clarion

ANNUAL REPORT 2003

Fiscal Year Ended March 31, 2003

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
For the years ended March 31,	**2003**	2002	**2003**
Net Sales	**¥185,530**	¥187,954	**$1,543,513**
Operating Income	**9,534**	4,335	**79,323**
Net Income (Loss)	**1,555**	(7,274)	**12,940**
Per Share of Common Stock (Yen or U.S. dollars):			
Net Income (Loss)	**7.82**	(45.25)	**0.065**
Cash Dividends	–	–	–
As at March 31,			
Shareholders' Equity	**14,617**	3,930	**121,607**
Total Assets	**140,621**	154,138	**1,169,897**

Note: U.S. dollar amounts are translated, for convenience only, at ¥120.20 = U.S.$1, the rate prevailing on March 31, 2003.

CONTENTS

MESSAGE FROM THE PRESIDENT

Operating Environment and Results

In fiscal 2002, ended March 31, 2003, the Clarion Group reported a generally satisfactory performance. Over the past several years, our results have been disappointing due to fierce competition and price wars amid prolonged economic recession. Since April 2001, however, the entire Group has implemented drastic structural reforms under its medium-term management plan, called New Creation 21. As a result, consolidated net sales amounted to ¥185,530 million, down 1.3% from the previous year. By contrast, operating income jumped 119.9% to ¥9,534 million, the highest level since 1982. Moreover, we reported a positive consolidated net income figure for the first time in four years.

Total shareholders' equity at fiscal year-end was ¥14,617 million, representing a 3.7-fold increase compared with a year earlier. This rise stemmed from a private placement amounting to ¥8,300 million and from the solid net income figure of ¥1,555 million. Consequently, Clarion significantly reinforced its financial position, with the equity ratio improving 7.8 points, to 10.4%.

Although we posted a positive net income figure, the need to address significant carried-over losses remains. Unfortunately, therefore, we were unable to declare cash dividends for the year under review.

New Creation 21: A Progress Update

The Company's medium-term management plan, New Creation 21, covers the three-year period from April 2001 to March 2004. Guided by the plan, we have undertaken a series of management reforms. In fiscal 2002, the second year of the plan, we made significant progress, details of which are described below.

- We established a solid base for increasing earnings by expanding sales in the OEM market and otherwise concentrating on our core business in car audio-visual, navigation, and IVCS devices.
- We streamlined fixed costs by reducing personnel expenses as well as moving our head office to the Saitama plant. We also consolidated the operations of domestic affiliated companies.
- To reinforce our capital base and improve R&D capabilities for the future, we made a private placement, raising ¥8.3 billion.
- To better concentrate on our core business, we consolidated Group companies.
- We significantly reduced Group-wide interest-bearing liabilities by reducing inventories and improving operating cash flows.
- Steep cuts in Group-wide inventories enabled us to make good progress in increasing operating efficiency.
- We achieved an 8.8%, or ¥13.5 billion, reduction in total assets as part of our plan to raise return on assets (ROA).

During the period covered by the plan, we have made significant progress in reducing personnel expenses and streamlining our workforce. In fiscal 2002, we reduced personnel expenses to ¥28.7 billion, down ¥2.9 billion from the previous year and ¥6.6 billion since the plan began. Since the launch of the plan, we have lowered the number of employees by 4,113, to 9,595 at fiscal year-end, or 1,243 lower than the year earlier. Through further reductions, we plan to have a workforce of 9,100 people, with personnel expenses of ¥26.0 billion, by the end of the current fiscal year.

Meanwhile, we have actively rationalized and consolidated our network of domestic and overseas production and sales affiliates. The total number of such companies came down from 54 in March 2001 to 42 in March 2002. In fiscal 2002, we reduced the number further, to 34 by year-end. We plan to lower the number by another five in the current fiscal year.

On March 31, 2003, the Company's inventories stood at ¥28.7 billion, down ¥7.3 billion over the past year and ¥21.0 billion since the beginning of the plan. We project a further reduction, to ¥26.5 billion, in the current fiscal year. Interest-bearing liabilities totaled ¥76.4 billion, down ¥16.7 billion over one year and ¥29.3 billion over two years. Our target for the end of fiscal 2003 is ¥68.1 billion.

