

**CONSOLIDATED FINANCIAL STATEMENTS****Consolidated Balance Sheets** March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1997	1996	1997
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash on hand and in banks .....	¥ 23,785	¥ 25,279	\$ 191,814
Marketable securities (Note 5) .....	2,845	3,004	22,944
Notes and accounts receivable (Notes 7):			
Trade .....	38,926	31,814	313,919
Unconsolidated subsidiaries and affiliates .....	1,405	1,846	11,331
	40,331	33,660	325,250
Less: Allowance for bad debts .....	(1,328)	(949)	(10,710)
	39,003	32,711	314,540
Inventories (Note 4) .....	44,164	39,306	356,161
Prepaid expenses and other .....	7,888	5,498	63,613
Total current assets .....	117,685	105,798	949,072
<b>Investments and Advances:</b>			
Investments in securities (Notes 5 and 7) .....	14,153	14,113	114,137
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6) .....	508	488	4,097
Other investments and advances .....	3,176	3,439	25,613
	17,837	18,040	143,847
<b>Property, Plant and Equipment (Note 7):</b>			
Buildings and structures .....	24,426	24,232	196,984
Machinery and equipment .....	55,180	53,395	445,000
	79,606	77,627	641,984
Less: Accumulated depreciation .....	(56,138)	(55,316)	(452,726)
	23,468	22,311	189,258
Land .....	8,520	8,444	68,710
Construction in progress .....	201	72	1,621
	32,189	30,827	259,589
Other Assets .....	6,543	5,082	52,766
Adjustments on Foreign Currency Translation (Note 2(4)) .....	4,204	5,087	33,903
	¥178,458	¥164,834	\$1,439,177

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1997	1996	1997
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Short-term bank loans (Note 7) .....	¥ 71,492	¥ 57,427	\$ 576,548
Current portion of long-term debt (Note 7) .....	9,101	8,069	73,395
Notes and accounts payable:			
Trade .....	29,650	31,264	239,113
Unconsolidated subsidiaries and affiliates .....	383	644	3,089
	30,033	31,908	242,202
Accrued expenses .....	8,250	8,828	66,532
Income taxes payable (Note 8) .....	224	415	1,806
Other current liabilities .....	5,168	2,266	41,678
<b>Total current liabilities .....</b>	<b>124,268</b>	<b>108,913</b>	<b>1,002,161</b>
<b>Long-Term Debt (Note 7) .....</b>	<b>14,609</b>	<b>17,785</b>	<b>117,814</b>
<b>Accrued Employees' Severance Indemnities .....</b>	<b>4,366</b>	<b>4,289</b>	<b>35,210</b>
<b>Minority Interests in Consolidated Subsidiaries .....</b>	<b>1,025</b>	<b>821</b>	<b>8,266</b>
<b>Lease Commitments and Contingent Liabilities (Note 9)</b>			
<b>Shareholders' Equity:</b>			
Common stock, par value ¥50 per share; Authorized: 450,000,000 shares Issued: 155,624,878 shares at March 31, 1997 and 1996 .....	19,433	19,433	156,718
Additional paid-in capital .....	39,310	39,314	317,016
Legal reserve .....	1,954	1,918	15,758
Deficit .....	(26,507)	(27,639)	(213,766)
	34,190	33,026	275,726
	¥178,458	¥164,834	\$1,439,177

The accompanying notes are an integral part of these statements.

