

G-7 HOLDINGS INC.

7508 Tokyo Stock Exchange
First Section

14-Dec.-16

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FISCO Ltd. Analyst
Yuzuru Sato

■ Booked all-time high earnings on a half-year basis for the second straight period, led by growth in the Business Supermarket and quality food business

G-7 HOLDINGS INC. <7508> (hereafter, “G-7” or “the Group”) is a holding company that owns subsidiaries operating the largest franchises of AUTOBACS stores and Business Supermarket in Japan. It excels at store profitability with emphasis on productivity per employee and other indicators. It is also promoting development of agricultural, foodstuffs and restaurant businesses, as well as overseas businesses.

In consolidated 1H FY3/17 (Apr-Sep 2016) results announced on October 31, net sales increased 7.9% year on year (YoY) to ¥52,964mn and ordinary income rose 31.3% to ¥1,591mn. G-7 posted new all-time highs on a half-year basis for the second straight period. Although AUTOBACS and car-related business was sluggish, the Business Supermarket and quality food business was upbeat.

The Group's FY3/17 consolidated forecasts call for sales and profit gains, including 10.7% YoY to ¥115,000mn in sales and 24.2% to ¥4,000mn in ordinary income. Fulfillment rates through 2Q were 46.1% for net sales and 39.8% for ordinary income. A key point is the amount of snowfall during the winter season that strongly affects the tire sales trend. Income in the AUTOBACS and car-related business, which slumped in 1H, should recover if snowfall is at a normal level considering weak tire sales a year ago because of historically warm winter conditions.

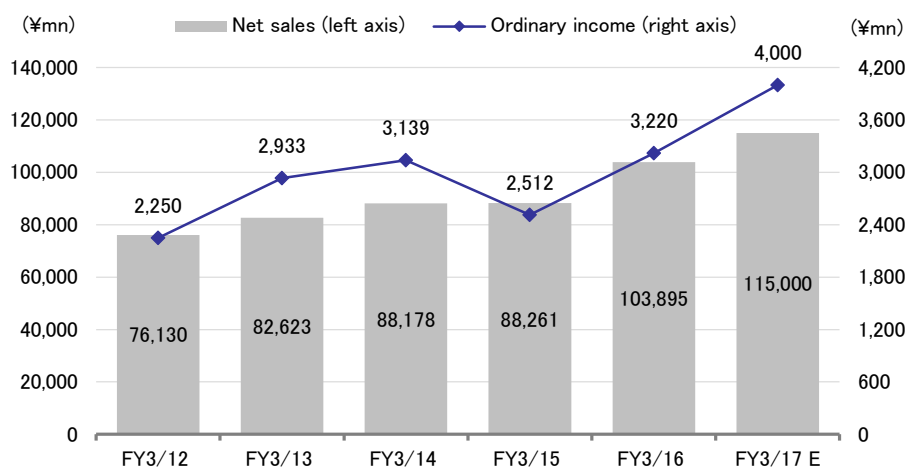
In other business, the Group started launderette as part of efforts to accommodate a wide range of demand. It launched service at one site in August 2016, and business is going well thus far. It also plans to add service at other AUTOBACS sites too. In Business Supermarket and quality food business, the Group is following an expansion strategy of opening TERABAYASHI meat stores along with Business Supermarket openings and plans to open 10 new sites in FY3/17. The Group's BAKE CHEESE TART cheese-tart shops, which it launched after concluding an area license contract with BAKE Inc. in FY3/16, are performing well too, and this business currently has three stores located in the Kansai area. The Group plans to expand to about 10 stores as it identifies tenant locations.

The Group is currently implementing a new medium-term business plan that lasts through FY3/21 with goals of ¥170,000mn in net sales and ¥7,000mn in ordinary income. For AUTOBACS and car-related business, it intends to focus on services business, such as car inspections, body repair, and auto insurance, and cultivate new products and services in other areas besides automotive. For overseas businesses, it plans to continue rollout of AUTOBACS, BIKE WORLD, restaurants, and food supermarket businesses with a target of ¥10,000mn in sales. While losses are likely to continue in the near term during the upfront investment period, the Group hopes to develop this area as a core business in the future by leveraging anticipated economic growth in Southeast Asia.

