## Consolidated Balance Sheets as of March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| **ASSETS** | | | |
| **Current Assets:** | | | |
| Cash on hand and in banks | ¥ 22,131 | ¥ 26,046 | $ 166,087 |
| Notes and accounts receivable | 36,684 | 37,699 | 275,305 |
| Less: Allowance for doubtful accounts | (1,337) | (2,983) | (10,035) |
| Marketable securities | 1 | 155 | 7 |
| Inventories | 35,972 | 49,712 | 269,961 |
| Deferred income taxes | 1,928 | 1,091 | 14,472 |
| Other current assets | 4,433 | 6,667 | 33,273 |
| Total current assets | 99,813 | 118,389 | 749,072 |
| **Investments in Securities** | 5,559 | 15,991 | 41,720 |
| **Property, Plant and Equipment:** | | | |
| Buildings and structures | 24,155 | 23,892 | 181,276 |
| Machinery and equipment | 43,763 | 42,762 | 328,431 |
| | 67,918 | 66,655 | 509,707 |
| Less: Accumulated depreciation | (48,499) | (46,342) | (363,972) |
| | 19,419 | 20,312 | 145,735 |
| Land | 13,201 | 13,521 | 99,076 |
| Construction in progress | 56 | 364 | 425 |
| | 32,677 | 34,198 | 245,237 |
| **Other Assets:** | | | |
| Intangible assets | 9,761 | 8,444 | 73,260 |
| Other | 6,325 | 3,597 | 47,474 |
| Total other assets | 16,087 | 12,042 | 120,734 |
| Total assets | ¥154,138 | ¥180,621 | $1,156,765 |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| **LIABILITIES, MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current Liabilities:** | | | |
| Short-term loans | **¥ 72,951** | ¥ 77,242 | **$ 547,480** |
| Notes and accounts payable | **28,968** | 37,928 | **217,397** |
| Accrued bonus | **1,421** | 1,640 | **10,666** |
| Income taxes payable | **226** | 352 | **1,701** |
| Deferred income taxes | **—** | 1 | **—** |
| Other current liabilities | **12,840** | 12,592 | **96,364** |
| Total current liabilities | **116,408** | 129,758 | **873,611** |
| **Long-term Liabilities:** | | | |
| Long-term loans | **14,765** | 20,495 | **110,808** |
| Debentures | **3,000** | 3,000 | **22,514** |
| Convertible bond | **2,350** | 5,000 | **17,636** |
| Accrued pension and severance costs | **9,736** | 9,884 | **73,068** |
| Other long-term liabilities | **883** | 738 | **6,631** |
| Deferred income taxes on revaluation of land | **2,005** | 1,999 | **15,051** |
| Deferred income taxes | **77** | 1,369 | **578** |
| Total long-term liabilities | **32,817** | 42,487 | **246,287** |
| **Minority Interests in Consolidated Subsidiaries** | **982** | 952 | **7,370** |
| **Shareholders' Equity:** | | | |
| Common stock, no par value (2002), par value ¥50 per share (2001) Authorized: 450,000,000 shares Issued: 186,203,413 shares at March 31, 2002 and 155,624,878 shares at March 31, 2001 | **20,761** | 19,432 | **155,809** |
| Additional paid-in capital | **28,278** | 26,942 | **212,220** |
| Deficit | **(41,150)** | (33,853) | **(308,822)** |
| Net unrealized gain on revaluation of land | **2,763** | 2,755 | **20,742** |
| Net unrealized losses on securities | **(695)** | — | **(5,218)** |
| Adjustments on foreign currency translation | **(6,025)** | (7,854) | **(45,216)** |
| Treasury stock | **(2)** | (0) | **(19)** |
| Total shareholders' equity | **3,930** | 7,422 | **29,495** |
| Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity | **¥154,138** | ¥180,621 | **$1,156,765** |

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Income for the years ended March 31, 2002, 2001 and 2000

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2002** | 2001 | 2000 | **2002** |
| **Net Sales** | **¥187,954** | ¥188,686 | ¥191,855 | **$1,410,542** |
| **Cost of Sales** | **153,424** | 155,630 | 150,002 | **1,151,402** |
| Gross profit | **34,530** | 33,056 | 41,853 | **259,139** |
| **Selling, General and Administrative Expenses** | **30,194** | 35,114 | 38,520 | **226,603** |
| Operating income (loss) | **4,335** | (2,058) | 3,332 | **32,536** |
| **Other Income (Expenses):** | | | | |
| Interest income | **332** | 455 | 420 | **2,494** |
| Dividend income | **102** | 126 | 130 | **767** |
| Interest expenses | **(2,765)** | (2,729) | (2,473) | **(20,757)** |
| Provision for allowance for doubtful accounts | **—** | — | (1,474) | **—** |
| Gain (loss) on sales of property, plant and equipment, net | **254** | 517 | (30) | **1,913** |
| Loss on disposal of property, plant and equipment | **(147)** | (336) | (878) | **(1,109)** |
| Loss from write-down and disposal of inventories | **(1,409)** | — | (5,096) | **(10,581)** |
| Loss from write-down of investments in securities | **(6,648)** | (792) | (1,853) | **(49,897)** |
| Additional accrual for employees' severance indemnities | **—** | — | (4,645) | **—** |
| Gain on sales of investments in securities, net | **1,041** | 841 | 241 | **7,812** |
| Loss from write-down of marketable securities | **—** | — | (151) | **—** |
| Gain on sale of share of affiliates | **187** | — | — | **1,409** |
| Gain on securities contributed to employee retirement benefit trust | **—** | 309 | — | **—** |
| Contribution of securities to employee retirement benefit trust | **—** | (518) | — | **—** |
| Amortization of transition obligation expenses to implement new accounting for pension and severance costs | **(464)** | (464) | — | **(3,484)** |
| Foreign exchange (loss) gain, net | **(193)** | 231 | (948) | **(1,451)** |
| Others, net | **(2,450)** | (2,673) | (3451) | **(18,388)** |
| | **(12,162)** | (5,031) | (20,212) | **(91,272)** |
| Loss before income taxes | **(7,826)** | (7,090) | (16,879) | **(58,736)** |
| **Provision for Income Taxes:** | | | | |
| Current | **1,435** | 797 | 710 | **10,776** |
| Deferred | **(2,165)** | (116) | 60 | **(16,252)** |
| | **(729)** | 680 | 771 | **(5,475)** |
| | **(7,096)** | (7,771) | (17,650) | **(53,260)** |
| **Minority Interests in Consolidated Subsidiaries** | **177** | (8) | (62) | **1,333** |
| Net loss | **¥ (7,274)** | ¥ (7,762) | ¥ (17,713) | **$ (54,593)** |

