



ANNUAL REPORT 2001

Fiscal Year Ended March 31, 2001

Since 1948, Clarion has been a leader in the car audio electronics industry by developing highly innovative products which consistently set new standards for quality, ingenuity and durability. Around the world, the Clarion name stands for creativity and quality.

CONSOLIDATED FINANCIAL HIGHLIGHTS

<i>For the years ended March 31,</i>	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Net Sales	¥188,686	¥191,855	\$1,522,892
Operating (Loss) Income	(2,058)	3,332	(16,613)
Net (Loss) Income	(7,762)	(17,713)	(62,654)
Per Share of Common Stock (Yen or U.S. Dollars):			
Net (Loss) Income	(49.88)	(113.82)	(0.403)
Cash Dividends	—	—	—
<i>As at March 31,</i>			
Shareholders' Equity	7,422	20,403	59,909
Total Assets	180,621	171,011	1,457,800

Note: U.S. dollar amounts are translated, for convenience only, at ¥123.90 = U.S.\$1, the rate prevailing on March 31, 2001.

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MESSAGE FROM THE PRESIDENT

In fiscal 2001, ended March 31, 2001, the business environment for the Clarion Group remained difficult. In Japan, the automobile sector languished, with new car sales failing to expand both at home and abroad. Cut-throat competition caused prices to fall, and tightening supply of electronic components jeopardized production.

In the United States, economic growth started to slow, but European economies were generally healthy. In Asia, most economies showed a recovery trend, but the outlook for that region appears uncertain due to the slowdown in the U.S. economy.

The Clarion Group responded by rigorously streamlining operations, with emphasis on reducing cost of sales and fixed costs. Consolidated net sales in fiscal 2001 amounted to ¥188,686 million (\$1,522.9 million), down 1.7% from fiscal 2000. The decline stemmed from a number of factors. For a start, original equipment manufacturer (OEM) sales were affected by requests from automobile manufacturers to reduce prices. In addition, sales of aftermarket products were negatively impacted by cutbacks in purchases by customers. The situation was further exacerbated by the strong yen, which hurt export sales.

Despite aggressive efforts to reduce cost of sales and selling, general, and administrative expenses, the operating loss was ¥2,058 million (\$16.6 million).

The Company reported significant other expenses, associated with such factors as the reorganization of production subsidiaries, devaluation of investment securities, and amortization of the discrepancy arising from the adoption of retirement benefits account standards. With regret, the Company posted a consolidated net loss of ¥7,762 million (\$62.6 million) for the year.

Sales by Category

Car Audio-Visual Equipment

Overseas sales of car audio-visual equipment were up thanks to steady OEM production and sales to European automobile manufacturers. However, OEM sales in Japan declined due to requests from manufacturers to reduce prices. As a result, overall OEM sales were down.

In the aftermarket, domestic sales declined due to falling demand and sales prices. Sales in Europe fell sharply, largely because of the yen's appreciation against the euro.

With respect to car navigation systems, domestic OEM sales increased significantly, but sales were down in the aftermarket due to severe price competition.

As a result, sales in the car audio-visual equipment category slipped 2.9%, to ¥168,847 million (\$1,362.8 million).

Special Equipment

Sales of commercial karaoke systems fell 7.7%, to ¥8,683 million (\$70.1 million). Our efforts to expand sales of spread spectrum (SS) synthesizer karaoke systems were thwarted by a drop in business at karaoke rooms and hotels.

In the segment of audio-visual equipment for buses, demand for new buses declined due to capital investment constraints caused by the prolonged domestic recession. However, rear-view monitor systems were warmly received both in the recreational vehicle market and the traditional market.

As a result, sales in the special equipment category jumped 36.5%, to ¥5,651 million (\$45.6 million).

New Creation 21 Plan

At the Board of Directors meeting held on May 1, 2001, I assumed the post of president, replacing Ichizo Ishitsubo, who served the Clarion Group with distinction for eight years amid very challenging conditions. I would like to thank Mr. Ishitsubo for his long years of service.

In our mainstay car audio-visual equipment sector, we will continue facing difficult conditions due to intense price competition in both the OEM and aftermarket. By contrast, we expect car navigation systems to prosper in combination with telematics and intelligent transport system (ITS) services. We at Clarion must transform ourselves in order to take advantage of these major trends. For this reason, we formulated the New Creation 21 medium-term management plan, which commits the Clarion Group and all of its employees to a full-scale corporate transformation.

Guided by the plan, we will concentrate our managerial resources on development and sale of in-vehicle computing system (IVCS) devices and mechanical modules for PCs. In other words, we will undergo a qualitative transformation, from a conventional car audio-visual equipment manufacturer to an information and communications systems enterprise. Specifically, we will step up development of multi-purpose in-vehicle computers compatible with communications, car navigation, video, digital audio, and other functions. We will also develop mechanical modules related to such computer systems.

Under the plan, we intend to reduce overall costs by 20% over a three-year period. This will entail rationalization of our supplier network and a ¥8 billion reduction in procurement costs over the same period. We will also streamline production systems, both in Japan and overseas, and reduce our total workforce by around 1,500 people, down 10% from the current level, over the next two years.

Fiscal 2004, ending March 2004, will be the final year of the New Creation 21 plan. In that year, we are targeting consolidated net sales of ¥215 billion (\$1,735.3 million) and operating income of ¥7.5 billion (\$60.5 million).

Future Perspectives

Business conditions are changing at unprecedented speed, sparked by price competition and shifting distribution and demand structures. In this era of upheaval, we will transform the business structure of the Clarion Group so we can face the future with confidence.

We look forward to the continued understanding and cooperation of shareholders and customers in our future endeavors.



A stylized, handwritten signature in black ink, which appears to read 'T. Izumi'.

Tatsuhiko Izumi
President

Development, Production, and Sales System

In the year under review, Clarion reorganized its sales system, creating separate units for each group of domestic and overseas automobile manufacturers in an effort to strengthen OEM sales. As a result, each sales unit can now access information about its respective manufacturer group in real time and help accelerate product development accordingly.

To reinforce our superior position in the face of worldwide price competition, we are working to shift production from Japan to overseas locations. We will mainly concentrate production in our plants in China and the Philippines. Meanwhile, our assembly plants in France, Hungary, and Mexico will increase local procurement of materials and components while maintaining their current assembly capacity. As a result of these measures, we aim to increase the ratio of finished products made overseas to 90% in the year ending March 2003, from 70% at the end of fiscal 2001. (The ratio for mechanical modules used in CD players and other items will rise from 80% to 90% in the same period.)

