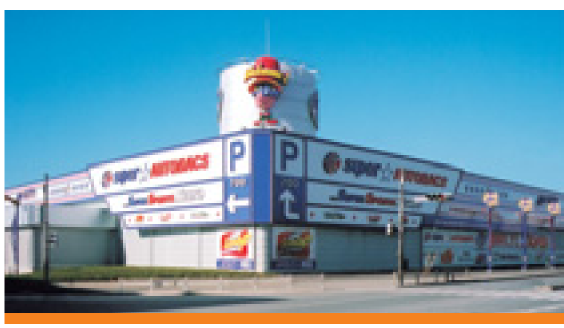
AUTOBACS SEVEN

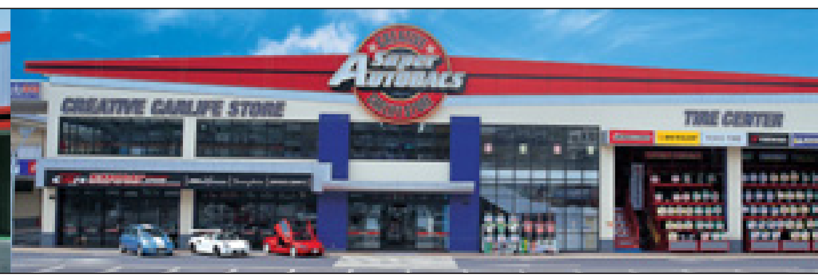
Annual Report 2003

Year ended March 31, 2003



Toward Total Car Life Support

Toward Total Car Life Support



BRAND POWER
OPTIMAL STORE NETWORK
EXPANDED SERVICE MENU
AUTOBACS IN POLE POSITION

AUTOBACS SEVEN CO., LTD., was the first company in Japan to develop a chain of one-stop car parts and accessories stores. Since its foundation in 1947, the Company has grown steadily to become Japan's leading retailer of car parts and accessories, boasting a nationwide store network. Today, we are focusing our efforts on the realization of a new goal—transforming the Company into a "total car life support" provider.

As well as supplying automotive products, "total car life support" involves offering customers a full range of maintenance services and fresh ideas on how to get more enjoyment out of their cars. With this in mind, the AUTOBACS Group is continuing to provide its value-added, mainstay products and services while working hard to create and cultivate interest in a new, broader-based automobile culture.

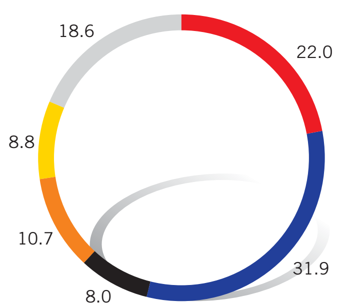
Fiscal 2003 in Review

AUTOBACS SEVEN CO., LTD. AND SUBSIDIARIES
Years ended March 31

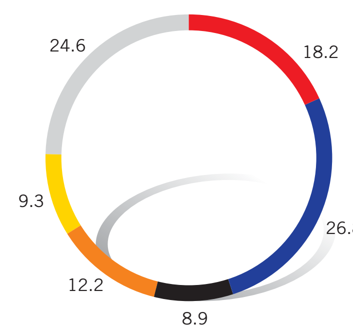
	Millions of Yen			Thousands of U.S. Dollars
	2001	2002	**2003**	**2003**
For the Year:				
Net sales	¥225,377	¥227,737	**¥230,479**	**$1,920,658**
Operating income	12,386	9,570	**7,652**	**63,767**
Income before income taxes and minority interests	13,813	10,150	**9,616**	**80,133**
Net income	7,767	5,520	**4,003**	**33,358**
Per Share of Common Stock (Yen and Dollars):				
Net income	¥205.83	¥146.45	**¥106.76**	**$0.89**
Cash dividends	36.00	36.00	**36.00**	**0.30**
At Year-End:				
Shareholders' equity	¥141,096	¥145,391	**¥145,818**	**$1,215,150**
Total assets	191,072	190,815	**187,139**	**1,559,492**

Note: U.S. dollar figures are shown for the sake of convenience only and are converted from yen amounts based on an exchange rate of ¥120 = US$1, the prevailing rate on March 31, 2003.

COMPOSITION OF WHOLESALE SALES
(%)

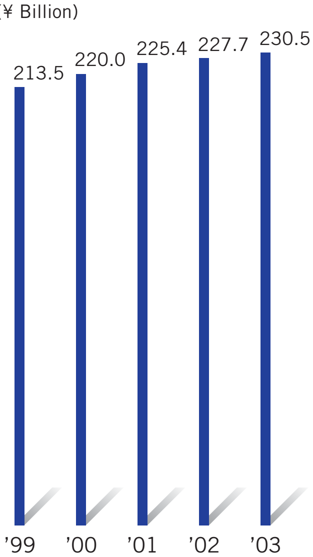


COMPOSITION OF RETAIL SALES
(%)

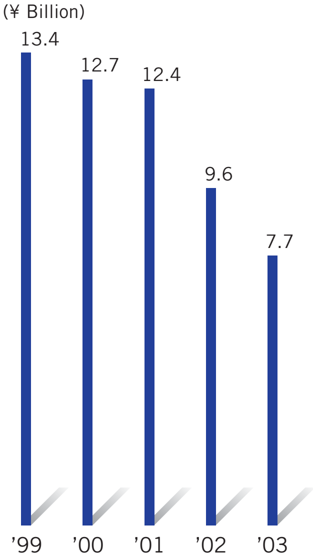


Tire and Wheels Car Electronics Oil and Batteries Car Exterior Items Car Interior Items Motor Sports Goods and Others

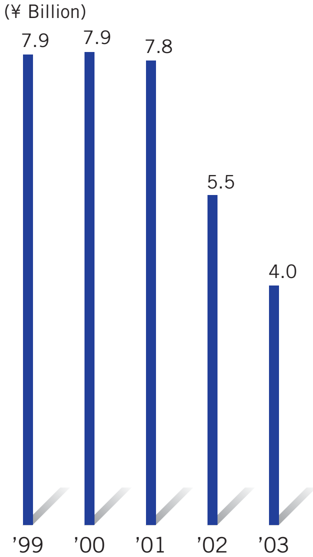
NET SALES
(¥ Billion)



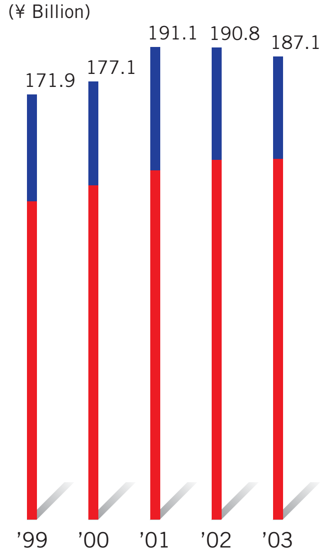
OPERATING INCOME
(¥ Billion)



NET INCOME
(¥ Billion)



TOTAL ASSETS
(¥ Billion)



Shareholders' Equity

SUZUKI DISTRIBUTORSHIP AGREEMENT

Lapin BENETTON VERSION

Established within our Super AUTOBACS KASHIWA SHONAN store, the AUTOBACS CARS KASHIWA SHONAN store began retailing new cars following the conclusion of a distributorship agreement with Suzuki Motor Corporation in December 2002. In Japan, this marks the first time that a car parts and accessories chain store has sold new vehicles on behalf of an automaker. Moreover, the Company is collaborating with Suzuki on the planning and marketing of special edition automobiles. As the first stage in this initiative, in April 2003 we launched sales of the Lapin BENETTON VERSION, a model developed through a tie-up with Suzuki and Benetton Japan Co., Ltd.

MAINTENANCE COUPONS CAMPAIGN

Campaign advertisement

As part of efforts to strengthen its statutory safety inspection and maintenance business, the Company implemented a discount coupon sales promotion from January 1 through March 31, 2003. We gave a maintenance coupon—valid at all stores for two years to the value of ¥20,000—to each customer using safety inspection services at Super AUTOBACS or AUTOBACS stores. Our aim is to encourage repeat visits by offering customers an incentive to make more extensive use of our product and service lineups. Accordingly, customers can buy such items as engine oil, batteries, and tires with the coupons or receive discounts on a wide range of maintenance services, in addition to discounts on annual servicing and statutory safety inspections.

DAYTONA ALLIANCE

RICOLAND,
a motorcycle parts and accessories store of Daytona

In March 2003, we concluded an operational and capital tie-up with Daytona Corp. which plans, develops, and sells parts and accessories for motorcycles and automobiles. Our aim is to increase our sales and market share of motor sports products and to create a network of motorcycle parts and accessories stores. This collaboration will enhance the efficiency of our motorcycle and automobile parts procurement while enabling us to develop new products that cater to market needs by leveraging Daytona's R&D capabilities and technical expertise. Based on this alliance, we are assessing the development of a network of stores that offer parts and accessories for motorcycles and automobiles.

To Our Shareholders and Other Investors

Koichi Sumino
Representive Director & Chief Executive Officer

PERFORMANCE HIGHLIGHTS

- Despite a challenging operating environment, consolidated net sales rose 1.2% in the year under review, to ¥230.5 billion.
- Due to an increase in selling, general and administrative (SG&A) expenses, operating income fell 20.0%, to ¥7.7 billion.
- Net income was down 27.5%, to ¥4.0 billion. ROE was 2.7% and ROA was 2.1%.
- Cash dividends per share were the same as in the previous fiscal year, at ¥36.00. The dividend payout ratio rose from 24.4% to 33.7% in the year under review.

OPERATIONAL DEVELOPMENTS

- We actively opened Super AUTOBACS and AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores while restructuring our store network to position Super AUTOBACS stores at the hub of each commercial area. At fiscal year-end, we had a network of 530 stores, a decrease of 16 stores from the previous year-end.
- We focused efforts on statutory safety inspection, maintenance, and car sales operations to strengthen their synergy with our parts and accessories retailing operations.

FISCAL 2003 PERFORMANCE OVERVIEW

In fiscal 2003, ended March 31, 2003, AUTOBACS SEVEN faced a challenging business environment characterized by continued sluggishness in the domestic economy and further contraction of the car parts and accessories market. In car electronic products, which have been a key growth driver in the car parts and accessories market until now, deflation led to intensified price competition.

Against this backdrop, we worked to create more appealing stores, bolster product lineups, and offer friendly customer services underpinned by technical expertise. Thanks to these efforts, and to the higher revenues produced by converting independent franchisees to subsidiaries, we posted an increase in sales despite negative growth in the car parts and accessories market. However, due to higher SG&A expenses, operating income and net income were down year on year.

The increase in SG&A expenses was mainly attributable to higher personnel costs stemming from the conversion of independent franchisees to subsidiaries and aggressive sales promotion campaigns aimed at bolstering our car sales business and statutory safety inspection and maintenance operations. While such costs had a negative impact on the Company’s short-term profits, the initiatives associated with these costs will serve to expand our customer base and contribute to medium-term profitability.

SHARING A COMMON DREAM WITH OUR CUSTOMERS THROUGH CARS

We opened Japan's first one-stop car parts and accessories store in 1974. Since then, our motto has been "customer first."

Having inaugurated a new business sector through the development of its one-stop car parts and accessories network, the AUTOBACS Group has set itself the new challenge of producing a utopia for automobile enthusiasts while converting general drivers into automobile enthusiasts. We aim to create stores that give customers a real sense that, rather than merely being a mode of transportation, cars can enrich their lives. Our ultimate goal is to help customers make the best use of cars to perfectly fit their lifestyles by creating stores that offer a broad array of suggestions on different ways to enjoy cars.