Future Perspectives

The outlook for the future is increasingly uncertain. On the international front, there is growing concern about worldwide recession and the impact of the Iraq and SARS situations. In Japan, meanwhile, personal consumption remains sluggish in the wake of prolonged economic stagnation and unstable employment conditions.

Moreover, due to intensifying cost competition in the automotive sector, manufacturers are facing pressure to drastically lower costs while enhancing their ability to develop appealing products. Many are expanding their international parts and components procurement systems to achieve these aims.

The current fiscal period, ending March 2004, is the final year of New Creation 21. In our effort to achieve the targets outlined in the plan, we will harness Group-wide resources and strive to maximize corporate value.

We look forward to the ongoing support and understanding of our shareholders and customers.

June 27, 2003

Tatsuhiko Izumi
President

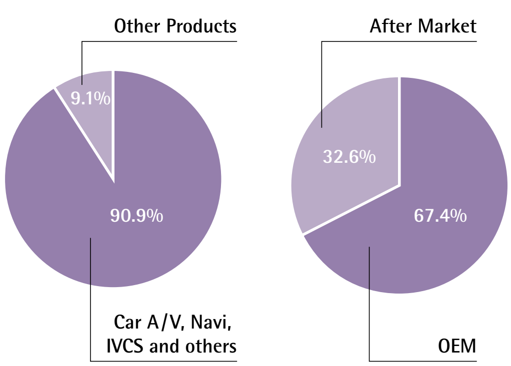
Performance by Segment

The Clarion Group's operations are classified into two product segments: Car Audio-Visual, Navigation, and IVCS Devices; and Other Businesses.

In fiscal 2002, sales in the Car Audio-Visual, Navigation, and IVCS Devices segment edged up 0.8%, to ¥168,716 million, and accounted for 90.9% of net sales, up 1.9 points. Sales from Other Businesses declined 18.4%, to ¥16,814 million, or 9.1% of net sales.

The Group's operations can also be classified by sales channels: OEM and Aftermarket sales. OEM sales in fiscal 2002 amounted to ¥125,119 million, or 67.4% of net sales. This represented a significant 2.5-point increase. Aftermarket sales, at ¥60,411 million, accounted for the remaining 32.5% of net sales.

>> Consolidated Sales: ¥ 185,530 million



Performance by Region

In fiscal 2002, domestic sales totaled ¥97,333 million, up 2.0% from fiscal 2001. This figure represented 52.4% of net sales, up from 50.8%. Despite depressed economic conditions in Japan, domestic automobile manufacturers increased production and sales compared with the previous year. Clarion responded with a proactive marketing effort, resulting in higher sales, especially of car navigation devices. We also improved profitability in the aftermarket through cost-reduction efforts. As a consequence, our Japanese operations reported higher revenues and earnings.

Sales in the Americas fell 14.0%, to ¥39,291 million, or 21.2% of net sales, down 3.1 points. Our performance in that region was affected by a number of factors, such as weakening personal consumption, a decline in OEM sales to the Big Three U.S. automobile manufacturers, and falling prices due to intense competition.

Auto PC CADIAS

Despite generally depressed economic conditions in Europe, sales in that region climbed 5.1%, to ¥38,763 million, accounting for 20.9% of net sales, up 1.3 points. This improved result stemmed from our active sales promotion efforts in the aftermarket.

Sales in Asia-Oceania grew 2.0%, to ¥10,141 million, or 5.5% of net sales, up 0.2 point. During the year, we boosted revenues and profits in Asia, entering on China, both in the OEM market and aftermarket.

Hard Disk Navigation System
MAX 730HD (Japanese after market)

