Notes to the Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

Clarion Co., Ltd. ("Clarion") and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective countries. The accompanying consolidated financial statements of Clarion, its subsidiaries and affiliates (collectively, "the Company") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application of and disclosure requirements of International Financial Reporting Standards, and are compiled from consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accompanying consolidated financial statements include certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles and practices in Japan, but which is provided herein as additional information. None of the reclassifications nor rearrangements have a material effect on the consolidated financial statements.

Certain notes and amounts previously reported have been rearranged and reclassified to conform to the current year presentation.

The amounts presented in millions of yen are truncated for amounts less than 1 million. Totals may not be added up exactly because of such truncation.

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of Clarion and its subsidiaries that are controlled by Clarion. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

Investments in affiliates in which Clarion has significant influence are accounted for using the equity method. Consolidated income includes Clarion's current equity in net income or loss of affiliates after elimination of unrealized intercompany profits.

A difference in fiscal periods of Clarion and its subsidiaries does not by itself justify the exclusion of a subsidiary from consolidation. As the difference is not more than three months, it is acceptable to use, for consolidation purposes, the subsidiaries' statements for its fiscal period. For significant transactions during the period between those subsidiaries' fiscal year-end and the balance sheet date, necessary adjustments are included in the consolidated financial statements.

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. Goodwill relating to the Mexican subsidiaries is amortized over 20 years.

(2) Translation of foreign currency balances and transactions

Foreign currency transactions are generally translated using foreign exchange rates prevailing at the transaction dates. Assets and liabilities denominated in foreign currencies are translated at the current exchange rates at the balance sheet date.

All assets and liabilities of overseas subsidiaries are translated at current rates at the respective balance sheet dates whereas the shareholders' equity is translated at historical rates and all income and expense accounts are translated at average rates for the respective periods.

(3) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows is comprised of cash on hand, bank deposits able to be withdrawn on demand, and short-term highly liquid investments with original maturities of three months or less, which represent a minor risk of fluctuations in value.

(4) Financial instruments

(a) Securities:

Investments in debt and equity securities are classified into three categories: 1) trading securities, 2) held-to-maturity debt securities, and 3) other securities.

These categories are treated differently for the purpose of measuring and accounting for changes in fair value.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities, for which market quotations are available, are recognized at fair value in the accompanying consolidated balance sheets as of March 31, 2006 and 2005 respectively. Unrealized gains and losses for these other securities were classified as a separate component of shareholders' equity.

Other securities for which market quotations are unavailable are stated at cost, based on the weighted-average cost method. Other than temporary declines in the value of other securities are reflected in current income.

Investments in securities as of March 31, 2006 and 2005, included net unrealized gains on other securities amounting to ¥918 million and ¥813 million, respectively, which were included as a separate component of shareholders' equity.

(b) Derivative financial instruments:
All derivatives are stated at fair value, with changes in fair value charged to current income for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (c) Hedge accounting below).

(c) Hedge accounting:
The Company has a policy to utilize hedging instruments to reduce their exposure to the risk of fluctuation in foreign currency exchange rates and interest rates.

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and charged to income in the same period the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward foreign currency exchange contracts and interest rate swaps.

(5) Allowance for doubtful accounts
The allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables, in addition to an amount for receivables, other than doubtful receivables calculated using historical write-off experience from certain prior periods.

(6) Inventories
Inventories are stated at cost and determined by the weighted-average method. Supplies are stated at cost, which is determined by the last purchase price method.

(7) Property, plant and equipment
Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals, are charged to income as incurred.

For Clarion and its domestic subsidiaries, depreciation, except for dies, is computed under the declining-balance method at rates based on the estimated useful lives of the assets, which are prescribed by the Japanese income tax laws. Dies, included in machinery and equipment, are depreciated under the straight-line method over the estimated useful lives of the assets. For the overseas subsidiaries, depreciation is computed under the straight-line method in accordance with the generally accepted accounting principles prevailing in the respective countries.

