CLARION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen, except per share amounts			Thousands of U.S. dollars, except per share amounts
	Year ended March 31			Year ended March 31
	2005	2004	2003	2005
Net sales	¥178,325	¥168,947	¥185,530	$1,660,537
Cost of sales	140,786	132,103	146,946	1,310,980
Gross profit	37,538	36,844	38,583	349,556
Selling, general and administrative expenses (Note 11.16.)	27,956	26,491	29,049	260,328
Operating income	9,582	10,352	9,534	89,228
Other income:				
Interest and dividend income	255	253	195	2,377
Gain on sales of property, plant and equipment	55	58	78	520
Gain on sales of investments in securities	78	384	-	726
Gain on reversal of excess patent fee	122	-	-	1,136
Equity in gain of affiliates	136	112	120	1,266
Others	487	878	1,005	4,537
	1,134	1,688	1,399	10,564
Other expenses:				
Interest expenses	1,501	2,339	2,589	13,977
Net loss on foreign currency transactions	468	159	409	4,365
Loss on sales and disposal of property, plant and equipment	89	946	226	831
Impairment loss on property, plant and equipment	270	-	-	2,516
Reorganization costs	304	697	-	2,836
Transition obligation expenses for pension and severance costs	464	464	464	4,323
Loss on devaluation of investments in securities	96	15	765	899
Provision for doubtful accounts	2,690	-	-	25,053
Others	1,880	1,517	4,076	17,513
	7,766	6,139	8,531	72,316
Income before income taxes	2,950	5,900	2,402	27,476
Provision/(benefit) for income taxes:				
Current	546	669	766	5,084
Deferred	(2,874)	(1,184)	(38)	(26,765)
	(2,328)	(514)	727	(21,681)
Income before minority interests	5,279	6,415	1,675	49,158
Minority interests in subsidiaries	167	109	119	1,560
Net income	¥5,111	¥6,305	¥ 1,555	$47,597
Per share:				
Net income	¥ 18.09	¥ 22.32	¥7.82	$0.168
Cash dividends	¥ -	¥ -	¥ -	$ -

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

CLARION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
ASSETS			
Current assets:			
Cash on hand and in banks	¥11,059	¥26,005	$102,984
Notes and accounts receivable	35,359	30,712	329,261
Allowance for doubtful accounts	(1,299)	(1,348)	(12,104)
Inventories (Note 4.)	22,871	22,181	212,972
Deferred income taxes (Note 10.)	2,018	2,828	18,794
Other current assets	3,678	4,198	34,253
Total current assets	73,687	84,576	686,162
Investments in securities (Note 5.)	4,252	4,376	39,599
Property, plant and equipment:			
Buildings and structures	20,634	20,240	192,147
Machinery and equipment	34,336	33,345	319,735
Land	11,741	11,688	109,330
Construction in progress	133	12	1,245
Accumulated depreciation	(41,972)	(40,686)	(390,841)
Total property, plant and equipment	24,873	24,600	231,617
Other assets:			
Intangible assets	7,637	7,039	71,122
Other	9,076	7,942	84,520
Total other assets	16,714	14,981	155,643
Total assets	¥119,527	¥128,536	$1,113,024

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

CLARION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 7.)	¥30,592	¥49,205	$284,873
Notes and accounts payable	22,972	22,070	213,912
Accrued bonuses	968	954	9,017
Accrued expenses	7,213	6,849	67,168
Income taxes payable	259	87	2,415
Other current liabilities	5,785	5,427	53,875
Total current liabilities	67,791	84,595	631,261
Long-term liabilities:			
Long-term loans (Note 7.)	11,027	9,379	102,683
Accrued pension and severance costs (Note 8.)	10,025	9,391	93,356
Deferred income taxes on revaluation of land	2,065	1,765	19,230
Deferred income taxes (Note 10.)	138	91	1,292
Other long-term liabilities	1,601	1,433	14,910
Total long-term liabilities	24,857	22,061	231,473
Minority interests in subsidiaries	148	892	1,383
Shareholders' equity:			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2005 and 2004	26,100	26,100	243,042
Additional paid-in capital	2,669	33,559	24,858
Retained earnings/(losses)	2,934	(33,062)	27,325
Net unrealized gain on revaluation of land (Note 9.)	2,272	2,572	21,163
Net unrealized gain on other securities	813	561	7,576
Foreign currency translation adjustments	(8,031)	(8,726)	(74,786)
Treasury stock	(29)	(17)	(276)
Total shareholders' equity	26,729	20,987	248,905
Commitments and contingencies			
Total liabilities and shareholders' equity	¥119,527	¥128,536	$1,113,024