Globalizing and Regionalizing Our Car Audio-Visual Equipment Business

In the car audio-visual equipment business, our fundamental approach is to develop and manufacture products that meet specific demands in each of the regions they are sold. At the same time, we work to increase local procurement of materials and components. In line with this approach, we have reinforced our system of four regional headquarters, located in Japan, The Americas, Europe, and Asia. In this way, we are better equipped to develop, manufacture, and sell products that closely meet specific local requirements.

Japan

In the year under review, continuing uncertainty in the domestic economy caused production and sales in the automobile industry to stagnate. Price competition worsened in the category of car audio-visual equipment for new cars, both in the OEM and aftermarket segments, causing sales prices to decline. In addition, falling sales prices and tightening supply of components led to lost opportunities for production and sales.

Consolidated sales in Japan in fiscal 2001 amounted to ¥93,577 million (\$755.3 million), down 3.6% from fiscal 2000. This represented around 50% of Clarion's consolidated net sales. The operating loss in Japan was ¥2,224 million (\$17.9 million).

The Americas

Clarion Group manufacturers of mechanical modules for cassette and CD players for the U.S. OEM market have acquired QS-9000 certification, the product quality standard adopted by the Big Three U.S. automobile makers. Clarion's OEM Business Division, as well as its production operations in the United States, Mexico, and China, have also obtained QS-9000 certification.

In April 2000, Clarion Brazil was established as a wholly owned subsidiary of Clarion Corporation of America—the regional headquarters for the Americas—to facilitate sales to the Brazilian arm of Honda Motor Co., Ltd.

The aftermarket in North America has matured, characterized by severe competition. Clarion is working to expand its market share by offering low-priced, high-quality products with advanced functions.

OEM sales in North America languished due to the slowdown of the U.S. economy, and price competition in the aftermarket was severe. These factors severely affected Clarion's revenues and profits in that region. Consolidated sales fell 10.3%, to ¥51,867 million (\$418.6 million), and the Company posted an operating loss of ¥283 million (\$2.3 million).

Europe

In fiscal 2001, Clarion endeavored to expand market share in Europe by developing, making, and selling products for local automobile manufacturers on an OEM basis. The aftermarket remained difficult, however, with tough competition from local and Japanese manufacturers.

Nonetheless, we expanded our sales base, taking advantage of our strengths in car navigation systems and car television systems. We have launched navigation systems covering Europe, with maps in six different languages. These have proved very popular. Germany is at the forefront in developing traffic information systems,

and EU-wide systems are currently being planned. Clarion will strengthen its product development and sales efforts in preparation for such expansion.

Despite the strong yen, we posted a 30% jump in OEM sales, especially of CD players, due to high demand among European automobile makers for our products in their 2000 models. As a result, consolidated sales in Europe rose 12.9%, to ¥35,361 million (\$285.4 million), and operating income climbed to ¥292 million (\$2.4 million).

Asia

Clarion has spun off its mechanical module business and shifted production to China, the Philippines, and Malaysia. Among our production operations in Asia, those making products for the U.S. market have acquired QS-9000 certification, while those serving the European market have obtained ISO9000 series certification.

In the aftermarket, we continued to upgrade our lineup of car audio-visual equipment, car navigation devices, and car television devices in order to bolster sales. As a result, consolidated sales in Asia soared 40.1%, to ¥7,880 million (\$63.6 million), and operating income jumped 216.7%, to ¥640 million (\$5.2 million).

In-Vehicle Computing Systems

Incorporating the latest information and communications technologies, intelligent transport systems (ITSs) connect people, roads, and vehicles to provide valuable information on traffic jams, road accidents, and other road conditions. These systems involve development efforts in nine different fields, including navigation systems, electronic toll collection (ETC) systems, and assistance for driving safety. It is believed that ITSs will spread rapidly throughout the world. For this reason, our business strategy for the 21st century entails shifting our focus from car audio-visual equipment to the development of in-vehicle computing system (IVCS) devices to meet growing demand from ITS and Telematics services.

In the OEM market, we are developing core technologies and products with ITSs in mind, and we have already started introducing IVCS devices on a commercial basis. Our leading position in

this field is demonstrated by our introduction of the AutoPC, a world first, in the U.S. aftermarket. We will work hard to expand our market position in the future.

One specific ITS-related initiative is our joint development of ETC terminals with Hitachi Ltd. We are also developing next-generation car navigation system devices, which will be supplied to Nissan Motor Co., Ltd., in the spring of 2002. In addition, we are jointly developing an intelligent multimode transit system (IMTS) with Toyota Motor Corp. In this project, we have created a stable communications system, which is a prerequisite for high-speed, driverless vehicle operation, and have started practical trials.

In order to reinforce and accelerate IVCS development, Clarion will continue to actively pursue business and technology-transfer alliances with other companies.

SS Wireless Equipment

Clarion was one of the first companies to develop an SS wireless modem that provides stable transmission and is highly reliable in noisy environments. We are currently engaged in practical trials covering multiple applications. Our SS modems are already used in the Airport Surface Automatic Dependent Surveillance (ADS) system at Chitose Airport in Hokkaido. There, they are proving reliable in monitoring the positions of various moving vehicles and in facilitating vehicle dispatch and control.

Based on our accumulated technical expertise in SS wireless modems, we will accelerate development of products and applications, both in industrial areas and in IVCS-related devices and terminals.

CONSOLIDATED FINANCIAL STATEMENTS**Consolidated Balance Sheets** as of March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
ASSETS			
Current Assets:			
Cash on Hand and in Banks	¥ 26,046	¥ 22,190	\$ 210,223
Notes and Accounts Receivable	37,699	35,183	304,273
Less: Allowance for Doubtful Accounts	(2,983)	(2,545)	(24,083)
Marketable Securities	155	4,144	1,252
Inventories	49,712	38,277	401,231
Deferred Income Taxes	1,091	700	8,811
Prepaid Expenses and Other Current Assets	6,667	7,089	53,812
Total Current Assets	118,389	105,039	955,521
Investments in Securities	15,991	14,347	129,071
Property, Plant and Equipment:			
Buildings and Structures	23,892	25,214	192,837
Machinery and Equipment	42,762	45,719	345,138
	66,655	70,933	537,976
Less: Accumulated Depreciation	(46,342)	(49,320)	(374,031)
	20,312	21,613	163,944
Land	13,521	8,701	109,131
Construction in Progress	364	108	2,937
	34,198	30,423	276,013
Intangible Assets	8,444	7,028	68,155
Deferred Assets			
Discount on Bonds	103	—	831
Other Assets	3,494	4,528	28,207
Adjustments on Foreign Currency Translation	—	9,644	—
Total Assets	¥180,621	¥171,011	\$1,457,800

