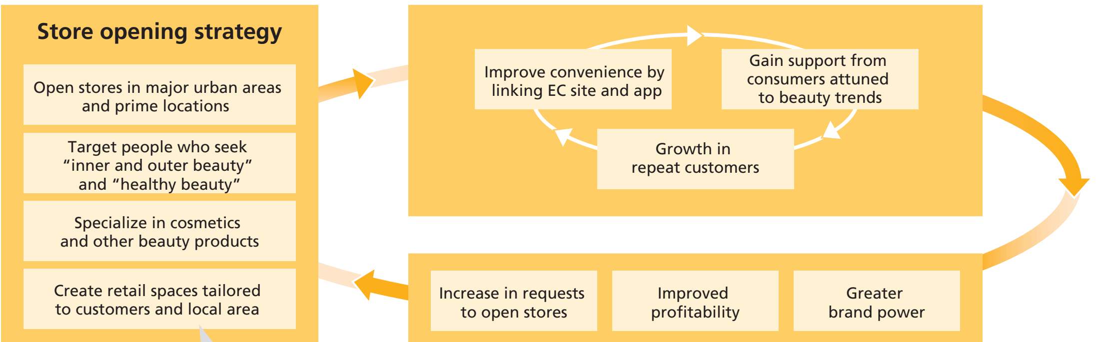
No two AINZ & TULPE stores are the same, thanks to flexible store designs tailored to each location. In addition to large stores, compact stores of less than 300m² are also proving to be successful. That reflects the appeal of the AINZ & TULPE brand among younger shoppers, as well as store designs that can be tailored to location, target customer segments and retail floor space, an approach that is one of our strengths. These factors are highly prized by property developers, which want tenant stores that can be easily adapted to different types of locations.

Amid the COVID-19 pandemic, many stores in other sectors vacated prime locations in cities across Japan. As a result, we have received numerous inquiries about opening stores in vacant sites. Targeting opportunities after the pandemic subsides, we plan to further increase store openings in prime locations with favorable lease terms. In parallel, we will continue to refurbish existing stores to support the provision of high-value-added products and services.

We plan to grow the cosmetics and drug store business into a ¥50 billion business over the medium term.

We will 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 and establish a reliably profitable business model to transform the cosmetic and drug store business into the Group's growth driver over the medium and long term.

▶ Positive growth cycle in cosmetic and drug store business



▶ Unique store designs

▶ AINS & TULPE's new store opening in fiscal 2021

Total 11 stores

Sapporo Kokusai Building (December 2020)

tekute Nagamachi (March 2021)

Daimaru Umeda (June 2020)

Daimaru Kyoto (June 2020)

HIKARIGAOKA IMA (December 2020)

AMU PLAZA KUMAMOTO (April 2021)

HIBIYA Chanter (July 2020)

Sun Station Terrace Okayama (September 2020)

Dai Nagoya Building (April 2021)

TOKYU PLAZA TOTSUKA (September 2020)

LaLaport TACHIKAWATACHIHI (March 2021)

A Message from the Executive Officer

Actively opening stores in prime locations and linking physical and online stores

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

Fiscal 2021 was a very tough year, with many of our stores forced to shorten opening hours or close temporarily due to the growing COVID-19 outbreak.

However, seeing that operating environment as an opportunity, we actively opened new stores in locations with high foot traffic. Targeting retail facilities directly connected to terminus stations in residential areas, we opened AINZ & TULPE stores in TOKYU PLAZA TOTSUKA (Kanagawa Prefecture) in September 2020 and in HIKARIGAOKA IMA (Tokyo Prefecture) the following December. We also opened stores in retail facilities connected to major regional stations, including the AINZ & TULPE AMU PLAZA KUMAMOTO (Kumamoto Prefecture; April 2021), which is directly linked to Kumamoto station, and the AINZ & TULPE Sun Station Terrace Okayama (Okayama Prefecture; September 2020). In total, we opened 11 new stores during fiscal 2021. We worked to strengthen and raise the visibility of the AINZ & TULPE brand by designing stores and creating merchandise lineups tailored to each location, and by expanding the range of original brands exclusive to AINZ & TULPE.

In October 2019 we released the official AINZ & TULPE official smartphone app, followed by the launch of the AINZ & TULPE WEBSTORE in May 2020. Using both channels, we are improving loyalty point integration between physical stores and online stores, giving customers more opportunities to enjoy the unique AINZ & TULPE shopping experience whenever they want.

Going forward, we will continue to focus on creating stores that attract even more fans to the AINZ & TULPE brand by enhancing store concepts and original brands and by maximizing their ability to engage and retain customers.

Human Resources Strategy

Personnel Strategy: The Basis for Sustained Value Creation

The AIN Group is putting renewed focus on personnel training as a priority issue to support the transition to the next stage of growth.

The role of pharmacists continues to change in line with the government's vision for patient-focused dispensing pharmacies. To fulfill their new role, pharmacists need a higher level of expertise and good communication skills.

Our approach to recruitment is highly regarded by students and universities, helping the Group to perform well in pharmacist recruitment. Several factors are behind that success, including our hiring track record and high-quality training systems, opportunities for pharmacists to fully demonstrate their skills due to the large number of complex prescriptions at our pharmacies, and the AIN Group's growth potential.

We need to hire stable numbers of pharmacists and raise the quality of human resources to support our program of opening large-scale dispensing pharmacies, which will require large teams of highly skilled pharmacists. That's why all levels of management, from the president down, are closely involved in recruitment activities.

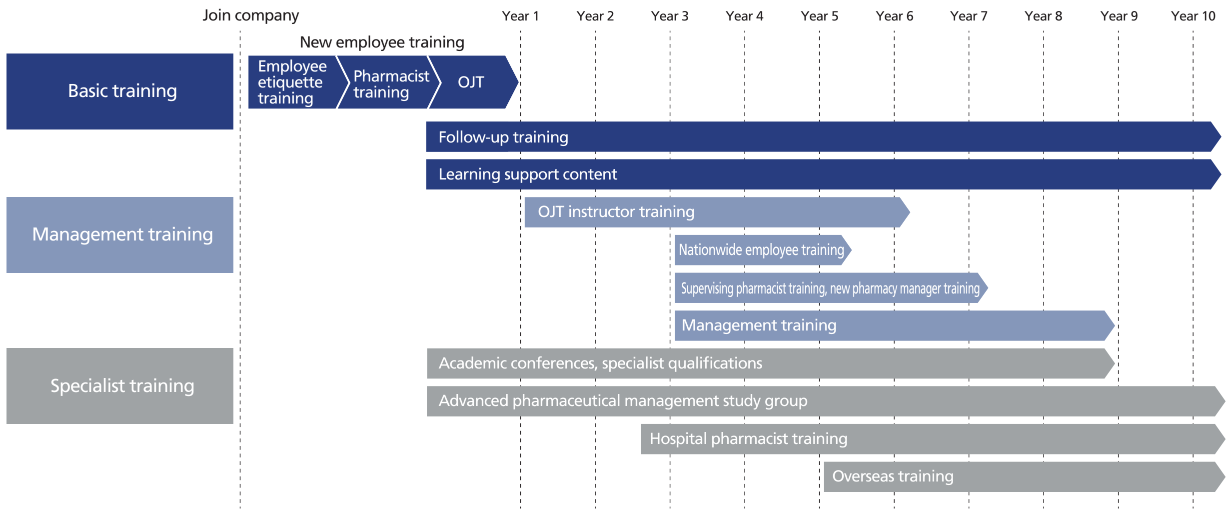
Meanwhile, we are stepping up hiring in the cosmetic and drug store business to support our aggressive store expansion program. Each advertised position attracts many applicants, who are drawn to our unique stores and our strategy of standing out in the drug store sector. That gives us the pick of the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

After joining the AIN Group, our personnel have access to a range of training programs tailored to their career stage. For example, we have put in place systems to help pharmacists enhance their skills over the long term, such as support to acquire specialist qualifications as a cancer care pharmacist and opportunities to participate in practical training on advanced healthcare at university hospitals.

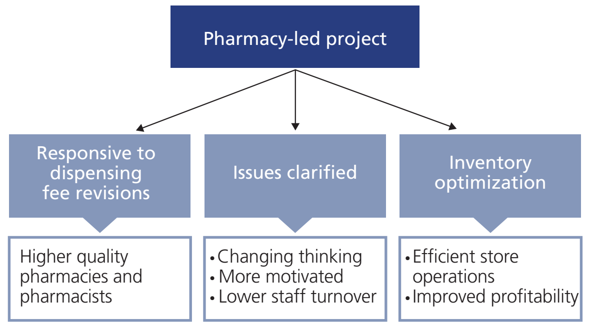
We also run a number of unique initiatives to improve the motivation and skills of our employees. One initiative is our pharmacy-led project, launched back in autumn 2012, which encourages pharmacists to draw on their own frontline experience to further improve efficiency, profitability and quality at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

Going forward, we will improve career development support and performance evaluation systems as part of efforts to create a framework that enables all employees to realize their potential. Our aim is to raise the quality of personnel and enhance the Group's ability to adapt to change.

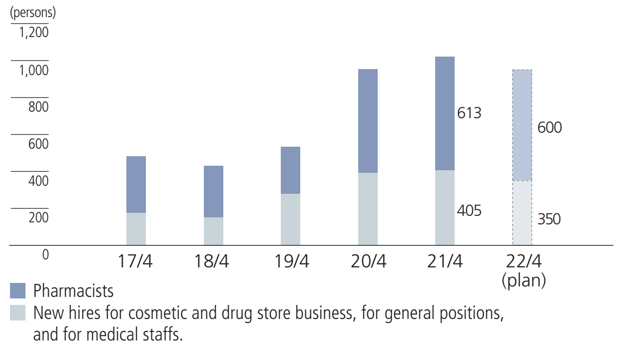
Training programs for pharmacists



Key outcomes from pharmacy-led projects



Number of graduates hired



A Message from the Director

Creating welcoming workplaces for everyone

Rieko Kimei
Director, in charge of Personnel Department

To continue growing as a company, we have to attract and retain talented people and provide working environments where all employees can continue to grow and develop. The AIN Group has been taking the following steps to achieve these objectives.

1. Implementing work style reforms

In 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 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 are also expanding home working for head office staff.

2. Upgrading training systems

To ensure customers continue to choose AIN pharmacies, we are training up pharmacists to give them the specialist knowledge that patients need, such as specialist cancer care advice. To improve patient and customer satisfaction, we are also running training 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 this 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 also introduced a new personnel system in August 2021. The new system allows us to visualize each employee's qualifications and skills, which will help us deepen communication and improve personnel education and training. The Group's operating environment and the values of its customers are becoming increasingly diverse. Seeing these developments as opportunities, we will respond flexibly to change while also taking on new challenges to ensure patients and customers continue to choose the AIN Group.

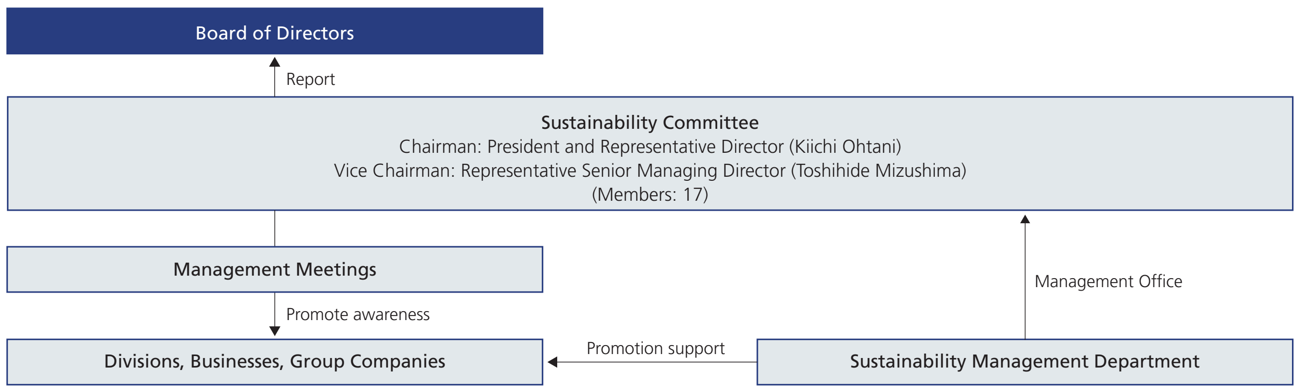
Strengthening ESG

Sustainability management

The AIN Group is promoting sustainability management in its operations. The goal is to contribute to the sustainable development of society by helping to solve social issues through its business activities, while also supporting the sustainable growth of its own businesses. In December 2020, we defined the Group's materiality and value creation story. We will continue to strengthen sustainability management to achieve our aim of improving the health and happiness of our customers.

