clarion

Annual Report 2006

For the fiscal year ended March 2006

Clarion Co., Ltd.

Profile

Since its establishment in 1940, Clarion Co., Ltd. has created a number of advanced products as a pioneer connecting automobiles with music and information. In 1951, we introduced Japan's first car radio dedicated to passenger cars; in 1963, Japan's first car stereo; and in 1998, the world's first PC for automobiles (AutoPC). Our product range has expanded beyond car audio products to include car navigation systems, rear-view monitor systems and networked auto-guidance systems for community buses. Under the corporate philosophy to strive "to improve society by seeking to develop the relationship between sound, information and human interaction, and by creating products to meet those needs," Clarion will constantly pursue new fields of business for in-vehicle devices.

In 2010, we will celebrate our 70th anniversary. With that milestone fast approaching, in 2006, Clarion revised its logo mark with a new motto to further strengthen its global brand power. Under this new brand, all of us at Clarion will make concerted efforts to take advantage of our strengths in developing unique, advanced and exciting products, thereby staying one step ahead of the competition.

The New Clarion, you can count on us.

Forward-Looking Statements

The figures contained in this annual report with respect to Clarion's plans and strategies and other statements that are not historical facts are forward-looking statements about the future performance of Clarion. Such statements are based on management's assumptions and beliefs in light of the information currently available and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. Potential risks and uncertainties include, without limitation, general economic conditions in Clarion's market.

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Introduction of New Global Brand in 2006

Clarion introduced a new “Clarion” global brand under the corporate aim to be the ultimate “interface for music and information in automobiles and other mobile environments.” In global markets centered around Japan, we will engage ourselves in various activities focused on our brand, which bears the same name as the Company to effectively raise Clarion brand recognition around the world. Sales of products under this new global brand started in January 2006 in the United States, followed by introduction in other markets worldwide.

The new brand uses the new “Clarion” logo, with gradation of color symbolizing a sharp and modern corporate image. The new brand color is called “Clarion Azzurro,” which expresses the clarity and reliability of the Company. “Azzurro” means “blue” in Italian.

Mobile
Human Music Interface
Media
Clarion HMI

Clarion’s new brand motto “Human Mobile Music Media Interface (Clarion H.M.I.)” is the multi-layered and three-dimensional evolution of the concept of “Human Machine Interface.” It’s an expression of our corporate resolve to be the interface that connects music and information to the mobile environment offering pleasure, excitement and satisfaction.

Aiming to Secure the Competitive Advantage in the Global Market by Boosting Marketing Capabilities

Company President Tatsuhiko Izumi discusses Clarion's strategy to drive stable growth amid major changes in the market environment.

Tatsuhiko Izumi
President

How do you evaluate Clarion's performance for the fiscal year?

We achieved consolidated net sales of ¥184,176 million for the fiscal year ended March 31, 2006 (fiscal 2005), an increase of 3.3% compared with the previous fiscal year. Sales increases in navigation systems for the domestic OEM (Original Equipment Manufacturers) market and aftermarket, audio-visual equipment for buses as well as increased sales in our EMS (Electronic Manufacturing Services) business in North and Central America and Europe contributed to this increase, overcoming price erosion caused by intense competition.

Consolidated operating income, however, stood at ¥5,228 million, down 45.4% year-on-year, due to the impact on profits of a decline in market prices, an increase in strategic investment in R&D and facilities, higher logistics and advertisement and sales promotion expenses in line with aggressive advertising campaigns. Nonetheless, net income rose 14.7% to ¥5,862 million mainly on account of a gain on sales of property, plant and equipment including the sale of the land of the Saitama Head Office in line with plans to move operational headquarters and a gain on sales of securities for investments.

Three key changes characterized the market environment during the fiscal year. First, prices declined dramatically in the overseas aftermarket, which had significant negative impacts on our profitability. Second, there was a shift of demand to subcompact and smaller vehicles (what we call "kei" category cars) in Japan, leading to a sharp increase in the proportion of lower-end products installed in these vehicles. As we have a high percentage of OEM business, the impact of this was by no means small. Third, there was an accelerated shift in product mix from audio equipment to car navigation systems. Increased demand for car navigation systems meant an increase in demand for integrated navigation/audio systems, and accordingly, demand for basic audio products decreased. Fiercer competition in the aftermarket overseas also negatively impacted profitability.

Clarion products that used to boast high added value turned into mere commodities as a result of these changes. And because the changes came around at a pace far more rapidly than we had expected, we found it difficult to keep up.

Taking such factors as a serious warning, we have started to take action to implement major reforms aimed at creating a corporate structure that can generate stable profits under any market circumstances.

Financial Highlights

Clarion Co., Ltd. and Subsidiaries
Years ended March 31

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
For the Year:			
Net sales	**184,176**	178,325	**1,567,863**
Operating income	**5,228**	9,582	**44,508**
Net income	**5,862**	5,111	**49,910**
At Year-end:			
Total assets	**122,119**	119,527	**1,039,578**
Total shareholders' equity	**34,484**	26,729	**293,560**

	Yen		U.S. Dollars
	2006	2005	**2006**
Per Share:			
Net income	**20.76**	18.09	**0.177**
Cash dividends	**2.00**	—	**0.017**

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of US$1=117.47, the approximate exchange rate on March 31, 2006.

Please explain the challenges facing Clarion and your efforts to overcome these.

The biggest challenge for us at moment is our marketing capabilities in two distinct areas—product planning and user analysis.

With regard to product planning, product concepts have recently changed considerably in light of increased integration of audio and navigation functions and more digitally operated or controlled in-vehicle devices. Also, there is a variety of recording media on offer other than CDs. At the same time, required functions and features are becoming more sophisticated and diversified with the advance of such applications as terrestrial digital broadcasting reception and iPod® compatibility. More new media are emerging into the market everyday at a phenomenal pace. As features and functions centered on "entertainment" become increasingly important in the market, we will seek to further strengthen our product planning ability in the entertainment sector. Historically, this sector has been our primary area of expertise, as we have constantly striven to make the in-vehicle experience more comfortable. We aim to boost the appeal of our products in this market and will continue to swiftly deliver items based on unique and exciting concepts that fulfill the dreams of our customers.

In the field of user analysis, we will move away from our conventional full-lineup strategy and deploy a marketing strategy with enhanced user segmentation and analysis. Diversification in media and the shift to digital electronics that I mentioned earlier have also led to diversification in user groups. In order to cope with such a market situation, it is imperative that we enhance our user analysis to make the most effective use of limited resources. We will clarify target user groups for each individual product and promote the development of such products that deliver user satisfaction to the targeted users.

The same approach will also apply for professional-use and OEM products. What's more, in addressing the issues around these market segments, we believe a pressing task is to promote what we call "mono-zukuri," literally meaning "making products," the whole process from planning and development to production and distribution that can generate sufficient profit with products containing less added value. In other words, based on the assumption that the market for subcompact and smaller cars will continue to grow, an important issue for us is to strengthen marketing capabilities to cope with the situation.

We will also promote marketing activities connecting us with customers and users in each market by taking advantage of our worldwide network. This will also apply to our specialty equipment segment.

What fields hold the most promise for future growth?

In the OEM market, the most promising field will be the market for car navigation systems, where continued expansion is predicted. The popularity of in-vehicle integrated AV navigation systems is increasing, and this trend is spreading from Japan to other countries. We see this as a great opportunity and will try to secure new business with customers in China, North America and Europe. Meanwhile, in line with increased safety awareness of drivers, we expect car navigation systems will integrate features and functions for ITS (Intelligent Transportation Systems) and increased demand for camera monitoring systems. As we have highly advanced camera and image recognition technology, we will try to expand our range of safety assistance applications such as parking assistance and obstacle warning/avoidance systems. We also expect growth in satellite radios (XM, Sirius) in North America and expect to secure more large-scale business from car manufacturers in the area, which will be the next largest market after Japan.

Another promising field stems from the continued growth in sales of audio equipment in emerging markets such as Thailand and Brazil, where we have already established bridgeheads.

In the aftermarket, our primary target is the expanding entertainment market, which includes audio equipment, digital broadcasting receivers and car navigation systems. The importance of contents is increasing as the communication infrastructure improves, and accordingly, we will push ahead with the development of our content business. With regard to overseas markets, we have positioned the BRICs (Brazil, Russia, India, and China), Africa and the Middle East as strategic target areas with high growth potential. Another key objective is to firmly establish the market for our portable navigation systems, which we are currently promoting aggressively in North America and Europe.

Could you explain the significance of the alliance with Hitachi in relation to what you have spoken about today?

The alliance with Hitachi is aimed at enhancing and expanding the business around in-vehicle information systems beginning with navigation systems and devices. With these in mind, we concluded a business alliance with Hitachi, Ltd in April of last year. We are currently moving ahead with joint efforts in various fields from advanced development, materials procurement and manufacturing to sales and after-sales services.