(8) Intangible assets
Intangible assets, including goodwill and capitalized software costs, are carried at cost less accumulated amortization.

Goodwill represents the excess of purchase price and related costs over the value assigned to the fair value of the business acquired and is amortized using the straight-line method.

Capitalized software costs consist of costs of purchased or developed software. All capitalized software costs are amortized using the straight-line method over five years.

(9) Accounting standards for impairment of fixed assets
On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets." Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6—"Application Guidance on Accounting Standards for Impairment of Fixed Assets." These standards are effective from the fiscal years beginning April 1, 2005.

In the fiscal year ended March 31, 2006, Clarion and its domestic subsidiaries adopt these standards. As a result, property, plant and equipment and other assets as of March 31, 2006 decreased by ¥1,331 million, and income before income taxes and minority interest for the year ended March 31, 2006 decreased by same amount which would have been reported if the previous standards had been applied consistently. Impairment loss, ¥1,335 million for the year ended March 31, 2006, includes impact from change in accounting standards of the country where Clarion's subsidiary is located, whose amount is ¥3 million. The accumulated impairment loss is deducted from net book value of each asset.

(10) Accrued bonuses
Accrued bonuses to employees are provided for the estimated amounts which Clarion and its several subsidiaries expect to pay to employees after the fiscal year-end, based on services provided during the current period.

(11) Accrued pension and severance costs

Accrued pension and severance costs at the end of each fiscal year represent the estimated present value of projected benefit obligation in excess of the fair value of pension plan assets. The unrecognized actuarial differences are amortized on a straight-line basis over 7-13 years from the next fiscal year in which they arise. And prior service costs of Clarion are amortized on a straight-line basis by the number of specific years not exceeding average remaining years of employments (13 years) from this consolidated fiscal year. Aforementioned prior service costs are accrued due to adoption of new pension plan and employees' severance indemnities plan of Clarion.

(12) Research and development costs

Research and development costs are expensed as incurred.

(13) Income taxes

The provision for income tax is computed based on income before income taxes and minority interests in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax base assets and liabilities.

Clarion obtained approval from the Japan national tax agency to file a consolidated tax return system effective from the year beginning April 1, 2002. Clarion has adopted the consolidated tax return system for the calculation of income taxes effective from the year ended March 31, 2003. Under the consolidated tax return system, Clarion consolidates all wholly owned domestic subsidiaries based on the Japanese tax regulations.

(14) Revenue recognition

Sales are generally recognized at the time the goods are delivered to the customers.

(15) Leases

Capital leases, other than those which involve transfer of ownership of the leased assets to the lessee by the end of the lease terms, are allowed to be accounted for as operating leases, with footnote disclosure of the estimated acquisition cost, accumulated depreciation and future lease payments under the Japanese accounting standards.

(16) Appropriations of retained earnings

Appropriations of retained earnings reflected in the consolidated financial statements are recorded after approval by the shareholders as required under the Japanese Commercial Code.

(17) Net income per share

Calculation of net income per share for the year ended March 31, 2006 follows:

	Millions of yen	Thousands of U.S. dollars
Net income	**¥5,862**	**$49,910**
Weighted-average number of shares outstanding	**282,476,773**	

There were 292,148 of treasury shares as of March 31, 2006.

	Yen	U.S. dollars
Net income per share	**¥20.76**	**$0.177**

Clarion has no dilutive potential common shares, such as convertible bond or warrants, outstanding during the current year.

"Bonus to directors and corporate auditors," which is determined through appropriation of retained earnings by resolution of general shareholders' meeting subsequent to fiscal year-end and not reflected in the statements of income for the current year, should be reflected in the calculation of net income per share, as if "bonus to directors and corporate auditors" was charged to income in the current year.

3. U.S. dollar amounts:

U.S. dollar amounts stated in the consolidated financial statements are included solely for convenience of readers outside Japan. The rate of ¥117.47 = US$1, the approximate rate of exchange as of March 31, 2006, has been used in translation. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. The amounts presented in thousands of U.S. dollars are truncated for amounts less than 1 thousand. Totals may not be added up exactly because of such truncation.