Sustainability management system

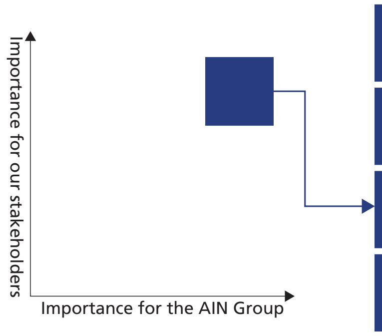
We have formed a Sustainability Committee to establish, promote and embed a sustainability management system across the Group. The committee discusses and determines policies and measures related to the AIN Group's sustainability activities and regularly submits reports and puts forward proposals on key matters to the Board of Directors. The committee also uses Management Meetings to promote sustainability throughout the whole Group.



Process of defining materiality, determining the value creation story and formulating action plans

In December 2020, we used the following process to define and disclose the Group's materiality and the supporting value creation story.

We also formed project teams for each area of materiality. The teams devised initiatives and set KPIs, which were disclosed in May 2021. We are currently implementing the initiatives to achieve our targets.



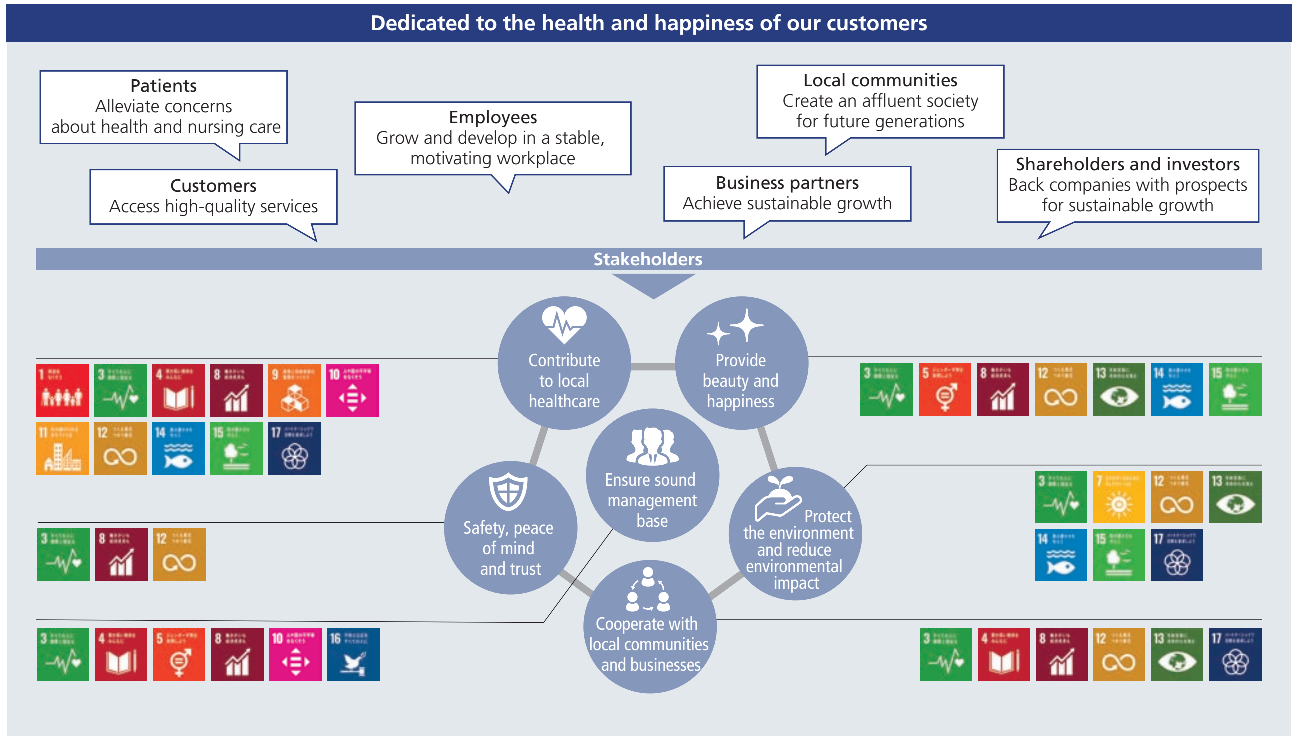
Step 1	Explore a wide range of social issues	Use ISO 26000, the Global Compact, SDGs and criteria set by ESG assessment bodies to explore a wide range of issues
Step 2	List up all the Group's measures	Compile a list of all the measures the Group is currently implementing to tackle social issues
Step 3	Cross-check the Group's measures with external issues	Cross-check the Group's CSR/ESG/sustainability measures with external issues and fill in any gaps
Step 4	Define materiality	Define the Group's materiality by assessing the importance of issues identified through Step 3 along two lines: importance for the Group and importance for stakeholders
Step 5	Create the Group's value creation story	Organize and finalize the Group's value creation story in line with materiality
Step 6	Take action to achieve the materiality goals	Form project teams for each area of materiality to implement measures, set and work towards KPIs

Regularly review and adjust

Our value creation story

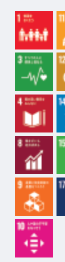
The AIN Group aims to grow sustainably with society. Specifically, the Group will ensure finances remain sound while further reinforcing its management structure, including corporate governance. The Group will also offer value that society needs through its two main businesses – by creating dispensing pharmacies that contribute to and support the health of the whole community, and by providing health and beauty products and services that make modern life more enjoyable.

In these business processes, the Group will of course adhere to all rules that protect health, safety and human rights, while also improving the health and happiness of its customers and being mindful of environmental and social sustainability.



Promoting materiality

Following discussion and review by the Sustainability Committee and further discussion by the Board of Directors, the Group finalized key measures to be implemented in each area of materiality and KPIs to be achieved by fiscal 2026. The measures and KPIs were disclosed in May 2021. Directors were also assigned to each project to lead the implementation of the various measures and achieve the targets.

Materiality	Key measures	KPIs [Targets for fiscal 2026]	Related SDGs
1. Contribute to local healthcare CSV issue (S) <Project leader> Miya Oishi (Managing Director, In charge of Dispensing Pharmacy Operating Management)	We will surely fulfill the roles requested and expected of pharmacies to realize the proper use of medicines, and take the initiative in creating new mechanisms required by society.	•Number of certified pharmacies*1 [All pharmacies have obtained one of the following certifications: Specialized medical institution coordination pharmacy Community coordination pharmacy] •Number of health support pharmacies*2 [Secure certification for more than 50% of pharmacies] •Number of home-based services [All pharmacies to conduct at least 24 cases per year]	
	Contribute to the sustainability of the social security system by controlling medical costs through efficient pharmaceutical usage and healthcare provision.	•Number of primary care pharmacists [Deploy primary care pharmacists to all pharmacies] •Generic drug usage rate [Maintain usage rate at 85% or higher at all pharmacies]	
	Protect the lives and health of employees and ensure the continued provision of pharmaceuticals and healthcare services, even during natural disasters, pandemics and other major events.	•Continually improve BCP and strengthen execution capabilities [Achieve 100% response rate for safety verification drills*3] •Ratio of disaster base hospital pharmacies with emergency stockpiles [Ensure all pharmacies supporting disaster base hospitals have stockpiles]	

Materiality	Key measures	KPIs [Targets for fiscal 2026]	Related SDGs
2. Provide beauty and happiness CSV issue (S) <Project leader> Kaori Ishikawa (Executive Officer, Division Manager of Cosmetic and Drug Store Operating Management Division)	Open stores with product ranges aligned with retail trends, consumer needs and local areas to empower people through beauty.	•Use app to connect with users and offer more buying opportunities [Official app Number of active users 1 million/month Number of page views 1.5 million/month]	
	Develop innovative and original products that help customers create their own unique lifestyles.	•Number of manufactured clean beauty*4 private brand products [50% of manufactured products]	
3. Safety, peace of mind and trust Business process issue (S) <Project leader> Miya Oishi (Managing Director, in charge of Dispensing Pharmacy Operating Management)	Continually improve quality assurance and safety management systems to reinforce product quality and safety.	•Internal audit performance [Number of issues raised in pharmacy chain: 0] [All cosmetic & drug stores with outstanding ratings*5]	
4. Protect the environment and reduce environmental impact Business process issue (E) <Project leader> Hideki Fujiwara (Senior Executive Officer, Division Manager of Operational Support)	Identify and reduce greenhouse gas emissions.	•Build processes to ascertain the Group's greenhouse gas emissions [—Develop reduction plan after emission volume has been ascertained]	
	Protect the environment by reducing industrial waste.	•Pharmaceutical disposal rate [Disposal rate of less than 0.02%]	
5. Ensure sound management base Management structure issue (G) <Project leaders> Toshihide Mizushima (Representative Senior Managing Director, in charge of Operating Management, Operational Support and Information Technology); Miya Oishi (Managing Director, in charge of Dispensing Pharmacy Operating Management); Rieko Kimei (Director, in charge of Personnel Department); Hideki Fujiwara (Senior Executive Officer, Division Manager of Operational Support); Toshiya Wada (Executive Officer, Division Manager of Digital Promotion); Koji Nozawa (Executive Officer, Division Manager of Corporate Planning)	Implement human rights initiatives.	•Formulate human rights declaration [Disclose human rights declaration] •Develop awareness checklist and set benchmarks for test rate and correct answer rate [Test rate: 100%, correct answer rate: 100%]	
	Promote diversity and inclusion by hiring diverse personnel and efficiently deploying human resources.	•Kurumin / Platinum Kurumin certification*6 and Eruboshi / Platinum Eruboshi certification*7 [Maintain Platinum Kurumin, Platinum Eruboshi certification, etc.] •Female manager ratio [Female manager ratio: 40%] •Disclose LGBT declaration	
	Step up efforts to improve employee health.	•Address all items needed to receive outstanding health and productivity management organization certification*8 [Secure certification (White 500)]	
	Reinforce systems to protect corporate information assets and increase system security; also establish regulations and standards and overhaul the management framework to ensure secure system operation.	•Number of security incidents [Major security incidents: 0]	
	Deepen engagement with various stakeholders and continually reinforce board oversight functions.	•Board of Directors evaluation points [At least 4 or 5 points for all categories] •Number of outside directors [At least two-fifths of board] •Number of female directors [At least one-third of board]	
6. Cooperate with local communities and businesses Local community / partner cooperation issue (S/E) <Project leaders> Toshihide Mizushima (Representative Senior Managing Director, In charge of Operating Management, Operational Support and Information Technology); Miya Oishi (Managing Director, in charge of Dispensing Pharmacy Operating Management)	Contribute to society through wellness activities and other initiatives to build mutually beneficial partnerships with local communities.	• Number of community events held [At least four each year at all pharmacies]	
	Promote sustainability across the entire supply chain by implementing CSR procurement.	•Develop CSR procurement guidelines, raise awareness and implement [Disclose CSR procurement guidelines] [Hold briefings for companies in supply chain and monitor implementation]	
	Work with pharmaceutical wholesalers to build systems that reduce environmental impact.	•Number of pharmaceutical deliveries at participating pharmacies [Implement at 500 pharmacies] [Reduce CO_2 emissions from deliveries by 75% by cutting number of deliveries] [Reduce delivery inspection time by 75% by cutting number of deliveries]	

*1 Certified pharmacies (specialized medical institution coordination pharmacy / community coordination pharmacy): A new function-based pharmacy certification system starting in August 2021 as part of revisions to the Pharmaceuticals and Medical Devices Act.
*2 Health support pharmacies: Pharmacies that meet certain standards set out by the Minister of Health, Labour and Welfare; pharmacies with basic primary care pharmacists and functions that also actively help people in the local community to independently maintain and improve their health.
*3 Safety verification drills: Training to confirm the safety of employees and their families and safe conditions at pharmacies/stores as a matter of priority and to assess support systems to ensure the continued viability of medical service provision.
*4 Clean beauty: Beauty items that contain (i) ingredients that are kind on the body and skin (mild formulas), and (ii) natural or naturally derived ingredients (organic) and environmental ingredients (eco-friendly, cruelty-free).
*5 Outstanding stores: Stores with three or fewer categories flagged in internal audits.
*6 Kurumin / Platinum Kurumin certification: A certification system developed by the Ministry of Health, Labour and Welfare based on the Act for Measures to Support the Development of the Next Generation; companies with general employer action plans that meet certain standards with respect to progress versus targets are certified as Parenting Support Companies. Kurumin-certified companies that implement more far-reaching initiatives receive special Platinum status from the Minister of Health, Labour and Welfare.
*7 Eruboshi / Platinum Eruboshi certification: A certification system developed by the Ministry of Health, Labour and Welfare based on the Act on the Promotion of Female Participation and Career Advancement in the Workplace; companies that meet certain standards with respect to supporting women's participation and career advancement in the workplace receive Eruboshi certification as outstanding companies. Eruboshi-certified companies that implement more far-reaching initiatives receive special Platinum status.
*8 Outstanding health and productivity management organization: A program administered by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi recognizing outstanding companies in health and productivity management. The top 500 large enterprises for health and productivity management are included in the White 500.