We have splendid product planning and development capabilities in in-vehicle entertainment systems, such as audio and navigation systems, and have built up longstanding business relationships with numerous car manufacturers in Japan, North America, Central and South America, Europe and Asia. In the aftermarket as well, we have been supplying products all around the world. Furthermore, we are expanding into the wide-ranging car multimedia business arena, which includes vehicle safety monitoring systems using CCD cameras. Hitachi, on the other hand, has technologies and capabilities, including abundant software and product development know-how in built-in software especially for digital home appliances. These technologies are essential for the in-vehicle information system in the future, and Hitachi is developing business in the automotive systems field aimed at realizing integrated control in ITS. Therefore, we believe both companies can compliment each other’s expertise and needs by this strategic alliance. The growing in-vehicle information systems business, which includes ITS-related and telematics services, demands us to quickly meet diversifying market needs for sophisticated technologies. As a way for both companies to cope with such heightened market demand, we are jointly developing basic software platforms for products as well as advanced technologies with a view to future trends. We are specifically targeting the development of new products to be introduced into the market in 2008 and beyond, and for this we are integrating and concentrating resources and devising development tools. We are sure that these efforts will further increase investment efficiency in R&D and accelerate the speed of development. As a result, we can secure an overwhelming competitive edge in the global market.

What is Clarion's stance on corporate governance?

We formulated our management policy with a view to bringing forth more efficient and competitive management to ensure higher value of the enterprise to our shareholders over the long term, execute business strategies clearly bearing in mind this value, and properly return profit earned through our activities to our shareholders. We intend to raise the effectiveness of our corporate governance through building up fair and smooth relationships with stakeholders, disclosing important management information in a timely and appropriate manner, enhancing compliance management and managing the Board of Directors appropriately and efficiently.

We worked to enhance the following areas during the fiscal year in light of the enactment of the Corporate Law and the Financial Instruments and Exchange Law: (a) review of internal control systems and promotion of documentation of internal controls related to financial reporting; (b) promotion of CSR with an emphasis on enhancing social contribution; (c) strengthening of compliance activities in order to reduce risk by instilling awareness from the system creation stage and undertaking other efforts; and (d) creation of a management support system with the introduction of independent, unbiased outside directors.

These efforts have culminated in the creation of an infrastructure that can lead us toward more sound management. We will pour efforts into ensuring a corporate culture that appreciates stronger corporate governance and social responsibility.

Please tell us about specific measures to increase corporate value and return profits to shareholders.

First, I believe that the creation of a good corporate brand image will lead directly to greater corporate value. The first of the measures is to boost corporate value by promoting effective brand management.

Second, we must have improved operating results so we can ensure the stable return of profits in the form of dividends for all shareholders, and this in turn will raise corporate value. For this purpose, we will create and provide excellent products through integrated efforts at each level of the "mono-zukuri" process.

As the third measure, we aim to increase corporate value by adding value to our products. We will deliver one-of-a-kind products filled with unique and advanced technology and quality as well as exciting design and functions to not only satisfy but also give "Fresh Pleasure" to customers. Customers will then recognize the philosophy that lies behind our business, which in turn will drive up corporate value. At the same time, we will make efforts to create a better work environment for employees, as we believe excellent products can only be created in such an environment by highly motivated employees.

These are the measures we see as necessary for us to return profits to all shareholders at the level that reflects operating results. It goes without saying, however, the key priority will be to pass on the benefits of Clarion's added value in a stable and ongoing manner.

I would like to ask for your continued support and guidance as we work toward our goals for the future.

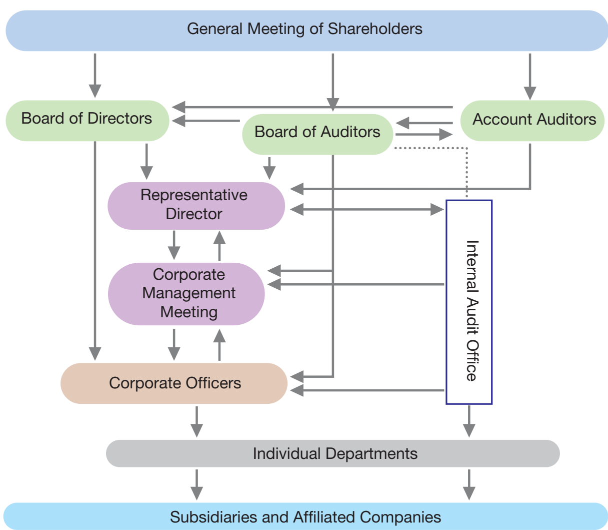
June 2006

Tatsuhiko Izumi
President

Pursuing Sound and Highly Transparent Management

We formulated our management policy with a view to bringing forth more efficient and competitive management to ensure higher value of the enterprise to our shareholders over the long term, execute business strategies clearly bearing in mind this value and properly return profit earned through our activities to shareholders. While respecting shareholder rights, maintaining fairness at all times and creating smooth relationships with stakeholders, Clarion works to increase management transparency by disclosing necessary information in a timely manner. To ensure that decision-making and business execution are handled in a proper manner, efforts are made to raise the effectiveness of corporate governance through competent and efficient management by the Board of Directors.

● Corporate Governance Structure



Corporate Governance Structure

Clarion operates under an auditor system. The Board of Directors sets basic management policies from a Group-wide perspective and supervises important managerial decision-making and other business administration matters. The Corporate Management Meeting, comprised of directors and corporate officers, has been created as a consultative body to assist the Board. It is here that management direction and policies are clarified. The term of office for directors and corporate officers has been set at one year to enable greater flexibility to respond to a changing business environment.

The Internal Audit Office conducts regular audits of all the Company's departments and Group companies to ensure the effectiveness of the internal control system. The Office evaluates business activities in terms of efficiency, conformity and compliance with laws and internal regulations. The findings are reported to the President, and corrective actions are taken if found necessary.

Enhancing Risk Management

With the objective of creating a total risk management system, Clarion promotes activities to address crisis management, issues of compliance and information security management. In the area of crisis management, we introduced the "Safety Confirmation System" in July 2005 that aims to check promptly the safety status of employees in the event of disaster. In addition, we have formulated a "Crisis Management Manual" and established a "Crisis Management Committee" composed of members from across the organization and the Group. With regard to information security management, we have established "Information Security Policies" and manage their operation sharing these among system users and the system administrators. Our "Security Guidelines" stipulate security levels according to the sensitivity of the information and user categories, and the system is stringently administered.

Information Disclosure

Clarion strives to fulfill its accountability to stakeholders and raise management transparency. As part of these efforts, financial results presentation meetings are held in Japan and overseas, annual reports and *Clarion Reports* are published every year and the Company's Website is periodically updated. Through these activities we ensure that fair and accurate corporate information is disclosed in a timely manner.

Contributing to Society through Sincere Compliance and Environmental Protection Activities

We acknowledge that a solid compliance management is fundamental for any company to fulfill its social responsibility and deal with the issues Group-wide. The goal is to establish a management system of honesty and transparency. At the same time, with the basic understanding of the importance of environmental protection, which is one of the most pressing global issues and a fundamental task for the management of any company, we promote organized and systematic environmental protection activities. The following outlines a selection of compliance and environment-related initiatives.

Bolstering Compliance

As a good corporate citizen and member of society, Clarion not only observes laws, but also promotes Group-wide awareness of business ethics. As the foundation of such activities, in July 2003 we established compliance guidelines ("Guiding Principles of Conducts and Behaviors") to which the employees must adhere in conducting business activities, and carried out activities to boost employee awareness. Education and training on compliance management are carried out making use of e-Education methods, our "Compliance Case Book," videos and other tools in order to bolster compliance awareness throughout the Company.

Compliance audits have been conducted since 2004 to regularly check and ensure compliance guidelines are being observed and no compliance related problems have arisen. Through these periodic audits, we issue directions for improvement if found necessary.

Compliance Promotion Framework

Clarion established the Compliance Committee, chaired by the President, in July 2003. Quarterly meetings are held, with the CSR Promotion Office acting as secretariat. In these sessions, reports are made on compliance activities of each department, and ideas and opinions on compliance-related issues are exchanged and shared by the members.

Consulting and Reporting System for Compliance

A compliance consulting and reporting desk was established in November 2003. By encouraging employees to discuss or report possible compliance violations, the Office aims to create a corporate culture that precludes any compliance violations. We also established a reception desk for contacts outside the Company, making it easier to consult or make reports.

Promotional Framework of Environmental Management System

We have established an Environmental Policy that clearly proclaims our duties to conduct our business activities in every aspect valuing the importance of the well-being of the environment. Based on this policy, we promote business activities aimed at a sustainable enterprise seeking harmony among people, society and nature. A Standing Committee on the Environment, chaired by the President, has been set up in order to promote environmental protection activities throughout the Company. Within the Committee are eight subcommittees to address environmental protection issues in each specific field from a companywide perspective. Each department assigns one or more employees to serve as leaders to promote environmental activities within the department.