| | Yen | | | U.S. dollars |
|---|---|---|---|---|
| **Per Share:** | | | | |
| Net loss | **¥(45.25)** | ¥(49.88) | ¥(113.82) | **$(0.340)** |
| Cash dividends | **¥ —** | ¥ — | ¥ — | **$ —** |

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Shareholders' Equity for the years ended March 31, 2002, 2001 and 2000

| | Number of shares of common stock outstanding (Thousands) | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Common stock | Additional paid-in capital | Deficit | Net unrealized gain on revaluation of land | Net unrealized loss on securities | Adjustments on foreign currency translation | Treasury stock | Total shareholders' equity |
| **Balance at March 31, 1999** | 155,625 | ¥19,432 | ¥26,933 | ¥ (7,894) | ¥ — | ¥ — | ¥ — | ¥(1) | ¥38,470 |
| Cumulative effect of an accounting change | — | — | — | 134 | — | — | — | — | 134 |
| Net loss for the year ended March 31, 2000 | — | — | — | (17,713) | — | — | — | — | (17,713) |
| Cash dividend paid | — | — | — | (466) | — | — | — | — | (466) |
| Increase from initial application of equity method for investments in affiliates | — | — | — | 18 | — | — | — | — | 18 |
| Decrease from initial consolidation of subsidiaries | — | — | — | (38) | — | — | — | — | (38) |
| Treasury stock transactions, net | — | — | — | — | — | — | — | 0 | 0 |
| Adjustments on foreign currency translation | — | — | — | — | — | — | — | — | — |
| Others | — | — | 1 | (2) | — | — | — | — | (1) |
| **Balance at March 31, 2000** | 155,625 | 19,432 | 26,934 | (25,962) | — | — | — | (1) | 20,403 |
| Net loss for the year ended March 31, 2001 | — | — | — | (7,762) | — | — | — | — | (7,762) |
| Decrease from change in scope of consolidation; exclusion from consolidated subsidiaries | — | — | — | (119) | — | — | — | — | (119) |
| Treasury stock transactions, net | — | — | — | — | — | — | — | 0 | 0 |
| Net unrealized gain on revaluation of land | — | — | — | — | 2,755 | — | — | — | 2,755 |
| Adjustments on foreign currency translation | — | — | — | — | — | — | (7,854) | — | (7,854) |
| Others | — | — | 7 | (7) | — | — | — | — | — |
| **Balance at March 31, 2001** | 155,625 | 19,432 | 26,942 | (33,853) | 2,755 | — | (7,854) | (0) | 7,422 |
| Conversion from convertible bond | 30,578 | 1,329 | 1,320 | — | — | — | — | — | 2,650 |
| Net loss for the year ended March 31, 2002 | — | — | — | (7,274) | — | — | — | — | (7,274) |
| Treasury stock transactions, net | — | — | — | — | — | — | — | (2) | (2) |
| Net unrealized gain on revaluation of land | — | — | — | (8) | 8 | — | — | — | — |
| Net unrealized loss on securities | — | — | — | — | — | (695) | — | — | (695) |
| Adjustments on foreign currency translation | — | — | — | — | — | — | 1,829 | — | 1,829 |
| Others | — | — | 14 | (14) | — | — | — | — | — |
| **Balance at March 31, 2002** | 186,203 | ¥20,761 | ¥28,278 | ¥(41,150) | ¥2,763 | ¥(695) | ¥(6,025) | ¥(2) | ¥ 3,930 |

| | Number of shares of common stock outstanding (Thousands) | Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Common stock | Additional paid-in capital | Deficit | Net unrealized gain on revaluation of land | Net unrealized loss on securities | Adjustments on foreign currency translation | Treasury stock | Total shareholders' equity |
| **Balance at March 31, 2001** | 155,625 | $145,835 | $202,195 | $(254,056) | $20,680 | $ — | $(58,947) | $ (1) | $55,706 |
| Conversion from convertible bond | 30,578 | 9,974 | 9,912 | — | — | — | — | — | 19,887 |
| Net loss for the year ended March 31, 2002 | — | — | — | (54,593) | — | — | — | — | (54,593) |
| Treasury stock transactions, net | — | — | — | — | — | — | — | (18) | (18) |
| Net unrealized gain on revaluation of land | — | — | — | (61) | 61 | — | — | — | — |
| Net unrealized loss on securities | — | — | — | — | — | (5,218) | — | — | (5,218) |
| Adjustments on foreign currency translation | — | — | — | — | — | — | 13,731 | — | 13,731 |
| Others | — | — | 112 | (110) | — | — | — | — | 1 |
| **Balance at March 31, 2002** | 186,203 | $155,809 | $212,220 | $(308,822) | $20,742 | $(5,218) | $(45,216) | $(19) | $29,495 |

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows for the years ended March 31, 2002, 2001 and 2000

