AUTOBACS SEVEN

AUTOBACS—Aiming to Be a Total Car-Life Service Provider

Annual Report 2006
Year ended March 31, 2006

Contents

The Goals of the AUTOBACS Group

—Creating a Utopia for Automobile Enthusiasts—

—Making Drivers the World Over into Car Fans—

To achieve these goals, the AUTOBACS Group works as a creator of lifestyles with cars.

In 1974, AUTOBACS SEVEN CO., LTD., developed Japan's first one-stop shopping store format for automotive goods and services. Since our founding, we have been committed to the idea of communicating to customers the joy of cars and providing them with more comfortable driving experiences. It has been more than 30 years since the creation of the AUTOBACS brand. Over that period, the AUTOBACS Group has maintained its position as an industry leader and built a network of more than 500 stores, but the Group's commitment has not changed.

We want to showcase the idea that cars are more than just transportation; they make our lives more comfortable and enjoyable. We want to share with as many people as we can the fun that cars make possible and have people around the world become car fans. We want people to enjoy their cars and to be excited about them.

In the future, we will continue to propose enhanced lifestyles with cars. In this way, we will share with customers the joy of owning and driving cars. We will strive to make an ongoing contribution to the realization of a society that harmonizes people and cars and will continue to take on the challenge of achieving further growth for the AUTOBACS Group.

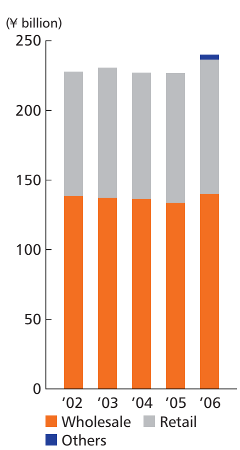
Consolidated Financial Highlights

AUTOBACS SEVEN CO., LTD. and Subsidiaries

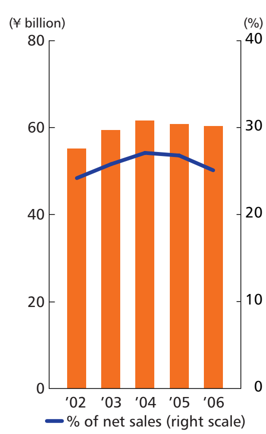
Years Ended March 31

	Millions of yen			Thousands of U.S. dollars
	2004	2005	**2006**	**2006**
FOR THE YEAR				
Net sales:				
Wholesale	¥135,551	¥133,384	**¥139,544**	**$1,192,683**
Retail	91,526	93,395	**96,865**	**827,906**
Others	—	—	**3,798**	**32,462**
Total	227,078	226,780	**240,207**	**2,053,051**
Operating income	6,211	7,368	**13,638**	**116,564**
Income before income taxes and minority interests	9,627	6,876	**13,866**	**118,513**
Net income	5,444	2,928	**7,861**	**67,188**
Per share data (Yen and Dollars):				
Basic net income	¥149.80	¥79.85	**¥210.36**	**$1.80**
Cash dividends	36.00	45.00	**52.00**	**0.44**
Return on equity (%)	3.7	2.0	**5.1**	
Return on assets (%)	2.8	1.4	**3.6**	
Capital expenditures	¥7,894	¥6,349	**¥11,400**	**$97,436**
Depreciation and amortization	5,957	5,620	**5,068**	**43,316**
AT YEAR-END				
Cash and cash equivalents	¥ 41,155	¥ 51,150	**¥ 53,622**	**$ 458,308**
Current assets	94,359	104,214	**112,020**	**957,436**
Current liabilities	33,684	34,610	**44,046**	**376,462**
Total assets	202,761	203,225	**227,707**	**1,946,214**
Shareholders' equity	147,533	148,983	**161,536**	**1,380,650**
Number of stores	528	529	**532**	
Overseas stores	11	12	**19**	
Number of employees	4,008	4,023	**4,406**	

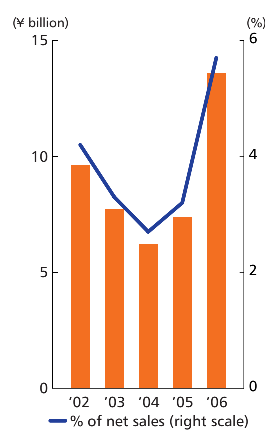
Net Sales



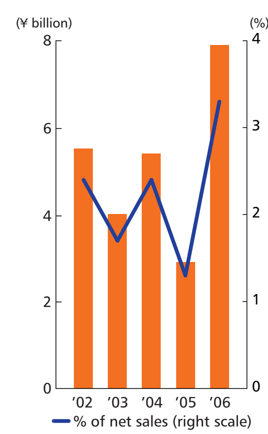
SG&A Expenses



Operating Income



Net Income



Notes: 1. Due to a change in accounting policies from fiscal 2006, rental income and lease revenue were reclassified from "other income" to "net sales" and related costs were reclassified from "other expenses" and "selling, general and administrative expenses" to "cost of goods sold."

2. U.S. dollar amounts have been translated at the rate of ¥117=US$1, the approximate current exchange rate at March 31, 2006.

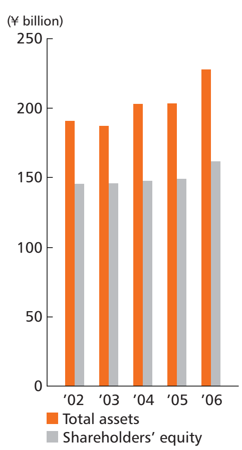
Financial Highlights

- Net sales were up 5.9%, to ¥240.2 billion.
- Operating income, ordinary income, and net income all marked substantial increases. Operating income was up 85.1%, to ¥13.6 billion; ordinary income increased 33.3%, to ¥16.9 billion; and net income rose 168.5%, to ¥7.9 billion.
- The gross margin improved to 30.8%, from 30.1% in the previous fiscal year.
- ROA improved by 2.2 percentage points, to 3.6%, and ROE improved by 3.1 percentage points, to 5.1%.
- Cash dividends per share increased by ¥7.00, to ¥52.00 per share.

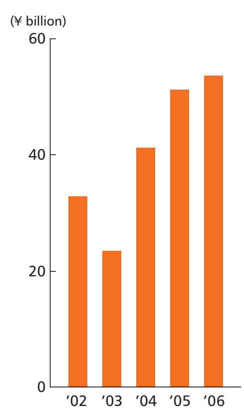
Business Highlights

- We continued to enhance our store network in line with the Area Dominant Strategy, and the total number of stores at the end of the year under review was 532 (Japan: 513, overseas: 19), an increase of 3 stores from the end of the previous fiscal year.
- The number of cars sold reached 10,921, an increase of 3,205 from the previous fiscal year.
- Out of a total of 513 stores, the number certified to perform statutory safety inspections increased to 217 (at fiscal year-end), and the number of vehicles for which we performed statutory safety inspection services increased by about 44,000, to approximately 240,000 in the year under review.
- We established an operational foundation in France with the acquisition of 6 Eldorauto car parts and accessories stores.
- We entered an alliance with Halfords Group plc, one of the top car parts retailers in England.

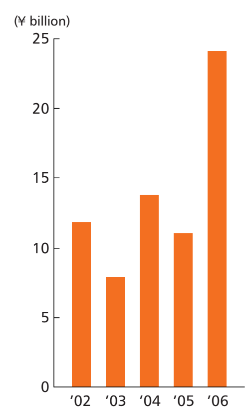
Total Assets and Shareholders' Equity



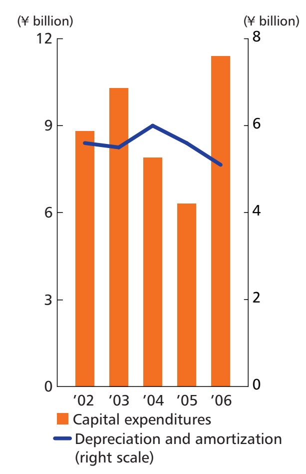
Cash and Cash Equivalents



Net Cash Provided by Operating Activities



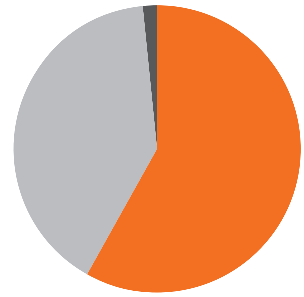
Capital Expenditures, Depreciation and Amortization



AUTOBACS at a Glance (Consolidated)

The AUTOBACS Consolidated Group operates a franchise chain that mainly sells car parts and accessories and provides set-up and installation services. The Consolidated Group's net sales consist of a wholesale amount from franchisees and a retail amount through stores operated directly by the Company or its consolidated subsidiaries. The Consolidated Group sells products in the following eight categories.

% of Net Sales by Operation



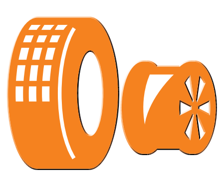
FY2006 Consolidated Net Sales

¥240,207 million

- Wholesale 58.1%
- Retail 40.3%
- Others 1.6%

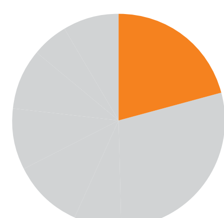
	% of Net Sales by Product Category	Net Sales by Product Category

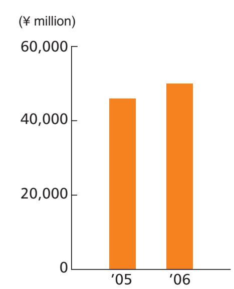
Tires and wheels



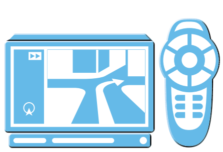
We handle tires and wheels from manufacturers based in Japan and overseas, which include AUTOBACS private brand products. In the fiscal year under review, we responded quickly to snow-related demand in areas that normally receive little snowfall, which boosted our sales growth over and above industry growth.

20.8%



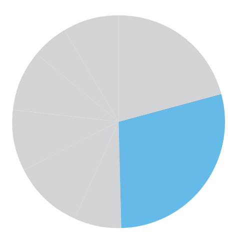


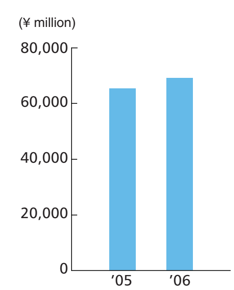
Car electronics



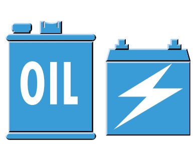
We offer a range of car electronic products from domestic and overseas manufacturers, such as car navigation systems and audio and visual products. In the year under review, we recorded strong sales of high-value-added car navigation systems and ETC (Electronic Toll Collection) equipment.

28.8%



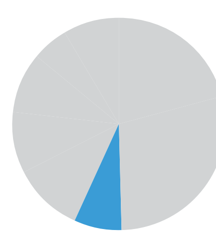


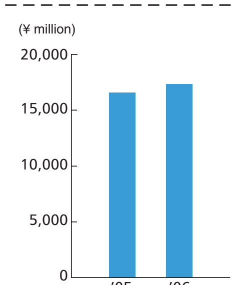
Oil and batteries



Our product range includes not only private brand products, such as the Vantage series of engine oil and the DAYNAGRID series of batteries, but also oil and batteries from domestic and overseas companies. In the year under review, sales increased due to incremental demand induced by snowfalls heavier than a normal year.

7.2%



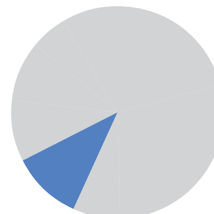


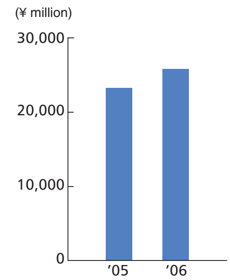
	% of Net Sales by Product Category	Net Sales by Product Category

Car exterior items

We provide an extensive range of products for car exteriors, such as wiper blades, tire chains, car washing products, waxes, coating agents, repair goods, and tools. In the year under review, weather conditions had favorable effects on demand, and sales increased especially of car washing products and tire chains.

10.7%

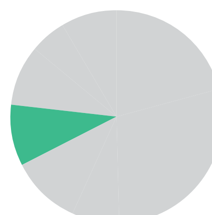


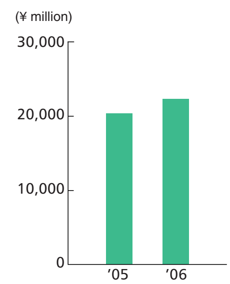


Car interior items

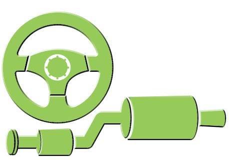
We provide air fresheners, deodorizers, dust boxes and other small interior goods, radar detectors, and child seats. In the fiscal year under review, sales of radar detectors and hands-free products for mobile phones increased.

9.3%



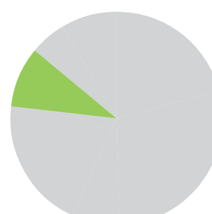


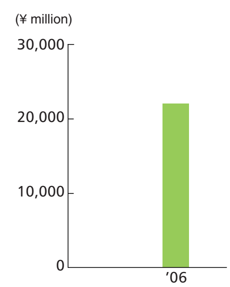
Motor sports goods



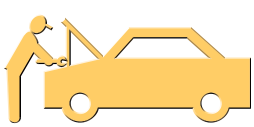
We offer a wide range of products to customers who enjoy customizing and driving cars, such as aero parts, mufflers, headlight bulbs, and theft prevention products. In the fiscal year under review, sales of HID lights and theft prevention products increased.

9.2%



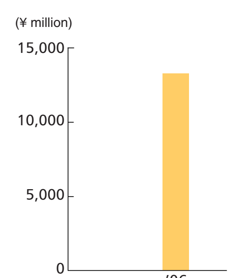


Services

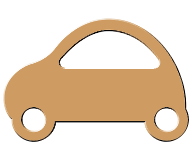


Services include the installation of car electronic products, the changing of tires, oil and batteries, statutory safety inspection and maintenance services, sheet metal work, and the application of window film. Statutory safety inspection and maintenance services are expanding into a major new source of revenues for the Group.

5.5%

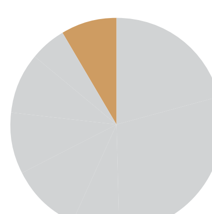


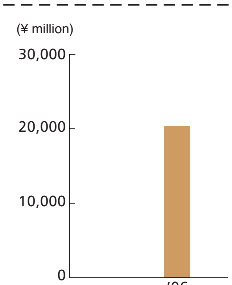
Others



This category includes sales of cars sold at Group stores, sales of fuels sold at service stations, revenues from royalties paid by franchisees, and lease payments for stores that franchisees lease from the Company.

8.5%





From the year under review, the operations that had in prior years been included in the Motor Sports Goods and Others department have been divided into three separate departments: Motor Sports Goods, Services, and Others.

A Message from the CEO

Koichi Sumino Representative Director and Chief Executive Officer

We have finished the first year of our Mid-Term Business Plan, which was formulated as an extension of the initiatives that were under way, such as developing new store formats, reorganizing our store network and franchisee companies, developing new fields of business, developing operations overseas, and controlling costs.

Under the management policy of "realizing further growth through enhanced competitiveness," the entire Group has worked hard to implement the strategies in the plan, and we began to see results during the fiscal year ended March 2006. We also benefited from positive external factors, such as improved economic conditions in Japan and weather-related demand. As a result, we achieved a strong performance, with continued improvement in profitability.

Fiscal 2006 Overview

In car parts and accessories sales, our principal field of business, assisted by the recovery in Japan's economy, sales of high-priced, high-value-added car navigation systems were strong in the year under review, and sales of ETC systems also remained favorable. As cold weather hit throughout the country in December, snow also fell on regions that normally have little snowfall, and demand for such products as studless tires, tire chains, and wheels increased sharply.

During the year under review, we intensified our efforts to develop operations in our three main business fields—car parts and accessories sales, statutory safety inspection and maintenance services, and car sales. We have promoted these fields of business by expanding the number of stores offering statutory safety inspection and maintenance services and car sales. We also carefully and strategically selected products for summer and winter sales campaigns and enhanced product category management. In addition, we successfully transferred inventories among stores to better meet the demand brought about by unexpected snowfall.

As a result, consolidated net sales rose 5.9%, to ¥240.2 billion. With the overall market for car parts and accessories expanding slightly, we strengthened our lineup of these products. Our sales of tires increased substantially due to replacement demand associated with statutory safety inspections and to snow-related demand. In addition, higher sales were recorded by car electronics, principally ETC and car navigation systems, as well as by accessories and wheels. We also registered growth in statutory safety inspection and maintenance services and in car sales. Moreover, we changed the policies by which we account for lease revenues from franchisees that leased real estate, buildings, and other properties. In previous years, these revenues were included in "other income," but from the year under review they are included in "net sales."

The gross margin in car parts and accessories improved, primarily as a result of higher sales of focus products. In addition, due to efforts to control SG&A expenses and to the change in accounting for lease revenues described above, operating income was up 85.1%, to ¥13.6 billion, ordinary income rose 33.3%, to ¥16.9 billion, and net income grew 168.5%, to ¥7.9 billion.

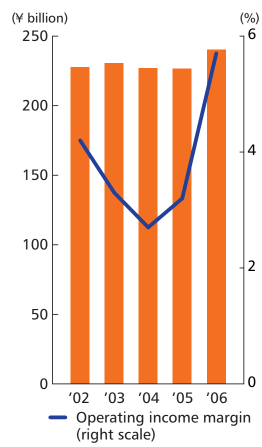
Our basic policy for dividend payments is to provide a stable amount of dividends each year, with payments linked to the Company's performance. For the year under review, year-end dividends were ¥26.00 per share, which, in conjunction with interim dividends, resulted in dividends for the year of ¥52.00 per share, an increase of ¥7.00 per share from the previous fiscal year.

The First Year of the Mid-Term Business Plan

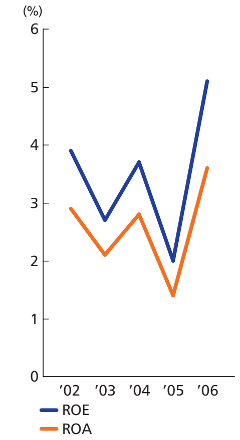
Under the Mid-Term Business Plan, we are implementing three business strategies to achieve the objectives of ¥360.0 billion in chainwide retail sales and ¥18.0 billion in consolidated ordinary income in the fiscal year ending March 2009. The results in the fiscal year under review clearly indicate that the implementation of the plan is leading us toward the attainment of our objectives.

The first strategy is the Area Dominant Strategy, under which we are reorganizing our store network to increase market share and profitability in each operating area. The process of restructuring unprofitable stores and corporate franchisees under this strategy is more or less completed, and we believe that we have laid the foundation for increasing area market shares in the future.

Net Sales and Operating Income Margin



ROE and ROA



The second is the Total Car-Life Business Strategy. Due to enhanced initiatives in statutory safety inspection and maintenance services and in car sales, these two fields of business have gradually begun to contribute to our performance. In addition, we are seeing synergies, with new customers in these two fields also buying car parts and accessories at our stores.

The third strategy is the Overseas Business Strategy. Guided by the principles of selection and concentration, we have categorized regions into those in which we will aim for growth and those in which we will focus on maintaining the current level of operations. Based on this approach, we have decided to focus our management resources on France, the United States, and China. In particular, in the year under review we acquired 6 Eldorauto car parts and accessories stores on the outskirts of Paris. As a result, we were able to quickly establish an operational foundation in France while saving time and resources for new store openings. Moreover, in the United Kingdom, we entered an alliance with Halfords Group plc, one of the top car parts retailers in England. In China, we moved ahead with the opening of AUTOBACS brand stores in major cities.

The fiscal year ending March 2007, the second year of the Mid-Term Business Plan, marks a new stage in our progress toward becoming a provider of "total car-life services." In accordance with the plan, we will continue to reorganize our store networks to improve profitability and expand our three core fields of business—car parts and accessories sales, statutory safety inspection and maintenance services, and car sales—while working to raise profitability by leveraging synergies.

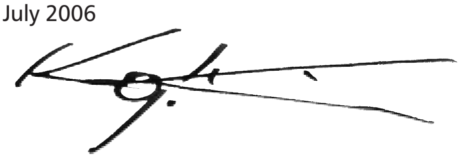
Strengthened Corporate Governance and a New Chief Officer System

To ensure continuous operational expansion, we believe that the most important management issue that we face is earning the support and trust of all of our stakeholders. To strengthen our corporate governance, we instituted the officer system in June 2002, separating the oversight function of the board of directors and the management function. Also, in addition to increasing the independence of the board of corporate auditors, we have worked to further bolster the auditing function through the participation of the corporate auditors in meetings of the board of directors and other important internal meetings.

In April 2006, we established a new management system targeting the achievement of the Mid-Term Business Plan's objectives. Under the new system, we have 4 chief officers—the CEO, 2 Co-COOs in charge of the plan's three business strategies, and a chief strategic officer (CSO). With these chief officers leading the way, everyone at the AUTOBACS Group will work together for the transition to a provider of "total car-life services" and for further growth.

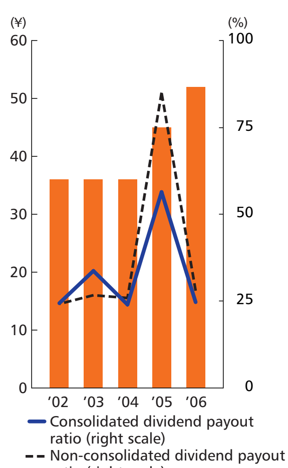
In closing, I would like to ask our shareholders for continuous support and understanding in the years ahead.

July 2006



Koichi Sumino
Representative Director and Chief Executive Officer

Cash Dividends per Share and Dividend Payout Ratio



AUTOBACS Group Mid-Term Business Plan

In line with the key management goal of becoming a provider of "total car-life services," the AUTOBACS Group is striving to achieve further growth through three business strategies outlined in its Mid-Term Business Plan, which covers the period from April 2005 to March 2009.

Takashi Matsuo Director and CSO, Corporate Strategy

In recent years, the domestic car parts and accessories market has been sluggish due to the trend toward the inclusion of popular after-sales products, such as audio systems and cup holders, as standard equipment and to overall declines in prices. In response, we formulated the Mid-Term Business Plan to chart our course toward further growth.

The plan spells out specific initiatives and numerical objectives targeting our transition to a provider of "total car-life services." To that end, we will offer a wide range of car-related services while drawing on our strengths in our core business field—car parts and accessories sales. Specifically, with the slogan "realizing further growth through enhanced competitiveness," we will implement three business strategies and take steps to enhance the management foundation that supports those strategies. In this way, we will strive to expand chainwide retail sales and increase consolidated return on business assets.

It has been just over a year since we began to implement the Mid-Term Business Plan. Most of the plan's initiatives are still in the early stages, but over the past year we began to see the positive influence of the plan on our profitability, and we were able to confirm that the plan is guiding the Group in the right direction. In addition, we are seeing a gradual expansion in the age range of the Group's customer base, which traditionally was centered on men in their 20s and 30s.

In the fiscal year ending March 2007, we will continue to implement initiatives in accordance with our three strategies and will also consider offering new services that will facilitate our "total car-life services."

Mid-Term Business Plan Objectives

FY ended (¥ billion)	March 2005	March 2006	March 2009 (objectives)
Chainwide retail sales	291.4	302.4	360.0
Consolidated Mauqe*	–0.2	2.4	4.5
Consolidated ordinary income	12.6	16.9	18.0

* Mauqe (Measurement of AUTOBACS Universal Quality Earnings): An original profitability indicator. Mauqe = ordinary income – operating assets x hurdle rate (8.8%)

Overview of the Company's Three Key Business Strategies

1. Area Dominant Strategy

The Area Dominant Strategy targets the achievement of a higher share and improved profitability in each area. These goals will be achieved through the implementation of a store format mix that matches the area's characteristics and competitive environment and through close cooperation among stores.

2. Total Car-Life Business Strategy

The Total Car-Life Business Strategy is aimed at establishing business that supports customers throughout the car-life cycle. Specifically, we are developing our inspection and maintenance services and car sales business around a core of car parts and accessories sales, thereby retaining existing customers and developing new customers.

3. Overseas Business Strategy

The Overseas Business Strategy positions overseas operations as a driver of future growth for the AUTOBACS Group. Accordingly, under this strategy we will take steps to expand overseas bases while maintaining profitability.

Area Dominant Strategy

Optimizing Store Format Mix to Increase Market Share

Hironori Morimoto
Director and Co-COO, Area Dominant Strategy

Results in the Year under Review

The fundamental concept of the Area Dominant Strategy is to divide Japan into 152 areas and optimally allocate different store formats, such as Super AUTOBACS and AUTOBACS, to maximize our market share within each area. (Please see page 12 for an overview of store formats.) However, to lay the groundwork for the implementation of the strategy, it was necessary to reorganize poorly performing stores and franchisees that faced difficult management challenges. We began working on this issue several years prior to the

Total Car-Life Business Strategy

Redoubling Our Efforts in Inspection and Maintenance Services, a Platform for the Group's Renewed Strength

Kenichi Takeda
Director and Co-COO, Total Car-Life Business Strategy and Overseas Business Strategy

Results in the Year under Review

Under the Total Car-Life Business Strategy, we will expand our operations in statutory safety inspection and maintenance services and in car sales by leveraging our presence as the largest retailer of car parts and accessories in Japan. We will also strive to create synergies by selling car parts and accessories to the customers of these new businesses. The entire Group has recognized the importance of inspection and maintenance and car sales as the drivers of further growth, and we have redoubled our commitment to increase the number of formulation of the Mid-Term Business Plan, and in the year under review we were able to almost realize our objectives.