ISO14001 Certification

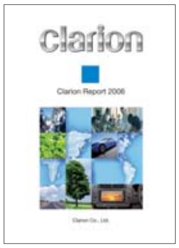
Clarion completed establishment of a companywide environmental management system, and ISO 14001 certification was awarded to the entire Company in April 2000. At our overseas affiliates and subsidiaries, 10 sites, mainly production sites, have successfully been certified, while one is in the process of earning certification.

Mid-term Environmental Plan

Clarion has established a three-year mid-term environmental plan covering the period from April 2005 to March 2008 giving specific objectives and targets to address environmental protection issues throughout the Company. The plan sets ambitious objectives covering the diverse fields of our activities from the deployment of product lifecycle assessments, the application of lead-free solders in products, the promotion of green purchasing to energy-saving activities, zero-waste output through the recycling rate of over 99% and the enhancement of chemical substance control.

Promoting Communication with Stakeholders

The *Clarion Report* is published annually, detailing initiatives and results concerning environmental protection and social contribution activities as one measure to maintain communications with a wide range of stakeholders. The report can also be viewed on the Company's Website.



Clarion Report 2006

Embodying Clarion's Cutting-edge Technologies

In this section, we review some of the highlights of Clarion's activities during fiscal 2005.

DVD-AV Entertainment System Fitted in Shanghai GM Minivans

In August 2005, Clarion started deliveries of DVD-AV (Audio Visual) entertainment systems for the "First Land," a minivan for the Chinese market made by Shanghai General Motors Company Limited, a joint venture between General Motors Corporation of the United States and the Shanghai Automotive Industry Group. This is an entertainment system with a 6.5-inch wide DVD center unit for the front seat and a 5.8-inch rear monitor installed behind the driver and front passenger headrests for enjoying DVDs both by front and rear passengers. It is equipped with an infrared remote control that enables finer control of operational settings for the DVD screens as opposed to using the buttons on the front unit. Clarion regards China as a key market in which the automobile market continues to expand. This product introduction marks an achievement for Clarion in two areas, that is, a step toward a closer partnership with Shanghai GM and a

milestone of Clarion's strategy to supply more products to the Chinese market.

2-DIN AV Navigation System Fitted in Mitsubishi's New Subcompact Model

Mitsubishi Motors Corporation has begun installing Clarion's 2-DIN HDD (Hard Disc Drive)/CD AV navigation system in the "i," its new subcompact ("kei" category) model introduced for sale in January 2006. This system is installed as an option (factory installed). The 2-DIN HDD/CD AV navigation system uses a 7-inch wide display and is equipped with iPod® and ETC (Electronic Toll Collection) compatibilities, AM/FM radio, CD player and built-in TV

tuner. The system is equipped further with an abundance of functions unique to Clarion, such as a data edit function and Music Catcher®, while also offering excellent ease of operation. This AV navigation system has been selected for optional installment in the "Active Field Edition," a special-edition "Pajero Mini" model. This selection marks the first time in the industry for factory installation of an HDD navigation system in vehicles in this category.

Four Types of Integrated AV-HDD Navigation Systems Debut in the Japanese Market

Embodying the brand motto "to be the interface between music and information in the mobile environment," Clarion began the successive introduction of four integrated AV-HDD navigation systems to the domestic market—MAX960HD, MAX860HD, MAX760HD and MAX560HD—starting from May 2006. The new products incorporate the industry's largest 2-DIN 7-inch wide monitor, which enables intuitive operations of the system with large and easily readable text displays for the menus and navigation.

The MAX960HD and MAX860HD are equipped with the new "Fun Ring" 3D-menu and other ease-of-operation functions of highly sophisticated units offering users enjoyment. It is possible to record up to 4,000 pieces of music at a maximum speed of 8x from CDs to HD and to enjoy the diverse latest digital media from CDs/DVDs to AM/FM radio and TV. These models incorporate full acoustic reproduction technology such as a 5.1-ch surround processor, as well as time

alignment control and a parametric equalizer, embodying the latest advances in audio technology in pursuit of the best in-vehicle sound reproduction. They are also compatible with the newest fifth-generation iPod® (with optional accessories), offering video replay as well as audio files. A combination slot, which accepts both SD memory cards and Memory Stick Pro, enables the retrieval of external digital data.

New Models Released for North American and European Markets

Clarion has expanded its 2006 new product lineup for the North American and European markets. With regard to HDD navigation systems, we launched the NAX970HD in North America and the NAX963HD in Europe. Both have a 30GB HDD capacity and their map data cover a wide region. Both also incorporate voice recognition software. This makes it possible to operate the unit using voice command and the driver can set destinations with two hands on the wheel, ensuring safety while driving. The European model NAX963HD is equipped with a touch panel control and 3D menu for simple operation, as well as map data for 27 countries, covering virtually all over Europe.

In the area of portable car navigation systems, we have commenced sales of the N.I.C.E. (Navigation and In-Car Entertainment) and the more compact N.I.C.E. P200 in North America. Both models incorporate a 20GB HDD, enabling this to be split into 10GB each for navigation and entertainment functions. The device can handle various audio and visual formats and the 7-inch high-resolution touch screen TFT-LCD monitor offers both crisp definition of map details and images from a DVD or an externally connected video camera. In Europe, we offer the MAP360 and MAP560. Light and compact, these models employ a 3.5-inch high-resolution LCD monitor. The MAP560 includes map data for 24 countries. The built-in lithium battery, which runs for 4 hours*, makes use possible outside the car, for example, on a motorbike or bicycle.

NAX963HD

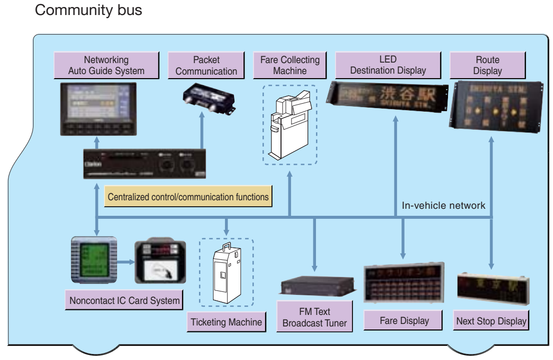
N.I.C.E. P200

* When fully recharged

In-vehicle Information Device with Linux and Java™ J2ME CDC

Clarion commenced sales of an on-board information terminal for its Networking Auto Guide System, a vehicle information system, in March 2004. The terminal, developed for commercial vehicles, runs on versatile Linux as its operating system and uses J2ME CDC programming language, which possesses specifications suitable for telematics and navigation using Java™. This marks a world first for this programming language to be issued in a commercial fleet. Incorporating a packet telecommunications interface function on the conventional speech synthesizer PA device makes it possible to integrate several conventional community bus terminals into one, contributing to greater management efficiency in addition to lower installation cost. It also enables application to a next-generation community bus system by offering such functions as GPS positioning and route management as well as a bus location system that transmits current locations of buses to users and the operations center on a real-time basis. Information such as news and advertisements can be sent via two-way transmission between the bus and the operations center. As part of its efforts to further expand the system, Clarion is exploring adoptation of the system to a wider range of commercial fleet management systems for positioning and route management of commercial transport and tour buses, among others.

Community bus



Review of Operations

The Japanese economy in fiscal 2005 (ended March 31, 2006) recovered steadily on the back of strong private-sector capital investment in line with improved corporate earnings, despite cost increases in production infrastructure such as oil prices. Signs of revitalization were also seen in personal spending along with an improvement in the employment environment. Overseas, the Chinese economy continued to expand, while in the United States, personal spending was robust despite continued increases of official interest rates. In Europe, the economy demonstrated its underlying strength with the EU economic bloc continuing to expand. The automobile industry, which directly concerns the Group, displayed a slightly improved performance year-on-year in terms of both production and sales of new cars in Japan. Domestic sales of subcompact and smaller cars (what we call “kei” category cars in Japan) made a particularly strong contribution. In China, production and sales increased considerably spurred by relatively stable growth. Sales in North America and Europe remained roughly on a par with the previous fiscal year.

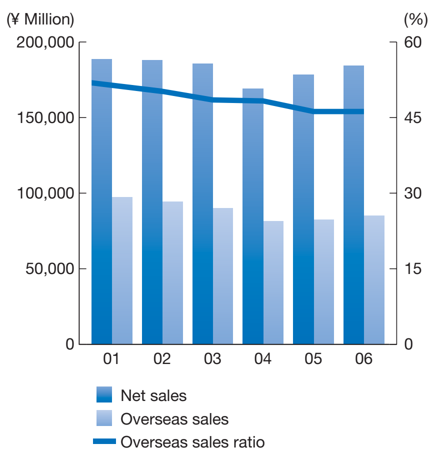
In such a market environment, consolidated net sales for fiscal 2005 amounted to ¥184,176 million, up ¥5,851 million, or 3.3% year-on-year. Although intensifying price competition eroded sales prices, sales growth was posted in car navigation systems both in domestic OEM and aftermarkets, and for audio-visual equipment for buses. This was accompanied by an increase in sales of the EMS business in North and Central America and in Europe.