4. Impairment loss on fixed assets:

The Company has recognized impairment loss of ¥1,335 million ($11,367 thousand), for the following group of assets as of March 31, 2006.

Location	Use	Category	Impairment loss (millions of yen)
Gunma office in Japan	Logistic warehouse	Land, and buildings and structures	¥1,181
Others	Others	Land, buildings and structures, and others	¥ 153

The Company assessed impairment of each group of assets, which are grouped on the basis of managerial accounting and investment decision-making purpose.

Due to the decline in real estate value and poor performance of assets, operating profitability has worsened substantially. Therefore, the Company has decided to mark the assets down to the recoverable value, and recognized impairment loss of ¥1,335 million ($11,367 thousand), which comprises of land ¥589 million ($5,020 thousand), buildings and structures ¥592 million ($5,040 thousand) for Gunma office, and land ¥128 million ($1,090 thousand), building and structures ¥4 million ($36 thousand), others ¥21 million ($179 thousand) for other location.

The recoverable value is determined as the higher of the net selling value or the value in use.

5. Inventories:

Inventories as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Finished products	**¥16,563**	¥14,369	**$141,005**
Work in process	**480**	523	**4,087**
Raw materials and supplies	**7,469**	7,977	**63,587**
Total	**¥24,513**	¥22,871	**$208,680**

6. Marketable securities and investments in securities:

The aggregate cost and market value of other securities with market values, which were included in investment securities as of March 31, 2006 and 2005 follow:

	Millions of yen			
	March 31, 2006			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
Equity securities	**¥1,812**	**¥1,263**	**¥(110)**	**¥2,965**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**¥1,812**	**¥1,263**	**¥(110)**	**¥2,965**

	Millions of yen			
	March 31, 2005			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
Equity securities	¥2,852	¥1,221	¥(401)	¥3,672
Debt securities	—	—	—	—
Other	—	—	—	—
Total	¥2,852	¥1,221	¥(401)	¥3,672

	Thousands of U.S. dollars			
	March 31, 2006			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
Equity securities	**$15,428**	**$10,755**	**$(937)**	**$25,247**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**$15,428**	**$10,755**	**$(937)**	**$25,247**

Other securities sold for the years ended March 31, 2006, 2005 and 2004, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2006	2005	2004	**2006**
Sales amount	**¥2,430**	¥329	¥1,609	**$20,694**
Total gain on sales	**1,373**	78	384	**11,689**
Total loss on sales	**(0)**	—	(0)	**(0)**

The carrying value of unlisted investment equity securities and others as of March 31, 2006 and 2005 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Other securities			
Unlisted equity securities	**¥77**	¥134	**$659**

7. Fair values of derivative financial instruments:

The Company enters into forward foreign currency exchange contracts and interest rate swaps to manage market risks relating to fluctuations in the foreign currency exchange rates and interest rates. The Company does not hold or issue financial instruments for trading purposes. The listed contract amount and fair values as of March 31, 2006 and 2005 follow:

	Millions of yen		
	March 31, 2006		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contract:			
Sold			
U.S. dollar	**¥2,185**	**¥2,201**	**¥(16)**
Euro	**2,608**	**2,661**	**(53)**
U.K. pound	**539**	**550**	**(10)**
Singapore dollar	**528**	**541**	**(13)**
Purchased			
U.S. dollar	**1,126**	**1,129**	**2**
Total unrealized gain (loss) from forward foreign currency exchange contracts			**¥(90)**

	Millions of yen		
	March 31, 2005		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contract:			
Sold			
U.S. dollar	¥6,807	¥6,842	¥ (34)
Euro	5,185	5,302	(116)
Hong Kong dollar	2,324	2,332	(7)
U.K. pound	743	762	(18)
Singapore dollar	419	422	(2)
Australian dollar	77	82	(4)
Purchased			
U.S. dollar	123	123	0
Total unrealized gain (loss) from forward foreign currency exchange contracts			¥(186)