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

CLARION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of common shares outstanding (Thousands)	Common stock	Additional paid-in capital	Retained earnings/(losses)
Balance at March 31, 2002	186,203	¥20,761	¥28,278	¥(41,150)
New issuance of common stock	59,287	4,150	4,150	-
Conversion of convertible bonds	37,253	1,188	1,161	-
Net income	-	-	-	1,555
Change in treasury stock	-	-	-	-
Net unrealized loss on securities	-	-	-	-
Foreign currency translation adjustments	-	-	-	-
Others	-	-	(30)	13
Balance at March 31, 2003	282,744	26,100	33,559	(39,581)
Net income	-	-	-	6,305
Decrease due to change in equity method affiliate	-	-	-	(6)
Change in treasury stock	-	-	-	-
Net unrealized gain/(loss) on revaluation of land	-	-	-	250
Net unrealized gain on securities	-	-	-	-
Foreign currency translation adjustments	-	-	-	-
Others	-	-	-	(29)
Balance at March 31, 2004	282,744	26,100	33,559	(33,062)
Transfer to retained earnings	-	-	(30,889)	30,889
Net income	-	-	-	5,111
Change in treasury stock	-	-	-	-
Net unrealized loss on revaluation of land	-	-	-	-
Net unrealized gain on securities	-	-	-	-
Foreign currency translation adjustments	-	-	-	-
Others	-	-	-	(4)
Balance at March 31, 2005	282,744	¥26,100	¥2,669	¥2,934

	Number of common shares outstanding (Thousands)	Common stock	Additional paid-in capital	Retained earnings/(losses)
Balance at March 31, 2004	282,744	$243,042	$312,499	$(307,874)
Transfer to retained earnings	-	-	(287,640)	287,640
Net income	-	-	-	47,597
Change in treasury stock	-	-	-	-
Net unrealized loss on revaluation of land	-	-	-	-
Net unrealized gain on securities	-	-	-	-
Foreign currency translation adjustments	-	-	-	-
Others	-	-	-	(38)
Balance at March 31, 2005	282,744	$243,042	$24,858	$27,325

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

Net unrealized gain on revaluation of land	Net unrealized gain/(loss) on other securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
2,763	(695)	¥(6,025)	¥(2)	¥3,930
-	-	-	-	8,300
-	-	-	-	2,350
-	-	-	-	1,555
-	-	-	(9)	(9)
-	(428)	-	-	(428)
-	-	(1,063)	-	(1,063)
-	-	-	-	(17)
2,763	(1,123)	(7,088)	(12)	14,617
-	-	-	-	6,305
-	-	-	-	(6)
-	-	-	(5)	(5)
(191)	-	-	-	58
-	1,685	-	-	1,685
-	-	(1,637)	-	(1,637)
-	-	-	-	(29)
2,572	561	(8,726)	(17)	20,987
-	-	-	-	-
-	-	-	-	5,111
-	-	-	(11)	(11)
(300)	-	-	-	(300)
-	251	-	-	251
-	-	695	-	695
-	-	-	-	(4)
¥2,272	¥813	¥(8,031)	¥(29)	¥26,729

Thousands of U.S. dollars

Net unrealized gain on revaluation of land	Net unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
$23,957	$5,233	$(81,260)	$(164)	$195,433
-	-	-	-	-
-	-	-	-	47,597
-	-	-	(111)	(111)
(2,794)	-	-	-	(2,794)
-	2,343	-	-	2,343
-	-	6,474	-	6,474
-	-	-	-	(38)
$21,163	$7,576	$(74,786)	$(276)	$248,905