With regard to income, consolidated operating income totaled ¥5,228 million, down ¥4,353 million, or 45.4%, owing to an increase in strategic investments such as R&D investment and capital investment, higher logistics costs and sales and promotion expenses in line with aggressive advertising campaigns.

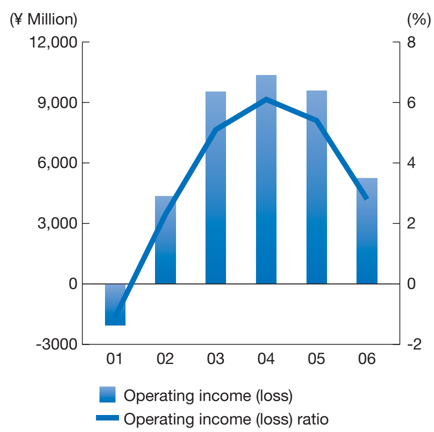
Consolidated income before income taxes was ¥4,534 million, up ¥1,583 million, or 53.7%. Other income amounted to ¥5,192 million. This included, among others, a ¥2,000 million gain from sales of property, plant and equipment including sales of land of the Saitama Head Office in connection with the plan to move the head office to Saitama Shin Toshin (Saitama’s newly developed metropolitan area) and ¥1,373 million from gain on sales of investments in securities. Other expenses totaled ¥5,886 million, of which ¥1,335 million was for an impairment loss due to the application of new accounting standards related to impairment of fixed assets, ¥812 million was for loss on sales and disposal of property, plant and equipment due mainly to the sale of the Saitama Head Office building. Also, interest expenses amounted to ¥835 million, down ¥665 million, or 44.3% year-on-year, due to repayment to banks.

After current and deferred tax adjustments and a deduction of minority interests, consolidated net income rose ¥751 million, or 14.7%, to ¥5,862 million. Net income per share improved from ¥18.09 to ¥20.76.

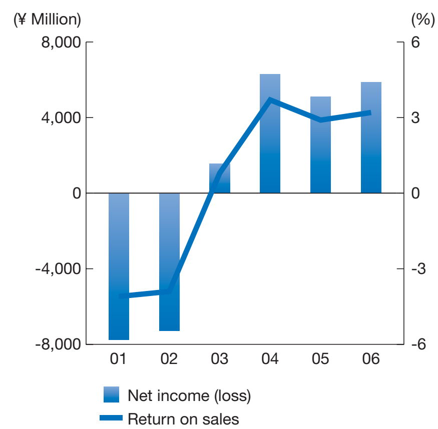
Net Sales, Overseas Sales and Overseas Sales Ratio



Operating Income (Loss) and Operating Income (Loss) Ratio



Net Income (Loss) and Return on Sales



The overview by the segment is as follows.

< Car Audio-Visual Equipment >

This segment is our core segment that involves car audio and visual devices, navigation and car multimedia devices. We saw a sales increase of navigation systems in the domestic aftermarket and general sales increase in OEM markets in Japan, North America and China where economic growth is remarkable. The European aftermarket, however, suffered from sluggish sales and declining sales prices caused by fierce price competition. Overall segment sales increased ¥2,321 million, or 1.4% year-on-year, to ¥168,686 million. Operating income was down ¥4,554 million, or 56.0%, to ¥3,578 million, due primarily to increased logistics costs, strategic investment in R&D and aggressive spending in advertisement and sales promotions.

< Specialty Equipment Segment >

In this segment, we made efforts to increase sales of our IT-based Bus Location System both for tourist and community buses aimed at enhancement of customer services, and rear-view monitor equipment with CCD cameras for drivers, which, due to growing interest in safety in vehicle operations, showed a stable demand. As a result, segment sales grew ¥1,357 million, or 19.5% year-on-year, to ¥8,306 million, and operating income increased ¥218 million, or 17.7%, to ¥1,451 million.

< Others >

In the Others Business, sales were up ¥2,173 million, or 43.4% year-on-year, to ¥7,183 million, due mainly to growth in the EMS business in North and Central America and the launch of the EMS business in Europe. Operating income, however, decreased ¥17 million, or 8.1%, to ¥199 million, due primarily to investments in facilities.

Results by geographic segments are as follows.

< Japan >

In the automobile industry, production rose on the back of strong exports, while brisk sales of compact cars helped to drive demand. In terms of results, despite increasing calls from customers to lower costs, sales growth was posted in integrated AV-Navigation systems in both the OEM market and aftermarket. Net sales increased ¥2,852 million, or 3.0% year-on-year, to ¥99,511 million. Operating income was down ¥2,506 million, or 39.8%, to ¥3,798 million, due primarily to strategic investment in R&D and higher logistics costs.

< Americas >

Increased sales in the OEM market and sales growth in the EMS business in North and Central America culminated in net sales of ¥43,725 million, up ¥5,148 million, or 13.3% from the previous fiscal year. Operating income fell ¥617 million, or 36.9%, to ¥1,057 million, due to sales price erosion and increased logistics costs.

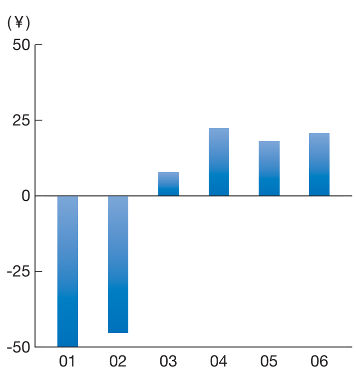
< Asia and Australia >

Net sales climbed ¥4,325 million, or 40.3%, to ¥15,063 million, due primarily to considerable growth in OEM deliveries in China and increased OEM deliveries in Taiwan. Operating income dropped ¥62 million, or 7.8%, to ¥728 million, due mainly to increased sales expenses coupled with increased development costs in China.

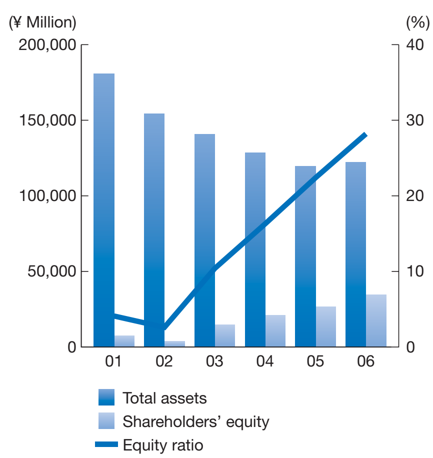
< Europe >

Price declines due to intense price competition and a downturn in sales in the aftermarket, plus a decrease in OEM deliveries, were the key factors behind a decrease in net sales of ¥6,474 million, or 20.0%, to ¥25,877 million. Despite concerted efforts to reduce sales expenses, an operating loss of ¥354 million was recorded (compared with operating income of ¥348 million in the previous fiscal year) due primarily to a decline in sales and sales prices.

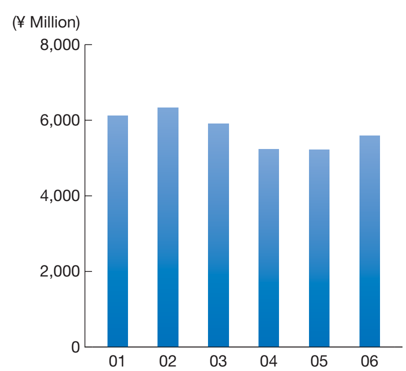
Net Income (Loss) per Share



Total Assets, Shareholders' Equity and Equity Ratio



Depreciation and Amortization



** Years ended March 31*

Financial Position

Total assets at year-end increased by ¥2,591 million, or 2.2%, compared with the previous fiscal year-end, to ¥122,119 million. Current assets were up ¥2,802 million, or 3.8%, to ¥76,489 million. The main reasons for this increase were an increase of ¥1,089 million in cash on hand and in banks to ¥12,148 million and an increase of ¥1,642 million in inventories to ¥24,513 million. Property, plant and equipment was down ¥1,940 million, or 7.8%, from the previous fiscal year-end, to ¥22,933 million. The main factor was a decrease of ¥2,334 million in buildings and structures. Intangible assets increased ¥1,009 million, or 13.2%, to ¥8,647 million. Investments in securities and other assets were up ¥720 million, or 5.4%, to ¥14,049 million.

Total liabilities declined ¥5,191 million, or 5.6%, from the previous fiscal year-end, to ¥87,458 million. Current liabilities were down ¥6,837 million, or 10.1%, to ¥60,953 million, due mainly to a decrease of ¥10,405 million in short-term loans to ¥20,187 million. Total long-term liabilities increased ¥1,646 million, or 6.6%, to ¥26,504 million, with the main factor being an increase of ¥3,013 million in long-term loans to ¥14,040 million.

