G-7 HOLDINGS INC.
7508 Tokyo Stock Exchange First Section

17-Dec.-14

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Cultivation of New Customers and the Consumption Tax Hike Brought Mixed Results of Growth in Sales and Reduced Profits in H1 FY3/15

G-7 HOLDINGS INC. (hereafter, "G-7" or "the Group") owns subsidiaries operating the largest franchisee of AUTOBACS stores and Gyomu Supermarkets ("Business Supermarkets") in Japan. G-7 is also developing Agricultural Businesses and Overseas Businesses, and has a medium-term management plan targeting ¥100,000mn in sales and ¥4,000mn in operating income by the fiscal year ending March 2016 (FY3/16).

In the first half of the fiscal year ending March 2015, (H1 FY3/15, April 2014 to September 2014), G-7's consolidated net sales increased 1.8% year-on-year (y-o-y) to ¥42,092mn, while operating income fell 35.7% y-o-y to ¥645mn. New store openings of Business Supermarket chain and new customers cultivated in the Quality Food Business bolstered sales. By contrast, the Group saw a double-digit decline in profits as a result of a fallback in sales in the AUTOBACS and Car-related Business owing to an increase in Japan's consumption tax rate, as well as rising procurement prices and higher utility expenses at Business Supermarkets sector.

The Group's consolidated FY3/15 business forecasts were left unchanged, with net sales targeting an increase of 5.5% y-o-y to ¥93,000mn and operating income an increase of 3.4% to ¥3,000mn. The attainment rate of the targeted operating income was 22% as of the first half, lower than the average rate of 40% for the first halves of the past three fiscal years. Nevertheless, G-7 is aiming to catch up and meet its targets for FY3/15 with initiatives for bolstering profitability of the AUTOBACS and Car-related Business, and by expanding sales of the Business Supermarket Business.

In FY3/14, G-7 FOOD SYSTEM CO., LTD., the Group's subsidiary mainly involved in the Quality Food Business, finished merging with and absorbing UENO-SHOKUHIN CO., LTD. and Cold Family Co., Ltd., two subsidiaries acquired in M&A transactions. It is now pushing ahead with a growth strategy for expanding business. As a policy, G-7 FOOD SYSTEM aims to expand sales from around ¥4,200mn in FY3/14 by enhancing private brand (PB) product development, along with leveraging the synergies of a unified sales organization from April 2015 onward and increasing exports to Asia. Consequently, there is a focus on the potential for the Quality Food Business to grow into a third income stream for the G-7 Group behind the AUTOBACS and Car-related Business and the Business Supermarket Business.

Check Point

- G-7 is proactively enacting measures for increasing sales and profits to achieve its planned targets for the fiscal year.
- The Group is raising customer footfall by increasing new store openings and relocating existing stores.
- The G-7 Group is striving to develop the Quality Food Business into a third major income stream by enhancing PB products, unifying the sales organization, and by exporting overseas.

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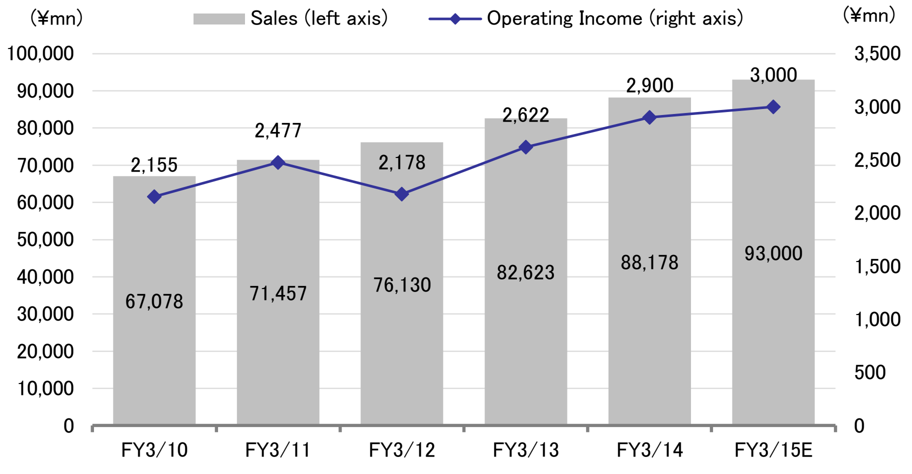
Sales and Operating Income