Car Audio-Visual, Navigation, and IVCS Devices

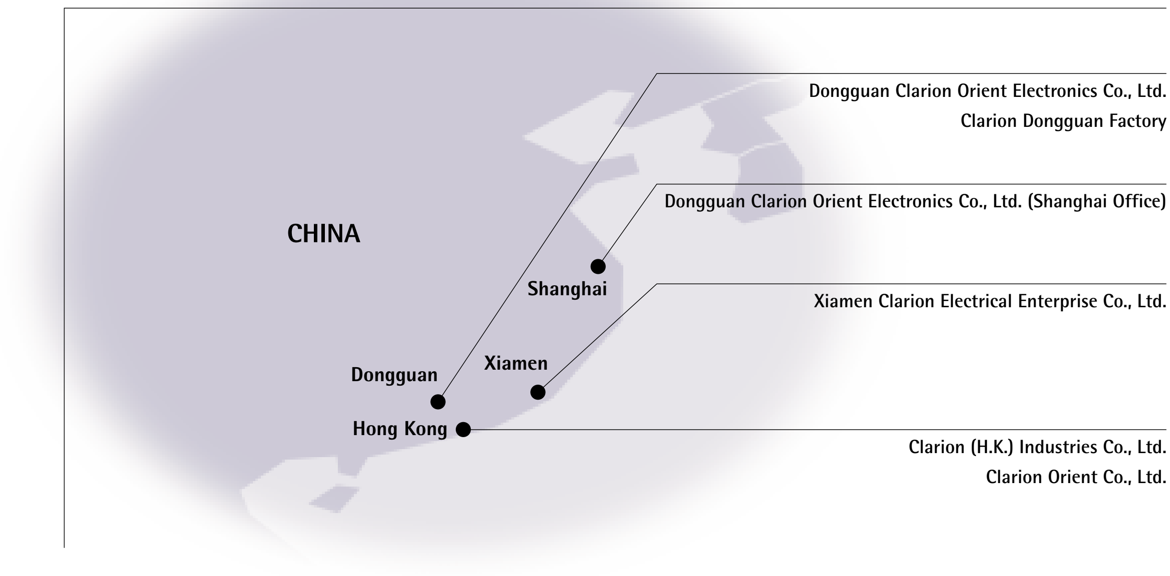
Product Strategies

Clarion is shifting the focus of its management resources from conventional car audio-visual products to in-vehicle computing system (IVCS) devices. In the car navigation category, users are demanding systems with IVCS functions, as well as audio-visual functions, rather than car navigation systems as dedicated products.

Taking the challenge of these trends to a new level, in December 2002 Clarion launched Japan's first in-vehicle PC. Installed with Windows® CE for Automotive, a highly expandable and versatile operating system, the product promises to offer a multitude of functions not available with existing in-vehicle products. We regard this product as the symbol of our IVCS strategy and will use it as the basis for further progress in the future.

In the OEM market, Clarion has an extensive track record and solid market share in serving prominent Japanese and overseas automobile manufacturers. We supply products both for line installation and as dealer options. Recently, we supplied our first car navigation systems for line installation, in selected vehicles made by Nissan Motor Co., Ltd., and Suzuki Motor Corporation. We also delivered our first car navigation systems to be offered as dealer options, in selected vehicles made by Mitsubishi Motors Corporation. In addition, we expanded shipments of car navigation systems, developed jointly with Honda Access Corporation, to Honda

>> Manufacturing Network of China



Motor Co., Ltd. These and other activities have contributed to the Company's revenues.

In the future, we believe that automobile manufacturers will enrich their line installation programs with highly functional car audio-visual/navigation systems to improve the value of their vehicles. In our opinion, single units combining both audio-visual and navigation functions will become mainstream owing to their space- and cost-saving benefits. Regarding this as an opportunity, we will reinforce our capabilities in this area.

In another recent highlight, we concluded an OEM agreement to supply in-dash CD autochangers to a leading automobile components maker with a large share of the U.S. market.

In the Aftermarket, we supply car audio-visual and navigation systems under the ADDZEST brand in Japan and the Clarion brand overseas. These products feature the same technological excellence and reliability as those we supply to the OEM market. Due to intense price competition in the aftermarket, we will step up cost-reduction efforts by rationalizing our manufacturing operations and promoting the use of common parts across multiple products. Since success in the aftermarket is closely linked with brand power, we will rebuild and strengthen consumer loyalty to our brands by reinforcing our product planning capabilities while stepping up advertising and solidifying our sales system.

Building a Presence in China

Clarion is focusing its attention on China, which is an important center for world production and is emerging as a major market in itself. In response, we are building a network of manufacturing and sales operations in that nation. To meet the needs of automobile manufacturers entering China, we will strongly promote the establishment of an integrated product development, procurement, and production system covering the Chinese market. At present, we have production and sales operations in Dongguan, Hong Kong, and Xiamen. We have also established a marketing and sales base in Shanghai. Through these operations, we will strengthen our business in serving the OEM sector and aftermarket in China.