CLARION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2005	2004	2003	2005
Cash flows from operating activities:				
Income before income taxes	¥2,950	¥5,900	¥2,402	$27,476
Adjustments -				
Depreciation and amortization	4,497	4,587	5,090	41,881
Amortization of goodwill	78	74	428	733
Equity gain of affiliates	(136)	(112)	(120)	(1,266)
Increase in allowance for doubtful accounts	2,591	226	282	24,135
Increase/(decrease) in accrued pension and severance costs, less payments	629	881	(1,066)	5,861
Interest and dividend income	(255)	(253)	(195)	(2,377)
Interest expense	1,501	2,339	2,589	13,977
Devaluation of investments in securities	96	15	765	899
Gain on sales of investments in securities	(78)	(384)	-	(726)
Gain on sales of property, plant and equipment	(55)	(58)	(78)	(520)
Changes in assets and liabilities:				
(Increase)/decrease in notes and accounts receivable	(3,671)	(1,628)	3,433	(34,187)
(Increase)/decrease in inventories	(210)	4,932	5,465	(1,962)
Increase/(decrease) in notes and accounts payable	331	1,920	(5,693)	3,088
Others, net	1,463	431	2,046	13,628
Sub-total	9,734	18,872	15,349	90,642
Interest and dividend received	255	247	235	2,378
Interest paid	(1,448)	(2,401)	(2,528)	(13,489)
Income taxes paid	(502)	(659)	(904)	(4,677)
Net cash provided by operating activities	8,038	16,058	12,153	74,853

(Continued on following page.)

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

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2005	2004	2003	2005
Cash flows from investing activities:				
Increase in time deposits	(43)	(10)	(359)	(401)
Decrease in time deposits	-	780	2,712	-
Payment for purchases of property, plant and equipment	(3,066)	(1,816)	(2,410)	(28,558)
Proceeds from sales of property, plant and equipment	77	942	699	719
Payment for purchases of intangible assets	(2,709)	(1,713)	(1,624)	(25,227)
Proceeds from sales of investments in securities	329	1,616	476	3,070
Proceeds from sales of common stock in subsidiaries	-	(31)	(186)	-
Increase in loans receivable	(9)	(8)	(9)	(83)
Decrease in loans receivable	95	110	193	893
Payment for acquisition of shares from minority shareholders	(690)	(14)	-	(6,425)
Others, net	(15)	(14)	(22)	(142)
Net cash used in investing activities	(6,030)	(158)	(530)	(56,154)
Cash flows from financing activities:				
Decrease in short-term loans, net	(19,540)	(12,010)	(1,082)	(181,954)
Proceeds from long-term loans	20,019	6,840	30	186,414
Repayment of long-term loans	(17,886)	(8,241)	(9,396)	(166,551)
Proceeds from issuance of common stock	-	-	8,300	-
Payment for redemption of debentures	-	(3,000)	-	-
Others, net	(130)	(55)	(9)	(1,213)
Net cash used in financing activities	(17,537)	(16,467)	(2,158)	(163,306)
Effect of exchange rate changes on cash and cash equivalents	540	(1,223)	(612)	5,031
Net (decrease)/increase in cash and cash equivalents	(14,989)	(1,790)	8,852	(139,575)
Cash and cash equivalents at beginning of year	26,005	27,795	18,943	242,159
Cash and cash equivalents at end of year (Note 12.)	¥11,016	¥26,005	¥27,795	$102,583

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

CLARION CO., LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presenting consolidated financial statements:

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

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

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

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

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates -

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

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

A difference in fiscal periods of Clarion and its subsidiaries does not by itself justify the exclusion of a subsidiary from consolidation. As the difference is not more than three months, it is acceptable to use, for consolidation purposes, the subsidiaries' statements for its fiscal period. For significant transactions during the period between those subsidiaries' fiscal year-end and the balance sheet date, necessary adjustments are included in the consolidated financial statements. The closing date of the fiscal year for Clarion Hungary Electronics Kft., was changed from December 31 to March 31 effective this current fiscal year, so the results of operation and cash flows of this subsidiary for the period from January 1, 2004 to March 31, 2005 were included in the consolidated financial statements.

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

(2) Translation of foreign currency balances and transactions -

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

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

(3) Cash and cash equivalents -

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

(4) Financial instruments –

(a) Securities:

Investments in debt and equity securities are classified into three categories: 1) trading securities; 2) held-to-maturity debt securities; and 3) other securities.
These categories are treated differently for the purpose of measuring and accounting for changes in fair value.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available, are recognized at fair value in the accompanying consolidated balance sheets as of March 31, 2005 and 2004, respectively. Unrealized gains and losses for these other securities were classified as a separate component of shareholders' equity.

