

Clarion



ANNUAL REPORT 2002

Fiscal Year Ended March 31, 2002

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

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
<i>For the years ended March 31,</i>			
Net Sales	¥187,954	¥188,686	\$1,410,542
Operating Income (Loss)	4,335	(2,058)	32,536
Net Loss	(7,274)	(7,762)	(54,593)
Per Share of Common Stock (Yen or U.S. dollars):			
Net Loss	(45.25)	(49.88)	(0.340)
Cash Dividends	-	-	-
<i>As at March 31,</i>			
Shareholders' Equity	3,930	7,422	29,495
Total Assets	154,138	180,621	1,156,765

Note: U.S. dollar amounts are translated, for convenience only, at ¥133.25 = U.S.\$1, the rate prevailing on March 31, 2002.

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MESSAGE FROM THE PRESIDENT

Business Climate and Performance

In fiscal 2001 ended March 31, 2002, the Clarion Group reported consolidated net sales of ¥187,954 million (\$1,410.5 million), down 0.4 percent from the previous year. In the automobile industry, with which we are most closely related, overall new car sales dropped except Europe, where new car sales slightly increased. This obstacle suppressed sales in the OEM sector. At the same time, sales in the aftermarket sector were affected by the industry-wide moves to slash prices.

Despite the negative impact of these factors, operating income substantially increased to ¥4,335 million (\$32.5 million) this year, a drastic improvement from an operating loss of ¥2,058 million in fiscal 2000. This improvement stemmed from our continuous efforts in cutting fixed costs and, among others, increasing productivity and streamlining operations.

The after-tax income, however, resulted in a loss of ¥7,274 million reflecting extraordinary expenses from write-down of investment securities and supports for factory consolidations in Mexico and reorganizations and consolidations of domestic subsidiaries.

It is our regret that we will not be able to make a dividend payment this year. In order to resume dividend payments in the nearest future, we will exert every effort to strengthen our management basis while improving shareholders' equity and internal reserves to cope with needs for the improved financial structure, R&D expenditures and investments for new business projects.

New Creation 21 Medium-Term Management Plan

Growth has hit a snag in our mainstay car audio-visual products and navigation devices sector, and price competition continued to intensify in both the OEM and the aftermarket. At the same time, worldwide regrouping and reorganization of car manufacturers have been affecting the procurements systems of parts and components.

Along with functional innovations of hardware systems, the navigation market saw a drastic advancement in relevant software applications and infrastructures such as navigation function, car AV, entertainment, Telematics and information-based services. As a leading company in the industry, we are now changing our management focus, accordingly, shifting our management resources from car audio-visual products to in-vehicle computing systems (IVCSs).

To respond to these significant changes in the industry, we at Clarion reviewed our corporate structure and formulated the New Creation 21 medium-term management plan in April 2001, implementing various measures in order to ensure the continuous growth of the organization. Under this plan, we will pursue thorough cost reduction, putting more added value into more multiplex functions as far as conventional car audio-visual products are concerned. At the same time, we will concentrate on developing and promoting IVCSs, thus enabling a qualitative transformation of our business structure to enhance our IVCS

business. In more specific terms, from product strategy viewpoints, we will accelerate our activities in developing multi-categorical products like AutoPC's combining communication, navigation, video and digital audio functions.

In order to achieve our financial objectives, we have striven to reshape our earnings structure and improve our financial position, cutting group company inventories and interest-bearing liabilities and reducing the size of the workforce. As a result, our inventories fell to ¥35,972 million (\$269.9 million), a year-on-year decline of 27.6 percent, interest-bearing liabilities decreased 12.0 percent to ¥93.0 billion (\$607.9 million), and our workforce was reduced by 3,170, or 22.6 percent, to 10,837 employees.

Future Perspectives

We expect that automobile manufacturers' requests to cut sales prices will continue to affect OEM sales. For our future development, we spare no effort to create a stronger financial base through adding higher value to our products and launching additional corporate efforts to streamline the company's business operations, as well as remodeling its earnings structure. As we embark into the second year of the New Creation Plan 21 medium-term management plan, we pledge our efforts to tune up the plan to make it more powerful and effective to raise the company's profitability.