**Consolidated Statements of Operations** for the years ended March 31, 1997, 1996 and 1995

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	1997	March 31, 1996	1995	March 31, 1997
<b>Net Sales</b> (Note 10) .....	<b>¥182,278</b>	¥164,625	¥164,107	<b>\$1,469,984</b>
<b>Cost of sales</b> .....	<b>136,091</b>	123,944	125,390	<b>1,097,508</b>
Gross profit .....	46,187	40,681	38,717	372,476
<b>Selling, General and Administrative Expenses</b> (Note 12).....	<b>39,415</b>	39,048	35,942	<b>317,863</b>
Operating income (Note 10) .....	6,772	1,633	2,775	54,613
<b>Other Income (Expenses):</b>				
Interest income .....	638	445	651	5,145
Interest expenses .....	(3,204)	(3,376)	(3,033)	(25,839)
Provision for allowance for bad debts .....	(271)	—	—	(2,185)
Gain (Loss) on sale or disposal of property, plant and equipment, net .....	(222)	(126)	(10)	(1,790)
Loss from write-down and disposal of inventories .....	(395)	(185)	(208)	(3,186)
Officers' retirement expenses .....	—	(387)	—	—
Loss from write-down of securities .....	(322)	—	—	(2,597)
Exchange income (loss), net .....	(572)	966	76	(4,613)
Other, net .....	152	148	(345)	1,226
	(4,196)	(2,515)	(2,869)	(33,839)
Income (loss) before income taxes .....	2,576	(882)	(94)	20,774
<b>Income Taxes</b> (Note 8) .....	<b>533</b>	453	431	<b>4,298</b>
	2,043	(1,335)	(525)	16,476
<b>Minority Interests in Loss (Income) of Consolidated Subsidiaries</b> .....	<b>(181)</b>	(32)	(40)	<b>(1,460)</b>
<b>Equity in Income (Loss) of Affiliates</b> .....	<b>(349)</b>	(107)	(390)	<b>(2,814)</b>
<b>Adjustments on Foreign Currency Translation</b> (Note 2(4)) .....	<b>—</b>	(831)	517	<b>—</b>
Net income (loss) .....	¥ 1,513	¥ (2,305)	¥ (438)	\$ 12,202
		Yen		U.S. Dollars (Note 3)
<b>Per Share:</b>				
Net income (loss) .....	¥ 9.7	¥ (14.8)	¥ (2.8)	\$ 0.078
Cash dividends .....	¥ 0	¥ 0	¥ 0	\$ 0

The accompanying notes are an integral part of the statements.

## Consolidated Statements of Shareholders' Equity

for the years ended March 31, 1997, 1996 and 1995

	Number of shares of common stock (thousands)	Millions of Yen			
		Common stock	Additional paid-in capital	Legal reserve	Deficit
<b>Balance at March 31, 1994</b> .....	155,625	¥ 19,433	¥ 39,336	¥ 1,861	¥ (23,349)
Net loss for the year ended March 31, 1995 .....	—	—	—	—	(438)
Adjustments on foreign currency translation (Note 2(4)) .....	—	—	—	—	(106)
Transfer to legal reserve .....	—	—	—	20	(20)
Subsidy from French government paid back for reduced employment .....	—	—	(11)	—	—
Effect on deficit arising from application of equity method .....	—	—	—	—	(311)
Increase (decrease) due to inclusion of subsidiaries additionally into consolidation .....	—	—	—	—	(193)
Adjustment due to inflation accounting adopted by an affiliate .....	—	—	—	—	39
Officers' bonuses .....	—	—	—	—	(3)
<b>Balance at March 31, 1995</b> .....	155,625	19,433	39,325	1,881	(24,381)
Net loss for the year ended March 31, 1996 .....	—	—	—	—	(2,305)
Adjustments on foreign currency translation (Note 2(4)) .....	—	—	—	—	(1,046)
Transfer to legal reserve .....	—	—	—	37	(37)
Subsidy from French government paid back for reduced employment .....	—	—	(11)	—	—
Adjustment due to inflation accounting adopted by an affiliate .....	—	—	—	—	133
Officers' bonuses .....	—	—	—	—	(3)
<b>Balance at March 31, 1996</b> .....	155,625	19,433	39,314	1,918	(27,639)
Net income for the year ended March 31, 1997 .....	—	—	—	—	1,513
Transfer to legal reserve .....	—	—	—	36	(36)
Subsidy from French government paid back for reduced employment .....	—	—	(11)	—	—
Increase (decrease) due to inclusion of subsidiaries additionally into consolidation .....	—	—	—	—	(251)
Adjustment due to inflation accounting adopted by an affiliate .....	—	—	—	—	(86)
Other appropriation of overseas subsidiary .....	—	—	7	—	(8)
<b>Balance at March 31, 1997</b> .....	155,625	¥ 19,433	¥ 39,310	¥ 1,954	¥ (26,507)