Other Businesses

In fiscal 2002, sales of audio-visual devices for buses languished due to weak demand for new buses stemming from prolonged economic recession and suppressed capital expenditures. During the year, we strove to expand sales of rear-view monitor systems equipped with CCD cameras for use in regular vehicles, but intense price competition caused sales to decline. Nevertheless, we have a solid market share for these products, which are also highly profitable. In the future, we will aggressively develop this business while promoting common platforms between the products in this business sector and our IVCS devices, as the demand here will be for more functionally advanced and communication - compatible products.

Clarion's karaoke systems have been a long-time favorite of consumers since 1976. However, times and user needs have changed and, due to our renewed focus on profitability, we decided to withdraw from the business. In the second half of the year under review, we sold the shares of our karaoke systems affiliates, thus removing them from the scope of consolidation. In May 2003, we sold shares held by U.S. subsidiary Clarion Corporation of America in McIntosh Laboratory, Inc., a maker of high-end home audio systems. Our withdrawal from these segments of the non-automotive audio equipment market is consistent with our strategy of concentrating management resources on core businesses as outlined in New Creation 21.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets as of March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
ASSETS			
Current Assets:			
Cash on hand and in banks	¥ 28,565	¥ 22,131	$ 237,652
Notes and accounts receivable	31,272	36,684	260,171
Less: Allowance for doubtful accounts	(1,236)	(1,337)	(10,284)
Marketable securities	—	1	—
Inventories	28,689	35,972	238,682
Deferred income taxes	2,131	1,928	17,734
Other current assets	4,187	4,433	34,837
Total current assets	93,610	99,813	778,793
Investments in Securities	3,891	5,559	32,373
Property, Plant and Equipment:			
Buildings and structures	23,050	24,155	191,766
Machinery and equipment	39,644	43,763	329,821
Land	13,026	13,201	108,370
Construction in progress	22	56	188
Less: Accumulated depreciation	(46,919)	(48,499)	(390,348)
Total property, plant and equipment	28,823	32,677	239,799
Other Assets:			
Intangible assets	8,312	9,761	69,158
Other	5,982	6,325	49,773
Total other assets	14,295	16,087	118,931
Total assets	¥140,621	¥154,138	$1,169,897

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans	**¥ 63,403**	¥ 72,951	**$ 527,482**
Current portion of debentures	**3,000**	—	**24,958**
Notes and accounts payable	**21,436**	28,968	**178,341**
Accrued bonus	**1,265**	1,421	**10,532**
Income taxes payable	**73**	226	**609**
Other current liabilities	**13,794**	12,840	**114,766**
Total current liabilities	**102,974**	116,408	**856,691**
Long-term Liabilities:			
Long-term loans	**10,012**	14,765	**83,299**
Debentures	**—**	3,000	**—**
Convertible bond	**—**	2,350	**—**
Accrued pension and severance costs	**8,512**	9,736	**70,819**
Deferred income taxes on revaluation of land	**2,005**	2,005	**16,685**
Other long-term liabilities	**1,460**	883	**12,151**
Total long-term liabilities	**22,058**	32,817	**183,516**
Minority Interests in Consolidated Subsidiaries	**971**	982	**8,082**
Shareholders' Equity:			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2003			
and 186,203,413 shares at March 31, 2002	**26,100**	20,761	**217,140**
Additional paid-in capital	**33,559**	28,278	**279,195**
Retained earnings	**(39,581)**	(41,150)	**(329,299)**
Net unrealized gain on revaluation of land	**2,763**	2,763	**22,994**
Net unrealized losses on securities	**(1,123)**	(695)	**(9,348)**
Foreign currency translation adjustments	**(7,088)**	(6,025)	**(58,973)**
Treasury stock	**(12)**	(2)	**(101)**
Total shareholders' equity	**14,617**	3,930	**121,607**
Total liabilities and shareholders' equity	**¥140,621**	¥154,138	**$1,169,897**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income for the years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Net sales	**¥185,530**	¥187,954	¥188,686	**$1,543,513**
Cost of sales	**146,946**	153,424	155,630	**1,222,516**
Gross profit	**38,583**	34,530	33,056	**320,997**
Selling, general and administrative expenses	**29,049**	30,194	35,114	**241,673**
Operating income (loss)	**9,534**	4,335	(2,058)	**79,323**
Other:				
Interest income	**144**	332	455	**1,199**
Dividend income	**51**	102	126	**429**
Gain on sales of property, plant and equipment, net	**72**	254	517	**606**
Reversal of allowance for doubtful accounts	**53**	—	—	**442**
Gain on sale of share of subsidiary and affiliate	**16**	187	—	**137**
Gain on securities contributed to employee retirement benefit trust	**—**	—	309	**—**
Interest expenses	**(2,589)**	(2,765)	(2,729)	**(21,545)**
Loss on disposal of property, plant and equipment	**(221)**	(147)	(336)	**(1,842)**
Loss on devaluation and disposal of inventories	**(95)**	(1,409)	—	**(798)**
Loss on devaluation of investments in securities	**(765)**	(6,648)	(792)	**(6,367)**
Additional severance allowance	**(735)**	(779)	(131)	**(6,121)**
Amortization of goodwill and other	**(445)**	—	—	**(3,704)**
(Loss) gain on sales of investments in securities, net	**(92)**	1,041	841	**(771)**
Contribution of securities to employee retirement benefit trust	**—**	—	(518)	**—**
Transition obligation expenses for pension and severance costs	**(464)**	(464)	(464)	**(3,862)**
Foreign exchange (loss) gain, net	**(409)**	(193)	231	**(3,402)**
Others, net	**(1,650)**	(1,671)	(2,542)	**(13,733)**
	(7,132)	(12,162)	(5,031)	**(59,334)**
Income (loss) before income taxes	**2,402**	(7,826)	(7,090)	**19,989**
Provision for income taxes:				
Current	**766**	1,435	797	**6,375**
Deferred	**(38)**	(2,165)	(116)	**(322)**
	727	(729)	680	**6,053**
Income(loss) before minority interests	**1,675**	(7,096)	(7,771)	**13,935**
Minority interests in consolidated subsidiaries	**119**	177	(8)	**995**
Net income (loss)	**¥ 1,555**	¥ (7,274)	¥ (7,762)	**$ 12,940**
Per share:				
Net income (loss)	**¥ 7.82**	¥ (45.25)	¥ (49.88)	**$ 0.065**
Cash dividends	**¥ —**	¥ —	¥ —	**$ —**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity for the years ended March 31, 2003, 2002 and 2001