Materiality Initiatives

Reducing environmental impact with new pharmaceutical distribution model

Materiality area 6:
Cooperate with local communities and businesses

We started building a new pharmaceutical distribution model in 2020. Drawing on inventory optimization controls from our pharmacy-led project to improve efficiency, we are working with wholesalers to significantly reduce CO_2 emissions by minimizing delivery operations. Protecting the global environment is our priority, but we are also rolling out the model nationwide to boost operational efficiencies, which will improve employee productivity and reduce costs.

Certified as outstanding health and productivity management organization

Materiality area 5:
Ensure sound management base

On March 4, 2021, the AIN Group received certification as an Outstanding Health and Productivity Management Organization 2021 under a program administered by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi that recognizes leading companies in health and productivity management.

Health and productivity management involves strategically supporting the health of employees and other stakeholders from a management perspective, while the Outstanding Health and Productivity Management Organization system recognizes large enterprises and SMEs that take a particularly advanced approach to health and productivity management, such as implementing initiatives that tackle health issues in local communities or that support Nippon Kenko Kaigi's health improvement initiatives.

2021
健康経営優良法人
Health and productivity

Empowering female employees

Materiality area 5:
Ensure sound management base

The AIN Group has a large number of female employees, accounting for 81% of the total workforce (as of end-April 2021). We have put in place systems to help female employees continue their careers with the AIN Group during changes in their lives, such as childbirth and parenting. From May 2020, we also introduced a new system that allows full-time employees to choose their working hours. They can select one of three options – 32 hours or 40 hours per week, or another schedule of their choice – giving them the flexibility to balance work commitments with parenting, nursing care or other family duties. With work practices becoming increasingly diverse, the system also allows employees to choose what time they work to suit their lifestyles. We aim to increase the ratio of female managers to 40% by fiscal 2026, and we will continue to actively help women advance their careers in the AIN Group.

Fiscal 2021 data	
Maternity leave:	351 employees
Childcare leave:	640 employees
Reduced working hours for childcare:	875 employees
Female manger ratio	32.6%

Response to the COVID-19 pandemic

Materiality area 1:
Contribute to local healthcare

Responding to the COVID-19 pandemic, we immediately secured logistics supply routes, sourced face masks, sanitizer and other medical materials to protect our employees in the workplace and adapted dispensing pharmacy environments to ensure the continued provision of healthcare services. As the outbreak spread and shortages of medical materials emerged, we donated face masks to medical institutions nationwide and procured items for Sapporo City as part of its Civic Corporate Partnership Program.

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

As a Group that operates a dispensing pharmacy business and a chain of cosmetic & drug stores, which are both responsible for people's health, we recognize that it is essential to ensure robust and transparent business activities that put the highest priority on compliance.

To achieve that, we have adopted the corporate auditor system to oversee major business decisions and business execution, as well as all other areas of corporate management.

System overview

The Board of Directors, the Company's main decision-making body, is comprised of 12 directors, including four outside directors. The Chair of the Board is President and Representative Director Kiichi Ohtani. 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.

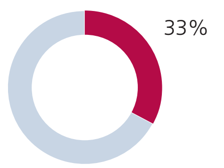
The Nomination and Remuneration Committee, of which more than half the members are independent outside officers, discusses and makes recommendations to enhance fairness,

▶ Outline of corporate governance

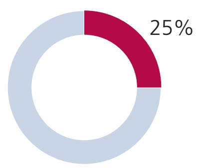
Corporate governance structure	Corporate Auditor System
Chairman of the Board	Kiichi Ohtani (President and Representative Director)
Number of directors	12 (including 4 outside directors)
Number of corporate auditors	3 (including 2 outside corporate auditors)
Board of Directors meetings (Attendance of outside directors)	Number of meetings: 11 (100%)
Board of Corporate Auditor meetings (Attendance of outside corporate auditors)	Number of meetings: 13 (100%)
Voluntary advisory committee of the Board of Directors	Nomination and Remuneration committee (over half of members are outside officers)
Executive officer system	Yes
Accounting auditor	ERNST & YOUNG SHINNIHON LLC

*Data is for the fiscal year ended April 2021.

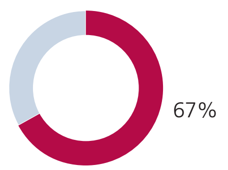
▶ Ratio of Independent Outside Directors on Board of Directors



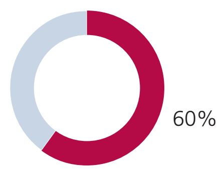
▶ Ratio of Female Directors on the Board of Directors



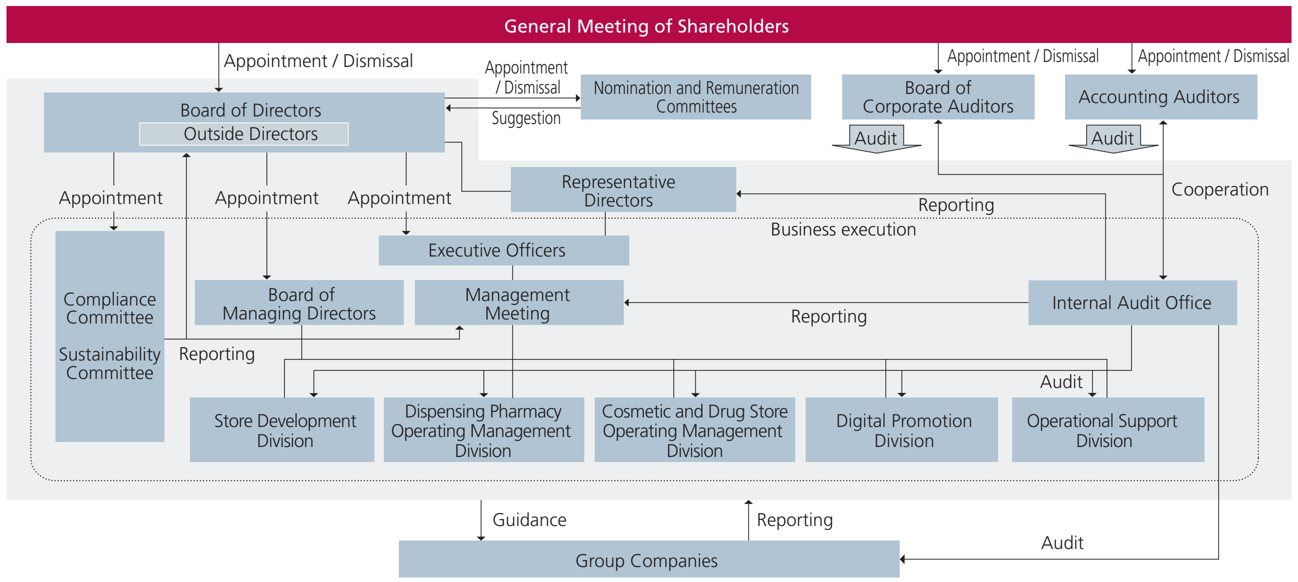
▶ Ratio of Independent Outside Corporate Auditors on the Board of Corporate Auditors



▶ Ratio of Outside Officers on the Nomination and Remuneration Committee



▶ Corporate governance structure



transparency and objectivity in procedures for appointing and dismissing directors and determining remuneration for executives. The committee is chaired by AIN Holdings' President and Representative Director, Kiichi Ohtani, and the five members of the committee (of which three are outside officers) 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.

The Management Meeting, which meets regularly and is attended by all senior managers from the General Manager grade and above, 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 to maintain reciprocal control between business segments.

In addition, to minimize potential risks related to dispensing errors, which is 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. We have also formed a Sustainability Committee, chaired by the President and Representative Director, to further reinforce CSR and ESG activities as part of broader efforts to strengthen corporate governance.

■ 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.

Outside director activities

Name	
Ko Mori (Independent)	Drawing on his extensive experience and knowledge as the manager of a major trading company, Mr. Mori provides appropriate advice from various perspectives in discussions about business strategy, board resolutions and other topics.
Yasuyuki Hamada (Independent)	Drawing on his specialist knowledge and experience as an academic, particularly in the field of economics and finance, Mr. Hamada provides appropriate advice from various perspectives in discussions about business strategy, board resolutions and other topics.
Noriko Endo (Independent)	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, Ms. Endo provides appropriate advice from various perspectives in discussions about business strategy, board resolutions and other topics.
Junro Ito (Independent)	Drawing on his extensive knowledge of environmental, social and corporate governance (ESG) issues at a major retailer and his experience leading group companies as a director, Mr. Ito provides appropriate advice from various perspectives in discussions about business strategy, board resolutions and other topics.

Outside corporate auditor activities

Name	
Akira Ibayashi (Independent)	Provides necessary input based on his specialist knowledge and experience from working at financial institutions.
Osamu Muramatsu (Independent)	Provides necessary input based on his specialist knowledge and experience from working at a major securities firm.

■ 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 2021 survey, inside directors, outside directors and corporate auditors 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

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.

Monetary remuneration (which is neither earnings-linked remuneration nor non-monetary remuneration) is defined as "basic monthly remuneration" and is paid at a fixed amount each month. Basic monthly remuneration is determined based on a number of criteria, including the position, responsibilities and number of years in office of the individual, as well as the balance relative to employee remuneration, trends at other companies in the industry and past remuneration.

Earnings-linked remuneration is defined as "bonuses" and is paid yearly as monetary remuneration. Bonuses are based on consolidated operating income in each fiscal year and take into account a number of criteria, including the balance relative to bonuses paid to employees, trends at other companies in the industry and past bonus payments. The Company does not currently have any non-monetary remuneration systems.

Going forward, the Nomination and Remuneration Committee will consider the necessity of introducing incentives linked to short-term and medium-to long-term earnings performance, taking into account the wishes of shareholders and other stakeholders, trends at other companies in the industry and other factors.

Remuneration for executive directors is composed of basic monthly remuneration and bonuses linked to earnings performance. Outside directors receive only basic monthly remuneration, reflecting their role and the need to maintain independence.

Decisions on remuneration amounts for each director are entrusted to the Company's President and Representative Director, Kiichi Ohtani, based on resolutions of the Board of Directors and in accordance with the types and amounts of remuneration approved by the Nomination and Remuneration Committee. The President and Representative Director is regarded as being in the best position to evaluate the performance of each director while also taking into account the Company's earnings performance and other factors. The scope of director responsibilities is determined in accordance with suggested remuneration amounts submitted beforehand by the Nomination and Remuneration Committee.

To enhance fairness and transparency in processes for determining remuneration for directors, the majority of officers who sit on the Nomination and Remuneration Committee are independent outside officers and the committee adheres to the above policies governing remuneration for directors and other personnel.