Total shareholders' equity increased ¥7,754 million, or 29.0%, to ¥34,484 million, due primarily to an increase of ¥5,549 million in retained earnings to ¥8,483 million. The equity ratio improved from 22.4% to 28.2%.

Cash Flows

Net cash provided by operating activities increased to ¥9,236 million. This was due mainly to income before income taxes of ¥4,534 million and depreciation and amortization of ¥4,955 million, along with gain on sales of property, plant and equipment and gain on sales of investments in securities. Other factors included the swift recovery of notes and accounts receivable and a reduction in interest paid. Net cash provided at the end of the previous consolidated fiscal year was ¥8,038 million.

Net cash used in investing activities was ¥1,055 million, compared with ¥6,030 million at the previous fiscal year-end. This was due mainly to ¥7,802 million in proceeds from sales of property, plant and equipment, ¥2,430 million in proceeds from sales of investments in securities, ¥8,106 million in payment for purchases of property, plant and equipment, notably for land at the Saitama Shin Toshin and for production equipment in China, and ¥3,092 million in payment for purchases of intangible assets, including software.

Net cash used in financing activities was ¥7,938 million, compared with ¥17,537 million at the previous fiscal year-end, due to efforts to reduce interest-bearing borrowings.

As a result of the above, cash and cash equivalents at end of year were ¥11,954 million, an increase of ¥937 million versus ¥11,016 million at the previous fiscal year-end.

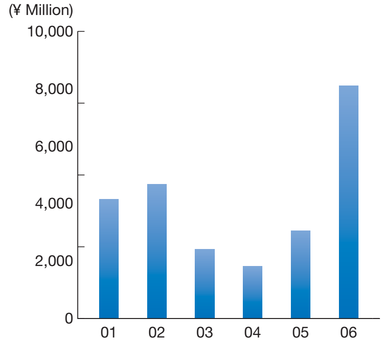
Outlook for Fiscal 2006, Ending March 31, 2007

The global economy is forecast to recover steadily, driven by expanding economies in China and the United States. Economic revitalization in Japan is expected to gain further momentum. Meanwhile, it is unclear what impact the projected increases in oil prices and interest rates, among others, will have on business performance.

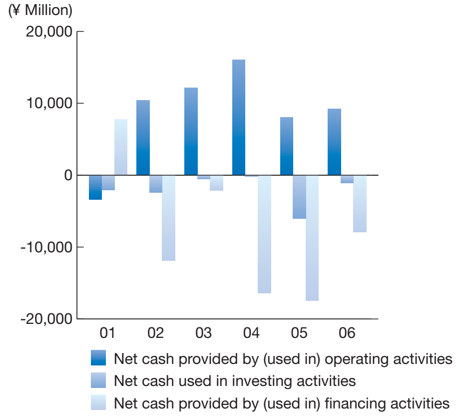
In the automobile industry, the ratio of off-shore production continues to grow as a result of intensified competition in the global market. We expect the environment for in-vehicle computing systems (IVCSs), particularly car navigation systems, to steadily develop, as automobile manufacturers have begun the full-scale introduction of information communication services. We believe that integrated AV-Navigation devices—an area of comparative strength for the Clarion Group—will steadily expand, mainly in the OEM market. We will continue to strengthen our alliance with Hitachi, Ltd., our strategic partner, in order to enhance our strength in R&D and other fields.

Amid such a business environment, we, the Clarion Group, will strive to strengthen our consolidated earnings capacity, improve consolidated cash flows and enhance shareholders' equity. For fiscal 2006, we forecast consolidated net sales of ¥190,000 million, an increase of 3.2% year-on-year, operating income of ¥5,600 million, an increase of 7.1%, and net income of ¥3,000 million, a decrease of 48.8%. The exchange rate is projected to be ¥115 to the U.S. dollar.

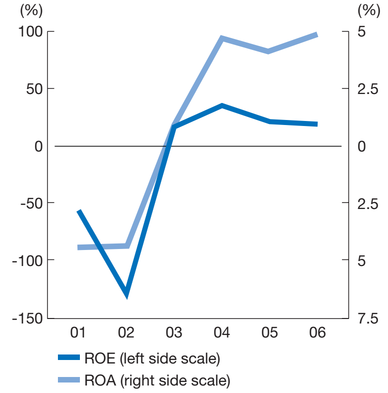
Capital Investment



Cash Flows



ROE and ROA



* *Years ended March 31*

Risk Information

Risks that may have material impacts on the results of operation, financial condition and cash flow of the Clarion Group (collectively, "the Company") include, but are not limited to, the factors listed below. In addition, forward-looking statements presented herein are based on judgments made by the Company at the time of publishing this annual report.

(1) Economic Conditions

The Company conducts business worldwide primarily in the areas of in-vehicle audio, information and communication equipment. The economic conditions in respective markets, including shrinking demand caused by economic recession or rapid changes in the economic environment (currency or price fluctuations, changes to accounting standards, etc.) in key markets such as Japan, the United States, Europe, Asia or Australia, may have an adverse effect on the performance and financial position of the Company.

(2) Fluctuations in Foreign Currency Exchange Rates

The Company conducts production and sales activities in many parts of the world, and financial items denominated in local currencies such as sales, expenses and assets are translated into yen in our financial statements. The exchange rate at the time of translation may impact results even if there has been no change to amounts in the local currency. Any sharp fluctuation in the exchange rates among currencies may have an adverse effect on the business of the Company.

Also, appreciation of the local currency in any of the regions where the Company conducts production activities will push up manufacturing costs which may reduce price competitiveness in the market. There is a possibility that such events may lead to a deterioration in the performance and financial position of the Company.

(3) Price Competition

The segment of markets where the Company conducts business, that is the market for in-vehicle audio, information and communication equipment, is very competitive in prices because of numerous domestic and foreign competitors. Car manufacturers, who are primary customers for the Company's OEM business, conduct global purchasing and there is fierce global competiton regarding the supply price, which is the most important criterion for the selection of the supplier. Additionally, the customers' purchasing policies demand, from time to time, more severe cost reduction efforts after business has been awarded. If the supply price drops beyond expectations or the market price in domestic and overseas aftermarkets declines significantly, the performance and financial position of the Company may be adversely impacted.

(4) Reliance on Performance of Core Customers

The Company's core customers include car manufacturers and mass merchandisers in Japan and overseas. Changes in customers' purchasing policies, leading to requests for unexpected reduction of prices and lower trade volume, or a downturn in customer business itself may lead to a decline in Company sales and profit (margins), among others. In the event that car sales at one of our car manufacturer customers decreases due to a lack of consumer support, sales of products provided by the Company for such customers will be influenced accordingly. This would have an adverse effect on the performance and financial position of the Company.

(5) Alliances with Other Companies

Since technological advancements in products handled by the Company are very fast, the Company seeks technological alliances with other companies and promotes joint development projects in order to ensure efficient new product development capabilities and expansion of business opportunities with limited management resources. In particular, Clarion has been building a closer and more comprehensive alliance with Hitachi, Ltd., our largest shareholder, in order to expand and enhance business. The alliance covers wide areas of materials procurement, after-sales services, product planning, business processes and joint development of design tools. However, external and internal circumstances or changes in market demand could prevent the Company from deriving the intended benefits from its alliances. This could reduce future growth potential and profitability, and therefore have an adverse effect on the performance and financial position of the Company.

(6) New Product Development Capabilities and Development Resources

The Company strives to increase sales by delivering to market attractive new products that meet customer needs in the in-vehicle audio, information and communication equipment sectors. However, new products are more and more dependent on advanced technologies, which are subject to rapid change. There could therefore be various risk factors involved in the Company's new product development, including difficulty in securing and nurturing competent R&D personnel due to increased labor mobility; an inability to keep pace with technical requests demanded by customers in a timely manner; and difficulty in securing core technologies needed for the future. Such factors may adversely impact future growth potential and have a negative effect on the performance and financial position of the Company.

(7) Product Defects

The Company pays utmost attention to the quality of its products through quality management and the after-sales service structure that strictly follows the requirements of ISO (International Standards Organization) and QS (Quality System) frameworks. However, there could be a claim that might lead to a large-scale product recall or product liability compensation in the future. The Company covers risks against product liability claims by insurance, but there is no guarantee that this insurance is sufficient to cover such payments. In the unlikely event of such unexpected quality-related problems that may lead to major expenses to deal with such issues or deterioration on the Company's reputation, loss of sales and diminishing profits may have a negative effect on the performance and financial position of the Company.

(8) Intellectual Properties of the Company and Third Parties

To differentiate its products from the competition, the Company accumulates technologies and know-how (intellectual properties). In some countries or regions, some of these intellectual properties cannot be fully protected, or only marginally protected, because of the limitations of legal systems there. Therefore, there may be cases where the Company cannot effectively prevent third parties from misusing its intellectual properties and manufacture and sell similar products.