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
LIABILITIES, MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-Term Loans	¥ 77,242	¥ 67,521	\$ 623,428
Commercial Papers	—	2,000	—
Notes and Accounts Payable	37,928	29,587	306,122
Accrued Bonus	1,640	2,235	13,237
Income Taxes Payable	352	386	2,843
Deferred Income Taxes	1	—	15
Other Current Liabilities	12,592	11,036	101,635
Total Current Liabilities	129,758	112,767	1,047,282
Long-Term Loans	20,495	25,123	165,421
Debentures	3,000	—	24,213
Convertible Bond	5,000	—	40,355
Accrued Employees' Severance Indemnities	—	9,785	—
Accrued Pension and Severance Costs	9,884	—	79,780
Other Long-Term Liabilities	738	701	5,960
Deferred Income Taxes on Revaluation of Land	1,999	—	16,138
Deferred Income Taxes	1,369	1,468	11,052
Total Liabilities	172,246	149,846	1,390,203
Minority Interests in Consolidated Subsidiaries	952	761	7,687
Shareholders' Equity:			
Common Stock, par value ¥50 per Share Authorized: 450,000,000 Shares			
Issued: 155,624,878 Shares at March 31, 2001 and 2000	19,432	19,432	156,840
Additional Paid-in Capital	26,942	26,934	217,453
Net Unrealized Gain on Revaluation of Land	2,755	—	22,240
Deficit	(33,853)	(25,962)	(273,228)
Adjustments on Foreign Currency Translation	(7,854)	—	(63,395)
Treasury Stock	(0)	(1)	(1)
Total Shareholders' Equity	7,422	20,403	59,909
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	¥180,621	¥171,011	\$1,457,800

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income for each of the three years in the period ended March 31, 2001

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Net Sales	¥188,686	¥191,855	¥199,575	\$1,522,892
Cost of Sales	155,630	150,002	150,742	1,256,097
Gross Profit	33,056	41,853	48,833	266,795
Selling, General and Administrative Expenses	35,114	38,520	41,800	283,409
Operating (Loss) Income	(2,058)	3,332	7,033	(16,613)
Other Income (Expenses):				
Interest Income	455	420	409	3,679
Dividend Income	126	130	120	1,024
Interest Expenses	(2,729)	(2,473)	(2,938)	(22,028)
Provision for Allowance for Doubtful Accounts	—	(1,474)	—	—
Gain (Loss) on Sales or Disposal of Property, Plant and Equipment, Net	180	(909)	(185)	1,460
Loss from Write-Down and Disposal of Inventories	—	(5,096)	(384)	—
Loss from Write-Down of Investments in Securities	(792)	(1,853)	(—)	(6,396)
Officers' Retirement Expenses	(32)	(197)	(27)	(259)
Additional Accrual for Employees' Severance Indemnities	—	(4,645)	(—)	—
Gain (Loss) on Sales of Investments in Securities, Net	841	241	(68)	6,794
Loss from Write-Down of Marketable Securities	—	(151)	(84)	—
Gains on Securities Contributed to Employee Retirement Benefit Trust	309	—	—	2,498
Contribution of Securities to Employee Retirement Benefit Trust	(518)	—	—	(4,184)
Cumulative Effect of an Accounting Change	(464)	—	—	(3,747)
Exchange Income (Loss), Net	231	(948)	(1,939)	1,866
Others, Net	(2,641)	(3,254)	33	(21,319)
	(5,031)	(20,212)	(5,066)	(40,611)
(Loss) Income before Income Taxes	(7,090)	(16,879)	1,966	(57,225)
Provision for Income Taxes:				
Current	797	710	747	6,434
Deferred	(116)	60	—	(937)
	680	771	747	5,496
	(7,771)	(17,650)	1,219	(62,721)
Minority Interests	(8)	(62)	(168)	(67)
Net (Loss) Income	¥ (7,762)	¥ (17,713)	¥ 1,051	\$ (62,654)
		Yen		U.S. Dollars
Per Share:				
Net (Loss) Income	¥(49.88)	¥(113.82)	¥6.76	\$ (0.403)
Cash Dividends	¥ —	¥ —	¥3.00	\$ —

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity for each of the three years in the period ended March 31, 2001

	Number of Shares of Common Stock Outstanding (Thousands)	Millions of Yen				
		Common Stock	Additional Paid-in Capital	Legal Reserve	Deficit	Treasury Stock
Balance at March 31, 1998	155,625	¥19,432	¥26,935	¥288	¥ (8,738)	¥(0)
Net Income for the Year Ended March 31, 1999	—	—	—	—	1,051	—
Cash Dividends Paid	—	—	—	—	(466)	—
Transfer from Legal Reserve	—	—	—	(288)	288	—
Subsidy from French Government Paid Back for Reduced Employment	—	—	(2)	—	—	—
Decrease from Discontinued Consolidation of Subsidiaries	—	—	—	—	(28)	—
Treasury Stock Transactions, Net	—	—	—	—	—	(1)
Others	—	—	—	—	(1)	—
Balance at March 31, 1999	155,625	19,432	26,933	—	(7,894)	(1)
Cumulative Effect of an Accounting Change	—	—	—	—	134	—
Net Loss for the Year Ended March 31, 2000	—	—	—	—	(17,713)	—
Cash Dividends Paid	—	—	—	—	(466)	—
Increase from Initial Application of Equity Method for Investments in Affiliates	—	—	—	—	18	—
Decrease from Initial Consolidation of Subsidiaries	—	—	—	—	(38)	—
Treasury Stock Transactions, Net	—	—	—	—	—	0
Others	—	—	1	—	(2)	—
Balance at March 31, 2000	155,625	19,432	26,934	—	(25,962)	(1)
Net Loss for the Year Ended March 31, 2001	—	—	—	—	(7,762)	—
Decrease from Change in Scope of Consolidation; Exclusion from Consolidated Subsidiaries	—	—	—	—	(119)	—
Treasury Stock Transactions, Net	—	—	—	—	—	0
Others	—	—	7	—	(7)	—
Balance at March 31, 2001	155,625	¥19,432	¥26,942	¥ —	¥(33,853)	¥(0)