Remuneration by category of director and corporate auditor

Category	Total remuneration (¥ million)	Remuneration by type (¥ million)			Number of eligible individuals
		Basic remuneration	Bonus	Non-monetary remuneration	
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	16	1,139
Other than unlisted	8	424

Risk Management

The Company has formulated Risk Management Regulations and Risk Management Guidelines that establish the risk management framework for the whole AIN Group. Departments are assigned to manage each category of risk, ensuring a comprehensive and exhaustive approach to risk management.

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 have formulated a Group business continuity plan (BCP), which is actively disseminated to all senior executives and employees.

Business and other risks

Management has identified the following key risks that could have a material impact on the financial position, operating results and cash flows of the Group's consolidated companies.

Forward-looking statements are based on judgments made by the Group as of March 31, 2021.

1. Laws and regulations

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

The dispensing pharmacy business operates under various permits, licenses, registrations and notifications, including those set out by the Pharmaceuticals and Medical Devices Act (partial revisions to the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices), the Health Insurance Law and the Pharmacists Law, and under the supervision of the Ministry of Health, Labour and Welfare and prefectural health and welfare departments.

Pharmaceuticals sold by the cosmetic & drug store business are also regulated under the Pharmaceutical and Medical Devices Act.

In addition, in the event of actions by the Group's dispensing pharmacy business or cosmetic & drug store business that are deemed to infringe Article 75-1 of the Pharmaceutical and Medical Devices Act, Article 80 of the Health Insurance Law, or Article 51-1 of the Narcotics and Psychotropics Control Law, the authorities may issue business suspension orders or cancel business permits, which could have an impact on the Group's operating results.

b. Easing of drug sales regulations

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

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 88.5% 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, prescription volumes may be affected by seasonal trends due to outbreaks of influenza, hay fever (allergic rhinitis) and other seasonal conditions.

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 Devices Act 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 medication histories and prescription information, and we possess personal data in the cosmetic and drug store business obtained from the 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 the Social insurance and welfare sector privacy mark.

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 ¥55,271 million, compared with a total balance of short- and long-term debt of ¥11,967 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 outpatient consultation 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.

In addition, the Group is taking a number of steps to prevent the spread of infection, such as providing sanitizer at stores and dispensing pharmacies, raising awareness about the importance of wearing face masks and installing partitions at customer-facing counters, as well as holding group seminars and meetings online to avoid the "three Cs" (closed spaces, crowded places, close-contact settings).

Board of Directors and Corporate Auditors

*Figures in brackets show the number of AIN HOLDINGS shares held as of April 30, 2021.

Board of Directors

Kiichi Ohtani

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

July 1980	President and Representative Director of Ohtani 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	Advisor of 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 Ohtani 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 2012	President and Representative Director of WHOLESALE STARS Co., Ltd. (current post)
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.
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 Manager 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
(200 shares)

June 1994	Joined DIAMOND, Inc.
April 2004	Head and Director of Tokyo Office, Kyushu University
March 2006	Deputy Editor of Diamond Weekly, DIAMOND, Inc.
September 2013	Visiting Researcher at Policy Alternatives Research Institute, University of Tokyo
April 2015	Project Professor, Graduate School of Media and Governance, Keio University
June 2016	Outside Director of NTT DOCOMO, INC. (current post)
July 2018	Outside Director of the Company (current post)
June 2019	Outside Director of Hankyu Hanshin Holdings, Inc. (current post)
April 2020	Specially appointed professor of Keio University Research Institute (current post)
March 2021	Outside Director of Techpoint, Inc. (current post)
June 2021	Outside Director of Japan Elevator Service Holdings Co., Ltd. (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 of Seven & i Holdings Co., Ltd. (current post), Head of the Corporate Development Office of Seven & i Holdings Co., Ltd.
March 2017	Director, Ito-Yokado Co., Ltd.
March 2018	General Manager of the Corporate Development Division of Seven & i Holdings 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 of the Company
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)

11-year Financial Summary and ESG Data

11-year Financial Summary

(¥ million)

	2011/4	2012/4	2013/4	2014/4	2015/4	2016/4	2017/4	2018/4	2019/4	2020/4	2021/4
For the year:											
Net sales	129,387	142,790	154,560	170,225	187,904	234,843	248,110	268,385	275,596	292,615	297,305
Selling, general and administrative expenses	11,981	12,839	14,740	15,635	17,509	23,915	27,529	28,370	29,295	30,793	35,222
Operating income	8,107	10,253	9,701	10,113	11,452	14,619	14,563	19,622	16,067	16,068	10,932
Profit attributable to owners of parent	3,916	4,899	5,075	5,259	6,197	7,917	7,949	10,567	9,029	9,179	6,697
Capital expenditures	2,750	5,870	7,235	6,328	6,413	11,209	4,786	5,311	9,919	10,536	8,122
Depreciation and amortization	1,560	1,749	2,212	2,258	2,553	3,259	3,687	3,596	3,903	4,087	4,243
At the end of the year:											
Equity capital*1	29,450	33,695	38,312	42,122	47,928	53,258	60,105	96,697	103,855	110,915	115,758
Total net assets	29,498	33,745	38,356	42,240	48,046	53,324	60,178	96,733	103,922	111,003	115,837
Total assets	76,940	85,908	95,839	101,382	114,149	139,888	156,323	183,380	189,021	193,451	203,662
Number of shares outstanding (shares)	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	35,427,321
Number of employees (persons)	4,561	5,125	5,618	6,074	7,025	8,555	9,774	9,603	10,652	13,158	13,065
Number of stores: Dispensing pharmacy business	448	494	560	616	754	881	1,066	1,029	1,132	1,088	1,065
Number of stores: Cosmetic and drug store business	53	56	61	59	56	52	52	48	54	63	69
Per share information (¥):											
Earings*2	127.83	153.67	159.18	165.04	195.45	249.69	250.71	310.08	254.87	259.11	189.04
Net assets*2	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	3,267.49
Cash dividends*2	22.5	25.0	30.0	30.0	30.0	40.0	50.0	50.0	55.0	55.0	55.0
Stock information (based on the closing price as of April 30) (¥):											
Stock price	3,115	4,290	4,765	4,495	4,245	5,340	7,720	7,300	8,840	6,030	6,070
Ratios (%):											
Operating margin	6.3	7.2	6.3	5.9	6.1	6.2	5.9	7.3	5.8	5.5	3.7
Return on sales*3	3.0	3.4	3.3	3.1	3.3	3.4	3.2	3.9	3.3	3.1	2.3
Return on assets (ROA)*4	5.5	6.0	5.6	5.3	5.8	6.2	5.4	6.2	4.8	4.8	3.4
Return on equity (ROE)*5	15.4	15.5	14.1	13.1	13.8	15.6	14.0	13.5	9.0	8.5	5.9
Shareholders' equity ratio	38.3	39.2	40.0	41.5	42.0	38.1	38.4	52.7	54.9	57.3	56.8

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

		FY2018	FY2019	FY2020	FY2021
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	11,348
CO_2 emissions related to operation of pharmacies* (t-CO_2)		9,608	10,901	11,224	10,747
Electricity use* (kWh, thousand)		18,234	20,893	22,073	22,748
Water use* (GJ)		1,387	1,155	1,269	1,283
*Data for key operating subsidiary AIN PHARMACIEZ INC.					
Social					
Composition of Employees					
Total employees		9,603	10,652	13,158	13,065
Male		1,966	2,119	2,407	2,448
Female		7,637	8,533	10,751	10,617
Pharmacists		4,457	4,904	5,273	5,477
Non-Japanese employees		-	117	97	70
Workforce Data					
Total hires		431	534	952	1,018
Pharmacists		279	257	560	613
Full-time employees turnover rate		8.1%	7.6%	6.7%	5.2%
Pharmacists		7.3%	7.6%	6.0%	4.5%
Employees rehired at mandatory retirement age		-	91.7%	62.2%	54.8%
Female Employee Empowerment					
Eruboshi certification	Grade three – highest level of certification	https://www.ainj.co.jp/csr/maintenance.html			
Ratio of female hires		74.9%	80.5%	76.1%	81.4%
Female manager ratio		30.9%	31.2%	31.7%	32.6%
Directors		18.2%	21.6%	16.0%	14.3%
Executive officers		31.3%	29.2%	33.3%	27.3%
Childcare and Maternity Leave					
Kurumin certification	Yes	https://www.ainj.co.jp/csr/maintenance.html			
Employees using maternity leave		361	342	400	351
Employees using childcare leave		420	503	584	640
Employees with reduced hours for childcare		501	686	725	875
Others					
Average age		34.9	35.3	34.8	35.1
Average compensation (¥ thousand)		4,440	4,540	4,610	4,480
Average monthly overtime per employee (hours)		5.9	6.1	5.8	3.9

	FY2018	FY2019	FY2020	FY2021
Government				
Composition of Board of Directors				
Number of directors	12	12	12	12
Inside directors (male)	6	6	6	6
Inside directors (female)	2	2	2	2
Outside directors (male)	3	3	3	3
Outside directors (female)	1	1	1	1
Ratio of female directors (%)	25.0	25.0	25.0	25.0
Board of Directors Meetings				
Number of meeting	12	12	11	11
Average attendance for outside directors	97.8%	97.8%	90.5%	100.0%
Average attendance for outside corporate auditors	91.7%	100.0%	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	11	13
Average attendance for outside corporate auditors	91.7%	100.0%	100.0%	100.0%
Executive Remuneration				
Director and corporate auditor remuneration	210	208	213	213
Inside directors (¥million)	181	175	175	175
Inside corporate auditors (¥million)	7	7	7	7
Outside directors (¥million)	10	15	18	18
Outside corporate auditors (¥million)	11	11	12	12

Management's Discussion and Analysis of Financial Condition and Results of Operations

Business environment surrounding the AIN Group

The core business of the AIN 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.

As part of its policy to curb national healthcare expenses, the government regularly revises drug prices and dispensing fees. Earnings at dispensing pharmacies are the total of dispensing fees and sales of drugs, so earnings are affected by these revisions.

Under revisions to the Pharmaceuticals and Medical Devices Act (partial revisions to the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices), which come into effect from August 2021, prefectural governments will introduce a new pharmacy certification system. Dispensing pharmacies with advanced pharmaceutical management capabilities will be certified as specialized medical institution coordination pharmacies and pharmacies with primary care functions will be certified as local community coordination pharmacies. In addition, 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.

Seeing these developments as an opportunity, the Group has been making preparations to adapt to any changes ahead, aiming to ensure sustained growth while also helping to solve issues faced by society.

* 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, 2021, conditions in the Japanese economy remained challenging due to the impact of the COVID-19 pandemic. There was also continued uncertainty in the economic outlook.

In this economic environment, the Group worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies, used M&A to grow its operations and developed its cosmetic and drug store business. In pharmacy and store operations, the Group rigorously enforced measures to prevent infection to reassure patients and customers, and worked to ensure the continued provision of healthcare and retail services by implementing strict measures to protect employees from infection.

In the fiscal year under review, net sales rose 1.6% year on year to ¥297,305 million, operating income decreased 32.0% to ¥10,932 million, ordinary income decreased 24.8% to ¥12,649 million and profit attributable to owners of parent decreased 27.0% year on year to ¥6,697 million.

Business results by segment

Dispensing Pharmacy Business

In September 2020, under incremental revisions to the Pharmaceuticals and Medical Devices Act, dispensing pharmacies were given approval to provide online pharmaceutical treatment guidance nationwide in accordance with certain rules. In line with this change, the Group established a system to provide online pharmaceutical treatment guidance via all its dispensing pharmacies nationwide. In addition, the Group actively conducted various field trials to prepare for an expected increase in the ways that patients receive medicines. The trials included using drones and automated shipping robots to deliver medicines, same-day delivery schemes, and home delivery storage lockers.

To ensure our pharmacists and dispensing pharmacies fulfill their primary care role, the Group continues to reinforce pharmaceutical management and guidance based on the integrated and continuous management of drug-related information through cooperation with local medical service providers, the use of patient medication notebooks and other means. The Group is also working to help patients access medical services in their local community with peace of mind by providing online pharmaceutical treatment guidance and home-based dispensing and by training specialist dispensing pharmacists.