Under the Area Dominant Strategy, we opened 6 new stores during the year under review; changed the format of, relocated, or completely rebuilt 10 stores; and closed 14 stores. In addition, we opened 11 Techno Cube facilities, which specialize in statutory safety inspection and maintenance services and sheet metal working. As a result, at the end of the year under review we had a total of 532 stores with significantly increased sales floor space and service bays—two major improvements that are directly linked to our profitability.

Future Initiatives

From the current fiscal year, we will reallocate stores in accordance with the plan and work to develop a store format for small areas. We will open new Techno Cube facilities to complement stores with insufficient space for inspection facilities and to enhance statutory safety inspection and maintenance services and sheet metal working.

On the other hand, to offer the customers in each area the optimal service and to manage stores efficiently, customer information must be shared and utilized effectively throughout the Group. Currently, we are in the process of boosting the capabilities of our customer information management system. When that process is completed, we will have a system that can use accumulated data to provide the optimal service for each customer's car, even at different stores. By implementing these Area Dominant Strategy initiatives, we will enhance convenience for customers and thereby increase our profitability and efficiency in each area.

stores that offer these services. This marks a key step forward.

Over the past few years, we have taken steps to reform car parts and accessories sales floors, such as strengthening lineups of best-selling products at all stores. Furthermore, we are implementing category management to raise shelf efficiency, with suppliers and stores working together to implement better selection of and more concentration on products which appeal to customers. As a result, we have succeeded in boosting profitability.

The number of vehicles for which we performed statutory safety inspection services increased by about 44,000, to approximately 240,000 in the year under review. The number of stores certified to perform the inspection increased to 217, and customer awareness of these services, which feature on-the-spot estimates and our Haya-Waza (quick and highly skilled) inspections, is increasing each year. Over the past several years, the number of cars for which we have provided inspection services has shown rapid growth of about 20% a year, and the profitability of inspection and maintenance departments throughout the Group is increasing.

In addition to the sale of used cars through online PC terminals that enable customers to search from vast inventories, we have added leasing services to our business lineup. We have expanded the number of stores offering car sales to 262 and improved our sales system. As a result, we passed the 10,000-car sales milestone in the year under review, with the number of vehicles sold rising to 10,921, an increase of 3,205 from the previous fiscal year.

Future Initiatives

In the current fiscal year and the years ahead, we will continue to implement the initiatives that are now under way in each of our fields of business. In car parts and accessories sales, we will further increase efficiency in sales areas and expand the number of products that we control under category management. In addition, we will work to achieve further increases in profitability by boosting sales of car navigation systems that can receive terrestrial digital broadcasts and sales of ETC systems.

Major Store Formats

AUTOBACS (403 stores in Japan)

These one-stop automotive specialty stores feature sales areas with extensive lineups of car parts and accessories under one roof, ample parking, and installation and maintenance services. Located throughout the country, principally alongside major roads, AUTOBACS stores have lineups of popular and frequently needed goods—such as tires, wheels, oil, batteries, car audio and visual products, and accessories—with sales floor space of 495 to 990 square meters.

Super AUTOBACS (65 stores in Japan)

Super AUTOBACS stores are designed to be exciting and fun for customers. Each store has sales floor space of at least 990 square meters and a large parking lot. Even the smallest stores have a site of 5,610 square meters. In addition to car parts and accessories, these stores have lineups of high-priced products and motor sports goods that attract car enthusiasts.

AUTOBACS *Hashiriya Tengoku Secohan Ichiba*
(28 stores in Japan)

Targeting customers looking for low-priced car parts and accessories and younger customers, these stores offer secondhand goods, such as car audio products, navigation systems, and wheels, traded in at AUTOBACS Group stores around the country as well as other low-priced car parts and accessories, such as outlet products from manufacturers. These stores are also friendly to the environment through the promotion of product recycling.

AUTOBACS Express (6 stores in Japan)

We are currently testing stores in this format, which targets small geographic regions and combines self-service gasoline sales with sales of car parts and accessories and a wide range of maintenance services. This format provides customers with convenience, with lineups centered on frequently used goods and services. We are aiming to attract customers who have not visited AUTOBACS stores frequently.

To increase the number of cars for which we provide inspection services, we will further pursue introducing inspection and maintenance services to all Group stores. We will add more inspectors to our workforce and open more Techno Cube facilities. In car sales, we will work to raise profitability by increasing the number of stores selling cars as well as by strengthening trade-in services for used cars.

● Overseas Business Strategy

The AUTOBACS Group's goals include "creating a utopia for automobile enthusiasts" and "making drivers the world over into car fans." For further growth of the Group, we opened our first overseas store in Taiwan in 1991. Since that time, we have opened stores in six regions around the world, including Singapore, Thailand, France, the United States, and China. In accordance with the principles of selection and concentration as outlined in the Mid-Term Business Plan, in the year under review we decided which areas will be the focus of business expansion efforts in the future. The business environment differs from one region to the other, and over the next two years we will establish a successful approach for each region and work to contribute to the profitability of the Group.

AUTOBACS Overseas

Region	Current Operations
France (7 stores)	We are working to establish a store format that meets regional circumstances. Through the acquisition of an Eldorauto store network, we have reinforced our operational foundation. Also, we will expand our product lineup through a cooperative alliance with Halfords Group plc.
United States (1 store)	We are in the process of establishing a business model matched to the region and aiming to achieve profitability.
China (3 stores)	We have opened pilot brand stores in major cities. Since the potential of a significant growth in the car parts and accessories market is very high, we aim to expand our store network by implementing the franchise system.
Taiwan, Thailand, Singapore (8 stores)	We will close unprofitable stores and companies. To contribute to the Group's profitability, our focus is to improve business efficiency.

Special Feature:

AUTOBACS—Aiming to Be a Total Car-Life Service Provider

Improving Your Car to Suit Your Own Taste

—Car parts and accessories sales— page 16

Starting Your New Car-Life

—Car sales— page 14

Always Keeping Your Car in the Best Condition

—Statutory safety inspection and maintenance services— page 18

The AUTOBACS Group has been the largest comprehensive retailer of car parts and accessories in Japan over the history of its franchise operations. Currently, we are endeavoring to transform ourselves into what we call a provider of "total car-life services."

By reaching our goal of becoming a "total car-life service provider," we will be able to make our strength in car parts and accessories into the foundation for offering a comprehensive range of car-related services. We are already capable of offering a range of services that extends from the beginning to the end of a customer's car-life cycle. At AUTOBACS stores, customers can buy a car, purchase parts and accessories and have them installed, receive maintenance and statutory safety inspections, and finally to sell the car when they decide to replace it or dispose of it. In the future, we will further extend our services to other automobile-related business areas, thereby advancing our transformation to the format that will always be the choice of customers and reinforcing the image of AUTOBACS as a company that provides the best services for automobile needs.

SCENE 1

Starting Your New Car-Life

—Car sales—

We will further expand our sales of cars, leading to increased sales of goods and more business for statutory safety inspection and maintenance services.

You Can Buy Your Car at AUTOBACS

At the end of March 2006, the AUTOBACS Group had a network of 513 stores in Japan. More and more stores in the network have been joining the AUTOBACS CARS sales business, and our sales of new and used cars manufactured in Japan and overseas are increasing.

Customers who are looking for a used car have easy access to the “CARS NAVI” online information terminals that were installed in 262 stores as of the end of March 2006. With these terminals, customers can search for and select a car from an inventory of more than 20,000 vehicles, including cars offered by tie-up partners, such as Aucnet Inc. In addition, they can lease top-quality used cars that were owned by car rental companies. Customers who are looking for a new car can order any model from catalogs, and leases can be arranged. We can also meet the needs of customers looking for a highly customized car. Certain stores have AUTOBACS CARS SHOW sales areas that handle customized cars, such as the monoCRAFT series of original custom cars. We also purchase used cars from customers to make it easy for them to switch to a new vehicle.

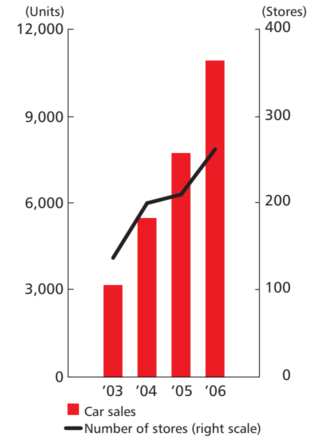
Of course, when customers purchase a car, whether new or used, they can also purchase car parts and accessories that match their tastes and preferences and have them installed at the store. Such a service could only be provided by a comprehensive car parts and accessories store like AUTOBACS.

Over the past several years, the AUTOBACS Group has worked to enhance its car sales operations and strengthen its sales organization. At the same time, we have aggressively promoted and advertised our car sales business. As a result, we are building a strong reputation in car sales, and we sold 10,921 cars in the year under review, an increase of 3,205 from the previous fiscal year. We are going to increase car sales by introducing AUTOBACS CARS at all Group stores over the next several years.

Car Sales—The Start of a Customer’s Car-Life

A car-related lifestyle begins at the point of purchase of a car, and it is an important point in our business of providing “total car-life services.” Sales of cars are now one of the AUTOBACS Group’s most important means of expanding the customer base, because these services attract drivers that were not previously customers. In the future, we will further expand our sales of cars, leading to increased sales of car parts and accessories and more business for statutory safety inspection and maintenance services.

Number of Cars Sold at AUTOBACS Group Stores and Number of Stores Selling Cars



AUTOBACS CARS corner

monoCRAFT series: Pick Up Cube

SCENE 2 *Improving Your Car to Suit*

—Car parts and accessories sales—

We are enhancing customer's lifestyle with cars by providing high-value-added products and services.

Your Own Taste

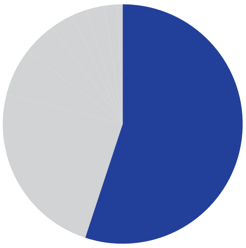
You Can Customize Your Car at AUTOBACS

AUTOBACS Group stores offer extensive product lineups of car parts and accessories. Our business lineup includes tires, oil, batteries, car electronic products, such as car navigation and ETC systems, car interior and exterior items, and motor sports goods. We not only handle national brand products but also sell a wide selection of private brand products that we have developed by ourselves. Moreover, we provide product installation services at the service bays located in our stores. In this way, we can make the most of the car-related know-how and skills that we have acquired over many years in the business to ensure the satisfaction of our customers.

Share of Total Sales at Top 10 Car Parts and Accessories Stores

Fiscal 2006 (%)

55.0%

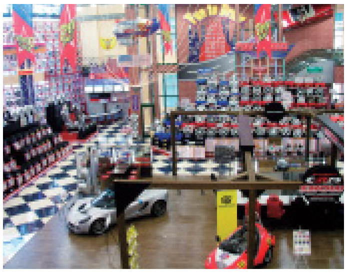


● AUTOBACS Group
● Others

Store Formats That Meet Customer Needs

To meet diverse needs of customers for car parts and accessories, we have multiple store formats. AUTOBACS and AUTO HELLOES stores have wide lineups of frequently used car parts and accessories and are the stores for car maintenance and the exchange of tires, oil, and batteries. Super AUTOBACS stores have more extensive lineups of products than AUTOBACS and AUTO HELLOES stores to meet various customer preferences. These large-format stores provide many ideas about the ways to enjoy a comfortable lifestyle with cars. AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores specialize in the sale and purchase of used car parts. These stores provide young car enthusiasts and other customers with reasonably priced used parts and accessories that were traded in at AUTOBACS Group stores as well as with outlet products from manufacturers.

As of the end of March 2006, we had a total of 532 stores, 513 in Japan and 19 overseas. In addition to opening new stores, we are in the process of renovating and relocating stores and changing store formats to achieve the optimal allocation and combination of stores throughout our network so that we can attract more customers and provide convenience.



Sales area with an extensive lineup of products (Super AUTOBACS Type I)

The Strengths of AUTOBACS in Sales of Car Parts and Accessories

The car parts and accessories business plays a key role in providing "total car-life services." To build an organization that can provide one-stop shopping for a wide range of car-related services, it is imperative to have high capabilities in both procurement and sales to handle an extensive lineup of parts and accessories together with high-quality services supported by solid technical skills. With competition intensifying, conditions in the car parts and accessories market have become increasingly challenging. But we have been strengthening our partnerships with the suppliers of car parts and accessories. In the challenging market, this boosts our brand strength further and improves our competitive edge. This has enabled us to provide high-value-added products and services to our customers and as a result has enhanced the customer's lifestyle with cars.

Our service bays provide reliable services with advanced facilities.

SCENE 3

Always Keeping Your Car in

—Statutory safety inspection and maintenance services—

We will accelerate the opening of Techno Cube facilities, thereby further bolstering our statutory safety inspection and maintenance services.

the Best Condition

You Can Maintain Your Car at AUTOBACS

Since AUTOBACS was established, the Company has been using the service bays located in its stores, not only to offer oil and tire changes but also to provide the installation of a wide range of products, such as car electronics and accessories. As a result, we have developed a wealth of skills and know-how regarding cars from all manufacturers. These service bay operations are one of our major strengths, and we are enhancing them with the addition of new services—statutory safety inspections and maintenance. As of the end of March 2006, of our 513 stores in Japan, we had 440 facilities that can perform disassembly and repair of cars, and 217 of those were certified to perform statutory safety inspections on behalf of the government.

We can provide statutory safety inspection and maintenance services on weekends, and we offer an on-the-spot estimation service that spells out what needs to be done and how much it will cost, which had previously been unclear to customers in many instances. In addition, we offer reassuring, accommodating, and courteous service; customers are able to directly confirm the progress of the work with their own eyes. These features of our system have been highly appealing to our customers, and the number of repeat customers for inspection and maintenance services is increasing.

Establishing More Techno Cube Service Facilities

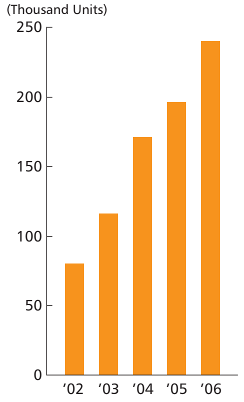
To expand statutory safety inspection and maintenance services, we needed to increase the number of our service bays. In March 2005, we began to open Techno Cube service facilities near existing store locations. These new facilities, which are certified to perform statutory safety inspections, are meeting diversifying customer needs with the provision of Haya-Waza (quick and highly skilled) inspections. We have been aggressively introducing the Haya-Waza inspections to many stores along with other services, such as body work, painting, glass repair, and polymer treatment. Techno Cube facilities have ample service bay space and specialized equipment, and we can offer statutory safety inspection and maintenance services as well as installation services at both Techno Cube and other existing stores, resulting in increased operational efficiency. We opened the first Techno Cube facility in March 2005, and we had opened 15 Techno Cube facilities by the end of March 2006.

Synergies with Sales of Car Parts and Accessories

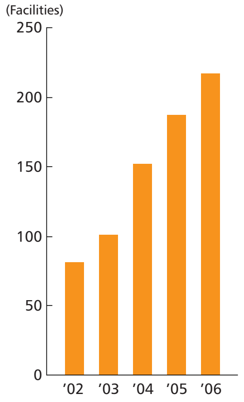
As a result of our aggressive promotion of statutory safety inspection and maintenance services, the number of cars on which we perform the inspection is increasing each year. Compared with about 110,000 vehicles in the fiscal year ended March 2003, in the year under review we inspected approximately 240,000 vehicles, an increase of more than two times over a three-year period. Moreover, we also benefit from synergies. Customers who come to our stores for inspection and maintenance services also purchase parts and accessories. In addition, we are also drawing new customers who had not previously been to our stores.

With competition in the market for car parts and accessories intensifying, our expansion of inspection and maintenance services does more than just contribute to our sales and profits; it also helps us to enlarge our base of customers for car parts and accessories. Along with car sales, these services play a key role in our Mid-Term Business Plan's Total Car-Life Business Strategy. In the future, we will continue to strive to have all stores obtain certification for inspection services, and at the same time we will accelerate the opening of Techno Cube facilities, thereby further bolstering our statutory safety inspection and maintenance services.

Number of Statutory Safety Inspection Services Provided at AUTOBACS Group Stores



Number of Fully Certified Centers at AUTOBACS Group Stores



Techno Cube facility offering statutory safety inspection and maintenance services

AUTOBACS Group Store Network

Outline of Major AUTOBACS Group Stores

	Super AUTOBACS Type Ⅰ	Super AUTOBACS Type Ⅱ
Definition	Large-service-area, flagship stores that entrench the mainstay Super AUTOBACS brand	Stores providing “total car-life services” by using the best facilities and technical capabilities to offer the best goods and services; a core store format of the Area Dominant Strategy
Commercial area	20km radius	10km radius
Commercial area population	1,000,000 or more	300,000 or more
Size Site size	9,900m² or more	5,610m² or more
Sales floor space	1,650m² or more	990m² or more
Service bays	40 or more	15 or more
Parking spots	200 or more	80 or more

Store Network

	2001/3	2002/3	2003/3	2004/3	2005/3	**2006/3**
Domestic:						
Super AUTOBACS	21	29	43	54	60	**65**
Type Ⅰ	5	5	5	6	6	**6**
Type Ⅱ	16	24	38	48	54	**59**
AUTOBACS	472	459	435	421	410	**403**
AUTO HELLOES	35	35	16	16	16	**11**
AUTOBACS EXPRESS	3	3	1	4	5	**6**
AUTOBACS GARAGE	4	3	—	—	—	**—**
AUTOBACS *Hashiriya Tengoku Secohan Ichiba*	2	4	13	22	26	**28**
Overseas	7	9	10	11	12	**19**
Total	544	542	518	528	529	**532**

AUTOBACS

AUTO HELLOES

AUTOBACS *Hashiriya Tengoku Secohan Ichiba*

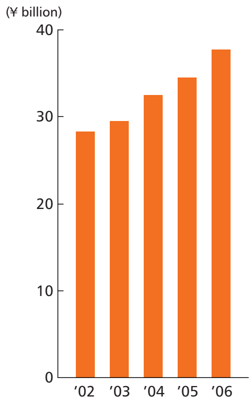
Community-based, one-stop stores offering automotive goods, mainly popular and high-use products	Stores specializing in the sale of automotive goods traded in by customers at AUTOBACS Group stores and outlet products from manufacturers
5km radius	5–10km radius
150,000	450,000
2,640m^2	1,320m^2
495m^2 or more	396m^2
7 or more	4
50 or more	20

Major Merchandise

Retail sales by product category at main store formats (AUTOBACS, Super AUTOBACS, and AUTO HELLOES)

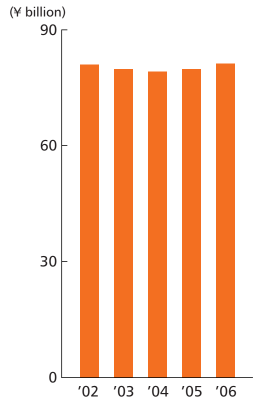
Services

- Tire and oil changes
- Installations and changes of car electronics
- Statutory safety inspections and maintenance
- Body work and painting
- Polymer processing
- Window film application



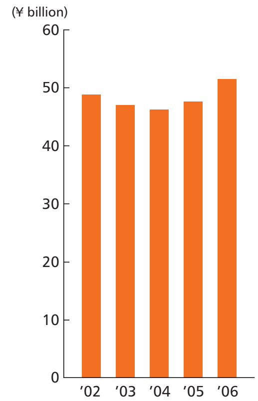
Car Electronics

- Car navigation equipment
- Car audio equipment
- Car visual equipment
- ETC equipment



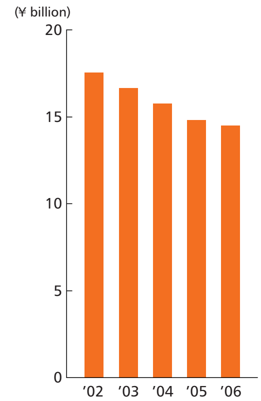
Tires

- Private brand tires
- National and import brand tires
- High-performance tires
- Studless tires



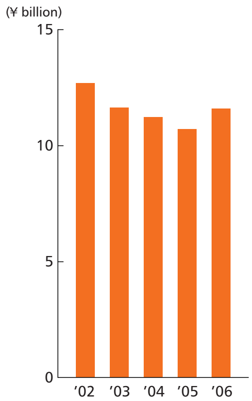
Oil

- Private brand engine oil
- Pure engine oil
- High-performance engine oil
- Transmission and differential gear oil
- Automatic transmission fluid



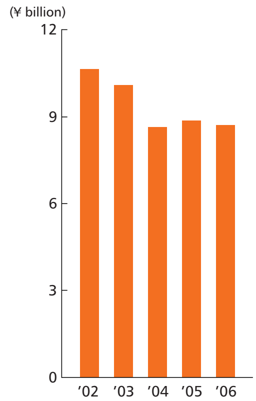
Wheels

- Private brand wheels
- Luxury wheels for car-customizing
- Wheels for various types of vehicles
- Steel wheels



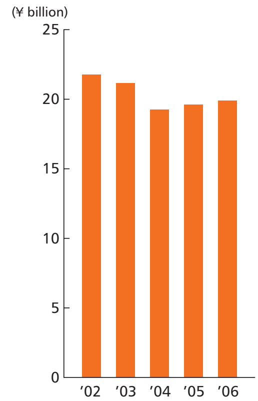
Batteries

- Private brand batteries
- High-performance-type batteries
- Batteries for imported vehicles
- Motorcycle batteries



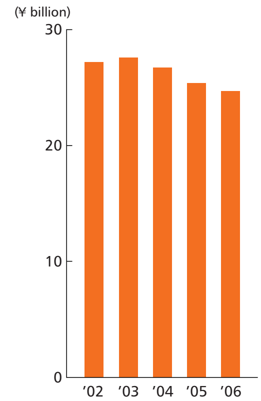
Maintenance

- Tire chains
- Carriers
- Oil filters and air filters
- Wiper blades
- Tools



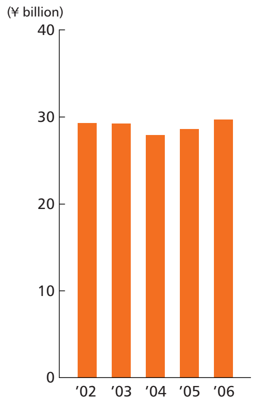
Motor Sports Goods

- Aero parts
- Tune-up parts (sports mufflers, shock absorbers)
- High-intensity discharge (HID) lights
- Theft prevention products
- Other electric parts



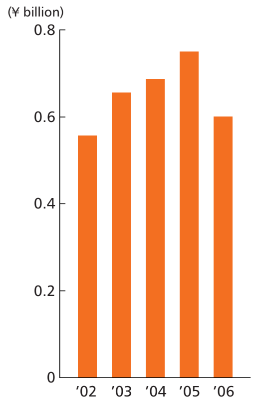
Accessories

- Radar detectors
- Air fresheners and deodorizers
- Car interior goods
- Seat covers
- Child seats