On the other hand, the Company implements measures to ensure that it does not infringe upon the intellectual property rights of others. However, there is a potential risk that the Company's products might be judged as infringing upon a third party's intellectual property rights, and this may have an adverse effect on the performance and financial position of the Company.

In addition, the Group modified its reward system for employee inventions on April 1, 2005 based on Japan's Revised Patent Law, but there is still the risk that the inventor may file a lawsuit regarding compensation.

(9) Component Procurement from Outside the Company

Although mechanisms for core products are produced internally, the Company procures certain key components, such as semiconductors, from outside suppliers. Although a system has been set up to guarantee stable supply, there are times that a supplier may be unable to deliver the required amount at the required time due to a sudden increase in demand or unforeseen natural disaster or accident. This may disrupt production, cause higher logistics costs and impact supply to customers, which could lead to loss of sales opportunities. Also, the unexpected increase of procurement costs due to rising raw material prices or a sudden change in exchange rates could have an adverse effect on the performance and financial position of the Company.

(10) Expansion of Business Operations into International Markets

The expansion of the Company's business activities in overseas markets inevitably involves certain risks. Such risks may be market contraction due to economic recession, political and economic turmoil, unexpected changes in laws and regulations, war and terrorism, currency collapse, natural disasters and the outbreak of contagious disease in respective countries or regions.

The Company has established production sites around the world based on its global production strategy, with the proportion of production in China (Dongguan and Xiamen) currently on the rise. As such, the Company has implemented production system controls upon careful consideration of country risk and other factors. Apart from the aforementioned factors, unforeseen circumstances such as strikes or worsening security may cause suspension of business, which could have an adverse impact on the performance and financial position of the Company.

(11) Retirement and Severance Liabilities and Related Expenses

Clarion and certain consolidated subsidiaries in Japan and overseas employ defined benefit pension plans, and liabilities and expenses for employee retirement and severance are calculated based on length of service, labor turnover rate, a discount rate and an expected rate of return on pension plan assets. However, the recent declines in the discount rate and asset management yield may lead to unrecognized actuarial differences, which could increase severance costs in the future. This could have an adverse effect on the performance and financial position of the Company.

(12) Application of Impairment Accounting of Fixed Assets

In the year ended March 31, 2006, in line with the introduction of accounting standards for impairment of fixed assets, the Company recorded ¥1,335 million in impairment losses following investigation into the individual recoverability of tangible and intangible fixed assets owned by Clarion and its domestic subsidiaries and of leased properties in lease transactions. With regard to property, plant and equipment, intangible assets and leased properties, in the event that a facility becomes unnecessary because the equipment has become obsolete due to technological innovation or because the business is withdrawn, appreciable impairment of value may arise. With regard to intangible fixed assets, software for internal use is amortized on a straight-line basis based on an estimated period of useful life, generally five years. In the case that this estimated period of useful life is lower than the Company's estimation, appreciable impairment losses may arise, which could have an adverse impact on the performance and financial position of the Company.

(13) Investment Risks, Concerns Over Recoverability of Trade Receivables and Contingency Loss

With the aim of driving future business expansion, the Company makes business investments and R&D investments in Japan and overseas based on demand forecasts. However, if projected demand and actual demand differ, this investment may not always generate successful results. The Company provides an allowance for doubtful accounts based on the past actual ratio of losses on bad debt in addition to estimations of individual recoverability of designated claimable assets, including doubful accounts. With respect to long-term receivables, the Company safeguards itself by requesting borrowers to provide collateral. However, a change in the economic situation of the borrower, unexpected revisions to laws and regulations or suspension of operation owing to economic factors or calamity could make loan recoverability difficult.

All the Company's business operations around the world are subject to the laws and regulations of the countries where they are located. Examples of such regulations include laws that cover restrictions on exports and taxation including customs duties. The Company takes special care to ensure that its activities are in compliance with legal regulations, but in the event that it unexpectedly fails to comply with certain laws, there is a possibility that costs may increase in the form of contingency losses, which could adversely impact the performance and financial position of the Company.

(14) Effects of Disasters, Power Blackouts and Other Incidents

The Company carries out regular checks and inspections of all production and R&D facilities to prevent accidents and ensure compliance with legal requirements. In addition, a crisis management manual has been formulated, and efforts have been made to familiarize employees with procedures for earthquakes, natural disasters, fires and security management overseas. However, there is the possibility that an unforeseen accident, an earthquake, a natural disaster or a power shortage at a production site could interfere with production activities. A prolonged delay or stoppage in operations could have an adverse impact on the performance and financial position of the Company.

(15) Environmental Issues

The Company promotes an ISO 14001-based environmental management system as part of wider efforts for environmental protection. Examples of activities include the development of eco-friendly products, the reduction of pollutants, the use of lead-free solders, soil contamination studies, investigation into asbestos use, zero-waste-output initiatives through recycling, energy-saving activities and supplier education, notably on green purchasing. However, restricted substances and start of enforcement differ depending on the laws of each country and customer requests. There is also a possibility that components used in the Company's products may be found to contain environmentally hazardous substances according to newly instituted laws or business climate in the future. This would have an adverse impact on the performance and financial position of the Company.

(16) Protection of Personal Information

The Company strives to enhance information management through the formulation of personal information protection regulations and information security policies. In the unlikely event of leak of customers' personal data due to system infiltration by a computer hacker, for example, reparation may have to be paid to the affected customers. In addition, the ensuing erosion of customer confidence and damage to brand image could have an adverse effect on the performance and financial position of the Company.

(17) Securing Personnel and Passing On Technology

There is a risk that the mandatory retirement of personnel with specialized knowledge and skills supporting corporate activities may lead to a loss of accumulated internal technology. Based on the amended Law Concerning Stabilization of Employment of Older Persons, Clarion and its domestic subsidiaries have introduced a system in which employees can continue working past the statutory retirement age. However, there is a possibility that corporate activities may suffer from difficulty in securing skilled workers or technologies being not passed on smoothly to successive generations.

Clarion Co., Ltd. and Subsidiaries
Years ended March 31

Six-Year Financial Summary

	Millions of yen, except per-share amounts						Thousands of U.S. dollars, except per-share amounts
	2001	2002	2003	2004	2005	**2006**	**2006**
For the Year							
Net sales	¥188,686	¥187,954	¥185,530	¥168,947	¥178,325	**¥184,176**	**$1,567,863**
Car audio-visual equipment	168,847	167,348	168,716	159,544	166,365	**168,686**	**1,435,997**
Audio entertainment equipment	8,683	8,091	5,162	—	—	**—**	**—**
Specialty equipment	5,651	5,298	5,235	6,126	6,949	**8,306**	**70,710**
Others	5,503	7,215	6,416	3,275	5,010	**7,183**	**61,154**
Japan	93,577	95,459	97,333	88,843	96,658	**99,511**	**847,119**
Americas	51,867	45,674	39,291	33,657	38,577	**43,725**	**372,226**
Asia and Australia	7,880	9,942	10,141	9,893	10,737	**15,063**	**128,228**
Europe	35,361	36,878	38,763	36,552	32,351	**25,877**	**220,288**
Cost of sales	155,630	153,424	146,946	132,103	140,786	**147,123**	**1,252,437**
Selling, general and administrative expenses	35,114	30,194	29,049	26,491	27,956	**31,824**	**270,917**
Operating income (loss)	(2,058)	4,335	9,534	10,352	9,582	**5,228**	**44,508**
Other expenses, net	5,031	12,162	7,132	4,451	6,631	**694**	**5,909**
Income (loss) before income taxes	(7,090)	(7,826)	2,402	5,900	2,950	**4,534**	**38,599**
Provision (benefit) for income taxes	680	(729)	727	(514)	(2,328)	**(1,337)**	**(11,383)**
Minority interests in subsidiaries	(8)	177	119	109	167	**8**	**72**
Net income (loss)	(7,762)	(7,274)	1,555	6,305	5,111	**5,862**	**49,910**
Research and development expenses	9,561	8,986	9,569	9,943	10,659	**11,340**	**96,536**
Capital investment	4,147	4,676	2,410	1,816	3,066	**8,106**	**69,009**
Net cash provided by (used in) operating activities	(3,386)	10,434	12,153	16,058	8,038	**9,236**	**78,631**
Net cash used in investing activities	(2,083)	(2,373)	(530)	(158)	(6,030)	**(1,055)**	**(8,982)**
Net cash provided by (used in) financing activities	7,745	(11,912)	(2,158)	(16,467)	(17,537)	**(7,938)**	**(67,575)**
Per share							
(Yen and U.S. dollars):							
Net income	¥(49.88)	¥(45.25)	¥7.82	¥22.32	¥18.09	**¥20.76**	**$0.177**
Cash dividends	—	—	—	—	—	**¥2.00**	**$0.017**
At year-end							
Total assets	¥180,621	¥154,138	¥140,621	¥128,536	¥119,527	**¥122,119**	**$1,039,578**
Total shareholders' equity	7,422	3,930	14,617	20,987	26,729	**34,484**	**293,560**
Interesting-bearing debt	105,738	93,066	74,416	58,585	41,619	**34,227**	**291,370**
Ratio (%)							
Equity ratio	4.1	2.6	10.4	16.3	22.4	**28.2**	**28.2**
ROE	(55.8)	(128.2)	16.8	35.4	21.4	**19.2**	**19.2**
ROA	(4.4)	(4.3)	1.1	4.7	4.1	**4.9**	**4.9**
Current ratio	91.2	85.7	90.9	100.0	108.7	**125.5**	**125.5**

Note: 1. Research and development expenses include labor and other expenses reported as cost of sales.
2. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to US$1.