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 using its pharmacy opening strategy to withdraw from small-scale locations.

Sales and profits declined year on year, reflecting an increase in the duration of prescriptions during the COVID-19 pandemic, which led to a rise in the average unit price per prescription but a decline in the number of prescriptions. The closure and business transfer of 64 pharmacies in the previous fiscal year to improve the efficiency of pharmacy operations also had an impact. However, the number of prescriptions is now recovering.

As a result, for the fiscal year under review, the dispensing pharmacy business reported sales of ¥263,095 million, down 0.2% year on year, and segment income of ¥20,947 million, up 0.5%.

During the fiscal year, the Group opened a total of 29 dispensing pharmacies, including those acquired through M&A deals, and closed 18 dispensing pharmacies and sold 34 as part of an overhaul of pharmacy operations, resulting in a total of 1,065 at the end of the fiscal year.

Cosmetic and Drug Store Business

The cosmetic and drug store business continued to face a challenging market environment due to the impact of the COVID-19 pandemic and other factors.

The Group continued to open AINZ & TULPE cosmetic and drug stores, as well as strategically develop retail displays tailored to the characteristics of each store. Following the release of the official AINZ & TULPE app, the Group launched the official AINZ & TULPE WEBSTORE in May 2020 to improve convenience and lift service levels for customers.

However, many stores reduced their opening hours or closed temporarily to prevent the spread of COVID-19 infections. As a result, the cosmetic and drug store business reported a decline in sales of 21.4% year on year to ¥19,419 million and a segment loss of ¥1,999 million, compared with segment income of ¥262 million in the previous fiscal year.

During the same period, the Group opened 11 AINZ & TULPE stores and closed five stores, resulting in a total of 69 cosmetic and drug stores at the end of the fiscal year.

Other Businesses

Net sales from other businesses increased 248.2% year on year to ¥14,894 million, mainly reflecting the acquisition of a retail shop business in March 2020, and segment loss was ¥721 million compared with a loss of ¥342 million a year earlier.

Financial Position

The balance of total assets at the end of the fiscal year increased ¥10,211 million from the end of the previous fiscal year to ¥203,662 million. That mainly reflected declines for goodwill and merchandise, outweighed by increases for cash on hand and in banks and for deposits and guarantees.

Current assets at the end of the fiscal year under review totaled ¥96,398 million, an increase of ¥8,595 million from ¥87,802 million at the end of the previous fiscal year, mainly reflecting increases in cash and other accounts receivable.

Fixed assets at the end of the fiscal year under review totaled ¥107,264 million, an increase of ¥1,631 million from ¥105,632 million at the end of the previous fiscal year, primarily due to increases in other investments and other assets.

The balance of current liabilities at the end of the fiscal year under review was ¥74,160 million, a decrease of ¥539 million from ¥74,700 million at the end of the previous fiscal year, while the balance of long-term liabilities was ¥13,664 million, up ¥5,917 million from ¥7,747 million a year earlier.

As a result, the balance of total liabilities was ¥87,825 million, up ¥5,378 million from ¥82,447 million at the end of the previous fiscal year.

The balance of net assets at the end of the fiscal year under review was ¥115,837 million, an increase of ¥4,833 million from ¥111,003 million at the end of the previous fiscal year. As a result, the shareholders' equity ratio decreased 0.5 percentage points to 56.8%, compared with 57.3% at the end of the previous fiscal year. ROA declined 1.4 percentage points to 3.4% and ROE dropped 2.6 percentage points to 5.9%.

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 investors proportionately to profits generated, and to maintain 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 each 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, 2022.

Cash Flows

In the fiscal year under review, cash on hand and in banks ("cash") increased ¥9,078 million year on year to ¥55,009 million.

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

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥14,928 million, compared with net cash provided of ¥17,747 million in the previous fiscal year.

The main items that were positive for cash flow were income before income taxes of ¥11,767 million, as well as depreciation and amortization of ¥4,243 million and amortization of goodwill of ¥4,436 million related to business expansion through new store openings and M&A.

The main item negative for cash flow was income taxes paid of ¥6,595 million

Cash Flows from Investing Activities

Net cash used in investing activities was ¥9,493 million, compared with net cash used of ¥11,474 million in the previous fiscal year.

This mainly reflected payments of ¥997 million for purchases of shares in subsidiaries due to changes in the scope of consolidation related to shares acquired in eight companies through M&A deals, ¥3,930 million for purchases of property, plant and equipment related to the opening of new cosmetic and drug stores and dispensing pharmacies, ¥2,219 million for payments of leasehold and guarantee deposits and ¥3,110 million for increase in other investments.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥3,643 million, compared with net cash used in ¥7,837 million in the previous fiscal year.

The main items were net proceeds of ¥5,811 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, 2021

ASSETS	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars (Note 1(1)) 2021
Current assets:			
Cash on hand and in banks (Notes 3 and 5)	¥ 55,271	¥ 46,321	$ 507,585
Notes and accounts receivable (Note 5)	13,475	13,653	123,748
Other accounts receivable	9,284	8,997	85,260
Inventories (Note 4)	14,284	15,321	131,178
Short-term loans	144	208	1,322
Other current assets	3,936	3,299	36,146
Allowance for doubtful accounts	-	(1)	-
Total current assets	96,398	87,802	885,278
Property, plant and equipment:			
Buildings and structures, net	16,270	16,609	149,416
Land	10,390	10,960	95,417
Construction in progress	638	143	5,859
Other property, plant and equipment, net	2,930	3,161	26,907
Total property, plant and equipment	30,229	30,874	277,610
Investments and other assets:			
Investment securities (Notes 5 and 6)	2,697	2,295	24,768
Deferred tax assets (Note 11)	4,415	4,211	40,545
Net defined benefit asset (Note 10)	60	111	551
Long-term loans	422	554	3,875
Deposits and guarantees	20,319	19,144	186,601
Goodwill	39,057	42,123	358,683
Other intangible fixed assets	3,609	2,792	33,143
Other investments and other assets	8,198	5,168	75,286
Allowance for doubtful accounts	(1,743)	(1,644)	(16,006)
Total investments and other assets	77,034	74,757	707,447
Deferred Assets:			
Share issuance cost	-	15	-
Total deferred assets	-	15	-
Total assets	¥ 203,662	¥ 193,451	$ 1,870,346

LIABILITIES AND NET ASSETS	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars (Note 1(1)) 2021
Current liabilities:			
Accounts payable (Note 5)	¥ 46,758	¥ 47,187	$ 429,405
Short-term debt (Notes 5 and 8)	3,670	3,642	33,703
Accrued income taxes	2,157	3,356	19,808
Deposits received	13,979	13,094	128,377
Allowance for bonuses to employees	2,594	2,338	23,822
Allowance for bonuses to directors	16	16	146
Reserve for reward obligations	461	463	4,233
Other current liabilities	4,522	4,600	41,528
Total current liabilities	74,160	74,700	681,054
Long-term liabilities:			
Long-term debt (Notes 5 and 8)	8,297	2,432	76,196
Lease obligations	37	154	339
Net defined benefit liability (Note 10)	3,329	3,124	30,572
Other long-term liabilities	2,000	2,035	18,367
Total long-term liabilities	13,664	7,747	125,484
Net Assets: (Note 12)			
Shareholders' equity			
Common stock (Note 14)	21,894	21,894	201,065
Authorized - 44,000,000 shares in 2021 and 2020			
Issued - 35,428,212 shares in 2021 and 2020			
Capital surplus	20,500	20,500	188,263
Retained earnings	73,506	68,758	675,048
Treasury stock (891 shares in 2021 and 728 shares in 2020)	(3)	(2)	(27)
Total shareholders' equity	115,899	111,151	1,064,367
Accumulated other comprehensive income:			
Unrealized holding losses on securities	(12)	(77)	(110)
Remeasurements of defined benefit plans	(128)	(159)	(1,175)
Total accumulated other comprehensive loss	(141)	(236)	(1,294)
Non-controlling interests	78	88	716
Total net assets	115,837	111,003	1,063,798
Total liabilities and net assets	¥ 203,662	¥ 193,451	$ 1,870,346

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED APRIL 30, 2021

	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars (Note 1(1)) 2021
Net sales (Note 15)	¥ 297,305	¥ 292,615	$ 2,730,324
Cost of sales	251,150	245,753	2,306,456
Gross profit	46,155	46,861	423,868
Selling, general and administrative expenses	35,222	30,793	323,464
Operating income	10,932	16,068	100,394
Other income (expense):			
Interest and dividend income	82	92	753
Gains on investments in partnership	68	10	624
Real estate rental revenue	185	368	1,698
Consignment income	193	184	1,772
Technical advisory fee	68	64	624
Subsidies for employment adjustment	1,182	138	10,854
Gain on transfer of business	408	496	3,746
Gain on sales of shares of subsidiaries and associates	111	-	1,019
Refund of premium for cancelled insurance	53	78	486
Gain on contribution of securities to retirement benefit trust	-	223	-
Interest expenses	(44)	(63)	(404)
Losses on sales of accounts receivables	(79)	(67)	(725)
Rent expenses on real estates	(220)	(134)	(2,020)
Provision of allowance for doubtful accounts	(182)	-	(1,671)
Losses on disposal and sales of fixed assets	(410)	(916)	(3,765)
Impairment losses on fixed assets	(804)	(263)	(7,383)
Loss on valuation of investment securities	(37)	(218)	(339)
Loss on temporary closing of stores	(52)	(97)	(477)
Other, net	312	(34)	2,865
	836	(138)	7,677
Profit before income taxes	11,767	15,930	108,063
Income taxes (Note 11):			
Current	5,251	6,648	48,222
Deferred	(172)	81	(1,579)
	5,079	6,729	46,643
Profit	6,687	9,201	61,410
(Loss) profit attributable to non-controlling interests	(9)	21	(82)
Profit attributable to owners of parent	¥ 6,697	¥ 9,179	$ 61,502

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED APRIL 30, 2021

	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars (Note 1(1)) 2021
Profit	¥ 6,687	¥ 9,201	$ 61,410
Other comprehensive income:			
Unrealized holding gains (losses) on securities	64	(71)	587
Remeasurements of defined benefit plans, net of tax	31	(99)	284
Total other comprehensive income (loss)	95	(170)	872
Total comprehensive income	6,783	9,030	62,292
Comprehensive income attributable to owners of parent	6,792	9,008	62,374
Comprehensive (loss) income attributable to non-controlling interests	(9)	21	(82)

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED APRIL 30, 2021

	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, 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
Profit attributable to owners of parent	-	-	-	6,697	-	6,697
Cash dividends paid	-	-	-	(1,948)	-	(1,948)
Acquisition of treasury stock	-	-	-	-	(1)	(1)
Net change in items other than those in shareholders' equity	-	-	-	-	-	-
Net changes during the year	-	-	-	4,748	(1)	4,747
Balance at April 30, 2021	35,428	¥ 21,894	¥ 20,500	¥ 73,506	¥ (3)	¥ 115,899

	Millions of yen				
	Accumulated other comprehensive income (loss)				
	Unrealized holding gains (losses) on securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive	Non-controlling interests	Total net assets
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
Profit attributable to owners of parent	-	-	-	-	(1,948)
Cash dividends paid	-	-	-	-	6,697
Acquisition of treasury stock	-	-	-	-	(1)
Net change in items other than those in shareholders' equity	64	31	95	(9)	85
Net changes during the year	64	31	95	(9)	4,833
Balance at April 30, 2021	¥ (12)	¥ (128)	¥ (141)	¥ 78	¥ 115,837

	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, 2020	$ 201,065	$ 188,263	$ 631,444	$ (18)	$ 1,020,764
Profit attributable to owners of parent	-	-	61,502	-	61,502
Cash dividends paid	-	-	(17,889)	-	(17,889)
Acquisition of treasury stock	-	-	-	(9)	(9)
Net change in items other than those in shareholders' equity	-	-	-	-	-
Net changes during the year	-	-	43,603	(9)	43,594
Balance at April 30, 2021	$ 201,065	$ 188,263	$ 675,048	$ (27)	$ 1,064,367

	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	Non-controlling interests	Total net assets
Balance at April 30, 2020	$ (707)	$ (1,460)	$ (2,167)	$ 808	$ 1,019,404
Profit attributable to owners of parent	-	-	-	-	(17,889)
Cash dividends paid	-	-	-	-	61,502
Acquisition of treasury stock	-	-	-	-	(9)
Net change in items other than those in shareholders' equity	587	284	872	(82)	780
Net changes during the year	587	284	872	(82)	44,384
Balance at April 30, 2021	$ (110)	$ (1,175)	$ (1,294)	$ 716	$ 1,063,798

See accompanying notes.