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)			
		Common stock	Additional paid-in capital	Legal reserve	Deficit
<b>Balance at March 31, 1996</b> .....	155,625	\$156,718	\$317,048	\$15,468	\$(222,895)
Net income for the year ended March 31, 1997 .....	—	—	—	—	12,202
Transfer to legal reserve .....	—	—	—	290	(290)
Subsidy from French government paid back for reduced employment .....	—	—	(88)	—	—
Increase (decrease) due to inclusion of subsidiaries additionally into consolidation .....	—	—	—	—	(2,024)
Adjustment due to inflation accounting adopted by an affiliate .....	—	—	—	—	(694)
Other appropriation of overseas subsidiary .....	—	—	56	—	(65)
<b>Balance at March 31, 1997</b> .....	155,625	\$156,718	\$317,016	\$15,758	\$(213,766)

The accompanying notes are an integral part of these statements.

## Notes to the Consolidated Financial Statements

### 1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Clarion Co., Ltd. (the "Company") have been prepared based on the accounting records of the Company and its consolidated domestic subsidiaries, which are maintained in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles prevailing in Japan.

The consolidated financial statements also include the accounts of the overseas subsidiaries as listed below. The accounts of these subsidiaries and overseas affiliates accounted for by the equity method are based on their financial statements prepared in conformity with generally

accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries and affiliates have been incorporated. In general, no adjustments on the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to comply with the Japanese accounting principles and practices followed by the Company.

Relevant notes have been added, and certain reclassifications of account balances as disclosed in the consolidated financial statements in Japan, have been made so as to present them in a form which is more familiar to readers outside Japan.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (1) Scope of Consolidation

The Company had, as at March 31, 1997, 64 subsidiaries (59 at March 31, 1996). The consolidated financial statements for the year ended March 31, 1997 include the accounts of the Company and its 62 subsidiaries (59 at

March 31, 1996) (together, referred to as the "Companies"). The major consolidated subsidiaries are listed below:

* Clarion Shoji Co., Ltd. ("Clarion Shoji")	100% owned
* Clarion Tokyo Sales Co., Ltd.	100% owned
* Clarion Kansai Sales Co., Ltd.	100% owned
* Clarion Chugoku Sales Co., Ltd.	100% owned
* Clarion Shikoku Sales Co., Ltd.	100% owned
* Fukuoka Clarion Co., Ltd.	100% owned
* Tochigi Clarion Electronics Co., Ltd.	100% owned
* Clarion Corporation of America ("CCA")	94.6% owned by the Company and 5.4% owned by Clarion Shoji
* Clarion Sales Corporation	100% owned by CCA
* Clarion Manufacturing Corporation of America	100% owned by CCA
* Clarion Canada Inc.	100% owned by CCA
* Clarion Deutschland GmbH	100% owned
* Clarion Svenska AB	100% owned
* Clarion (G.B.) Ltd.	100% owned
* Clarion France S.A.	99.2% owned
* Clarion Spain S.A.	100% owned
* Clarion (H.K.) Co., Ltd.	100% owned
* Crystal Precision (M) Sdn., Bhd.	75% owned
* Clarion (Taiwan) Manufacturing Co., Ltd.	100% owned
* McIntosh Laboratory Inc. ("MLI")	100% owned by CCA
* Clarion Manufacturing Corporation of the Philippines	100% owned
* Clarion Europa GmbH	100% owned
* Clarion Australia Pty. Ltd.	100% owned
* Clarion Asia Pte. Ltd.	100% owned
* Clarion Electronics (S) Pte. Ltd.	100% owned
* Clarion (H.K.) Industries Co., Ltd. ("CHI")	100% owned
* Clarion Orient Co., Ltd. ("COC")	51% owned by CHI
* Dongguan Clarion Orient Electronics Co., Ltd.	100% owned by COC
* Ungo Security Corporation	100% owned by CCA
* Clarion Mitsuwa Philippines, Inc.	51% owned
* Electronica Clarion, S.A. DE C.V.	40% owned by the Company and 60% owned by CCA
* Dispositivos de Precision Electronica, S.A. DE C.V.	40% owned by the Company and 60% owned by CCA
* Ultra Industrial, S.A. DE C.V.	40% owned by the Company and 60% owned by CCA
* Comercializadora Clarion S.A. DE C.V.	40% owned by the Company and 60% owned by CCA

The accounts of additional 6 subsidiaries were included in consolidation in the year ended March 31, 1997 as one subsidiary was newly incorporated and five new subsidiaries were made by additional acquisition of shares to majority.