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

Investments in securities as of March 31, 2005 and 2004, included net unrealized gains on other securities amounting to ¥813 million and ¥561 million, respectively, which were included as a separate component of shareholders' equity.

(b) Derivative financial instruments:

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

(c) Hedge accounting:

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

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

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

(5) Allowance for doubtful accounts -

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

(6) Inventories -

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

(7) Property, plant and equipment -

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

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

(8) Intangible assets -

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

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

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

(9) Accounting standards for impairment of fixed assets –

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standards for Impairment of Fixed Assets". The standards require that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.
The standards shall be effective for fiscal years beginning April 1, 2005. However, earlier adoption is permitted for fiscal years ending March 31, 2004 and March 31, 2005.
Clarion and its domestic subsidiaries have not applied this new standard; however, has not yet determined the effect of applying the new requirement.

(10) Accrued bonuses -

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

(11) Accrued pension and severance costs -

Accrued pension and severance costs at the end of each fiscal year represent the estimated present value of projected benefit obligations in excess of the fair value of pension plan assets. The unrecognized transition amount, arising from adopting the new accounting standard effective from April 1, 2000, of ¥2,321 million is amortized on a straight-line basis over five years, and unrecognized actuarial differences are amortized on a straight-line basis over 10-15 years from the next year in which they arise.

(12) Research and development costs -

Research and development costs are expensed as incurred.

(13) Income taxes -

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

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

(14) Revenue recognition -

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

(15) Leases -

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

(16) Appropriations of retained earnings -

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

(17) Net income per share -

Calculation of net income per share for the year ended March 31, 2005 follows;

	Millions of yen	Thousands of U.S. dollars
Net income	¥5,111	$47,597
Weighted-average number of shares outstanding	282,533,426	

There were 244,142 of treasury shares as of March 31, 2005.

	Yen	U.S. dollars
Net income per share	¥18.09	$0.168

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

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

3. U.S. dollar amounts:

U.S. dollar amounts stated in the consolidated financial statements are included solely for convenience of readers outside Japan. The rate of ¥107.39 = US$1, the approximate rate of exchange as of March 31, 2005, has been used in translation. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. The amounts presented in thousands of U.S. dollars are truncated for amounts less than 1 thousand. Totals may not be added up exactly because of such truncation.

4. Inventories:

Inventories as of March 31, 2005 and 2004 consisted of the following;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Finished products	¥14,369	¥14,571	$133,809
Work in process	523	479	4,877
Raw materials and supplies	7,977	7,131	74,285
Total	¥22,871	¥22,181	$212,972

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 as of March 31, 2005 and 2004 follow;

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

	Millions of yen			
	March 31, 2004			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
Equity securities	¥3,059	¥963	¥(401)	¥3,621
Debt securities	-	-	-	-
Other	-	-	-	-
Total	¥3,059	¥963	¥(401)	¥3,621

	Thousands of U.S. dollars			
	March 31, 2005			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
Equity securities	$26,561	$11,377	$(3,739)	$34,199
Debt securities	-	-	-	-
Other	-	-	-	-
Total	$26,561	$11,377	$(3,739)	$34,199

Other securities sold for the years ended March 31, 2005, 2004 and 2003, respectively, follow;

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2005	2004	2003	2005
Sales amount	¥329	¥1,609	¥452	$3,070
Total gain on sales	78	384	-	726
Total loss on sales	-	(0)	(92)	-

The carrying value of unlisted investment equity securities and others as of March 31, 2005 and 2004 follow;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Other securities			
Unlisted equity securities	¥134	¥242	$1,256

6. Fair values of derivative financial instruments:

The Company enters into forward foreign currency exchange contracts and interest rate swaps to manage market risks relating to fluctuations in the foreign currency exchange rates and interest rates. The Company does not hold or issue financial instruments for trading purposes. The listed contract amount and fair values as of March 31, 2005 and 2004 follow;