	Number of common shares outstanding (Thousands)	Millions of yen							
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on revaluation of land	Net unrealized losses on other securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2000	155,625	¥19,432	¥26,934	¥(25,962)	—	—	—	¥ (1)	¥20,403
Net loss	—	—	—	(7,762)	—	—	—	—	(7,762)
Decrease due to change in subsidiaries	—	—	—	(119)	—	—	—	—	(119)
Change in treasury stock	—	—	—	—	—	—	—	0	0
Net unrealized gain on revaluation of land	—	—	—	—	2,755	—	—	—	2,755
Foreign currency translation adjustments	—	—	—	—	—	—	(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 of convertible bonds	30,578	1,329	1,320	—	—	—	—	—	2,650
Net loss	—	—	—	(7,274)	—	—	—	—	(7,274)
Change in treasury stock	—	—	—	—	—	—	—	(2)	(2)
Net unrealized gain on revaluation of land	—	—	—	(8)	8	—	—	—	—
Net unrealized loss on securities	—	—	—	—	—	(695)	—	—	(695)
Foreign currency translation adjustments	—	—	—	—	—	—	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
New issuance of common stock	59,287	4,150	4,150	—	—	—	—	—	8,300
Conversion of convertible bonds	37,253	1,188	1,161	—	—	—	—	—	2,350
Net income	—	—	—	1,555	—	—	—	—	1,555
Change in treasury stock	—	—	—	—	—	—	—	(9)	(9)
Net unrealized loss on securities	—	—	—	—	—	(428)	—	—	(428)
Foreign currency translation adjustments	—	—	—	—	—	—	(1,063)	—	(1,063)
Others	—	—	(30)	13	—	—	—	—	(17)
Balance at March 31, 2003	282,744	¥26,100	¥33,559	¥(39,581)	¥2,763	¥(1,123)	¥(7,088)	¥(12)	¥14,617