Under this tuned-up plan, we will target our product strategy efforts in navigation and Telematics field, where most growth can be expected, and accelerate the development of hardware and software portfolio in an attempt to boost OEM sales. We will make necessary and effective measures for reducing costs in various areas, and restructuring and making our operations appropriate to achieve higher profitability and healthier financial structure.

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

June 27, 2002



A handwritten signature in black ink, appearing to read 'Tatsuhiko Izumi'. The signature is fluid and cursive, written on a white background.

Tatsuhiko Izumi
President

Sales by Product Segment, Business Area and Region

In the year under review, consolidated sales of car audio-visual products, car navigation devices, and IVCS devices decreased 0.9 percent from the previous year to ¥167,348 million (\$1,255.9 million). This represented 89.0 percent of total sales. Consolidated sales of commercial karaoke systems, audio-video products for buses, and other products in the special equipment category rose 3.9 percent year on year to ¥20,606 million (\$154.6 million). This represented 11.0 percent of total sales.

In the sector of car audio-video products and navigation devices, consolidated sales both in the OEM and aftermarket declined due to harsh price competition. Despite the dip in sales, our operating income swung to ¥3,177 million (\$23.8 million) from the previous year's operating loss of ¥1,998 million as a result of our efforts to streamline operations and improve productivity.

In the special equipment sector, the success of our marketing and sales activities for spread spectrum (SS) synthesizer karaoke systems for professional use, audio-visual products for buses and rear-view monitor systems with CCD cameras resulted in maintaining consolidated sales growth in the special equipment category. Through cost reduction efforts, operation review, and product line-up rationalization, we reported an operating income of ¥1,158 million (\$8.7 million).

A breakdown of business areas showed that sales to OEM customers, automobile manufacturers represented a high and stable share of 63.4 percent. Products sold to this area were car audio-visual products, navigation devices and others. Sales in the aftermarket represented 36.6 percent, or ¥68,724 million. By region, domestic sales amounted to ¥95,459 million (\$716.4 million), or 50.8 percent of total sales. Sales in the American markets were ¥45,674 million (\$342.8 million), or 24.3 percent of total sales, the European market ¥36,878 million (\$276.8 million), or 19.6 percent, and the Asian/Australian market ¥9,942 million (\$74.6 million), or 5.3 percent. This fiscal year, sales in Asia and Europe showed growth while growth momentum was weak in domestic market. In North America, sales decreased.

Car Audio-Visual Products, Navigation, and IVCS Devices

We have been promoting our rich business portfolio of car audio-video products and navigation devices all over the world. In the aftermarket we have been promoting our "Clarion" brand products and "ADDZEST" brand products in Japan. Also, we have been strengthening our promotion activities in OEM market for Japanese and overseas car manufacturers. We are proud of the share of the products in both markets.

The focus of navigation devices are now shifting to Telematics

terminal devices with two-way communication capability, and "communication navigation devices" that can exchange information through the Internet is becoming the main stream. After successively introducing new generation car navigation devices, we announced to the market our AutoPC "CADIAS," which has versatile future expandability. We are, thus, focusing our development efforts on IVCS devices capable of operating with information-oriented services with new contents, Electronic Toll Collection system (ETC) and Intelligent Transportation Systems (ITSs). Following this product strategy, we introduced in 1988 our AutoPC as a strategic core of IVCS devices in the U.S. aftermarket and took a leading role in the IVCS field of the industry. To expand our presence in the market, we released Joyride, an updated and enhanced version of AutoPC, in February this year.

In Europe, where ITSs have been steadily spreading, we took a strategic initiative and started delivery of AutoPC products to PSA Peugeot Citroen. We will continue our efforts in this direction in development, proposal and sales, both in OEM and aftermarkets.