	Number of Shares of Common Stock Outstanding (Thousands)	Thousands of U.S. Dollars				
		Common Stock	Additional Paid-in Capital	Legal Reserve	Deficit	Treasury Stock
Balance at March 31, 2000	155,625	\$156,840	\$217,391	\$ —	\$(209,546)	\$(8)
Net Loss for the Year Ended March 31, 2001	—	—	—	—	(62,654)	—
Decrease from Change in Scope of Consolidation; Exclusion from Consolidated Subsidiaries	—	—	—	—	(965)	—
Treasury Stock Transactions, Net	—	—	—	—	—	7
Others	—	—	62	—	(62)	—
Balance at March 31, 2001	155,625	\$156,840	\$217,453	\$ —	\$(273,228)	\$(1)

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows for each of the two years in the period ended March 31, 2001

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash Flows from Operating Activities:			
Loss before Income Taxes	¥ (7,090)	¥(16,879)	\$ (57,225)
Adjustments–			
Depreciation	5,282	6,743	42,631
Amortization of Goodwill	286	189	2,311
Equity in Income/Loss of Affiliates	13	(38)	107
Provision for Doubtful Accounts	481	1,518	3,885
Provision for Severance Indemnities, Less Payments	84	5,142	678
Interest and Dividend Income	(582)	(551)	(4,703)
Interest Expenses	2,729	2,473	22,028
Devaluation of Marketable Securities and Investments in Securities	792	2,002	6,396
Exchange Gain/Loss	(932)	496	(7,524)
Gain on Sales of Marketable Securities	—	(118)	—
Gain on Sales of Investments in Securities	(908)	(241)	(7,335)
Gain on Sales of Property, Plant and Equipment	(1,066)	(126)	(8,611)
Loss on Sales of Investments in Securities	67	—	541
Loss on Sales of Property, Plant and Equipment	549	—	4,433
Loss on Disposal of Property, Plant and Equipment	336	1,480	2,717
Changes in Assets and Liabilities:			
Receivables	160	(3,398)	1,292
Inventories	(8,132)	3,209	(65,636)
Notes and Accounts Payable	5,610	(1,169)	45,284
Others, Net	1,773	5,110	14,314
Sub-Total	(546)	5,843	(4,414)
Interest and Dividend Received	682	548	5,505
Interest Paid	(2,707)	(2,519)	(21,850)
Income Taxes Paid	(814)	(1,004)	(6,571)
Net Cash Used/Provided by Operating Activities	(3,386)	2,868	(27,331)
Cash Flows from Investing Activities:			
Increase in Time Deposits	(1,481)	(1,043)	(11,955)
Decrease in Time Deposits	1,335	1,619	10,776
Purchases of Marketable Securities	(2,052)	(296)	(16,569)
Sales of Marketable Securities	2,075	529	16,754
Purchases of Property, Plant and Equipment	(4,809)	(6,316)	(38,814)
Sales of Property, Plant and Equipment	2,388	1,896	19,278
Purchases of Intangible Assets	(2,352)	(3,024)	(18,989)
Sales of Intangible Assets	42	38	341
Purchases of Investments in Securities	(48)	(1,404)	(391)
Sales of Investments in Securities	2,325	1,243	18,773
New Acquisition of Subsidiaries	—	(80)	—
Proceeds from sales of interest in consolidated subsidiaries	106	—	859
Increase in Loans	(182)	(2,551)	(1,469)
Collection of Loans	283	1,652	2,285
Proceeds from issuance of shares to minority shareholders	381	—	3,078
Others, Net	(96)	(10)	(775)
Net Cash Used in Investing Activities	(2,083)	(7,747)	(16,818)
Cash Flows from Financing Activities:			
Increase in Short-Term Loans, Net	5,954	2,632	48,056
Repayment of Commercial Papers	(2,000)	(3,500)	(16,142)
Proceeds from Long-Term Loans	4,384	15,672	35,384
Repayment of Long-Term Loans	(8,443)	(8,355)	(68,145)
Proceeds from issuance of debentures	7,850	—	63,357
Purchases of Treasury Stock	(14)	(90)	(113)
Sales of Treasury Stock	15	89	127
Cash Dividends Paid	—	(466)	—
Cash Dividends Paid to Minority Shareholders	(0)	(0)	(7)
Net Cash Provided by Financing Activities	7,745	5,980	62,517
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,340	(1,195)	10,815
Net Increase/Decrease in Cash and Cash Equivalents	3,615	(94)	29,182
Cash and Cash Equivalents, at beginning	18,748	18,159	151,320
Cash and Cash Equivalents of Subsidiaries Initially Consolidated, at beginning	10	683	80
Cash and Cash Equivalents, at end	¥22,374	¥ 18,748	\$180,584

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS:

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

Effective from the year ended March 31, 2000, the Company adopted a new accounting standard requiring presentation of a

Statement of Cash Flows, which is effective for periods beginning on or after April 1, 1999.

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

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

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

The U.S. dollar amounts stated in the Consolidated Financial Statements are included solely for convenience of readers outside Japan. The rate of ¥123.90 = US\$1, the approximate rate of exchange as at March 31, 2001, has been used for the purpose of such translation. Those translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Consolidation and Investments in Affiliates

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

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

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

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. In the year ended March 31, 2000, the Company changed the amortization period for goodwill relating to domestic subsidiaries to 10 years. In the year ended March 31, 1999 and prior, the Company amortized the same over 5 years. Goodwill of a U.S. subsidiary arising from its consolidation in the U.S. is amortized over 20 years.

(2) Translation of Foreign Currency Balances and Transactions

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

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

Effective from the year ended March 31, 2001, the Company adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000.

Foreign currency financial statement differences in yen amounts arising from the use of different rates are presented as Adjustments on Foreign Currency Translation in the separate components of Shareholders' Equity for the year ended March 31, 2001, whereas the differences were recorded in the Consolidated Balance Sheets as Assets or Liabilities for the year ended March 31, 2000.

The effect of adopting the new accounting standard on the accompanying consolidated financial statements was immaterial.

(3) Cash and Cash Equivalents

For the purpose of the Consolidated Statement of Cash Flows, Cash and Cash Equivalents consists of cash, certificates of deposits with original maturity of three months or less, and other highly liquid investments which are virtually without risk of loss in value.

(4) Financial Instruments

(a) Securities

Effective from the year ended March 31, 2001, Clarion and its domestic subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000.

Securities held by Clarion and its domestic subsidiaries are, under the new standard, classified into four categories;

Trading Securities, which are held for the purpose of generating profits on short-term differences in prices, are stated at fair value, with changes in fair value charged to income for the period in which they arise.

Held-to-Maturity Debt Securities, that Clarion and its domestic subsidiaries have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which are amortized over the period to maturity.

Investments of Clarion and its domestic subsidiaries in Equity Securities issued by unconsolidated subsidiaries are accounted for by the equity method.