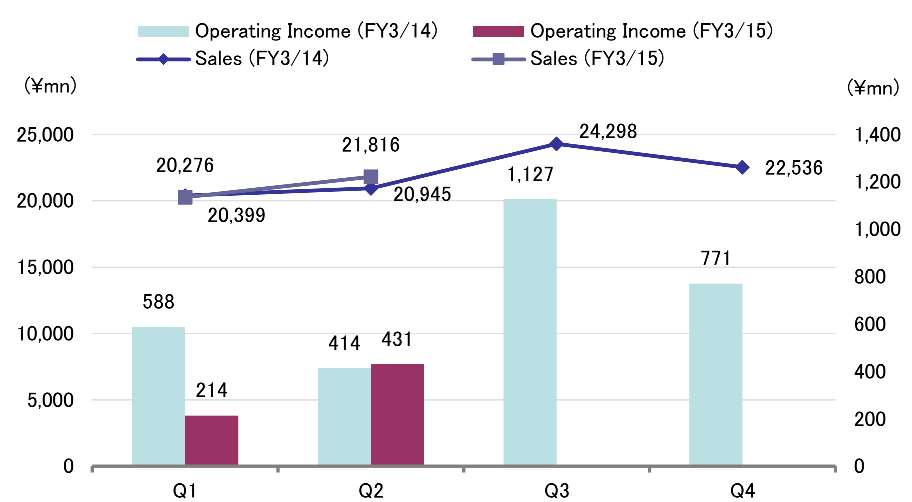
Business Trends

Sales and Profits Increased on a Quarterly Basis, and Have Begun to Recover

(1) Results for H1 FY3/15

The consolidated results G-7 Holdings announced on November 4, 2014 for H1 FY3/15 showed a 1.8% increase y-o-y in net sales to ¥42,092mn, against which operating income decreased 35.7% to ¥645mn, ordinary income fell 26.3% to ¥805mn, and net income dropped 30.2% to ¥427mn. The contrasting rise in sales and fall in profits were mainly attributable to a fallback in Q1 sales due to an increase in Japan's consumption tax rate, especially in the AUTOBACS and Car-related Business. Nevertheless, the results on a quarterly basis show a turnaround in which an increase in both sales and profits have resumed for the first time in two quarters, with sales up 4.2% y-o-y and operating income up 3.9% y-o-y in Q2 (from July to September 2014). The results by business segment are described below.

Quarterly Results (¥million), Q1 FY3/14 – Q2 FY3/15



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○ AUTOBACS and Car-related Business

The AUTOBACS and Car-related Business is conducted by subsidiaries G-7 AUTO SERVICE CO., LTD., G-7 MOTORS CO., LTD. domestically, and G7 RETAIL MALAYSIA SDN. BHD. overseas. G-7 AUTO SERVICE operates AUTOBACS franchise stores and Body work and Paint (BP) centers. G-7 MOTORS operates BIKE SEVEN motorcycle supplies and accessories stores. G7 RETAIL MALAYSIA operates AUTOBACS and BIKE SEVEN in Malaysia. G-7 AUTO SERVICE generates about 90% of the business segment's sales.

In H1 FY3/15, net sales of the AUTOBACS and Car-related Business segment decreased 5.3% y-o-y to ¥15,021mn, while operating income fell 91.7% to ¥31mn. The results were affected by a fallback from an upsurge in consumer demand in advance of an increase in Japan's consumption tax rate. As a result, the segment saw net sales for Q1 (from April to June 2014) fall 10.5% y-o-y to ¥6,892mn, and recorded an operating loss of ¥106mn (as opposed to operating income of ¥217mn the year before). Results in the Q2 were still sluggish due to weak tire sales but an improvement over Q1, with a 0.4% y-o-y decline in net sales to ¥8,129mn and a 17.4% y-o-y decrease in operating income to ¥137mn.

Sales declined across all product categories within the Group's AUTOBACS franchise in H1 FY3/15. The approximate decrease was 9% y-o-y for tires, 13% for wheels, 16% for car electronics, 8% for accessories and 5% for services such as statutory inspections and body and paint jobs. BIKE SEVEN sales were also sluggish and down 4% in the first half.