We call this ambition—"total car life support." This expression refers to the transformation of our business model from a company that retails car-related goods to a company that provides solutions and shows how cars can be truly enjoyed. We are convinced that evolving our operations in this way will take the AUTOBACS Group into a new phase of growth.

The car parts and accessories market, which has been our mainstay market up to now, has been contracting in recent years. This falloff is not only attributable to the flagging domestic economy but also to the fact that automakers are marketing vehicles with more equipment fitted as standard. To achieve sustained growth in these challenging business conditions, the Company must develop its operations based on a new concept that goes beyond the traditional boundaries of the car parts and accessories market. Going forward, we will bolster the AUTOBACS brand by developing a business that shares a common dream with our customers.

TOWARD THE REALIZATION OF TOTAL CAR LIFE SUPPORT

Developing New-Format Stores

The creation of a new business sector is one of the initiatives that we are undertaking to realize our goal of transforming the Company into a "total car life support" provider. As a departure from the familiar orange facade of our AUTOBACS stores, in 1997 we unveiled the first of our Super AUTOBACS stores, which offer a wider range of products and services. Our Super AUTOBACS operations are gradually becoming established as the AUTOBACS Group's next mainstay business. As of June 2003, the network comprised 45 stores.

In addition, in 2000 we launched a chain of secondhand automotive goods stores, AUTOBACS *Hashiriya Tengoku Secohan Ichiba*. And, in 2002, we established AUTOBACS Express stores, which are self-service gasoline stations that also sell high-use automotive goods and offer car maintenance services. Both of these businesses are growing steadily thanks to the customer confidence in AUTOBACS brand.

Restructuring Our Store Network

In recent years, aiming to develop a more profitable store network, we have pursued an aggressive scrap-and-build program based on reevaluations of the profitability and competitiveness of each individual store. Today, we are implementing the second stage of our store network restructuring by steadily opening such new-format stores as Super AUTOBACS.

In these efforts, we have positioned Super AUTOBACS stores, which serve large commercial areas, as sales hubs that offer comprehensive automotive product lineups and services. Around each of these stores, we have located several AUTOBACS stores, which provide full ranges of high-use products. By positioning our stores in this way, we are creating a synergy among Group stores that enables us to increase the frequency of store visits within each commercial area by sharing customers.

Enhancing Car Maintenance Services

Automobile maintenance is one of the value-added services that the Company will strengthen as it pursues "total car life support." AUTOBACS stores have always provided maintenance services. However, we are currently working to cater to customer needs at an even higher level by bolstering the range and quality of services that we offer.

Service pits are an important element in the realization of our concept of "total car life support." At Super AUTOBACS stores in particular, we are working to install a large number of service pits and to achieve the timely provision of a broader array of services, including maintenance, inspections, panel repair, automotive body painting, and interior cleaning. To enable more of our stores to offer one-stop car servicing at

adjoining facilities, we are also increasing the number of stores certified to perform statutory safety inspections and related maintenance. These facilities offer an integrated service that encompasses everything from the receipt of the initial order through to the completion of statutory safety inspections and maintenance. Our goal is to deliver satisfaction and peace of mind to increasing numbers of customers through the advanced technical capabilities and friendly service that differentiate AUTOBACS Group stores.

Reforming Our Corporate Culture and Employee Training

To achieve "total car life support," all of the Group's employees must work in unison toward a common goal. Mindful of this, we are reforming our corporate culture and employee training programs to ensure that all of our employees—from store managers to sales assistants to back-office employees—perform their duties with a keen awareness that the customer should always be their first priority. Accordingly, we have expanded training programs aimed at enhancing the technical capabilities of engineers and the customer service skills of store employees.

Providing Excitement through Cars

As many car enthusiasts are passionate about motor sports, AUTOBACS SEVEN is seeking to nurture world-class Japanese drivers through its sponsorship of the AUTOBACS Racing Team Aguri (ARTA). Headed by former Formula One driver Aguri Suzuki, the team has built up an impressive track record. Also, our original sports car, Garaiya, which aims to make the dreams of car fans a reality, is now in the final stages of development.

The objectives of both of these initiatives are to communicate our vision of the future of automobiles to customers and to inspire them to share our passion. In the long-term, we are certain that these projects will significantly enhance our brand image and corporate value.

ENHANCING CORPORATE GOVERNANCE

AUTOBACS SEVEN regards enhancing its management organization and management auditing functions as issues of the highest priority in order that the Company strengthen its competitiveness, speed up decision making, and improve transparency by facilitating timely disclosure. In June 2002, we took steps to reform the Company's management and increase the dynamism of the board of directors by reducing the number of directors and introducing a corporate officer system. These changes have resulted in faster management decisions and the effective delegation of authority within the organization. Under the new system, our directors determine the optimal allocation of corporate resources, which officers then reflect in their management of the Company's operations. Furthermore, in order to clarify management responsibility for each fiscal year, we have shortened the tenure for directors and auditors from two years to one.

In addition, AUTOBACS SEVEN employs a corporate auditing system whereby auditors not only submit their opinions through auditing and offer on-spot advice at meetings of the board of directors, they also attend important managerial meetings and seek ways in which to strengthen supervision of the Company's operations. AUTOBACS SEVEN also has an auditing section that continuously monitors its internal operations.

The Company is continuing to enhance the timeliness of its disclosure activities by releasing financial statements more frequently. Accordingly, we began issuing nonconsolidated quarterly financial statements in the year under review, and we will start releasing consolidated quarterly settlements in the current fiscal year.

DIVIDEND AND CAPITAL POLICY

AUTOBACS SEVEN believes enhancing profitability, retaining adequate internal reserves to develop operations going forward, and ensuring the incremental return of profits to shareholders to be its core management missions. The Company will appropriate retained earnings to expand and restructure its domestic sales network, upgrade IT systems, open stores overseas, and develop new businesses. In line with its financial policy, at its Annual General Shareholders' Meeting in June 2002, the Company received authorization to repurchase a maximum of 2.0 million shares of treasury stock over one year, at ¥10.0 billion. At fiscal year-end, the Company had reacquired 1.0 million of its shares at a purchase price of ¥2.5 billion. And, as of June 27, 2003, the Company had repurchased at total of 1.87 million shares of treasury stock, at ¥4.4 billion. With a view to maximizing capital efficiency, we will continue to implement a flexible treasury stock repurchasing policy in response to market trends. To further facilitate this policy, at its Annual General Shareholders' Meeting in June 2003, the Company received authorization to repurchase up to 1.0 million shares of treasury stock over one year, at ¥4.0 billion.

CORPORATE CITIZENSHIP

The Company actively undertakes philanthropic and environmental preservation activities to fulfill its obligations as a corporate citizen. For example, AUTOBACS SEVEN has supported the Golf Tournament for Disabled Persons Tokyo Philanthropy Open since its inauguration in 1999. This event seeks to promote a barrier-free society for the disabled and the elderly.

The Company's environmental initiatives include working with suppliers to develop measures in compliance with the Containers and Packaging Recycling Law that also meet the needs of customers who want reliable products they can use long term as well as those who want to regularly update their products. We are also implementing policies in accordance with the guidelines for the appropriate waste disposal detailed in the Wastes Disposal and Public Cleaning Law. We mainly use recycling processes to minimize the environmental burden caused by the waste materials we produce. In addition, we are promoting the reuse of products by selling accessories customers trade in at most AUTOBACS Group stores through our secondhand automotive goods business. Further information on some of our other environmental initiatives is on display at the ATC Green Eco Plaza in Osaka.

LOOKING AHEAD

In the current fiscal year, aiming to further strengthen our domestic sales base in the medium term, we will continue aggressively expanding our network of Super AUTOBACS stores while developing broader-based "car lifestyle" operations. In the long-term, we will heighten our presence in overseas markets, aiming to transform AUTOBACS SEVEN from a Japanese company into a global company.

Although we anticipate that the AUTOBACS Group will face an increasingly challenging business environment going forward, we intend to achieve robust growth by implementing effective management strategies focused on realizing "total car life support."

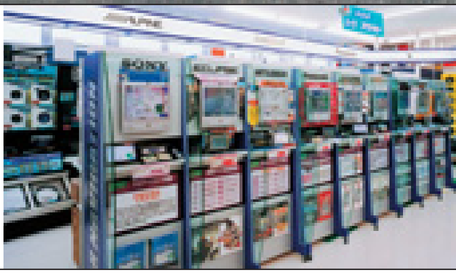
In closing, I would like to take this opportunity to ask our shareholders and other investors for their continued backing and encouragement.

July 2003

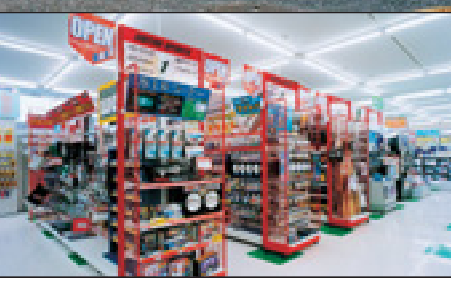
Koichi Sumino

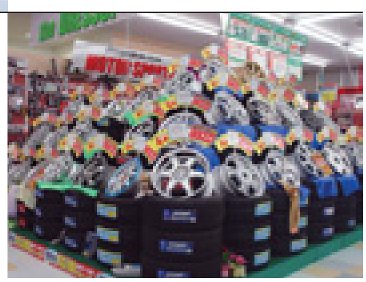
Representative Director & Chief Executive Officer

BRAND POWER



The AUTOBACS Group's greatest assets are the trust and excitement that customers associate with the AUTOBACS brand. This brand power and customer loyalty is the result of the convenience afforded by the extensive product and service lineups offered at our stores and the expert, personable service provided by our employees.





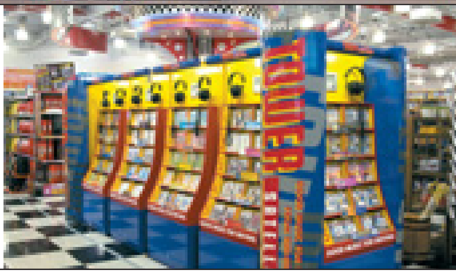
In 1974, AUTOBACS SEVEN opened Japan's first one-stop car parts and accessories store in Osaka. Until then, retailers had specialized in various automotive product lines. For customers, this was inconvenient as they had to visit different stores depending on the type of part they wanted to buy. With a view to improving customer convenience, AUTOBACS SEVEN, which was a car parts and accessories wholesaler and retailer at that time, devised a business model based on the concept of offering customers a comprehensive range of automotive products along with installation services. Always putting the customer first was the guiding principle of the model, and this approach remains the central tenet of the AUTOBACS Group's business philosophy to this day.

Following the introduction of franchising, the AUTOBACS Group rapidly established a nationwide store network. Including overseas stores, the Group operated 530 stores at the end of the fiscal year under review. Today, the Group boasts the highest annual retail sales and largest store network in Japan for car parts and accessories.

The solid reputation the AUTOBACS brand has earned for reliable, exciting automotive products has underpinned the Group's success. Customers keep coming back to our stores knowing that they are able to find something that is new and stimulating and that adds particular value to the AUTOBACS brand for them. It is this sense of expectation that drives the Group's growth through enticing customers' willingness to make purchases.

Going forward, we intend to extend the AUTOBACS brand power to all of the products and services related to "total car life support." When our customers need anything car related, we want AUTOBACS to be the first brand name that comes to mind.