In addition, we have developed, with a technical collaboration with U.S. companies, terrestrial and satellite digital radio units for the U.S., and satellite radio units are now introduced in the aftermarket. These units will also be supplied to Nissan in the U.S. on an OEM basis this fall. Digital radios offer much richer contents and applications, like traffic and weather information, title information of music played and so on. These new added features will be suitable for the IVCSs.

To conclude introduction of our activities in this category of products, we have started deliveries of terminals for ETC, and contracted this spring to supply Nissan Motor with next generation car navigation system devices. Also, we are jointly developing IMTS (Intelligent Multi-mode Transit System) devices with Toyota Motor. These examples demonstrate Clarion's leading role in IVCS development.



MAX 420VD



AutoPC CADIAS

Production, and Sales Systems

Intent on further sharpening our competitive edge worldwide, we have been reviewing the system structure for production and sales activities. We consolidated our three domestic production companies which had had seven production sites as of March 2000 into one company and three sites as of the end of the fiscal year. At the same time, we integrated our 16 overseas production facilities in eight countries into 10 facilities in seven countries. In the future, we intend to concentrate our production in China and Hungary.

The Clarion Group manufacturers in Japan, United States, Mexico, Hungary, and China for the U.S. and European OEM market have acquired QS-9000 and ISO9001 certification, which are world-wide quality standards acknowledged by most and required by some of the automobile manufacturers.

Responding to the reorganization of automobile manufacturers worldwide, we modified the assignments and functions of our sales arms by placing responsibility for individual OEM groups and companies and established the Global OEM sales headquarters in Japan to coordinate the activities. With this new organizational structure, we intend to enable each sales unit to access information about its respective manufacture group in real time to accelerate product development accordingly.

For conventional car audio-visual products, for which price competitiveness is more critical, we will promote product integration and deployment of common platforms to facilitate development process, reducing the total development expenditures and individual component costs.

Also in the aftermarket, for conventional car audio-visual products, we continue to pursue our efforts to reduce development expenditures and costs. In addition, we endeavor to revitalize sales to car radio specialists, making the relative share of mass merchandisers smaller, to ensure higher profitability.

Expecting the harsh business environment to continue, we will continue to seek more appropriate organizational structures for production and sales activities to obtain more advantageous results.

Business Performance by Region

In Japan this year, we assiduously created attractive products and integrated product models for the Japanese OEM and aftermarket while cutting costs and modifying supply channels. As our corporate efforts expanded, we received OEM orders for car navigation systems from Nissan Motor and Honda Motor. We secured an OEM order from Mitsubishi Motors, a major company well known for its demanding standards, to supply car navigation systems. This contributed to a surge in sales.

In North America, we are supplying mechanical modules and finished products for Detroit's Big Three automobile manufacturers on an OEM basis. In the aftermarket, where we are facing ruthless price competition, we are concurrently reviewing our supply channels and reducing the relative importance of mass merchandisers. Meanwhile, following the AutoPC that we brought into the U.S. aftermarket, we launched sales of Joyride equipped with DVD-video players, MP3 players, and other entertainment functions. Joyride has been receiving customers' enthusiastic support since it debuted on the market this spring.

In Europe, we have been expanding our local market presence for OEM sales by focusing on PSA Peugeot Citroen and Saab. In the aftermarket, where we have been competing rigorously, we expanded sales in car audio-visual devices with CD players and car navigation systems operational in six languages. We have found Germany to be particularly important because it is a leading country in ITS localization. We will intensify our product development and sales activities as ITS spreads throughout Europe.

In Asia, where rapid economic development has recently been progressing, we have been diversifying our product portfolio in both the OEM and aftermarket to create sales potential, as the market demand for car audio-visual products has been skyrocketing.

Other Businesses

This fiscal year, our sales activities were hampered by the economic sluggishness, and downward pressure was exerted on sales of spread spectrum (SS) synthesizer karaoke systems. Also, barred by lower capital spending due to the weak economy, demand for new bus production was slack, and sales of audio-visual products for buses were low-spirited. Despite these negative factors, we are striving to increase sales of the rear-view monitor systems equipped with CCD cameras for applications in non-industrial, or personal use, vehicles.