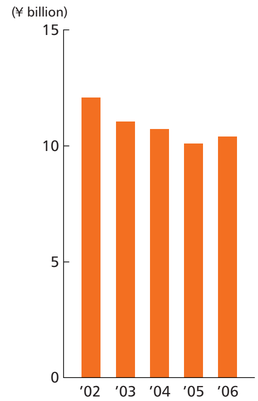
Car Leisure

- Books and magazines
- Camping gear
- Sundries and snacks
- CDs and DVDs



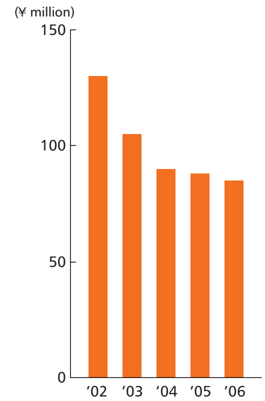
Car Repairs

- Car washing products
- Waxes and coating agents
- Repair products



Motorcycle Goods

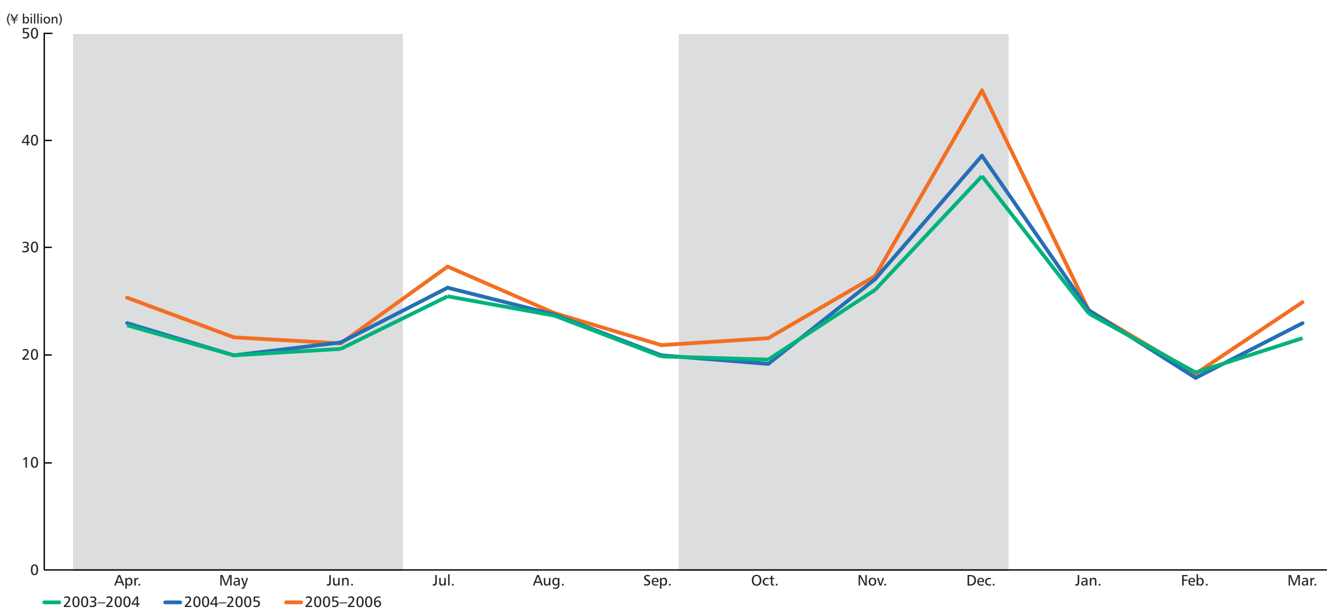
- Helmets
- Riding wear
- Bike covers
- Motorcycle accessories



Total Store Sales

Monthly Total Store Sales*

* Sales at main store formats (AUTOBACS, Super AUTOBACS, and AUTO HELLOES)



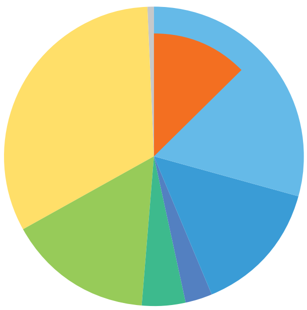
Market Information

Sales and Market Share by Sales Channel

(Fiscal 2004, 2005, and 2006)

Market Share by Sales Channel

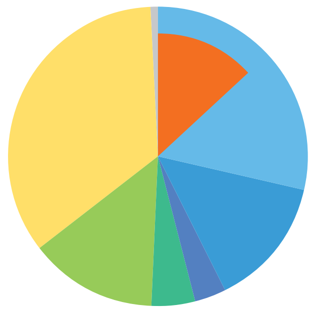
2004*1 (%)



- 29.3 Car Parts and Accessories Stores
- 14.4 Tire Stores
- 2.9 Secondhand and Outlet Parts Shops
- 4.7 Home Centers
- 15.6 Gasoline Stations
- 32.4 Car Dealers
- 0.7 Others

13.0 AUTOBACS*4

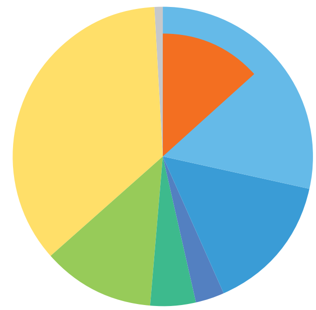
2005*2 (%)



- 28.6 Car Parts and Accessories Stores
- 14.0 Tire Stores
- 3.4 Secondhand and Outlet Parts Shops
- 4.7 Home Centers
- 13.8 Gasoline Stations
- 34.7 Car Dealers
- 0.8 Others

13.1 AUTOBACS*4

2006*3 (%)



- 28.5 Car Parts and Accessories Stores
- 14.9 Tire Stores
- 3.1 Secondhand and Outlet Parts Shops
- 4.9 Home Centers
- 12.1 Gasoline Stations
- 35.7 Car Dealers
- 0.9 Others

13.3 AUTOBACS*4

	Estimated number of car parts and accessories stores			Estimated retail sales (¥ million)						Estimated share of retail sales (%)		
Period of estimate	2004*1	2005*2	2006*3	2004*1	(2004 / 2003)	2005*2	(2005 / 2004)	2006*3	(2006 / 2005)	2004*1	2005*2	2006*3
Car Parts and Accessories Stores*5:												
National Chains	1,051	1,046	1,041	434,900	97.6%	434,100	99.8%	445,500	102.6%	20.26	20.37	20.63
Local Chains	188	173	179	76,400	92.9	73,200	95.8	77,400	105.7	3.56	3.44	3.58
Independent Stores	549	498	444	118,237	60.2	102,642	86.8	91,737	89.4	5.51	4.82	4.25
Subtotal	1,788	1,717	1,664	629,537	86.9	609,942	96.8	614,637	100.8	29.33	28.63	28.46
Tire Stores:												
Manufacturer-Affiliated Chains	1,988	1,998	2,092	213,800	100.1	211,300	98.8	230,360	109.0	9.96	9.92	10.67
Independent Stores	679	630	583	94,192	80.4	87,616	93.0	90,715	103.5	4.39	4.11	4.20
Subtotal	2,667	2,628	2,675	307,992	93.1	298,916	97.1	321,075	107.4	14.35	14.03	14.87
Secondhand and Outlet Parts Shops*6	730	760	780	63,150	105.3	72,500	114.8	66,000	91.0	2.94	3.40	3.06
Home Centers	3,508	3,553	3,549	101,464	101.5	99,398	98.0	106,313	107.0	4.73	4.66	4.92
Discount Stores	561	599	743	14,499	104.7	16,527	114.0	19,407	117.4	0.68	0.78	0.90
Gasoline Stations	40,920	39,479	37,397	334,398	84.5	294,671	88.1	261,181	88.6	15.58	13.83	12.09
Car Dealers	16,697	16,607	16,605	695,025	99.2	738,765	106.3	770,820	104.3	32.39	34.67	35.70
Total	66,871	65,347	63,413	2,146,065	92.1	2,130,719	99.3	2,159,433	101.3	100.00	100.00	100.00

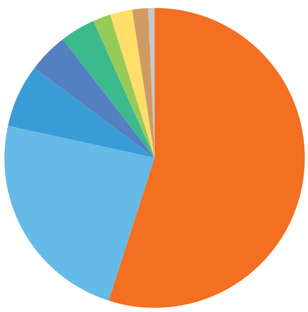
Source: *A•M NETWORK* magazine, August 2004, August 2005, and September 2006 issues, published by AutoMart Network Inc.
*1 Estimated values for fiscal 2004
*2 Estimated values for fiscal 2005
*3 Estimated values for fiscal 2006
*4 Sales at AUTOBACS, Super AUTOBACS, and AUTO HELLOES stores
*5 Car parts and accessories stores are classified into national chains (AUTOBACS, Yellow Hat, and Jms), local chains (chains with more than 10 stores), or independent stores.
*6 Include sales at AUTOBACS *Hashiriya Tengoku Secohan Ichiba*

Comparison with Competitors

(Fiscal 2005 and 2006)

Share of Total Sales

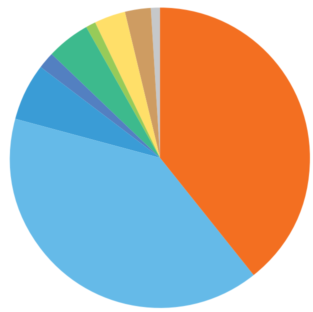
2006 (%)



- 55.0 **AUTOBACS*1**
- 23.5 Yellow Hat
- 6.8 Jms
- 4.3 Auto Wave
- 3.8 Driver Stand
- 1.9 Autotech
- 2.4 Auto R's
- 1.7 Monte-carlo
- 0.7 Autoway

Share of Total Stores

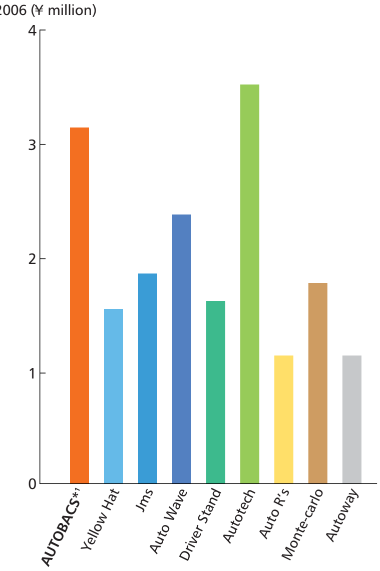
2006 (Number of stores)



- 479 **AUTOBACS*1**
- 487 Yellow Hat
- 75 Jms
- 22 Auto Wave
- 57 Driver Stand
- 13 Autotech
- 41 Auto R's
- 34 Monte-carlo
- 12 Autoway

Annual Sales per *Tsubo* (= 3.3m²)

2006 (¥ million)



	Retail sales (¥ billion)		Total number of stores		Total sales floor space (*tsubo*)		Total number of employees		Annual sales per store (¥ million)		Sales floor space per store (*tsubo*)		Number of employees per store		Annual sales per *tsubo* (¥ million)		Annual sales per employee (¥ million)	
Period of estimate	2005*2	2006*3	2005*2	2006*3	2005*2	2006*3	2005*2	2006*3	2005*2	2006*3	2005*2	2006*3	2005*2	2006*3	2005*2	2006*3	2005*2	2006*3
AUTOBACS*1	279.7	287.3	486	479	91,326	91,186	9,082	9,028	575	599	187.9	190.3	18.6	18.8	3.1	3.1	30.9	31.9
Yellow Hat	121.4	122.7	486	487	77,064	79,744	5,367	5,805	250	252	158.6	163.7	11.0	12.0	1.6	1.5	22.6	21.1
Jms	33.0	35.5	74	75	18,994	19,222	1,292	1,309	446	473	257.0	256.0	17.5	17.5	1.7	1.9	25.5	27.1
Auto Wave	22.9	22.4	22	22	9,452	9,452	890	920	1,040	1,018	433.0	433.0	40.5	41.8	2.4	2.4	25.7	24.3
Driver Stand	15.5	20.0	50	57	10,200	12,486	681	837	310	352	204.0	219.0	13.6	15.0	1.5	1.6	22.8	24.0
Autotech	10.0	10.0	13	13	2,742	2,840	315	340	769	769	210.9	218.5	24.2	26.1	3.6	3.5	31.7	29.4
Auto R's	12.4	12.3	40	41	10,971	11,126	503	540	310	307	274.0	271.0	12.6	12.2	1.1	1.1	24.7	25.2
Monte-carlo	8.9	8.9	36	34	5,245	5,030	343	322	246	262	146.0	148.0	9.5	9.5	1.7	1.8	25.8	27.7
Autoway	3.5	3.5	12	12	3,091	3,091	126	126	292	292	257.6	257.6	10.5	10.5	1.1	1.1	27.8	27.8
Total	507.3	522.6	1,219	1,220	229,085	234,177	18,599	19,227	–	–	–	–	–	–	–	–	–	–

Source: *A•M NETWORK* magazine, July 2005 and August 2006 issues, published by AutoMart Network Inc.
*1 Include figures at main store formats (AUTOBACS, Super AUTOBACS, and AUTO HELLOES).
*2 Estimated retail sales values from April 2004 through March 2005.
Figures for number of stores, sales floor space, and number of employees are as of March 31, 2005.
*3 Estimated retail sales values from April 2005 through March 2006.
Figures for number of stores, sales floor space, and number of employees are as of March 31, 2006.

List of Principal Consolidated Subsidiaries and Equity Holding Method Companies

(As of March 31, 2006)

Wholesale	Wholesale of car parts and accessories to franchisees.
Retail	Sale of car parts, accessories, and services, principally to consumers.
Others	Operational support for wholesale operations, retail operations, and franchisees and development of new store formats.

Consolidated Subsidiaries

Company name	Location	Capital stock or equity contribution (¥ million)	Percentage of voting rights held (%)
■ Retail			
AUTOBACS Kyokuei Ltd.	Asahikawa, Hokkaido	80	100.0
A.M.C. Co., Ltd.	Sapporo, Hokkaido	495	100.0
ADR Ltd.	Shimohei-gun, Iwate	258	80.0
Car Life Ltd.	Sendai, Miyagi	99	100.0
Autobacs Benefit Ltd.	Chiba, Chiba	150	100.0
AUTOBACS Alpha Ltd.	Ichikawa, Chiba	225	100.0
Autobacs Chiba Ltd.	Kashiwa, Chiba	200	100.0
Autobacs Kanagawa Ltd.	Yokohama, Kanagawa	90	90.0
AUTOBACS Yamanashi Ltd.	Kofu, Yamanashi	120	100.0
Super Auto Nagoya Ltd.	Nagoya, Aichi	225	96.7
Hokusetsu Autobacs Ltd.	Takatsuki, Osaka	96	100.0
Autobacs Sun Ace Ltd.	Neyagawa, Osaka	130	100.0
Autobacs Izumi Ltd.	Sakai, Osaka	85	87.7
AUTOBACS Three Arrow Ltd.	Hiroshima, Hiroshima	95	100.0
O.P.S. Ltd.	Fukuoka, Fukuoka	85	91.3
AUTOBACS U.S.A., INC.	California, U.S.A.	US$3.0 million	100.0
SHANGHAI AUTOBACS PAIAN AUTO SERVICE Co., Ltd.	Shanghai, China	US$4.5 million	65.0
HSINCHU BACS Ltd. (Note 1)	Taipei, Taiwan	NT$145 million	86.0 (69.0)
AUTOBACS TAIWAN Co., Ltd.	Taipei, Taiwan	NT$50 million	100.0
AUTOBACS THAILAND LTD. (Notes 2 and 5)	Bangkok, Thailand	99.0 million Thai baht	49.9 [42.9]
■ Retail and Wholesale			
AUTOBACS FRANCE S.A.S.	Pierrelaye, France	3.7 million euro	100.0
AUTOBACS VENTURE SINGAPORE Pte. Ltd.	Singapore, Singapore	S$2.0 million	80.0
CARS Sapporo Co., Ltd.	Sapporo, Hokkaido	150	93.3
DIA BACS Co., Ltd.	Koto-ku, Tokyo	100	60.0
■ Wholesale			
AUTOBACS SHANGHAI TRADING Co., Ltd. (Note 5)	Shanghai, China	US$1.0 million	41.0
AUTOBACS Qiche Yong Pin Co., Ltd.	Beijing, China	US$5.0 million	100.0
AUTOBACS SEVEN (TAIWAN) Co., Ltd.	Taipei, Taiwan	NT$117.4 million	100.0
Auto Refine Co., Ltd.	Yokohama, Kanagawa	52	97.4
CORES INTERNATIONAL, Inc.	Sakai, Osaka	145	81.4

Company name	Location	Capital stock or equity contribution (¥ million)	Percentage of voting rights held (%)
■ Others			
AUTOBACS Total Service Ltd. (Note 4, 8)	Koto-ku, Tokyo	10	100.0
AUTOBACS Management Service Ltd. (Note 4)	Koto-ku, Tokyo	90	100.0
A.B. Consulting Co., Ltd. (Note 4)	Koto-ku, Tokyo	10	100.0
BACS WING SYSTEM Co., Ltd. (Note 4, 8)	Koto-ku, Tokyo	95	100.0
BRAIN-ING Co., Ltd. (Note 4)	Koto-ku, Tokyo	50	90.0
Success Know-How Osaka Ltd. (Note 4, 8)	Koto-ku, Tokyo	10	100.0
Support-A Ltd. (Note 4)	Shibuya-ku, Tokyo	35	92.9
ALFI Ltd. (Note 4)	Osaka, Osaka	30	100.0
Seibu Driving School Co., Ltd. (Note 4)	Kodaira, Tokyo	15	100.0
Tama Driving School Co., Ltd. (Note 4)	Hino, Tokyo	160	100.0

The Company has 23 consolidated subsidiaries in addition to the abovementioned companies, giving a total of 62 consolidated subsidiaries.

Equity Holding Method Companies

Company name	Location	Capital stock or equity contribution (¥ million)	Percentage of voting rights held (%)
■ Retail			
Hokuei Shoji Ltd. (Note 6)	Morioka, Iwate	90	16.3
Toyama Drive Co., Ltd. (Notes 3 and 9)	Toyama, Toyama	17	42.5<14.5>
Puma Ltd. (Note 9)	Tonami, Toyama	16	26.4
AIM Ltd. (Notes 6 and 8)	Kumagaya, Saitama	69	17.1
Buffalo Ltd. (Note 7)	Kawaguchi, Saitama	510	24.2
FUNUS Corporation	Minato-ku, Tokyo	200	25.0
ZHEJIANG YUANTONG AUTOGOODS Co., Ltd.	Hangzhou, China	RMB10 million	25.0
■ Wholesale			
Pal Star Ltd.	Yokohama, Kanagawa	200	25.0
Daytona International Trading Corporation (Note 7)	Shuchi-gun, Shizuoka	412	22.9

Notes:
1. Figure in ( ) parentheses in the "percentage of voting rights held" column indicates percentage of indirect ownership.
2. Figure in [ ] parentheses in the "percentage of voting rights held" column indicates percentage of consenting shareholders.
3. Figure in < > parentheses in the "percentage of voting rights held" column indicates percentage of indirect ownership through equity holding method company Puma Ltd.
4. "Others" indicates companies that do not belong to the retail or wholesale business categories.
5. The Company holds 50% or less of the voting rights for this company. However, it is treated as a subsidiary because the Company effectively controls it.
6. The Company holds 20% or less of the voting rights for this company. However, it is treated as an equity holding method company because the Company effectively influences it.
7. The Company issues financial statements.
8. Three companies changed their name in April 2006: AIM Ltd. to Blue Ocean, AUTOBACS Total Service Ltd. to AUTOBACS SD Ltd., and BACS WING SYSTEM Co., Ltd. to AUTOBACS SYSTEM SOLUTION CO., LTD. In June 2006, Success Know-How Osaka Ltd. changed its name to CAR-LIFE INSTITUTE INC.
9. Toyama Drive Co., Ltd., and Puma Ltd. merged in June 2006, and Puma Ltd. is the surviving company.

Corporate Governance

Fundamental Approach

Through the franchise system, the AUTOBACS Group provides a variety of products and services to a huge number of customers. We recognize that maintaining and enhancing the AUTOBACS brand to earn further support and trust from all stakeholders is our most important management challenge. Accordingly, we have been working continuously to clarify management responsibilities and increase the speed of decision making by streamlining our management structure. At the same time, we are endeavoring to fulfill our corporate social responsibilities by taking steps to increase management transparency, such as strengthening the oversight of management and enhancing timely disclosure.

Directors and Officer System

In June 2002, AUTOBACS introduced an officer system, separating the board of directors' responsibilities for corporate decision making and the officers' responsibilities for execution and thereby strengthening the oversight function of the board of directors.

In the year under review, the Company had 10 directors, 8 of whom were also officers, including the representative director. The Company had 2 outside directors to bolster the oversight function of the board of directors and to enhance the quality of the board's deliberations by drawing on the outside directors' management experience in other corporations. In accordance with a resolution adopted at the Ordinary General Meeting of Shareholders held in June 2006, we further strengthened the oversight function of the board of directors, moving to a system of 8 directors, consisting of 4 officers and 4 non-officers. The 4 non-officer directors include 2 outside directors.

Officers are appointed at meetings of the board of directors. To enable flexible responses to changes in the operating environment and to clarify responsibility on a fiscal year basis, we have established a one-year term for officers, the same as that for directors. In the year ending March 2007, we will strive to implement operations rapidly and efficiently through a system comprising 4 chief officers—the CEO, 2 Co-COOs, who are in charge of executing business strategies, and one CSO, who is in charge of overall management of corporate strategy—and 12 officers.

Decision-Making and Execution System

In addition to the board of directors' meeting, there is another major decision-making management meeting, which is chaired by the CSO and Co-COOs and attended by all officers. The meeting is held once a month for a two-day period.

At this management meeting, mid-term and annual management plans are formulated and the progress of these plans is discussed and checked. At the same time, operating results, including those of subsidiaries, are discussed and measures for improvement are considered. In addition, when needed, the meeting deliberates on matters that are under the jurisdiction of the board of directors or the chief officers in advance. The officers are requested to strictly adhere to the responsibilities and authority under the management system determined by the board of directors. They exercise authority in accordance with the delegation of authority and execute business efficiently and effectively. The 4 chief officers are responsible for reporting matters related to execution to the board of directors.

Management Auditing and Oversight

1. Corporate Auditing System and Auditing Function

Following the Ordinary General Meeting of Shareholders held in June 2006, the Company has 4 corporate auditors, including 2 outside corporate auditors. The corporate auditors attend board of directors' meetings and management meetings and offer advice and opinions. In addition, in accordance with auditing policies and plans determined by the board of corporate auditors, the corporate auditors conduct not only internal auditing but also auditing of subsidiaries in Japan and overseas. The corporate auditors implement rigorous oversight of the board of directors' decision making and execution of operations.

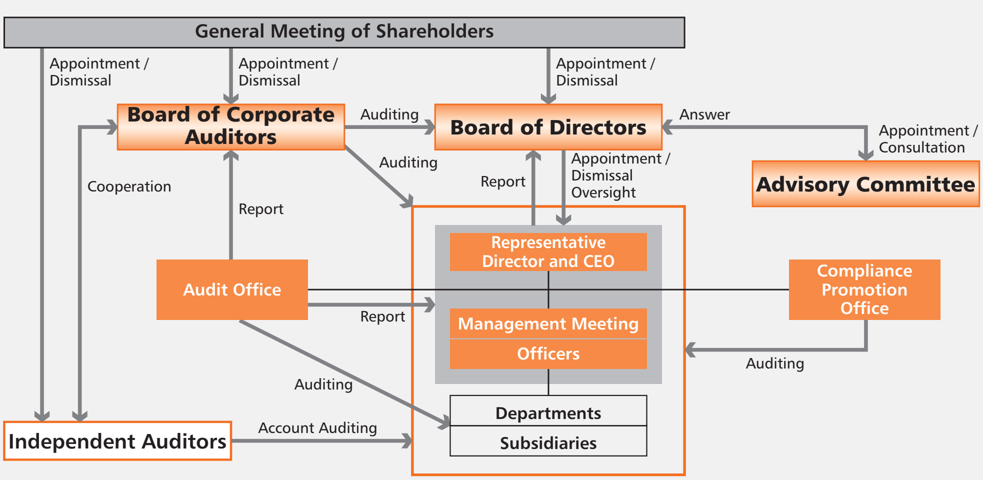
The corporate auditors work closely with the independent auditors, discussing each year's auditing plan at the beginning of the fiscal year and receiving reports quarterly on the progress of financial statement audits, thereby striving to ensure thorough audits. Moreover, at the beginning of each year the corporate auditors work with the Audit Office to discuss, organize, and formulate the year's auditing plan. During the year, the corporate auditors and the Audit Office have meetings once every two months, and the corporate auditors receive reports on the results of the audits performed by the Audit Office. Through close cooperation between the corporate auditors and the Audit Office, we ensure internal audits are carried out appropriately.

2. Internal Control System

The Audit Office, which was established as an internal auditing organization, flexibly performs internal audits of the Company and subsidiaries. The office reports the results of its audits to the corporate auditors, the representative director and CEO, and the other officers concerned and issues corrective guidance to relevant divisions. The Compliance Promotion Office, which is under the direct supervision of the representative director and CEO, works to ensure that everyone in the Group follows the AUTOBACS Group Code of Conduct and its guidelines, which have been established to ensure that business activities are based on a high level of ethical standards. The office is working to ensure that all directors, officers, and employees of companies in the AUTOBACS Group strictly comply with all laws and regulations. To complement these activities, the AUTOBACS Group has established the Orange Hotline. In the event employees come across any potential incidents, which could infringe upon the code of conduct, they can report the incidents through a third party and ask the Company to investigate and take remedial action if warranted.

Furthermore, we have established corporate rules for the handling of confidential information and the Committee for Personal Information Protection to strengthen the Company's system for managing confidential and personal information.

Corporate Governance System



Compliance System

For the Company, compliance does not stop at just ensuring adherence to laws, regulations, and corporate ethics; we define compliance to mean meeting the legitimate expectations of all our stakeholders. This is clearly explained in our code of conduct and guidelines for conduct, which are the basis for our compliance system.

To reduce and avoid the risks of activities that violate laws, regulations, or social norms, the Compliance Task Force, which is composed of representatives from related departments, meets monthly. In these meetings, the task force members share and discuss important matters relating to compliance to ensure the effectiveness of the in-house compliance system. The results of the meetings are also reported to chief officers and corporate auditors on a regular basis.