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2002** | 2001 | 2000 | **2002** |
| **Cash Flows from Operating Activities:** | | | | |
| Loss before income taxes | **¥ (7,826)** | ¥ (7,090) | ¥(16,879) | **$ (58,736)** |
| Adjustments — | | | | |
| Depreciation | **5,572** | 5,282 | 6,743 | **41,823** |
| Amortization of goodwill | **223** | 286 | 189 | **1,680** |
| Equity in loss(gain) of affiliates | **63** | 13 | (38) | **478** |
| Increase (decrease) in allowance for doubtful accounts | **(144)** | 481 | 1,518 | **(1,081)** |
| Increase (decrease) in allowance for severance indemnities, less payments | **(154)** | 84 | 5,142 | **(1,161)** |
| Interest and dividend income | **(434)** | (582) | (551) | **(3,261)** |
| Interest expenses | **2,765** | 2,729 | 2,473 | **20,757** |
| Devaluation of marketable securities and investments in securities | **6,648** | 792 | 2,002 | **49,897** |
| Gain on sales of marketable securities | **—** | — | (118) | **—** |
| Gain on sales of investments in securities | **(1,046)** | (908) | (241) | **(7,857)** |
| Gain on sales of property, plant and equipment | **(333)** | (1,066) | (126) | **(2,505)** |
| Changes in assets and liabilities: | | | | |
| Receivables | **2,967** | 160 | (3,398) | **22,268** |
| Inventories | **14,262** | (8,132) | 3,209 | **107,033** |
| Notes and accounts payable | **(10,234)** | 5,610 | (1,169) | **(76,806)** |
| Others, net | **1,616** | 1,793 | 7,086 | **12,133** |
| Sub-total | **13,946** | (546) | 5,843 | **104,663** |
| Interest and dividend received | **557** | 682 | 548 | **4,180** |
| Interest paid | **(2,872)** | (2,707) | (2,519) | **(21,553)** |
| Income taxes paid | **(1,196)** | (814) | (1,004) | **(8,981)** |
| Net cash provided by (used in) operating activities | **10,434** | (3,386) | 2,868 | **78,308** |
| **Cash Flows from Investing Activities:** | | | | |
| Increase in time deposits | **(544)** | (1,481) | (1,043) | **(4,086)** |
| Decrease in time deposits | **877** | 1,335 | 1,619 | **6,587** |
| Purchases of marketable securities | **—** | (2,052) | (296) | **—** |
| Purchases of property, plant and equipment | **(4,676)** | (4,809) | (6,316) | **(35,096)** |
| Sales of property, plant and equipment | **2,798** | 2,388 | 1,896 | **20,999** |
| Purchases of intangible assets | **(2,772)** | (2,352) | (3,024) | **(20,807)** |
| Sales of investments in securities | **4,417** | 2,325 | 1,243 | **33,154** |
| Proceeds from sales of interest in consolidated subsidiaries | **—** | 106 | — | **—** |
| Increase in loans | **(2,727)** | (182) | (2,551) | **(20,471)** |
| Collection of loans | **241** | 283 | 1,652 | **1,814** |
| Proceeds from issuance of shares to minority shareholders | **—** | 381 | — | **—** |
| Others, net | **12** | 1,973 | (927) | **91** |
| Net cash used in investing activities | **(2,373)** | (2,083) | (7,747) | **(17,813)** |
| **Cash Flows from Financing Activities:** | | | | |
| Increase (decrease) in short-term loans, net | **(5,515)** | 5,954 | 2,632 | **(41,391)** |
| Repayment of commercial papers | **—** | (2,000) | (3,500) | **—** |
| Proceeds from long-term loans | **4,400** | 4,384 | 15,672 | **33,022** |
| Repayment of long-term loans | **(10,798)** | (8,443) | (8,355) | **(81,035)** |
| Proceeds from issuance of debentures | **—** | 7,850 | — | **—** |
| Cash dividends paid | **—** | — | (466) | **—** |
| Cash dividends paid to minority shareholders | **—** | (0) | (0) | **—** |
| Others, net | **0** | 1 | (1) | **5** |
| Net cash provided by (used in) financing activities | **(11,912)** | 7,745 | 5,980 | **(89,399)** |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | **611** | 1,340 | (1,195) | **4,590** |
| Net Increase (Decrease) in Cash and Cash Equivalents | **(3,239)** | 3,615 | (94) | **(24,314)** |
| Cash and Cash Equivalents, at Beginning | **22,374** | 18,748 | 18,159 | **167,912** |
| Cash and Cash Equivalents of Subsidiaries Initially Consolidated, at Beginning | **—** | 10 | 683 | **—** |
| Cash and Cash Equivalents of Subsidiaries Excluded from Consolidation | **(191)** | — | — | **(1,435)** |
| Cash and Cash Equivalents, at End | **¥18,943** | ¥22,374 | ¥ 18,748 | **$142,162** |

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Clarion Co., Ltd. ("Clarion") and consolidated subsidiaries (collectively, the "Company") are basically an English version of those which have been prepared in accordance with accounting principles and practices generally accepted in Japan and filed with the Financial Services Agency as a part of the Annual Security Report (a Japanese equivalent of Form 10-K in the U.S.). The accounting records of Clarion and its domestic consolidated subsidiaries are maintained in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Accounting Standards. The accounting records of overseas consolidated subsidiaries are maintained in accordance with generally accepted accounting principles prevailing in the respective regions in which they were incorporated. In general, no adjustments on the accounts of overseas consolidated subsidiaries and are reflected in the accompanying consolidated financial statements to comply with the Japanese accounting principles and practices followed by Clarion and its domestic consolidated subsidiaries.

The consolidated financial statements incorporate certain reclassifications of figures from those included in the Annual Security Report in order to present in a form more familiar to the readers outside Japan. In addition, the notes to consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

The consolidated financial statements are not intended to present the consolidated financial position and the results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

The U.S. dollar amounts stated in the consolidated financial statements are included solely for convenience of readers outside Japan. The rate of ¥133.25 = US$1, the approximate rate of exchange as at March 31, 2002, has been used for the purpose of such translation. Those 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 at that rate. The amounts presented in thousands of U.S. dollars are truncated after thousand. Totals may not add up exactly because of such truncation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Consolidation and Investments in Affiliates

The consolidated financial statements include the accounts of Clarion and those of its subsidiaries in which it has control. Companies controlled by Clarion are consolidated as subsidiaries regardless of the ownership percentage by Clarion, and companies influenced by Clarion in material degree on their financial, operating, or business policies through investment, personnel, financing, technology, trading or other relationship are accounted for as affiliates regardless of the ownership percentage by Clarion.

All significant intercompany transactions, balances and unrealized intercompany profits and losses are eliminated on consolidation.