	Thousands of U.S. dollars		
	March 31, 2006		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contract:			
Sold			
U.S. dollar	**$18,603**	**$18,740**	**$(137)**
Euro	**22,204**	**22,656**	**(451)**
U.K. pound	**4,594**	**4,682**	**(88)**
Singapore dollar	**4,495**	**4,611**	**(115)**
Purchased			
U.S. dollar	**9,587**	**9,612**	**24**
Total unrealized gain (loss) from forward foreign currency exchange contracts			**$(767)**

These forward foreign currency exchange contracts were entered into for hedging purposes. Unrealized gains and losses from these contracts are recognized in earnings. Forward foreign currency exchange contracts designated to monetary items denominated in foreign currencies are excluded from the above table.

	Millions of yen		
	March 31, 2006		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, receive-floating	**¥2,825**	**¥(19)**	**¥(19)**

	Millions of yen		
	March 31, 2005		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, receive-floating	¥6,221	¥(83)	¥(83)

	Thousands of U.S. dollars		
	March 31, 2006		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, receive-floating	**$24,055**	**$(168)**	**$(168)**

8. Short-term and long-term loans:

Short-term and long-term loans as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Short-term loans	**¥13,141**	¥23,547	**$111,869**
Current portion of long-term loans from banks and insurance companies	**7,045**	7,045	**59,979**
Total short-term loans	**20,187**	30,592	**171,848**
Long-term loans from banks and insurance companies	**14,040**	11,027	**119,521**
Total	**¥34,227**	¥41,619	**$291,370**

The weighted-average rates for the short-term loans, current portion of long-term loans and long-term loans as of March 31, 2006, were 1.45%, 1.89% and 1.39%, respectively.

Clarion had been furnished with financial funds at a lower interest rate due to using of a syndicated loan.

The maturity of long-term loans from banks and insurance companies follow:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 7,045	$59,979
2008	3,247	27,645
2009	10,249	87,255
2010	52	445
2011	54	465

As of March 31, 2006 and 2005, assets pledged as collateral for short-term and long-term loans follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Buildings and structures (net)	**¥2,137**	¥ 3,836	**$18,198**
Machinery and equipment (net)	**69**	63	**594**
Land	**3,818**	7,597	**32,510**
Total	**¥6,026**	¥11,497	**$51,303**

In addition to the above, time deposits of ¥7 million ($61 thousand) and ¥6 million were pledged as a guarantee as of March 31, 2006 and 2005, respectively.

Secured loans and debt as of March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Short-term loans	**¥ 7,045**	¥29,840	**$59,979**
Long-term loans	**4,040**	10,427	**34,393**
Total	**¥11,086**	¥40,267	**$94,373**

9. Accrued retirement benefits to employees:

Clarion newly adopts tax-qualified corporate defined pension plan and employees' severance indemnities plan, which are defined benefit pension plans covering all employees. Some of the domestic subsidiaries maintain tax-qualified pension plans and employees' severance indemnities plans as defined benefit pension plans, and other domestic subsidiaries and some of the overseas subsidiaries apply employees' severance indemnities plans as defined benefit pension plans. In addition, some overseas subsidiaries adopt defined contribution pension plans.

The funded status of retirement benefit obligations as of March 31, 2006 and 2005 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Projected benefit obligations	**¥(14,584)**	¥(13,429)	**$(124,157)**
Plan assets at fair value	**2,557**	2,039	**21,774**
Securities contributed to employee retirement benefit trust	**321**	235	**2,736**
Unfunded status	**(11,705)**	(11,153)	**(99,647)**
Unrecognized actuarial differences	**722**	1,128	**6,146**
Unrecognized prior service costs due to plan amendment	**570**	—	**4,856**
Accrued pension and severance costs	**¥(10,413)**	¥(10,025)	**$ (88,644)**