OPTIMAL STORE NETWORK



The AUTOBACS Group is working to cater more effectively to the diversifying “car lifestyle” needs of its customers by opening new-format stores and restructuring its store network. Through these initiatives, we aim to stimulate the market for automotive products and win new customers.

Super AUTOBACS, having been established with a view to offering the highest-quality products and services backed by the best equipment and technology, are new-format stores that feature more extensive automobile-related product ranges and maintenance services than our traditional AUTOBACS stores. We are also working to differentiate those stores by enhancing their entertainment value. Super AUTOBACS stores feature snack bars and music CD sales areas and offer a varied range of general merchandise, including imported novelty goods and confectionary. As flagship stores in their respective service areas, Super AUTOBACS stores are key centers in our provision of "total car life support." In addition to selling and installing car parts and accessories, the stores provide such services as maintenance, inspection, panel repair, and automotive body painting. And, we have recently launched new and used car sales at these stores.

Further, in 2000 we began developing a chain of secondhand automotive goods stores, AUTOBACS *Hashiriya Tengoku Secohan Ichiba*. Featuring a large selection of used car parts and accessories traded in by customers of AUTOBACS Group companies and outlet products from manufacturers, the stores are now widely known as places where customers can get value products and services. Boosted by the recent trend of encouraging recycling, sales are growing and we are steadily expanding this network of stores.

The AUTOBACS Group is building a store network that maximizes synergy by locating several types of store formats within each of its commercial areas. This strategic positioning of different store formats is working effectively toward the construction of an infrastructure that is absolutely essential for realizing our "car lifestyle" business.

EXPANDED SERVICE MENU

Aiming to transform itself from a retailer of car parts and accessories to a provider of "total car life support," the AUTOBACS Group is strengthening its statutory safety inspection and maintenance operations as well as its car sales business. Looking ahead, we intend to develop those operations into growth drivers that generate profits on a par with profits from sales of car parts and accessories.

Our goals are to increase the frequency of customers' store visits and broaden our profit base by catering to all of our customers' "car lifestyle" needs. Accordingly, the AUTOBACS Group is expanding its menu of car-related services and bolstering its automobile sales operations. In addition to the basic installation or replacement of car parts and accessories, we are enhancing our inspection, maintenance, and automotive body painting services.

Through these efforts, we intend to enhance statutory safety inspections and maintenance into highly profitable operations. Under Japanese law, passenger vehicles are required to undergo a safety inspection every two years, which creates a steady demand for inspection services among customers. Targeting this market, the AUTOBACS Group is stepping up its provision of such services by increasing the number of Group stores certified to perform statutory safety inspections and related maintenance.

Meanwhile, in our used automobile sales operations, we have formed operational alliances with Aucnet Inc. and Gulliver International Co., Ltd. As a result of these tie-ups, customers can purchase the vehicle they want by using one of the terminals installed at our stores to search an inventory of approximately 30,000 vehicles. In addition, our Super AUTOBACS CARS KASHIWA SHONAN store began marketing new automobiles following the conclusion of a distributorship agreement with Suzuki Motor Corporation in December 2002.

Through these strategic measures, we are steadily enhancing the ability of AUTOBACS Group stores to provide car owners with "total car life support."

For the AUTOBACS Group, sharing the passion and dreams of automobile enthusiasts is an integral part of its approach to business. This is the Group's motivation for developing an original sports car and participating in motor sports. We firmly believe that, in the long term, these activities will greatly contribute to our efforts to win AUTOBACS Group fans and bolster our corporate logo.

AUTOBACS IN POLE POSITION

In December 2001, AUTOBACS SEVEN announced its intention to become the first car parts and accessories retailer in Japan to develop and market its own sports car. Garaiya, the product of this initiative, realizes the dreams of the AUTOBACS Group and its car enthusiast customers by combining outstanding performance with racy styling. And, the car is now in the final stages of development.

The AUTOBACS Group began full-scale participation in motor sports in 1982. Today, we are working in collaboration with former Formula One driver Aguri Suzuki to nurture world-class Japanese drivers through the AUTOBACS Racing Team Aguri (ARTA). Formed in 1997, the team has already placed well in numerous races at home and abroad. Moreover, Garaiya is currently racing in the 2003 Series of the Japan GT Championship. Participating in the GT300 class as ARTA Garaiya, the car is expected to perform well.

By actively participating in such initiatives, the AUTOBACS Group aims to continue sharing excitement and dreams with its customers while realizing its goal of providing "total car life support." At the same time, we will work to raise corporate value by securing more AUTOBACS Group fans and strengthening the AUTOBACS brand.

Consolidated Six-Year Summary

AUTOBACS SEVEN CO., LTD. AND SUBSIDIARIES
Years ended March 31

	Millions of Yen, Except per Share Data					
	1998	1999	2000	2001	2002	**2003**
For the year						
Net Sales:						
Tires and Wheels	¥ 47,496	¥ 44,097	¥ 45,807	¥ 48,248	¥ 48,341	**¥ 47,244**
Car Electronics	65,003	65,411	66,396	66,856	67,881	**68,672**
Oils and Batteries	19,892	20,550	21,557	20,995	20,295	**19,253**
Car Exterior Items	32,774	30,387	29,138	28,741	27,365	**25,970**
Car Interior Items	18,953	19,077	21,735	20,009	19,854	**20,776**
Motor Sports Goods and Others	31,232	33,967	35,323	40,528	44,002	**48,564**
Total	215,350	213,489	219,956	225,377	227,738	**230,479**
Operating Income	15,302	13,417	12,651	12,386	9,570	**7,652**
Income before Income Taxes and Minority Interests	16,144	16,210	14,519	13,813	10,150	**9,616**
Net Income	7,407	7,870	7,913	7,767	5,520	**4,003**
Dividends Paid	1,352	1,331	1,406	1,349	1,349	**1,349**
Dividend Payout Ratio	18.3%	16.9%	17.8%	17.4%	24.4%	**33.7%**
Return on Sales	3.4%	3.7%	3.6%	3.4%	2.4%	**1.7%**
Return on Equity	6.2%	6.3%	6.0%	5.6%	3.9%	**2.7%**
Return on Assets	4.6%	4.7%	4.5%	4.2%	2.9%	**2.1%**
Per Share Data (Yen):						
Basic Net Income	¥193.87	¥208.48	¥209.73	¥205.83	¥146.45	**¥106.76**
Cash Dividends	35.50	35.50	36.00	36.00	36.00	**36.00**
Cash Flow Provided by Operating Activities	¥ 7,021	¥ 19,219	¥ 9,926	¥ 15,018	¥ 11,796	**¥ 7,926**
Cash Flow Provided by (Used in) Investing Activities	(2,825)	4,275	(9,887)	(8,990)	(8,857)	**(8,003)**
Cash Flow Provided by (Used in) Financing Activities	(4,074)	(11,380)	(858)	1,186	(5,297)	**(9,099)**
Capital Expenditures	(10,997)	(8,833)	(10,531)	(8,866)	(8,770)	**(10,332)**
Depreciation and Amortization	4,844	5,621	4,927	5,485	5,648	**5,509**
At year-end						
Cash and Cash Equivalents	17,084	29,213	28,296	35,576	32,836	**23,438**
Current Assets	86,954	85,533	84,813	86,941	82,042	**75,828**
Current Liabilities	33,052	31,670	29,297	36,135	33,469	**29,962**
Working Capital	53,902	53,863	55,516	50,806	48,573	**45,866**
Current Ratio	263.1%	270.1%	289.5%	240.6%	245.1%	**253.1%**
Total Assets	161,828	171,869	177,037	191,072	190,815	**187,139**
Shareholders' Equity	120,593	128,584	135,004	141,096	145,391	**145,818**
Equity Ratio	74.5%	74.8%	76.3%	73.8%	76.2%	**77.9%**
Number of Stores	493	529	538	544	546	**530**
Overseas Stores	4	4	4	7	9	**10**
Number of Employees	–	3,403	3,351	3,290	3,474	**3,712**

Financial Review

THE AUTOBACS CONSOLIDATED GROUP

The AUTOBACS Consolidated Group comprises AUTOBACS SEVEN CO., LTD., hereinafter referred to as “the Company”; 67 subsidiaries; and 10 associated companies, of which 8 are accounted for using the equity method. The Group engages in the wholesale and retail of automobile parts and accessories in Japan and overseas and the purchase and resale of used automobiles. In addition, the Group provides financing, store equipment leasing, consultation, staffing, administrative, advertising, and information services to the AUTOBACS Group, which consists of the AUTOBACS Consolidated Group and AUTOBACS franchise chain stores.

The scope, classification, and status of the AUTOBACS Consolidated Group’s operations are as follows:

WHOLESALE OPERATIONS

Wholesale operations involve the wholesaling of car parts and accessories to the Company’s franchise chain stores. Mainstay products are tires, wheels, and car electronics.

Wholesale of Car Parts and Accessories

The Company wholesales car parts and accessories from suppliers in Japan and overseas. In Japan, wholesale operations are undertaken by three subsidiaries, including Auto Refine Co., Ltd., and two associated companies, including Pal Star Ltd. In addition, AUTOBACS SEVEN (Taiwan) Ltd. and three other overseas subsidiaries conduct overseas wholesaling operations.

RETAIL OPERATIONS

In retail operations, the Company mainly offers car parts and accessories and installation services to general consumers under the store name brands: AUTOBACS, Super AUTOBACS, and AUTO HELLOES. Principal product lines are tires, wheels, and car electronics.

Retail of Car Parts and Accessories

In Japan, car parts and accessories are sold through the Company’s directly managed stores; 45 subsidiaries, including A.M.C. Co., Ltd.; and 5 associated companies, including Toyama Drive Co., Ltd. Overseas, those products are retailed by 4 subsidiaries, including Hsinchu Bacs Ltd. in Taiwan.

COMPANYWIDE OPERATIONS

Divisions of the Company that span more than one operational category, ALFI Finance Ltd. and 9 other subsidiaries, and associated company ITS Research Institute Ltd. provide support for wholesaling, retailing, franchise chain store management, and new business development.

MARKET TRENDS

In fiscal 2003, ended March 31, 2003, the overall business climate in Japan remained extremely challenging. While exports increased and signs of recovery were evident in certain sectors of the manufacturing industry, concerns over prospects for the world economy and a fall in share prices in the second half of fiscal 2003 led to a downturn in consumer demand. In addition, in Japan’s deflationary economy, consumer confidence failed to improve due to heightened employment insecurity associated with reduced private-sector capital investment and slumping corporate earnings.

The automobile sector grew significantly, with robust exports to Asia and a double-digit increase in overseas production by Japanese automakers. Meanwhile, the Japanese automobile market continued to falter. Although sales of new vehicles were higher than in the previous fiscal year—with the economic downturn triggering brisk sales of lower-priced compact cars—a full recovery did not materialize due to uncertainty brought about by the war in Iraq and other international political developments.

In the car parts and accessories market, the operating environment also remained difficult. Despite relatively strong demand for car electronics, overall consumer spending remained sluggish. In addition, navigation and ETC systems, which had posted steady sales growth, were increasingly fitted in new vehicles as standard equipment by automakers, while advancing deflation caused downward pressure on product prices.

PRINCIPAL POLICIES IN FISCAL 2003

The AUTOBACS Consolidated Group’s two main goals are to create a utopia for car enthusiasts and to inspire general drivers to become car enthusiasts. With these goals in mind, we are transforming our business model from that of a supplier of car parts and accessories to that of a provider of “total car life support.”

With the aim of realizing this shift, we focused our efforts on implementing the following strategies during the year under review.

Differentiation Strategy

■ Developing Super AUTOBACS Stores

We appealed to a broader range of customers by creating exciting stores while offering products and services aimed at car enthusiasts.