Subsidiaries with year-end dates other than March 31 are consolidated based on respective balance sheet dates. Necessary adjustments have been recorded to the consolidated financial statements for significant transactions recorded during the period between those subsidiaries' year-end dates and the balance sheet date.

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. Goodwill is amortized over 5 or 10 years basically, but relating to U.S. and Mexico 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. Receivables and payables denominated in foreign currencies are translated at the current exchange rates at balance sheet date.

All the assets and liabilities of overseas consolidated subsidiaries are translated at current rates at the respective balance sheet dates and all the income and expense accounts are translated at average rates for respective periods.

Effective from the year ended March 31, 2001, the Company adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000. Foreign currency financial statement differences in yen amounts arising from the use of different rates are presented as adjustments on foreign currency translation in the separate components of shareholders' equity for the year ended March 31, 2001, whereas the differences were recorded in the consolidated balance sheets as assets or liabilities for the year ended March 31, 2000. The effect of adopting the new accounting standard on the accompanying consolidated financial statements was immaterial.

### (3) Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consists of cash, certificates of deposits with original maturity of three months or less, and other highly liquid investments which are virtually without risk of loss in value.

### (4) Financial Instruments

***(a) Securities***

On January 22, 1999, the MOF issued new accounting standards for financial instruments, which cover accounting treatments for investments in debt and equity securities, derivative financial instruments and allowance for doubtful accounts, effective for fiscal years beginning on or after April 1, 2000. The Company has adopted these new accounting standards from the fiscal year starting on April 1, 2000 as follows;

***Investments in debt and equity securities—***

Investments in debt and equity securities are to be 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 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 are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other than temporary declines in the value of other securities are reflected in current income.

Other securities, classified as other than trading securities and held-to-maturity debt securities, for which market quotations are available, were recognized at fair value in the accompanying consolidated balance sheets as of March 31, 2002. Unrealized gains and losses for these other securities were reported as a separate component of shareholders' equity.

As a result of adopting the new accounting standards, as compared to the amount which would have been reported if the previous standard had been applied consistently, investments in securities as of March 31, 2002 decreased by ¥695 million and net unrealized gain on other securities amounting negative ¥695 million were stated in the separate component of shareholders' equity.

For the year ended March 31, 2001, other securities for which market quotations are available are stated at cost, being determined based on principally the moving-average method and for which market quotations are unavailable are stated at cost.

***(b) Derivative Financial Instruments***

Under the new standard on derivative financial instruments explained above in (a), 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).

As a result, loss before income taxes for the year ended March 31, 2001 increased by ¥315 million, as compared with the amount which would have been required if the previous standard had been applied consistently.

***(c) Hedge Accounting***

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 during which the gains and losses on the hedged items or transactions are recognized.

Clarion has a policy to utilize the hedging instruments in order to reduce their exposure to the risk of foreign exchange fluctuation.

The derivatives designated as hedging instruments by Clarion are principally forward foreign exchange contracts.

### (5) Allowance for Doubtful Accounts

In accordance with the new accounting standards, the allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus 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 being determined by the weighted average method. Supplies are stated at cost being 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. Maintenance and repairs including minor renewals and betterment are charged to income as incurred.

By Clarion and its domestic subsidiaries, depreciation 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. And by the overseas consolidated subsidiaries, depreciation is computed under the straight-line method in accordance with the generally accepted accounting principles prevailing in the respective regions in which they were incorporated. Dies, included in machinery and equipment, are depreciated under the straight-line method over the estimated useful lives of the assets.

### (8) Intangible Assets

Intangible assets including goodwill and capitalized software costs are carried at cost less amortization.

Goodwill represents the excess of purchase price and related costs over the value assigned to the fair value of business acquired and is amortized under the straight-line method over the estimated economic lives of respective premiums paid on acquisitions.

Capitalized software costs consist of costs of purchased or developed software. All capitalized software costs are amortized under the straight-line method over 5 years.

### (9) Accrued Retirement Benefits to Employees

Effective from the year ended March 31, 2001, the Company adopted the new Japanese accounting standard for pension and severance costs, which is effective for periods beginning on or after April 1, 2000. In accordance with the new standard, the accrued pension and severance costs at the end of years represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets. The unrecognized transition amount, arising from adopting the new standard, of ¥2,321 million at April 1, 2000 is amortized on a straight-line basis over 5 years, and unrecognized actuarial differences are amortized on a straight-line basis over 15 years from the next year in which they arise.

In September 2000, Clarion entered into a retirement benefit trust agreement with an outside trust company and then contributed identified marketable securities to the employee retirement benefit trust. These marketable securities were set aside for the trust at their fair value of ¥518 million, and unrealized gains of ¥309 million thereon were recorded as gain on securities contributed to employee retirement benefit trust on the consolidated statement of income for the year ended March 31, 2001.

As a result of adopting the new standard, net pension expense and employees' severance indemnities for the year ended March 31, 2001 has increased by ¥928 million and loss before income taxes has increased by ¥618 million, after consideration of gain on securities contributed to employee retirement benefit trust of ¥309 million, as compared with the amounts which would have been reported if the previous standard had been applied consistently.

At March 31, 2000, accrued employees' severance indemnities was provided for 100% of the Company's payments to employees based on the amount that would have been required assuming voluntary retirement of all employees at the balance sheet date. At March 31, 1999 and prior, the same accrual was provided for 50% of the Company's payments to employees based on the amount that would have been required assuming voluntary retirement of all employees at the balance sheet date. Such change caused an increase in cost of sales for ¥108 million, increase in selling, general and administrative expenses for ¥132 million, decrease in operating income for ¥241 million, increase in other expenses for ¥4,645 million, increase in loss before income taxes for ¥4,887 million, increase in net loss for ¥4,885 million, and increase in deficit for ¥4,882 million.

### (10) Research and Development Costs

Research and development costs are charged to income as incurred.

### (11) Income Taxes

Effective from the year ended March 31, 2000, the Company adopted the asset and liability method for accounting for income taxes, which is effective for periods beginning on or after April 1, 1999. This method recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The cumulative effect at April 1, 1999, of an accounting change relating to accounting for income taxes is charged directly to income and is reflected in the consolidated statement of shareholders' equity for the year ended March 31, 2000.