Overseas, the Group has begun business in Malaysia, launching an AUTOBACS operation (now with two stores) in 2012, and a BIKE SEVEN operation (with one store) in 2013. While sales in Malaysia remain small, accounting for less than 1% of the Group's AUTOBACS and Car-related Business segment, they are growing steadily at a double-digit rate. The AUTOBACS operation in Malaysia is still struggling with weaker than expected auto supply sales, but local demand for its maintenance services has increased. Meanwhile, customer footfall for the extensively stocked BIKE SEVEN store in Malaysia remains strong, and has even attracted procurement from suppliers in the same business in Singapore.

Operating income has declined, mainly because the fallback in sales due to the consumption tax rate increase worsened the sales mix, triggering a sharper decline in higher-margin car supply sales relative to lower-margin car sales.

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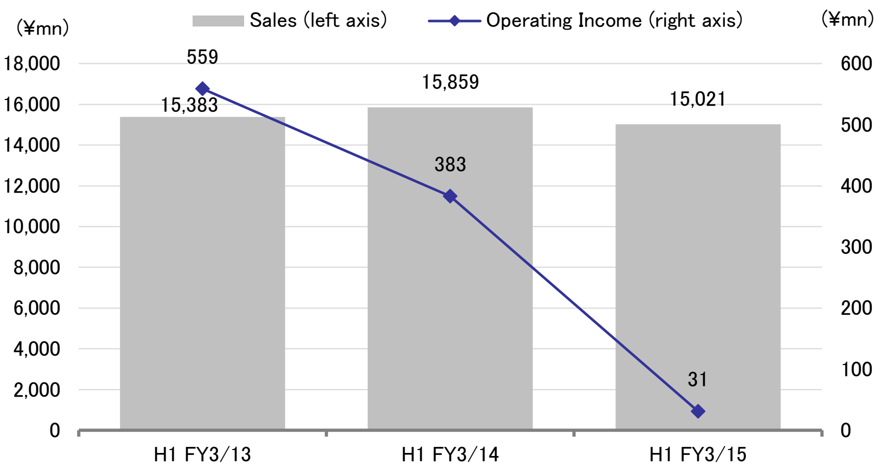
The G-7 Group opened two new AUTBACS stores and one new BIKE SEVEN store in Chiba Prefecture, Japan during H1.

AUTOBACS Futtsu (Chiba Prefecture)

AUTOBACS Tateyama Bypass (Chiba Prefecture)

BIKE SEVEN Kisarazu Kaneda (Chiba Prefecture)

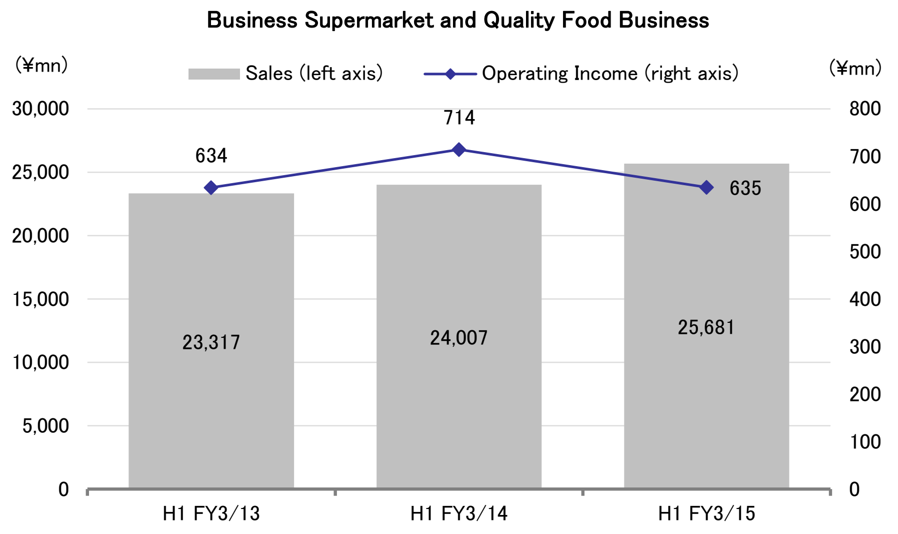
AUTOBACS and Car-related Business



○ Business Supermarket and Quality Food Business

This business segment is conducted by two subsidiaries, G-7 SUPER MART CO., LTD. and G-7 FOOD SYSTEM CO., LTD. G-7 SUPER MART operates the Business Supermarket while G-7 FOOD SYSTEM operates the Quality Food Business. G-7 SUPER MART generates about 90% of the business segment's sales.