AUTOBACS Code of Conduct

1) To customers	We consider security, satisfaction, and trust from the customer's viewpoint and provide the best products, technologies, and services to meet customer expectations for total car-life services.
2) To suppliers	We build fair relationships with all suppliers and implement sincere transactions in accordance with laws, regulations, and contracts.
3) To shareholders and investors	We act in the manner expected of a public company, fulfill our social responsibilities, and provide appropriate, timely disclosure of accurate company information, so that shareholders and investors can evaluate and understand the Company correctly.
4) To society	As a member of society, we observe social rules and work for the betterment of the society.
5) To employees	We value diversity and inclusion and strive to create a sound and healthy work environment.
6) To company assets	We manage and protect all of company's tangible and intangible assets and rights; we do not use them inappropriately. At the same time, we respect the assets and rights of others.

Protecting Personal Information

In April 2005, a new law regulating the handling of personal information took effect in Japan. In response, we have established the Personal Information Protection Committee, which is led by the CEO, to establish a system for the protection of personal information held by the Company.

In the fiscal year ended March 2006, we selected 15 key departments (including subsidiaries) that handle personal information and conducted on-site checking of each department's handling of that. We implemented many improvement measures and held a total of 64 study sessions in all geographical areas. We have been continuously working to enhance our system for the protection of personal information. In March 2006, we convened a general meeting of the Personal Information Protection Committee, where status reports were presented and future initiatives considered.

General meeting of Personal Information Protection Committee

Training and Education System

The AUTOBACS Group has been continuously working to enhance its compliance-related training system.

The current training system includes basic training for store managers, AUTOBACS basic lectures, and personal information protection law study sessions, and through this system we are working to raise knowledge and

Training Session	Applicants	No. of Sessions Held in Fiscal 2006 (Total number of attendees)
Store manager basic training (Legal issues)	Store managers	11 (about 180)
AUTOBACS basic lectures (Compliance)	Headquarters, subsidiaries	6 (about 140)
Personal information protection law study sessions	Headquarters, subsidiaries	34 (about 850)
	Franchisees, store employees	31 (546)

awareness of all compliance issues and related laws. The training system covers not only headquarters employees but also employees at subsidiaries, franchisees, and stores.

In the fiscal year ended March 2006, we conducted a store manager qualification system that includes tests on the AUTOBACS Code of Conduct and its guidelines. About 520 people applied for the test.

Orange Hotline

Through the activities of the Corporate Culture Committee, the AUTOBACS Group has been working to promote a corporate culture in which people can report even bad news and consult with supervisors promptly. The Orange Hotline, an internal direct reporting system that was established in July 2004, works to facilitate quick detection and remediation of violations of laws, regulations, and corporate ethics or the Code of Conduct and its guidelines. Furthermore, the hotline has also developed into a means of operational improvement. To improve the hotline's effectiveness, we have conducted an internal survey and are developing improvement measures.

Orange Hotline poster in the office

Environmental Initiatives

AUTOBACS *Hashiriya Tengoku Secohan Ichiba*

The AUTOBACS Group sells not only new products but also secondhand products traded in by customers at its *Hashiriya Tengoku Secohan Ichiba* stores. This business is designed to make full use of product life cycles and reflect our concern for the environment while meeting customer needs.

Using IT to Better Control Disposal of Waste at All Stores

To ensure that we reduce and eliminate potential risks posed by any illegal waste disposal and that all waste is handled properly, we have an Internet reporting system to check the status of waste disposal consignment at all stores. The system also can be used for the improvement. Each store reports the status of waste disposal consignment contracts, the licensing of contractors, the content of waste consignments, and the effective use of manifests.

Health-Promoting Initiatives

In accordance with the philosophy that the health of employees is the most important asset for the Group's continued growth, we are working to promote the health of all employees. For example, we established the AUTOBACS Osaka Health Center, where we hold training sessions (five nights and six days) in the Nishi Health System, based on a combination of western and oriental medical knowledge. If lifestyle-related diseases are found in periodic health checkups, then training may be made mandatory in accordance with the directions of an industrial physician. Since 1992, about 1,800 AUTOBACS Group employees have received this training, and currently several dozen employees attend training sessions each year.

In fiscal 2006, we implemented mental health checks conducted by outside specialists. As a result of this mental health check, employees have a better understanding of their own mental condition and have the opportunity to consult with outside specialists if they feel they would like to.


Training session at AUTOBACS Osaka Health Center

Directors and Officers

(As of June 28, 2006)

Directors

Representative Director

Koichi Sumino*1	Chief Executive Officer

Directors

Setsuo Wakuda	
Yasuhiro Tsunemori	
Takashi Matsuo*1	Chief Strategic Officer Corporate Strategy
Yasuo Nakata*2	(President, CEO, CIO, Calbee Foods Co., Ltd.)
Eiju Miyauchi*2	
Hironori Morimoto*1	Co-Chief Operating Officer Area Dominant Strategy
Kenichi Takeda*1	Co-Chief Operating Officer Total Car-Life Business Strategy and Overseas Business Strategy

Auditors

Kotaro Morino*3	Senior Corporate Auditor
Hiroshi Sumino	Senior Corporate Auditor
Akira Nogami	Senior Corporate Auditor
Kensuke Tanabe*3	(Auditor, Tokai Rokin Bank)

Officers *(Excludes officers who serve concurrently as directors)*

Hiroaki Ito	Northern Japan Region
Kiomi Kobayashi	Northern Kanto Region
Masachika Sumikura	Southern Kanto Region
Yuzuru Toide	Chubu Region
Teruyuki Matsumura	Kansai Region
Yoshihiro Emoto	Southern Japan Region
Masahiro Morimoto	Used Parts Business
Naofumi Kamata	Car Maintenance Business
Kosuke Kaya	AUTOBACS CARS Business
Yoshirou Miyama	New Business Development
Kozo Sumino	Overseas Business Strategy
Satoshi Kohira	Corporate Strategy

*1 Serves concurrently as officer
*2 Outside corporate director ruled under the Corporate Law of Japan
*3 Outside corporate auditor ruled under the Corporate Law of Japan

1. Koichi Sumino
2. Takashi Matsuo
3. Setsuo Wakuda
4. Yasuhiro Tsunemori
5. Hironori Morimoto
6. Kenichi Takeda
7. Eiju Miyauchi
8. Yasuo Nakata

Corporate Organization

(As of April 1, 2006)

- General Meeting of Shareholders
  - Board of Corporate Auditors
  - Board of Directors
    - Audit Office
    - Compliance Promotion Office
    - Corporate Brand Management Office
    - Legal Department
    - Corporate Planning Department
    - Operational Planning and Support Department
    - Human Resources and General Service Department
    - Customer Relations Office
    - Distribution Planning and Management Department
    - Accounting and Finance Department
    - Information Systems Department
    - Sales Promotion Department
    - Store Development Department
    - Store Format Development Department
    - Used Parts Business Department
    - Custom Car Business Department
    - Northern Japan Regional Department
      - Northern Hokkaido Area
      - Southern Hokkaido Area
      - Northern Tohoku Area
      - Southern Tohoku Area
    - Northern Kanto Regional Department
      - Saitama and Gunma Area
      - Ibaraki and Tochigi Area
      - Shinetsu Area
    - Southern Kanto Regional Department
      - Chiba Area
      - Tokyo Area
      - Kanagawa Area
      - Tokaido Area
    - Chubu Regional Department
      - Hokuriku Area
      - Aichi Area
      - Gifu and Mie Area
    - Kansai Regional Department
      - Kyoto, Shiga, and Nara Area
      - Western Hyogo Area
      - Southern Osaka and Wakayama Area
      - Northern Osaka Area
      - Sanin Area
    - Southern Japan Regional Department
      - Chugoku Area
      - Shikoku Area
      - Northern Kyushu Area
      - Central Kyushu Area
      - Southern Kyushu Area
    - Car Electronics Products Department
    - Car Maintenance and Accessories Department
    - Tire and Wheel Products Department
    - Inventory and Product Quality Control Department
    - Overseas Purchasing Department
    - Car Maintenance Service Department
    - BREA Project Development Department
    - AUTOBACS CARS Business Department
    - New Business Development Department
    - Europe and America Business Department
    - Asia Business Department
    - China Business Department

Financial Section

Consolidated Six-Year Summary

AUTOBACS SEVEN CO., LTD. and Consolidated Subsidiaries
Years Ended March 31

	Millions of yen, except per share data					
	2001	2002	2003	2004	2005	**2006**
FOR THE YEAR						
Net sales:						
Tires and wheels	¥ 48,248	¥ 48,341	¥ 47,244	¥ 45,514	¥ 45,966	**¥ 50,025**
Car electronics	66,856	67,881	68,672	67,346	65,359	**69,185**
Oil and batteries	20,995	20,295	19,253	17,653	16,565	**17,342**
Car exterior items	28,741	27,365	25,970	24,137	23,257	**25,763**
Car interior items	20,009	19,854	20,776	20,318	20,347	**22,280**
Motor sports goods and others	40,528	44,002	48,564	52,110	55,286	
Motor sports goods						**22,035**
Services						**13,255**
Others						**20,322**
Total	225,377	227,738	230,479	227,078	226,780	**240,207**
Operating income	12,386	9,570	7,652	6,211	7,368	**13,638**
Income before income taxes and minority interests	13,813	10,150	9,616	9,627	6,876	**13,866**
Net income	7,767	5,520	4,003	5,444	2,928	**7,861**
Dividends paid	1,349	1,349	1,349	1,303	1,384	**1,775**
Consolidated Dividend payout ratio	17.4%	24.4%	33.7%	24.0%	56.4%	**24.7%**
Return on sales	3.4%	2.4%	1.7%	2.4%	1.3%	**3.3%**
Return on equity	5.6%	3.9%	2.7%	3.7%	2.0%	**5.1%**
Return on assets	4.2%	2.9%	2.1%	2.8%	1.4%	**3.6%**
Per share data (Yen):						
Basic net income	¥205.83	¥146.45	¥106.76	¥149.80	¥79.85	**¥210.36**
Cash dividends	36.00	36.00	36.00	36.00	45.00	**52.00**
Cash flow provided by operating activities	¥15,018	¥11,796	¥ 7,926	¥13,808	¥10,980	**¥ 24,137**
Cash flow used in investing activities	(8,990)	(8,857)	(8,003)	(646)	(1,277)	**(26,997)**
Cash flow provided by (used in) financing activities	1,186	(5,297)	(9,099)	4,605	237	**5,177**
Capital expenditures	(8,866)	(8,770)	(10,332)	(7,894)	(6,349)	**(11,400)**
Depreciation and amortization	5,485	5,648	5,509	5,957	5,620	**5,068**
AT YEAR-END						
Cash and cash equivalents	¥ 35,576	¥ 32,836	¥ 23,438	¥ 41,155	¥ 51,150	**¥ 53,622**
Current assets	86,941	82,042	75,828	94,359	104,214	**112,020**
Current liabilities	36,135	33,469	29,962	33,684	34,610	**44,046**
Working capital	50,806	48,573	45,866	60,675	69,604	**67,974**
Current ratio	240.6%	245.1%	253.1%	280.1%	301.1%	**254.3%**
Total assets	191,072	190,815	187,139	202,761	203,225	**227,707**
Shareholders' equity	141,096	145,391	145,818	147,533	148,983	**161,536**
Equity ratio	73.8%	76.2%	77.9%	72.8%	73.3%	**70.9%**
Number of stores	544	542	518	528	529	**532**
Overseas stores	7	9	10	11	12	**19**
Number of employees	3,290	3,474	3,712	4,008	4,023	**4,406**

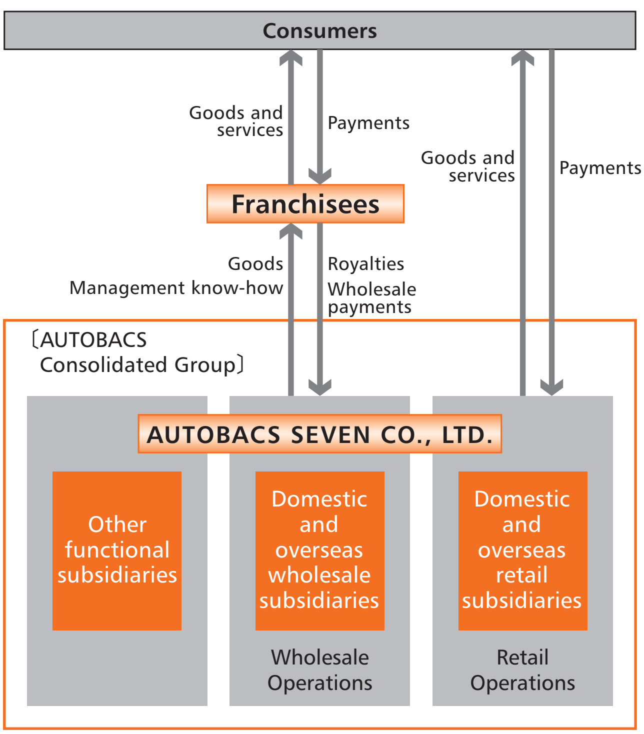
Review of Fiscal 2006

Operational Review

THE AUTOBACS CONSOLIDATED GROUP

Comprising AUTOBACS SEVEN CO., LTD. (the Company) and consolidated subsidiaries, the AUTOBACS Consolidated Group operates a franchise chain that consists of 532 stores (as of March 31, 2006, and including 19 overseas stores) that retail automotive related goods and offer various services through their service bays.

The Group's main store brands are AUTOBACS, Super AUTOBACS, AUTO HELLOES, AUTOBACS *Hashiriya Tengoku Secohan Ichiba,* and AUTOBACS EXPRESS, please see pages 20 and 21 for a summary of store formats. The Group generates earnings through wholesale operations, retail operations and others.



Wholesale Operations

In wholesale operations, earnings comprise profits from the wholesale of car parts and accessories to franchisees and revenues from royalties paid by franchisees.

Retail Operations

In retail operations, earnings are generated through the sale of goods by stores that are directly managed by the Company or managed by its consolidated subsidiaries.

Others

In others, earnings comprise real estate profits of leased store properties.

	2005		**2006**	
Stores included in consolidation				
(retail operations)				
Directly managed stores	15		**16**	
Stores managed by				
consolidated subsidiaries				
(of which, overseas)	133	(10)	**129**	**(16)**
Subtotal	148		**145**	
Stores not included in consolidation				
(wholesale operations)				
Stores managed by franchisees,				
including stores of affiliates				
(of which, overseas)	381	(2)	**387**	**(3)**
Total stores (of which, overseas)	529	(12)	**532**	**(19)**

Franchise System

Franchisees conclude franchise contracts based on a commitment to pursue value-added operations, with the ultimate goals of making drivers around the world into car fans and creating a utopia for automobile enthusiasts.

Franchise Contracts

As the headquarters for franchisees, the Company grants franchisees the rights to use the trade name and corporate image and provides management know-how and infrastructure needed for store operations. In return, franchisees pay the Company royalties. Franchisees manage operations based on support and guidance from headquarters. Contracts aim to ensure the mutual prosperity of the Company and franchisees.

Royalties

Stores pay a portion of their monthly store sales to the Company that is calculated based on a fixed rate. The fixed rate is 1.0% for all store formats, except AUTOBACS *Hashiriya Tengoku Secohan Ichiba,* for which the rate is 7.0%.

ANALYSIS OF OPERATING ENVIRONMENT

Japan's market for car parts and accessories has been contracting since around 1996. It is estimated that retail sales in that market totaled ¥3,066 billion* in fiscal 1997. In fiscal 2006, that amount fell to ¥2,159 billion.

This market shrinkage is largely attributable to stepped-up efforts by automakers and car dealers to offer new vehicles with a range of equipment and accessories as standard or optional specifications. Moreover, intensified market competition and dormant economic conditions exerted downward price pressure and resulted in keener competition for existing products.

* *A•M NETWORK* magazine, August 2001 and September 2006 issues, published by AutoMart Network Inc.

FISCAL 2006—OVERVIEW AND ACHIEVEMENTS

Performance Overview

Although the car parts and accessories market continued to contract, economic conditions recovered and pushed up sales of high-quality items, such as car navigation systems. Sales of ETC (Electronic Toll Collection) equipment were also favorable according to the implementation of the system by the government. In addition, there was strong demand for winter goods due to unexpected snowfall in regions that normally have little snowfall. Also, car sales and service sales, such as statutory safety inspection and maintenance services, increased. As a result, net sales rose 5.9%, to ¥240.2 billion. According to an improved gross margin and selling, general and administrative expenses, operating income rose 85.1%, to ¥13.6 billion, and net income increased 168.5%, to ¥7.9 billion.

From the year under review, the Company has changed the accounting policies for leasing revenues and expenses. Leasing revenues from franchisees for leased real estate and buildings have been shifted from "other income" to "net sales," and leasing expenses, such as depreciation and amortization on buildings, have been shifted from "other expenses" or "selling, general and administrative expenses" to "cost of goods sold." Removing the effect of these changes, net sales increased 4.2%, to ¥236.4 billion, and operating income rose 53.6%, to ¥11.3 billion, both from the previous fiscal year.

Main Achievements

In fiscal 2006, the Company made progress with the improvement and optimization of its store network and worked aggressively to develop its operations for its three main business areas of car parts and accessories sales, car sales, and statutory safety inspection and maintenance services. The Company continued to pave the way for the continuation of growth in the medium to long term by steadily expanding the scope of its business in line with the goal of advancing from a vendor of car parts and accessories to a provider of "total car-life services."

Development of Store Network

Aiming to achieve the optimal combination of stores in terms of formats and locations within each area, we took various steps: We opened 4 new AUTOBACS stores, upgraded 5 AUTOBACS stores into Super AUTOBACS stores, and opened 5 AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores, while closing 14 stores. Overseas, we opened two stores in China and acquired 6 Eldorauto stores, a leading car parts chain operator in France. As a result, the number of stores at fiscal year-end totaled 532 (including 19 overseas stores), which is an increase of 3 stores from the previous fiscal year-end.

Products and Service Sales

In product sales, we offered instant issuance of ETC cards and continued a cash back sales campaign, and sales of ETC equipment recorded substantial growth. In addition, we implemented an effective campaign in which we offered a higher trade-in value to a customer for car navigation system installed in his/her car who wanted to replace with a new one, and boosted their sales. In car sales, we enhanced our business infrastructure and PR activities, including television commercials, and the number of cars sold by the AUTOBACS Group reached 10,921, an increase of 3,205 from 7,716 in the previous fiscal year. In statutory safety inspection and maintenance services, the number of stores with official certification exceeded 200, and the number of cars inspected by the AUTOBACS Group during the fiscal year was about 240,000, an increase of 44,000 from the previous fiscal year's level of 196,000.

BUSINESS OUTLOOK

We expect the Japanese economy continues to experience a moderate recovery, with balanced support from the corporate and household sectors. Although there remain concerns about rising crude oil prices, a slowdown of the U.S. economy, the appreciation of the yen, and increases in interest rates, we forecast there are overriding positive factors, including increases in production, capital expenditures, and corporate profits as well as improvement in labor market conditions and wage levels.

In the car parts and accessories market, we expect healthy demand growth for certain products due to advances in infrastructure development and reduced product prices; such products include ETC equipment, multi-function navigation equipment with audio-visual functions, and navigation equipment that can receive terrestrial digital broadcasts. Further assisted by moderate economic recovery, we forecast that the overall car parts and accessories market continues to show steady growth.

In this environment, the AUTOBACS Consolidated Group will continuously take steps to reorganize its profit structure, such as streamlining operational assets and eliminating unprofitable operations. At the same time, the Group has formulated a management policy of “moving to the next growth stage.” While making the best use of our strength in our core business—car parts and accessories sales—we will aggressively promote car sales and statutory safety inspection and maintenance services as a total car-life service provider, thereby building a new business model. For more information, please see the Mid-Term Business Plan section on pages 9 to 12.

Financial Review

INCOME AND EXPENSES

Net Sales

In fiscal 2006, ended March 31, 2006, the Company took steps to increase sales, such as expanding the number of stores offering statutory safety inspection and maintenance services, making better selections of main products for seasonal sales campaigns, improving sales area formulation, and enhancing product category management. Also, from the year under review, the Company includes real estate and building lease revenues from franchisees in “net sales,” whereas in previous years the revenues were included in “other income.” The effect of the change was an increase of ¥3.8 billion in other net sales in the year under review. As a result, net sales rose 5.9%, to ¥240.2 billion.

By product category, sales of tires increased substantially due to an improved product lineup, replacement demand accompanying statutory safety inspections, the effect of price increases, and higher demand for studless tires due to snowfall. Increased sales of tires also brought about higher sales of wheels and tire changing services. In addition, sales of car electronics, principally ETC and navigation systems, and accessories were favorable. Growth of service revenues, such as statutory safety inspection and maintenance services, and car sales, was better than our expectations.

	¥ billion (Proportion of net sales)				
	2005		**2006**		Increase
Wholesale operations	133.4	(58.8%)	**139.5**	**(58.1%)**	6.2
Retail operations	93.4	(41.2%)	**96.9**	**(40.3%)**	3.5
Others	—	—	**3.8**	**(1.6%)**	3.8
Total	226.8	(100.0%)	**240.2**	**(100.0%)**	13.4

Wholesale Operations

In wholesaling to the Company’s franchise chain stores, sales of main products—such as tires, wheels, car electronics, oil, and batteries—were all vigorous and satisfactory, although sales recorded in service departments (maintenance parts) were slightly bellow the previous fiscal year’s level. In total, sales increased 4.6%, to ¥139.5 billion. As of the end of fiscal 2006, there were 387 franchise chain stores (including 3 overseas stores), an increase of 6 stores from the previous fiscal year-end.

● Retail Operations

Retail operations consist of the retail sales of stores that are managed directly by the Company or managed by its consolidated subsidiaries. The retail sales increased in all major product categories, including services. In particular, sales of tires and wheels were strong. As a result, retail operations recorded a 3.7% increase in sales, to ¥96.9 billion. As of the end of fiscal 2006, 145 stores (including 16 overseas stores) were included in the scope of consolidation, a decrease of 3 stores from the end of the previous fiscal year.

Cost of Goods Sold

Cost of goods sold increased 4.8%, to ¥166.3 billion, reflecting higher net sales. Cost of goods sold as a percentage of net sales, declined from 69.9% in fiscal 2005 to 69.2% in the year under review.

● Wholesale Operations

The Company took steps to reduce product costs by consolidating some of its suppliers and reviewing supply contracts by introducing a product category management system in collaboration with certain suppliers. As to private brand products, in particular, the Company succeeded in improving gross margins for oil by improving its product lineups in January 2005.

● Retail Operations

The proportion of net sales through high margin ratio pit services, such as statutory safety inspection and maintenance services, increased and, which improved gross profit.

SG&A Expenses

Personnel expenses temporarily increased due to the payment of special bonuses to reward employees for the Company's strong performance of the year under review. Equipment expenses declined due to the accounting change in which depreciation and amortization expenses relating to real estate leases were transferred to cost of goods sold. In addition, the Company effectively managed sales promotion expenses and administrative expenses. As a result, SG&A expenses declined 0.8% year on year, to ¥60.3 billion. The ratio of SG&A expenses to net sales was 25.1%, which was a decline of 1.7 percentage points from the previous fiscal year. A breakdown of major SG&A expenses is as follows:

	¥ billion		
	2005	**2006**	Increase (decrease)
Personnel expenses	25.3	**27.6**	2.3
Employee compensation	19.9	**22.0**	0.1
Sales promotion expenses	10.3	**9.8**	(0.5)
Equipment expenses	13.9	**12.3**	(1.6)
Land and building rent	6.0	**6.1**	0.1
Depreciation	5.5	**3.7**	(1.8)
Administrative expenses	11.3	**10.6**	(0.6)
Information processing expenses	2.0	**1.7**	(0.3)
Provision for allowance for doubtful receivables	0.7	**0.2**	(0.5)
Total	60.8	**60.3**	(0.5)

Personnel expenses rose 8.9%, to ¥27.6 billion, which was 45.8% of SG&A expenses. Compared with the previous fiscal year-end, employee numbers at the end of fiscal 2006 were up 51 in wholesale operations, to 520; up 312 in retail operations, to 3,014; and up 20 in other operations, to 872.

Sales promotion expenses decreased 5.0%, to ¥9.8 billion, which was 16.3% of SG&A expenses. The Company assessed the effectiveness of advertising methods in attracting customers to stores and selected more cost effective methods, such as the utilization of direct mail and e-mail. Through these reasons, the Company succeeded in reducing sales promotion expenses.

Equipment expenses declined 11.6%, to ¥12.3 billion, equivalent to 20.4% of SG&A expenses. This decline was mainly due to the transfer of the depreciation and amortization attributable to real estate lease revenue to cost of goods sold.

Administrative expenses declined 5.7%, to ¥10.6 billion, which accounted for 17.6% of SG&A expenses. This decrease was largely attributable to measures to cut discretionary expenses.

As a result of the factors mentioned above, operating income rose 85.1%, to ¥13.6 billion.

Other Income (Expenses)

Net other income was ¥0.2 billion, compared with net other expenses of ¥0.5 billion in the previous fiscal year. In the previous fiscal year, we recorded a large non-recurring loss due to the early application of impairment accounting for fixed assets. In the year under review, the Company changed its method of accounting for real estate leasing revenues, which are now recorded in net sales, and this change reduced non-operating income by ¥2.0 billion. In addition, impairment loss on fixed assets resulting from store closures was ¥1.1 billion, and loss on restructuring of store subsidiaries in Taiwan, Thailand, and Japan was ¥1.8 billion.

