AIN HOLDINGS

Summary of Financial Statements for the First Quarter of Fiscal Year Ending April 2017

[Japan GAAP] (Consolidated)

August 25, 2016

Name of listed company: **AIN HOLDINGS INC.**
Exchange listed on: First Section of Tokyo Stock Exchange and Sapporo Securities Exchange
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Date of filing quarterly securities report: September 14, 2016
Start of dividend payment: ï
Supplementary documents for quarterly results: Yes
Quarterly results briefing: No

(Amounts are rounded down to the nearest million yen.)

1. Consolidated results for the first quarter of fiscal year ending April 30, 2017 (May 1, 2016 to July 31, 2016)

(1) Consolidated operating results

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended July 31, 2016	57,819	10.9	2,281	(15.8)	2,376	(17.7)	1,371	(10.5)
Three months ended July 31, 2015	52,146	20.3	2,710	58.7	2,886	58.1	1,533	52.7

(Note) Comprehensive income: Three months ended July 31, 2016: ¥1,384 million (-14.3%)
Three months ended July 31, 2015: ¥1,615 million (+52.3%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended July 31, 2016	43.25	ï
Three months ended July 31, 2015	48.35	ï

(2) Consolidated financial position

	Total assets	Net assets	Shareholdersô equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of July 31, 2016	139,149	53,440	38.4	1,683.53
As of April 30, 2016	139,888	53,324	38.1	1,679.69

(Reference) Shareholdersôequity: As of July 31, 2016: ¥53,380 million As of April 30, 2016: ¥53,258 million

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Full year
	Yen	Yen	Yen	Yen	Yen
Year ended April 30, 2016	ï	0.00	ï	40.00	40.00
Year ending April 30, 2017	ï				
Year ending April 30, 2017 (forecast)		0.00	ï	50.00	50.00

(Note) Revision to the most recently announced dividend forecasts: No

3. Consolidated financial forecasts for the fiscal year ending April 30, 2017 (May 1, 2016 to April 30, 2017)

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	126,000	17.8	6,150	4.2	6,350	4.4	3,470	5.3	109.44
Full year	265,000	12.8	16,300	11.5	16,700	10.2	9,000	13.7	283.84

(Note) Revision to the most recently announced consolidated financial forecasts: No

*Notes

(1) Major changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): No
Newly consolidated: ï Excluded: ï

(2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements: Yes
(Note) For detail, please refer to ñ2. Matters concerning summary information (notes) (2) Application of specified accounting methods for the preparation of quarterly consolidated financial statementsò on page 3 of the Attachment.

(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions

1) Changes in accounting principles as a result of revisions to accounting standards, etc.:	No
2) Changes in accounting principles other than 1):	No
3) Changes in accounting estimates:	No
4) Restatement of revisions:	No

(4) Number of outstanding shares (common stock)

1) Number of outstanding shares (including treasury stock):	As of July 31, 2016	31,888,212 shares	As of April 30, 2016	31,888,212 shares
2) Number of shares held in treasury:	As of July 31, 2016	180,644 shares	As of April 30, 2016	180,595 shares
3) Average number of shares outstanding:	Three months ended July 31, 2016	31,707,568 shares	Three months ended July 31, 2015	31,707,617 shares

*Status of execution of the quarterly review of financial statements

This quarterly financial summary is not subject to the quarterly review procedure based on the Financial Instruments and Exchange Act. As of the time of disclosure, this review procedure for quarterly financial statements had not been completed.

*Statement regarding the proper use of financial forecasts and other special remarks

The above forecasts are calculated based on the information available as of the publication date of this material, and actual financial results may vary due to change in future economic conditions and others.

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1. Qualitative information on consolidated results for the period under review

(1) Consolidated operating results

During the first three months of the current fiscal year (May 1, 2016 to July 31, 2016), the Japanese economy recovered at a moderate pace, supported by an improvement in the employment market, despite slowing momentum in corporate earnings and consumer spending.

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

In the first three months of the fiscal year, net sales increased 10.9% year on year to ¥57,819 million, operating income decreased 15.8% to ¥2,281 million, ordinary income decreased 17.7% to ¥2,376 million, and profit attributable to owners of parent decreased 10.5% to ¥1,371 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In drug price and dispensing fee revisions in April 2016, the role of pharmacies located near hospitals was reevaluated, but in order to realize patient-focused non-hospital dispensing services, pharmacists and dispensing pharmacies are now being required to play a key role at the heart of local communities.

To ensure our pharmacists and dispensing pharmacies fulfill their role at the heart of local communities, the Group continues to build links with local healthcare service providers, mainly in the area of home-based dispensing, step up the integration and continuous management of drug information using patient medication notebooks and other means, and promote wider use of generic drugs. In addition, we stepped up training for the 375 newly graduated pharmacists that joined the Group in April 2016 in order to enhance their skills as primary care pharmacists.

In business development, the Group continued to push ahead with business expansion by opening new dispensing pharmacies and through M&A deals.

As a result, for the first three months of the fiscal year, the dispensing pharmacy business reported higher sales but lower profit with sales rising 10.0% year on year to ¥51,438 million and segment income decreasing 8.2% to ¥3,437 million.