■ Check Point

- Reported steep sales and profit gains of 7.9% to ¥52,964mn in net sales and 15.9% to ¥1,441mn in operating profit
- Likely to set all-time highs again in FY3/17
- Medium-term plan's final-year (FY3/21) goals are ¥170,000mn in net sales and ¥7,000mn in ordinary income

Net Sales and Ordinary Income

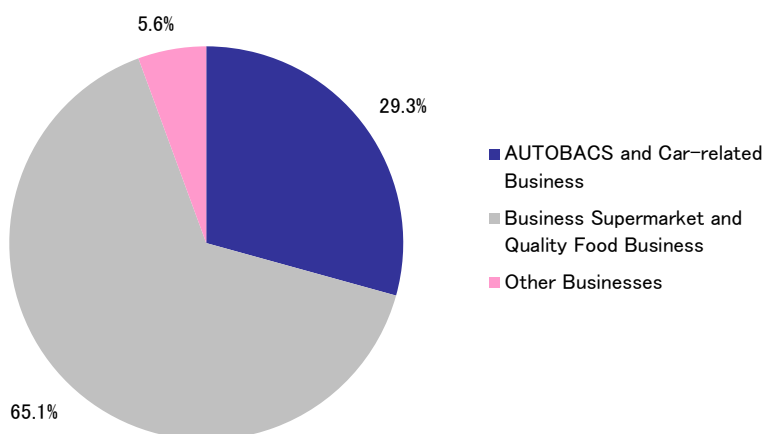


■ Business Overview

Primarily generates income from AUTOBACS and car-related business and Business Supermarket and quality food business

The Group's operations consist of three operating segments: AUTOBACS and car-related business, Business Supermarket and quality food business, and other businesses. Looking at the 1H FY3/17 composition of net sales by business segment, we see that AUTOBACS and car-related business represented 29.3% and Business Supermarket and quality food business 65.1%, with these two business segments accounting for more than 90% of overall operations.

Sales by Business Segment (1H FY3/17)





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○ AUTOBACS and Car-related Business

The Group's AUTOBACS franchise business mainly consists of activities including car product sales and maintenance handled by G-7 AUTO SERVICE CO., LTD., motorcycle product sales and maintenance handled by G-7 BIKE WORLD CO., LTD. and overseas car-related business.

AUTOBACS-related sales represent approximately 90% of segment sales, with 73 AUTOBACS-related stores in Japan (61 AUTOBACS stores, seven AUTOBACS Express stores, two Super AUTOBACS stores, two AUTOBACS Secohan Ichiba stores, and one AUTOBACS Cars) and two AUTOBACS stores in Malaysia as of the end of March 2016, giving it the largest scale within the 597 AUTOBACS Group stores. Store rollouts are centered predominantly in Hyogo, Kyoto, Fukui, Okayama, Hiroshima, Chiba, and Ibaraki prefectures. Hyogo is particularly important with 40 stores, or just under 60% of the Group's entire network. Store management places strong emphasis on productivity per employee and inventory turnover rates, and the franchise business is notable for maintaining the highest profitability within the AUTOBACS Group.

Other car-related businesses (the Group's own initiatives) include eight CRYSTAL SEVEN stores offering carwash and coating services, one TIRE SENMONKAN tire specialty store, six body repair BP centers, and one Suzuki Cars Osaka store.

Additionally, BIKE WORLD, which engages in direct sales of motorcycle products, operates a total of 15 stores with 12 stores in Japan, two stores in Malaysia, and one store in Thailand as of the end of September 2016.

○ Business Supermarket and Quality Food Business

This segment consists of Business Supermarket franchise operations developed by G-7 SUPER MART CO., LTD., food product and restaurant operations developed by G7 JAPAN FOOD SERVICE CO., LTD., and G-7 MEAT TERABAYASHI CO., LTD., a meat retailer, which was consolidated as a subsidiary in June 2015.

G-7 SUPER MART represents roughly 80% of segment sales, with its 123 supermarket outlets as of the end of September 2016 giving it the largest scale among the 743 Business Supermarket Group stores. Store rollouts are predominantly centered in the Kanto, Chubu, Kansai, Kyushu, and Hokkaido regions.

G7 JAPAN FOOD SERVICE, which accounts for just under 10% of sales, discovers local delicacies and unique local products and handles wholesale supply to department stores and other retailers as quality foods. It also develops, manufactures, and sells private-brand foods, manages wholesale and retail supply of agricultural goods in Japan, handles export/import business, and engages in online sales and other businesses.

G-7 MEAT TERABAYASHI, which provides just over 10% of sales, had 93 retail butcher shops as of the end of September 2016, the majority of which are set up as tenants at Business Supermarket and Megumi no Sato sites.