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2006, 2005 and 2004 follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2006	2005	2004	**2006**
Service cost	**¥ 732**	¥ 720	¥ 842	**$6,239**
Interest cost	**327**	328	323	**2,787**
Expected return on plan assets	**(56)**	(42)	(37)	**(483)**
Amortization of transition amount	**—**	464	464	**—**
Amortization of prior service costs due to plan amendment	**3**	—	—	**31**
Amortization of actuarial difference	**122**	110	105	**1,047**
Net periodic pension expense	**¥1,130**	¥1,581	¥1,697	**$9,621**

In addition to the above, extra employees' severance indemnities of ¥452 million ($3,849 thousand), ¥46 million and ¥242 million were included in other expenses for the respective periods ended March 31, 2006, 2005 and 2004, respectively.

Assumptions used in calculating the above information follow:

	Year ended March 31		
	2006	2005	2004
Discount rate	**2.0~2.5%**	2.0~2.5%	2.0~2.5%
Expected rate of return on plan assets	**2.0~2.5%**	2.0~2.5%	2.0~2.5%
Amortization term of prior service costs due to plan amendment	**13 years**	—	—
Amortization term of actuarial difference (amortized from the next fiscal year)	**7~13 years**	10~15 years	10~15 years
Amortization term of transition obligation	**—**	5 years	5 years

10. Revaluation of land used for business operations in accordance with the land revaluation law:

In accordance with Article 119 of 1998 Cabinet Order—Article 2-1 of the Enforcement Ordinance relating to the Land Revaluation Law, revaluation is performed by the method of calculating land value for the standard basis of land in accordance with the Law for Government Appraisal of Land Prices. Under Article 2-4 of the Enforcement Ordinance, revaluation is performed by using the method of calculating land value for a taxable basis of Land Value Tax amounts along with reasonable adjustments, such as shape of the land and accessibility, in accordance with the Article 16 of the Land-Holding Tax Law. This method is established and published by the Director General of National Tax Administration, and the land is valued by the real estate appraiser in accordance with Article 2-5.

As a result, deferred income taxes on revaluation of land is recorded as liabilities and net unrealized gain on revaluation of land, net of tax, was recorded as a component of shareholders' equity.

The differences between fair value and carrying amount after revaluation as of March 31, 2006 and 2005 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Difference between fair value and carrying amount after revaluation	**¥(966)**	¥(1,766)	**$(8,230)**

Date of latest revaluation: March 31, 2001

11. Income taxes:

Significant components of the Company's deferred income tax assets and liabilities as of March 31, 2006 and 2005 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Deferred income tax assets:			
Net operating tax losses carried forward	**¥8,239**	¥9,337	**$70,140**
Accrued pension and severance costs	**3,875**	3,627	**32,991**
Loss on devaluation of inventories	**332**	587	**2,833**
Loss on devaluation of marketable securities	**1,536**	2,392	**13,076**
Allowance for doubtful accounts	**1,014**	1,188	**8,632**
Foreign taxes paid	**219**	369	**1,864**
Accrued bonuses	**225**	375	**1,919**
Others	**2,150**	1,690	**18,307**
Subtotal	**17,592**	19,569	**149,765**
Deferred income tax liabilities:			
Inventory valuation	**32**	415	**276**
Others	**167**	253	**1,429**
Subtotal	**200**	668	**1,705**
Less: valuation allowance	**(10,883)**	(12,737)	**(92,649)**
Net deferred income tax assets	**¥6,509**	¥6,163	**$55,410**

The difference between the Company's statutory income tax rate and income rate reflected in the consolidated statements of income were reconciled as follows;

	March 31	
	2006	2005
Statutory income tax rate	**40.7%**	40.7%
Permanent differences	**0.6**	2.8
Fixed levy of local inhabitant taxes	**0.8**	1.1
Valuation allowance	**(63.0)**	(113.1)
Variance of effective tax rate between Clarion and the subsidiaries	**(4.5)**	(11.3)
Reversal of net unrealized gain on revaluation of land	**(5.5)**	—
Others	**1.4**	0.9
Effective income tax rate	**(29.5)%**	(78.9)%

12. Research and development expenses:

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004 totaled ¥710 million ($6,047 thousand), ¥309 million and ¥334 million, respectively.