■ Expanding Car Sales and Inspection Operations

In car sales and inspections, we strengthened measures to enhance synergies with car parts and accessories sales.

We sought to conduct more statutory safety inspection and maintenance operations in-house by increasing the number of stores certified to perform statutory safety inspections and related maintenance. In addition, we enhanced one-to-one marketing by using databases with detailed information on vehicles’ mileage and maintenance history that enable us to grasp and cater comprehensively to customer needs.

In car sales, the Company developed a used car inventory search system through an operational alliance with the major used-car auction company Aucnet Inc. and initiated sales using the new system. The AUTOBACS Group also began to take full advantage of its service pit facilities by offering a unique menu of value-added guarantees and services, which it is steadily introducing into AUTOBACS Group stores nationwide. Also, following the conclusion of a distributorship agreement with Suzuki Motor Corporation, our Super AUTOBACS CARS KASHIWA SHONAN store began marketing new Suzuki-brand vehicles.

■ Bolstering “Car Lifestyle” Operations

In intelligent transport systems (ITS), we stepped up our development of next-generation user service systems and technologies for onboard vehicle terminals.

Store Network Optimization Strategy

■ Reorganizing Existing Stores

In fiscal 2003, the Company closed 36 AUTOBACS and Auto Helloes stores in Japan.

■ Opening New-Format Stores

The Company opened 14 Super AUTOBACS Type II stores, including 10 converted stores, and 9 AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores.

■ Expanding Overseas Network

The Company opened a Super AUTOBACS store in Taiwan, for a total of 10 overseas stores.

PERFORMANCE HIGHLIGHTS

In the year under review, net sales were up 1.2% from the previous year, to ¥230.5 billion, due to new store openings and the inclusion of new subsidiaries following a reorganization of franchise companies. On the other hand, higher personnel costs accompanying the increased number of subsidiaries, as well as higher cost of goods sold associated with stepped-up sales promotions, led to a 20.0% fall in operating income, to ¥7.7 billion. In other income and expenses, an increase in additional benefit paid offset a reversal of the allowance for doubtful receivables. The Company also revised its tax effect accounting. As a result, net income in fiscal 2003 was down 27.5%, to ¥4.0 billion.

INCOME AND EXPENSES

Net Sales

Wholesale Operations

Used car sales operations associated with the opening of AUTOBACS CARS stores boosted sales to franchise chain stores. However, sales of individual product categories, including tires and wheels; chemical products, such as waxes; and car exterior products, such as chains and carriers decreased substantially. Consequently, sales edged down 0.8%, or ¥1.1 billion, to ¥137.3 billion. Our wholesale operations had 19 fewer franchisee-operated stores than in the previous year.

Retail Operations

Strong sales of used car parts and accessories boosted retail operations, as the Company stepped up openings of AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores. We also worked hard to increase sales of used cars by opening such stores as AUTOBACS CARS Expo Kobe Port Island. Boasting the largest number of vehicles on show in the Kansai area, the store retails used and customized cars and offers an expanded menu of technical services, including statutory safety inspections. Furthermore, car electronics posted favorable sales. Thanks to these efforts, sales rose 4.3%, or ¥3.8 billion, to ¥93.2 billion, while the directly managed store network, including stores operated by subsidiaries, increased by 3 stores from fiscal 2002.

Cost of Goods Sold

Cost of goods sold edged up 0.2%, or ¥0.4 billion, from the previous year, to ¥163.5 billion—less than the rate of sales growth. The ratio of cost of goods sold to net sales declined from 71.6% to 70.9%. This decrease was attributable to the relative expansion in retail operations with high gross margins that accompanied the conversion of franchise companies into subsidiaries and the reduction of sales promotion costs that was achieved by making an advertising agency a subsidiary. These factors served to offset the rise in the cost of goods sold associated with higher sales. As a result, gross profit rose 3.6%, or ¥2.3 billion, to ¥67.0 billion.

SG&A Expenses

Selling, general and administrative (SG&A) expenses were up 7.7%, or ¥4.3 billion, to ¥59.4 billion. SG&A expenses as a percentage of net sales increased 1.6 percentage points, to 25.8%. A breakdown of major SG&A expenses is as follows:

	Billions of Yen		
	2003	2002	Increase (Decrease)
Personnel expenses	**¥24.1**	¥21.3	¥ 2.8
Employee compensation	**18.9**	16.7	2.2
Sales promotion expenses	**10.8**	9.8	1.0
Equipment expenses	**14.0**	13.2	0.8
Land and building rent	**6.1**	5.5	0.6
Depreciation	**5.4**	5.4	(0.0)
Administrative expenses	**10.5**	10.8	(0.3)
Provision for allowance for doubtful receivables	**0.4**	1.6	(1.2)

Personnel expenses were up 13.1%, or ¥2.8 billion, to ¥24.1 billion, which accounted for 40.6% of total SG&A expenses. This rise was mainly attributable to the increase in the number of employees following the inclusion of new consolidated subsidiaries. Compared with the previous year-end, the number of employees, including part-time and temporary employees, at fiscal year-end was up 405, to 5,326.

Sales promotion expenses grew 9.6%, or ¥1.0 billion, to ¥10.8 billion, representing 18.2% of SG&A expenses. This increase was mainly due to aggressive sales promotion activities focused on statutory safety inspections and maintenance operations and car sales operations as well as to expenses incurred through a variety of advertising campaigns aimed at enhancing the Company's competitiveness.

Equipment expenses increased 6.1%, or ¥0.8 billion, to ¥14.0 billion, which was 23.5% of SG&A expenses. This rise was largely attributable to higher land and building rent costs associated with the increase in the number of subsidiaries and the stepped-up expansion of the Company's Super AUTOBACS and AUTOBACS *Hashiriya Tengoku Secohan Ichiba* store networks.

Administrative expenses decreased 2.7%, or ¥0.3 billion, to ¥10.5 billion, which accounted for 17.6% of SG&A expenses. This decline was primarily due to a substantial reduction in the provision for allowance for doubtful receivables from ¥1.6 billion in the previous year to ¥0.4 billion.

As a result of the abovementioned factors, operating income fell 20.0%, or ¥1.9 billion, to ¥7.7 billion.

Other Income and Expenses

Net other income rose ¥1.4 billion, to ¥2.0 billion. In fiscal 2003, ¥0.4 billion was recorded for early retirement benefit payments, and ¥0.2 billion was accounted for by store optimization. However, loss on revaluation of securities and investments, which was ¥1.1 billion in the previous year due to falling market prices, improved to ¥0.3 billion, and loss on sales of investment securities decreased from ¥1.7 billion to ¥46 million.

Consequently, income before income taxes and minority interests decreased 5.3%, or ¥0.5 billion, to ¥9.6 billion.

Income Taxes

Income taxes were down 16.7%, or ¥0.8 billion, to ¥5.7 billion, due to the decrease in income before income taxes and minority interests.

Deferred income taxes changed from a payment of ¥1.2 billion in fiscal 2002 to a refund of ¥0.3 billion. The actual effective tax rate increased from 48.1% to 59.2%, mainly because of the reduction in deferred income taxes associated with an increase in valuation allowance.

Net Income

As a result of the preceding factors, net income fell 27.5%, or ¥1.5 billion, to ¥4.0 billion. Net income per share was down 27.1%, to ¥106.76. The ratio of net income to net sales decreased from 2.4% to 1.7%; ROA edged down from 2.9% to 2.1%; and ROE declined from 3.9% to 2.7%.

FINANCIAL POSITION

At fiscal year-end, total assets decreased 1.9%, or ¥3.7 billion from the previous year-end, to ¥187.1 billion.

Total current assets were down 7.6%, or ¥6.2 billion, to ¥75.8 billion. This decrease was mainly due to a reduction in cash and cash equivalents that resulted from repayment of long-term debt and repurchase of common stock.

Net property and equipment rose 10.2%, or ¥5.5 billion, to ¥59.5 billion, primarily attributable to a ¥5.6 billion increase in land and buildings, to ¥58.9 billion, which was associated with new store openings and relocations of existing stores.

Total investments and other assets decreased 5.4%, or ¥3.0 billion, to ¥51.8 billion. This decline was principally because of the conversion of franchisees to subsidiaries and the resulting reduction in loans to franchisees.

Total current liabilities were down 10.5%, or ¥3.5 billion, to ¥30.0 billion, mainly due to declines in short-term borrowings and trade notes and accounts payable. The current ratio improved from 245.1% to 253.1%.

Total long-term liabilities at fiscal year-end increased 1.3%, or ¥0.1 billion, to ¥10.8 billion, and total liabilities decreased 7.6%, or ¥3.4 billion, to ¥40.8 billion.

Total shareholders' equity edged up 0.3%, or ¥0.4 billion, from the previous year-end, to ¥145.8 billion. This was mainly attributable to an increase in retained earnings associated with a new stock issue when AUTO HELLOES CO., LTD., became a wholly owned subsidiary that offset treasury stock repurchases. The equity ratio rose from 76.2% to 77.9%, while the debt to equity ratio improved from 5.0% to 3.5%.

CASH FLOWS

Cash and cash equivalents at end of year were down 28.6%, or ¥9.4 billion, to ¥23.4 billion. Despite lower payments for marketable securities and income taxes paid, cash and cash equivalents decreased mainly because of decreases in trade payables and accruals and proceeds from sales of marketable securities as well as costs associated with repurchase of common stock.

Cash Flows from Operating Activities

Net cash provided by operating activities was down 32.8%, or ¥3.9 billion, to ¥7.9 billion. This decline was attributable to the fact that although income taxes paid were down ¥3.0 billion from the previous fiscal year, to ¥5.4 billion, decreases were recorded in trade payables and accruals and allowance for doubtful receivables. Also, a reversal of retirement benefit was recorded. Depreciation and amortization decreased 2.5%, to ¥5.5 billion.

Cash Flows from Investing Activities

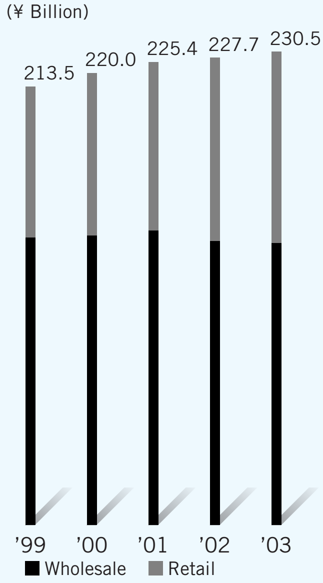
Net cash used in investing activities decreased 9.6%, or ¥0.9 billion, ¥8.0 billion. This decline was primarily associated with a 17.8%, or ¥1.6 billion, rise in capital expenditures, to ¥10.3 billion, and lower payments for marketable securities.