### (12) Revenue Recognition

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

### (13) Leases

Finance leases, other than those which involve transferring of ownership of the leased assets to the lessee by the end of the lease terms, are accounted for as operating leases under the Japanese accounting practice.

### (14) Resolution of Deficit

Resolution of deficit reflected in the consolidated financial statements is recorded after approval by the shareholders as required by the Japanese Commercial Code.

### (15) Net Income per Share

Net income per share - basic is computed by dividing income applicable to common stock by weighted-average number of shares of common stock outstanding during each year. Dilutive effects on the net income per share are not presented since the financial results of the Company for the year ended March 31, 2002 have shown a loss.

## 3. CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash and cash equivalents at March 31, 2002 and 2001 were composed of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Cash on hand and in banks | ¥22,131 | ¥26,046 | $166,087 |
| Deposits with original maturity of three months or more | (3,188) | (3,757) | (23,931) |
| Debt security mutual funds | 1 | 84 | 7 |
| Cash and cash equivalents | ¥18,943 | ¥22,374 | $142,162 |

The following assets and liabilities were decreased after transferring of business of Hokkaido Sounds Co., Ltd. :

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| March 31, | 2002 | 2002 |
| Current assets | ¥147 | $1,108 |
| Non-current assets | 188 | 1,411 |
| Total | ¥335 | $2,520 |
| Current liabilities | ¥213 | $1,603 |
| Non-current liabilities | 119 | 897 |
| Total | ¥333 | $2,500 |

Material non-financing transactions were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| March 31, | 2002 | 2002 |
| Transfer from convertible bonds to shareholders' equity | ¥1,329 | $ 9,974 |
| Transfer from convertible bonds to additional paid-in capital | 1,320 | 9,912 |
| Decreased amount of convertible bonds after conversion | ¥2,650 | $19,887 |

## 4. INVENTORIES

Inventories at March 31, 2002 and 2001 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Finished products | ¥20,400 | ¥26,123 | $153,102 |
| Work in process | 1,658 | 2,524 | 12,447 |
| Raw materials and supplies | 13,912 | 21,064 | 104,411 |
| | ¥35,972 | ¥49,712 | $269,961 |

## 5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

The aggregate cost and market value of other securities with market values, which were included in investment securities of March 31, 2002 and 2001 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | | Gross unrealized | | |
| March 31, 2002 | Cost | Gains | Losses | Market value (carrying value) |
| Equity securities | ¥5,410 | ¥36 | ¥(720) | ¥4,725 |
| Debt securities | — | — | — | — |
| Other | 35 | — | (10) | 24 |
| Total | ¥5,446 | ¥36 | ¥(731) | ¥4,750 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | | Gross unrealized | | |
| March 31, 2002 | Cost | Gains | Losses | Market value (carrying value) |
| Equity securities | $40,604 | $270 | $(5,408) | $35,466 |
| Debt securities | — | — | — | — |
| Other | 267 | — | (80) | 186 |
| Total | $40,871 | $270 | $(5,489) | $35,652 |

| March 31, 2001 | Millions of yen |
|---|---|
| Book value | ¥15,624 |
| Fair value | 13,077 |
| Net unrealized losses on valuation | (2,546) |
| Deferred income tax assets | — |

Other securities sold for the years ended March 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| For the years ended March 31, | **2002** | 2001 | **2002** |
| Sale amount | **¥4,417** | ¥2,325 | **$33,154** |
| Total gain on sales | **1,046** | 908 | **7,857** |
| Total loss on sales | **(5)** | (67) | **(44)** |

Investment securities at March 31, 2002 and 2001 had a carrying amount as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | **2002** | 2001 | **2002** |
| Held-to-maturity debt securities | | | |
| Discount debenture | **¥ —** | ¥ 55 | **$ —** |
| Other securities | | | |
| Unlisted equity securities | **438** | 350 | **3,287** |
| Others | **1** | 84 | **7** |
| Equity securities of affiliates | | | |
| Unlisted equity securities | **477** | — | **3,581** |

The projected amount of redemption at maturity of other securities was as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| March 31, 2001 | Within one year | More than one year, within five years | More than five years, within ten years | More than ten years |
| (1) Debt Securities | | | | |
| Debentures | — | 45 | — | — |
| (2) Others | | | | |
| Mutual fund | 10 | — | — | — |

## 6. FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

Clarion enters into forward exchange contracts and interest rate swaps to manage market risks relating to fluctuations in the foreign exchange and interest rates. Clarion did not hold or issue financial instruments for trading purposes. The estimated unrealized losses from these contracts at March 31, 2002 and 2001 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| March 31, | Carrying amount | Unrealized loss | Carrying amount | Unrealized loss |
| Forward foreign exchange contracts | — | **¥ (56)** | — | ¥(348) |
| Interest rate swaps | — | **¥(281)** | — | ¥(315) |

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

Short-term and long-term loans at March 31, 2002 and 2001 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Short-term loans | **¥63,140** | ¥67,091 | **$473,852** |
| Current portion of long-term loans from banks and insurance companies | **9,810** | 10,151 | **73,627** |
| Total short-term loans | **72,951** | 77,242 | **547,480** |
| Long-term loans from banks and insurance companies, due 2019 | **14,765** | 20,495 | **110,808** |
| | **¥87,716** | ¥97,738 | **$658,288** |

The weighted-average rates for the short-term loans and long-term loans except for current portion at March 31, 2002, were 3.02% and 2.13%, respectively.