AIN HOLDINGS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2021

	Millions of yen		Thousands of U.S. dollars (Note 1(1))
	2021	2020	2021
Cash flows from operating activities:			
Profit before income taxes	¥ 11,767	¥ 15,930	$ 108,063
Depreciation and amortization	4,243	4,087	38,965
Amortization of goodwill	4,436	4,357	40,738
(Gain) loss on sales of shares of subsidiaries and associates	(111)	34	(1,019)
Impairment losses on fixed assets	804	263	7,383
Increase (decrease) in allowance for doubtful accounts	210	(2)	1,928
Increase in net defined benefit liability	304	256	2,791
Gain on transfer of business	(399)	(419)	(3,664)
Gain on contribution of securities to retirement benefit trust	-	(223)	-
Increase in allowance for bonuses to employees	249	183	2,286
Interest and dividend income	(82)	(92)	(753)
Interest expenses	44	63	404
Gains on investments in partnerships	(68)	(10)	(624)
Gains on donations of non-current assets	(28)	(48)	(257)
Loss on valuation of investment securities	37	218	339
Losses on disposal and sales of fixed assets	391	880	3,590
Decrease (increase) in accounts receivable	138	(429)	1,267
Decrease (increase) in inventories	1,172	(1,939)	10,763
Increase in other assets	(539)	(1,237)	(4,949)
Increase in other accounts receivable	(221)	(530)	(2,029)
(Decrease) increase in accounts payable	(844)	1,793	(7,750)
(Decrease) increase in other liabilities	(22)	757	(202)
Subtotal	21,482	23,893	197,281
Interest and dividends received	86	92	789
Interest paid	(44)	(64)	(404)
Income taxes paid	(6,595)	(6,174)	(60,565)
Net cash provided by operating activities	14,928	17,747	137,092
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(3,930)	(4,913)	(36,091)
Proceeds from sales of property, plant and equipment	1,001	1,014	9,192
Payments for purchases of investment securities	(557)	(874)	(5,115)
Proceeds from sales of investments in securities	293	39	2,690
Purchases of subsidiaries' shares resulting in obtaining controls	(997)	(1,442)	(9,156)
Payments for loans receivable	(20)	(189)	(183)
Proceeds from collections of loans receivable	680	939	6,244
Payments for purchase of intangible fixed assets	(1,811)	(1,465)	(16,631)
Proceeds from sales of intangible assets	7	188	64
Payments of leasehold and guarantee deposits	(2,219)	(4,710)	(20,378)
Proceeds from refund of leasehold and guarantee deposits	1,070	662	9,826
Increase in other investments	(3,110)	(924)	(28,560)
Proceeds from withdrawal of time deposits	146	314	1,340
Payments into time deposits	(12)	(109)	(110)
Other, net	(34)	(3)	(312)
Net cash used in investing activities	(9,493)	(11,474)	(87,179)
Cash flows from financing activities:			
Proceeds from long-term debts	12,625	100	115,942
Repayments of long-term debts	(6,792)	(5,598)	(62,374)
Repayments of lease obligations	(218)	(375)	(2,002)
Cash dividends paid	(1,948)	(1,948)	(17,889)
Other, net	(22)	(15)	(202)
Net cash provided by (used in) financing activities	3,643	(7,837)	33,455
Net increase (decrease) in cash and cash equivalents	9,078	(1,564)	83,368
Cash and cash equivalents at beginning of year	45,931	47,495	421,811
Cash and cash equivalents at end of the year (Note 3)	¥ 55,009	¥ 45,931	$ 505,179

See accompanying notes.

AIN HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2021 AND 2020

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, 2021, which was ¥108.89 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 39 and 54 subsidiaries as of April 30, 2021 and 2020, 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 three consolidated subsidiaries in the dispensing pharmacy business is the end of January, July and September, respectively. The account closing dates for two consolidated subsidiaries in the dispensing pharmacy business are the end of February. The account closing dates for two consolidated subsidiaries in the dispensing pharmacy business are the end of May. 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 weighted 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 1.19% and 1.9% for the year ended April 30, 2021 and 2020, 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.

Certain consolidated subsidiaries use a simplified method for calculating 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.

(18) Changes in Presentation Method

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) is applied in preparing the consolidated financial statements effective from the end of the fiscal year ended April 30, 2021 and is disclosed in Note 2 "Significant Accounting Estimates" of the consolidated financial statements. However, the note does not include information for the fiscal year ended April 30, 2020 that has been omitted in accordance with the transitional treatment stipulated in the provision in paragraph 11 of the accounting standard.

(19) Loss on temporary closing of stores

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 "Loss on temporary closing of stores" under "Other income (expense)."

2. Significant accounting estimates

(1) Impairment of goodwill

(a) The amount of impairment loss on the goodwill recorded in the consolidated financial statements for the year ended April 30, 2021
Goodwill: ¥39,057 million ($358,683 thousand)
Impairment losses of goodwill: ¥221 million ($2,029 thousand)

(b) Information related to the details of accounting estimates on identified items

(i) Calculation method
When acquiring companies, the Company and its consolidated subsidiaries recognize the excess earning power they anticipate at the time of acquisition as goodwill for those companies, and identify an asset group for each company. When an asset group shows an indication of impairment and the total amount of undiscounted future cash flows from that asset group arising from the remaining years of goodwill amortization is below the book value, the Company and its consolidated subsidiaries recognize an impairment loss for that asset group. The Company and its consolidated subsidiaries calculate value in use from the discounted present value of future cash flows and record an impairment loss by reducing the book value to the value in use.

(ii) Key assumptions
Budgets approved by the Board of Directors and operating income forecasts made at the time of acquisition are used as the basis for estimating future cash flows. The number of prescriptions and the average unit price per prescription in the dispensing pharmacy business are the key assumptions for these projections. The Company's estimation of future cash flows assume that the COVID-19 pandemic will subside in the next fiscal year or after, and that performance will become favorable after that point.

(iii) Impact on consolidated financial statements of the following fiscal year
The key assumptions used in estimating future cash flows involve a high degree of uncertainty, so forecast and actual values may differ substantially. If actual figures diverge significantly from forecast amounts, impairment losses may be recognized in the next fiscal year.

(2) Impairment of fixed assets excluding goodwill

(a) The amount of impairment loss on the fixed assets except for the goodwill recorded in the consolidated financial statements for the year ended April 30, 2021
Fixed assets: ¥30,229 million ($277,610 thousand)
Intangible fixed assets excluding the goodwill: ¥3,609 million ($33,143 thousand)
Impairment losses excluding goodwill: ¥583 million ($5,354 thousand)

(b) Information related to the details of accounting estimates on identified items

(i) Calculation method
The Company and its consolidated subsidiaries basically identify an individual store which is a business asset as a lowest level of cash generating unit and also deem each property as a

cash generating unit with regard to the rental property and the idle assets. An indication of impairment on an individual asset or an asset group is observed when a store consistently incurs operating losses, when there is an adverse change in the extent or manner in which a store is used which would significantly lower the recoverable amount, and when the fair value of an idle asset significantly declines. When an individual asset or an asset group indicates an impairment, if the undiscounted future cash flows from such an asset or an asset group is below the book value, its carrying amount is reduced to the recoverable amount, and the amount of reduction is recorded as an impairment loss.

(ii) Key assumptions

Budgets approved by the Board of Directors are used as the basis for estimating future cash flows. The number of prescriptions and the average unit price per prescription in the dispensing pharmacy business are the key assumptions for these projections. For the cosmetic and drug store business, the key assumptions are the number of customers, the product mix, and average customer spending. The Company's estimation of future cash flows assume that the COVID-19 pandemic will subside in the next fiscal year or after, and that performance will become favorable after that point.

(iii) Impact on consolidated financial statements of the following fiscal year

The key assumptions used in estimating future cash flows involve a high degree of uncertainty, so forecast and actual values may differ substantially. If actual figures diverge significantly from forecast amounts, impairment losses may be recognized in the next fiscal year.

3. 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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash on hand and in banks	¥ 55,271	¥ 46,321	$ 507,585
Less: Time deposits with maturities exceeding three months	(261)	(390)	(2,396)
Cash and cash equivalents	¥ 55,009	¥ 45,931	$ 505,179

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

(a) Acquisition of shares of eight companies in the dispensing pharmacy business for the year ended April 30, 2021

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Current assets	¥ 1,855	$ 17,035
Fixed assets	220	2,020
Goodwill	1,355	12,443
Current liabilities	(1,136)	(10,432)
Long-term liabilities	(60)	(551)
Acquisition cost of the companies	2,233	20,506
Cash and cash equivalents held by the companies	(1,236)	(11,350)
Net disbursement due to the acquisition	¥ 997	$ 9,156

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

	Millions of yen
	2020
Current assets	¥ 1,397
Fixed assets	397
Goodwill	1,351
Current liabilities	(1,451)
Long-term liabilities	(29)
Acquisition cost of the companies	1,664
Cash and cash equivalents held by the companies	(222)
Net disbursement due to the acquisition	¥ 1,442

4. Inventories

Inventories at April 30, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Merchandise	¥ 14,018	¥ 15,035	$ 128,735
Supplies	266	286	2,442
	¥ 14,284	¥ 15,321	$ 131,178

5. 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 eight 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, 2021 and 2020 are summarized in the following table:

Assets	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Carrying value			
Cash on hand and in banks	¥ 55,271	¥ 46,321	$ 507,585
Notes and accounts receivable	13,475	13,653	123,748
Other accounts receivable	9,284	8,997	85,260
Investment securities	855	978	7,851
Deposits and guarantees	20,265	19,090	186,105
Total	99,152	89,041	910,570
Fair value			
Cash on hand and in banks	55,271	46,321	507,585
Notes and accounts receivable	13,475	13,653	123,748
Other accounts receivable	9,284	8,997	85,260
Investment securities	853	976	7,833
Deposits and guarantees	20,036	18,956	184,002
Total	98,921	88,906	908,448
Difference			
Cash on hand and in banks	-	-	-
Notes and accounts receivable	-	-	-
Other accounts receivable	-	-	-
Investment securities	(2)	(1)	(18)
Deposits and guarantees	(229)	(133)	(2,103)
Total	¥ (231)	¥ (135)	$ (2,121)

Liabilities	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Carrying value			
Accounts payable	¥ 46,758	¥ 47,187	$ 429,405
Short-term debt including current portion of long-term debt	3,670	3,642	33,703
Deposits received	13,979	13,094	128,377
Long-term debt	8,297	2,432	76,196
Total	72,705	66,356	667,692
Fair value			
Accounts payable	46,758	47,187	429,405
Short-term debt including current portion of long-term debt	3,671	3,644	33,712
Deposits received	13,979	13,094	128,377
Long-term debt	8,284	2,434	76,076
Total	72,694	66,360	667,591
Difference			
Accounts payable	-	-	-
Short-term debt including current portion of long-term debt	1	1	9
Deposits received	-	-	-
Long-term debt	(12)	1	(110)
Total	¥ (10)	¥ 3	$ (91)

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 ¥1,841 million ($16,906 thousand) and ¥1,317 million as of April 30, 2021 and 2020, respectively, are not readily determinable.