○ Other Businesses

The Group's other businesses consist of G-7 AGRI JAPAN CO., LTD., which operates the Megumi no Sato farmers' market chain, G-7 RETAIL JAPAN CO., LTD., which manages real estate leasing, DAISO discount stores (100 yen shops), recycling stores, fitness clubs, golf schools, and retail stores, and G7 INTERNATIONAL PTE. LTD. (Singapore), which handles overseas operations (except for AUTOBACS and BIKE WORLD).

For Megumi no Sato, there are 23 stores (13 in Hyogo, three in Osaka, four in Nara, one in Kyoto, one in Mie, and one in Chiba) as of the end of September 2016. This business changed the sales format from consignment sales (booking about 20% of the sales price as fee income under sales) to purchase-based sales from June 2015.

G-7 is also steadily developing overseas business in Southeast Asia and Taiwan. The overseas agricultural business involves cultivation of chrysanthemums in Vietnam for sales at Megumi no Sato stores and production of strawberries in Myanmar for sale at City Mart stores operated by a major local distributor. In the restaurant business, the Group has one Ramen KANBE store each in Indonesia and Malaysia and operates a Kushikatsu Daruma store in Taiwan. It is using a fundamental strategy of opening one direct-operation store in each country to establish the income model and then proceeding to licensing contracts. The Group also opened one store each for Business Supermarket and Megumi no Sato in Singapore through a joint venture created with a local company (G-7 holds a 30% stake) in April 2016. It plans to export all food items from Japan and book export sales of these items (under the Business Supermarket and quality food business).

The Group has established overseas subsidiaries in Singapore, Malaysia, Vietnam, Indonesia, Myanmar, Thailand, Cambodia, Taiwan, and Hong Kong.

Major Subsidiaries

Business segment	Company name	Capital contribution ratio	Business description
AUTOBACS and Car-related Business	G-7 AUTO SERVICE CO., LTD.	100.0%	Operator of AUTOBACS, etc.
	G-7 BIKE WORLD CO., LTD.	100.0%	Operator of BIKE WORLD, etc.
Business Supermarket and Quality Food Business	G-7 SUPER MART CO., LTD.	100.0%	Operator of Business Supermarket, etc.
	G7 JAPAN FOOD SERVICE CO., LTD.	100.0%	Manufacturing, sales and import and export of food products and beverages
	G-7 MEAT TERABAYASHI CO., LTD.	85.58%	Retail sales of meats and processed livestock products
Other Businesses	G-7 RETAIL JAPAN CO., LTD.	100.0%	Handles real estate development for the Group and operates recycling shops, 100 Yen shops, fitness clubs, and indoor golf schools
	G-7 AGRI JAPAN CO., LTD.	100.0%	Operator of Megumi no Sato, etc.
	G7 INTERNATIONAL PTE. LTD.	100.0%	Holding company for overseas subsidiaries

■ Business Trends

Reported steep sales and profit gains of 7.9% to ¥52,964mn in net sales and 15.9% to ¥1,441mn in operating profit

(1) Overview of results in 1H FY3/17

The consolidated results G-7 Holdings announced on October 31, 2016 for 1H FY3/17 were a 7.9% increase YoY in net sales to ¥52,964mn, a 15.9% increase in operating income to ¥1,441mn, a 31.3% gain in ordinary income to ¥1,591mn, and a 1.8% rise in net income attributable to owners of parent to ¥856mn. The Group booked all-time high earnings on a half-year basis for a second straight time.

Consolidated Results for 1H FY3/17

	1H FY3/16		1H FY3/17		
	Results	vs. Net Sales	Results	vs. Net Sales	YoY
Net sales	49,066	-	52,964	-	7.9%
Cost of sales	36,597	74.6%	39,504	74.6%	7.9%
SG&A expenses	11,224	22.9%	12,017	22.7%	7.1%
Operating income	1,243	2.5%	1,441	2.7%	15.9%
Ordinary income	1,211	2.5%	1,591	3.0%	31.3%
Extraordinary gains/losses	202	0.4%	-39	-0.1%	-
Net income	841	1.7%	856	1.6%	1.8%

Note: Net income shows net income attributable to owners of parent

While the AUTOBACS and car-related business was sluggish, the Business Supermarket and quality food business was strong and led overall results. Absence of a ¥143mn in exchange loss booked a year ago provided the boost to non-operating income. Net income only increased slightly because of non-recurrence of ¥209mn in gain on bargain purchase booked a year ago as extraordinary profit.