In sum, income before income taxes and minority interests increased 101.7%, to ¥13.9 billion.

Income Taxes

Income taxes increased 43.7%, to ¥6.0 billion. The effective tax rate was 43.3%, down from 60.8%, due to a decline in valuation allowance, a tax-effect accounting adjustment.

Net Income

In sum, net income rose 168.5%, to ¥7.9 billion. Net income per share increased 163.4%, to ¥210.36. Net income as a percentage of net sales increased from 1.3% in the previous fiscal year to 3.3%. ROA increased from 1.4% to 3.6%, and ROE rose from 2.0% to 5.1%.

FINANCIAL POSITION

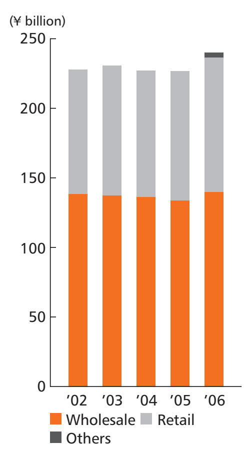
At fiscal year-end, total assets increased 12.0% from the end of the previous fiscal year, to ¥227.7 billion.

Total current assets increased 7.5%, to ¥112.0 billion. Net cash provided by operating activities increased reflecting improved performance, and we increased cash, deposits, and marketable securities, such as commercial paper and public bonds.

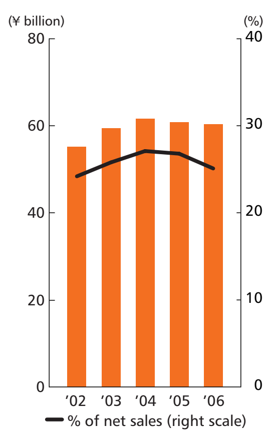
Net property and equipment declined 3.1%, to ¥49.8 billion. While land value increased, building value declined due to depreciation.

Total investments and other assets at fiscal year-end increased 38.4% from the previous year-end, to ¥65.9 billion,

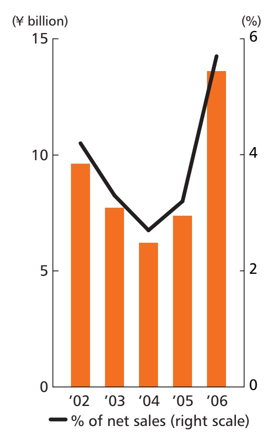
Net Sales



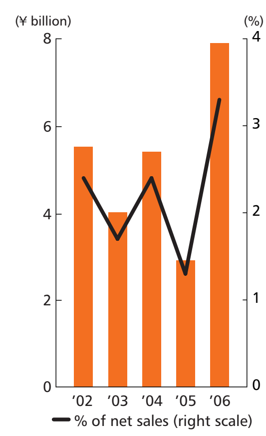
SG&A Expenses



Operating Income



Net Income



due primarily to the acquisition of Euroyen bonds as a medium-term investment and to the acquisition of shares of Halfords plc, of the United Kingdom.

Total current liabilities at fiscal year-end increased 27.3% compared with the end of fiscal 2005, to ¥44.0 billion, due mainly to an increase in income taxes payable accompanying improved operating results, and the current ratio declined from 3.0 times to 2.5 times.

Total long-term liabilities increased 13.1%, to ¥21.7 billion, due primarily to increased long-term debt for the acquisition of stores from Eldorauto and the purchase of shares of Halfords plc. As a result, total liabilities rose 22.2%, to ¥65.7 billion.

Total shareholders' equity rose 8.4%, to ¥161.5 billion. In addition to higher retained earnings as a result of improved operating results, there were increases in common stock and capital surplus because convertible bonds were converted to common stock. The Company made open-market purchases of common stock to hold as treasury stock and used the holdings at the end of the previous fiscal year to accommodate the conversion of convertible bonds. The equity ratio declined from 73.3% at the end of fiscal 2005 to 70.9%. The debt to equity ratio was 10.2% at year-end, compared with 10.3% at the previous fiscal year-end.

CASH FLOWS

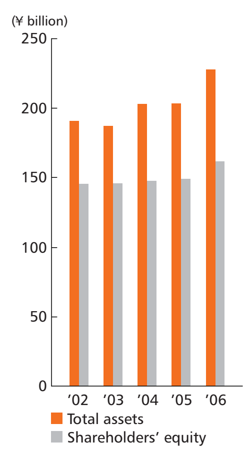
Cash Flows from Operating Activities

Net cash provided by operating activities rose 119.8%, to ¥24.1 billion. In addition to income before income taxes and minority interests of ¥13.9 billion, there were depreciation and amortization of ¥4.9 billion, increase in receivables of ¥1.9 billion, impairment losses on fixed assets of ¥1.2 billion, and provision for business restructuring of ¥1.0 billion.

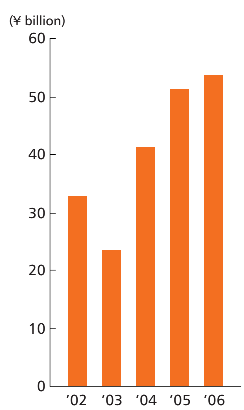
Cash Flows from Investing Activities

Net cash used in investing activities was ¥27.0 billion in the year under review. Proceeds from sales of marketable securities were ¥7.0 billion, disposition of investment securities was ¥5.7 billion, and collection of advance and rental deposits was ¥1.2 billion. On the other hand, payments for marketable securities were ¥13.8 billion, acquisition of investment securities, including the acquisition of shares of Halfords plc, of the United Kingdom, was ¥15.9 billion, and acquisition of tangible and intangible fixed assets, including the acquisition of stores from Eldorauto of France, was ¥11.4 billion.

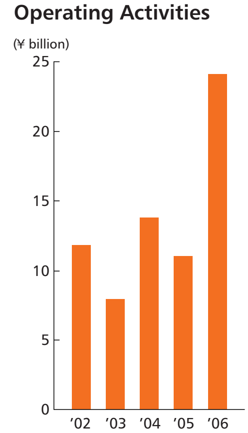
Total Assets and Shareholders' Equity



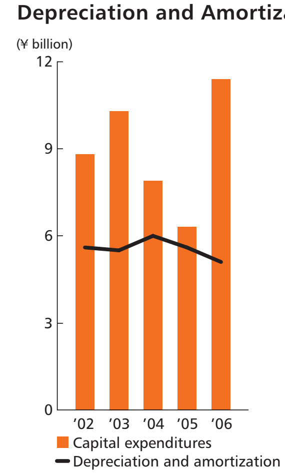
Cash and Cash Equivalents



Cash Flow Provided by Operating Activities



Capital Expenditures, Depreciation and Amortization



Capital Expenditures

Through capital expenditures, the AUTOBACS Consolidated Group aims to increase its market share in each area and improve efficiency in accordance with its Area Dominant Strategy. Investment activities are focused on opening Super AUTOBACS stores and AUTOBACS *Hashiriya Tengoku Secohan Ichiba;* scrapping and building or relocating existing stores; and acquiring IT equipment and leasing assets, such as store facilities. A breakdown of capital expenditures in the fiscal year under review is as follows:

	¥ billion		
	2005	**2006**	Increase (decrease)
Wholesale operations	0.5	**0.1**	(0.4)
Retail operations	2.4	**7.5**	5.1
Others	3.4	**3.8**	0.4
Total	6.3	**11.4**	5.1

Major Capital Expenditures in 2006	¥ billion
Retail Operations:	
Acquistion of 6 Eldorauto car parts and accessories stores	5.0
Investment in opening new stores and related activities	1.4
Others:	
Lease of assets, such as store facilities	0.5
IT equipment	1.7

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥5.2 billion. Dividends paid were ¥1.8 billion and purchase of treasury stock was ¥3.9 billion, while proceeds from long-term debt were ¥13.0 billion.

In sum, after all necessary adjustments, cash and cash equivalents at year-end rose 4.8% to ¥53.6 billion.

BUSINESS RISKS

The following are issues contained in this annual report concerning the AUTOBACS Consolidated Group's operating and financial conditions that are likely to have a significant bearing on the decisions of investors.

Competition

The AUTOBACS Consolidated Group's core business involves the sale, import, export, and consignment production of various kinds of car parts and accessories. The Group has developed a chain of one-stop specialty stores throughout Japan, comprising both directly managed and franchise stores. It is possible that competitors in the car parts and accessories market could influence the Group's business performance. These competitors include not only franchisees and rival companies currently operating in the same line of business but automakers and dealers making a full-scale entry into the market as well as specialty tire stores, secondhand goods stores, and outlet stores.

Unusual Weather Conditions

Products sold by the AUTOBACS Consolidated Group include seasonal products for which the number of units sold is significantly affected by weather conditions. Accordingly, in the event of unusual weather conditions, such as cool summers and warm winters, the Group's business performance could be affected by lower sales for seasonal products or a shift in demand season.

Future Overseas Expansion

The Group is operating in Europe, United States and Asia including China. In the event that the Group fails to timely respond to various problems and risks in these regions, the Group's business performance could be affected. Such factors include but are not limited to the following: the local culture with respect to cars and car-related goods; competition from existing local retailers; the economic situation; the level of information infrastructure; a lack of protection for intellectual property; an unstable political situation; and outbreaks of infectious disease.

Regulations Governing Opening of New Stores

The Group's development of stores is under the regulation of the Law Concerning the Measures by Large-Scale Retail Stores for Preservation of the Living Environment.

This law applies to the opening of all new stores with sales floor areas exceeding 1,000 square meters and to the expansion of existing stores that will result in sales floor areas exceeding the limit. The law's purpose is to maintain the living environment of local residents. A local prefecture or a designated city office carries out predetermined checks on noise levels, traffic congestion, waste disposal etc.

In opening new stores larger than 1,000 square meters, the AUTOBACS Consolidated Group's policy is to consider the local environment from the initial planning stage and to work closely with nearby residents and the local government. However, there could be a case where we would not be able to clear hurdles. If this happens, it could affect the Group's business results.

Observance of Laws and Regulations

With respect to the observance of laws and regulations, the AUTOBACS Consolidated Group is working to enhance its internal control system. The company established the Compliance Promotion Office to enhance internal control, and set the code of conducts and the guidelines for conducts to ensure ethical business conduct by officers and employees. However, it is possible that conduct by employees that violates laws or regulations, either intentionally or unintentionally, could result in claims for compensation that could affect the Group's business performance. In addition, the AUTOBACS Consolidated Group holds huge volume of consumer information. While the company pays careful attention to the handling of them, in the event of an external leakage of customer information due to malice or other reasons, the Group could lose credibility and its business performance could be negatively affected.

Fluctuations in Product Selling and Procurement Prices and Raw Materials Prices

The products sold by the AUTOBACS Consolidated Group could be subjected to unexpected fluctuations in procurement prices and raw materials prices, due to a number of reasons, and in selling prices, due to changes in the market environment. As a result, the Group's business performance could be affected by such developments as the selling price falling below the procurement price or declines in demand due to higher prices.

Natural Disasters

In regions where the AUTOBACS Consolidated Group has stores and operational facilities, natural disasters, such as an earthquake, a typhoon, or any other natural disasters, could cause damage to Company facilities or harm to Company officers or employees. The Group's business results could be affected by such factors as reduced sales and costs required to restore operations and recruit human resources.

Franchisees

The Company operates as a franchisor for stores that principally handle car parts and accessories. In the event that a franchisee violates the franchise contract or laws and regulations, the business performance of the AUTOBACS Consolidated Group could be affected, irrespective of the Group's holding of equity in the franchisee.

Store Operations

The AUTOBACS Consolidated Group operates retail stores that handle car parts and accessories and provide related services. These operations have risks associated with the processing of waste generated by store operations, the handling of dangerous substances and accidents in service bays and other places on the store grounds. The occurrence of these types of events could affect the Group's business performance directly or indirectly through a reduction in customer numbers due to a deterioration of the image of Group stores.

Consolidated Balance Sheets

AUTOBACS SEVEN CO., LTD. and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2006**	2005	**2006**
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 53,622**	¥ 51,150	**$ 458,308**
Time deposits with an original maturity over three months	**128**	157	**1,094**
Marketable securities (Note 4)	**9,189**	5,124	**78,538**
Receivables:			
Trade notes and accounts	**11,886**	11,941	**101,590**
Unconsolidated subsidiaries and associated companies	**1,109**	1,051	**9,479**
Other	**14,904**	14,902	**127,385**
Allowance for doubtful receivables	**(520)**	(710)	**(4,445)**
Inventories	**17,016**	17,247	**145,436**
Deferred tax assets (Note 13)	**2,795**	1,907	**23,889**
Prepaid expenses and other current assets	**1,891**	1,445	**16,162**
Total current assets	**112,020**	104,214	**957,436**
PROPERTY AND EQUIPMENT:			
Land (Note 5)	**22,331**	21,070	**190,863**
Buildings (Note 5)	**33,940**	34,424	**290,086**
Furniture and equipment (Note 5)	**17,272**	16,724	**147,624**
Leased assets (Note 6)	**17,885**	17,225	**152,863**
Construction in progress	**277**	173	**2,368**
Total	**91,705**	89,616	**783,804**
Accumulated depreciation	**(41,911)**	(38,216)	**(358,214)**
Net property and equipment	**49,794**	51,400	**425,590**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	**24,952**	11,481	**213,265**
Investments in and advances to unconsolidated subsidiaries and associated companies	**1,630**	1,536	**13,931**
Rental deposits and long-term loans (Note 8)	**22,847**	23,658	**195,274**
Goodwill (Note 7)	**5,374**	326	**45,932**
Deferred tax assets (Note 13)	**4,035**	4,802	**34,487**
Other	**7,055**	5,808	**60,299**
Total investments and other assets	**65,893**	47,611	**563,188**
TOTAL	**¥227,707**	¥203,225	**$1,946,214**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term borrowings (Note 9)	**¥ 3,250**	¥ 3,534	**$ 27,778**
Current portion of long-term debt (Note 9)	**1,518**	1,329	**12,974**
Payables:			
Trade notes and accounts	**15,821**	14,042	**135,222**
Unconsolidated subsidiaries and associated companies	**973**	771	**8,316**
Other	**10,793**	8,545	**92,248**
Income taxes payable	**4,800**	1,159	**41,026**
Accrued expenses	**4,656**	3,056	**39,795**
Other current liabilities	**2,235**	2,174	**19,103**
Total current liabilities	**44,046**	34,610	**376,462**
LONG-TERM LIABILITIES:			
Long-term debt (Note 9)	**11,678**	10,424	**99,812**
Liability for retirement benefits (Note 10)	**680**	816	**5,812**
Rental deposits received (Note 8):			
Unconsolidated subsidiaries and associated companies	**902**	800	**7,709**
Other	**6,867**	6,573	**58,692**
Allowance for business restructuring	**860**		**7,351**
Deferred tax liabilities (Note 13)	**421**	394	**3,598**
Other liabilities	**247**	147	**2,111**
Total long-term liabilities	**21,655**	19,154	**185,085**
Total liabilities	**65,701**	53,764	**561,547**
MINORITY INTERESTS	**470**	478	**4,017**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 8 and 14)			
SHAREHOLDERS' EQUITY (Notes 11 and 18):			
Common stock,			
authorized, 109,402 thousand shares;			
issued, 39,255 thousand shares in 2006 and 37,644 thousand shares in 2005	**33,999**	31,959	**290,590**
Capital surplus	**34,513**	32,241	**294,983**
Retained earnings	**96,113**	90,122	**821,479**
Unrealized gain on available-for-sale securities (Note 4)	**744**	206	**6,359**
Foreign currency translation adjustments	**(222)**	(427)	**(1,898)**
Treasury stock–at cost:			
624 thousand shares in 2006 and 2,162 thousand shares in 2005	**(3,611)**	(5,118)	**(30,863)**
Total shareholders' equity	**161,536**	148,983	**1,380,650**
TOTAL	**¥227,707**	¥203,225	**$1,946,214**

Consolidated Statements of Income

AUTOBACS SEVEN CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
NET SALES (Note 12)	**¥240,207**	¥226,780	¥227,078	**$2,053,051**
COST OF GOODS SOLD	**166,257**	158,584	159,272	**1,421,000**
Gross profit	**73,950**	68,196	67,806	**632,051**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**60,312**	60,828	61,595	**515,487**
Operating income	**13,638**	7,368	6,211	**116,564**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**255**	296	358	**2,180**
Interest expense	**(82)**	(61)	(99)	**(701)**
Impairment losses on fixed assets (Note 5)	**(1,151)**	(4,384)		**(9,838)**
Loss on business restructuring	**(1,849)**			**(15,803)**
Loss on arrangement of stores		(1,146)	(167)	
Other–net	**3,055**	4,803	3,324	**26,111**
Other income (expenses)–net	**228**	(492)	3,416	**1,949**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**13,866**	6,876	9,627	**118,513**
INCOME TAXES (Note 13):				
Current	**6,455**	3,910	5,949	**55,171**
Deferred	**(448)**	269	(1,765)	**(3,829)**
Total	**6,007**	4,179	4,184	**51,342**
MINORITY INTERESTS IN NET LOSS	**2**	231	1	**17**
NET INCOME	**¥ 7,861**	¥ 2,928	¥ 5,444	**$ 67,188**

	Yen			U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2. Q and 16):				
Basic net income	**¥210.36**	¥79.85	¥149.80	**$1.80**
Diluted net income	**198.57**			**1.70**
Cash dividends applicable to the year	**52.00**	45.00	36.00	**0.44**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

AUTOBACS SEVEN CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2006, 2005 and 2004

	Thousands		Millions of yen					
	Number of Common Stock Issued	Number of Treasury Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2003	37,644	1,011	¥31,959	¥32,242	¥84,524	¥(127)	¥(179)	¥(2,601)
Net income					5,444			
Disposal of treasury stock		(1)		(1)	(2)			6
Changes in unrealized gain on available-for-sale securities, less applicable tax						320		
Changes in foreign currency translation adjustments							(222)	
Purchase of treasury stock		1,150						(2,516)
Appropriations:								
Cash dividends, ¥36.00 per share					(1,303)			
Bonuses to directors and corporate auditors					(11)			
BALANCE, MARCH 31, 2004	37,644	2,160	31,959	32,241	88,652	193	(401)	(5,111)
Net income					2,928			
Disposal of treasury stock		(1)			(1)			4
Changes in unrealized gain on available-for-sale securities, less applicable tax						13		
Changes in foreign currency translation adjustments							(26)	
Purchase of treasury stock		3						(11)
Appropriations:								
Cash dividends, ¥39.00 per share					(1,384)			
Bonuses to directors and corporate auditors					(73)			
BALANCE, MARCH 31, 2005	37,644	2,162	31,959	32,241	90,122	206	(427)	(5,118)
Net income					**7,861**			
Disposal of treasury stock		**(1)**						
Changes in unrealized gain on available-for-sale securities, less applicable tax						**538**		
Changes in foreign currency translation adjustments							**205**	
Purchase of treasury stock		**697**						**(3,911)**
Conversion of convertible bonds	**1,611**	**(2,234)**	**2,040**	**2,272**				**5,418**
Appropriations:								
Cash dividends, ¥50.00 per share					**(1,775)**			
Bonuses to directors and corporate auditors					**(95)**			
BALANCE, MARCH 31, 2006	**39,255**	**624**	**¥33,999**	**¥34,513**	**¥96,113**	**¥ 744**	**¥(222)**	**¥(3,611)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	$273,154	$275,564	$770,274	$1,761	$(3,650)	$(43,744)
Net income			**67,188**			
Disposal of treasury stock						
Changes in unrealized gain on available-for-sale securities, less applicable tax				**4,598**		
Changes in foreign currency translation adjustments					**1,752**	
Purchase of treasury stock						**(33,427)**
Conversion of convertible bonds	**17,436**	**19,419**				**46,308**
Appropriations:						
Cash dividends, $0.43 per share			**(15,171)**			
Bonuses to directors and corporate auditors			**(812)**			
BALANCE, MARCH 31, 2006	**$290,590**	**$294,983**	**$821,479**	**$6,359**	**$(1,898)**	**$(30,863)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

AUTOBACS SEVEN CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	**2006**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥13,866**	¥ 6,876	¥ 9,627	**$118,513**
Adjustments for:				
Income taxes paid	**(3,025)**	(6,277)	(4,766)	**(25,855)**
Depreciation and amortization	**5,068**	5,620	5,957	**43,316**
Impairment losses on fixed assets	**1,151**	4,384		**9,838**
Provision for business restructuring	**860**			**7,350**
Loss on arrangement of stores		1,146	167	
Lease revenue		(1,720)	(1,603)	
Reversal of retirement benefit	**(110)**	(1,009)	(25)	**(940)**
Changes in operating assets and liabilities:				
Increase in receivables	**(1,069)**	(1,100)	(721)	**(9,137)**
Decrease (increase) in inventories	**11**	1,493	(1,023)	**94**
Increase in other payables and accruals	**1,894**	136	541	**16,188**
Other	**5,491**	1,431	5,654	**46,932**
Net cash provided by operating activities	**24,137**	10,980	13,808	**206,299**
INVESTING ACTIVITIES:				
Capital expenditures	**(11,400)**	(6,349)	(7,894)	**(97,436)**
Proceeds from sales of fixed assets	**280**	1,376	133	**2,393**
Acquisition of investment securities	**(15,865)**	(5,370)	(4,665)	**(135,598)**
Disposition of investment securities	**5,686**	6,383	10,088	**48,598**
Proceeds from sales of marketable securities	**7,000**	3,400	100	**59,829**
Payments for marketable securities	**(13,810)**	(4,814)	(100)	**(118,034)**
Payments for advance and rental deposits	**(1,219)**	(3,045)	(2,166)	**(10,419)**
Collection of advance and rental deposits	**1,650**	3,541	2,680	**14,103**
Lease revenue		1,720	1,603	
Other	**681**	1,881	(425)	**5,821**
Net cash used in investing activities	**(26,997)**	(1,277)	(646)	**(230,743)**
FINANCING ACTIVITIES:				
(Decrease) increase in short-term borrowings	**(300)**	1,923	(1,510)	**(2,564)**
Repayment of long-term debt	**(1,848)**	(587)	(973)	**(15,795)**
Proceeds from long-term debt	**13,000**	121	686	**111,111**
Proceeds from issuance of zero coupon convertible bonds			10,000	
Purchase of treasury stock	**(3,909)**	(7)	(2,503)	**(33,410)**
Proceeds from issuance of subsidiary stock	**15**	197	217	**128**
Dividends paid	**(1,775)**	(1,384)	(1,303)	**(15,171)**
Other	**(6)**	(26)	(9)	**(51)**
Net cash provided by financing activities	**5,177**	237	4,605	**44,248**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**103**	55	(37)	**880**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,420**	9,995	17,730	**20,684**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**51,150**	41,155	23,438	**437,180**
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM INITIAL CONSOLIDATION OF SUBSIDIARY	**52**			**444**
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM EXCLUSION OF A CONSOLIDATED SUBSIDIARY			(13)	
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥53,622**	¥51,150	¥41,155	**$458,308**
NONCASH INVESTING AND FINANCING ACTIVITIES— ACQUISITION OF SUBSIDIARIES:				
Fair value of assets acquired	**¥ 144**		¥2,552	**$ 1,231**
Liabilities assumed	**324**		1,709	**2,769**
Goodwill	**180**			**1,538**
Minority interests			6	
Acquisition cost	**0**		837	**0**
Cash and cash equivalents held by subsidiaries	**113**		196	**966**
Cash received (paid) for capital	**¥ 113**		¥ (641)	**$ 966**
CONVERSION OF CONVERTIBLE BONDS				
Increase in common stock	**¥ 2,040**			**$ 17,436**
Increase in capital surplus	**2,272**			**19,419**
Decrease in treasury stock	**5,418**			**46,308**
Decrease in convertible bonds	**¥ 9,730**			**$ 83,163**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

AUTOBACS SEVEN CO., LTD. and Consolidated Subsidiaries

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of AUTOBACS SEVEN CO., LTD. (the "Company") and consolidated subsidiaries (together the "Companies") have been prepared in accordance with the provisions set forth in the Japanese Securities 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 (IFRS).

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically, in order to present them in a form which is more familiar to readers outside Japan. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be, and have not been, presented herein. In addition, the accompanying note information, some of which is not required under Japanese GAAP, is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117 to U.S.$1.00, the approximate free rate of exchange on March 31, 2006. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Consolidation Policy

The consolidated financial statements of March 31, 2006 include the accounts of the Company and its 62 significant consolidated subsidiaries (60 and 67 for the years ended March 31, 2005 and 2004).

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

Investments in all associated companies are accounted for by the equity method. Investments in two unconsolidated subsidiaries are stated at cost as of March 31, 2006. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The cost in excess of net assets of the consolidated subsidiaries and associated companies at the time of acquisition, which cannot be specifically assigned to individual assets, is amortized on the straight-line basis over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions between the Companies is also eliminated.