The redemption schedule for monetary claims and securities with maturity dates as of April 30, 2021 and 2020 are summarized as follows:

	Millions of yen			
	2021			
	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	¥ 54,781	¥ -	¥ -	¥ -
Notes and accounts receivable	13,475	-	-	-
Other accounts receivable	9,284	-	-	-
Investment securities				
Debt securities	130	30	-	-
Deposits received	7,104	4,586	3,066	5,561
Total	¥ 84,774	¥ 4,616	¥ 3,066	¥ 5,561

	Thousands of U.S. dollars			
	2021			
	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	$ 503,085	$ -	$ -	$ -
Notes and accounts receivable	123,748	-	-	-
Other accounts receivable	85,260	-	-	-
Investment securities				
Debt securities	1,193	275	-	-
Deposits received	65,240	42,115	28,156	51,069
Total	$ 778,528	$ 42,391	$ 28,156	$ 51,069

	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

6. Securities

(1) The following tables summarize acquisition costs, carrying values and differences of securities with available fair values as of April 30, 2021 and 2020:

Other securities:

Securities with carrying values exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Acquisition cost			
Equity securities	¥ 188	¥ 11	$ 1,726
Bonds	-	-	-
Limited partnerships and similar investments	0	0	0
Other	-	-	-
Total	188	11	1,726
Carrying value			
Equity securities	214	22	1,965
Bonds	-	-	-
Limited partnerships and similar investments	1	0	9
Other	-	-	-
Total	215	23	1,974
Difference			
Equity securities	25	11	229
Bonds	-	-	-
Limited partnerships and similar investments	1	0	9
Other	-	-	-
Total	¥ 26	¥ 12	$ 238

Other securities:

Securities with carrying values not exceeding acquisition costs

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Acquisition cost			
Equity securities	¥ 303	¥ 721	$ 2,782
Bonds	160	170	1,469
Limited partnerships and similar investments	207	170	1,901
Other	14	15	128
Total	685	1,076	6,290
Carrying value			
Equity securities	259	600	2,378
Bonds	160	170	1,469
Limited partnerships and similar investments	207	170	1,901
Other	13	13	119
Total	640	954	5,877
Difference			
Equity securities	(43)	(121)	(394)
Bonds	-	-	-
Limited partnerships and similar investments	-	-	-
Other	(1)	(1)	(9)
Total	¥ (44)	¥ (122)	$ (404)

Stocks of non-consolidated subsidiaries and affiliates were ¥475 million ($4,362 thousand) and ¥224 million at April 30, 2021 and 2020, 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, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total sales of other securities sold	¥ 293	¥ 39	$ 2,690
Related gains	15	-	137
Related losses	(5)	-	(45)

(3) The following table summarizes impairment losses on other securities in the years ended April 30, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Other securities with fair value	¥ 1	¥ 218	$ 9
Other securities without fair value	35	-	321

7. Leases

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Due within one year	¥ 2,570	¥ 2,214	$ 23,601
Due after one year	26,950	17,842	247,497
Total	¥ 29,521	¥ 20,056	$ 271,108

8. Short-term debt and long-term debt

Short-term debt and long-term debt at April 30, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Short-term bank loans with a weighted-average interest rate of 0.4%	¥ 8	¥ 15	$ 73
Current portion of long-term debt with a weighted-average interest rate of 0.2%	3,662	3,626	33,630
Current portion of lease obligation with a weighted-average interest rate of 1.3%	94	193	863
Long-term debt (2022-2029) with a weighted-average interest rate of 0.2%	8,297	2,432	76,196
Lease obligation (2022-2023) with a weighted-average interest rate of 0.4%	37	154	339
Total	¥ 12,099	¥ 6,422	$ 111,112

The aggregate annual maturities of long-term debt at April 30, 2021 and 2020 are as follows:

Year ending April 30,	Millions of yen 2021	Thousands of U.S. dollars 2021
2022	¥ 3,662	$ 33,630
2023	2,600	23,877
2024	2,661	24,437
2025	2,219	20,378
2026	789	7,245
2027 and thereafter	26	238

Year ending April 30,	Millions of yen 2020
2021	¥ 3,626
2022	1,590
2023	529
2024	47
2025	147
2026 and thereafter	115

The aggregate annual maturities of lease obligations at April 30, 2021 are as follows:

Year ending April 30,	Millions of yen	Thousands of U.S. dollars
2022	¥ 94	$ 863
2023	32	293
2024	5	45

9. Sales, disposal and impairment of fixed assets

(1) Gains and losses on sales of fixed assets for the years ended April 30, 2021 and 2020 are as follows:

Gains on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Buildings and structures	¥ 2	¥ 0	$ 18
Land	14	9	128
Other property, plant and equipment	2	2	18
Other intangible fixed assets	0	24	0
Total	¥ 19	¥ 36	$ 174

Losses on sales of fixed assets:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Buildings and structures	¥ 13	¥ 76	$ 119
Land	110	34	1,010
Other property, plant and equipment	2	3	18
Other intangible fixed assets	0	2	0
Other investments and other assets	1	3	9
Construction in progress	-	0	-
Total	¥ 128	¥ 120	$ 1,175

(2) Losses on disposal of fixed assets for the years ended April 30, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Buildings and structures	¥ 88	¥ 118	$ 808
Other property, plant and equipment	23	28	211
Goodwill	10	160	91
Other intangible fixed assets	10	18	91
Deposits and guarantees	23	116	211
Other investments and other assets	108	18	991
Construction in progress	7	305	64
Disposal cost	9	30	82
Total	¥ 282	¥ 796	$ 2,589

(3) For the years ended April 30, 2021 and 2020, the Company recognized impairment losses for the following assets groups:

Description of assets	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars 2021
Land	¥ 42	¥ -	$ 385
Buildings and structures	437	202	4,013
Goodwill	221	13	2,029
Other	103	47	945
Total	¥ 804	¥ 263	$ 7,383

10. 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 2021	Thousands of U.S. dollars 2021
Balance as of May 1, 2020	¥ 3,828	$ 35,154
Service costs	530	4,867
Interest cost on retirement benefit obligation	13	119
Actuarial losses incurred	18	165
Pension and severance payments	(196)	(1,799)
Other	129	1,184
Balance as of April 30, 2021	¥ 4,322	$ 39,691

	Millions of yen 2020
Balance as of May 1, 2019	¥ 3,336
Service costs	457
Interest cost on retirement benefit obligation	9
Actuarial losses incurred	168
Pension and severance payments	(160)
Other	16
Balance as of April 30, 2020	¥ 3,828

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

	Millions of yen 2021	Thousands of U.S. dollars 2021
Balance as of May 1, 2020	¥ 1,504	$ 13,812
Expected return on plan assets	11	101
Actuarial losses incurred	(8)	(73)
Business owner’s contribution	169	1,552
Pension and severance payments	(48)	(440)
Balance as of April 30, 2021	¥ 1,628	$ 14,950

	Millions of yen 2020
Balance as of May 1, 2019	¥ 1,072
Expected return on plan assets	8
Actuarial losses incurred	(11)
Business owner’s contribution	487
Pension and severance payments	(52)
Balance as of April 30, 2020	¥ 1,504

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

	Millions of yen 2021	Thousands of U.S. dollars 2021
Balance as of May 1, 2020	¥ 688	$ 6,318
Retirement benefit expenses	107	982
Business owner’s contribution	(6)	(55)
Pension and severance payments	(102)	(936)
Increases due to a newly consolidated subsidiary	1	9
Other	(112)	(1,028)
Balance as of April 30, 2021	¥ 574	$ 5,271

	Millions of yen 2020
Balance as of May 1, 2019	¥ 697
Retirement benefit expenses	144
Business owner’s contribution	(7)
Pension and severance payments	(137)
Increases due to a newly consolidated subsidiary	3
Other	(12)
Balance as of April 30, 2020	¥ 688

(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 2021	Millions of yen 2020	Thousands of U.S. dollars 2021
Funded retirement benefit obligation	¥ 1,961	¥ 1,788	$ 18,008
Plan assets	(1,705)	(1,575)	(15,658)
Subtotal	255	213	2,341
Unfunded retirement benefit obligation	3,014	2,799	27,679
Net of liability and asset reported on the consolidated balance sheet	3,269	3,013	30,021
Net defined benefit liability	3,329	3,124	30,572
Net defined benefit asset	(60)	(111)	(551)
Net of liability and asset reported on the consolidated balance sheet	¥ 3,269	¥ 3,013	$ 30,021

(5) Retirement benefit expenses for the years ended April 30, 2021 and 2020 comprised the following:

	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars 2021
Service costs	¥ 530	¥ 457	$ 4,867
Interest cost on retirement benefit obligation	13	9	119
Expected return on plan assets	(11)	(8)	(101)
Amortization of actuarial losses	76	27	697
Retirement benefit expenses calculated under the simplified method	107	144	982
Retirement benefit expenses	¥ 715	¥ 630	$ 6,566

(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 2021	Millions of yen 2020	Thousands of U.S. dollars 2021
Actuarial gains (losses)	¥ 49	¥ (152)	$ 449
Total	¥ 49	¥ (152)	$ 449

(b) Accumulated

	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars 2021
Unrecognized actuarial gains	¥ 189	¥ 239	1,735
Total	¥ 189	¥ 239	$ 1,735

(7) Plan assets

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

	2021	2020
Bonds	18%	16%
Stocks	29%	31%
General account	36%	35%
Separate account	13%	13%
Other	5%	5%
Total	100%	100%

Retirement benefit trust for a lump-sum benefit plan occupied 18% of total plan assets as of April 30, 2021.

(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, 2021 and 2020 are principally as follows:

	2021	2020
Weighted average discount rate	0.54%	0.53%
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%

11. Income taxes

The aggregate statutory income tax rates used for calculation of deferred income tax assets and liabilities for the years ended April 30, 2021 and 2020 were 30.4%.

(1) The following table summarizes the significant differences between the effective statutory tax rate and the effective tax rates for consolidated financial statement purposes for the years ended April 30, 2021 and 2020:

	2021	2020
Effective statutory tax rate	30.4%	30.4%
Non-deductible expenses	0.8	0.7
Per capita inhabitant tax	0.9	0.5
Amortization of goodwill	11.6	8.2
Valuation allowance	(5.6)	(0.3)
Tax credits on tax system to expand income	-	(2.5)
Different tax rates applied to consolidated subsidiaries	5.2	5.1
Other	(0.1)	0.2
Effective tax rates	43.2%	42.2%

(2) Significant components of deferred tax assets and liabilities as of April 30, 2021 and 2020 are as follows:

	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars 2021
Deferred tax assets:			
Impairment losses	¥ 391	¥ 387	$ 3,590
Excess of depreciation	704	671	6,465
Excess of allowance for bonuses	881	793	8,090
Excess of reserve for rewards obligation	157	158	1,441
Net defined benefit liabilities	1,133	1,064	10,404
Goodwill on transfer of business	474	425	4,353
Asset retirement obligations	387	363	3,554
Income taxes payable	165	349	1,515
Accrued expense	441	352	4,049
Net operating loss carryforwards	444	845	4,077
Allowance for doubtful accounts	594	560	5,455
Other	647	533	5,941
Sub-total deferred tax assets	6,425	6,506	59,004
Valuation allowance on net operating loss carryforwards	(402)	(795)	(3,691)
Valuation allowance on deductible temporary differences	(994)	(1,019)	(9,128)
Sub-total Valuation allowance	(1,397)	(1,814)	(12,829)
Total deferred tax assets	5,028	4,691	46,175
Deferred tax liabilities:			
Capitalized removal costs	(197)	(188)	(1,809)
Net unrealized holding gains on securities	(0)	(6)	(0)
Other accounts receivable	(442)	(367)	(4,059)
Other	(36)	(75)	(330)
Total deferred tax liabilities	(676)	(638)	(6,208)
Net deferred tax assets	¥ 4,351	¥ 4,053	$ 39,957

(3) The amounts of net operating loss carryforwards and its deferred tax assets by expiration date as of April 30, 2021 and 2020 are summarized as follows:

	Millions of yen						
	2021						
	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	¥ 2	¥ 33	¥ 32	¥ 358	¥ 444
Valuation allowance	-	(17)	(2)	(33)	(32)	(316)	(402)
Deferred tax assets	-	-	-	-	-	42	42

	Thousands of U.S. dollars						
	2021						
	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)	$ -	$ 156	$ 18	$ 303	$ 293	$ 3,287	$ 4,077
Valuation allowance	-	(156)	(18)	(303)	(293)	(2,902)	(3,691)
Deferred tax assets	-	-	-	-	-	385	385

	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

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

12. 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.