(2) Segment trends

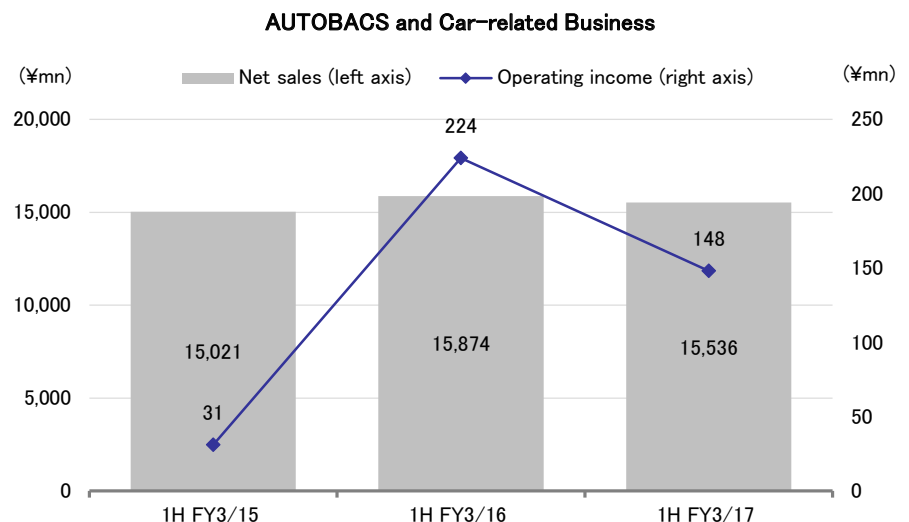
○ AUTOBACS and Car-related Business

Net sales dropped 2.1% YoY to ¥15,536mn and operating income fell 33.8% to ¥148mn. For openings, the Group only added one BIKE WORLD site during the period and AUTOBACS store volume was flat versus the end of the previous period.

G-7 AUTO SERVICE, which mainly operates AUTOBACS-related stores, booked lower sales and profit with a 2.4% decline in net sales and 46% drop in operating profit. Category sales growth rates were a 7.9% decline in tires, a 7.7% drop in car electronics products, a 3.2% decline in services (car inspections, body repair, and coating), and a 0.9% increase in maintenance products. Car product sales generally weakened because of sluggish sales of light vehicles, and lower demand for tire changes to normal tires due to slow sales of snow tires during the winter season weighed on 1Q business. Sales decline in the tires and services business with relatively high profitability reduced profit margin too. By region, western Japan results were weak because of the large impact of lighter-than-normal snowfall, but stores in the Kanto area recorded higher sales and profits. Additionally, the business restored sales and profit gains (YoY) in just 2Q with increases of 0.2% in sales and 36.6% in operating income.

We think the Group sustained its strength in sales capabilities with just a 2.4% drop in net sales for 1H versus the 4.3% decline in existing store sales in Japan for the overall AUTOBACS Group.

G-7 BIKE WORLD, meanwhile, reported lower sales and profits in 1H because of continuation of the downward trend in customer volume from the previous period under pressure from rivals. Sales have started growing at a healthy pace for AUTOBACS (two stores) and BIKE WORLD (two stores) in Malaysia, and income is improving too and headed for a profit in FY3/18. The BIKE WORLD store opened in Thailand in March 2016 is still ramping up.