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
ASSETS			
Current assets:			
Cash on hand and in banks	**¥ 12,148**	¥ 11,059	**$ 103,419**
Notes and accounts receivable	**35,454**	35,359	**301,816**
Allowance for doubtful accounts	**(1,285)**	(1,299)	**(10,939)**
Inventories (Note 5)	**24,513**	22,871	**208,680**
Deferred income taxes (Note 11)	**1,908**	2,018	**16,244**
Other current assets	**3,749**	3,678	**31,917**
Total current assets	**76,489**	73,687	**651,138**
Investments in securities (Note 6)	**3,750**	4,252	**31,930**
Property, plant and equipment (Note 4):			
Buildings and structures (Note 8)	**15,938**	20,634	**135,680**
Machinery and equipment (Note 8)	**36,828**	34,336	**313,517**
Land (Note 8)	**11,265**	11,741	**95,904**
Construction in progress	**222**	133	**1,895**
Accumulated depreciation	**(41,322)**	(41,972)	**(351,772)**
Total property, plant and equipment	**22,933**	24,873	**195,225**
Other assets:			
Intangible assets	**8,647**	7,637	**73,611**
Other (Note 4)	**10,298**	9,076	**87,673**
Total other assets	**18,946**	16,714	**161,285**
Total assets	**¥122,119**	¥119,527	**$1,039,578**

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 8)	**¥ 20,187**	¥ 30,592	**$ 171,848**
Notes and accounts payable	**24,785**	22,972	**210,992**
Accrued bonuses	**614**	968	**5,231**
Accrued expenses	**8,527**	7,213	**72,593**
Income taxes payable	**300**	259	**2,559**
Other current liabilities	**6,538**	5,785	**55,662**
Total current liabilities	**60,953**	67,791	**518,888**
Long-term liabilities:			
Long-term loans (Note 8)	**14,040**	11,027	**119,521**
Accrued pension and severance costs (Note 9)	**10,413**	10,025	**88,644**
Deferred income taxes on revaluation of land	**651**	2,065	**5,545**
Deferred income taxes (Note 11)	**167**	138	**1,421**
Other long-term liabilities	**1,232**	1,601	**10,491**
Total long-term liabilities	**26,504**	24,857	**225,625**
Minority interests in subsidiaries	**176**	148	**1,503**
Shareholders' equity:			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2006 and 2005	**26,100**	26,100	**222,186**
Additional paid-in capital	**2,669**	2,669	**22,725**
Retained earnings	**8,483**	2,934	**72,218**
Net unrealized gain on revaluation of land (Note 10)	**1,244**	2,272	**10,594**
Net unrealized gain on other securities	**918**	813	**7,817**
Foreign currency translation adjustments	**(4,891)**	(8,031)	**(41,643)**
Treasury stock	**(39)**	(29)	**(339)**
Total shareholders' equity	**34,484**	26,729	**293,560**
Commitments and contingencies (Note 15)			
Total liabilities and shareholders' equity	**¥122,119**	¥119,527	**$1,039,578**

Consolidated Statements of Income

	Millions of yen, except per-share amounts			Thousands of U.S. dollars, except per-share amounts
	Year ended March 31			Year ended March 31
	2006	2005	2004	**2006**
Net sales	**¥184,176**	¥178,325	¥168,947	**$1,567,863**
Cost of sales	**147,123**	140,786	132,103	**1,252,437**
Gross profit	**37,053**	37,538	36,844	**315,425**
Selling, general and administrative expenses (Notes 12 and 17)	**31,824**	27,956	26,491	**270,917**
Operating income	**5,228**	9,582	10,352	**44,508**
Other income:				
Interest and dividend income	**270**	255	253	**2,306**
Gain on sales of property, plant and equipment	**2,000**	55	58	**17,029**
Gain on sales of investments in securities	**1,373**	78	384	**11,689**
Gain on transfer of logistic operation	**270**	—	—	**2,298**
Equity in gain of affiliates	**222**	136	112	**1,894**
Others	**1,055**	609	878	**8,984**
	5,192	1,134	1,688	**44,202**
Other expenses:				
Interest expenses	**835**	1,501	2,339	**7,114**
Net loss on foreign currency transactions	**327**	468	159	**2,783**
Loss on sales and disposal of property, plant and equipment	**812**	89	946	**6,919**
Impairment loss on fixed assets	**1,335**	270	—	**11,367**
Additional severance costs	**417**	—	43	**3,556**
Patent fee for prior years	**335**	120	—	**2,858**
Loss on devaluation of investments in securities	**54**	96	15	**467**
Provision for doubtful accounts	**—**	2,690	—	**—**
Others	**1,767**	2,529	2,635	**15,043**
	5,886	7,766	6,139	**50,112**
Income before income taxes	**4,534**	2,950	5,900	**38,599**
Provision (benefit) for income taxes:				
Current	**588**	546	669	**5,009**
Deferred	**(1,925)**	(2,874)	(1,184)	**(16,393)**
	(1,337)	(2,328)	(514)	**(11,383)**
Income before minority interests	**5,871**	5,279	6,415	**49,982**
Minority interests in subsidiaries	**8**	167	109	**72**
Net income	**¥ 5,862**	¥ 5,111	¥ 6,305	**$ 49,910**
Per share:				
Net income	**¥20.76**	¥18.09	¥22.32	**$0.177**
Cash dividends	**¥ 2.00**	¥ —	¥ —	**$0.017**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Number of common shares outstanding (Thousands)	Millions of yen							
		Common stock	Additional paid-in capital	Retained earnings/ (losses)	Net unrealized gain on revaluation of land	Net unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2003	282,744	¥26,100	¥33,559	¥(39,581)	¥2,763	¥(1,123)	¥(7,088)	¥(12)	¥14,617
Net income	—	—	—	6,305	—	—	—	—	6,305
Decrease due to change in equity method affiliate	—	—	—	(6)	—	—	—	—	(6)
Change in treasury stock	—	—	—	—	—	—	—	(5)	(5)
Net unrealized gain (loss) on revaluation of land	—	—	—	250	(191)	—	—	—	58
Net unrealized gain on securities	—	—	—	—	—	1,685	—	—	1,685
Foreign currency translation adjustments	—	—	—	—	—	—	(1,637)	—	(1,637)
Others	—	—	—	(29)	—	—	—	—	(29)
Balance at March 31, 2004	282,744	26,100	33,559	(33,062)	2,572	561	(8,726)	(17)	20,987
Transfer to retained earnings	—	—	(30,889)	30,889	—	—	—	—	—
Net income	—	—	—	5,111	—	—	—	—	5,111
Change in treasury stock	—	—	—	—	—	—	—	(11)	(11)
Net unrealized loss on revaluation of land	—	—	—	—	(300)	—	—	—	(300)
Net unrealized gain on securities	—	—	—	—	—	251	—	—	251
Foreign currency translation adjustments	—	—	—	—	—	—	695	—	695
Others	—	—	—	(4)	—	—	—	—	(4)
Balance at March 31, 2005	282,744	26,100	2,669	2,934	2,272	813	(8,031)	(29)	26,729
Net income	**—**	**—**	**—**	**5,862**	**—**	**—**	**—**	**—**	**5,862**
Change in accounting standard for overseas subsidiary	**—**	**—**	**—**	**(1,331)**	**—**	**—**	**1,367**	**—**	**35**
Change in treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(10)**	**(10)**
Net unrealized gain (loss) on revaluation of land	**—**	**—**	**—**	**1,020**	**(1,028)**	**—**	**—**	**—**	**(8)**
Net unrealized gain on securities	**—**	**—**	**—**	**—**	**—**	**104**	**—**	**—**	**104**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**1,771**	**—**	**1,771**
Others	**—**	**—**	**—**	**(2)**	**—**	**—**	**—**	**—**	**(2)**
Balance at March 31, 2006	**282,744**	**¥26,100**	**¥ 2,669**	**¥ 8,483**	**¥1,244**	**¥ 918**	**¥(4,891)**	**¥(39)**	**¥34,484**