In H1 FY3/15, segment sales increased 7.0% y-o-y to ¥25,681mn while operating income decreased 11.1% to ¥635mn. On a quarterly basis, Q1 sales increased 6.1% y-o-y, while operating income decreased 19.2%. By contrast, in Q2 both sales and income improved with sales up 7.8% y-o-y and operating income also up by 1.2%.



By business, the Business Supermarket Business saw H1 sales rise 7% y-o-y while operating income fell 15%. With food prices rising atop the increase in the consumption tax rate and the impact of the yen's depreciation, and the consumer mindset becoming more budget-minded, Business Supermarkets with their focus on providing good quality products at reasonable prices appear to have performed strongly within their industry. Existing store sales continued to climb y-o-y, and there were seven new store openings (three in Hokkaido, and one each in Chiba, Hyogo, Kanagawa, and Saitama prefectures), which helped to raise sales.

On the other hand, factors that reduced income included an increase in the cost of opening new stores (four stores opened in the same period of the previous fiscal year) and higher procurement costs, primarily for flour and dairy products, in addition to a rise in utility expenses.

"Business Supermarket" Hanamigawa Store
(Chiba Prefecture)

"Business Supermarket" Honjowaseda Store
(Saitama Prefecture)

G-7 FOOD SYSTEM's H1 sales were up 6% y-o-y, with operating income down 10%. In the Quality Food Business, which accounts for 70% of sales, the company achieved a 13% increase in sales and a 46% increase in operating income by working aggressively to develop new customers and to identify new merchandise. The majority of the increase in sales was due to the effect of developing new customers. However, there was also a steady 1.3% increase in sales to existing customers.

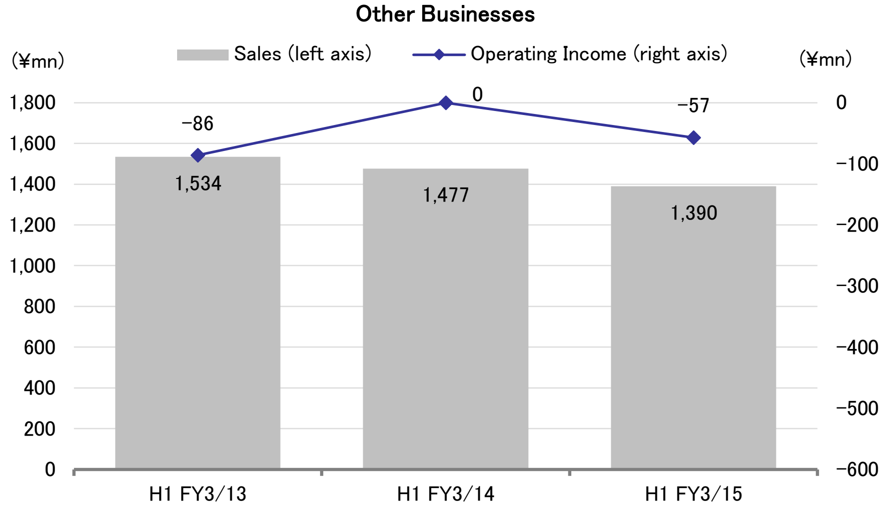
The main reason for the decline in operating income despite healthy sales in the Quality Foods Business is due to a decline in earnings from the businesses of the former UENO-SHOKUHIN CO., LTD and Cold Family Co., Ltd. both of which were consolidated from 2011 onwards and absorbed by G-7 FOOD SYSTEM in the previous period. The main factor affecting the former UENO-SHOKUHIN's business is a lack of new product introductions over the past several years, while in the former Cold Family's business sales of frozen foods are flagging. Both issues are management priorities to be addressed going forward.