Capital Investment

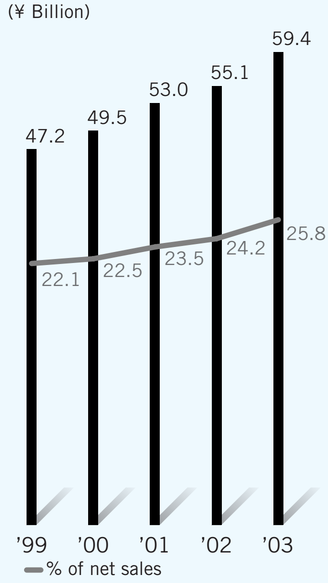
Through its capital investment, the AUTOBACS Consolidated Group aims to achieve differentiation and to optimize its store network with respect to store scale and location. These investment activities are focused on opening Super AUTOBACS stores; scrapping and building or relocating existing stores; and purchasing IT equipment and leasing assets, such as store facilities. A breakdown of capital investment, including intangible fixed assets, is as follows:

	Billions of Yen	
	2003	2002
Wholesaling Operations	¥ **0.0**	¥1.3
Retailing Operations	**7.7**	4.9
Companywide (common)	**2.6**	2.6
Total	**10.3**	8.8

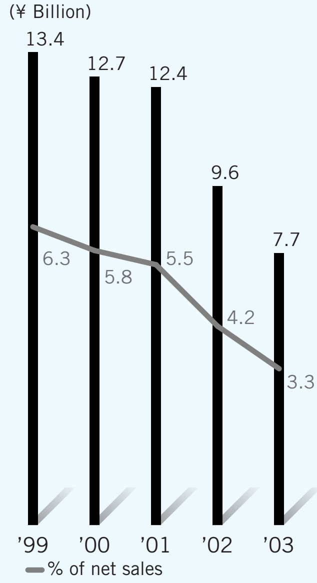
NET SALES
(¥ Billion)



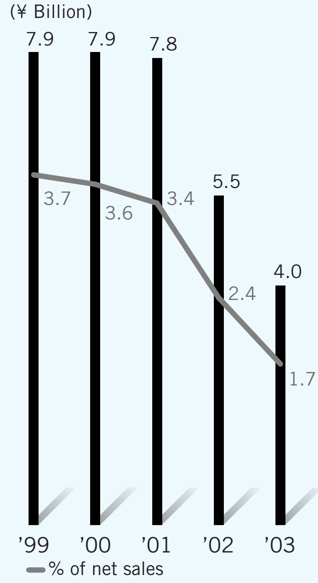
SG&A EXPENSES
(¥ Billion)



OPERATING INCOME
(¥ Billion)



NET INCOME
(¥ Billion)



In retailing operations, following up on our expansion into Asia and Europe, we allocated ¥0.2 billion to preparations for the launch of our first store in the United States. In conjunction with scrap-and-build activities for existing stores, which are aimed at reorganizing commercial areas by optimizing store scale and location, the Group invested ¥0.9 billion in the opening of five Super AUTOBACS Type II stores. Also, ¥0.1 billion was used for the opening of four new AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores. Investment in assets delivered to franchise chain stores along with scrap-and-build or relocation activities for existing stores totaled ¥5.9 billion, while the purchase of land for stores amounted to ¥0.4 billion.

In Companywide operations, aiming to enhance operational efficiency through the optimal utilization of Group assets, ¥1.4 billion was invested through ALFI Finance to purchase leasing assets, such as store facilities. Furthermore, ¥0.8 billion was earmarked for the provision of IT equipment, including the construction of sales management systems for the Group's expanding overseas store network.

There was no disposal or sale of major facilities during the fiscal year under review.

Cash Flows from Financing Activities

Net cash used in financing activities was up 71.8%, or ¥3.8 billion, to ¥9.1 billion. This rise was mainly due to decreased proceeds from long-term debt coupled with an increase in repayment of long-term debt and ¥2.6 billion used in the repurchase of common stock. Dividends paid in the year under review were the same as in the previous year, at ¥1.3 billion.

Outlook and Strategy

There have been signs recently of a pickup in consumer spending in the United States following the swift conclusion of the war in Iraq. However, new causes for concern, such as the situation on the Korean peninsula and the outbreak of SARS (severe acute respiratory syndrome), have curtailed corporate capital investment and slowed exports. Moreover, there is little prospect that uncertainty over employment and personal income will be alleviated given a further deterioration in corporate earnings resulting from slumping stock markets and the stepped-up disposal of nonperforming loans. Challenging business conditions are also expected to continue in the retailing industry, as personal consumption remains sluggish due to prolonged structural deflation.

Faced with this difficult operating environment, the AUTOBACS Consolidated Group will restructure its operations over the medium term by rebuilding its domestic sales platform. This initiative will involve aggressively opening Super AUTOBACS stores and taking steps to bolster our "car lifestyle" operations. And, in the long term, the Company aims to transform itself from a Japanese company into a truly global company. We aim to capture a share of overseas markets through an aggressive store opening policy while emphasizing growth potential, profitability, and capital efficiency in management.

Based on those medium- and long-term strategies, the Company will implement the following measures:

- Boost demand for maintenance and customization services by entering the statutory safety inspections business in earnest.

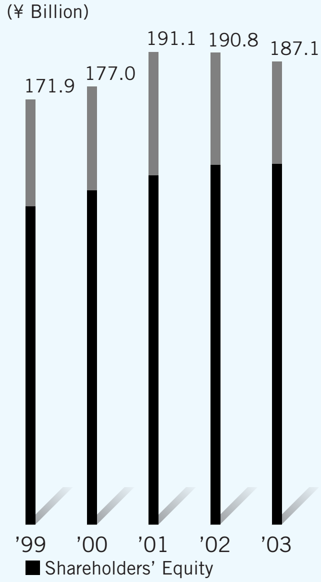
- Augment used products lineups through the operational tie-up with the largest used car dealer in Japan, Gulliver International Co., Ltd., and through the acquisition and retail of used car parts and accessories by AUTOBACS *Hashiriya Tengoku Secohan Ichiba* stores.

- Expand into high-end, imported automobile retailing through an operational and capital alliance with AUTOTRADING Luft Japan Co., Ltd., and into the sale of new automobiles through the operational alliance with Suzuki Motor Corporation.

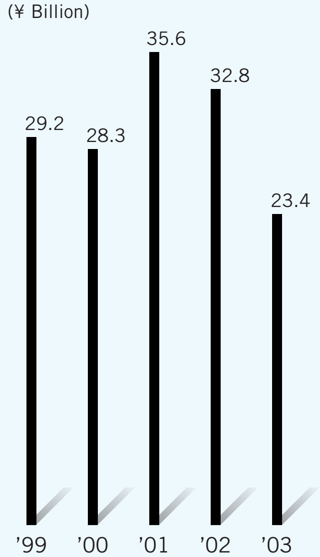
- Develop the ITS sector by conducting trials for the commercialization of next-generation ETC services that offer enhanced functionality and convenience.

- Secure a share of overseas markets by opening the Company's first stores in the United States, in Los Angeles, and in China, in Shanghai, and by reviewing store development in Europe following the dissolution of the joint venture with RENAULT Societe Anonyme.

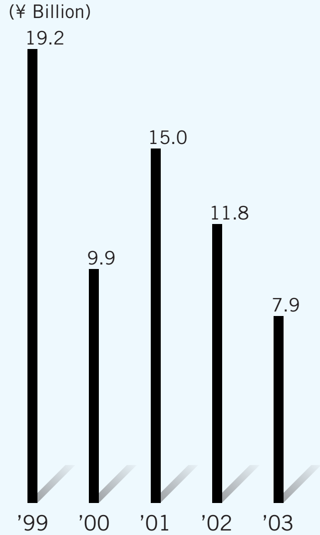
TOTAL ASSETS
(¥ Billion)



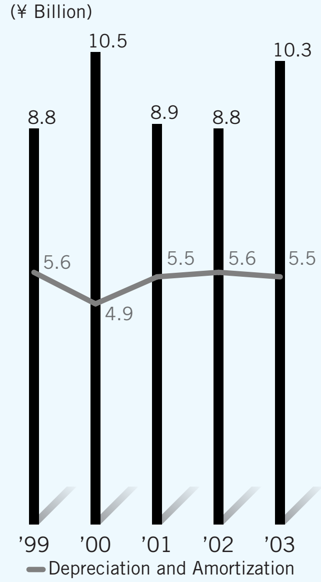
CASH AND CASH EQUIVALENTS
(¥ Billion)



CASH FLOW PROVIDED BY OPERATING ACTIVITIES
(¥ Billion)



CAPITAL EXPENDITURES
(¥ Billion)



Consolidated Balance Sheets

AUTOBACS SEVEN CO., LTD. AND SUBSIDIARIES
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2003**	2002	**2003**
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 23,438**	¥ 32,836	**$ 195,317**
Time deposits with an original maturity over three months (Note 6)	**244**	362	**2,033**
Marketable securities (Note 3)	**5,722**	3,761	**47,683**
Receivables:			
Trade notes and accounts	**11,426**	12,169	**95,217**
Associated companies	**910**	930	**7,583**
Other	**14,572**	13,445	**121,433**
Allowance for doubtful receivables	**(2,100)**	(2,178)	**(17,500)**
Inventories	**17,550**	15,919	**146,250**
Deferred tax assets (Note 10)	**2,240**	2,833	**18,667**
Prepaid expenses and other current assets	**1,826**	1,965	**15,217**
Total current assets	**75,828**	82,042	**631,900**
PROPERTY AND EQUIPMENT—AT COST:			
Land	**25,015**	23,763	**208,458**
Buildings	**33,904**	29,538	**282,533**
Furniture and equipment	**15,121**	13,392	**126,008**
Leased assets (Note 4)	**16,553**	15,829	**137,942**
Construction in progress	**574**	285	**4,784**
Total	**91,167**	82,807	**759,725**
Accumulated depreciation	**(31,703)**	(28,859)	**(264,191)**
Net property and equipment	**59,464**	53,948	**495,534**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**15,052**	15,735	**125,433**
Investments in and advances to associated companies	**1,257**	1,044	**10,475**
Rental deposits and long-term loans (Note 5)	**27,490**	29,536	**229,083**
Deferred tax assets (Note 10)	**3,183**	2,887	**26,525**
Other	**4,865**	5,623	**40,542**
Total investments and other assets	**51,847**	54,825	**432,058**
TOTAL	**¥187,139**	¥190,815	**$1,559,492**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 1) 2003
CURRENT LIABILITIES:			
Short-term borrowings (Note 6)	**¥ 2,318**	¥ 3,802	**$ 19,316**
Current portion of long-term debt (Note 6)	**794**	1,116	**6,617**
Payables:			
Trade notes and accounts	**13,041**	14,110	**108,675**
Associated companies	**561**	511	**4,675**
Other	**6,818**	6,581	**56,817**
Income taxes payable	**2,343**	2,394	**19,525**
Accrued expenses and other current liabilities	**4,087**	4,955	**34,058**
Total current liabilities	**29,962**	33,469	**249,683**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**2,019**	2,316	**16,825**
Liability for retirement benefits (Note 7)	**1,534**	1,646	**12,783**
Rental deposits received (Note 5):			
Associated companies	**677**	633	**5,642**
Other	**6,393**	5,917	**53,275**
Other liabilities	**212**	186	**1,767**
Total long-term liabilities	**10,835**	10,698	**90,292**
Total liabilities	**40,797**	44,167	**339,975**
MINORITY INTERESTS	**524**	1,257	**4,367**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5 and 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 14)**:**			
Common stock,			
authorized, 109,402,300 shares;			
issued, 37,643,742 shares in 2003 and 37,481,493 shares in 2002	**31,959**	31,959	**266,325**
Capital surplus	**32,242**	31,719	**268,683**
Retained earnings	**84,524**	81,901	**704,367**
Unrealized loss on available-for-sale securities (Note 3)	**(127)**	(169)	**(1,058)**
Foreign currency translation adjustments	**(179)**	(17)	**(1,492)**
Treasury stock—at cost:			
1,011,202 shares in 2003 and 600 shares in 2002	**(2,601)**	(2)	**(21,675)**
Total shareholders' equity	**145,818**	145,391	**1,215,150**
TOTAL	**¥187,139**	¥190,815	**$1,559,492**