	Number of common shares outstanding (Thousands)	Thousands of U.S. dollars							
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on revaluation of land	Net unrealized losses on other securities	Foreign currency translation adjustments	Treasury stock	Total shareholders' equity
Balance at March 31, 2002	186,203	$172,725	$235,261	$(342,351)	$22,994	$(5,785)	$(50,125)	$ (21)	$ 32,697
New issuance of common stock	59,287	34,526	34,526	—	—	—	—	—	69,053
Conversion of convertible bonds	37,253	9,888	9,662	—	—	—	—	—	19,550
Net income	—	—	—	12,940	—	—	—	—	12,940
Change in treasury stock	—	—	—	—	—	—	—	(80)	(80)
Net unrealized loss on securities	—	—	—	—	—	(3,563)	—	—	(3,563)
Foreign currency translation adjustments	—	—	—	—	—	—	(8,848)	—	(8,848)
Others	—	—	(254)	111	—	—	—	—	(143)
Balance at March 31, 2003	282,744	$217,140	$279,195	$(329,299)	$22,994	$(9,348)	$(58,973)	$(101)	$121,607

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows for the years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Cash Flows from Operating Activities:				
Income (loss) before income taxes	**¥ 2,402**	¥(7,826)	¥ (7,090)	**$ 19,989**
Adjustments —				
Depreciation	**5,090**	5,572	5,282	**42,347**
Amortization of goodwill	**428**	223	286	**3,568**
Equity in (gain) loss of affiliates	**(120)**	63	13	**(1,000)**
Increase (decrease) in allowance for doubtful accounts	**282**	(144)	481	**2,348**
Increase (decrease) in allowance for severance indemnities, less payments	**(1,066)**	(154)	84	**(8,875)**
Interest and dividend income	**(195)**	(434)	(582)	**(1,628)**
Interest expenses	**2,589**	2,765	2,729	**21,545**
Devaluation of marketable securities and investments in securities	**765**	6,648	792	**6,367**
Gain on sales of investments in securities	**—**	(1,046)	(908)	**—**
Gain on sales of property, plant and equipment	**(78)**	(333)	(1,066)	**(649)**
Changes in assets and liabilities:				
Decrease in receivables	**3,433**	2,967	160	**28,564**
Decrease(increase) in inventories	**5,465**	14,262	(8,132)	**45,467**
(Increase) decrease in notes and accounts payable	**(5,693)**	(10,234)	5,610	**(47,362)**
Others, net	**2,046**	1,616	1,793	**17,022**
Sub-total	**15,349**	13,946	(546)	**127,703**
Interest and dividend received	**235**	557	682	**1,962**
Interest paid	**(2,528)**	(2,872)	(2,707)	**(21,035)**
Income taxes paid	**(904)**	(1,196)	(814)	**(7,521)**
Net cash provided by (used in) operating activities	**12,153**	10,434	(3,386)	**101,108**
Cash Flows from Investing Activities:				
Increase in time deposits	**(359)**	(544)	(1,481)	**(2,988)**
Decrease in time deposits	**2,712**	877	1,335	**22,565**
Payment for purchases of marketable securities	**—**	—	(2,052)	**—**
Payment for purchases of property, plant and equipment	**(2,410)**	(4,676)	(4,809)	**(20,054)**
Proceed from sales of property, plant and equipment	**699**	2,798	2,388	**5,821**
Payment for purchases of intangible assets	**(1,624)**	(2,772)	(2,352)	**(13,511)**
Proceed from sales of investments in securities	**476**	4,417	2,325	**3,965**
Proceed from sales of common stock in consolidated subsidiaries	**(186)**	—	106	**(1,550)**
Increase in loans	**(9)**	(2,727)	(182)	**(81)**
Decrease of loans	**193**	241	283	**1,606**
Proceed from issuance of shares to minority shareholders	**—**	—	381	**—**
Others, net	**(22)**	12	1,973	**(185)**
Net cash used in investing activities	**(530)**	(2,373)	(2,083)	**(4,413)**
Cash Flows from Financing Activities:				
(Decrease) increase in short-term loans, net	**(1,082)**	(5,515)	5,954	**(9,002)**
Repayment of commercial papers	**—**	—	(2,000)	**—**
Proceed from long-term loans	**30**	4,400	4,384	**249**
Repayment of long-term loans	**(9,396)**	(10,798)	(8,443)	**(78,173)**
Proceed from issuance of common stock	**8,300**	—	—	**69,053**
Proceed from issuance of debentures	**—**	—	7,850	**—**
Others, net	**(9)**	0	0	**(80)**
Net cash (used in) provided by financing activities	**(2,158)**	(11,912)	7,745	**(17,954)**
Effect of exchange rate changes on cash and cash equivalents	**(612)**	611	1,340	**(5,091)**
Net increase (decrease) in cash and cash equivalents	**8,852**	(3,239)	3,615	**73,649**
Cash and cash equivalents at beginning of year	**18,943**	22,374	18,748	**157,597**
Cash and cash equivalents of subsidiaries newly consolidated at beginning of year	**—**	—	10	**—**
Cash and cash equivalents of subsidiaries excluded from consolidation	**—**	(191)	—	**—**
Cash and cash equivalents at end of year	**¥27,795**	¥18,943	¥22,374	**$231,246**