	Number of common shares outstanding (Thousands)	Thousands of U.S. dollars							
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on revaluation of land	Net unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2005	282,744	$222,186	$22,725	$24,980	$19,347	$6,926	$(68,368)	$(252)	$227,546
Net income	**—**	**—**	**—**	**49,910**	**—**	**—**	**—**	**—**	**49,910**
Change in accounting standard for overseas subsidiary	**—**	**—**	**—**	**(11,338)**	**—**	**—**	**11,644**	**—**	**306**
Change in treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(87)**	**(87)**
Net unrealized gain (loss) on revaluation of land	**—**	**—**	**—**	**8,684**	**(8,752)**	**—**	**—**	**—**	**(68)**
Net unrealized gain on securities	**—**	**—**	**—**	**—**	**—**	**890**	**—**	**—**	**890**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**15,080**	**—**	**15,080**
Others	**—**	**—**	**—**	**(18)**	**—**	**—**	**—**	**—**	**(18)**
Balance at March 31, 2006	**282,744**	**$222,186**	**$22,725**	**$72,218**	**$10,594**	**$7,817**	**$(41,643)**	**$(339)**	**$293,560**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2006	2005	2004	**2006**
Cash flows from operating activities:				
Income before income taxes	**¥ 4,534**	¥ 2,950	¥ 5,900	**$ 38,599**
Adjustments—				
Depreciation and amortization	**4,955**	4,497	4,587	**42,185**
Amortization of goodwill	**82**	78	74	**706**
Equity in gain of affiliates	**(222)**	(136)	(112)	**(1,894)**
Increase (decrease) in allowance for doubtful accounts	**(67)**	2,591	226	**(576)**
Increase in accrued pension and severance costs, less payment	**382**	629	881	**3,260**
Interest and dividend income	**(270)**	(255)	(253)	**(2,306)**
Interest expense	**835**	1,501	2,339	**7,114**
Devaluation of investments in securities	**54**	96	15	**467**
Gain on sales of investments in securities	**(1,373)**	(78)	(384)	**(11,689)**
Gain on sales of property, plant and equipment	**(2,000)**	(55)	(58)	**(17,029)**
Impairment loss on fixed assets	**1,335**	270	—	**11,367**
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	**1,446**	(3,671)	(1,628)	**12,317**
(Increase) decrease in inventories	**(732)**	(210)	4,932	**(6,238)**
Increase in notes and accounts payable	**553**	331	1,920	**4,708**
Others, net	**780**	1,193	431	**6,647**
Subtotal	**10,295**	9,734	18,872	**87,640**
Interest and dividend received	**270**	255	247	**2,306**
Interest paid	**(849)**	(1,448)	(2,401)	**(7,234)**
Income taxes paid	**(479)**	(502)	(659)	**(4,081)**
Net cash provided by operating activities	**9,236**	8,038	16,058	**78,631**
Cash flows from investing activities:				
Increase in time deposits	**(134)**	(43)	(10)	**(1,147)**
Decrease in time deposits	**—**	—	780	**—**
Payment for purchases of property, plant and equipment	**(8,106)**	(3,066)	(1,816)	**(69,009)**
Proceeds from sales of property, plant and equipment	**7,802**	77	942	**66,421**
Payment for purchases of intangible assets	**(3,092)**	(2,709)	(1,713)	**(26,328)**
Proceeds from sales of investments in securities	**2,430**	329	1,616	**20,694**
Increase in loans receivable	**(6)**	(9)	(8)	**(54)**
Decrease in loans receivable	**65**	95	110	**555**
Payment for acquisition of shares from minority shareholders	**—**	(690)	(14)	**—**
Others, net	**(13)**	(15)	(46)	**(113)**
Net cash used in investing activities	**(1,055)**	(6,030)	(158)	**(8,982)**
Cash flows from financing activities:				
Decrease in short-term loans, net	**(10,880)**	(19,540)	(12,010)	**(92,622)**
Proceeds from long-term loans	**10,000**	20,019	6,840	**85,128**
Repayment of long-term loans	**(7,047)**	(17,886)	(8,241)	**(59,993)**
Payment for redemption of debentures	**—**	—	(3,000)	**—**
Others, net	**(10)**	(130)	(55)	**(87)**
Net cash used in financing activities	**(7,938)**	(17,537)	(16,467)	**(67,575)**
Effect of exchange rate changes on cash and cash equivalents	**694**	540	(1,223)	**5,911**
Net increase (decrease) in cash and cash equivalents	**937**	(14,989)	(1,790)	**7,984**
Cash and cash equivalents at beginning of year	**11,016**	26,005	27,795	**93,781**
Cash and cash equivalents at end of year (Note 13)	**¥11,954**	¥11,016	¥26,005	**$101,765**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

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

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

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

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

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates

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

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

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

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

(2) Translation of foreign currency balances and transactions

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

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

(3) Cash and cash equivalents

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

(4) Financial instruments

(a) Securities:

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

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

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

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

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

(b) Derivative financial instruments:

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

(c) Hedge accounting:

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

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

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

(5) Allowance for doubtful accounts

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

(6) Inventories

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

(7) Property, plant and equipment

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

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

(8) Intangible assets

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

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

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

(9) Accounting standards for impairment of fixed assets

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

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

(10) Accrued bonuses

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

(11) Accrued pension and severance costs

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

(12) Research and development costs

Research and development costs are expensed as incurred.

(13) Income taxes

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

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

(14) Revenue recognition

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

(15) Leases

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

(16) Appropriations of retained earnings

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

(17) Net income per share

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

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

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

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

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

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

3. U.S. dollar amounts:

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

4. Impairment loss on fixed assets:

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

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

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

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

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

5. Inventories:

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

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

6. Marketable securities and investments in securities:

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

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

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

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

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

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

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

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

7. Fair values of derivative financial instruments:

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

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

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

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

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

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

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

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

8. Short-term and long-term loans:

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

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

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

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

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

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

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

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

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

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

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

9. Accrued retirement benefits to employees:

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

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

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

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

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

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

Assumptions used in calculating the above information follow:

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

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

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

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

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

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

Date of latest revaluation: March 31, 2001

11. Income taxes:

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

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

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

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

12. Research and development expenses:

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

13. Cash flow information:

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

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

14. Leases:

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

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

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

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

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

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

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

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

15. Commitments and contingencies:

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

16. Segment information:

(1) Information by business segment

The Company operates principally in three business segments.

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

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

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

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

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

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

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

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

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

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

(2) Information by geographic segment

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

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

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

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

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

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

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

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

(3) Export sales and sales by overseas subsidiaries

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

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

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

17. Analysis of selling, general and administrative expenses:

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

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

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2 (9), effective for the year ended March 31, 2006, Clarion Co., Ltd. and its subsidiaries adopt "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets" and "Application Guidance on Accounting Standards for Impairment of Fixed Assets".

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 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 27, 2006

Corporate Data

Company Profile (as of March 31, 2006)

Company Name:	Clarion Co., Ltd.
Head Office:	50 Kami-Toda, Toda-shi, Saitama 335-8511, Japan Tel: (+81-48) 443-1111 Fax: (+81-48) 445-3810 URL: www.clarion.com/
Registered Head Office:	5-35-2 Hakusan, Bunkyo-ku, Tokyo, 112-8608, Japan
Established:	December 1940
Paid-in Capital:	¥26,100 million
Number of Shares Outstanding:	282,744,185 shares
Stock Exchange Listing	Tokyo Stock Exchange, First Section (Ticker Code: 6796)
Number of Shareholders:	32,747
Number of Employees:	10,037 (consolidated) 1,165 (non-consolidated)

Board of Directors and Corporate Auditors
(as of June 27, 2006)

President	Tatsuhiko Izumi
Directors	Yutaka Wakamori Tetsuro Yoshimine Yasuhiko Wada Shoichi Minagawa Ichiro Hondo
Corporate Auditors	Masayuki Kawahara Katsutoshi Takizawa Yasuhiro Sasai Shunjiro Karasawa

Corporate Officers (as of June 27, 2006)

Executive Officers	Yutaka Wakamori Tetsuro Yoshimine Yasuhiko Wada Seishi Kasai Tsuneo Hayashi Hidetoshi Kawamoto
Officers	Shoichi Minagawa Toshiharu Osaka Shiro Ohashi Hiroyuki Nomura Shoji Nakajima

Principal Subsidiaries (as of June 27, 2006)

<Domestic>
Clarion Sales Co., Ltd.
Clarion Associe Co., Ltd.
Clarion M&L Co., Ltd.

<Overseas>
Clarion Corporation of America
Clarion Europa GmbH
Clarion (H.K.) Industries Co., Ltd.
Electronica Clarion, S.A. de C.V.
Clarion France S.A.S.
Clarion Manufacturing Corporation of the Philippines
Clarion Hungary Electronics Kft.

Clarion Co., Ltd.
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Tel: (81) 48-443-1111
URL: http://www.clarion.com/

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