Consolidated Statements of Income

AUTOBACS SEVEN CO., LTD. AND SUBSIDIARIES
Years Ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
NET SALES (Note 9)	**¥230,479**	¥227,738	¥225,377	**$1,920,658**
COST OF GOODS SOLD	**163,458**	163,057	160,034	**1,362,150**
Gross profit	**67,021**	64,681	65,343	**558,508**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**59,369**	55,111	52,957	**494,741**
Operating income	**7,652**	9,570	12,386	**63,767**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**422**	494	633	**3,516**
Rental income	**1,779**	1,539	1,212	**14,825**
Interest expense	**(153)**	(198)	(169)	**(1,275)**
Loss on sales of investment securities	**(46)**	(1,697)		**(383)**
Loss on revaluation of securities and investments	**(331)**	(1,211)	(360)	**(2,758)**
Charge of transitional obligation for employees' retirement benefits (Note 7)			(453)	
Other–net	**293**	1,653	564	**2,441**
Other income–net	**1,964**	580	1,427	**16,366**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**9,616**	10,150	13,813	**80,133**
INCOME TAXES (Note 10)**:**				
Current	**5,393**	6,059	7,422	**44,942**
Deferred	**300**	(1,181)	(867)	**2,500**
Total	**5,693**	4,878	6,555	**47,442**
MINORITY INTERESTS	**80**	248	509	**667**
NET INCOME	**¥ 4,003**	¥ 5,520	¥ 7,767	**$ 33,358**

	Yen			U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2. n)**:**				
Basic net income	**¥106.76**	¥146.45	¥205.83	**$0.89**
Cash dividends applicable to the year	**36.00**	36.00	36.00	**0.30**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

AUTOBACS SEVEN CO., LTD. AND SUBSIDIARIES
Years Ended March 31, 2003, 2002 and 2001

	Thousands	Millions of yen					
	Number of Shares of Common stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Loss on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2000	37,481	¥31,959	¥31,719	¥71,386		¥ (60)	
Net income				7,767			
Changes in unrealized loss on available-for-sale securities, less applicable tax					¥(315)		
Changes in foreign currency translation adjustments						42	
Appropriations:							
Cash dividends, ¥36.00 per share				(1,349)			
Bonuses to directors and corporate auditors				(53)			
BALANCE, MARCH 31, 2001	37,481	31,959	31,719	77,751	(315)	(18)	
Net income				5,520			
Adjustment of retained earnings for newly applied equity method companies (Note 2. a)				32			
Changes in unrealized loss on available-for-sale securities, less applicable tax					146		
Changes in foreign currency translation adjustments						1	
Increase in treasury stock, net (600 shares)							¥ (2)
Appropriations:							
Cash dividends, ¥36.00 per share				(1,349)			
Bonuses to directors and corporate auditors				(53)			
BALANCE, MARCH 31, 2002	37,481	31,959	31,719	81,901	(169)	(17)	(2)
Treasury stock held by associated companies at April 1, 2002 (2,461 shares) (Note 2. i)							(6)
Net income				4,003			
Issuance of common stock under exchange offerings	163		522				
Disposal of treasury stock			1				
Changes in unrealized loss on available-for-sale securities, less applicable tax					42		
Changes in foreign currency translation adjustments						(162)	
Increase in treasury stock, net (1,008,141 shares)							(2,593)
Appropriations:							
Cash dividends, ¥36.00 per share				(1,349)			
Bonuses to directors and corporate auditors				(31)			
BALANCE, MARCH 31, 2003	**37,644**	**¥31,959**	**¥32,242**	**¥84,524**	**¥(127)**	**¥(179)**	**¥(2,601)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Loss on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2002	$266,325	$264,325	$682,508	$(1,408)	$ (142)	$ (17)
Treasury stock held by associated companies at April 1, 2002 (2,461 shares) (Note 2. i)						(50)
Net income			33,358			
Issuance of common stock under exchange offerings		4,350				
Disposal of treasury stock		8				
Changes in unrealized loss on available-for-sale securities, less applicable tax				350		
Changes in foreign currency translation adjustments					(1,350)	
Increase in treasury stock, net (1,008,141 shares)						(21,608)
Appropriations:						
Cash dividends, $0.30 per share			(11,242)			
Bonuses to directors and corporate auditors			(257)			
BALANCE, MARCH 31, 2003	**$266,325**	**$268,683**	**$704,367**	**$(1,058)**	**$(1,492)**	**$(21,675)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

AUTOBACS SEVEN CO., LTD. AND SUBSIDIARIES
Years Ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	**2003**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 9,616**	¥10,150	¥ 13,813	**$ 80,133**
Adjustments for:				
Income taxes paid	**(5,445)**	(8,381)	(6,730)	**(45,375)**
Depreciation and amortization	**5,509**	5,648	5,485	**45,908**
Loss on sales of securities and investments	**46**	1,697		**383**
Loss on revaluation of securities and investments	**331**	1,211	360	**2,758**
Lease revenue	**(1,459)**	(1,549)	(1,421)	**(12,158)**
(Reversal of) Provision for retirement benefit	**(117)**	39	1,331	**(975)**
Changes in operating assets and liabilities:				
(Increase) Decrease in receivables	**(638)**	369	(2,248)	**(5,316)**
Increase in inventories	**(842)**	(1,087)	(477)	**(7,017)**
(Decrease) Increase in other payables and accruals	**(1,480)**	926	1,469	**(12,333)**
Other	**2,405**	2,773	3,436	**20,042**
Net cash provided by operating activities	**7,926**	11,796	15,018	**66,050**
INVESTING ACTIVITIES:				
Capital expenditures	**(10,332)**	(8,770)	(8,866)	**(86,100)**
Proceeds from sales of fixed assets	**202**	183	117	**1,683**
Acquisition of investment securities	**(10,236)**	(9,761)	(6,191)	**(85,300)**
Disposition of investment securities	**7,183**	6,295	2,275	**59,858**
Proceeds from sales of marketable securities	**1,600**	6,154	13,776	**13,333**
Payments for marketable securities	**(100)**	(5,188)	(12,488)	**(833)**
Payments for advance and rental deposits	**(1,958)**	(2,788)	(3,445)	**(16,317)**
Collection of advance and rental deposits	**2,885**	2,893	2,416	**24,042**
Lease revenues	**1,459**	1,549	1,421	**12,158**
Other	**1,294**	576	1,995	**10,784**
Net cash used in investing activities	**(8,003)**	(8,857)	(8,990)	**(66,692)**
FINANCING ACTIVITIES:				
Net (decrease) increase in short-term borrowings	**(2,562)**	(2,287)	1,918	**(21,350)**
Repayment of long-term debt	**(3,468)**	(2,952)	(2,188)	**(28,900)**
Proceeds from long-term debt	**773**	1,154	2,414	**6,442**
Repurchase of common stock	**(2,575)**	(2)		**(21,458)**
Proceeds from issuance of subsidiary stock	**83**	145	391	**692**
Dividends paid	**(1,349)**	(1,349)	(1,349)	**(11,242)**
Other	**(1)**	(6)		**(9)**
Net cash (used in) provided by financing activities	**(9,099)**	(5,297)	1,186	**(75,825)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(25)**	74	66	**(208)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(9,201)**	(2,284)	7,280	**(76,675)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**32,836**	35,576	28,296	**273,633**
NET INCREASE IN CASH AND CASH EQUIVALENTS FROM MERGER		8		
DECREASE IN CASH AND CASH EQUIVALENTS EXCLUSION OF A CONSOLIDATED SUBSIDIARY	**(197)**	(464)		**(1,641)**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥23,438**	¥32,836	¥ 35,576	**$195,317**
NONCASH INVESTING ACTIVITIES— ACQUISITION OF SUBSIDIARIES:				
Fair value of assets acquired	**¥4,512**	¥1,623	¥611	**$37,600**
Liabilities assumed	**4,156**	1,465	165	**34,633**
Minority interests	**44**	21	263	**367**
Acquisition cost	**312**	137	183	**2,600**
Cash and cash equivalents held by subsidiaries	**621**	577	382	**5,175**
Transfer from investments	**7**	2		**58**
Cash received for capital	**¥ 316**	¥ 442	¥199	**$ 2,633**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

AUTOBACS SEVEN CO., LTD. AND SUBSIDIARIES

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Autobacs Seven Co., Ltd. (the "Company") and 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 and practices generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards (IFRSs). The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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.

Certain reclassifications and rearrangements have been made in the consolidated financial statements for the years ended March 31, 2002 and 2001, to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120 to U.S.$1.00, the approximate free rate of exchange on March 31, 2003. Such translations should not be construed as representations 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 include the accounts of the Company and all subsidiaries.

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.

The change of retained earnings arising from the change in the scope of associated companies is recognized as "Adjustment of retained earnings for newly applied equity method companies" in the Consolidated Statements of Shareholders' Equity for the year ended March 31, 2002.

Investments in eight associated companies (seven for the year ended March 31, 2002, four for the year ended March 31, 2001) are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. 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 be material.

The cost in excess of net assets of the 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.

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, 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. Purchased Software

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

g. Retirement and Pension Plan

The Company has a non-contributory defined benefit pension plan that covers substantially all of its employees.

Substantially all employees of subsidiaries are covered by a non-contributory defined contribution pension plan and an unfunded employee retirement payment plan.

Effective April 1, 2000, the Companies adopted a new accounting standard for employees' retirement benefits under the pension plan and the retirement payment plan and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet dates. The transitional obligation of ¥453 million at the beginning of the year was fully amortized for the year ended March 31, 2001, and presented as other expense in the consolidated statements of income.

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

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

h. 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.

i. Treasury Stock

Prior to April 1, 2002, treasury stock held by the Company and that held by subsidiary were separately presented in shareholders' equity. Effective April 1, 2002, such stock is presented together as treasury stock in the shareholders' equity in accordance with the new disclosure requirement for treasury stock.

Effective April 1, 2002, the Company adopted a new accounting standard for treasury stock issued by the Accounting Standards Board of Japan. This standard requires that where an associated company holds a parent company's stock, a portion that represents an equivalent ownership interest in such stock should be presented as treasury stock in a separate component of shareholders' equity and the carrying value of the investment in an associated company should be reduced by the same amount. The Company adopted this accounting standard for the year ended March 31, 2003. Such treasury stock was not reflected in the Company's consolidated financial statements for the year ended March 31, 2002, since no accounting treatment was previously prescribed for the parent company's stock held by an associated company.

The change in the scope of treasury stock is recognized as "Treasury stock held by associated companies at April 1, 2002" in the Consolidated Statement of Shareholders' Equity for the year ended March 31, 2003.

j. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The assets 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.

k. 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.

l. 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 translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contacts. Other exchange gains and losses are recognized in the fiscal periods in which they occur.

m. 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 foreign subsidiaries are translated into Japanese yen at the average exchange rate.

n. Per Share Information

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. Basic net income available to common shareholders for the years ended March 31, 2003, 2002 and 2001, were ¥3,992 million ($33,267 thousand), ¥5,489 million and ¥7,714 million, respectively. The weighted-average number of common shares used in the computation for the years ended March 31, 2003, 2002 and 2001, were 37,395 thousand, 37,476 thousand and 37,478 thousand, respectively. Computation of the basic net income under the new standard is retroactively applied to prior years.

Diluted net income per share is not disclosed because it is anti-dilutive.