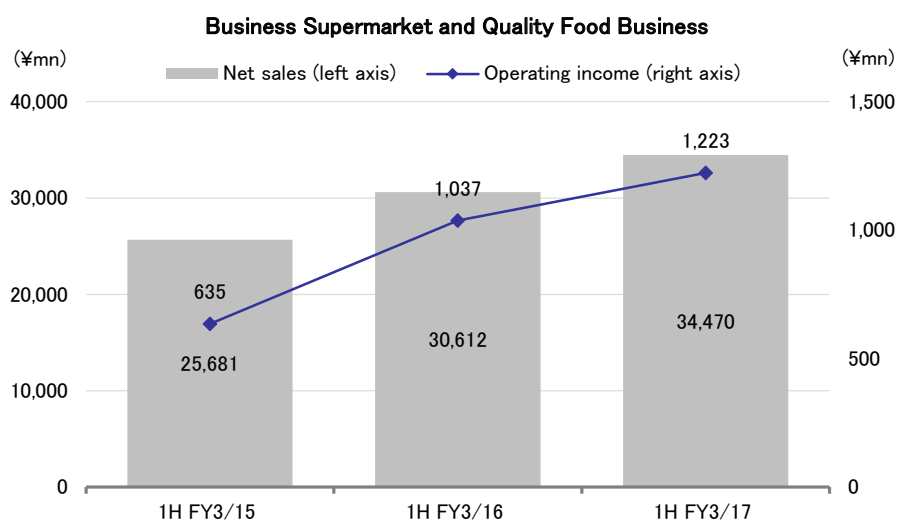


○ Business Supermarket and Quality Food Business

Net sales increased 12.6% YoY to ¥34,470mn and operating income rose 17.9% to ¥1,223mn, achieving double-digit gains in sales and profit. While results benefited from a full-year contribution by G-7 MEAT TERABAYASHI (vs. four months in FY3/16), sales and profit still improved even without the additions.

G-7 SUPER MART, which mainly operates Business Supermarket sites, expanded net sales by 7.4% YoY. The Business Supermarket business received support from restaurant operators struggling with rising food costs as well as growth in ordinary consumers amid strengthening deflation sentiment, with revenue steadily increasing by 1.9% YoY on an existing store basis. New store openings also had a positive effect, increasing by eight YoY to 123 stores at the end of September. Business Supermarket opened four new stores during 1H with one in Hyogo, two in Saitama, and one in Chiba.

G-7 MEAT TERABAYASHI delivered a solid 2.2% increase in sales compared to the same period (Apr-Sep) in the previous year. It added four new joint openings at Business Supermarket sites, lifting store volume to 93 sites at the end of September. G7 JAPAN FOOD SERVICE also performed soundly, with sales rising 5.9% YoY. This was due to the sales growth in the quality food business, as efforts to develop customers, mainly in the eastern Japan area, and expansion of product volume progressed smoothly.

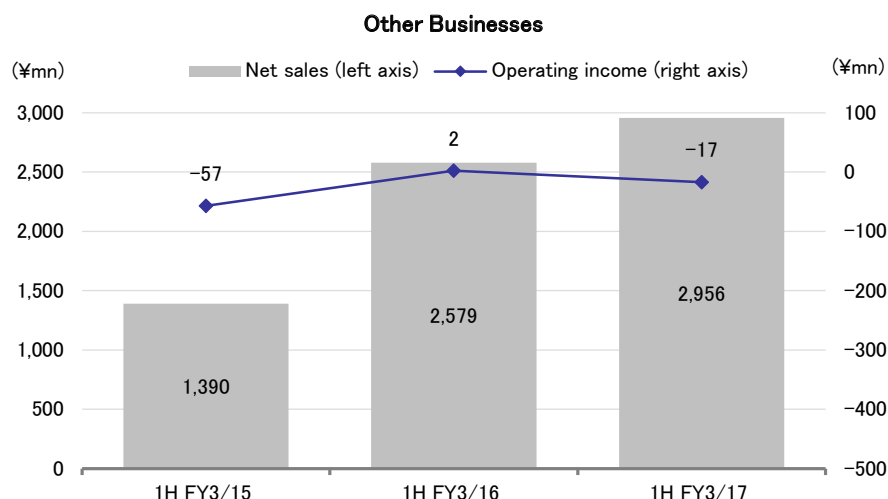


○ Other Businesses

Net sales climbed 14.6% YoY to ¥2,956mn while recording operating loss of ¥17mn (from a profit of ¥2mn in the previous fiscal year). Net sales increased by double digits due to the switch in June 2015 from consignment to purchase-based sales of agricultural goods for the Megumi no Sato business, but only rose at a single-digit pace in real terms.

The Group opened two new Megumi no Sato stores with one each in Hyogo and Chiba and had 23 stores at the end of September 2016 (up four stores YoY). While sales modestly increased in a comparison on the same standard, operating income still had a slight loss. The BAKE CHEESE TART cheese-tart shop business, which started operations in FY3/16, opened one store in Kyoto in June and one store in Osaka in September, total of three stores. This is a popular take-out store that attracts lines of customers, and all three stores are posting robust sales. Monthly sales total ¥20-30mn per store.