The Company's consolidated overseas subsidiaries changed their closing date for annual consolidation from December 31 to March 31 to conform with the parent company's closing date from this period. As a result of this change, the accounting period of consolidated overseas subsidiaries is fifteen months ended March 31, 2006, and Net sales increased by ¥1,025 million ($8,761 thousand) and Operating income and Net income decreased by ¥80 million ($684 thousand) compared to the prior period.

B. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

C. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

All marketable securities held by the Companies are classified as held-to-maturity debt securities or available-for-sale securities.

The cost of securities sold is determined based on the average method.

Non-marketable available-for-sale securities are stated at cost determined by the average method. For other than temporary declines in fair value, securities are reduced to net realizable value by a charge to income.

The Company reviews the fair value of its investment securities on a regular basis to determine if the fair value of any individual security has declined below its cost and if such decline is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the security is written down to fair value. The resulting realized loss is included in the consolidated statements of income in the period in which the decline was deemed to be other than temporary.

D. Inventories

Inventories before distribution to stores or franchisees are stated at average cost. Inventories held at stores are valued at cost determined by the retail method.

E. Property and Equipment

Property and equipment are stated at cost.

Depreciation is principally computed by the declining balance method over the estimated useful lives of the assets.

The estimated useful lives of the assets are principally as follows:

Buildings:
- Held for own use: 3 to 45 years
- Held for lease: lease periods (15 to 20 years)

Furniture and equipment: 2 to 20 years

F. Long-lived Assets

In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued the ASB Guidance No. 6, "Guidance for Accounting Standard for Implement of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005, with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

G. Goodwill

Purchased goodwill is amortized on a straight-line basis over twenty years.

H. Purchased Software

Purchased software was recorded as other assets and is amortized over five years.

I. Bond Issue Costs

Bond issue costs are charged to income as incurred.

J. Retirement and Pension Plan

As a result of a change from a non-contributory defined benefit pension plan to alternative plans, the Company has plans for employees consisting of a non-contributory defined contribution pension plan and a plan in which employees receive a retirement payment portion in cash.

Substantially, all employees of consolidated subsidiaries were covered by a non-contributory defined contribution pension plan, an unfunded employee retirement payment plan and a non-contributory defined benefit pension plan. As a result of a change from a non-contributory defined benefit pension plan and a retirement payment plan to a non-contributory defined contribution pension plan by the Company and certain consolidated subsidiaries during the three years ended March 31, 2005, some consolidated subsidiaries have a non-contributory defined benefit pension plan and an unfunded employee retirement payment plan for employees at March 31, 2006.

Some consolidated subsidiaries accounted for the liability for retirement benefits of the defined contribution pension plan and the retirement payment plan based on projected benefit obligations and plan assets at each balance sheet date.

The Companies recorded expenses for the defined contribution pension plan when the contribution was made.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors of the Company had retired at each balance sheet date.

The Company revised its compensation plan in June 2002 and no additional provisions have been recorded for retirement benefits to be paid to the Company's directors and corporate auditors since July 2002.

Consolidated subsidiaries revised its compensation plan in April 2005 and no additional provisions have been recorded for retirement benefits to be paid to those directors and corporate auditors since April 2005.

K. Allowance for Business Restructuring

The allowance for business restructuring is stated in amounts based on the estimation of potential losses for the Company's investments.

L. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements.

M. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

N. Appropriations of Retained Earnings

Under the Commercial Code of Japan (the "Code"), except for interim cash dividends which may be paid upon resolution of the Board of Directors, appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon shareholders' approval.

O. Foreign Currency Items

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates in effect at each balance sheet date.

The foreign exchange gains and losses from those translations are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts. Other exchange gains and losses are recognized in the fiscal periods in which they occur.

P. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated overseas subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical exchange rate. Differences arising from such translations were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of the consolidated overseas subsidiaries are translated into Japanese yen at the average exchange rate.

Q. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

R. Derivatives and Hedging Activities

The Companies use derivative financial instruments to manage their exposure to fluctuations in foreign exchange and interest rates. Currency swap contracts and interest rate swap contracts are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and

b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The currency swap contracts employed to hedge foreign exchange exposures for import transactions are measured at fair value and the unrealized gains / losses are recognized in income.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

S. Differences between Japanese GAAP and IFRS

The accompanying consolidated financial statements have been prepared in conformity with Japanese GAAP, which differs in certain respects from IFRS. As of March 31, 2006, the main difference between Japanese GAAP and IFRS, which would apply to the Company and may have a material effect on net income, was accounting for leases.

Currently, information is not available to quantify the effect on the net income of the Company for this difference in accounting policies.

T. New Accounting Pronouncements

Business Combination and Business Separation

In October 2003, the BAC issued a Statement of Opinion, Accounting for Business Combinations, and on December 27, 2005 the ASBJ issued Accounting Standard for Business Separations and ASBJ Guidance No.10, Guidance for Accounting Standard for Business Combinations and Business Separations. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over twenty years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock Options

On December 27, 2005, the ASBJ issued Accounting Standard for Stock Options and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, Accounting treatment for bonuses to directors and corporate auditors, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. RECLASSIFICATIONS

a. Rental Income and Lease Revenue

Effective April 1, 2005, the Company changed the classification of "rental income and lease revenue" and "related costs". Rental income and lease revenue were reclassified from "other income" to "net sales" and related costs were reclassified from "other expenses" and "selling, general and administrative expenses" to "cost of goods sold".

As a result of this change, Net sales, Gross profit and Operating income increased by ¥3,798 million ($32,462 thousand), ¥1,024 million ($8,752 thousand) and ¥2,318 million ($19,812 thousand), respectively, compared to the prior period. This change had no impact on Income before income taxes and minority interests.

Accompanying this change, lease revenue in investing activities of the consolidated statements of cash flows has been reclassified to operating activities. This change increased net cash provided by operating activities and decreased net cash used in investing activities by ¥1,501 million ($12,829 thousand) compared to the prior period.

The consolidated statements of income and cash flows for the fiscal years ended March 31, 2005 and 2004 are not reclassified and rearranged to the same classification base with the current period.

b. Lease Expense on System Equipment

Effective April 1, 2005, the Company changed the classification of "lease expense on system equipment". Lease expense on system equipment was reclassified from "selling, general and administrative expenses" to "other expenses".

As a result of this change, Operating income increased by ¥512 million ($4,376 thousand) compared to the prior period. This change had no impact on Income before income taxes and minority interests.

The consolidated statements of income for the fiscal years ended March 31, 2005 and 2004 are not reclassified and rearranged to the same classification base with the current period.

Certain reclassifications and rearrangements have been made in the consolidated financial statements for the years ended March 31, 2005 and 2004, to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2006.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
CURRENT:			
Debt securities	**¥9,189**	¥5,124	**$78,538**
NON-CURRENT:			
Equity securities	**¥12,739**	¥ 4,389	**$108,880**
Debt securities	**12,213**	6,092	**104,385**
Other		1,000	
Total	**¥24,952**	¥11,481	**$213,265**

The carrying amounts and aggregate fair values of marketable and investment securities for which market quotations were available at March 31, 2006 and 2005, were as follows:

	Millions of yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥11,324**	**¥1,291**	**¥ 3**	**¥12,612**
Debt securities	**13,181**	**71**	**154**	**13,098**
Held-to-maturity	**7,304**		**3**	**7,301**

	Millions of yen			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,699	¥482	¥161	¥4,020
Debt securities	9,691	49	35	9,705
Other	1,000			1,000
Held-to-maturity	1,511			1,511

	Thousands of U.S. dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 96,786**	**$11,034**	**$ 25**	**$107,795**
Debt securities	**112,658**	**607**	**1,316**	**111,949**
Held-to-maturity	**62,427**		**25**	**62,402**

Available-for-sale and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2006 and 2005, were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Securities classified as:			
Available-for-sale:			
Equity securities	**¥ 127**	¥369	**$1,085**
Held-to-maturity	**1,000**		**8,547**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006, 2005 and 2004, were ¥102 million ($872 thousand), ¥672 million and ¥838 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, for the years ended March 31, 2006, 2005 and 2004, were ¥13 million ($111 thousand), ¥609 million and ¥468 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due in one year or less	¥ 885	¥8,304	$ 7,564	$70,974
Due after one year through five years	11,969		102,299	
Due after five years through ten years	244		2,086	
Total	¥13,098	¥8,304	$111,949	$70,974

5. LONG-LIVED ASSETS

The Companies reviewed their long-lived assets for impairment for the years ended March 31, 2006 and 2005, and, as a result, recognized an impairment loss of ¥1,151 million ($9,838 thousand) and ¥4,384 million as rental assets, stores and idle assets, and the carrying amount of the relevant fixed assets was written down to the recoverable amount. The recoverable amount of those fixed assets was measured at their net selling price determined by quotation from a third-party vendor, and their value in use and the discount rate used for computation of the present value of future cash flow was weighted average cost of capital.

Impairment losses of long-lived assets and the weighted average cost of capital for the years ended March 31, 2006 and 2005, were as follows.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Land	**¥ 575**	¥3,260	**$4,915**
Buildings	**575**	950	**4,915**
Furniture and equipment	**1**		**8**
Other		174	
Total	**¥1,151**	¥4,384	**$9,838**

	2006	2005
Weighted average cost of capital	**8.22%**	8.24%

6. LEASED ASSETS

A breakdown of leased assets as of March 31, 2006 and 2005, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Buildings	**¥13,653**	¥12,800	**$116,692**
Furniture and equipment	**4,232**	4,425	**36,171**
Total	**17,885**	17,225	**152,863**
Accumulated depreciation	**(9,033)**	(8,340)	**(77,205)**
Accumulated impairment loss	**(25)**	(12)	**(214)**
Net leased assets	**¥ 8,827**	¥ 8,873	**$ 75,444**

The Company leases store buildings, which are constructed by the Company, to its franchisees under non-cancelable lease terms generally over 20 years. In certain cases, the Company receives non-interest-bearing rental deposits from the lessees and such rental deposits are refunded to the lessees when the lease term expires.

A finance subsidiary of the Company also leases equipment to the franchisees under non-cancelable lease agreements over five to six years.

The construction or acquisition costs, interest and executory costs for the leased assets are paid to the Companies generally on an installment basis and are accounted for as operating leases. Depreciation of leased assets for the years ended March 31, 2006, 2005 and 2004, was ¥1,597 million ($13,650 thousand), ¥1,884 million and ¥1,974 million, respectively. Rental income for the years ended March 31, 2006, 2005 and 2004, was ¥1,744 million ($14,906 thousand), ¥1,959 million and ¥1,988 million, respectively.

The aggregate receivables from the lessees including equipment costs, unearned income and executory costs, which were not recorded on the books of account, as of March 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 1,333**	¥ 1,341	**$ 11,393**
Due after one year	**11,674**	11,606	**99,778**
Total	**¥13,007**	¥12,947	**$111,171**

7. GOODWILL

During the year ended March 31,2006, a consolidated overseas subsidiary purchased goodwill for operation in France from Autofin S.A.S., by ¥4,936 million ($42,188 thousand).

The change in the carrying amount of goodwill for the years ended March 31, 2006 and 2005, are as follows:

	Millions of yen	Thousands of U.S. dollars
Balance at April 1, 2004	¥ 324	
Goodwill acquired during the year	84	
Purchased goodwill acquired during the year	100	
Amortization	(182)	
Balance at March 31, 2005	¥ 326	
Goodwill acquired during the year	**206**	**$ 1,761**
Purchased goodwill acquired during the year	**4,936**	**42,188**
Amortization	**(260)**	**(2,222)**
Foreign currency translation adjusiments	**166**	**1,419**
Balance at March 31, 2006	**¥5,374**	**$45,932**

8. RENTAL DEPOSITS AND LONG-TERM LOANS

A breakdown of rental deposits and long-term loans as of March 31, 2006 and 2005, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
RENTAL DEPOSITS TO:			
Lessors for distribution facilities and stores of the Companies	**¥11,321**	¥12,026	**$ 96,761**
Lessors for stores of franchisees	**10,080**	10,114	**86,154**
Lessors for office and other facilities	**1,298**	1,510	**11,094**
Total rental deposits	**22,699**	23,650	**194,009**
LOANS TO:			
Franchisees	**1,804**	2,495	**15,419**
Other	**3**	29	**25**
Total loans	**1,807**	2,524	**15,444**
Allowance for doubtful receivables	**(1,659)**	(2,516)	**(14,179)**
Total	**¥22,847**	¥23,658	**$195,274**

The Companies' operations are conducted in free-standing buildings, a substantial portion of which has been constructed to the Company's specifications and is leased to the Company under non-cancelable lease terms ranging from 15 to 20 years. The lease terms are renewable upon expiration. Usually, the Company provides funds to the lessors in whole or in part for the construction costs of the leased buildings in the form of rental deposits which are non-interest-bearing.

Rental deposits are refundable over the lease term, or are refundable upon expiration of the lease term. If the Company cancels the lease agreements during the lease term, the outstanding rental deposits are not refunded. The Company has not experienced significant loss from the forfeiture of rental deposits as a result of cancellation of the lease agreements before expiration.

The Company has leased certain store buildings for which the Company has made rental deposits to lessors and subleased such stores to franchisees. The Company also receives non-interest-bearing rental deposits from the sublessees. Such rental deposits received are presented in long-term liabilities in the consolidated balance sheets. All of the above-mentioned leases were accounted for as operating leases and rent expenses paid to the lessors and rental income from sublessees have been set off in the consolidated statements of income.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2006 and 2005, consisted of notes to banks and other. The annual interest rates applicable to the short-term borrowings at March 31, 2006 and 2005, ranged from 0.2% to 7.2% and from 0.4% to 9.8%.

Long-term debt at March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Convertible bonds due 2023	**¥ 270**	¥10,000	**$ 2,308**
Loans from banks and other, due serially to 2012 with interest rates ranging from 0.6% to 5.0% (2006) and from 0.6% to 4.7% (2005) and other:			
Unsecured	**12,926**	1,753	**110,478**
Total	**13,196**	11,753	**112,786**
Less current portion	**1,518**	1,329	**12,974**
Long-term debt, less current portion	**¥11,678**	¥10,424	**$ 99,812**

Annual maturities of long-term debt at March 31, 2006, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 1,518	$ 12,974
2008	1,736	14,838
2009	1,500	12,820
2010	1,485	12,692
2011	4,186	35,778
2012 and thereafter	2,771	23,684
Total	¥13,196	$112,786

As is customary in Japan, the Companies maintain substantial deposit balances with banks with which they have borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Companies have never been requested to provide any additional collateral.

On September 22, 2003, the Company issued ¥10,000 million zero coupon convertible bonds due 2023 (bonds with the stock acquisition rights) ("Bonds"). The Bonds do not bear interest. The stock acquisition rights are not transferable separately from the Bonds. The Bonds are trading on the London Stock Exchange's market for listed securities.

The Bonds were issued in the denomination of ¥5,000,000 each and each Bondholder is entitled to exercise the stock acquisition rights during the period from October 22, 2003, to September 15, 2023, (unless previously redeemed) into the number of common shares, at the conversion rate of 1,552.79, which will not exceed the maximum conversion rate of 1,976.28, subject to adjustment in certain events. The conversion price shall be the amount in yen obtained by dividing the principal amount of each bond, ¥5,000,000. At March 31, 2006, the conversion price was ¥2,530. The conversion price of the Bonds is subject to adjustments to reflect stock splits and certain other events. The stock acquisition rights may be exercised during any particular quarter only if the market price of the Company's common stock for any 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the prior calendar quarter is more than 110% of the conversion price effective as of such last trading day.

The exercise of the stock acquisition rights shall not be applicable (1) during any period in which the credit rating assigned to the senior long-term debt of the Company or the credit rating assigned to the Bonds is below a specified level, the Bonds are no longer rated or the credit rating assigned to the Bonds is suspended or withdrawn, (2) if the Bonds have been called for redemption or (3) if specified corporate transactions such as the acquisition of all of the Company's shares by another company occurs.

Bondholders may require the Company to redeem all or a portion of their Bonds on September 30, 2007, September 30, 2011, September 30, 2015, and September 30, 2019, at 100% of their principal amount. The Company may redeem all, but not some of the Bonds then outstanding for cash at any time on or after September 30, 2007, at 100% of their principal amount.

During the year ended March 31, 2006, the Bonds were converted. As a result, the Company issued 1,611 thousand shares.

10. RETIREMENT AND PENSION PLAN

The Company has plans consisting of a non-contributory defined contribution pension plan and a plan in which employees receive a retirement payment portion in cash for employees as of March 31, 2006. Consolidated subsidiaries have a non-contributory defined contribution pension plan, a retirement payment plan and a non-contributory defined benefit pension plan for employees as of March 31, 2006.

Under most circumstances, employees terminating their employment were entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum retirement payment from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled larger payments if the termination is involuntary, compared with termination by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

At October 1, 2004, the Company changed from a non-contributory defined benefit pension plan to alternative plans consisting of a defined contribution pension plan and a plan in which employees receive a retirement payment portion in cash. This change caused income before income taxes and minority interests to decrease for the year ended March 31, 2005, by ¥340 million.

The Companies have a retirement payment plan for directors and corporate auditors. Certain consolidated subsidiaries changed their accounting for retirement payment plan for directors and corporate auditors during the year ended March 31, 2005. This change caused income before income taxes and minority interests to decrease for the year ended March 31, 2005, by ¥305 million. The liability for retirement benefits for directors and corporate auditors at March 31, 2006 and 2005, is ¥404 million ($3,453 thousand) and ¥430 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The Company also sponsors a domestic contributory welfare pension plan of an automobile-related company group covering substantially all of its Japanese employees. The benefits of the welfare pension plan are based on years of service and on the average compensation during years of service and subject to governmental regulations. The welfare plan consists of a basic component, which has been specified by the Japanese government's welfare pension regulations, and an additional component established by the automobile-related company group.

The net assets in the fund of the welfare plan were ¥6,785 million ($57,991 thousand) at March 31, 2006, which is the most recent date available. The salaries of the employees of the Company for such contributory pension plan appropriated 19.4% of the total salaries of the welfare plan at March 31, 2006. For the welfare pension plan, the amounts of contributions made are charged to income.

The liability (asset) for employees' retirement benefits at March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥311**	¥ 488	**$2,658**
Fair value of plan assets	**(35)**	(102)	**(299)**
Net liability	**¥276**	¥ 386	**$2,359**

The components of net periodic benefit costs for the years ended March 31, 2006, 2005 and 2004, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Service cost	**¥ 67**	¥ 291	¥347	**$ 572**
Interest cost		17	35	
Expected return on plan assets		(4)	(8)	
Recognized actuarial loss		4	21	
Contribution of contributory welfare pension plan	**305**	280	206	**2,607**
Additional benefit paid	**259**	99		**2,214**
Cost of transition to defined contribution pension plan		340		
Contribution pension plan and other	**265**	67		**2,265**
Net periodic benefit costs	**¥896**	¥1,094	¥601	**$7,658**

11. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of the common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlay, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥91,535 million ($782,350 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained to be at least ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the capital account charged at the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reserved without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

12. SALES

The Companies sell automobile-related goods to mostly domestic customers directly or to franchisees including certain affiliates with which the Companies have franchise agreements.

Net sales made to franchisees for the years ended March 31, 2006, 2005 and 2004, aggregated to approximately 58%, 59%, and 60% of the consolidated net sales, respectively.

13. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41%, 41% and 42% for the years ended March 31, 2006, 2005 and 2004, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
DEFERRED TAX ASSETS:			
Receivables	**¥ 316**	¥ 1,245	**$ 2,701**
Accrued enterprise taxes	**409**	112	**3,496**
Accrued bonuses	**273**	242	**2,333**
Inventories	**1,169**	1,137	**9,991**
Property and equipment	**4,313**	3,631	**36,863**
Pension and severance costs	**257**	276	**2,197**
Provision for business restructuring	**344**		**2,940**
Investments	**323**	261	**2,761**
Other accounts payable	**841**	425	**7,188**
Tax loss carryforwards	**2,705**	3,378	**23,120**
Other	**994**	603	**8,496**
Less valuation allowance	**(3,840)**	(3,713)	**(32,821)**
Deferred tax assets	**8,104**	7,597	**69,265**
DEFERRED TAX LIABILITIES:			
Property and equipment	**881**	854	**7,530**
Undistributed earnings of associated companies	**281**	226	**2,402**
Unrealized gain on available-for-sale securities	**482**	134	**4,119**
Other	**51**	68	**436**
Deferred tax liabilities	**1,695**	1,282	**14,487**
Net deferred tax assets	**¥6,409**	¥ 6,315	**$54,778**

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2006, 2005 and 2004, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2006	2005	2004
Normal effective statutory tax rate	**41.0%**	41.0%	42.0%
Expenses not deductible for income tax purposes	**0.6**	1.2	1.0
Per-capita inhabitants' tax	**0.5**	1.0	0.7
Changes in valuation allowance	**0.9**	14.5	(4.7)
Amortization of goodwill	**0.4**	0.5	0.7
Other–net	**(0.1)**	2.6	3.8
Actual effective tax rate	**43.3%**	60.8%	43.5%

At March 31, 2006, certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥7,301 million ($62,402 thousand) which are available to be offset against taxable income of such consolidated subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 194	$ 1,658
2008	322	2,752
2009	202	1,727
2010	1,212	10,359
2011	1,595	13,633
2012	1,200	10,256
2013 and thereafter	2,576	22,017
Total	¥7,301	$62,402

14. LEASES

The Companies lease certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2006, 2005 and 2004, were ¥6,687 million ($57,154 thousand), ¥6,668 million and ¥6,307 million, respectively, including ¥220 million ($1,880 thousand), ¥550 million and ¥732 million, respectively, of lease payments under finance lease contracts.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis is as follows:

	As of March 31, 2006 Millions of yen				As of March 31, 2005 Millions of yen			
	Equipment	Furniture	Others	Total	Equipment	Furniture	Others	Total
Acquisition cost	**¥521**	**¥417**	**¥18**	**¥956**	¥483	¥447	¥29	¥959
Accumulated depreciation	**340**	**196**	**14**	**550**	322	122	20	464
Net leased property	**¥181**	**¥221**	**¥ 4**	**¥406**	¥161	¥325	¥ 9	¥495

	As of March 31, 2006 Thousands of U.S. dollars			
	Equipment	Furniture	Others	Total
Acquisition cost	**$4,453**	**$3,564**	**$154**	**$8,171**
Accumulated depreciation	**2,906**	**1,675**	**120**	**4,701**
Net leased property	**$1,547**	**$1,889**	**$ 34**	**$3,470**

Obligations under finance lease contracts:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥182**	¥186	**$1,556**
Due after one year	**236**	322	**2,017**
Total	**¥418**	¥508	**$3,573**

Depreciation expense and interest expense under finance lease contracts:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Depreciation expense	**¥205**	¥514	¥692	**$1,752**
Interest expense	**13**	17	27	**111**
Total	**¥218**	¥531	¥719	**$1,863**

Depreciation expense and interest expense, which were not reflected in the accompanying consolidated statements of income, were computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under non-cancelable operating leases at March 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥101**	¥186	**$ 863**
Due after one year	**522**	630	**4,462**
Total	**¥623**	¥816	**$5,325**

15. DERIVATIVES

The Companies enter into currency swap contracts and interest rate swap contracts to manage their foreign currency and interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge foreign currency and interest rate exposures incorporated within their business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Companies have been made in accordance with internal policies which define the authorization and credit limit amount.

The companies had the following derivative contracts outstanding as of March 31, 2006 and 2005:

	Millions of yen		
	2006		
	Contract Amount	Fair Value	Unrealized Loss
Currency swap contracts	**¥3,536**	**¥(89)**	**¥(89)**

	Millions of yen		
	2005		
	Contract Amount	Fair Value	Unrealized Loss
Currency swap contracts	¥3,896	¥(409)	¥(409)

	Thousands of U.S. dollars		
	2006		
	Contract Amount	Fair Value	Unrealized Loss
Currency swap contracts	**$30,222**	**$(761)**	**$(761)**

Currency swap contracts which qualify for hedge accounting for the years ended March 31, 2006 and 2005, are excluded from the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

16. NET INCOME PER SHARE

Basic and diluted net income per share ("EPS") for the years ended March 31, 2006, 2005 and 2004, are as follows:

	Millions of yen	Thousands	Yen	U.S. dollars
For the year ended March 31, 2006	Net income	Weighted average shares	EPS	
Basic EPS:				
Net income	**¥7,861**			
Bonuses to directors and corporate auditors	**128**			
Net income available to common shareholders	**7,733**	**36,758**	**¥210.36**	**$1.80**
Effect of dilutive securities		**2,184**		
Diluted net income	**¥7,733**	**38,942**	**¥198.57**	**$1.70**

	Millions of yen	Thousands	Yen
For the year ended March 31, 2005	Net income	Weighted average shares	EPS
Basic EPS:			
Net income	¥2,928		
Bonuses to directors and corporate auditors	95		
Net income available to common shareholders	¥2,833	35,482	¥79.85

Diluted EPS is not disclosed because it is anti-dilutive.