Other Securities for which market quotations are available are stated at cost; cost being determined based on principally the moving-average method and for which market quotations are unavailable are stated at cost.

In cases where the fair value of Held-to-Maturity Debt Securities, Equity Securities issued by affiliates, which are not accounted for the equity method, or Other Securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are charged to income.

Under the new standard, Trading Securities and Debt Securities due within one year are classified as “current” and all the other securities are classified as “non-current”. The securities held by the Company have been reclassified as of April 1, 2000 (the beginning of year). As a result of such reclassification, the securities included in current assets have decreased by ¥3,914 million and the securities included in non-current assets have increased by the same amount.

(b) Derivative Financial Instruments

Under the new standard on derivative financial instruments explained above in (a), all derivatives are stated at fair value, with changes in fair value charged to current income for the period in which they arise, except for derivatives that are designated as “hedging instruments” (see (c) Hedge Accounting below).

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

(c) Hedge Accounting

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

Clarion and its domestic subsidiaries have a policy to utilize the hedging instruments in order to reduce their exposure to the risk of foreign exchange fluctuation.

The derivatives designated as hedging instruments by Clarion and its domestic subsidiaries are principally forward foreign exchange contracts.

(5) Allowance for Doubtful Accounts

In accordance with the new accounting standards, the Allowance for Doubtful Accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus an amount for receivables other than doubtful receivables calculated using historical write-off experience from certain prior periods.

(6) Inventories

Inventories are stated at cost being determined by the weighted average method. Supplies are stated at cost being determined by the last purchase price method.

(7) Property, Plant and Equipment

Property, Plant and Equipment, including significant renewals and improvements, are carried at cost. Maintenance and repairs including minor renewals and betterment are charged to income as incurred.

By Clarion and its domestic subsidiaries, depreciation is computed under the declining-balance method at rates based on the estimated useful lives of the assets, which are prescribed by the Japanese income tax laws. And by the overseas consolidated subsidiaries, depreciation is computed under the straight-line method in accordance with the generally accepted accounting principles prevailing in the respective regions in which they were incorporated. Dies, included in Machinery and Equipment, are depreciated under the straight-line method over the estimated useful lives of the assets.

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

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

respective premiums paid on acquisitions.

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

(8) Pension and Severance Costs

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

In September 2000, Clarion entered into a retirement benefit trust agreement with an outside trust company and then contributed identified marketable securities to the employee retirement benefit trust. These marketable securities were set aside for the trust at their fair value of ¥518 million, and unrealized gains of ¥309 million thereon were recorded as Gain on Securities Contributed to Employee Retirement Benefit Trust on the Consolidated Statement of Income for the year ended March 31, 2001.

As a result of adopting the new standard, net pension expense and employees' severance indemnities for the year ended March 31, 2001 has increased by ¥928 million and Loss before Income Taxes has increased by ¥618 million, after consideration of Gains on Securities Contributed to Employee Retirement Benefit Trust of ¥309 million, as compared with the amounts which would have been reported if the previous standard had been applied consistently.

At March 31, 2000, Accrued Employees' Severance Indemnities was provided for 100% of the Company's payments to employees based on the amount that would have been required assuming voluntary retirement of all employees at the balance sheet date. At March 31, 1999 and prior, the same accrual was provided for 50% of the Company's payments to employees based on the amount that would have been required assuming voluntary retirement of all employees at the balance sheet date. Such change caused an increase in Cost of Sales for ¥108 million, increase in Selling, General and Administrative Expenses for ¥132 million, decrease in Operating Income for ¥241 million, increase in Other Expenses for ¥4,645 million, increase in Loss before Income Taxes for ¥4,887 million, increase in Net Loss for ¥4,885 million, and increase in Deficit for ¥4,882 million.

(9) Research and Development Costs

Research and development costs are charged to income as incurred.

(10) Income Taxes

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

For the year ended March 31, 1999, income taxes are provided based on amounts required by the tax returns for the respective year.

(11) Revenue Recognition

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

(12) Leases

Finance leases, other than those which involve transferring of ownership of the leased assets to the lessee by the end of the lease terms, are accounted for in a manner similar to operating leases.

(13) Resolution of Deficit

Resolution of Deficit reflected in the Consolidated Financial Statements is recorded after approval by the shareholders as required by the Japanese Commercial Code.

(14) Net (Loss) Income per Share

Net (Loss) Income per Share - Basic is computed by dividing (loss) income applicable to Common Stock by weighted-average number of shares of Common Stock outstanding during each year. Dilutive effects on the Net Income per Share are not presented since the financial results of the Company for the year ended March 31, 2001 have shown a loss.

3. CONSOLIDATED STATEMENT OF CASH FLOWS:

Cash on Hand and in Banks at March 31, 2001 and 2000, on the Consolidated Balance Sheet and Cash and Cash Equivalents at March 31, 2001 and 2000, on the Consolidated Statement of Cash Flows are reconciled as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Cash on Hand and in Banks	¥26,046	¥22,190	\$210,223
Deposits with Original Maturity of Three Months or More	(3,757)	(3,513)	(30,324)
Debt Security Mutual Funds	84	71	685
Cash and Cash Equivalents	¥22,374	¥18,748	\$180,584

4. INVENTORIES:

Inventories at March 31, 2001 and 2000 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Finished Products	¥26,123	¥21,224	\$210,842
Work in Process	2,524	2,501	20,378
Raw Materials and Supplies	21,064	14,551	170,010
	¥49,712	¥38,277	\$401,231

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES:

Trading Securities as of March 31, 2001

N/A

Held-to-Maturity Debt Securities as of March 31, 2001

N/A

Other Securities for which market quotations are available at March 31, 2001 as follows:

	Millions of Yen	Thousands of U.S. Dollars
	March 31,	March 31,
	2001	2001
Book Value	¥15,624	\$126,107
Fair Value	13,077	105,551
Net Unrealized Losses on Valuation	(2,546)	(20,555)
Deferred Income Tax Assets	—	—

Other Securities sold during the year ended March 31, 2001 as follows:

	Millions of Yen	Thousands of U.S. Dollars
	March 31,	March 31,
	2001	2001
Sales Amount	¥2,325	\$18,773
Total Gain on Sales	908	7,335
Total Loss on Sales	(67)	(541)

Investment Securities at March 31, 2001 had a carrying amount as follows:

	Millions of Yen	Thousands of U.S. Dollars
	March 31,	March 31,
	2001	2001
Held-to-Maturity Debt Securities		
Discount Debenture	¥ 55	\$ 443
Other Securities		
Non-public Equity Securities	350	2,825
Others	84	677