In overseas business, initiatives other than AUTOBACS and car-related business in Malaysia struggled relative to initial expectations. Agricultural businesses in Vietnam and Myanmar have not improved much from FY3/16 levels, and restaurant businesses in Malaysia, Indonesia, and Taiwan face weak customer volume. The Business Supermarket opened as a joint venture with a local firm in Singapore in April has been sluggish too as food import regulations hinder sufficient supply of product items from Japan. This is an issue that needs to be resolved.



■ Business Outlook

Likely to set all-time highs again in FY3/17

(1) Company forecast for FY3/17

The Group's FY3/17 consolidated forecasts call for sales and profit gains, including 10.7% increase YoY in net sales to ¥115,000mn, 22.2% increase in operating income to ¥3,700mn, 24.2% increase in ordinary income to ¥4,000mn, and 12.5% increase in net income attributable to owners of parent to ¥2,100mn. Fulfillment rates in 1H were net sales at 46.1% and ordinary income at 39.8%, roughly on par with average for the past five years and keeping the Group within reach of full-year targets.

Weather conditions in the winter season, a peak time for AUTOBACS and car-related business, are a key point for realization of plan targets. While snow tire sales slumped last year due to the impact of a historically warm winter, AUTOBACS and car-related business income should recover and thereby put the Group on track to fulfilling the plan if snowfall returns to a normal level and increasing tire sales. The Group retains its stance of increasing sales and profits through steady expansion of store volume, mainly for AUTOBACS and Business Supermarket, and bolstering profitability per store with enhanced productivity and progress in inventory and spending controls. Below we review the outlook for business segments.



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○ AUTOBACS and Car-related Business

The Group expects to increase sales and profit for the AUTOBACS and car-related business in FY3/17. It projects a 13.0% YoY rise in sales at mainstay G-7 AUTO SERVICE to ¥35,000mn by boosting sales at existing stores and adding about 15 new stores, including through M&A. However, it trailed the plan in 1H with no openings and sluggish existing store sales and needs over 20% YoY sales growth in 2H to reach the target.

For new sites, the Group largely saturated the existing areas and has little room for new openings. It already plans to relaunch the AUTOBACS CARS (car sales) in Narashinodai, Chiba as an AUTOBACS, but has not made decisions on other locations. The Group intends to focus on expanding sales at existing sites and improving profitability in light of this situation. Car electronics products, which have been slumping, are starting to show signs of a sales recovery thanks to efforts to offer pricing appeal with package sales of drive recorders, car navigation devices, and radar detectors. The Group also aims to improve profitability through sales expansion by holding G-7 Mall Festivals and other events and lifting the sales ratio of high value-added services (body repair and painting, car inspections, and others) that is currently at 24%.

For G-7 BIKE WORLD, the Group intends to bolster profitability by reviewing store operations and other management methods. It plans to add overseas sites with openings in Malaysia, Thailand, and other Southeast Asian countries.

○ Business Supermarket and Quality Food Business

The Group intends to maintain healthy momentum for the Business Supermarket and quality food business in 2H. It expects a 5.6% YoY increase in sales at G-7 SUPER MART, which operates the Business Supermarket business, to ¥55,000mn. The plan calls for opening 10 new stores (including five renewal moves) to lift total store volume to 125 stores, a net addition of five stores from the end of FY3/16. It opened one store in October and is currently at 124 stores. Store count could rise even higher if the Group discovers sites with suitable conditions. Just as in FY3/16, the Group plans to jointly open TERABAYASHI and Megumi no Sato stores as tenants at new sites in order to improve customer draw and boost profitability in its various businesses.

The Group's outlook factors in about ¥10,000mn in G-7 MEAT TERABAYASHI sales based on a full-year contribution, a 20% YoY increase. It will continue to open stores as tenants at Business Supermarket sites and also pursue openings at other commercial facilities. The Group forecasts sales and profit gains at G7 JAPAN FOOD SERVICE through discovery of quality foods and development of sales partners.

○ Other Businesses

The Group expects to continue sales gains and aims to achieve an operating profit for other businesses. For Megumi no Sato, it plans to realize profit by improving income through optimization of the procurement sales system and lifting profitability per store via tenant openings at Business Supermarket sites and openings at commercial facilities with robust customer draw. Additionally, sales are upbeat at the Group's three cheese tart shops, a business started in FY3/16, and this business should contribute to higher sales and profits. While the licensing contract presents a plan for opening up to 11 stores in Keihanshin, Nagoya, Okayama, Hiroshima, and Fukuoka, the Group intends to launch additional stores as it identifies suitable locations in prime sites by train stations with large customer draw.