13. Cash flow information:

Cash and cash equivalents as of March 31, 2006 and 2005 were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Cash on hand and in banks	**¥12,148**	¥11,059	**$103,419**
Deposits with original maturities of more than three months	**(194)**	(42)	**(1,653)**
Cash and cash equivalents	**¥11,954**	¥11,016	**$101,765**

14. Leases:

The Company, as a lessee, charges periodic lease payments for capital leases to expense on payment. Such payments for the years ended March 31, 2006, 2005 and 2004 were ¥1,757 million ($14,959 thousand), ¥1,591 million and ¥1,583 million, respectively.

The amount of outstanding future lease payments for capital leases as of March 31, 2006 and 2005, excluding the interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Future lease payments:			
Due within one year	**¥1,359**	¥1,221	**$11,571**
Due after one year	**1,387**	1,386	**11,808**
Total	**¥2,746**	¥2,607	**$23,380**

Pro forma information for capital leases as of March 31, 2006 and 2005 (acquisition cost, accumulated depreciation, depreciation expense and interest expense for the period) follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Acquisition cost	**¥4,678**	¥4,251	**$39,830**
Accumulated depreciation	**(1,932)**	(1,765)	**(16,450)**
Carrying value	**¥2,746**	¥2,486	**$23,379**
Depreciation expense	**¥1,613**	¥1,428	**$13,735**
Interest expense	**¥ 150**	¥ 157	**$ 1,277**

Depreciation is calculated based on using the straight-line method over the lease term of the assets with no residual value. Interest expense on leased assets is calculated as the difference between the total lease payments and the assumed acquisition cost for the asset and is allocated over the lease term using the effective interest method.

Future lease obligations for non-cancelable operating leases at March 31, 2006 and 2005 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Due within one year	**¥327**	¥232	**$2,787**
Due after one year	**573**	583	**4,878**
Total	**¥900**	¥815	**$7,666**

15. Commitments and contingencies:

The Company was contingently liable for transfer of notes receivables due to factoring, amounting to ¥403 millions ($3,437 thousand) as of March 31, 2006. There was no such contingency as of March 31, 2005.

16. Segment information:

(1) Information by business segment

The Company operates principally in three business segments.

(a) Car audio-visual equipment: Car audios, Car navigation system, Car multimedia equipments, and the peripheral devices

(b) Specialty equipment: Audio and visual equipment for public transportation, Bus location system, and CCD (Charged-Coupled Devices) rear view cameras

(c) Others: SS (Spread Spectrum) wireless communication equipment, Mobile phone, EMS (Electronics Manufacturing Service) business, and others

	Millions of yen				
	Year ended March 31, 2006				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	**¥168,686**	**¥8,306**	**¥ 7,183**	**¥ –**	**¥184,176**
Operating expenses	**165,108**	**6,855**	**6,984**	**–**	**178,948**
Operating income	**¥ 3,578**	**¥1,451**	**¥ 199**	**¥ –**	**¥ 5,228**
Total assets	**¥120,939**	**¥5,880**	**¥10,569**	**¥(15,270)**	**¥122,119**
Depreciation	**¥ 5,373**	**¥ 178**	**¥ 39**	**¥ –**	**¥ 5,591**
Impairment loss	**¥ 1,278**	**¥ 56**	**¥ –**	**¥ –**	**¥ 1,335**
Capital expenditures	**¥ 11,728**	**¥ 517**	**¥ 74**	**¥ –**	**¥ 12,320**

	Millions of yen				
	Year ended March 31, 2005				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	¥166,365	¥6,949	¥ 5,010	¥ –	¥178,325
Operating expenses	158,232	5,716	4,794	¥ –	168,742
Operating income	¥ 8,132	¥1,233	¥ 216	¥ –	¥ 9,582
Total assets	¥124,264	¥5,427	¥18,018	¥(28,183)	¥119,527
Depreciation	¥ 5,004	¥ 155	¥ 56	¥ –	¥ 5,216
Capital expenditures	¥ 6,329	¥ 166	¥ 32	¥ –	¥ 6,527