○ Other Businesses

The company's main other business are G-7 AGRI JAPAN CO., LTD., G-7 DEVELOPMENT CO., LTD., and G-7 INTERNATIONAL PTE. LTD. G-7 AGRI JAPAN operates the Megumi no Sato farmers' market chain, G-7 DEVELOPMENT operates a restaurant business, a recycling store business, a franchise of DAISO discount (¥100 yen) stores, and a real estate leasing business, and G-7 INTERNATIONAL operates businesses overseas (except for AUTOBACS and BIKE SEVEN operations in Malaysia).

In H1 FY3/15, the Other Businesses segment saw aggregate sales fall by 5.9% y-o-y, to ¥1,390mn, while operating loss increased to ¥57mn from ¥0mn in the previous fiscal year. In Megumi no Sato operations, there were no new store openings; however, poor weather and other factors pushed up vegetable prices, underpinning an increase in sales and leading operating losses to improve steadily.

Meanwhile, G-7 DEVELOPMENT's earnings deteriorated with lackluster sales in the restaurant business and recycling store business due to the impact of the increase in the consumption tax rate. Operating loss in the Other Businesses segment grew, compounded by personnel and other expenses rising as a result of developing new markets overseas.



G-7 Targets Higher Sales and Income for FY3/15, and Is Aggressively Promoting Measures for Their Achievement

(2) Company forecasts for FY3/15

For FY3/15, G-7 HOLDINGS has maintained its initial consolidated operating forecast of a 5.5% y-o-y rise in consolidated sales to ¥93,000mn, a 3.4% increase in operating income to ¥3,000mn, a 1.9% upturn in ordinary income to ¥3,200mn, and a 3.8% improvement in net income to ¥1,600mn. The company's attainment rate on the full-year targets for the first half was 45% for sales and 22% for operating income, lower than the average rates for the first halves of the past three fiscal years (sales 48%, operating income 40%). However, profits in the AUTOBACS and Car-related Business are expected to be influenced by the weather in the winter demand season, and the company is aiming to achieve its planned targets by bolstering its earning power in each business going into the second half. The initiatives in each business are described below.

○ AUTOBACS and Car-related Business

Despite the declines in sales and earnings for H1 FY3/15, G-7 HOLDINGS plans to expand sales and achieve higher full-year sales and earnings through initiatives centered on AUTOBACS, such as new store openings, pricing countermeasures, and increased efforts to attract customers.

With regard to opening new stores, the Group plans to open two AUTOBACS stores and three BP centers for providing bodywork and painting services, as well as one BIKE SEVEN store in Malaysia. With regard to AUTOBACS, the Group will control the high cost of construction by using vacated furnished stores and aggressively expand the number of stores going forward. Using vacated buildings can reduce the investment cost to between one third and one fifth of the cost of new construction. With regard to the areas for opening new stores, the Group will aggressively target small catchment areas with populations of between 30,000 and 50,000 people compared to its traditional catchment areas of between 100,000 and 150,000 people. As the number of local car servicing shops and gasoline stations continues to decline, the Group's strategy is to capture demand by opening stores in smaller catchment areas. Moreover, with the opening of BP centers, the Group also plans to increase profitability by increasing the sales composition of services such as statutory inspections and bodywork and painting.

In pricing countermeasures, the Group will revise its policy and stop offering low prices in Hyogo Prefecture where it accounts for approximately half of AUTOBACS stores and is the price leader.

In measures to attract customers, the Group will hold events at G-7 Malls and aggressively promote traveling sales to help increase sales. The Group also holds events that include community contributions, such as hosting an event led by the Hyogo Prefectural Police for promoting crime prevention among children to help them avoid being targeted in vehicle-related crime at the Motown Tsuchiyama Circuit on the site of AUTOBACS NEW Tsuchiyama store in October. In other initiatives, the Group started broadcasting its first AUTOBACS commercial on television and radio in Hyogo Prefecture in October, which are expected to help attract more customers among women and seniors.

Commercial screen

In addition, the Group will bolster initiatives for increasing the profitability of its stores. To prevent opportunity losses due to stock outages and low-price sales due to overstocking, the Group will bolster procurement and inventory management and work to create shops that have strong selling capabilities (revise product layout and other measures) under a policy of returning to basics to make improvements at each store.