3 subsidiaries were excluded from consolidation due to a liquidation of one subsidiary and merger of two subsidiaries into other

consolidated subsidiaries.

The 2 unconsolidated subsidiaries had total assets, net sales and net income, none of which, in the aggregate, is significant, in relation to those of the consolidated financial statements of the Companies and therefore, have not been consolidated with the Companies.

## **(2) Consolidation and Elimination**

Significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated. The Company and its consolidated subsidiaries, except for Electronica Clarion, S.A. DE C.V., Dispositivos de Precision Electronica, S.A. DE C.V., Ultra Industrial, S.A. DE C.V. and Comercializadora Clarion, S.A. DE C.V. which use a fiscal year ending December 31, use a fiscal year ending March 31 of each year.

In consolidating the accounts of these subsidiaries, balances as at and for the year ending December 31 were used with appropriate adjustments to recognize effects of any material transactions between December 31 and March 31.

Any difference arising from elimination of the cost of an investment in a subsidiary against the amount of underlying equity in net assets of the subsidiary is, if material, deferred as an asset or a liability, as the case may be, and amortized over a period of 5 years on a straight-line basis except for the differences arising from the elimination of investments in stock of consolidated subsidiaries, McIntosh Laboratory Inc., Electronica Clarion, S.A. DE C.V., Dispositivos de Precision Electronica, S.A. DE C.V., Ultra Industrial, S.A. DE C.V. and Comercializadora Clarion S.A. DE C.V.

The differences arising from acquisition of the equity interests in these subsidiaries have been appropriately allocated to the value of respective assets from which the differences originate and the unidentifiable portion of the differences remained unallocated and deferred as an asset and amortized over a period of 20 years on a straight-line basis.

With respect to the elimination of unrealized intercompany profits included in inventories or other assets remaining within the Companies at the balance sheet date, such profits have been entirely eliminated and charged to the consolidated net income.

## **(3) Investments in Unconsolidated Subsidiaries and Affiliates**

At March 31, 1997, the Company had 11 (17 for 1996) affiliates (meaning those companies between 20% to 50% of the share capital of which is held directly or indirectly by the Company).

The investments in 1 affiliate at March 31, 1997 (5 for 1996) were accounted for by the equity method thereby the equity in earnings of the affiliate is recognized by the Company. See Note 6 below for further details of the equity method.

The investments in 2 unconsolidated subsidiaries and the remaining 10 affiliates at March 31, 1997 (12 affiliates at March 31, 1996) are not accounted for by the equity method since these companies' combined net income (loss) and retained earnings in the aggregate are not significant in relation to consolidated net income (loss) and consolidated retained earnings. Investments in these companies are carried at cost, except for certain companies which have incurred substantial losses and are not expected to recover such losses in the near future. Appropriate write-downs are recorded for such investments. Cost is determined by the moving average method.

## **(4) Foreign Currency Translation**

### **A. Translation of foreign currency transactions:**

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates effective at the respective transaction dates.

Foreign currency deposits and short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate prevailing at the respective balance sheet dates and the resulting translation gains or losses are included in determination of net income for the year.

Long-term receivables and payables denominated in foreign currencies including investments in overseas unconsolidated subsidiaries and affiliates are translated at the historical rates prevailing at the transaction dates.

Exceptionally, receivables and payables denominated in foreign currencies which are hedged by forward exchange contracts are translated at the contracted rate of exchange.

The accounting standards for translation of transactions and account balances denominated in foreign currencies have been amended and became effective in the year ended March 31, 1997. The new standards were adopted by the Company and its domestic subsidiaries during the year ended March 31, 1997. If the new standards had been applied in the year ended March 31, 1996, there would have been no significant effect at all.