	Millions of yen				
	Year ended March 31, 2004				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	¥159,544	¥6,126	¥3,275	¥ —	¥168,947
Operating expenses	150,430	4,956	3,208	¥ —	158,594
Operating income	¥ 9,114	¥1,170	¥ 67	¥ —	¥ 10,352
Total assets	¥120,341	¥6,022	¥9,433	¥(7,260)	¥128,536
Depreciation	¥ 4,974	¥ 231	¥ 30	¥ —	¥ 5,237
Capital expenditures	¥ 3,859	¥ 183	¥ 94	¥ —	¥ 4,137

	Thousands of U.S. dollars				
	Year ended March 31, 2006				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	**$1,435,997**	**$70,710**	**$61,154**	**$ —**	**$1,567,863**
Operating expenses	**1,405,538**	**58,357**	**59,458**	**$ —**	**1,523,354**
Operating income	**$ 30,459**	**$12,352**	**$ 1,696**	**$ —**	**$ 44,508**
Total assets	**$1,029,537**	**$50,061**	**$89,974**	**$(129,994)**	**$1,039,578**
Depreciation	**$ 45,747**	**$ 1,517**	**$ 332**	**$ —**	**$ 47,597**
Impairment loss	**$ 10,886**	**$ 481**	**$ —**	**$ —**	**$ 11,367**
Capital expenditures	**$ 99,845**	**$ 4,401**	**$ 635**	**$ —**	**$ 104,882**

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2006, 2005 and 2004 were ¥1,392 million ($11,857 thousand), ¥2,564 million and ¥2,513 million, respectively.

In order to achieve a more unified cash management of the Company, Clarion introduced a commitment line and term loan on a syndicated loan during the year ended March 31, 2005, and reconstituted the scheme during the year ended March 31, 2006. As a result of this, loans to subsidiaries which belong to "Car audio-visual equipment" segment and "Specialty equipment" segment, were carried out through Clarion Finance Co., Ltd. which belongs to "Others" segment.

Capital expenditures for the year ended March 31, 2006 increased more than double compared to last fiscal year. It was mainly due to land acquisition of Saitama Shin-toshin in ¥4,674 million ($39,788 thousand), which new head office would be constructed.

(2) Information by geographic segment

Sales of the Company classified by geographic area for the years ended March 31, 2006, 2005 and 2004, respectively, are summarized as follows:

	Millions of yen					
	Year ended March 31, 2006					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers	**¥ 99,511**	**¥43,725**	**¥15,063**	**¥25,877**	**¥ —**	**¥184,176**
Inter-segment sales	**41,179**	**1,024**	**50,228**	**250**	**(92,683)**	**—**
Total sales	**140,690**	**44,749**	**65,292**	**26,128**	**(92,683)**	**184,176**
Operating expenses	**136,892**	**43,692**	**64,563**	**26,482**	**(92,681)**	**178,948**
Operating income (loss)	**¥ 3,798**	**¥ 1,057**	**¥ 728**	**¥ (354)**	**¥ (1)**	**¥ 5,228**
Total assets	**¥112,284**	**¥20,575**	**¥21,771**	**¥15,063**	**¥(47,575)**	**¥122,119**

	Millions of yen					
	Year ended March 31, 2005					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers	¥ 96,658	¥38,577	¥10,737	¥32,351	¥ —	¥178,325
Inter-segment sales	41,561	1,354	41,839	2,184	(86,940)	—
Total sales	138,220	39,931	52,577	34,536	(86,940)	178,325
Operating expenses	131,915	38,256	51,786	34,188	(87,403)	168,742
Operating income	¥ 6,304	¥ 1,675	¥ 790	¥ 348	¥ 463	¥ 9,582
Total assets	¥115,363	¥22,185	¥17,678	¥17,350	¥(53,050)	¥119,527