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.

o. 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 be 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. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

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.

p. Differences between Japanese GAAP and IFRSs

The accompanying consolidated financial statements have been prepared in conformity with Japanese GAAP, which differs in certain respects from IFRSs. As of March 31, 2003, the main difference between Japanese GAAP and IFRSs, 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.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Current:			
Debt securities	**¥5,722**	¥3,761	**$47,683**
Non-current:			
Equity securities	**¥ 4,066**	¥ 1,781	**$ 33,883**
Debt securities	**9,986**	12,954	**83,217**
Other	**1,000**	1,000	**8,333**
Total	**¥15,052**	¥15,735	**$125,433**

The carrying amounts and aggregate fair values of marketable and investment securities for which market quotations were available at March 31, 2003 and 2002, were as follows:

	Millions of yen			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 1,026**	**¥53**	**¥233**	**¥ 846**
Debt securities	**15,630**	**10**	**32**	**15,608**
Other	**1,000**			**1,000**
Held-to-maturity	**100**			**100**

	Millions of yen			
March 31, 2002	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,267	¥22	¥207	¥ 1,082
Debt securities	15,219	4	108	15,115
Other	1,000			1,000
Held-to-maturity	1,600		1	1,599

	Thousands of U.S. dollars			
March 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 8,550**	**$442**	**$1,942**	**$ 7,050**
Debt securities	**130,250**	**83**	**266**	**130,067**
Other	**8,333**			**8,333**
Held-to-maturity	**833**			**833**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002, were as follows:

	Carrying amount		
	Million of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Available-for-sale:			
Equity securities	**¥3,220**	¥700	**$26,833**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002, were ¥604 million ($5,033 thousand) and ¥790 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, for the year ended March 31, 2003, were ¥9 million ($75 thousand) and ¥46 million ($383 thousand), respectively, and for the year ended March 31, 2002, were ¥4 million and ¥960 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, 2003, 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	¥ 5,622	¥100	$ 46,850	$833
Due after one year through five years	8,977		74,808	
Due after five years through ten years	1,009		8,409	
Total	¥15,608	¥100	$130,067	$833

4. LEASED ASSETS

A breakdown of leased assets as of March 31, 2003 and 2002, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Buildings	**¥10,825**	¥ 9,861	**$ 90,209**
Furniture and equipment	**5,728**	5,968	**47,733**
Total	**16,553**	15,829	**137,942**
Accumulated depreciation	**(7,180)**	(6,155)	**(59,834)**
Net leased assets	**¥ 9,373**	¥ 9,674	**$ 78,108**

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, 2003, 2002 and 2001, was ¥1,889 million ($15,742 thousand), ¥2,067 million and ¥1,958 million, respectively. Rental income for the years ended March 31, 2003, 2002 and 2001, was ¥1,818 million ($15,150 thousand), ¥1,937 million and ¥1,837 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, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 1,448**	¥ 1,453	**$ 12,067**
Due after one year	**10,771**	10,491	**89,758**
Total	**¥12,219**	¥11,944	**$101,825**

5. RENTAL DEPOSITS AND LONG-TERM LOANS

A breakdown of rental deposits and long-term loans as of March 31, 2003 and 2002, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Rental deposits to:			
Lessors for distribution facilities of the Companies	**¥13,176**	¥13,148	**$109,800**
Lessors for stores of franchisees	**10,318**	10,907	**85,983**
Lessors for office and other facilities	**1,882**	1,795	**15,684**
Total rental deposits	**25,376**	25,850	**211,467**
Loans to:			
Franchisees	**3,433**	5,840	**28,608**
Employees for housing and other	**1**	2	**8**
Total loans	**3,434**	5,842	**28,616**
Allowance for doubtful receivables	**(1,320)**	(2,156)	**(11,000)**
Total	**¥27,490**	¥29,536	**$229,083**

The Companies' operations are conducted in free-standing buildings, a substantial portion of which have been constructed to the Company's specifications and are 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.

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2003 and 2002, consisted of notes to banks and other. The annual interest rates applicable to the short-term borrowings at March 31, 2003 and 2002, ranged from 0.5% to 4.0% and 0.6% to 8.0%, respectively.

Long-term debt at March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Loans from banks and other, due serially to 2008 with interest rates ranging from 1.2% to 4.7% (2003) and from 1.2% to 7.6% (2002):			
Secured	**¥ 200**	¥ 583	**$ 1,667**
Unsecured	**2,613**	2,849	**21,775**
Total	**2,813**	3,432	**23,442**
Less current portion	**794**	1,116	**6,617**
Long-term debt, less current portion	**¥2,019**	¥2,316	**$16,825**

Annual maturities of long-term debt at March 31, 2003, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 794	$ 6,617
2005	367	3,058
2006	226	1,883
2007	1,347	11,225
2008	74	617
2009 and thereafter	5	42
Total	¥2,813	$23,442

At March 31, 2003, time deposits of ¥65 million ($542 thousand) were pledged as collateral for long-term debt.

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.

7. RETIREMENT AND PENSION PLAN

The Company has a non-contributory defined benefit pension plan for employees and a retirement payment plan for directors and corporate auditors. Subsidiaries have a non-contributory defined contribution pension plan and a retirement payment plan for employees.

Under most circumstances, employees terminating their employment are 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 the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits for directors and corporate auditors at March 31, 2003 and 2002, is ¥234 million ($1,950 thousand) and ¥261 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 ¥3,915 million ($32,625 thousand) at March 31, 2003, which is the most recent date available. The salaries of the employees of the Company for such contributory pension plan appropriated 16.7% of the total salaries of the welfare plan at March 31, 2003. For the welfare pension plan, the amounts of contributions made are charged to income.

In the years ended March 31, 2003 and 2002, certain subsidiaries changed from a non-contributory defined benefit pension plan and a retirement payment plan to a non-contributory defined contribution pension plan. This change caused income before income taxes and minority interests to decrease for the years ended March 31, 2003 and 2002, by ¥9 million ($75 thousand) and ¥92 million, respectively.

The liability (asset) for employees' retirement benefits at March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation	**¥2,351**	¥ 2,518	**$19,592**
Fair value of plan assets	**(888)**	(1,093)	**(7,400)**
Unrecognized actuarial loss	**(163)**	(41)	**(1,359)**
Net amount recognized	**¥1,300**	¥ 1,384	**$10,833**

Amounts recognized in the statement of financial position consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Prepaid periodic benefit costs		¥ (1)	
Accrued benefit liabilities	**¥1,300**	1,385	**$10,833**
Net amount recognized	**¥1,300**	¥1,384	**$10,833**

The components of net periodic benefit costs for the years ended March 31, 2003, 2002 and 2001, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Service cost	**¥345**	¥313	¥ 302	**$2,875**
Interest cost	**46**	56	55	**383**
Expected return on plan assets	**(17)**	(22)	(23)	**(141)**
Recognized actuarial loss	**1**	9		**8**
Contribution of contributory welfare pension plan	**204**	170	169	**1,700**
Additional benefit paid	**377**	2	171	**3,142**
Amortization of transitional obligation			453	
Cost of transition to defined contribution pension plan	**9**	92		**75**
Net periodic benefit costs	**¥965**	¥620	¥1,127	**$8,042**

Assumptions used for the years ended March 31, 2003, 2002 and 2001, are set forth as follows:

	2003	2002	2001
Discount rate	**1.92-2.60%**	1.92-2.60%	2.60%
Expected rate of return on plan assets	**1.59-2.00%**	2.00-2.50%	2.00-2.50%
Recognition period of actuarial gain/loss	**5-10 years**	5-10 years	
Amortization period of transitional obligation			1 year

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded 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 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 as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. 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 revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The amount available for dividends under the Code was ¥82,833 million ($690,275 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to 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.

At October 1, 2002, the Company issued 162,249 shares for ¥522 million ($4,350 thousand) to minority of a subsidiary as exchange of the subsidiary's share. The amount of this issuance of new shares was recorded as capital surplus.

9. 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, 2003, 2002 and 2001, aggregated to approximately 60%, 61%, and 64% of the consolidated net sales, respectively.

10. INCOME TAXES

The Company and its 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 42.0% for the years ended March 31, 2003, 2002 and 2001.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred Tax Assets:			
Receivables	**¥ 1,557**	¥ 1,755	**$ 12,975**
Accrued enterprise taxes	**208**	213	**1,733**
Accrued bonuses	**214**	341	**1,783**
Inventories	**1,021**	1,240	**8,508**
Property and equipment	**1,471**	1,059	**12,258**
Pension and severance costs	**572**	669	**4,767**
Investment	**747**	878	**6,225**
Tax loss carryforwards	**3,012**	2,072	**25,100**
Other	**598**	418	**4,984**
Less valuation allowance	**(3,298)**	(2,146)	**(27,483)**
Deferred tax assets	**6,102**	6,499	**50,850**
Deferred Tax Liabilities:			
Property and equipment	**471**	483	**3,925**
Undistributed earnings of associated companies	**159**	168	**1,325**
Other	**49**	128	**408**
Deferred tax liabilities	**679**	779	**5,658**
Net deferred tax assets	**¥ 5,423**	¥ 5,720	**$ 45,192**

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2003, 2002 and 2001, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2003	2002	2001
Normal effective statutory tax rate	**42.0%**	42.0%	42.0%
Expenses not deductible for income tax purposes	**1.1**	1.2	1.2
Per-capita inhabitants' tax	**0.8**	0.7	0.5
Increase in valuation allowance	**12.0**	3.1	3.1
Effect of tax rate changes	**0.8**		
Amortization of goodwill	**0.5**	0.9	0.3
Other–net	**2.0**	0.2	0.3
Actual effective tax rate	**59.2%**	48.1%	47.4%

At March 31, 2003, certain subsidiaries have tax loss carryforwards aggregating approximately ¥7,207 million ($60,058 thousand) which are available to be offset against taxable income of such 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
2004	¥1,206	$10,050
2005	460	3,833
2006	1,067	8,892
2007	1,811	15,092
2008	2,663	22,191
Total	¥7,207	$60,058

In March 31, 2003, a tax reform law (concerning enterprise tax) was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The effect of this change was to decrease deferred tax assets–non-current by ¥78 million and decrease credit amount of income taxes–deferred by ¥78 million in the consolidated financial statements for the year ended March 31, 2003.

11. LEASES

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

Total rental expenses for the years ended March 31, 2003, 2002 and 2001, were ¥6,572 million ($54,767 thousand), ¥5,887 million and ¥5,831 million, respectively, including ¥780 million ($6,500 thousand), ¥821 million and ¥843 million, respectively, of lease payments under finance lease contracts.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, 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, 2003 Millions of yen				As of March 31, 2002 Millions of yen			
	Equipment	Furniture	Others	Total	Equipment	Furniture	Others	Total
Acquisition cost	**¥506**	**¥3,069**	**¥14**	**¥3,589**	¥433	¥3,324	¥18	¥3,775
Accumulated depreciation	**184**	**2,059**	**8**	**2,251**	197	1,710	7	1,914
Net leased property	**¥322**	**¥1,010**	**¥ 6**	**¥1,338**	¥236	¥1,614	¥11	¥1,861

	As of March 31, 2003 Thousands of U.S. dollars			
	Equipment	Furniture	Others	Total
Acquisition cost	**$4,216**	**$25,575**	**$117**	**$29,908**
Accumulated depreciation	**1,533**	**17,158**	**67**	**18,758**
Net leased property	**$2,683**	**$ 8,417**	**$ 50**	**$11,150**

Obligations under finance lease contracts:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 673**	¥ 706	**$ 5,608**
Due after one year	**694**	1,215	**5,784**
Total	**¥1,367**	¥1,921	**$11,392**

Depreciation expense and interest expense under finance lease contracts:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Depreciation expense	**¥729**	¥759	¥784	**$6,075**
Interest expense	**43**	62	78	**358**
Total	**¥772**	¥821	¥862	**$6,433**

Depreciation expense and interest expense, which were not reflected in the accompanying 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, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 278**	¥ 415	**$ 2,317**
Due after one year	**1,057**	1,582	**8,808**
Total	**¥1,335**	¥1,997	**$11,125**

12. 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.