Repayment schedule for long-term loans from banks and insurance companies were as follows:

| In the year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2003 | ¥9,810 | $73,627 |
| 2004 | 6,509 | 48,853 |
| 2005 | 3,363 | 25,241 |
| 2006 | 1,585 | 11,894 |
| 2007 | 3,019 | 22,660 |

At March 31, 2002, assets pledged as collateral for short-term and long-term loans were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Time deposits | ¥ 125 | $ 944 |
| Notes receivable | 2 | 15 |
| Net book value of: | | |
| Buildings and structures | 2,756 | 20,686 |
| Machinery and equipment | 183 | 1,374 |
| Land | 8,916 | 66,914 |
| Investments in securities | 4,435 | 33,286 |
| | ¥16,419 | $123,221 |

## 8. ACCRUED RETIREMENT BENEFITS TO EMPLOYEES

Clarion maintains a tax qualified pension plan and employees' severance indemnities plan, which are defined benefit pension plan covering all of the employees. The domestic consolidated subsidiaries adopt the employees' severance indemnities plan as a defined benefit pension plan. And some of the overseas consolidated subsidiaries adopt a defined contribution pension plan.

The funded status of retirement benefit obligations at March 31, 2002 and 2001 were analyzed as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Projected benefit obligations | **¥(14,126)** | ¥(15,177) | **$(106,017)** |
| Plan assets | **2,580** | 3,115 | **19,365** |
| Securities contributed to employee retirement benefit trust | **266** | 343 | **2,001** |
| Unfunded | **(11,279)** | (11,719) | **(84,650)** |
| Unrecognized transition amount | **1,392** | 1,857 | **10,453** |
| Unrecognized actuarial differences | **150** | (22) | **1,128** |
| Accrued pension and severance costs | **¥ (9,736)** | ¥ (9,884) | **$ (73,068)** |

Net pension expense related to the retirement benefits for the years ended March 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| For the years ended March 31, | **2002** | 2001 | **2002** |
| Service cost | **¥ 931** | ¥ 818 | **$ 6,990** |
| Interest cost | **407** | 292 | **3,058** |
| Expected return on plan assets | **(93)** | (76) | **(701)** |
| Amortization of transition amount | **464** | 464 | **3,484** |
| Amortization of actuarial difference | **(1)** | — | **(11)** |
| Pension expense on securities contributed to employee retirement benefit trust | **—** | 518 | **—** |
| Net pension expense | **¥1,708** | ¥2,017 | **$12,821** |

(Note) In addition to the above, extra employees' severance indemnities of ¥1,342 million ($10,075 thousand) were included in the other expenses in the period ended March 31, 2002.

Assumptions used in calculation of the above information were as follows:

| | As of March 31, 2002 |
|---|---|
| Discount rate | 3.0% |
| Expected rate of return on plan assets | 3.0% |
| Amortization term of actuarial difference | 15 years |
| (Amortized from next fiscal year) | |
| Amortization term of transition obligation | 5 years |

## 9. REVALUATION OF LAND USED FOR BUSINESS OPERATION 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. And Article 2-4 of the said Enforcement Ordinance, revaluation is performed by the method of calculating land value for a taxable basis of land value tax amounts along with reasonable adjustments, such as shape of 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 the Article 2-5.

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

| | |
|---|---|
| Date of revaluation | March 31, 2001 |
| Book value before revaluation | ¥ 8,766 million |
| Book value after revaluation | ¥13,521 million |
| Differences between fair value as of March 31, 2002 and carrying amount after revaluation of land | ¥ (258) million |

## 10. INCOME TAXES

Significant components of the Company's deferred income tax assets and liabilities at March 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Deferred income tax assets: | | | |
| Net operating losses carried-forward | ¥12,334 | ¥ 9,013 | $ 92,563 |
| Accrued pension costs | 3,144 | 3,174 | 23,602 |
| Valuation losses on inventories | 262 | 580 | 1,969 |
| Valuation allowance on marketable securities | 4,053 | 1,546 | 30,418 |
| Allowance for doubtful accounts | 214 | 848 | 1,608 |
| Foreign taxes paid | 320 | 352 | 2,407 |
| Accrued bonus | 349 | 246 | 2,620 |
| Others | 2,356 | 1,775 | 17,685 |
| Sub-total | 23,035 | 17,538 | 172,876 |
| Netting with deferred income tax liabilities | (962) | (286) | (7,224) |
| Sub-total | 22,073 | 17,252 | 165,651 |
| Valuation allowance | (20,013) | (16,126) | (150,197) |
| Total deferred income tax assets | 2,059 | 1,126 | 15,453 |
| Deferred income tax liabilities: | | | |
| Inventory valuation | 908 | 1,547 | 6,816 |
| Others | 131 | 109 | 986 |
| Sub-Total | 1,039 | 1,657 | 7,803 |
| Netting with deferred income tax assets | (962) | (286) | (7,224) |
| Total deferred income tax liabilities | 77 | 1,371 | 578 |
| Net deferred income tax assets (liabilities) | ¥ 1,982 | ¥ (245) | $ 14,875 |

Provision for income taxes for the years ended March 31, 2002 and 2001 consisted of the following:

| For the year ended March 31, | 2002 |
|---|---|
| Statutory income tax rate reconciliation | 42.1% |
| Permanent differences | (2.4) |
| Fixed levy of local inhabitant taxes | (0.5) |
| Income taxes withheld on foreign interest income | (1.7) |
| Unrecognized deferred tax assets during the year | (26.1) |
| Others | (2.1) |
| Effective income tax rate | 9.3% |

| | Millions of yen |
|---|---|
| For the year ended March 31, | 2001 |
| Net provision for income taxes for consolidated subsidiaries | ¥688 |
| Base portion of the inhabitant taxes | 69 |
| Income taxes withheld on foreign interest income | 39 |
| Others | (116) |
| Effective income tax | ¥680 |

## 11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2002 and 2001 totaled ¥511 million and ¥594 million, respectively.