With regard to the AUTOBACS business, since sales of studless tires and snow chains are significantly influenced by winter snowfall conditions, this winter's weather situation is also expected to be a key factor in the Group's operating results.

○ Business Supermarket and Quality Food Business

In the Business Supermarket Business, in order to reach the full-year target increases in sales and earnings, the Group plans to start by promoting measures to get Hokkaido area store operations on track. Store openings in Hokkaido commenced at the end of 2013, and as of September 30 four stores have been opened. However, store earnings have been lower than envisaged. The main factors in this are low recognition and high customer loyalty to local companies in Hokkaido. A further factor is that product strategies were initially introduced blindly without acquiring a grasp of customer's needs such as popular products and customers' purchasing habits. However, after analyzing sales trends for half a year, the Group is finally beginning to form a product strategy to meet customers' needs, and by promoting a product line-up in accordance with these needs, is now expecting to increase sales going forward.

The store opening plan for Business Supermarkets in FY3/15 calls for a further three stores; however, in light of struggling profits, the Group will pause to assess the situation in Q3 (October - December 2014), and if sales grow during Q3, it plans to open the stores in Q4 (January - March 2015).

On the other hand, in the Quality Food Business, G-7 FOOD SYSTEMS intends to expand earnings by continuing to develop new customers and identify new merchandise. Moreover, with regard to the lackluster operations of the former UENO-SHOKUHIN and former Cold Family, which G-7 FOOD SYSTEMS has taken over, the company will focus on development of PB products and launch new products to revive sales. The company plans to develop 10 PB products a year at the former UENO-SHOKUHIN and to launch around 5 products by December 2014.

Furthermore, by unifying the currently separate operating structures of the Quality Food Business and the former UENO-SHOKUHIN and Cold Family, the Group plans to share customer information and increase synergies in sales. The Group's effort in the Quality Food Business to develop customers in eastern Japan and identify new merchandise was inefficient, as this has previously been conducted by the Osaka sales team. From April 2015, a sales team will be organized in Tokyo as well to promote sales activities in eastern Japan.

In other initiatives, the Group will work to improve the consulting capabilities of its sales teams. The reason is that looking ahead, the Group expects greater demand for various consulting capabilities for retailers as the shakeout in the food wholesale industry continues. In the Group's case in particular, since its main merchandise consists of Quality Food products centered on select foods, it plans to upskill its sales force through measures such as internal training and sharing of successful examples.

○ Other Businesses

While there are no scheduled new store openings, the Megumi no Sato farmers' market chain in the Group's Other Businesses segment is forming alliances with major farming corporations. This is in part due to the chain experiencing a temporary shortage of vegetables owing to poor weather this summer. The chain's policy is to eliminate the risk of inventory outages by directly procuring vegetables from all across Japan. Megumi no Sato is also planning to give the sales spaces in all of its stores a minor facelift in stages. The first renewal was carried out at Gakuen Minami store (Kobe, Japan), which has the highest sales in the chain. The store was closed this summer for several days to improve shopping convenience by widening the isles, upgrading stocking displays and other reforms. As a result, sales there increased around 109% y-o-y in H1 FY3/15 notwithstanding the downtime.

Overseas, the Group opened an OUGON CURRY restaurant in November 2014 inside AEON MALL Co., Ltd.'s second shopping mall in Vietnam. The Group is also planning to open a ramen noodles restaurant in the mall. Together with a ramen noodle restaurant opened in Malaysia in February 2014, this will increase the number of restaurants the Group operates overseas to three. Looking ahead, the Group plans to use licensing agreements to expand the restaurant business.

OUGON CURRY Binh Duong Canary

Apart from that, the Group will begin reviewing the possible closure of stores that have long remained unprofitable in subsidiary G-7 DEVELOPMENT's restaurant and recycling store businesses. As a rule of thumb, stores that have generated losses for three to five consecutive years will be under review for closure.