13. 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, 2003, 2002 and 2001, 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 2003, 2002 and 2001, 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.

14. SUBSEQUENT EVENTS

a. The general shareholders' meeting held on June 26, 2003, resolved the following appropriations of retained earnings as of March 31, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥18.00 ($0.15) per share	¥660	$5,500
Bonuses to directors and corporate auditors	11	92

b. At such meeting, the Company's shareholders also approved the repurchase of common stock up to a maximum of 1,000,000 shares to the aggregate amount of ¥4,000 million ($33,333 thousand).

c. At May 27, 2003, the Company repurchased 873,600 shares of common stock for ¥1,790 million ($14,917 thousand) in the market.

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Deloitte
Touche
Tohmatsu

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 subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, 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, procedures and practices generally accepted and applied 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 subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles and practices generally accepted in Japan.

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.

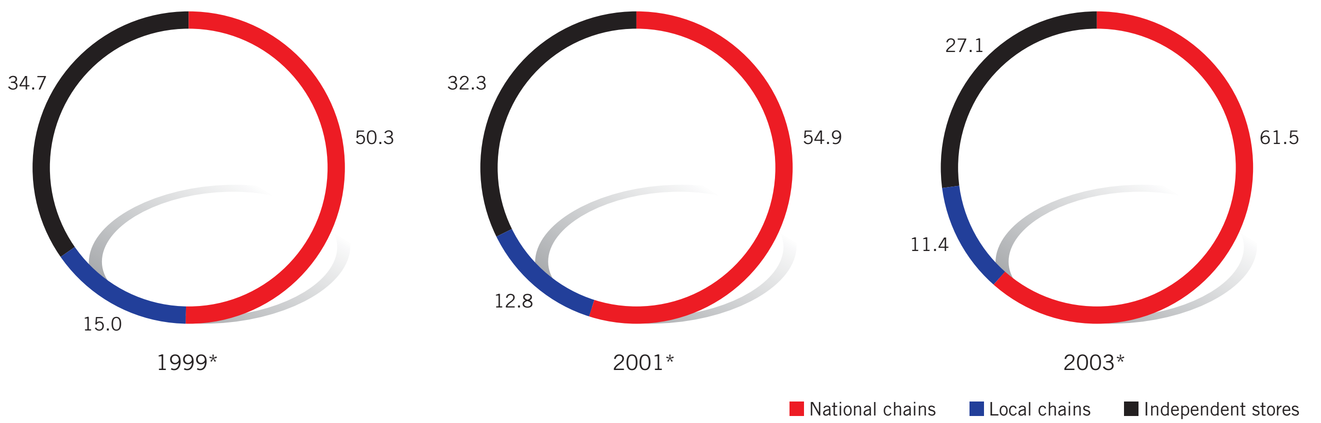
Deloitte Touche Tohmatsu

June 26, 2003

Market Information—Sales and Market Share by Type of Sales Channel

MARKET SHARE OF CAR PARTS AND ACCESSORIES STORES

(%)



	Estimated Number of Car Parts and Accessories Stores			Estimated Retail Sales (Millions of yen)					Estimated Share of Retail Sales (%)		
	1999*1	2001*2	2003*3	1999*1	2001*2	(2001*2/1999*1)	2003*3	(2003*3/2001*2)	1999*1	2001*2	2003*3
Car Parts and Accessories Stores:											
National chains	944	1,011	1,035	415,000	436,300	105.1%	445,600	102.1%	14.89	17.40	19.12
Local chains	283	236	187	123,500	101,800	82.4	82,200	80.7	4.43	4.06	3.53
Independent stores	722	715	637	286,210	257,193	89.9	196,306	76.3	10.27	10.26	8.43
Subtotal	1,949	1,962	1,859	824,710	795,293	96.4	724,106	91.0	29.59	31.72	31.08
Tire Stores:											
Manufacturer-affiliated chains	1,604	1,784	1,956	220,950	204,100	92.4	213,700	104.7	7.93	8.14	9.17
Independent stores	687	697	734	191,332	136,024	71.1	117,107	86.1	6.86	5.43	5.03
Subtotal	2,291	2,481	2,690	412,282	340,124	82.5	330,807	97.3	14.79	13.57	14.20
Secondhand and Outlet Parts Shops	–	–	700	–	–	–	60,000	–	–	–	2.58
Home Centers	3,428	3,440	3,498	157,588	144,821	91.9	99,991	69.0	5.65	5.78	4.29
Discount Stores	388	500	556	50,287	39,699	78.9	13,843	34.9	1.81	1.58	0.59
Gasoline Stations	52,680	46,714	42,464	508,257	432,758	85.1	395,934	91.5	18.23	17.26	16.99
Auto Dealers	17,995	17,230	16,861	785,400	742,800	94.6	700,800	94.3	28.18	29.62	30.08
Consumer Electronics Discount Stores	4,000	2,000	200	45,000	8,000	17.7	1,000	12.5	1.61	0.32	0.04
Catalog Retailers	290	564	575	4,000	3,800	95.0	3,400	89.5	0.14	0.15	0.15
Total	83,021	74,891	69,403	2,787,524	2,507,295	89.9%	2,329,881	92.9%	100.00	100.00	100.00

Source: Jido-sha Sangyo Tsu-shin-sha Co., Ltd., AM Network, September 2001 and July 2003
*1 Estimated values for fiscal 1999
*2 Estimated values for fiscal 2001
*3 Estimated values for fiscal 2003
* Automobile 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.

Share Information

(As of March 31, 2003)

Common Stock Authorized
109,402,300 shares

Common Stock Issued
37,643,742 shares

Number of Shareholders
11,360

Settlement Date
March 31

Annual General Shareholders' Meeting
June

Shareholders of Record Date

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

(Prior notice of extraordinary dividends payments made as required.)

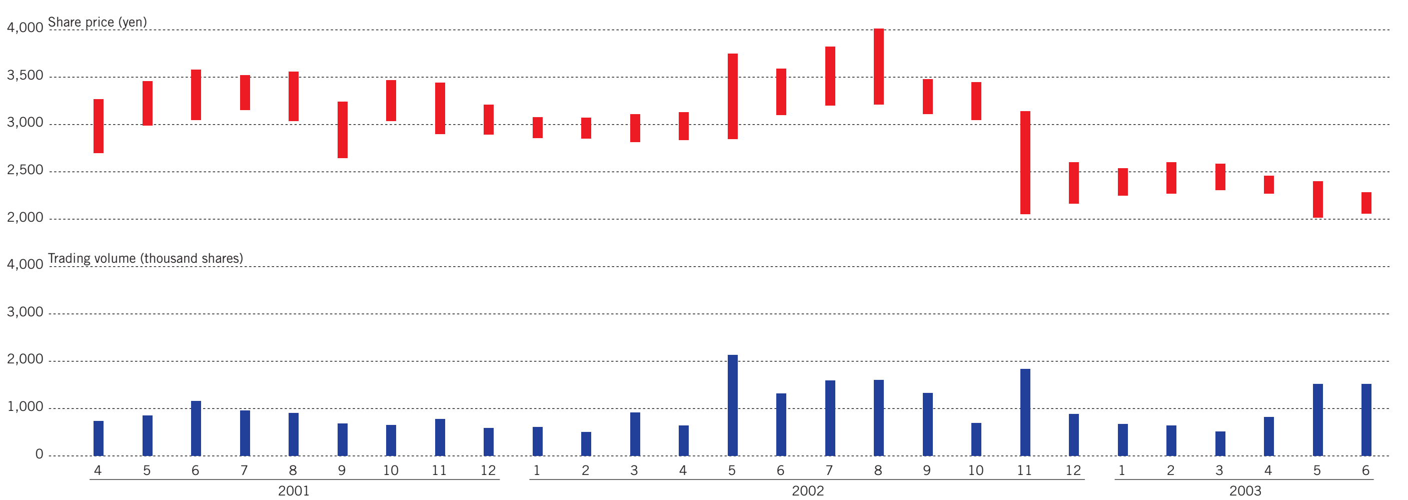
Number of Shares in One Trading Unit
100 shares

Newspaper Used for Notifications
Nihon Keizai Shimbun

Stock Listings
Tokyo Stock Exchange
Osaka Securities Exchange
London Stock Exchange

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

SHARE PRICE TRENDS*



* Osaka Securities Exchange

Corporate Data

(As of March 31, 2003)

Head Office
13-16, Mita 3-chome, Minato-ku,
Tokyo 108-8307, Japan

Website
http://www.autobacs-seven.com

Foundation
February 1947

Paid-in Capital
¥31,959 million

Number of Employees
3,712 (consolidated)

Main Business Offices
Northern Japan Business Division (Izumi-ku, Sendai City)
Northern Kanto Business Division (Ichikawa City, Chiba)
Southern Kanto Business Division (Ichikawa City, Chiba)
Chubu Business Division (Meito-ku, Nagoya City)
Kansai Business Division (Suita City, Osaka)
Southern Japan Business Division (Hakata-ku, Fukuoka City)
Overseas Business Division (Minato-ku, Tokyo)
CARS Division (Chuo-ku, Kobe City)
U-PARTS Division (Minato-ku, Tokyo)
Eastern Japan Logistics Center (Ichikawa City, Chiba)
Western Japan Logistics Center (Mino-gun, Hyogo)

Independent Auditors
Deloitte Touche Tohmatsu

Directors, Auditors, and Officers*

(As of June 30, 2003)

Directors and Officers

Koichi Sumino	Chief Executive Officer
Hidehiro Ide	Executive Officer Supporting Franchisee Corporations
Kozo Sumino	Executive Officer Personnel, Legal, and Information Systems
Hiroshi Sumino	Executive Officer Car Sales Business
Yasuhiro Tsunemori	Executive Officer Merchandising Strategy
Akira Nogami	Chief Operating Officer Chief of Store Support Center
Takashi Matsuo	Executive Officer Corporate Strategy, Accounting, Finance, Public Relations, and Investor Relations
Hideaki Yokoi	Executive Officer Business Development
Setsuo Wakuda	Executive Officer Franchise Business Strategy

Auditors (* Outside corporate auditor)

Katsushi Koyama	Senior Corporate Auditor
Kotaro Morino	Senior Corporate Auditor*
Harukuni Yoshida	Senior Corporate Auditor*
Kenji Ogawa	Corporate Auditor

Officers

Executive Officers

Satoshi Kohira	AUTOBACS Business Development
Kazuyoshi Sawada	Car Inspection Business Promotion and Maintenance Service Skill Development
Shuichi Shino	Store Development Strategy
Masachika Sumikura	Super AUTOBACS Business Development
Kenichi Takeda	Sales Promotion and Customer Relations

Operating Officers

Yoshihiro Emoto	Northern Kanto Store Support Division
Naofumi Kamata	Southern Kanto Store Support Division
Kosuke Kaya	Kansai Store Support Division
Kiomi Kobayashi	Overseas Store Support Division
Yuzuru Toide	Northern Japan Store Support Division
Teruyuki Matsumura	Southern Japan Store Support Division
Yoshirou Miyama	AUTOBACS CARS Division
Hironori Morimoto	Chubu Store Support Division
Masahiro Morimoto	Used Parts Sales Division

* In the order of Japanese syllabary, excluding CEO and auditors

AUTOBACS SEVEN CO., LTD.

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