During the period under review, the Group opened 14 new dispensing pharmacies, including those acquired through M&A deals, and closed one pharmacy, resulting in a total of 894.

(Drug and cosmetic store business)

In the drug and cosmetic store business, the market environment remained challenging due to a narrowing competitive gap between companies in the sector and the emergence of new competitors from sector consolidation and realignment that also extends to other business sectors.

Against this backdrop, the Group continued to open *ainz & tulpe* urban drug and cosmetic stores, strengthened merchandise lineups, particularly drug and cosmetics products, and worked to capture inbound demand. We also actively developed proprietary merchandise brands such as *LIPS and HIPS* and *cocodecica*, leading to an increase in profit margins.

As a result, for the first three months of the fiscal year, the drug and cosmetic store business reported an increase in sales of 5.2% year on year to ¥5,246 million. However, segment loss was ¥194 million, compared with segment loss of ¥124 million in the same period a year earlier.

In the first quarter of the fiscal year, the Group opened *ainz & tulpe* Colette Mare SAKURAGICHO-B1 (Naka Ward, Yokohama) and closed one store, resulting in a total of 52 cosmetic and drug stores at the end of the first quarter.

(Other businesses)

Net sales from other businesses rose 200.2% year on year to ¥1,134 million and segment loss was ¥419 million compared with the loss of ¥127 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the first quarter decreased by ¥738 million from the end of the previous fiscal year to ¥139,149 million.

This mainly reflected cash on hand and in banks, an increase in inventories due to business expansion through new store openings and M&A, as well as a decline in the balance of accounts receivable.

The balance of liabilities decreased by ¥854 million to ¥85,709 million, mainly reflecting a decrease in accounts payable and a decrease in accrued income taxes.

The balance of short- and long-term debts increased by ¥1,380 million to ¥21,925 million.

Total net assets increased by ¥115 million to ¥53,440 million and the shareholdersô equity ratio improved 0.3 percentage points to 38.4%.

(3) Forecast of consolidated financial results and other forward-looking information

The Group has made no change to its earnings forecasts for the first six months of the fiscal year and for the full fiscal year, announced on May 27, 2016.

2. Matters concerning summary information (notes)

(1) Major changes in subsidiaries during the period

There are no applicable matters to be reported.

(2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements

Tax expenses were calculated by reasonably estimating the effective tax rate after the application of tax effect accounting to net income before taxes for the consolidated fiscal year including the first quarter, and multiplying the estimated effective tax rate by income before income taxes for the quarter.

(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions

There are no applicable matters to be reported.

(4) Additional information

(Adoption of the Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the current fiscal year, the Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Fiscal year ended April 30, 2016 (As of April 30, 2016)	Three months ended July 31, 2016 (As of July 31, 2016)
Assets		
Current assets		
Cash on hand and in banks	22,647,300	26,822,431
Notes and accounts receivable	12,385,821	7,621,773
Merchandise	10,661,177	11,424,912
Supplies	323,473	312,506
Deferred tax assets	1,149,432	1,156,197
Short-term loans	639,457	630,997
Other accounts receivable	5,983,629	6,087,113
Other current assets	2,806,438	2,270,754
Allowance for doubtful accounts	(3,337)	—
Total current assets	56,593,392	56,326,685
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,694,738	14,570,812
Land	9,537,493	9,517,808
Other property, plant and equipment, net	3,921,089	3,677,432
Total property, plant and equipment	28,153,320	27,766,053
Intangible fixed assets		
Goodwill	33,337,372	33,308,599
Other intangible fixed assets	2,248,861	2,250,095
Total intangible fixed assets	35,586,233	35,558,695
Investments and other assets		
Investments in securities	2,677,643	2,582,301
Deferred tax assets	2,038,851	2,084,421
Deposits and guarantees	10,013,440	10,037,413
Other investments and other assets	6,062,530	6,031,400
Allowance for doubtful accounts	(1,237,174)	(1,237,174)
Total investments and other assets	19,555,292	19,498,362
Total fixed assets	83,294,846	82,823,110
Total assets	139,888,239	139,149,796

(Thousand yen)

	Fiscal year ended April 30, 2016 (As of April 30, 2016)	Three months ended July 31, 2016 (As of July 31, 2016)
Liabilities		
Current liabilities		
Accounts payable	39,987,595	38,320,139
Short-term debt	5,690,001	8,477,116
Accrued income taxes	4,448,862	909,903
Deposits received	10,112,896	12,480,041
Allowance for bonuses to employees	1,633,520	1,429,275
Allowance for bonuses to directors	13,590	6,378
Reserve for reward obligations	390,200	400,408
Provision for sales returns	15,815	12,839
Other current liabilities	4,452,428	5,264,204
Total current liabilities	66,744,908	67,300,305
Long-term liabilities		
Long-term debt	14,854,307	13,448,146
Net defined benefit liability	2,228,446	2,256,956
Other long-term liabilities	2,735,964	2,703,875
Total long-term liabilities	19,818,717	18,408,978
Total liabilities	86,563,626	85,709,284
Net assets		
Shareholdersôequity		
Common stock	8,682,976	8,682,976
Capital surplus	6,367,844	6,367,844
Retained earnings	38,605,783	38,708,884
Treasury stock	(419,311)	(419,598)
Total shareholdersôequity	53,237,293	53,340,108
Accumulated other comprehensive income		
Unrealized holding losses on securities	(63,296)	(36,042)
Remeasurements of defined benefit plans	84,867	76,696
Total accumulated other comprehensive income	21,570	40,653
Non-controlling interests	65,748	59,750
Total net assets	53,324,613	53,440,512
Total liabilities and net assets	139,888,239	139,149,796