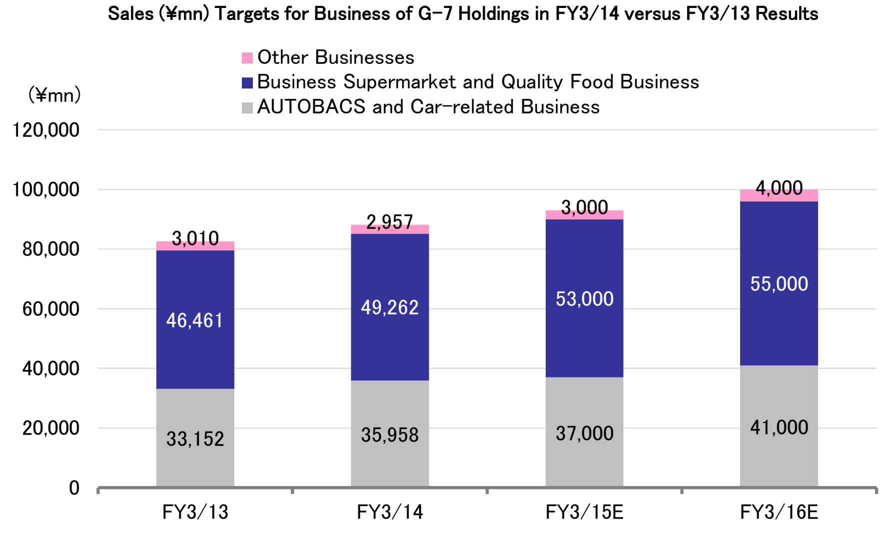
Meanwhile, the Group's policy in the overseas agriculture business is to continue initiatives that include capacity expansion in Myanmar and Vietnam. We are therefore not expecting a contribution to earnings from this business at this stage in light of those upfront investment burdens.

■ Medium-term Strategy for the Business Supermarket and Quality Food Business

Enhance Customer Footfall with Increased New Store Openings and Relocation of Existing Stores

As part of its medium-term management plan, G-7 HOLDINGS is targeting ¥100,000mn in consolidated sales and ¥4,000mn in operating income by FY3/16. Breaking this down by segment, G-7 is targeting sales increases relative to FY3/14 of 14% to ¥41,000mn for the AUTOBACS and Car-related Business, 12% to ¥55,000mn for the Business Supermarket and Quality Food Business, and 35% to ¥4,000mn (with ¥1,000mn in sales overseas) in Other Businesses.

■Medium-term Strategy for the Business Supermarket and Quality Food Business



Of this, the strategy for the Business Supermarket and Quality Food Business segment is introduced below.

(1) Business Supermarket Business

The Group is targeting an increase in sales in the Business Supermarket Business from ¥45,170mn in FY3/14 to ¥50,000mn in FY3/16. To this end, the Group is bolstering efforts to open new stores in the Chubu and Kanto regions, and is aiming to increase its franchise of Business Supermarkets within that timeframe from 106 stores at the end of FY3/14 to 130 stores. Although the sales targets are within the Group's capabilities, as mentioned previously, intensifying competition has reduced the availability of vacated furnished stores with favorable terms and conditions, casting some doubt as to whether the Group's targets can be achieved. However, there is still plenty of potential scope for launching Business Supermarkets in the Tokyo metropolitan area and Chubu region. The Group is thinking in terms of opening small-scale stores, particularly in the Tokyo metropolitan area, with no change in its policy of expanding its franchise at a pace of 10 new store openings per year.

Amid these circumstances, the Group has now indicated that it will also begin relocating small-scale Business Supermarkets that have been in operation for more than 10 years as part of its store development strategy. There are two reasons behind this. One is the problem of fluorocarbon gas regulations. Many of the Group's older Business Supermarkets use a refrigerant in their freezer and refrigerator equipment called R-22, which is to be banned from production as of 2020. Therefore, there is a need to switch to alternative chlorofluorocarbon coolant in order to avoid the risk of not being able to use R-22 from 2020. This will entail the replacement of outdoor refrigeration units and the piping, with the cost including construction estimated at around ¥20mn per store. The Group has around 60 Business Supermarkets exposed to this risk, and is faced with the decision of either going ahead with the replacement for the alternative chlorofluorocarbon coolant or relocating the stores. The second reason is the aging of store exteriors and interiors. Relocating is a solution in light of the rising recognition of Business Supermarkets and a shortage of sales space for accommodating more customers. Assuming that suitable vacated furnished stores can be found, the Group sees relocations as a strategy for enhancing the profitability of stores, and at the same time increasing customer footfall by putting the larger store space to use in creating fresh produce aisles.