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

	Millions of yen		
	March 31, 2004		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contract:			
Sold			
U.S. dollar	¥3,877	¥3,837	¥40
Euro	1,830	1,755	75
Purchased			
U.S. dollar	952	938	(13)
Total unrealized gain/(loss) from forward foreign currency exchange contracts			¥102

	Thousands of U.S. dollar		
	March 31, 2005		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contract:			
Sold			
U.S. dollar	$63,390	$63,716	$(325)
Euro	48,290	49,379	(1,089)
Hong Kong dollar	21,645	21,717	(71)
U.K. pound	6,926	7,103	(176)
Singapore dollar	3,907	3,933	(26)
Australian dollar	719	764	(44)
Purchased			
U.S. dollar	1,145	1,147	1
Total unrealized gain/(loss) from forward foreign currency exchange contracts			$(1,733)

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

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

	Millions of yen		
	March 31, 2004		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, Receive-floating	¥8,201	¥(119)	¥(119)

	Thousands of U.S. dollar		
	March 31, 2005		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, Receive-floating	$57,936	$(780)	$(780)

7. Short-term and long-term loans:

Short-term and long-term loans as of March 31, 2005 and 2004 consisted of the following;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Short-term loans	¥23,547	¥42,662	$219,269
Current portion of long-term loans from banks and insurance companies	7,045	6,542	65,604
Total short-term loans	30,592	49,205	284,873
Long-term loans from banks and insurance companies	11,027	9,379	102,683
Total	¥41,619	¥58,585	$387,556

The weighted-average rates for the short-term loans, current portion of long-term loans and long-term loans as of March 31, 2005, were 1.49%, 1.84% and 1.90%, respectively.
Clarion had been furnished with financial funds at a lower interest rate due to using of a syndicated loan.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥7,045	$65,604
2007	7,041	65,572
2008	3,243	30,202
2009	245	2,287
2010	47	445

As of March 31, 2005 and 2004, assets pledged as collateral for short-term and long-term loans follow;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Accounts receivable	¥ -	¥360	$ -
Buildings and structures (net)	3,836	3,523	35,722
Machinery and equipment (net)	63	245	594
Land	7,597	8,901	70,743
Investments in securities	-	3,187	-
Total	¥11,497	¥16,218	$107,060

In addition to the above, time deposits of ¥6 million ($63 thousand) and ¥6 million were pledged as a guarantee as of March 31, 2005, and 2004, respectively.

Secured loans and debt as of March 31, 2005 and 2004 consist of the following;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Short-tem loans	¥29,840	¥29,468	$277,868
Long-term loans	10,427	9,343	97,096
Total	¥40,267	¥38,812	$374,964

8. Accrued retirement benefits to employees:

Clarion and some of the domestic subsidiaries maintain tax qualified pension plans and employees' severance indemnities plans, which are defined benefit pension plans covering all employees. The other domestic subsidiaries and some of the overseas subsidiaries adopt employees' severance indemnities plans as defined benefit pension plans. In addition, some overseas subsidiaries adopt defined contribution pension plans.

The funded status of retirement benefit obligations as of March 31, 2005 and 2004 follow;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Projected benefit obligations	¥(13,429)	¥(13,394)	$(125,055)
Plan assets at fair value	2,039	1,901	18,993
Securities contributed to employee retirement benefit trust	235	266	2,197
Unfunded status	(11,153)	(11,225)	(103,864)
Unrecognized transition amount	-	464	-
Unrecognized actuarial differences	1,128	1,370	10,508
Accrued pension and severance costs	¥(10,025)	¥(9,391)	$(93,356)

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2005, 2004 and 2003 follow;

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2005	2004	2003	2005
Service cost	¥720	¥842	¥933	$6,713
Interest cost	328	323	380	3,060
Expected return on plan assets	(42)	(37)	(77)	(396)
Amortization of transition amount	464	464	464	4,323
Amortization of actuarial difference	110	105	9	1,024
Net periodic pension expense	¥1,581	¥1,697	¥1,710	$14,725

In addition to the above, extra employees' severance indemnities of ¥46 million ($431 thousand), ¥242 million and ¥1,127 million were included in other expenses for the respective periods ended March 31, 2005, 2004 and 2003, respectively.