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income

(Thousand yen)

	Three months ended July 31, 2015 (May 1, 2015 to July 31, 2015)	Three months ended July 31, 2016 (May 1, 2016 to July 31, 2016)
Net sales	52,146,536	57,819,476
Cost of sales	44,330,521	48,865,278
Gross profit	7,816,015	8,954,198
Selling, general and administrative expenses	5,105,544	6,672,530
Operating income	2,710,470	2,281,667
Non-operating income		
Interest income	6,737	16,586
Dividend income	21,361	20,848
Commissions received	17,605	8,628
Real estate rental revenue	43,360	57,203
Consignment income	45,255	34,877
Other non-operating income	112,670	47,662
Total non-operating income	246,992	185,805
Non-operating expenses		
Interest expenses	20,105	32,772
Losses on sales of accounts receivables	19,595	15,862
Real estate rental expenses	21,898	22,242
Other non-operating expenses	9,500	20,251
Total non-operating expenses	71,100	91,128
Ordinary income	2,886,361	2,376,345
Extraordinary income		
Gains on sales of fixed assets	762	3,513
Insurance income	4,391	36,908
Gain on sales of investment securities	—	150,400
Total extraordinary income	5,153	190,821
Extraordinary losses		
Losses on disposal and sales of fixed assets	71,476	58,411
Impairment losses on investments in securities	79,009	—
Other extraordinary losses	2,719	26,657
Total extraordinary losses	153,204	85,068
Profit before income taxes	2,738,311	2,482,098
Income taxes	1,194,484	1,116,690
Profit	1,543,826	1,365,407
Profit attributable to non-controlling interests	10,706	(5,998)
Profit attributable to owners of parent	1,533,119	1,371,406

Quarterly consolidated statement of comprehensive income

(Thousand yen)

	Three months ended July 31, 2015 (May 1, 2015 to July 31, 2015)	Three months ended July 31, 2016 (May 1, 2016 to July 31, 2016)
Profit	1,543,826	1,365,407
Other comprehensive income:		
Unrealized holding gains on securities	64,789	27,253
Remeasurements of defined benefit plans, net of tax	6,479	(8,171)
Total other comprehensive income	71,269	19,082
Comprehensive income	1,615,095	1,384,490
Comprehensive income attributable to owners of parent	1,604,389	1,390,488
Comprehensive income attributable to non-controlling interests	10,706	(5,998)

(3) Notes on quarterly consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters to be reported.

(Notes on significant changes in the amount of shareholdersôequity)

There are no applicable matters to be reported.

(Segment Information, etc.)

I Three months ended July 31, 2015 (May 1, 2015 to July 31, 2015)

1. Net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	46,783,003	4,985,685	377,847	52,146,536	—	52,146,536
(2) Intersegment sales	—	—	78,042	78,042	(78,042)	—
Total sales	46,783,003	4,985,685	455,890	52,224,579	(78,042)	52,146,536
Segment income (loss)	3,745,637	(124,978)	(127,526)	3,493,132	(606,770)	2,886,361

Notes: 1. The adjustment of ¥(606,770) thousand to segment income (loss) includes ¥626,622 thousand in corporate expenses, ¥11,248 thousand in (income) loss that is not allocated to reportable segments, and ¥(31,099) thousand in eliminations due to intersegment transactions.
Overall group expenses consist mainly of expenses associated with the administrative divisions of the parent company, such as general affairs and accounting divisions.
2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

There are no applicable matters to be reported.

II Three months ended July 31, 2016 (May 1, 2016 to July 31, 2016)

1. Net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	51,438,259	5,246,834	1,134,382	57,819,476	—	57,819,476
(2) Intersegment sales	—	—	94,232	94,232	(94,232)	—
Total sales	51,438,259	5,246,834	1,228,614	57,913,708	(94,232)	57,819,476
Segment income (loss)	3,437,257	(194,511)	(419,624)	2,823,121	(446,775)	2,376,345

Notes: 1. The adjustment of ¥(446,775) thousand to segment income (loss) includes ¥822,252 thousand in corporate expenses, ¥(359,661) thousand in (income) loss that is not allocated to reportable segments, and ¥(15,816) thousand in eliminations due to intersegment transactions.
Overall group expenses consist mainly of expenses associated with the administrative divisions of the parent

company, such as general affairs and accounting divisions.
2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment
[Significant impairment losses on fixed assets]:
There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:
There are no applicable matters to be reported.