CONSOLIDATED FINANCIAL STATEMENTS**Consolidated Balance Sheets** as of March 31, 2002 and 2001

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

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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

for the years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
Net Sales	¥187,954	¥188,686	¥191,855	\$1,410,542
Cost of Sales	153,424	155,630	150,002	1,151,402
Gross profit	34,530	33,056	41,853	259,139
Selling, General and Administrative Expenses	30,194	35,114	38,520	226,603
Operating income (loss)	4,335	(2,058)	3,332	32,536
Other Income (Expenses):				
Interest income	332	455	420	2,494
Dividend income	102	126	130	767
Interest expenses	(2,765)	(2,729)	(2,473)	(20,757)
Provision for allowance for doubtful accounts	—	—	(1,474)	—
Gain (loss) on sales of property, plant and equipment, net	254	517	(30)	1,913
Loss on disposal of property, plant and equipment	(147)	(336)	(878)	(1,109)
Loss from write-down and disposal of inventories	(1,409)	—	(5,096)	(10,581)
Loss from write-down of investments in securities	(6,648)	(792)	(1,853)	(49,897)
Additional accrual for employees' severance indemnities	—	—	(4,645)	—
Gain on sales of investments in securities, net	1,041	841	241	7,812
Loss from write-down of marketable securities	—	—	(151)	—
Gain on sale of share of affiliates	187	—	—	1,409
Gain on securities contributed to employee retirement benefit trust	—	309	—	—
Contribution of securities to employee retirement benefit trust	—	(518)	—	—
Amortization of transition obligation expenses to implement new accounting for pension and severance costs	(464)	(464)	—	(3,484)
Foreign exchange (loss) gain, net	(193)	231	(948)	(1,451)
Others, net	(2,450)	(2,673)	(3,451)	(18,388)
	(12,162)	(5,031)	(20,212)	(91,272)
Loss before income taxes	(7,826)	(7,090)	(16,879)	(58,736)
Provision for Income Taxes:				
Current	1,435	797	710	10,776
Deferred	(2,165)	(116)	60	(16,252)
	(729)	680	771	(5,475)
	(7,096)	(7,771)	(17,650)	(53,260)
Minority Interests in Consolidated Subsidiaries	177	(8)	(62)	1,333
Net loss	¥ (7,274)	¥ (7,762)	¥ (17,713)	\$ (54,593)
		Yen		U.S. dollars
Per Share:				
Net loss	¥(45.25)	¥(49.88)	¥(113.82)	\$(0.340)
Cash dividends	¥ —	¥ —	¥ —	\$ —

The accompanying notes are an integral part of these statements.

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

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

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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

for the years ended March 31, 2002, 2001 and 2000

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

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements incorporate certain reclassifications of figures from those included in the Annual Security Report in

order to present in a form more familiar to the readers outside Japan. In addition, the notes to consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

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

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

The U.S. dollar amounts stated in the consolidated financial statements are included solely for convenience of readers outside Japan. The rate of ¥133.25 = US\$1, the approximate rate of exchange as at March 31, 2002, has been used for the purpose of such translation. Those translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that rate. The amounts presented in thousands of U.S. dollars are truncated after thousand. Totals may not add up exactly because of such truncation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation and Investments in Affiliates

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

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

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

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. Goodwill is amortized over 5 or 10 years basically, but relating to U.S. and Mexico subsidiaries is amortized over 20 years.

(2) Translation of Foreign Currency Balances and Transactions

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

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

Effective from the year ended March 31, 2001, the Company adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000. Foreign currency financial statement differences in yen amounts arising from the use of different rates are presented as adjustments on foreign currency translation in the separate components of shareholders' equity

for the year ended March 31, 2001, whereas the differences were recorded in the consolidated balance sheets as assets or liabilities for the year ended March 31, 2000. The effect of adopting the new accounting standard on the accompanying consolidated financial statements was immaterial.