	Millions of yen	Thousands	Yen
For the year ended March 31, 2004	Net income	Weighted average shares	EPS
Basic EPS:			
Net income	¥5,444		
Bonuses to directors and corporate auditors	73		
Net income available to common shareholders	¥5,371	35,850	¥149.80

Diluted EPS is not disclosed because it is anti-dilutive.

17. SEGMENT INFORMATION

A. Industry Segments

The Companies are primarily engaged in the sale of automobile-related goods and parts.

Sales and total assets of the automobile-related goods and parts for the years ended, and as of March 31, 2006, 2005 and 2004, represented more than 90% of consolidated sales and total assets of the respective years. Accordingly, industry segment information is not presented herein.

B. Geographical Segments and Sales to Foreign Customers

Domestic sales and total assets of the Companies for the years ended, and as of March 31, 2006, 2005 and 2004, represented more than 90% of consolidated sales and total assets of the respective years. Accordingly, geographical segment information and information on sales to foreign customers is not presented herein.

18. SUBSEQUENT EVENTS

a. The general shareholders' meeting held on June 28, 2006, resolved the following appropriations of retained earnings as of March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥26.00 ($0.22) per share	¥1,005	$8,590
Bonuses to directors and corporate auditors	128	1,094

b. At the Board of Directors held on May 19, 2006, the Board approved the repurchase of common stock up to a maximum of 400,000 shares to the aggregate amount of ¥2,200 million ($18,803 thousand).

By June 28, 2006, the Company repurchased 144,600 shares of common stock for ¥685 million ($5,855 thousand) in the market.

Deloitte.

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Independent Auditors' Report

To the Board of Directors and Shareholders of
AUTOBACS SEVEN CO., LTD.

We have audited the accompanying consolidated balance sheets of AUTOBACS SEVEN CO., LTD. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AUTOBACS SEVEN CO., LTD. and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2. F to the consolidated financial statements, the Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

As discussed in Note 2. J to the consolidated financial statements, certain consolidated subsidiaries changed its method of accounting for retirement benefits to directors and corporate auditors during the year ended March 31, 2005.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2006

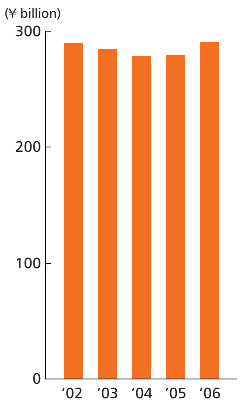
Member of
Deloitte Touche Tohmatsu

Financial Information *(Japanese Accounting Standards)*

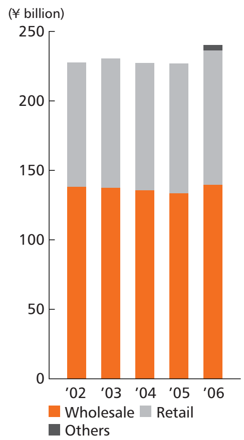
Consolidated Financial Data

Business Results

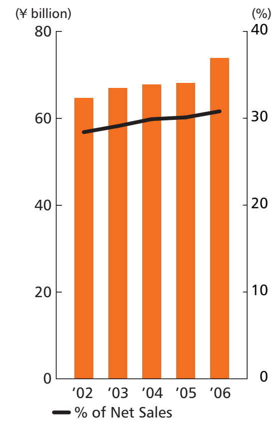
Total Store Sales*



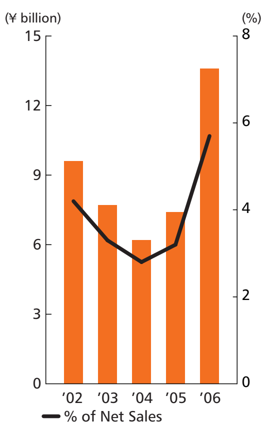
Net Sales



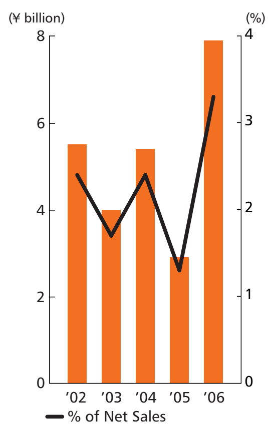
Gross Profit



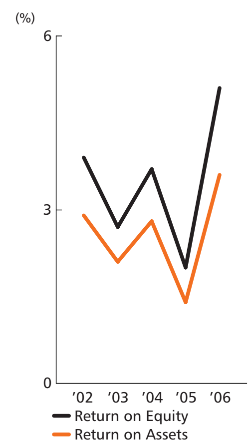
Operating Income



Net Income



Return on Equity and Assets



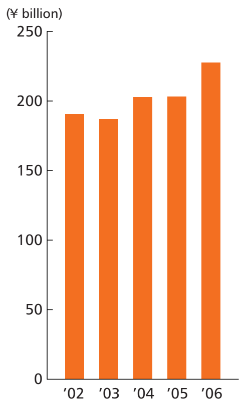
(Millions of yen)

	2002/3	2003/3	2004/3	2005/3	**2006/3**
Total Store Sales*	290,064	284,396	278,803	279,800	**290,698**
Net Sales	227,737	230,478	227,077	226,779	**240,207**
Wholesale	138,366	137,267	135,551	133,384	**139,543**
Retail	89,370	93,211	91,526	93,395	**96,865**
Others					**3,798**
Cost of Goods Sold	163,056	163,457	159,271	158,583	**166,257**
% of Net Sales	71.6	70.9	70.1	69.9	**69.2**
Gross Profit	64,680	67,021	67,806	68,196	**73,949**
% of Net Sales	28.4	29.1	29.9	30.1	**30.8**
Selling, General and Administrative Expenses	55,111	59,369	61,595	60,827	**60,312**
% of Net Sales	24.2	25.8	27.1	26.8	**25.1**
Operating Income	9,569	7,652	6,210	7,368	**13,637**
% of Net Sales	4.2	3.3	2.8	3.2	**5.7**
Ordinary Income	12,271	10,273	10,480	12,694	**16,922**
% of Net Sales	5.4	4.5	4.6	5.6	**7.0**
Net Income	5,520	4,003	5,443	2,928	**7,860**
% of Net Sales	2.4	1.7	2.4	1.3	**3.3**
Return on Equity (%)	3.9	2.7	3.7	2.0	**5.1**
Return on Assets (%)	2.9	2.1	2.8	1.4	**3.6**

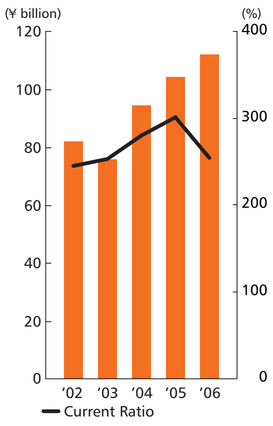
* Sales at AUTOBACS, Super AUTOBACS, and AUTO HELLOES stores

Financial Position

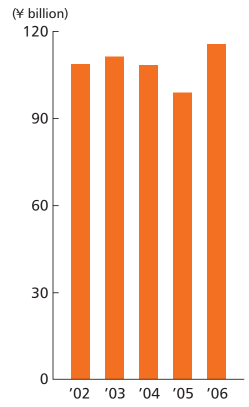
Total Assets



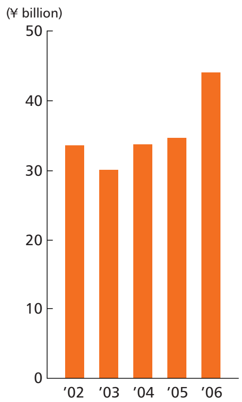
Current Assets



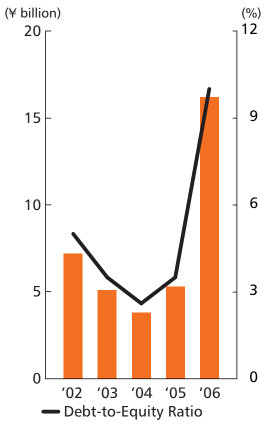
Fixed Assets



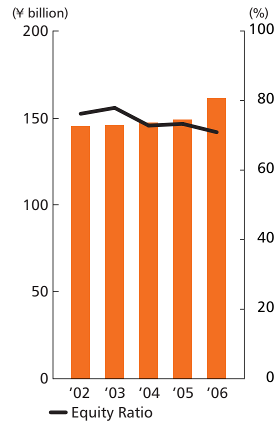
Current Liabilities



Interest-Bearing Liabilities



Shareholders' Equity

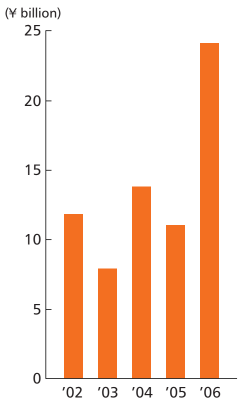


(Millions of yen)

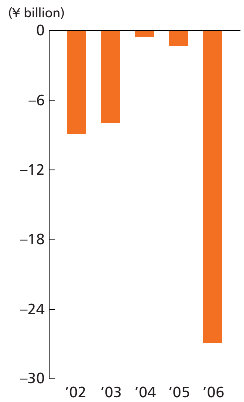
	2002/3	2003/3	2004/3	2005/3	**2006/3**
Total Assets	190,815	187,138	202,760	203,224	**227,707**
Current Assets	82,042	75,828	94,358	104,214	**112,020**
Current Ratio (%)	245.1	253.1	280.1	301.1	**254.3**
Cash and Deposits	33,198	23,681	41,316	51,306	**34,256**
Inventories	15,918	17,549	18,731	17,247	**17,015**
Fixed Assets	108,773	111,310	108,402	99,010	**115,687**
Current Liabilities	33,468	29,961	33,684	34,609	**44,046**
Long-Term Liabilities	10,697	10,834	20,835	19,153	**21,655**
Interest-Bearing Liabilities	7,233	5,131	3,810	5,286	**16,176**
Debt-to-Equity Ratio (%)	5.0	3.5	2.6	3.5	**10.0**
Shareholders' Equity	145,391	145,817	147,532	148,982	**161,535**
Equity Ratio (%)	76.2	77.9	72.8	73.3	**70.9**

Cash Flows

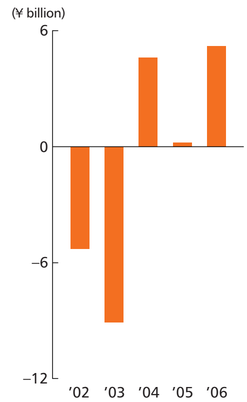
Net Cash Provided by Operating Activities



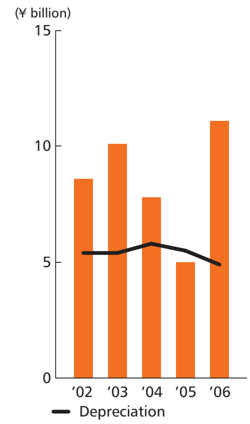
Net Cash Used in Investing Activities



Net Cash Provided by (Used in) Financing Activities



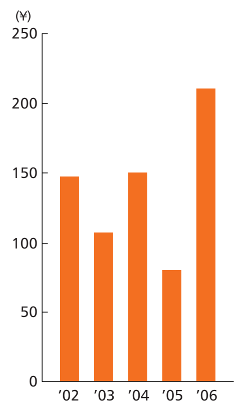
Net Purchase of Fixed Assets

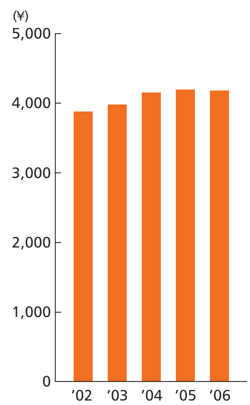


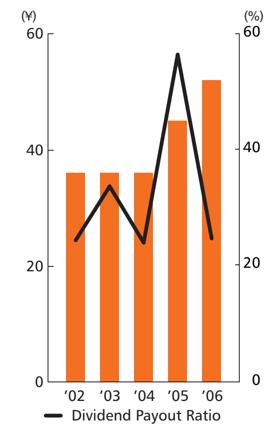
(Millions of yen)

	2002/3	2003/3	2004/3	2005/3	**2006/3**
Net Cash Provided by Operating Activities	11,795	7,925	13,807	10,979	**24,136**
Depreciation	5,409	5,394	5,798	5,536	**4,935**
Net Cash Used in Investing Activities	(8,856)	(8,002)	(645)	(1,276)	**(26,996)**
Net Purchase of Fixed Assets	(8,587)	(10,129)	(7,760)	(4,972)	**(11,120)**
Net Cash Provided by (Used in) Financing Activities	(5,296)	(9,098)	4,605	236	**5,177**

Per Share Data / Share Price







	2002/3	2003/3	2004/3	2005/3	(Yen) **2006/3**
Basic Net Income per Share	147.28	106.76	149.80	79.85	**210.36**
Shareholders' Equity per Share	3,879.09	3,979.02	4,153.92	4,196.25	**4,178.23**
Cash Dividends per Share	36.00	36.00	36.00	45.00	**52.00**
Dividend Payout Ratio (%)	24.4	33.7	24.0	56.4	**24.7**
Share Price:					
High	3,580	4,010	3,130	3,680	**6,350**
Low	2,645	2,055	2,015	2,795	**3,180**

Financial Statements (Japanese Accounting Standards)

Consolidated Balance Sheets

	1997/3	1998/3	1999/3
ASSETS			
Current Assets	**95,584**	**86,954**	**85,532**
Cash and Deposits	12,055	7,899	11,785
Trade Notes and Accounts Receivable	13,023	12,742	12,076
Marketable Securities	48,502	42,255	35,224
Inventories	13,359	14,396	14,379
Deferred Tax Assets			1,964
Short-Term Loans	886	1,476	1,713
Accounts Receivable–Other	5,304	5,985	7,771
Other Current Assets	2,605	2,374	2,178
Allowance for Doubtful Receivables	(153)	(175)	(1,560)
Fixed Assets	**64,045**	**74,298**	**86,336**
Tangible Fixed Assets	**34,293**	**40,672**	**48,038**
Buildings and Structures	8,995	16,707	20,104
Machinery, Equipment and Vehicles	1,876	2,913	2,522
Tools, Furniture and Fixtures	3,765	5,188	5,630
Land	13,313	14,038	18,856
Construction in Progress	6,342	1,823	924
Intangible Fixed Assets	**683**	**788**	**730**
Consolidated Adjustment Account			296
Software			
Goodwill			
Other Intangible Fixed Assets	683	788	433
Investments	**29,068**	**32,836**	**37,568**
Investment Securities	2,757	2,441	2,622
Long-Term Loans	3,412	5,191	5,922
Deferred Tax Assets			1,235
Rental Deposits	19,573	21,350	24,107
Other Investments	3,335	3,913	3,959
Allowance for Doubtful Receivables	(9)	(61)	(279)
Deferred Assets	**598**	**290**	
Reserve for Bond Redemption	598	290	
Foreign Currency Translation Adjustments			**36**
Adjustments for Consolidation of Accounts		**285**	
Total Assets	**160,228**	**161,828**	**171,905**

LIABILITIES			
Current Liabilities	**27,000**	**33,052**	**31,669**
Trade Notes and Accounts Payable–Trade	11,781	10,333	11,668
Short-Term Borrowings	585	1,730	4,409
Current Portion of Long-Term Bonds		7,938	300
Accrued Liabilities			
Income Taxes Payable	6,127	3,052	5,591
Equity Warrants Outstanding	1,235	1,235	
Other Current Liabilities	7,267	8,762	9,699
Long-Term Liabilities	**15,653**	**8,044**	**10,068**
Bonds and Zero Coupon Convertible Bonds	7,938		
Long-Term Debt	957	1,737	3,694
Liability for Retirement Benefits			
Accrued Retirement Benefits for Directors and Corporate Auditors	720	750	798
Provision for Business Restructuring			
Other Long-Term Liabilities	6,037	5,555	5,575
Foreign Currency Translation Adjustments	76	10	
Minority Interests	133	137	
Total Liabilities	**42,864**	**41,245**	**41,738**
MINORITY INTERESTS			**1,546**
SHAREHOLDERS' EQUITY			
Common Stock	31,958	31,958	31,958
Capital Surplus	31,719	31,719	31,719
Retained Earnings	53,686	56,904	64,943
Net Unrealized Gain (Loss) on Available-for-Sale Securities			
Foreign Currency Translation Adjustments			
Treasury Stock, at Cost	(0)	(0)	(0)
Total Shareholders' Equity	**117,363**	**120,583**	**128,620**
Total Liabilities, Minority Interests and Shareholders' Equity	**160,228**	**161,828**	**171,905**

(Millions of yen)

2000/3	2001/3	2002/3	2003/3	2004/3	2005/3	2006/3
84,813	86,941	82,042	75,828	94,358	104,214	112,020
14,139	15,450	33,198	23,681	41,316	51,306	34,256
11,734	13,509	12,859	12,272	12,456	12,919	12,914
30,798	27,389	3,760	5,721	4,776	5,124	28,682
13,962	14,481	15,918	17,549	18,731	17,247	17,015
2,142	2,615	2,832	2,240	2,195	1,906	2,794
1,837	1,835	860	1,333	1,031	841	699
9,474	12,039	12,824	13,302	13,372	14,133	14,285
2,052	1,975	1,965	1,826	1,628	1,444	1,890
(1,328)	(2,354)	(2,177)	(2,100)	(1,149)	(710)	(520)
92,224	104,130	108,773	111,310	108,402	99,010	115,687
49,389	51,369	53,948	59,463	60,294	51,399	49,794
21,012	22,902	22,646	26,370	26,561	23,917	21,613
2,206	1,905	1,638	1,598	1,478	1,298	1,109
6,381	6,356	5,614	5,906	5,912	4,940	4,462
18,609	19,198	23,762	25,014	26,064	21,070	22,330
1,179	1,007	285	574	277	172	276
3,967	4,008	3,430	2,795	3,079	4,253	10,899
227	128	28		324	325	398
3,425	3,472	2,878	2,327	2,456	3,151	4,753
						4,975
314	408	523	468	298	776	772
38,868	48,752	51,395	49,051	45,028	43,357	54,993
2,642	13,727	16,779	16,128	12,277	12,883	26,513
6,471	6,555	5,841	3,614	3,392	2,657	1,876
1,449	2,073	2,886	3,182	4,782	4,802	4,034
25,822	25,644	25,851	25,375	24,662	23,650	22,698
3,120	2,316	2,192	2,069	1,687	1,880	1,529
(638)	(1,565)	(2,156)	(1,319)	(1,773)	(2,516)	(1,659)
59						
177,097	191,072	190,815	187,138	202,760	203,224	227,707
29,296	36,134	33,468	29,961	33,684	34,609	44,046
11,495	13,021	14,170	13,109	14,136	14,335	16,094
4,768	6,638	4,917	3,111	2,130	4,863	4,768
						11,436
4,026	4,719	2,394	2,342	3,525	1,159	4,800
9,007	11,755	11,985	11,397	13,891	14,252	6,946
11,321	12,311	10,697	10,834	20,835	19,153	21,655
				10,008	10,008	270
3,882	4,158	2,316	2,019	1,680	415	11,407
	1,334	1,385	1,299	1,394	385	275
843	233	261	233	159	429	404
						860
6,595	6,584	6,735	7,281	7,592	7,914	8,437
40,618	48,446	44,166	40,796	54,519	53,763	65,701
1,414	1,530	1,257	524	708	478	469
31,958	31,958	31,958	31,958	31,958	31,958	33,998
31,719	31,719	31,719	32,241	32,241	32,241	34,512
71,386	77,751	81,901	84,523	88,651	90,121	96,113
	(315)	(169)	(126)	192	206	744
	(17)	(16)	(179)	(400)	(426)	(221)
(0)	(0)	(0)	(2,601)	(5,111)	(5,118)	(3,610)
135,064	141,095	145,391	145,817	147,532	148,982	161,535
177,097	191,072	190,815	187,138	202,760	203,224	227,707

Consolidated Statements of Income and Retained Earnings

	1997/3		1998/3		1999/3	
Net Sales	**214,469**	**100.0**	**215,350**	**100.0**	**213,489**	**100.0**
Cost of Goods Sold	**158,618**	**73.9**	**157,634**	**73.2**	**152,861**	**71.6**
Gross Profit	**55,850**	**26.1**	**57,715**	**26.8**	**60,627**	**28.4**
Selling, General and Administrative Expenses	**37,907**	**17.7**	**44,312**	**20.6**	**47,210**	**22.1**
Personnel Expenses	14,458		17,298		19,151	
Sales Promotion Expenses	7,574		7,959		6,952	
Equipment Expenses	7,928		10,999		12,774	
Administrative Expenses	7,946		8,054		8,332	
Operating Income	**17,942**	**8.4**	**13,402**	**6.2**	**13,417**	**6.3**
Non-Operating Income	**3,414**	**1.6**	**3,305**	**1.5**	**4,623**	**2.1**
Interest and Dividend Income	1,275		852		793	
Rental Income	484		815		1,169	
Equity Income on Affiliates						
Other Non-Operating Income	1,653		1,637		2,659	
Non-Operating Expenses	**1,508**	**0.7**	**1,753**	**0.8**	**2,785**	**1.3**
Interest Expenses	378		410		437	
Loss on Disposal of Fixed Assets			222		254	
Equity Expenses on Affiliates					18	
Other Non-Operating Expenses	1,129		1,119		2,075	
Ordinary Income	**19,848**	**9.3**	**14,954**	**6.9**	**15,255**	**7.1**
Extraordinary Gains	**70**	**0.0**			**1,235**	**0.6**
Proceeds from Warrant Exercise					1,235	
Other	70					
Extraordinary Losses	**475**	**0.2**	**533**	**0.2**	**280**	**0.1**
Write Down of Investment Securities	475		533		203	
Other					75	
Income before Income Taxes and Minority Interests	**19,442**	**9.1**	**14,420**	**6.7**	**16,210**	**7.6**
Corporate and Local Taxes	**9,207**	**4.3**	**6,834**	**3.2**		
Income Taxes–Current					**10,014**	**4.7**
Income Taxes–Deferred					**(1,641)**	**0.8**
Minority Interests	**6**		**(3)**		**33**	
Amortization Charges Accruing from Consolidation			**(96)**			
Investment Loss Accruing from Equity Holding Method	**(230)**		**(79)**			
Foreign Currency Translation Adjustments						
Net Income	**10,010**	**4.7**	**7,407**	**3.4**	**7,869**	**3.7**
Retained Earnings at Beginning of Year	**44,913**		**53,686**		**56,904**	
Increase in Retained Earnings					**1,558**	
Decrease in Retained Earnings	**1,238**		**4,186**		**1,391**	
Cash Dividends	1,161		1,351		1,330	
Bonuses to Directors and Corporate Auditors	77		87		60	
Retirement of Treasury Stock			2,748			
Other						
Net Income	**10,010**		**7,407**		**7,869**	
Retained Earnings at End of Year	**53,686**		**56,904**		**64,943**	

Consolidated Statements of Cash Flows

Operating Activities
Income before Income Taxes and Minority Interests
Depreciation
Other
Taxes Paid
Net Cash Provided by Operating Activities

Investing Activities
Net Purchase of Fixed Assets
Net (Purchase) Sale of Marketable and Investment Securities
Other
Net Cash Used in Investing Activities

Financing Activities
Net Increase (Decrease) in Borrowings
Purchase of Treasury Stock
Cash Outflow for Bond Redemption
Dividends Paid
Proceeds from Issuance of Zero Coupon Convertible Bonds
Other
Net Cash Provided by (Used in) Financing Activities

Effect of Exchange Rate Changes on Cash and Cash Equivalents
Net Increase (Decrease) in Cash and Cash Equivalents
Cash and Cash Equivalents, Beginning of Year
Net Increase in Cash and Cash Equivalents from Merger
Increase in Cash and Cash Equivalents Resulting from Initial Consolidation of Subsidiary
Decrease in Cash and Cash Equivalents Exclusion of a Consolidated Subsidiary
Cash and Cash Equivalents, End of Year

(Millions of yen, %)