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We are therefore expecting new store openings and relocations to drive a steady increase in sales in the Business Supermarket Business. However, there is also a need to keep in mind that earnings growth of the business could slacken temporarily as investment in property, plant and equipment increases, depending on the timing of store renewal through relocations.

Enhancing PB Products, Unifying the Sales Organization and Exporting Overseas to Become a Third Source of Group Income

(2) Quality Food Business

The Quality Food Business, including operations taken over in absorbing the former UENO-SHOKUHIN and Cold Family, recorded approximately ¥4,200mn in sales in FY3/14, and is aiming to increase this to ¥5,000mn by FY3/16.

As noted above, we expect to see synergies from the strengthening of PB product development and unification of the sales teams. In particular, in the Quality Food Business, the customer base has previously been in Kansai and westwards, but from FY3/16 the Group seems likely to develop customers in eastern Japan with the unification of its sales teams.

The number of new customers for FY3/14 was 350, and in H1 FY3/15 has already reached 189, showing acceleration in new customer development. However, the unification of the sales organization is expected to expand the customer base even further. Moreover, identification of new merchandise is expected to increase from the current pace of around 10,000 items per year.

Also in the Quality Food Business, the Group is looking to develop overseas exports of Japanese foods, and has already commenced small scale exports of kamameshi (a one-pot dish of rice, meat and vegetables) and various meats to destinations such as Singapore and Hong Kong. However, to fully expand the export business it is essential from a cost aspect to consider PB product development, and the Group plans to start exports of PB products from FY3/16 also. The Group intends to outsource the manufacturing of its PB products.

In other areas, the Group is also taking a positive stance on M&As, provided that the merged company can be expected to produce trading synergies. Likely targets include food produce manufacturers and wholesaling companies.

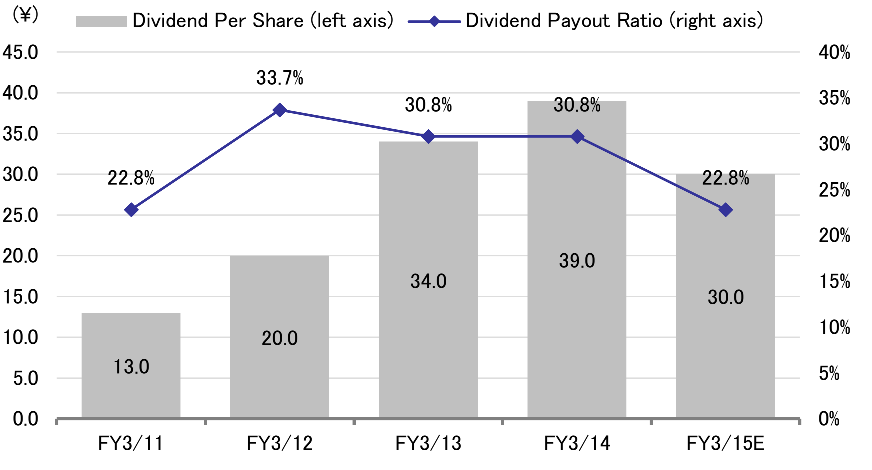
By promoting these strategies, the Quality Food Business has the potential to develop into a third source of Group income after the AUTOBACS and Car-related Business and the Business Supermarket Business. The development of this business will be a focal point going forward.

Shareholder Return Policy

Dividend Payout Ratio of 30% Envisaged, with Potential for a Special Dividend if Operating Targets are Met

The Company's basic policy is to return profits to shareholders in accordance with its business performance, assuming the continuation of a steady dividend as a priority, while giving overall consideration to investments required for future business expansion and its financial condition. The company generally aims to maintain a dividend payout ratio of around 30%. For FY3/15 the dividend has been set at ¥30.0 per share, yielding a dividend payout ratio of 22.8%, and there is a possibility of a special dividend being paid again as in the previous fiscal year if the company achieves its planned targets.

Dividend Per Share and Dividend payout Ratio



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