Assumptions used in calculating the above information follow;

	Year ended March 31		
	2005	2004	2003
Discount rate	2.0～2.5%	2.0～2.5%	2.0～2.5%
Expected rate of return on plan assets	2.0～2.5%	2.0～2.5%	2.0～2.5%
Amortization term of actuarial difference (Amortized from the next fiscal year)	10～15 years	10～15 years	10～15 years
Amortization term of transition obligation	5 years	5 years	5 years

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

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

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

The differences between fair value and carrying amount after revaluation as of March 31, 2005 and 2004 follow;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Difference between fair value and carrying amount after revaluation	¥(1,766)	¥(1,319)	$(16,449)

Date of latest revaluation: March 31, 2001

10. Income taxes:

Significant components of the Company's deferred income tax assets and liabilities as of March 31, 2005 and 2004 follow;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Deferred income tax assets:			
Net operating tax losses carried-forward	¥9,337	¥11,528	$86,951
Accrued pension and severance costs	3,627	3,575	33,779
Loss on devaluation of inventories	587	530	5,474
Loss on devaluation of marketable securities	2,392	2,513	22,279
Allowance for doubtful accounts	1,188	469	11,065
Foreign taxes paid	369	402	3,444
Accrued bonuses	375	373	3,494
Others	1,690	1,470	15,737
Sub-total	19,569	20,861	182,227
Deferred income tax liabilities:			
Inventory valuation	415	507	3,867
Others	253	107	2,361
Sub-total	668	615	6,229
Less: Valuation allowance	(12,737)	(16,991)	(118,605)
Net deferred income tax assets	¥6,163	¥3,255	$57,392

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

	March 31,	
	2005	2004
Statutory income tax rate	40.7%	42.1%
Permanent differences	2.8	3.4
Fixed levy of local inhabitant taxes	1.1	0.6
Valuation allowance	(113.1)	(51.8)
Variance of effective tax rate between Clarion and the subsidiaries	(11.3)	(4.3)
Others	0.9	1.3
Effective income tax rate	(78.9)%	(8.7)%

11. Research and development expenses:

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2005, 2004 and 2003 totaled ¥309 million ($2,884 thousand), ¥334 million and ¥495 million, respectively.

12. Cash flow information:

Cash and cash equivalents as of March 31, 2005 and 2004 were comprised of the following;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Cash on hand and in banks	¥11,059	¥26,005	$102,984
Deposits with original maturities of more than three months	(42)	-	(400)
Cash and cash equivalents	¥11,016	¥26,005	$102,583

The following assets and liabilities have been excluded from subsidiaries after the sale of common stock of McIntosh Laboratory Inc. and the sale amount of the common stock ;

	Millions of yen
	March 31
	2004
Current assets	¥1,365
Non-current assets	309
Goodwill	759
Current liabilities	(373)
Non-current liabilities	(1,923)
Foreign currency translation adjustments	(2)
Sale amount of common stocks	135
Cash and cash equivalents	(167)
Netting with cash and cash equivalents	¥(31)

13. Leases:

The Company, as a lessee, charges periodic lease payments for capital leases to expense on payment. Such payments for the years ended March 31, 2005, 2004 and 2003 were ¥1,591 million ($14,823 thousand), ¥1,583 million and ¥2,448 million, respectively. As a lessor, the company recognizes periodic lease receipts as revenue. There were no such receipts for the years ended March 31, 2005 and 2004; however, receipt of ¥109 million was received for the year ended March 31, 2003.

The amount of outstanding future lease payments for capital leases as of March 31, 2005 and 2004, excluding the interest thereon, are summarized as follows;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Future lease payments:			
Due within one year	¥1,221	¥1,066	$11,374
Due after one year	1,386	970	12,910
Total	¥2,607	¥2,037	$24,284

Pro forma information for capital leases as of March 31, 2005 and 2004 (acquisition cost, accumulated depreciation, depreciation expense and interest expense for the period) follow;

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Pro forma information for capital leases as of March 31, 2005 and 2004 (acquisition cost, accumulated depreciation, depreciation expense and interest expense for the period) follow;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Acquisition cost	¥4,251	¥3,664	$39,586
Accumulated depreciation	(1,765)	(1,726)	(16,435)
Carrying value	¥2,486	¥1,938	$23,150
Depreciation expense	¥1,428	¥1,404	$13,303
Interest expense	¥157	¥150	$1,469