BAKE store at Abeno Harukas



Source: From company materials

The Group has also started launderette as a new service and plans to expand this business. It concluded a licensing contract with mammaciao Co., Ltd., a franchise operator for large mammaciao coin laundry shops, and opened the first shop on the same site as AUTOBACS Kameoka (Kyoto) in August 2016. The shops attract many customers because they have machines for washing and drying not only clothes, but also futons, carpets, and other items that cannot be easily washed at home, and this business is having a strong start. The initial investment in washing machines, dryers, and other facilities is roughly ¥20mn, but this is a profitable business model once depreciation costs are recovered because of low cost of sales. Monthly sales total around ¥0.6mn, though prosperous shops can reach ¥1mn. The Group plans to open five stores jointly located at AUTOBACS sites during FY3/17 and is ultimately aiming for a network of 100 coin laundry shops with co-locations at Business Supermarket, restaurant, and other Group sites, in addition to AUTOBACS stores.

Mammaciao Kameoka Store



Source: From company materials

In overseas agricultural and restaurant businesses, meanwhile, the Group expects losses to continue because of ongoing upfront investment burden. Yet it aims to narrow the loss margin by increasing sales. Annual overseas business sales are slated to range in a few hundred million yen.



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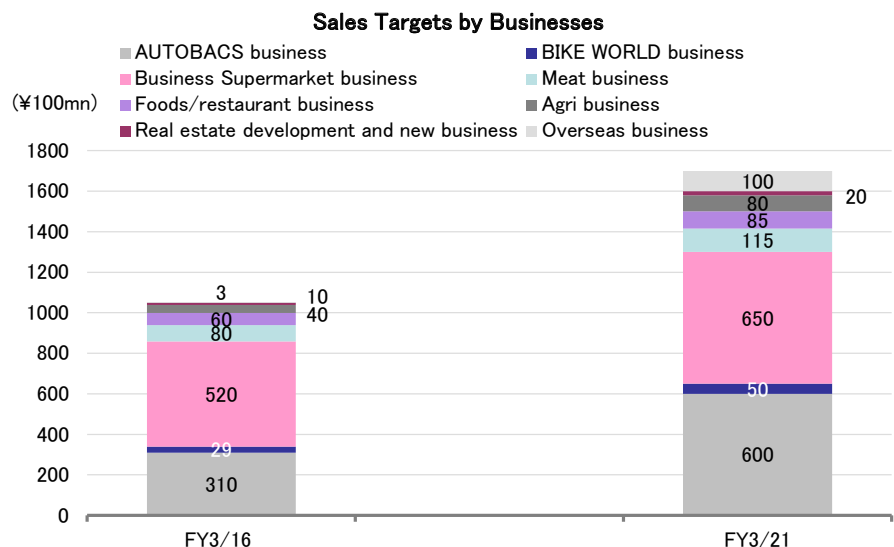
The goals for the final year (FY3/21) of the Medium-term plan are ¥170,000mn in sales and ¥7,000mn in ordinary income

(2) Medium-term business plan

The Group's medium-term business plan that lasts through FY3/21 presents final-year goals of ¥170,000mn in net sales and ¥7,000mn in ordinary income. These goals represent a roughly 60% rise in net sales and almost doubling of ordinary income compared to FY3/16 results, and the Group intends to expand all businesses. For AUTOBACS business (G-7 AUTO SERVICE), it expects a sharp gain with sales roughly doubling from the FY3/16 level to ¥60,000mn. This goal works out to a 14% average annual growth rate. The Group believes it can attain the goal through expansion of domestic store volume, including M&A, and efforts to broaden new products and services.

For the Business Supermarket business (G-7 SUPER MART), it targets a 25% increase in sales from the FY3/16 level to ¥65,000mn. The goal corresponds to a 5% increase pace as an annual average, and the Group should be able to reach its target by expanding store volume at a pace of 5-10 stores per year. The Group also intends to achieve goals for BIKE WORLD, meat, and agricultural businesses by steadily increasing store volume. For G7 JAPAN FOOD SERVICE, it aims for a 40% increase from the FY3/16 level to ¥8,500mn, led by expansion of quality food business and food exports as well as gains in development and sales of private-brand products through collaboration with Megumi no Sato.