The projected amount of redemption at maturity of Other Securities are as follows (as of March 31, 2001):

	Millions of Yen			
	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
(1) Debt Securities				
Debentures	—	¥45	—	—
(2) Others				
Mutual fund	¥10	—	—	—

	Thousands of U.S. Dollars			
	Within one year	More than one year, within five years	More than five years, within ten years	More than ten years
(1) Debt Securities				
Debentures	—	\$366	—	—
(2) Others				
Mutual fund	\$82	—	—	—

Fair values of Marketable Securities and Investments in Securities at March 31, 2000 are as follows:

	Millions of Yen		
	Book Value	Fair Value	Unrealized Gain (Loss)
Marketable Securities:			
Equity Securities	¥3,879	¥5,317	¥ 1,438
Debt Securities	45	33	(12)
Others	92	84	(8)
	¥4,017	¥5,435	¥ 1,417
Investments in Securities:			
Equity Securities	¥13,510	¥11,986	¥(1,524)
Others	40	25	(14)
	¥13,551	¥12,011	¥(1,539)

	Thousands of U.S. Dollars		
	Book Value	Fair Value	Unrealized Gain (Loss)
Marketable Securities:			
Equity Securities	\$36,548	\$50,096	\$13,547
Debt Securities	428	312	(115)
Others	872	793	(78)
	\$37,849	\$51,202	\$13,353
Investments in Securities:			
Equity Securities	\$127,281	\$112,917	\$(14,364)
Others	382	241	(140)
	\$127,664	\$113,159	\$(14,505)

The market values of listed securities represent principally the closing prices of the Tokyo Stock Exchange. The market values of Equity Securities traded over-the-counter represent the prices announced by Japanese Securities Dealers Association. The market values of non-listed mutual funds represent the standard quoted prices announced

by the fund managers.

Discount debentures, balances in money management funds, and non-public equity securities for ¥54 million, ¥36 million, and ¥796 million, respectively, are excluded from this table.

6. SHORT-TERM AND LONG-TERM LOANS:

Short-Term and Long-Term Loans at March 31, 2001 and 2000 consist of the following :

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Short-term Bank Loans, consisting principally of 90 - day notes issued to banks	¥67,091	¥57,747	\$541,495
Current Portion of Long-term Loans from Banks and Insurance Companies	10,151	9,773	81,932
Total Short-Term Loans	77,242	67,521	623,428
Long-term Loans from Banks and Insurance Companies due through 2019	20,495	25,123	165,421
	¥97,738	¥92,644	\$788,849

The weighted-average rates for the Short-Term Loans and Long-Term Loans at March 31, 2001, were 3.25% and 2.28%, respectively.

Repayment schedule for Long-Term Loans from Banks and Insurance Companies are as follows:

In the year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2001	¥10,151	\$81,932
2002	8,910	71,914
2003	6,140	49,562
2004	2,449	19,770
2005	1,180	9,530

At March 31, 2001, assets pledged as collateral for Short-Term and Long-Term Loans are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes Receivable	¥ 1,150	\$ 9,281
Net Book Value of :		
Buildings and Structures	3,135	25,309
Machinery and Equipment	183	1,477
Land	7,875	63,562
Marketable Securities	55	443
Investments in Securities	14,577	117,652
	¥26,976	\$217,727

7. REVALUATION OF LAND USED FOR BUSINESS OPERATION IN ACCORDANCE WITH THE LAND REVALUATION LAW:

In accordance with Article 119 of 1998 Cabinet Order - Article 2-1 of the Enforcement Ordinance relating to the Land Revaluation Law, revaluation is performed by the method of calculating land value for the standard basis of land in accordance with the Law for Government Appraisal of Land Prices. And Article 2-4 of the said Enforcement Ordinance, revaluation is performed by the method of calculating land value for a taxable basis of Land Value Tax amounts along with reasonable adjustments, such as shape of land and accessibility, in accordance with the Article 16 of the Land-Holding Tax Law. This method is

established and published by the Director General of National Tax Administration, and the land is valued by the real estate appraiser in accordance with the Article 2-5.

As a result, Deferred Income Taxes on Revaluation of Land is recorded as Liabilities and Net Unrealized Gain on Revaluation of Land, net of tax, is recorded as a component of Shareholders' Equity.

Date of revaluation:	March 31, 2001
Book value before revaluation:	¥ 8,766 million
Book value after revaluation:	¥13,521 million

8. FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS:

Clarion enters into forward exchange contracts and interest rate swaps to manage market risks relating to fluctuations in the foreign exchange and interest rates. Clarion does not hold or issue financial instruments

for trading purposes. The estimated unrealized losses from these contracts at March 31, 2001 and 2000 are as follows:

	Millions of Yen			
	March 31, 2001		March 31, 2000	
	Carrying Amount	Unrealized Loss	Carrying Amount	Unrealized Loss
Forward Foreign Exchange Contracts	—	¥(348)	—	¥ (7)
Interest Rate Swaps	—	¥(315)	—	¥(137)

9. PENSION AND SEVERANCE COSTS:

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

employees' severance indemnities plan as a defined benefit pension plan. And some of the overseas consolidated subsidiaries adopt a defined contribution pension plan.

The Accrued Pension and Severance Costs as of March 31, 2001 is analyzed as follows:

	Millions of Yen	Thousands of U.S. Dollars
Projected Benefit Obligations	¥(15,177)	\$(122,500)
Plan Assets	3,115	25,141
Securities Contributed to Employee Retirement Benefit Trust	343	2,768
Unfunded	(11,719)	(94,589)
Unrecognized Transition Amount	1,857	14,990
Unrecognized Actuarial Differences	(22)	(180)
Accrued Pension and Severance Costs	¥ (9,884)	\$ (79,780)

(Note) The domestic consolidated subsidiaries adopts the simplified method.

Net pension expense related to the retirement benefits for the year ended March 31, 2001 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service Cost	¥ 818	\$ 6,606
Interest Cost	292	2,361
Expected Return on Plan Assets	(76)	(615)
Amortization of Transition Amount	464	3,747
Pension Expense on Securities Contributed to Employee Retirement Benefit Trust	518	4,184
Net Pension Expense	¥2,017	\$16,283

- (Notes)
1. The net pension expense of the domestic consolidated subsidiaries which adopt the simplified method is included in the service cost.
 2. Clarion contributed identified marketable securities to the employee retirement benefit trust. Unrealized gains of ¥309 million were recorded as Gains on Securities Contributed to Employee Retirement Benefit Trust on the Consolidated Statement of Income for the year ended March 31, 2001.
 3. Extra employees' severance indemnities of ¥410 million (\$3,313 thousand) are included in the other expenses.