### **B. Translation of foreign currency financial statements (accounts of overseas consolidated subsidiaries):**

The translation of foreign currency financial statements of overseas subsidiaries or affiliates into Japanese yen for consolidation purposes is made according to the following categories:

Until the year ended March 31, 1996, short-term monetary items had been translated at the current rates of exchange at the respective balance sheet date. In contrast short-term non-monetary items and all long-term assets and liabilities had been translated at the historical rates. Net income (loss) for the year and the balance of retained earnings (deficit) at year-end are translated at the current exchange rate while revenue and expense items had been translated at the average rate or at the historical rate, as appropriate.

Under this translation method, certain adjusting accounts had been set up in the balance sheets, statements of operations and statements of shareholders' equity to enable balancing of debit and credit totals as well as the reconciliation of the beginning balance with the ending balance of retained earnings (deficit). Such adjusting account balances are shown as "Adjustments on foreign currency translation" in the accompanying consolidated financial statements.

In compliance with the new accounting standards for foreign currency transactions, which became effective in the year ended March 31, 1997, the Company changed its translation method. Under the new standards, all assets and liabilities are translated into Japanese yen at current exchange rates while capital accounts is translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year.

If the new standards had been applied in the year ended March 31, 1996, loss before income taxes was increased by ¥867 million.

### **(5) Accounting for leases**

For finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees, the Company and domestic consolidated subsidiaries account by the method that is applicable to ordinary operating leases.

### **(6) Income Taxes**

Income taxes applicable to the Company and its consolidated domestic subsidiaries are provided based on amounts required by the tax returns for the year. No tax effect is recorded for timing differences in the recognition of certain expenses between tax and financial reporting.

Income taxes applicable to consolidated overseas subsidiaries (principally subsidiaries in the United States of America) are accounted for by the interperiod tax allocation method which is a common practice in those countries.

### **(7) Other Accounting Policies**

The accounting policies employed by the Companies in preparing the accompanying consolidated financial statements are described in Note 2 of the Notes to Non-Consolidated Financial Statements contained elsewhere in this reports. Accordingly, the accompanying consolidated financial statements should be read in conjunction with such notes.

### 3. UNITED STATES DOLLAR AMOUNTS

The accounts of the Company and the consolidated financial statements and notes presented herein are expressed in Japanese yen, and, solely for the convenience of the reader, have been translated into U.S. dollars at

the rate of ¥124 = U.S.\$1, the rate prevailing on March 31, 1997. This translation should not be construed as a representation that the yen amounts shown could be so converted into U.S. dollars.

### 4. INVENTORIES

Inventories at March 31, 1997 and 1996 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	1997
Finished products .....	¥26,196	¥27,443	\$211,258
Work in process .....	3,063	2,701	24,702
Raw materials and supplies .....	14,905	9,162	120,201
	¥44,164	¥39,306	\$356,161

### 5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities (current assets) and investments in securities (non-current assets) at March 31, 1997 and 1996 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	1997
Marketable securities:			
Listed corporate shares .....	¥ 2,233	¥ 2,364	\$ 18,008
Bonds, including government bonds and other .....	612	640	4,936
	¥ 2,845	¥ 3,004	\$ 22,944
Investment in securities:			
Listed corporate shares .....	¥13,709	¥13,655	\$110,556
Bonds .....	119	4	960
Beneficially certificates of investment trusts .....	24	140	194
Other unquoted equity securities .....	301	314	2,427
	¥14,153	¥14,113	\$114,137

Market value and net unrealized gains (loss) of listed corporate shares at March 31, 1997 and 1996 were as follows:

	Market Value		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	1997
Listed corporate shares included in:			
Marketable securities .....	¥ 1,204	¥ 1,498	\$ 9,710
Investments in securities .....	¥11,693	¥15,636	\$94,298
	Net Unrealized Gains (Loss)		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	1997
Listed corporate shares included in:			
Marketable securities .....	¥(1,029)	¥ (866)	\$ (8,298)
Investments in securities .....	¥(2,016)	¥1,981	\$ (16,258)

## 6. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates of the Companies at March 31, 1997 and 1996 were as follows:

	Company's direct and indirect ownership percentage (*1)	Millions of Yen		Thousands of U.S. Dollars
		March 31,		March 31,
		1997	1996	1997
Clarion (Malaysia) Sdn., Bhd. (*4) .....	45%	¥211	¥184	\$1,702
Info Gation Corporation .....	90	124	—	1,000
Higo Clarion Co., Ltd. ....	42	37	37	298
Electronica Clarion S.A. DE C.V. (*2) .....	40	—	226	—
Ultra Industrial S.A. DE C.V. (*2) .....	40	—	27	—
Dispositivos de Precision Electronica, S.A. DE C.V. (*2) .....	40	—	(21)	—
Omni TRACS Corporation (*3) .....	20	—	(77)	—
Other .....	—	136	112	1,097
		¥508	¥488	\$4,097

(\*1) As of March 31, 1997.