2000/3		2001/3		2002/3		2003/3		2004/3		2005/3		**2006/3**	
219,956	**100.0**	**225,377**	**100.0**	**227,737**	**100.0**	**230,478**	**100.0**	**227,077**	**100.0**	**226,779**	**100.0**	**240,207**	**100.0**
157,757	**71.7**	**160,034**	**71.0**	**163,056**	**71.6**	**163,457**	**70.9**	**159,271**	**70.1**	**158,583**	**69.9**	**166,257**	**69.2**
62,198	**28.3**	**65,342**	**29.0**	**64,680**	**28.4**	**67,021**	**29.1**	**67,806**	**29.9**	**68,196**	**30.1**	**73,949**	**30.8**
49,547	**22.5**	**52,956**	**23.5**	**55,111**	**24.2**	**59,369**	**25.8**	**61,595**	**27.1**	**60,827**	**26.8**	**60,312**	**25.1**
20,001		20,171		21,337		24,133		25,184		25,297		**27,557**	
8,214		8,399		9,848		10,789		10,782		10,349		**9,828**	
12,531		12,794		13,168		13,975		14,220		13,922		**12,304**	
8,800		11,576		10,758		10,471		11,408		11,258		**10,621**	
12,651	**5.8**	**12,386**	**5.5**	**9,569**	**4.2**	**7,652**	**3.3**	**6,210**	**2.8**	**7,368**	**3.2**	**13,637**	**5.7**
4,379	**2.0**	**4,685**	**2.1**	**5,081**	**2.2**	**6,210**	**2.7**	**7,009**	**3.0**	**7,900**	**3.5**	**5,252**	**2.1**
534		632		494		422		358		296		**254**	
1,104		1,211		1,538		1,778		2,271		2,211		**97**	
25		8		32		58				184		**146**	
2,715		2,833		3,016		3,950		4,379		5,208		**4,754**	
1,473	**0.7**	**2,191**	**1.0**	**2,379**	**1.0**	**3,589**	**1.5**	**2,738**	**1.2**	**2,574**	**1.1**	**1,967**	**0.8**
178		168		198		152		99		60		**81**	
525		208		253		421		190		147		**263**	
								17					
769		1,814		1,928		3,016		2,431		2,366		**1,621**	
15,557	**7.1**	**14,879**	**6.6**	**12,271**	**5.4**	**10,273**	**4.5**	**10,480**	**4.6**	**12,694**	**5.6**	**16,922**	**7.0**
144	**0.0**	**97**	**0.0**	**900**	**0.4**	**480**	**0.2**	**1,283**	**0.5**	**1,262**	**0.5**	**774**	**0.3**
143		97		900		480		1,283		1,262		**774**	
1,183	**0.5**	**1,164**	**0.5**	**3,021**	**1.3**	**1,137**	**0.5**	**2,137**	**0.9**	**7,081**	**3.1**	**3,831**	**1.5**
52		34		1,083		330		266		17		**206**	
1,129		1,126		1,938		806		1,870		7,064		**3,624**	
14,518	**6.6**	**13,812**	**6.1**	**10,149**	**4.5**	**9,616**	**4.2**	**9,626**	**4.2**	**6,875**	**3.0**	**13,865**	**5.8**
7,047	**3.2**	**7,421**	**3.3**	**6,058**	**2.7**	**5,392**	**2.3**	**5,948**	**2.6**	**3,910**	**1.7**	**6,454**	**2.7**
(386)	**0.2**	**(866)**	**0.4**	**(1,181)**	**0.5**	**300**	**0.2**	**(1,764)**	**0.8**	**268**	**0.1**	**(447)**	**0.2**
55		**509**		**247**		**80**		**1**		**231**	**0.1**	**1**	**0.0**
7,913	**3.6**	**7,767**	**3.4**	**5,520**	**2.4**	**4,003**	**1.7**	**5,443**	**2.4**	**2,928**	**1.3**	**7,860**	**3.3**
64,943		**71,386**		**77,751**		**81,901**		**84,523**		**88,651**		**90,121**	
				32									
1,470		**1,402**		**1,402**		**1,381**		**1,315**		**1,458**		**1,869**	
1,405		1,349		1,349		1,349		1,303		1,384		**1,774**	
56		53		53		31		10		73		**95**	
8						131		1					
7,913		**7,767**		**5,520**		**4,003**		**5,443**		**2,928**		**7,860**	
71,386		**77,751**		**81,901**		**84,523**		**88,651**		**90,121**		**96,113**	

....	14,518	13,812	10,149	9,616	9,626	6,875	**13,865**
....	4,858	5,377	5,409	5,394	5,798	5,536	**4,935**
....	(835)	2,555	4,617	(1,639)	3,148	4,844	**8,360**
....	(8,619)	(6,729)	(8,380)	(5,445)	(4,765)	(6,276)	**(3,024)**
....	9,925	15,017	11,795	7,925	13,807	10,979	**24,136**
....	(9,875)	(8,749)	(8,587)	(10,129)	(7,760)	(4,972)	**(11,120)**
....	573	(2,628)	(2,499)	(1,552)	5,423	(400)	**(16,988)**
....	(586)	2,385	2,230	3,679	1,691	4,097	**1,112**
....	(9,886)	(8,990)	(8,856)	(8,002)	(645)	(1,276)	**(26,996)**
....	548	2,144	(4,084)	(5,256)	(1,796)	1,456	**10,851**
....			(1)	(2,575)	(2,503)	(7)	**(3,909)**
....	(300)						
....	(1,405)	(1,349)	(1,349)	(1,349)	(1,303)	(1,384)	**(1,774)**
....					10,000		
....	299	391	138	82	207	171	**9**
....	(858)	1,186	(5,296)	(9,098)	4,605	236	**5,177**
....	**(97)**	**66**	**73**	**(25)**	**(37)**	**55**	**102**
....	**(917)**	**7,279**	**(2,284)**	**(9,200)**	**17,730**	**9,994**	**2,420**
....	**29,213**	**28,296**	**35,575**	**32,835**	**23,437**	**41,155**	**51,150**
....			**8**				
....							
....							**51**
....			**(464)**	**(197)**	**(12)**		
....	**28,296**	**35,575**	**32,835**	**23,437**	**41,155**	**51,150**	**53,622**

Non-Consolidated Balance Sheets

	1996/3	1997/3	1998/3	1999/3
ASSETS				
Current Assets	**97,464**	**93,492**	**83,506**	**78,510**
Cash and Deposits	15,172	10,741	6,550	8,619
Trade Notes and Accounts Receivable	11,735	14,010	12,690	14,130
Marketable Securities	54,301	48,502	42,255	35,021
Inventories	10,824	10,932	11,119	7,931
Deferred Tax Assets				1,487
Short-Term Loans	723	1,582	2,815	3,781
Accounts Receivable–Other	3,587	5,462	6,169	7,382
Other Current Assets	1,270	2,438	2,091	1,714
Allowance for Doubtful Receivables	(153)	(178)	(189)	(1,561)
Fixed Assets	**48,868**	**63,764**	**74,202**	**82,408**
Tangible Fixed Assets	**23,504**	**30,778**	**35,939**	**38,089**
Buildings and Structures	6,445	8,465	15,869	17,112
Machinery, Equipment and Vehicles	565	1,803	2,842	2,451
Tools, Furniture and Fixtures	2,133	1,698	2,210	1,684
Land	11,784	12,466	13,912	15,915
Construction in Progress	2,574	6,342	1,823	924
Intangible Fixed Assets	**220**	**232**	**233**	**222**
Options on Rental Property	119	139	139	139
Software				
Other Intangible Fixed Assets	101	92	93	82
Investments	**25,143**	**32,753**	**38,029**	**44,096**
Investment Securities	2,771	2,317	2,136	1,983
Equity Holdings in Affiliates	1,471	2,270	2,598	5,603
Long-Term Loans to Affiliates	661	5,518	8,557	11,320
Long-Term Prepaid Expenses	1,569	1,770	2,180	1,982
Deferred Tax Assets				1,053
Rental Deposits	15,225	19,219	21,104	22,168
Other Investments	3,519	1,704	1,532	1,614
Allowance for Investment Losses				(1,314)
Allowance for Doubtful Receivables	(76)	(49)	(80)	(314)
Deferred Assets	**907**	**598**	**290**	
Proceeds from Bond Issuance	907	598	290	
Total Assets	**147,239**	**157,854**	**157,999**	**160,918**

	1996/3	1997/3	1998/3	1999/3
LIABILITIES				
Current Liabilities	**24,314**	**25,224**	**29,766**	**25,720**
Accounts Payable	9,205	11,522	9,960	11,161
Current Portion of Long-Term Bonds			7,938	
Income Taxes Payable	4,864	4,651	2,263	5,246
Income Taxes and Other Taxes Payable	1,413	1,261	699	
Other	8,828	7,786	8,904	9,311
Long-Term Liabilities	**14,136**	**14,659**	**6,383**	**6,447**
Bonds and Zero Coupon Convertible Bonds	7,938	7,938		
Liability for Retirement Benefits				
Accrued Retirement Benefits for Directors and Corporate Auditors	693	720	750	785
Rental Deposits	4,828	5,671	5,598	5,630
Other	676	329	34	31
Total Liabilities	**38,450**	**39,883**	**36,149**	**32,167**
SHAREHOLDERS' EQUITY				
Common Stock	31,958	31,958	31,958	31,958
Capital Surplus	31,719	31,719	31,719	31,719
Retained Earnings	45,111	54,293	58,171	65,072
Net Unrealized Gain (Loss) on Available-for-Sale Securities				
Treasury Stock, at Cost				
Total Shareholders' Equity	**108,789**	**117,971**	**121,849**	**128,750**
Total Liabilities and Shareholders' Equity	**147,239**	**157,854**	**157,999**	**160,918**

(Millions of yen)

2000/3	2001/3	2002/3	2003/3	2004/3	2005/3	**2006/3**
76,584	**76,985**	**76,870**	**72,986**	**88,783**	**98,147**	**104,176**
10,777	10,731	29,256	19,904	36,673	47,646	**29,646**
14,730	16,152	15,681	15,604	16,090	15,644	**16,143**
30,633	27,212	3,760	5,721	4,776	5,124	**28,682**
6,097	6,487	7,496	8,092	8,005	6,860	**6,293**
1,277	1,720	1,810	1,503	1,325	1,493	**1,711**
3,813	4,448	7,843	10,472	9,846	8,973	**7,475**
9,245	11,350	11,782	12,856	12,708	13,425	**13,674**
1,385	1,198	1,581	1,406	1,045	1,022	**1,102**
(1,378)	(2,320)	(2,343)	(2,575)	(1,690)	(2,043)	**(554)**
91,260	**102,038**	**106,745**	**112,886**	**110,471**	**99,952**	**121,086**
39,411	**41,127**	**43,198**	**49,734**	**49,404**	**41,779**	**41,461**
18,052	20,073	19,045	23,674	23,677	21,329	**19,887**
2,152	1,841	1,535	1,469	1,306	1,057	**890**
2,075	1,665	1,322	1,347	1,127	851	**826**
15,970	16,559	21,070	22,932	23,020	18,369	**19,614**
1,158	987	224	310	272	172	**242**
3,632	**3,599**	**3,015**	**3,258**	**2,657**	**3,427**	**4,857**
139	139	139	137	137	643	**650**
3,420	3,389	2,796	2,235	1,836	2,329	**3,942**
73	70	79	885	683	453	**265**
48,216	**57,311**	**60,530**	**59,892**	**58,408**	**54,745**	**74,766**
1,871	12,856	15,550	14,932	10,780	11,421	**24,937**
5,972	6,707	8,134	8,118	10,265	10,091	**12,392**
14,196	12,006	11,271	6,493	9,496	4,359	**6,895**
854	884	775	831	829	660	**633**
1,546	2,144	3,360	4,639	6,360	5,557	**5,352**
24,086	23,923	24,182	24,443	24,073	23,158	**22,234**
1,729	908	855	3,711	3,500	3,114	**6,638**
(1,319)	(537)	(1,391)	(908)	(2,329)	(1,109)	**(1,109)**
(723)	(1,584)	(2,208)	(2,368)	(4,569)	(2,509)	**(3,252)**
167,845	**179,023**	**183,616**	**185,872**	**199,254**	**198,099**	**225,262**
24,619	**28,539**	**28,828**	**28,632**	**30,738**	**29,495**	**42,194**
11,329	12,667	12,830	12,070	12,764	12,793	**13,905**
3,817	4,368	2,029	1,834	3,180	557	**3,800**
9,470	11,502	13,968	14,728	14,793	16,144	**24,488**
7,521	**8,128**	**8,109**	**8,909**	**18,642**	**18,211**	**21,236**
				10,000	10,000	**270**
	868	872	878	905		
821	211	239	192	119	115	**107**
5,984	7,019	6,976	7,823	7,612	8,009	**8,401**
715	27	21	14	4	86	**12,456**
32,140	**36,668**	**36,938**	**37,542**	**49,380**	**47,706**	**63,431**
31,958	31,958	31,958	31,958	31,958	31,958	**33,998**
31,719	31,719	31,719	32,241	32,241	32,241	**34,278**
72,026	78,967	83,139	86,813	90,562	91,079	**96,175**
	(290)	(137)	(106)	192	201	**722**
		(0)	(2,577)	(5,080)	(5,087)	**(3,578)**
135,704	**142,355**	**146,678**	**148,330**	**149,874**	**150,392**	**161,831**
167,845	**179,023**	**183,616**	**185,872**	**199,254**	**198,099**	**(225,262)**

Non-Consolidated Statements of Income

	1996/3		1997/3		1998/3		1999/3	
Net Sales	**195,518**	**100.0**	**212,003**	**100.0**	**207,660**	**100.0**	**201,600**	**100.0**
Cost of Goods Sold	**145,191**	**74.3**	**160,159**	**75.5**	**157,412**	**75.8**	**153,846**	**76.3**
Gross Profit	**50,326**	**25.7**	**51,844**	**24.5**	**50,248**	**24.2**	**47,753**	**23.7**
Selling, General and Administrative Expenses	**33,304**	**17.0**	**33,617**	**15.9**	**36,412**	**17.5**	**33,863**	**16.8**
Personnel Expenses	13,211		12,315		13,197		12,390	
Sales Promotion Expenses	6,405		6,898		6,789		5,257	
Equipment Expenses	6,210		6,840		8,832		8,994	
Administrative Expenses	7,478		7,562		7,593		7,220	
Operating Income	**17,022**	**8.7**	**18,227**	**8.6**	**13,836**	**6.7**	**13,890**	**6.9**
Non-Operating Income	**2,834**	**1.5**	**2,923**	**1.4**	**2,924**	**1.4**	**3,833**	**1.9**
Interest and Dividend Income	1,513		1,208		1,060		935	
Rental Income	305		499		818		1,153	
Other Non-Operating Income	1,015		1,213		1,044		1,744	
Non-Operating Expenses	**1,279**	**0.7**	**1,311**	**0.6**	**1,455**	**0.7**	**2,134**	**1.1**
Interest Expenses	721		350		339		305	
Other Non-Operating Expenses	558		961		1,115		1,829	
Ordinary Income	**18,577**	**9.5**	**19,839**	**9.4**	**15,305**	**7.4**	**15,590**	**7.7**
Extraordinary Gains	**30**	**0.0**	**70**	**0.0**			**1,235**	**0.6**
Proceeds from Warrant Exercise							1,235	
Other	30		70					
Extraordinary Losses	**33**	**0.0**	**475**	**0.2**	**533**	**0.3**	**1,472**	**0.7**
Write Down of Investment Securities	33		475		533		157	
Other							1,314	
Income before Income Taxes	**18,574**	**9.5**	**19,433**	**9.2**	**14,771**	**7.1**	**15,353**	**7.6**
Income Taxes–Current	**8,666**	**4.4**	**9,012**	**4.3**	**6,721**	**3.2**	**9,606**	**4.8**
Income Taxes–Deferred							**(1,743)**	
Reserve for Long-Term Payment								
Net Income	**9,908**	**5.1**	**10,420**	**4.9**	**8,050**	**3.9**	**7,490**	**3.7**
Retained Earnings Brought Forward	**1,749**		**2,117**		**2,661**		**3,007**	
Prior Year Adjustments for Adoption of Deferred Tax Accounting							**797**	
Reversal of Special Tax Purpose Reserve with Adoption of Deferred Tax Accounting							**483**	
Interim Cash Dividends	**492**		**609**		**609**		**599**	
Transfer to Legal Reserve	**49**		**60**		**60**		**59**	
Retirement of Treasury Stock					**2,748**			
Retained Earnings, End of Year	**11,115**		**11,867**		**7,294**		**11,119**	

(Millions of yen, %)

	2000/3		2001/3		2002/3		2003/3		2004/3		2005/3		**2006/3**	
	202,311	100.0	203,776	100.0	201,937	100.0	203,435	100.0	199,490	100.0	194,195	100.0	203,056	100.0
	160,225	79.2	160,987	79.0	160,221	79.3	161,739	79.5	158,048	79.2	154,694	79.7	160,343	79.0
	42,086	20.8	42,788	21.0	41,715	20.7	41,695	20.5	41,441	20.8	39,501	20.3	42,712	21.0
	29,156	14.4	31,537	15.5	32,695	16.2	34,776	17.1	34,311	17.2	32,018	16.4	29,075	14.3
	9,456		8,992		9,256		9,618		9,677		9,255		10,726	
	5,593		5,715		7,541		8,409		7,936		7,238		7,031	
	7,304		7,356		7,363		7,497		7,868		7,150		4,100	
	6,803		9,474		8,533		9,251		8,829		8,374		7,217	
	12,929	6.4	11,251	5.5	9,020	4.5	6,918	3.4	7,130	3.6	7,482	3.9	13,637	6.7
	3,879	1.9	4,972	2.4	4,941	2.4	5,231	2.6	6,370	3.2	6,634	3.4	3,530	1.7
	682		691		650		731		693		835		655	
	1,794		2,082		2,153		2,190		2,920		3,021		165	
	1,400		2,198		2,137		2,309		2,756		2,777		2,709	
	848	0.4	1,165	0.5	1,357	0.7	1,627	0.8	1,270	0.7	1,511	0.8	1,475	0.7
					15		27		18		4		44	
	848		1,165		1,342		1,599		1,251		1,506		1,430	
	15,960	7.9	15,058	7.4	12,604	6.2	10,523	5.2	12,230	6.1	12,606	6.5	15,692	7.7
	138	0.1	185	0.1	898	0.5	509	0.2	1,180	0.6	2,205	1.2	873	0.4
	138		185		898		509		1,180		2,205		873	
	1,236	0.6	766	0.4	3,821	1.9	2,239	1.1	4,719	2.3	9,071	4.7	4,761	2.3
	50		27		1,080		294		232				206	
	1,183		737		2,740		1,945		4,486		9,071		4,554	
	14,862	7.4	14,477	7.1	9,682	4.8	8,792	4.3	8,692	4.4	5,740	3.0	11,805	5.8
	6,730	3.3	6,965	3.4	5,525	2.7	4,731	2.3	5,383	2.7	3,131	1.6	5,200	2.6
	(282)		(831)		(1,417)		(993)		(1,753)		634		(360)	
	8,415	4.2	8,343	4.1	5,574	2.8	5,055	2.5	5,062	2.5	1,974	1.0	6,965	3.4
	2,701		2,746		2,720		2,804		2,714		2,571		2,854	
	674		674		674		674		643		745		922	
	67		67											
	10,374		10,348		7,620		7,184		7,133		3,800		8,897	

Corporate Data

(As of March 31, 2006)

AUTOBACS SEVEN CO., LTD.

Head Office	IST Bldg., 6-52, Toyosu 5-chome, Koto-ku, Tokyo 135-8717, Japan
Corporate Website	http://www.autobacs.co.jp/
Date of Foundation	February 1947
Paid-in Capital	¥33,998 million
Number of Employees	4,406 (consolidated)
Main Business Offices	Northern Japan Regional Department (Sendai, Miyagi) Northern Kanto Regional Department (Ichikawa, Chiba) Southern Kanto Regional Department (Ichikawa, Chiba) Chubu Regional Department (Nagoya, Aichi) Kansai Regional Department (Suita, Osaka) Southern Japan Regional Department (Fukuoka, Fukuoka) Europe and America Business Department (Koto-ku, Tokyo) Asia Business Department (Koto-ku, Tokyo) China Business Department (Koto-ku, Tokyo)

Corporate History

February 1947	The late Toshio Sumino founded Suehiro Syokai as a privately owned wholesaler of automobile parts in Fukushima-ku, Osaka.
August 1948	Suehiro Syokai formed into a joint-stock company to establish Fuji-Syokai Co., Ltd., in Osaka. Began the wholesale of automobile parts.
January 1958	Wholesale division spun off to form DAIHO-SANGYO Co., Ltd.
December 1958	Established the Drive Shop Division.
November 1974	Opened AUTOBACS Higashi Osaka Store as the Company's first directly managed, one-stop specialty store for car parts and accessories.
April 1975	Opened AUTOBACS Hakodate Nakamichi as the Company's first franchise chain store.
February 1978	Changed trade name from Fuji-Syokai Co., Ltd., to AUTOBACS SEVEN CO., LTD.
March 1979	AUTOBACS SEVEN CO., LTD., merged with DAIHO-SANGYO Co., Ltd., and Autobacs Higashi Osaka Co., Ltd. New company called DAIHO-SANGYO Co., Ltd.
March 1980	Trade name changed to AUTOBACS SEVEN CO., LTD.
April 1981	Opened first directly managed store in eastern Japan, in Koshigaya.
June 1984	Head office relocated to Suita, Osaka.
March 1989	Listed on Second Section of Osaka Securities Exchange.
June 1993	Head office relocated to Toyonaka, Osaka.
August 1993	Listed on Second Section of Tokyo Stock Exchange.
September 1993	Designated for listing on first sections of Tokyo Stock Exchange and Osaka Securities Exchange.
March 1995	Listed on London Stock Exchange.
March 1997	Opened first Super AUTOBACS store in Naganuma, Chiba, as a new store format targeting larger commercial areas.
October 1998	Formed capital and operational tie-up with AUTO HELLOES Co., Ltd. (currently A.M.C. Co., Ltd.)
August 1999	Established AUTOBACS SEVEN Europe S.A.S. (currently AUTOBACS FRANCE S.A.S.) as a joint venture company with RENAULT Societe Anonyme.
January 2001	Launched Internet shopping website: http://www.autobacs.com.
June 2001	Head office relocated to Minato-ku, Tokyo.
October 2002	AUTO HELLOES Co., Ltd. (currently A.M.C. Co., Ltd.), becomes a wholly owned subsidiary through an exchange of shares.
October 2004	Head office relocated to Koto-ku, Tokyo.
March 2006	Store network totaled 532 stores, comprising 175 stores included in consolidation (of which 16 overseas stores and 30 equity-method company stores), 353 AUTOBACS franchise chain stores (of which 3 overseas stores), and 4 AUTO HELLOES franchise chain stores.

Share Information

(As of March 31, 2006)

Common Stock Authorized
109,402,300 shares

Common Stock Issued
39,255,175 shares

Number of Shareholders
9,482

Settlement Date
March 31

Annual General Shareholders' Meeting
June

Record Dates

Annual general shareholders' meeting	March 31
Year-end dividends	March 31
Interim dividends	September 30

Prior notice of extraordinary dividends payments made as required.

Number of Shares in One Trading Unit
100 shares

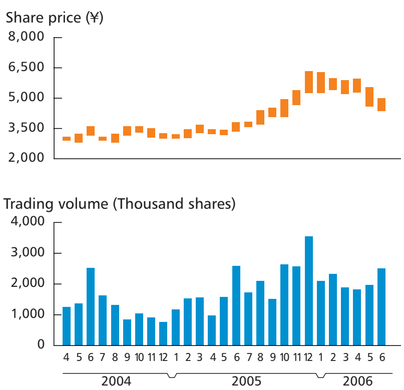
Newspaper Used for Notifications
Nihon Keizai Shimbun
The Company discloses balance sheets, statements of income, and related information at:
http://www.autobacs.co.jp/

Stock Listings
Tokyo Stock Exchange
Osaka Securities Exchange
London Stock Exchange

Independent Auditor
Deloitte Touche Tohmatsu

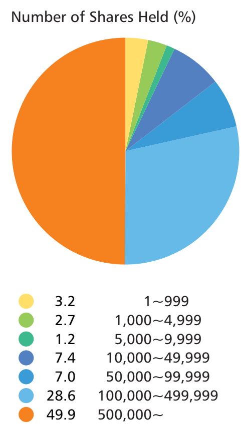
Transfer Agent
The Sumitomo Trust and Banking Co., Ltd.
4-4, Marunouchi 1-chome,
Chiyoda-ku, Tokyo

Share Price Trends*

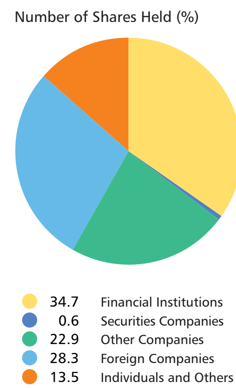


* Osaka Securites Exchange

Breakdown of Shareholders and Shares Held by Size of Shareholding



Breakdown of Shareholders and Shares Held by Type of Shareholder



Major Shareholders

Name or Trading Name	Number of Shares Held (Thousands)	Percentage of Total Shares Issued
Sumino Holdings, Ltd.	5,157	13.14
Japan Trustee Services Bank, Ltd. (Trust Account)	3,831	9.76
The Master Trust Bank of Japan, Ltd.	2,829	7.21
Northern Trust Company (AVFC) Sub Account American Client	1,277	3.26
State Street Bank and Trust Company 505019	1,066	2.72
The Yuumi Memorial Foundation for Home Health Care	1,000	2.55
Japan Trustee Services Bank, Ltd. (Trust Account 4)	962	2.45
Masao Sumino	859	2.19
The Sumitomo Trust and Banking Co., Ltd.	743	1.89
Trust & Custody Services Bank, Ltd.	673	1.71
Total	18,401	46.88

Note: Please refer to the Company's financial statements prepared in conformity with Japanese accounting standards for information on shareholders, other than those listed above, that have not undertaken name transfer.

AUTOBACS SEVEN CO., LTD.

IST Bldg., 6-52, Toyosu 5-chome, Koto-ku, Tokyo 135-8717, Japan

http://www.autobacs.co.jp/

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Printed in Japan