(3) Cash and Cash Equivalents

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

(4) Financial Instruments

(a) Securities

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

Investments in debt and equity securities—

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

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

Trading securities held for purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other than temporary declines in the value of other securities are reflected in current income.

Other securities, classified as other than trading securities and held-to-

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

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

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

(b) Derivative Financial Instruments

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

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

(c) Hedge Accounting

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

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

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

(5) Allowance for Doubtful Accounts

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

(6) Inventories

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

(7) Property, Plant and Equipment

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

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

(8) Intangible Assets

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

Goodwill represents the excess of purchase price and related costs over the value assigned to the fair value of business acquired and is amortized

under the straight-line method over the estimated economic lives of respective premiums paid on acquisitions.

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

(9) Accrued Retirement Benefits to Employees

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

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

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

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

(10) Research and Development Costs

Research and development costs are charged to income as incurred.

(11) Income Taxes

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

(12) Revenue Recognition

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

(13) Leases

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

(14) Resolution of Deficit

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

(15) Net Income per Share

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

3. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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

Material non-financing transactions were as follows:

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

4. INVENTORIES

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

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

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

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

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

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

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

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

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

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

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

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

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

6. FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

for trading purposes. The estimated unrealized losses from these contracts at March 31, 2002 and 2001 were as follows:

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

7. SHORT-TERM AND LONG-TERM LOANS

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

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

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

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

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

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

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

8. ACCRUED RETIREMENT BENEFITS TO EMPLOYEES

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

plan. And some of the overseas consolidated subsidiaries adopt a defined contribution pension plan.

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

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

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

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

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

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

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

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

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

the Article 16 of the Land-Holding Tax Law. This method is established and published by the Director General of National Tax Administration, and the land is valued by the real estate appraiser in accordance with the Article 2-5.

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

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

10. INCOME TAXES

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

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

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

For the year ended March 31,	2002	For the year ended March 31,	2001
Statutory income tax rate reconciliation	42.1%	Net provision for income taxes for consolidated subsidiaries	¥688
Permanent differences	(2.4)	Base portion of the inhabitant taxes	69
Fixed levy of local inhabitant taxes	(0.5)	Income taxes withheld on foreign interest income	39
Income taxes withheld on foreign interest income	(1.7)	Others	(116)
Unrecognized deferred tax assets during the year	(26.1)	Effective income tax	¥680
Others	(2.1)		
Effective income tax rate	9.3%		

11. RESEARCH AND DEVELOPMENT EXPENSES

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

12. LEASES

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

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

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

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

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

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

13. COMMITMENTS AND CONTINGENCIES

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

14. NOTES RECEIVABLE MATURED AT YEAR END

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

settled. They were included in the ending balance of notes and accounts receivable and notes and accounts payable as at March 31, 2002, respectively.

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

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

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

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

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

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

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

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

Thousands of U.S. dollars

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

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

(2) Information by Geographic Segment

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

Millions of yen

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

For the year ended March 31, 2001	Millions of yen					
	Japan	North, Central and South America (*1)	Asia and Australia (*2)	Europe (*3)	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

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

Notes:

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

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

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

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

(3) Export Sales and Sales by Overseas Subsidiaries

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

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

16. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

An analysis of selling, general and administrative expenses for each of the three years in the period ended March 31, 2002 was as follows:

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

Report of Independent Accountants

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

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

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

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

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

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

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

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



Tokyo, Japan
June 27, 2002

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Vice President

Kiichiro Okura

Director and Executive Officers

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Jiro Seki

Tetsuro Yoshimine

Seishi Kasai

Toshiharu Osaka

Tsuyoshi Kitamura

Masatoshi Tanaka

Hidenori Niimura

Corporate Auditors

Yoichi Matsuda

Michio Shirai

Yasuhiro Sasai

Shunjiro Karasawa

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Number of Shareholders: 26,920

Number of Employees: 1,968

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