## 12. LEASES

The Company leases certain office and manufacturing equipment. The Company also leases audio equipment to customers. Lease expense and revenue on such lease transactions for the years ended March 31, 2002 and 2001 were summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Lease expense | **¥2,995** | ¥3,147 | **$22,479** |
| Lease revenue | **114** | 93 | **860** |

The amount of outstanding future lease payments due at March 31, 2002 and 2001, excluding the interest thereon, was summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Future lease payments: | | | |
| Due within one year | **¥1,816** | ¥2,280 | **$13,630** |
| Due after one year | **1,058** | 1,942 | **7,946** |
| Total | **¥2,875** | ¥4,223 | **$21,576** |

Proforma data on financial leases at March 31, 2002 and 2001 (acquisition cost, accumulated depreciation, and depreciation expense for the period) were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Proforma acquisition cost | **¥6,258** | ¥7,981 | **$46,966** |
| Proforma accumulated depreciation | **(3,609)** | (4,197) | **(27,088)** |
| Proforma net book value | **¥2,648** | ¥3,783 | **$19,878** |
| Proforma depreciation expense | **¥2,718** | ¥2,841 | **$20,400** |
| Proforma interest | **¥ 237** | ¥ 264 | **$ 1,784** |

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

The amount of outstanding future lease payments receivable at March 31, 2002 and 2001 including the interest, was summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Future lease payments receivable: | | | |
| Due within one year | **¥154** | ¥279 | **$1,162** |
| Due after one year | **119** | 163 | **899** |
| Total | **¥274** | ¥443 | **$2,062** |

Acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery and equipment), including the interest, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| March 31, | 2002 | 2001 | 2002 |
| Acquisition cost | **¥497** | ¥337 | **$3,734** |
| Accumulated depreciation | **(208)** | (145) | **(1,565)** |
| Net book value | **¥288** | ¥191 | **$2,168** |
| Depreciation | **¥107** | ¥ 68 | **$ 804** |

## 13. COMMITMENTS AND CONTINGENCIES

The Company was contingently liable as a guarantor of indebtedness of affiliates and other companies in the aggregate amount of ¥598 million ($4,492 thousand) at March 31, 2002.

Future lease obligations for non-cancelable operating leases at March 31, 2002 were as follows: Due in 2003; ¥274 million (US$2,057 thousand), Due in 2004 and thereafter; ¥715 million (US$5,366 thousand).

## 14. NOTES RECEIVABLE MATURED AT YEAR END

Notes receivable are settled on the date of clearance. As the year-end date of March 31, 2002 was a holiday of the financial institutions, the notes receivable of ¥1,387 million ($10,410 thousand) and the notes payable of ¥2,254 million ($16,917 thousand) maturing on that date were not settled. They were included in the ending balance of notes and accounts receivable and notes and accounts payable as at March 31, 2002, respectively.

## 15. SEGMENT INFORMATION

### (1) Information by Business Segment

The Company operates principally in four business segments.

*Car audio-visual equipment:*

Car radios, car stereo players, car television with diversity antenna system, VCRs and others

*Audio entertainment equipment:*

Karaoke system for commercial and home use, stereo equipment, music tapes, and videodisks

*Specialty equipment:*

Audio, visual and other specialty equipment for public transportation, and CCD rear view camera

*Others:*

Wireless communication equipment and others

| For the year ended March 31, 2002 | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Car audio-visual equipment | Audio entertainment equipment | Specialty equipment | Others | Elimination and corporate | Total |
| Net sales | ¥167,348 | ¥8,091 | ¥5,298 | ¥ 7,215 | ¥ — | ¥187,954 |
| Operating expenses | 164,171 | 7,875 | 4,412 | 7,160 | — | 183,619 |
| Operating income | ¥ 3,177 | ¥ 215 | ¥ 886 | ¥ 55 | ¥ — | ¥ 4,335 |
| Assets | ¥134,788 | ¥6,126 | ¥5,053 | ¥12,366 | ¥(4,196) | ¥154,138 |
| Depreciation | ¥ 5,777 | ¥ 309 | ¥ 214 | ¥ 25 | ¥ — | ¥ 6,326 |
| Capital expenditures | ¥ 6,696 | ¥ 793 | ¥ 274 | ¥ 50 | ¥ — | ¥ 7,814 |

| For the year ended March 31, 2001 | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Car audio-visual equipment | Audio entertainment equipment | Specialty equipment | Others | Elimination and corporate | Total |
| Net sales | ¥168,847 | ¥8,683 | ¥5,651 | ¥ 5,503 | ¥ — | ¥188,686 |
| Operating expenses | 170,846 | 8,974 | 5,229 | 5,694 | — | 190,744 |
| Operating income (loss) | ¥ (1,998) | ¥ (290) | ¥ 421 | ¥ (190) | ¥ — | ¥ (2,058) |
| Assets | ¥153,707 | ¥6,819 | ¥5,927 | ¥11,584 | ¥2,582 | ¥180,621 |
| Depreciation | ¥ 5,510 | ¥ 385 | ¥ 201 | ¥ 19 | ¥ — | ¥ 6,116 |
| Capital expenditures | ¥ 6,609 | ¥ 653 | ¥ 274 | ¥ 48 | ¥ — | ¥ 7,585 |

| For the year ended March 31, 2002 | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | Car audio-visual equipment | Audio entertainment equipment | Specialty equipment | Others | Elimination and corporate | Total |
| Net sales | $1,255,899 | $60,724 | $39,766 | $54,151 | $ — | $1,410,542 |
| Operating expenses | 1,232,053 | 59,104 | 33,112 | 53,734 | — | 1,378,005 |
| Operating income | $ 23,845 | $ 1,619 | $ 6,654 | $ 417 | $ — | $ 32,536 |
| Assets | $1,011,548 | $45,979 | $37,926 | $92,804 | $(31,493) | $1,156,765 |
| Depreciation | $ 43,360 | $ 2,319 | $ 1,609 | $ 189 | $ — | $ 47,478 |
| Capital expenditures | $ 50,256 | $ 5,951 | $ 2,060 | $ 378 | $ — | $ 58,646 |

* Effective April 1, 2001, the Company started to valuate its securities classified as other securities by market value. The effect of the valuation on assets for all segments was immaterial.