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

The amount of outstanding future lease receipts as of March 31, 2005 and 2004, including interest, follow;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Future lease receipts:			
Due within one year	¥-	¥0	$-
Due after one year	-	-	-
Total	¥-	¥0	$-

Future lease obligations for non-cancelable operating leases at March 31, 2005 and 2004 follow;

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Due within one year	¥232	¥253	$2,160
Due after one year	583	599	5,432
Total	¥815	¥853	$7,593

14. Commitments and contingencies:

The Company was contingently liable as a guarantor of indebtedness of a distributor and customers. There was no such contingency as of March 31, 2005; however, in the aggregate amount of ¥13 million was contingent as of March 31, 2004.

15. Segment information:

(1) Information by business segment -

The Company operates principally in three business segments.

(a) Car audio-visual equipment: Car radios, car stereo players, car televisions with diversity antenna system, VCRs and others

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

(c) Others: Wireless communication equipment and others

Audio entertainment equipment was excluded from business segments after Clarion sold the common stock of McIntosh Laboratory Inc., which operated in this business segment in the period ended March 31, 2004.

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

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

	Millions of yen					
	Year ended March 31, 2003					
	Car audio-visual equipment	Audio entertain-ment equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	¥168,716	¥5,162	¥5,235	¥6,416	¥ -	¥185,530
Operating expenses	160,163	5,077	4,705	6,048	-	175,995
Operating income	¥8,552	¥84	¥530	¥367	¥ -	¥9,534
Total assets	¥128,954	¥1,663	¥5,890	¥13,855	¥(9,741)	¥140,621
Depreciation	¥5,456	¥168	¥143	¥132	¥ -	¥5,901
Capital expenditures	¥3,989	¥359	¥122	¥78	¥ -	¥4,550

	Thousands of U.S. dollars				
	Year ended March 31, 2005				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	$1,549,166	$64,711	$46,659	$ -	$1,660,537
Operating expenses	1,473,438	53,229	44,641	-	1,571,309
Operating income	$75,728	$11,481	$2,018	$ -	$89,228
Total assets	$1,157,134	$50,536	$167,788	$(262,436)	$1,113,024
Depreciation	$46,601	$1,449	$522	$ -	$48,574
Capital expenditures	$58,938	$1,547	$298	$ -	$60,784

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2005, 2004 and 2003 were ¥2,564 million ($23,883 thousand), ¥2,513 million and ¥2,273 million, respectively.

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

(2) Information by geographic segment -

Sales of the Company classified by geographic area for the years ended March 31, 2005, 2004 and 2003, respectively, are summarized as follows;

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

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

	Millions of yen					
	Year ended March 31, 2003					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers	¥97,333	¥39,291	¥10,141	¥38,763	¥ -	¥185,530
Inter-segment sales	51,815	8,325	39,410	6,260	(105,812)	-
Total sales	149,149	47,617	49,551	45,024	(105,812)	185,530
Operating expenses	142,955	47,007	48,597	44,583	(107,148)	175,995
Operating income	¥6,194	¥609	¥953	¥440	¥1,336	¥9,534
Total assets	¥124,462	¥26,306	¥16,359	¥20,464	¥(46,971)	¥140,621

	Thousands of U.S. dollars					
	Year ended March 31, 2005					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers	$900,070	$359,224	$99,987	$301,255	$ -	$1,660,537
Inter-segment sales	387,015	12,608	389,605	20,343	(809,573)	-
Total sales	1,287,085	371,833	489,593	321,598	(809,573)	1,660,537
Operating expenses	1,228,378	356,234	482,231	318,355	(813,891)	1,571,309
Operating income	$58,707	$15,598	$7,361	$3,243	$4,317	$89,228
Total assets	$1,074,252	$206,586	$164,618	$161,564	$(493,998)	$1,113,024

Notes:

(*1) Americas : U.S.A, Canada, Mexico, Brazil

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

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

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2005, 2004 and 2003 were ¥2,564 million ($23,883 thousand), ¥2,513 million and ¥2,273 million, respectively.

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

ChuoAoyama PricewaterhouseCoopers

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and its subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
June 28th, 2005