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

	As of March 31, 2001
Discount Rate	3.0%
Expected Rate of Return on Plan Assets	3.0%
Amortization Term of Actuarial Difference	15 Years
(Amortized from next fiscal year)	
Amortization Term of Transition Obligation	5 Years

10. INCOME TAXES:

Significant components of the Company's deferred income tax assets and liabilities at March 31, 2001 and 2000 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Deferred Income Tax Assets:			
Net Operating Losses Carried-forward	¥ 9,013	¥ 3,821	\$ 72,748
Accrued Pension Costs	3,174	2,166	25,621
Valuation Losses on Inventories	580	1,784	4,687
Valuation Allowance on Marketable Securities	1,546	1,295	12,481
Allowance for Doubtful Accounts	848	1,099	6,848
Foreign Taxes Paid	352	396	2,841
Accrued Bonus	246	276	1,992
Others	1,775	1,520	14,331
Sub-Total	17,538	12,361	141,555
Netting with Deferred Income Tax Liabilities	(286)	(261)	(2,309)
Sub-Total	17,252	12,100	139,245
Valuation Allowance	(16,126)	(12,391)	(130,156)
Total Deferred Income Tax Assets	1,126	708	9,089
Deferred Income Tax Liabilities:			
Inventory Valuation	1,547	1,568	12,489
Others	109	161	887
Sub-Total	1,657	1,729	13,377
Netting with Deferred Income Tax assets	(286)	(261)	(2,309)
Total Deferred Income Tax Liabilities	1,371	1,468	11,067
Net Deferred Income Tax Liabilities	¥ (245)	¥ (759)	\$ (1,978)

Provision for Income Taxes for the year ended March 31, 2001 and 2000 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Net Provision for Income Taxes for Consolidated Subsidiaries	¥688	¥527	\$5,552
Base Portion of the Inhabitant Taxes	68	48	563
Income Taxes withheld on Foreign Interest Income	39	131	317
Others	(116)	63	(937)
	¥680	¥771	\$5,496

Effective from the year ended March 31, 2000, the Company adopted the asset and liability method for accounting for income taxes, which is effective for periods beginning on or after April 1, 1999.

This adoption resulted in Total Assets, Total Liabilities, and Net Loss to increase by ¥78 million, ¥53 million, and ¥55 million, respectively; and in Deficit to decrease by ¥78 million.

11. RESEARCH AND DEVELOPMENT EXPENSES:

Research and development expenses included in Selling, General and Administrative Expenses for the years ended March 31, 2001 and 2000 totaled ¥594 million and ¥625 million, respectively.

12. LEASES:

The Company leases certain office and manufacturing equipment. The Company also leases audio equipment to customers. Lease expense and revenue on such lease transactions for the year ended March 31, 2001 and 2000 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Lease Expense	¥3,147	¥2,902	\$25,403
Lease Revenue	¥ 93	¥ 148	\$ 757

The amount of outstanding future lease payments due at March 31, 2001 and 2000, excluding the interest thereon, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Future Lease Payments:			
Within One Year	¥2,280	¥2,369	\$18,406
Thereafter	1,942	2,595	15,679
Total	¥4,223	¥4,965	\$34,085

Proforma data on financial leases at March 31, 2001 and 2000 (acquisition cost, accumulated depreciation, and depreciation expense for the period) are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Proforma Acquisition Cost	¥7,981	¥9,357	\$64,415
Proforma Accumulated Depreciation	(4,197)	(4,609)	(33,876)
Proforma Net Book Value	¥3,783	¥4,747	\$30,538
Proforma Depreciation Expense	¥2,841	¥2,459	\$22,932
Proforma Interest	¥ 264	¥ 431	\$ 2,130

13. COMMITMENTS AND CONTINGENCIES:

The Company is contingently liable as a guarantor of indebtedness of affiliates and other companies in the aggregate amount of ¥811 million (\$6,548 thousand) at March 31, 2001.

14. NOTES RECEIVABLE MATURED AT YEAR END:

Notes Receivable are settled on the date of clearance. As the year-end date of March 31, 2001 was a holiday of the financial institutions, the Notes Receivable of ¥781 million (\$6,304 thousand) and the Notes Payable of ¥2,178 million (\$17,582 thousand) maturing on that date were not

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

The amount of outstanding future lease payments receivable at March 31, 2001 and 2000 including the interest, are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Future Lease Payments Receivable:			
Within One Year	¥279	¥135	\$2,257
Thereafter	163	70	1,321
Total	¥443	¥205	\$3,579

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Acquisition Cost	¥337	¥232	\$2,719
Accumulated Depreciation	(145)	(108)	(1,178)
Net Book Value	¥191	¥123	\$1,541
Depreciation	¥ 68	¥ 50	\$ 548

Future lease obligations for non-cancelable operating leases at March 31, 2001 are as follows: Due in 2002; ¥416 million (US\$3,361 thousand), Due in 2003 and thereafter; ¥901 million (US\$7,278 thousand).

settled. They were included in the ending balance of Notes and Accounts Receivable and Notes and Accounts Payable as at March 31, 2001, respectively.

15. SEGMENT INFORMATION:

(1) Information by Business Segment

The Company operates principally in four business segments.

Car audio-visual equipment:

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

Audio entertainment equipment:

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

Specialty equipment:

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

Others:

Wireless communication equipment and others.

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

Millions of Yen						
For the year ended March 31, 2000						
	Car audio-visual equipment	Audio entertainment equipment	Specialty equipment	Others	Elimination and Corporate	Total
Net Sales	¥173,911	¥9,408	¥ 4,141	¥ 4,393	¥ —	¥191,855
Operating Expenses	170,205	7,540	5,287	5,490	—	188,523
Operating Income (Loss)	¥ 3,706	¥1,867	¥(1,145)	¥ (1,096)	¥ —	¥ 3,332
Assets	¥138,098	¥7,073	¥ 3,188	¥14,234	¥8,417	¥171,011
Depreciation	¥ 6,023	¥ 465	¥ 134	¥ 119	¥ —	¥ 6,743
Capital Expenditures	¥ 8,540	¥ 553	¥ 144	¥ 189	¥ —	¥ 9,427