13. Commitment

The Company entered into overdraft agreements with 16 and 18 banks as of April 30, 2021 and 2020, respectively, to finance working capital requirements. The outstanding balances of such overdrafts as of April 30, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total overdraft available	¥ 22,050	¥ 22,350	$ 202,497
Amount utilized	8	14	73
Outstanding balance	¥ 22,042	¥ 22,336	$ 202,424

14. Amounts per share

Net assets per share at April 30, 2021 and 2020 and basic and diluted earnings per share for the years then ended are as follows:

	Yen		U.S. dollars
	2021	2020	2021
Net assets per share	¥ 3,267.49	¥ 3,130.77	$ 30
Basic earnings per share	189.04	259.11	1.73
Diluted earnings per share	-	-	-
Cash dividends per share attributable to the year	55	55	0.50

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 ($17,889 thousand) and ¥1,948 million for the years ended April 2021 and 2020, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Profit attributable to owners of parent	¥ 6,697	¥ 9,179	$ 61,502
Amount not attributable to common shareholders	-	-	-
Profit attributable to owners of parent pertaining to common stock	6,697	9,179	61,502
Average number of shares outstanding (shares)	35,427,408	35,427,484	

15. 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 retail store business and 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.

Due to a realignment of consolidated subsidiaries, WHOLESALE STARS Co., Ltd., which was classified as a company in Dispensing Pharmacy Business in the previous fiscal year, has been reclassified as a consolidated subsidiary associated with multiple reportable segments from the year ended April 30, 2021. As a result, based on the revised classifications for reportable segments, some assets have been transferred from Dispensing Pharmacy Business to administrative divisions, which are not part of reportable segments.

(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, 2021 and 2020 are summarized as follows:

	Millions of yen					
	2021					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	¥ 263,095	¥ 19,419	¥ 14,791	¥ 297,305	¥ -	¥ 297,305
Intersegment sales	-	-	103	103	(103)	-
Total sales	263,095	19,419	14,894	297,408	(103)	297,305
Segment income (loss)	20,947	(1,999)	(721)	18,227	(5,577)	12,649
Segment assets	¥ 161,497	¥ 13,326	¥ 9,469	¥ 184,293	¥ 19,368	¥ 203,662
Other						
Depreciation and amortization	¥ 2,571	¥ 536	¥ 303	¥ 3,411	¥ 291	¥ 3,702
Amortization of goodwill	4,278	6	151	4,436	-	4,436
Impairment losses	516	288	-	804	-	804
Increase of tangible and intangible assets	3,299	1,218	352	4,871	1,031	5,903

	Thousands of U.S. dollars					
	2021					
	Dispensing pharmacy	Cosmetic and Drug store	Other	Total	Adjustments	Consolidated
Sales						
Sales to third parties	$ 2,416,153	$ 178,335	$ 135,834	$ 2,730,324	$ -	$ 2,730,324
Intersegment sales	-	-	945	945	(945)	-
Total sales	2,416,153	178,335	136,780	2,731,270	(945)	2,730,324
Segment income (loss)	192,368	(18,357)	(6,621)	167,389	(51,216)	116,163
Segment assets	$ 1,483,120	$ 122,380	$ 89,959	$ 1,692,469	$ 177,867	$ 1,870,346
Other						
Depreciation and amortization	$ 23,610	$ 4,922	$ 2,782	$ 31,325	$ 2,672	$ 33,997
Amortization of goodwill	39,287	55	1,386	40,738	-	40,738
Impairment losses	4,738	2,644	-	7,383	-	7,383
Increase of tangible and intangible assets	30,296	11,185	3,232	44,733	9,468	54,210

	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	¥ 163,667	¥ 12,771	¥ 11,869	¥ 188,308	¥ 5,143	¥ 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

Amortization of goodwill and unamortized balances by reporting segment as of and for the years ended April 30, 2021 and 2020 are summarized as follows:

	Millions of yen 2021				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	¥ 4,278	¥ 6	¥ 151	¥ -	¥ 4,436
Unamortized balances of goodwill	37,821	54	1,182	-	39,057

	Thousands of U.S. dollars 2021				
	Dispensing pharmacy	Cosmetic and Drug store	Other	Adjustments	Consolidated
Amortization of goodwill	$ 39,287	$ 55	$ 1,386	$ -	$ 40,738
Unamortized balances of goodwill	347,332	495	10,854	-	358,683

	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

16. Comprehensive income

Each component of other comprehensive income (loss) for the years ended April 30, 2021 and 2020 was the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrealized holding gains (losses) on securities:			
Losses arising during the year	¥ 57	¥ (92)	$ 523
Reclassification adjustments to gains (losses)	27	(4)	247
Amount before income tax effect	85	(97)	780
Income tax effect	(20)	26	(183)
Total unrealized holding gains (losses) on securities	64	(71)	587
Remeasurments of defined benefit plans:			
Losses arising during the year	(26)	(180)	(238)
Reclassification adjustments to gains	76	27	697
Amount before income tax effect	49	(152)	449
Income tax effect	(18)	52	(165)
Total remeasurments of defined benefit plans	31	(99)	284
Total other comprehensive income (loss)	¥ 95	¥ (170)	$ 872

17. Quarterly information

(1) Quarterly net sales for the year ended April 30, 2021 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Three months ended July 31, 2020	¥ 71,463	$ 656,286
Six months ended October 31, 2020	145,352	1,334,851
Nine months ended January 31, 2021	220,135	2,021,627
Twelve months ended April 30, 2021	297,305	2,730,324

(2) Quarterly income before income taxes and non-controlling interests for the year ended April 30, 2021 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Three months ended July 31, 2020	¥ 1,484	$ 13,628
Six months ended October 31, 2020	4,524	41,546
Nine months ended January 31, 2021	7,903	72,577
Twelve months ended April 30, 2021	11,767	108,063

(3) Quarterly profit attributable to owners of parent for the year ended April 30, 2021 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Three months ended July 31, 2020	¥ 846	$ 7,769
Six months ended October 31, 2020	2,630	24,152
Nine months ended January 31, 2021	4,575	42,014
Twelve months ended April 30, 2021	6,697	61,502

(4) Quarterly earnings per share for the year ended April 30, 2021 is as follows:

	Yen	U.S. dollars
	2021	2021
Three months ended July 31, 2020	¥ 23.90	$ 0.21
Six months ended October 31, 2020	74.24	0.68
Nine months ended January 31, 2021	129.16	1.18
Twelve months ended April 30, 2021	189.04	1.73

(5) Quarterly earnings per share for each accounting period of the year ended April 30, 2021 is as follows:

	Yen	U.S. dollars
	2021	2021
Three months ended July 31, 2020	¥ 23.90	$ 0.21
Three months ended October 31, 2020	50.33	0.46
Three months ended January 31, 2021	54.92	0.50
Three months ended April 30, 2021	59.88	0.54

The quarterly information is outside the scope of audit procedures.

18. Subsequent events

Acquisition of treasury stock
The Company decided at the meeting of the Board of Directors held on June 7, 2021 to acquire the treasury stock in accordance with Article 156 of the Law, as applied pursuant to Paragraph 3, Article 165 of the Law.

(1) Reason for acquiring the treasury stock
The Company acquired the treasury stock for the purpose of executing the flexible capital strategy to improve capital efficiency and respond to changes in operating environment.

(2) Details of the acquisition
(a) Type of stock to be acquired: Common stock
(b) Total number of stocks to be acquired: maximum 200,000 shares
(c) Total acquisition cost: maximum ¥1,400 million ($12, 857 thousand)

(d) Period: From June 8, 2021 to September 30, 2021
(e) Methods of acquisition: Off-Auction Own Share Repurchase Trading (ToSTNeT-3) of the Tokyo Stock Exchange

(3) Results of the acquisition
In accordance with the resolution made at the meeting of the Board of Directors, the Company acquired 200,000 shares of its common stock (acquisition cost: ¥1,400 million ($12,857 thousand)) on June 8, 2021, and completed the acquisition of treasury stock as planned.

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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, 2021, 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, 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

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Recognition of impairment loss on goodwill related to dispensing pharmacy business	
Description of Key Audit Matter	Auditor's Response
As of April 30, 2021, the Group recorded goodwill of ¥39,057 million, or 19% of total assets, (including ¥37,821 million attributable to the dispensing pharmacy business) in the consolidated balance sheet. The Group is working to expand its pharmacy operations and increase revenues by opening new dispensing pharmacies and through mergers and acquisitions. The Group has made certain business acquisitions at amounts that reflect expected excess earning power measured based on the operating income forecasts considering the prescription issuance characteristics of nearby medical institutions, and such excess earning power is accounted for as goodwill. Since the operating income forecasts based on which the goodwill is measured are affected by external business environment, recognition of impairment losses on the goodwill due to emergence of potential risks may have a significant impact on the consolidated financial statements. The Group determines whether there are any indications of impairment on each goodwill attributable to each subsidiary. The Group recorded an impairment loss of ¥221 million on the goodwill with impairment indications when the total amount of undiscounted future cash flows of the subsidiaries were less than the book value, while no impairment loss was recorded when the total amount of undiscounted future cash flows were greater than the book value. Estimates of future cash flows are based on budgets approved by the Board of Directors and expected amounts prepared on the basis of operating income forecasts at the time of the acquisition. The number of prescriptions that will be dispensed and the average unit price per prescription for the dispensing pharmacy business are regarded as significant assumptions. Given that the significant	The audit procedures we performed for the recognition of impairment loss on the goodwill related to the Group's dispensing pharmacy business include the following, among others; ● We compared the estimated period of undiscounted future cash flows with the remaining amortization period of the goodwill. ● In order to evaluate the effectiveness of management's estimation process, we compared the operating income forecasts at the time of acquisition with the subsequent performance. ● We made inquiries with management of the changes in business environment such as the number of the prescriptions issued by nearby medical institutions, which serves as the basis for estimating excess earning power and evaluated the consistency of the responses by examining relevant reference materials. ● We assessed the consistency between projected operating income, etc., which was the basis for estimating future cash flows and the budget approved by the Board of Directors. ● We made inquiries with management about the number of prescriptions that will be dispensed and the average unit price per prescription, which are significant assumptions in the budget approved by the Board of Directors, and evaluated the consistency of their responses with the actual performance trends. ● We conducted a sensitivity analysis taking into account the risk of future fluctuations in operating income, etc., and assessed management's evaluation of uncertainty.

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Recognition of impairment loss on goodwill related to dispensing pharmacy business	
Description of Key Audit Matter	Auditor's Response
assumptions used to estimate the future cash flows are subject to uncertainty and require management's judgements, we determined the recognition of impairment loss on the goodwill related to dispensing pharmacy business to be a key audit matter.	

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.

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.

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- 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.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

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Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended April 30, 2021 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 30, 2021

板垣 博靖

Hiroyasu Itagaki
Designated Engagement Partner
Certified Public Accountant

照内 貴

Takashi Teruuchi
Designated Engagement Partner
Certified Public Accountant

Investor Information

Corporate Data

(Fiscal 2021)

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: 13,065
Non-consolidated: 192

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 2021)

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
9,937

Major Shareholders

(As of April 30, 2021)

Shareholders	Number of shares held (thousand shares)	Share-holding ratio*1 (%)
Kiichi Ohtani	3,238	9.14
Seven & i Holdings Co., Ltd.	2,750	7.76
The Master Trust Bank of Japan. Ltd (Trust account)	2,215	6.25
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
Custody Bank of Japan, Ltd.	1,275	3.60
THE BANK OF NEW YORK MELLON 140044	776	2.19
STATE STREET BANK AND TRUST COMPANY 505103	661	1.87
The Norinchukin Bank	600	1.69

Notes: 1. Shareholding ratios are calculated excluding 891 treasury shares.
2. All shares held by the Master Trust Bank of Japan, Ltd. and Custody Bank of Japan, Ltd. are held for fiduciary services purposes.
3. 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.

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