(\*2) These companies were included in consolidation in the year ended March 31, 1997.

(\*3) This company was liquidated in the year ended March 31, 1997.

(\*4) This company was accounted for by the equity method and the carrying value was adjusted to reflect the Company's equity in net income.

## 7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans outstanding at March 31, 1997 and 1996 are represented generally by 90-day notes issued by the Companies to banks and bear interest at average annual rates of primarily 3.1% and 3.7%, respectively.

The maximum and average outstanding balances of short-term bank loans for the years ended March 31, 1997, 1996 and 1995 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	March 31,			March 31,
	1997	1996	1995	1997
Maximum balance .....	¥66,431	¥57,427	¥51,205	\$535,734
Average balance .....	¥60,470	¥54,250	¥43,733	\$487,661

As is customary in Japan, bank loans are made under general agreements to the effect that, with respect to all present or future loans, the Company and its consolidated domestic subsidiaries shall, under certain circumstances, provide collateral (including sums on deposit with the bank) or guarantors therefore immediately upon the bank's request, and that any collateral furnished pursuant to such agreement or otherwise

will be applicable to all indebtedness to the bank. The Company and its consolidated domestic subsidiaries have not received any such requests to date.

Long-term debt at March 31, 1997 and 1996 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	1997
Loans principally from banks and insurance companies due from 1996 to 2003:			
Secured by collateral .....	¥18,578	¥16,678	\$149,823
Unsecured .....	4,560	8,138	36,774
Long-term payables .....	363	575	2,927
Deposits from dealers .....	209	463	1,685
	23,710	25,854	191,209
Less: Portion due within one year .....	(9,101)	(8,069)	(73,395)
	¥14,609	¥17,785	\$117,814



At March 31, 1997, assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes receivable .....	¥ 2,170	\$ 17,500
Net book value of:		
Buildings, structures, machinery and equipment .....	5,629	45,395
Land .....	6,152	49,613
Investments in securities .....	12,941	104,363
	¥26,892	\$216,871

## 8. INCOME TAXES

The amounts of income tax expenses as shown in the consolidated statements of operations for the years ended March 31, 1997, 1996 and 1995 represent the total of income taxes payable by the Company and respective consolidated subsidiaries based on individual tax returns filed with the tax authorities for each year/period. These amounts are the reflection of net loss incurred by certain consolidated subsidiaries, which are included in arriving at the amount of "loss before income taxes" but are not available to reduce taxable income of other consolidated subsidiaries since the tax returns are filed by each company within the Companies individually.

The Company incurred net loss from its operations in the year 1994 and prior thereto. As allowed by the tax laws, the net loss has been carried forward to the succeeding 5-year period to offset against future taxable income of the Company. In the accompanying consolidated financial statements, the tax benefits of net loss carryforward are recognized when realized by means of an offset against taxable income of each year.

"Income taxes" of the Company reflected in the consolidated statements of operations for the years ended March 31, 1997, 1996 and 1995 are mainly represented by per-capital levy of resident income taxes imposed by local governments irrespective of taxable income.

## 9. LEASE COMMITMENTS AND CONTINGENT LIABILITIES

### (1) Finance Leases

The Company and its domestic consolidated subsidiaries account for all finance lease contracts other than those by which the ownership of the leased assets to be transferred to lessees by the method similar to the operating lease method.