### (2) Information by Geographic Segment

Sales of the Company classified by geographic area for the years ended March 31, 2002 and 2001 were summarized as follows:

| For the year ended March 31, 2002 | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Japan | North, Central and South America (*1) | Asia and Australia (*2) | Europe (*3) | Elimination and corporate | Total |
| Sales to outside customers | ¥ 95,459 | ¥45,674 | ¥ 9,942 | ¥36,878 | ¥ — | ¥187,954 |
| Inter-segment sales | 55,152 | 16,193 | 37,285 | 7,722 | (116,354) | — |
| Total sales | 150,611 | 61,867 | 47,228 | 44,601 | (116,354) | 187,954 |
| Operating expenses | 146,722 | 63,382 | 46,389 | 44,084 | (116,961) | 183,619 |
| Operating income (loss) | ¥ 3,889 | ¥ (1,515) | ¥ 838 | ¥ 516 | ¥ 606 | ¥ 4,335 |
| Assets | ¥137,540 | ¥30,432 | ¥17,034 | ¥16,081 | ¥(46,949) | ¥154,138 |

| For the year ended March 31, 2001 | Japan | North, Central and South America (*1) | Asia and Australia (*2) | Europe (*3) | Elimination and corporate | Total |
|---|---|---|---|---|---|---|
| | Millions of yen | | | | | |
| Sales to outside customers | ¥ 93,577 | ¥51,867 | ¥ 7,880 | ¥35,361 | ¥ — | ¥188,686 |
| Inter-segment sales | 94,971 | 19,314 | 37,916 | 7,785 | (159,988) | — |
| Total sales | 188,549 | 71,182 | 45,796 | 43,147 | (159,988) | 188,686 |
| Operating expenses | 190,773 | 71,465 | 45,156 | 42,854 | (159,505) | 190,744 |
| Operating income (loss) | ¥ (2,224) | ¥ (283) | ¥ 640 | ¥ 292 | ¥ (482) | ¥ (2,058) |
| Assets | ¥116,885 | ¥38,640 | ¥18,906 | ¥22,476 | ¥ (16,287) | ¥180,621 |

| For the year ended March 31, 2002 | Japan | North, Central and South America (*1) | Asia and Australia (*2) | Europe (*3) | Elimination and corporate | Total |
|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | |
| Sales to outside customers | **$ 716,391** | **$342,774** | **$ 74,613** | **$276,762** | **$ —** | **$1,410,542** |
| Inter-segment sales | **413,903** | **121,523** | **279,818** | **57,957** | **(873,204)** | **—** |
| Total sales | **1,130,295** | **464,298** | **354,432** | **334,720** | **(873,204)** | **1,410,542** |
| Operating expenses | **1,101,109** | **475,669** | **348,141** | **330,844** | **(877,757)** | **1,378,005** |
| Operating income (loss) | **$ 29,186** | **$ (11,370)** | **$ 6,290** | **$ 3,876** | **$ 4,553** | **$ 32,536** |
| Assets | **$1,032,198** | **$228,387** | **$127,835** | **$120,688** | **$(352,344)** | **$1,156,765** |

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

* Effective April 1, 2001, the Company started to valuate its securities classified as other securities by market value. The effect of the valuation on assets in Japan was immaterial.

### (3) Export Sales and Sales by Overseas Subsidiaries

Export sales information of the Company for the years ended March 31, 2002 and 2001 were as follows:

| For the years ended March 31, | Millions of yen 2002 | Millions of yen 2001 | Thousands of U.S. dollars 2002 |
|---|---|---|---|
| Export sales and sales by overseas subsidiaries: | | | |
| North, Central and South America | **¥45,061** | ¥51,488 | **$338,173** |
| Europe | **37,382** | 36,458 | **280,541** |
| Others | **11,820** | 9,252 | **88,709** |
| | **¥94,264** | ¥97,199 | **$707,423** |
| Percentage of such against consolidated net sales | **50.2%** | 51.5% | **50.2%** |

## 16. 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, 2002 was as follows:

| For the years ended March 31, | Millions of yen 2002 | Millions of yen 2001 | Millions of yen 2000 | Thousands of U.S. dollars 2002 |
|---|---|---|---|---|
| Advertising expenses | **¥1,594** | ¥1,267 | ¥1,544 | **$11,968** |
| Packing and shipping charge | **1,319** | 1,525 | 1,343 | **9,900** |
| Sales commission expenses | **1,548** | 1,676 | 2,090 | **11,622** |
| Sales promotion expenses | **1,787** | 2,320 | 2,265 | **13,417** |
| Payroll costs | **11,019** | 13,749 | 14,533 | **82,700** |
| Depreciation | **1,430** | 1,417 | 1,290 | **10,737** |
| Rent | **1,603** | 1,678 | 2,009 | **12,030** |
| Others | **9,890** | 11,478 | 13,444 | **74,225** |
| | **¥30,194** | ¥35,114 | ¥38,520 | **$226,603** |

## ChuoAoyama Audit Corporation

PricewaterhouseCoopers

Kasumigaseki Bldg, 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan


# Report of Independent Accountants

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

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and its consolidated subsidiaries as of March 31, 2002 and 2001, the related consolidated statements of income and shareholders' equity for each of the three years in the period ended March 31, 2002, and the related consolidated statement of cash flows for the three years in the period ended March 31, 2002, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Clarion Co., Ltd. and its consolidated subsidiaries at March 31, 2002 and 2001, the results of their operations for each of the three years in the period ended March 31, 2002 and their cash flows for the three years in the period ended March 31, 2002 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the changes described in the next paragraph.

As described in Note 2 (9) to the consolidated financial statements, Clarion Co., Ltd. and consolidated subsidiaries changed its method of accounting for accrued retirement benefits to employees for the year ended March 31, 2000.

As described in Note 2 (11) to the consolidated financial statements, Clarion Co., Ltd. and consolidated subsidiaries adopted the new Japanese accounting standards for income taxes for the year ended March 31, 2000.

As described in Note 2 (2), (4), and (9), effective for the year ended March 31, 2001, Clarion Co., and its domestic consolidated subsidiaries adopted the new Japanese accounting standards for translation of foreign currency transaction, for financial instruments, and for accrued retirement benefits to employees.

As described in Note 2 (4), effective for the year ended March 31, 2002, Clarion Co., and its domestic consolidated subsidiaries adopted the new Japanese accounting standards for financial instruments to evaluate securities classified as other securities by market value.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

Tokyo, Japan
June 27, 2002