The Group hopes to rapidly expand overseas business from a few hundred million yen in FY3/16 to ¥10,000mn by FY3/21. The breakdown of that ¥10,000mn is expected to be split about half-and-half between AUTOBACS and BIKE WORLD businesses and restaurant, food products, and agricultural businesses. The Group intends to aggressively open stores mainly in Southeast Asian countries including through M&A to achieve the goal and is thus likely to continue to incur upfront investment costs for the time being. However, these countries have a strong potential in economic growth rates and overseas business could drive overall earnings growth as a core area in the future once the income model is solidified.



■ Financial Status and Shareholder Returns Policy

Steady improving the equity ratio and interest-bearing debt ratio, making progress in enhancement of financial standing

(1) Financial status

Looking at the Group's financial status at the end of September 2016, total assets were down ¥1,054mn from the end of the previous fiscal year to ¥35,100mn, based on increases of ¥618mn in merchandise and finished goods and ¥313mn in tangible fixed assets and decreases of ¥1,672mn in cash and deposits and ¥256mn in accounts receivable.

Liabilities dropped by ¥1,540mn from the end of the previous fiscal year to ¥20,431mn, mainly due to declines of ¥269mn in interest-bearing debt, ¥378mn in income taxes payable, and ¥393mn in other current liabilities. Net assets rose by ¥485mn to ¥14,668mn, primarily because of a ¥492mn increase in retained earnings accompanying quarterly net income.

Looking at management indicators, the equity ratio, which reflects soundness, and the Group's interest-bearing debt ratio continued improvement trends to 41.0% and 56.1% respectively. We think the Group is making progress in enhancement of financial standing.

Consolidated Balance Sheet

	FY3/14	FY3/15	FY3/16	1H FY3/17	(Unit: ¥mn) Change
Current assets	15,089	15,018	17,111	15,773	-1,338
(Cash and deposits)	7,183	6,952	8,242	6,570	-1,672
(Merchandise and finished goods)	4,492	5,198	5,341	5,959	618
Fixed assets	16,968	17,321	19,042	19,326	284
Total assets	32,057	32,339	36,154	35,100	-1,054
Total liabilities	20,458	19,934	21,971	20,431	-1,540
(Interest-bearing debt)	8,700	8,458	8,342	8,073	-269
Net assets	11,599	12,404	14,183	14,668	485
Management indicators					
(Financial strength)					
Equity ratio	36.2%	38.4%	38.1%	41.0%	
Interest-bearing debt ratio	75.0%	68.2%	60.5%	56.1%	

(2) Shareholder returns policy

G-7 is paying out dividends as a measure for returning profits to shareholders. The Group's underlying policy is to return profits to shareholders in accordance with business performance, premised on maintaining stable dividends, making a comprehensive determination, while taking into consideration factors including capital required for future business expansion and its financial condition. It generally aims to maintain a dividend payout ratio of around 30%.

G-7 paid a ¥47 dividend (30.5% payout ratio) in FY3/16 that included a ¥13 commemorative dividend for the 40th anniversary. For FY3/17, the dividend has been set at ¥40.0 per share yielding a 23.1% dividend payout ratio, and expectations exist for an even higher level at around the 30% target through payment of a special dividend if earnings meet the target.

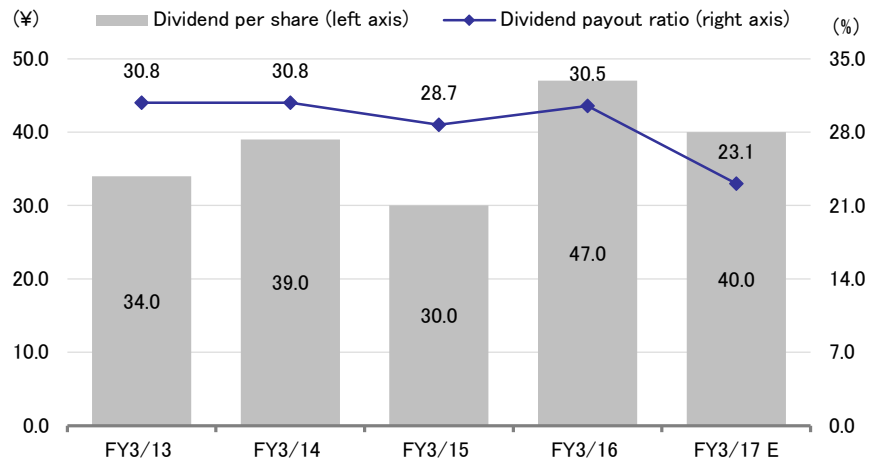


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Dividend Per Share and Dividend Payout Ratio



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