Thousands of U.S. Dollars						
For the year ended March 31, 2001						
	Car audio-visual equipment	Audio entertainment equipment	Specialty equipment	Others	Elimination and Corporate	Total
Net Sales	\$1,362,776	\$70,083	\$45,611	\$44,421	\$ —	\$1,522,892
Operating Expenses	1,378,909	72,432	42,206	45,958	—	1,539,506
Operating Income (Loss)	\$ (16,133)	\$ (2,348)	\$ 3,404	\$ (1,537)	\$ —	\$ (16,613)
Assets	\$1,240,579	\$55,038	\$47,841	\$93,498	\$20,843	\$1,457,800
Depreciation	\$ 44,475	\$ 3,111	\$ 1,623	\$ 155	\$ —	\$ 49,365
Capital Expenditures	\$ 53,342	\$ 5,273	\$ 2,213	\$ 390	\$ —	\$ 61,220

(2) Information by Geographic Segment

Sales of the company classified by geographic area for the years ended March 31, 2001 and 2000 are summarized as follows:

Millions of Yen						
For the year ended March 31, 2001						
	Japan	North, Central and South America (*1)	Asia and Australia (*3)	Europe (*4)	Elimination and Corporate	Total
Sales to Outside Customers	¥ 93,577	¥51,867	¥ 7,880	¥35,361	¥ —	¥188,686
Inter-Segment Sales	94,971	19,314	37,916	7,785	(159,988)	—
Total Sales	188,549	71,182	45,796	43,147	(159,988)	188,686
Operating Expenses	190,773	71,465	45,156	42,854	(159,505)	190,744
Operating Income (Loss)	¥ (2,224)	¥ (283)	¥ 640	¥ 292	¥ (482)	¥ (2,058)
Assets	¥116,885	¥38,640	¥18,906	¥22,476	¥ (16,287)	¥180,621

	Millions of Yen					
	For the year ended March 31, 2000					
	Japan	North and Central America (*2)	Asia and Australia (*3)	Europe (*4)	Elimination and Corporate	Total
Sales to Outside Customers	¥ 97,083	¥57,815	¥ 5,625	¥31,330	¥ —	¥191,855
Inter-Segment Sales	89,885	15,470	30,659	5,544	(141,559)	—
Total Sales	186,969	73,286	36,284	36,874	(141,559)	191,855
Operating Expenses	187,302	71,729	36,082	37,222	(143,813)	188,523
Operating Income (Loss)	¥ (333)	¥ 1,557	¥ 202	¥ (347)	¥ 2,253	¥ 3,332
Assets	¥106,210	¥36,688	¥13,641	¥19,552	¥ (5,082)	¥171,011

	Thousands of U.S. Dollars					
	For the year ended March 31, 2001					
	Japan	North, Central and South America (*1)	Asia and Australia (*3)	Europe (*4)	Elimination and Corporate	Total
Sales to Outside Customers	\$ 755,265	\$418,623	\$ 63,599	\$285,404	\$ —	\$1,522,892
Inter-Segment Sales	766,518	155,890	306,022	62,837	(1,291,269)	—
Total Sales	1,521,783	574,513	369,622	348,242	(1,291,269)	1,522,892
Operating Expenses	1,539,739	576,802	364,456	345,879	(1,287,371)	1,539,506
Operating Income (Loss)	\$ (17,955)	\$ (2,288)	\$ 5,165	\$ 2,362	\$ (3,897)	\$ (16,613)
Assets	\$ 943,387	\$311,869	\$152,595	\$181,409	\$ (131,460)	\$1,457,800

Notes:

(*1) North, Central, and South America: U.S.A, Canada, Mexico, Brazil

(*2) North and Central America: U.S.A, Canada, Mexico

(*3) Asia and Australia: The People's Republic of China, Taiwan R.O.C., Singapore, Malaysia, The Philippines, Australia

(*4) Europe: Germany, Sweden, U.K., Spain, France, Hungary

(3) Export Sales and Sales by Overseas Subsidiaries

Export sales information of the Company for the years ended March 31, 2001 and 2000 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2001	2000	2001
Export Sales and Sales by Overseas Subsidiaries			
North, Central and South America	¥51,488	¥57,202	\$415,568
Europe	36,458	31,997	294,254
Others	9,252	6,426	74,673
	¥97,199	¥95,626	\$784,496
Percentage of such against consolidated net sales	51.5%	49.8%	51.5%

16. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

An analysis of Selling, General and Administrative Expenses for each of the three years in the period ended March 31, 2001 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	March 31,			March 31,
	2001	2000	1999	2001
Advertising Expenses	¥1,267	¥1,544	¥2,362	\$10,228
Packing and Shipping Charge	1,525	1,343	2,134	12,314
Sales Commission Expenses	1,676	2,090	2,399	13,533
Sales Promotion Expenses	2,320	2,265	1,954	18,731
Payroll Expenses	13,749	14,533	15,091	110,973
Depreciation	1,417	1,290	1,367	11,440
Rent	1,678	2,009	2,092	13,544
Others	11,478	13,444	14,399	92,643
	¥35,114	¥38,520	¥41,800	\$283,409

Report of Independent Accountants

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

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, the related consolidated statements of income and shareholders' equity for each of the three years in the period ended March 31, 2001, and the related consolidated statement of cash flows for the two years in the period ended March 31, 2001, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Clarion Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, the results of their operations for each of the three years in the period ended March 31, 2001, and their cash flows for the two years in the period ended March 31, 2001 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change in the method of accounting for accrued employees' severance indemnities for the year ended March 31, 2000 as described in Note 2 (8).

As discussed in Note 2 (10) to the consolidated financial statements, the Clarion Co., Ltd. and consolidated subsidiaries adopted its method of accounting for income taxes for the year ended March 31, 2000.

As discussed in Note 2. (2), (4), and (8), effective for the year ended March 31, 2001, Clarion Co., Ltd. and its domestic consolidated subsidiaries adopted the new Japanese accounting standards for translation of foreign currency transaction, for financial instruments, and for pension and severance costs.

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



Tokyo, Japan
June 28, 2001

Notice to readers

The accompanying consolidated financial statements are not intended to present the consolidated financial position and the results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in Japan.

BOARD OF DIRECTORS AND AUDITORS

President

Tatsuhiko Izumi

Director and Executive Officers

Yasuhiko Nakagawa	Masatoshi Tanaka
Yutaka Wakamori	Hidekuni Niimura
Shoichi Minagawa	Corporate Auditors
Jiro Seki	Yoichi Matsuda
Tetsuro Yoshimine	Michio Shirai
Seishi Kasai	Yasuhiro Sasai
Toshiharu Osaka	Shunjiro Karasawa
Tsuyoshi Kitamura	

OTHER CORPORATE INFORMATION

Established: 1940

Number of Shares Outstanding: 155,624,878

Number of Shareholders: 27,341

Number of Employees: 2,171

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R&D Center:

Saitama

Plants:

Tohoku

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