	Millions of yen					
	Year ended March 31, 2004					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers	¥ 88,843	¥33,657	¥ 9,893	¥36,552	¥ —	¥168,947
Inter-segment sales	49,068	5,036	36,785	5,925	(96,815)	—
Total sales	137,911	38,693	46,678	42,477	(96,815)	168,947
Operating expenses	130,068	38,224	45,846	42,251	(97,796)	158,594
Operating income	¥ 7,843	¥ 468	¥ 831	¥ 226	¥ 981	¥ 10,352
Total assets	¥114,263	¥21,571	¥16,190	¥20,300	¥(43,788)	¥128,536

	Thousands of U.S. dollars					
	Year ended March 31, 2006					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers	**$ 847,119**	**$372,226**	**$128,228**	**$220,288**	**$ —**	**$1,567,863**
Inter-segment sales	**350,551**	**8,721**	**427,590**	**2,136**	**(788,998)**	**—**
Total sales	**1,197,670**	**380,947**	**555,818**	**222,424**	**(788,998)**	**1,567,863**
Operating expenses	**1,165,338**	**371,944**	**549,616**	**225,438**	**(788,983)**	**1,523,354**
Operating Income (loss)	**$ 32,332**	**$ 9,002**	**$ 6,201**	**$ (3,013)**	**$ (14)**	**$ 44,508**
Total assets	**$ 955,859**	**$175,151**	**$185,335**	**$128,236**	**$(405,004)**	**$1,039,578**

Notes:
(*1) Americas: U.S.A., Canada, Mexico, Brazil
(*2) Asia and Australia: People's Republic of China, Taiwan R.O.C., Singapore, Malaysia, Philippines, Australia
(*3) Europe: Germany, Sweden, U.K., Spain, France, Hungary

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2006, 2005 and 2004 were ¥1,392 million ($11,857 thousand), ¥2,564 million and ¥2,513 million, respectively.

In order to achieve a more unified cash management of the Company, Clarion introduced a commitment line and term loan on a syndicated loan during the year ended March 31, 2005, and reconstituted the scheme during the year ended March 31, 2006. As a result of this, loans to subsidiaries, which belong to "Americas," "Asia and Australia" and "Europe," were carried out through Clarion Finance Co., Ltd. which belongs to "Japan."

(3) Export sales and sales by overseas subsidiaries

Export sales information of the Company for the years ended March 31, 2006, 2005 and 2004, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2006	2005	2004	**2006**
Export sales and sales by overseas subsidiaries:				
Americas (*1)	**¥ 43,701**	¥ 38,610	¥ 33,678	**$ 372,025**
Europe (*2)	**25,874**	32,361	36,572	**220,265**
Others (*3)	**15,431**	11,412	11,328	**131,365**
	85,007	82,384	81,579	**723,656**
Consolidated net sales	**¥184,176**	¥178,325	¥168,947	**$1,567,863**
Ratio	**46.2%**	46.2%	48.3%	**46.2%**

Notes:
(*1) Americas: U.S.A., Canada, Mexico, Brazil, Venezuela
(*2) Europe: Germany, Sweden, U.K., Spain, France
(*3) Others: Australia, People's Republic of China, Republic of Korea, Taiwan R.O.C., Singapore, Malaysia

17. Analysis of selling, general and administrative expenses:

An analysis of selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2006	2005	2004	**2006**
Provision of allowance for doubtful accounts	**¥ 105**	¥ 64	¥ 420	**$ 894**
Payroll costs	**9,108**	9,016	8,372	**77,538**
Provision of accrued bonuses	**293**	468	400	**2,497**
Pension expenses	**496**	499	531	**4,228**
Freight out	**4,340**	2,103	1,700	**36,947**
Others	**17,480**	15,804	15,067	**148,811**
Total	**¥31,824**	¥27,956	¥26,491	**$270,917**