Lease rental expenses and revenues on finance lease contracts

### (2) Contingent Liabilities

The Companies were contingently liable as a guarantor of indebtedness of affiliates and other companies in the aggregate amount of ¥124 million (\$1,000 thousand) at March 31, 1997. The Companies were also

without ownership-transfer for the year ended March 31, 1997 were summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Lease rental expenses .....	¥1,163	\$ 9,379
Lease rental revenues .....	¥ 30	\$ 242

contingently liable for outstanding notes discounted by banks in the ordinary course of business, amounting to ¥1,126 million (\$9,081 thousand) at March 31, 1997.

## 10. SEGMENT INFORMATION

### (1) Information by Industry Segment

Until the year ended March 31, 1996, the Company and its subsidiaries operate principally in four industrial segments: Car equipment division, Audio equipment division, Home appliances division and other division.

With effect from the year ended March 31, 1997, Home appliances division is included in other division due to its reduced significance. As a result of the change, the Company and its subsidiaries operate principally in three industrial segments.

Industry Segment	Major Products/Services
Car equipment	Car audio equipment (Car radios, car stereo players, system components, other audio equipment, assemblies and others)
Audio equipment	Karaoke system (karaoke systems and music software such as music tapes and video disks)
Others	System kitchen units and equipment, gas equipment (gas cookers, gas ovens), bus amplifiers, car television with diversity antenna system and VTRS, and car air conditioners

Sales of the Company and subsidiaries for the year ended March 31, 1997 and 1996, classified by industry segments are summarized as follows:

	Millions of Yen				
	For the year ended March 31, 1997				
	Industry Segment				
	Car equipment	Audio equipment	Others	Elimination or All Company	Total
Net sales .....	¥143,786	¥13,051	¥25,441	¥ —	¥182,278
Operating expenses: .....	136,632	12,941	25,933	—	175,506
Operating income (loss) .....	¥ 7,154	¥ 110	¥ (492)	¥ —	¥ 6,772
Assets .....	¥137,398	¥10,729	¥17,167	¥13,164	¥178,458
Depreciation .....	¥ 4,669	¥ 391	¥ 664	¥ —	¥ 5,724
Capital expenditure .....	¥ 6,577	¥ 984	¥ 740	¥ —	¥ 8,301

	Millions of Yen					
	For the year ended March 31, 1996					
	Industry Segment					
	Car equipment	Audio equipment	Home appliances	Others	Elimination or All Company	Total
Net sales .....	¥131,243	¥12,838	¥1,084	¥19,460	¥ —	¥164,625
Operating expenses: .....	126,454	14,566	1,256	20,716	—	162,992
Operating income (loss) .....	¥ 4,789	¥ (1,728)	¥ (172)	¥ (1,256)	¥ —	¥ 1,633
Assets .....	¥121,682	¥12,685	¥ 499	¥16,826	¥13,142	¥164,834
Depreciation .....	¥ 4,814	¥ 513	¥ 3	¥ 546	¥ —	¥ 5,876
Capital expenditure .....	¥ 3,631	¥ 397	¥ 1	¥ 544	¥ —	¥ 4,573

	Thousands of U.S. Dollars				
	For the year ended March 31, 1997				
	Industry Segment				
	Car equipment	Audio equipment	Others	Elimination or All Company	Total
Net sales .....	\$1,159,565	\$105,250	\$205,169	\$ —	\$1,469,984
Operating expenses: .....	1,101,871	104,363	209,137	—	1,415,371
Operating income (loss) .....	\$ 57,694	\$ 887	\$ (3,968)	\$ —	\$ 54,613
Assets .....	\$1,108,048	\$ 86,524	\$138,444	\$106,161	\$1,439,177
Depreciation .....	\$ 37,653	\$ 3,153	\$ 5,355	\$ —	\$ 46,161
Capital expenditure .....	\$ 53,040	\$ 7,935	\$ 5,968	\$ —	\$ 66,943

## (II) Information by geographic segment

Sales of the Companies classified by geographic area (inside and outside Japan) for the years ended March 31, 1997 and 1996 are summarized as follows:

Geographic area	Millions of Yen									
	For the year ended March 31, 1997					For the year ended March 31, 1996				
	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income
Domestic (inside Japan) .....	¥107,359	¥ 49,241	¥156,600	¥151,847	¥4,753	¥104,630	¥ 38,540	¥143,170	¥142,122	¥1,048
Outside Japan .....	74,919	28,983	103,902	102,693	1,209	59,995	27,985	87,980	87,404	576
Total .....	182,278	78,224	260,502	254,540	5,962	164,625	66,525	231,150	229,526	1,624
Elimination of inter segment sales and expenses .	—	(78,224)	(78,224)	(79,034)	810	—	(66,525)	(66,525)	(66,534)	9
Consolidated total .....	¥182,278	¥ —	¥182,278	¥175,506	¥6,772	¥164,625	¥ —	¥164,625	¥162,992	¥1,633

	Millions of Yen				
	For the year ended March 31, 1997				
	Sales to outside customers	Inter- segment sales	Total sales	Operating expenses	Operating income
Geographic area					
Domestic (inside Japan) .....	\$ 865,798	\$ 397,105	\$1,262,903	\$1,224,573	\$38,330
Outside Japan .....	604,186	233,734	837,920	828,169	9,751
Total .....	1,469,984	630,839	2,100,823	2,052,742	48,081
Elimination of inter segment sales and expenses .....	—	(630,839)	(630,839)	(637,371)	6,532
Consolidated total .....	\$1,469,984	\$ —	\$1,469,984	\$1,415,371	\$54,613

### (III) Export sales and sales by overseas subsidiaries

Export sales information of the Companies for the years ended March 31, 1997 and 1996 is presented below:

	Millions of Yen		Thousands of U.S. Dollars
	For the years ended March 31,		For the year ended March 31,
	1997	1996	1997
Export sales and sales by overseas subsidiaries .....	¥82,258	¥68,642	\$663,371
Percentage of such against consolidated net sales .....	45.1%	41.7%	45.1%

## 11. UNAUDITED RELATED PARTY TRANSACTIONS

Material transactions of the Company with its related parties for the years ended March 31, 1997 and 1996 other than those eliminated in

the consolidation or indicated elsewhere in these statements were as follows:

Name of related parties	Paid-in capital (million)	Equity ownership percentage	Nature of business	Millions of Yen		Account name	Resulting account balance of the Company at March 31,	
				Transactions made in the year ended March 31,			Balance	
				Volume of transactions 1997	1996		1997	1996
Clarion (Malaysia) Sdn., Bhd.	M\$4	45%	Purchases of products	¥ 3,504	¥ 2,959	Accounts payable	¥ 144	¥ 206
Tokai Clarion Co., Ltd.	¥80	25%	Sales of products	¥ 763	¥ 696	Accounts receivable	¥ 226	¥ 193
Miwa Clarion Electronics Co., Ltd.	¥10	40%	Purchases of products	¥ 844	¥ 924	Accounts payable	¥ 81	¥ 55

The terms and conditions of transactions between the Company and its related parties are determined on the arm's length basis and by reference to normal market price level.

## 12. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

An analysis of selling, general and administrative expenses for each of the three years in the period ended March 31, 1997 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1997	1996	1995	1997
Advertising expenses .....	¥ 2,076	¥ 3,242	¥ 2,885	\$ 16,742
Packing and shipping charge .....	2,720	2,537	2,536	21,935
Sales commission expenses .....	2,003	1,652	1,514	16,153
Sales promotion expenses .....	2,879	2,407	1,631	23,218
Payroll costs .....	14,627	13,840	13,183	117,960
Depreciation .....	1,307	1,383	1,298	10,540
Rent .....	1,961	1,936	2,246	15,815
Other .....	11,842	12,051	10,649	95,500
	¥39,415	¥39,048	¥35,942	\$317,863

## Report of the Independent Certified Public Accountants on the Consolidated Financial Statements

Coopers  
& Lybrand

**Chuo  
Audit  
Corporation**  
certified public accountants

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To: the Board of Directors of  
Clarion Co., Ltd.

We have audited the consolidated balance sheets of Clarion Co., Ltd. and its subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of operations and shareholders' equity for each of the three years in the period ended March 31, 1997, all expressed in 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 audit.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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 Clarion Co., Ltd. and its subsidiaries as of March 31, 1997 and 1996, and the consolidated results of their operations for each of the three years in the period ended March 31, 1997, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

June 27, 1997  
Tokyo, Japan

*Chuo Audit Corporation*  
CHUO AUDIT CORPORATION