The accompanying notes are an integral part of these statements.

Notes to 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 of domicile. The accompanying consolidated financial statements of Clarion and its consolidated subsidiaries and affiliates (collectively, the "Company") are English translation of the Japanese consolidated financial statements of Company, which have been prepared in accordance with accounting principles and practices generally accepted in Japan.

The accompanying consolidated financial statements incorporate 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 reclassifications or rearrangements have a material effect on the financial statements.

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

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

The amounts presented in millions of yen are truncated 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 consolidated financial statements include the accounts of Clarion and its subsidiaries under its 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' fiscal year-end 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, except for that relating to U.S. and Mexico subsidiaries, which 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 whereas the shareholders' equity is translated at historical rates 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 "Foreign currency translation adjustments" in the separate components of shareholders' equity. The effect of adopting the new accounting standard on the accompanying consolidated financial statements was immaterial.

(3) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposit able to be withdrawn on demand and short-term highly liquid investments with original maturity of three months or less, which respect a minor risk of fluctuations in value.

(4) Financial Instruments

(a) Securities

Effective from April 1, 2000, the accounting standards for financial instruments, which cover accounting treatments for investments in debt and equity securities, derivative financial instruments and allowance for doubtful accounts.

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 for which market quotations are available, were recognized at fair value in the accompanying consolidated balance sheets as of March 31, 2003 and 2002 respectively. Unrealized gains and losses for these other securities were reported 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, 2003, net unrealized gain on other securities amounting negative ¥1,123 million, and as of March 31, 2002, net unrealized gain on the securities amounting negative ¥695 million, were stated in the separate component of shareholders' equity.

(b) Derivative Financial Instruments

Under the new accounting standard for financial instruments, which is 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 of adopting new accounting standard, 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

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

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.

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

(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) Notes Receivable and Notes Payable Maturing at Year-End

Notes receivable and notes payable are settled on the date of clearance. As March 31, 2002 was a Sunday, notes receivable and notes payable maturing on that date could not be settled and are included in the ending balance of notes and accounts receivable, trade and notes and accounts payable, trade, as follows:

	Millions of yen
Notes receivable	¥1,387
Notes payable	2,254

(7) 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.

(8) 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 and betterment 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. And for 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.

(9) 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.

(10) Accrued Bonuses

Accrued bonuses to employees are provided for the estimated amounts which Clarion and its domestic consolidated subsidiaries expected to be paid to employees after the fiscal year-end, based on services provided during the current period.

(11) Accrued Pension and Severance Costs

Effective from April 1, 2000, Clarion and its domestic subsidiaries adopted the new Japanese accounting standard for pension and severance costs. In accordance with the new standard, the accrued pension and severance costs at the end of each year 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 costs for the year ended March 31, 2001 has increased by ¥928 million and loss before income taxes has increased by ¥618 million, after consideration of gains on securities contributed to employee retirement benefit trust of ¥309 million, as compared with the amounts which would have been reported if the previous standard had been applied consistently.

(12) Research and Development Costs

Research and development costs are expressed 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 basis assets and liabilities.

Effective from the year ended March 31, 2003, the Company adopted consolidated tax system. Under this system, a consolidated group of companies can report and pay national tax as one unit. A consolidated group of companies means Clarion as a parent company of consolidated tax system and the domestic consolidated subsidiaries.

(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 transferring 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 under the Japanese accounting standard.

(16) Appropriations of Retained Earnings

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

(17) Net Income per Share

Calculation of net income per share in accordance with the new accounting standards for the year ended March 31, 2003 is as follows:

	Millions of yen	Thousands of U.S. dollars
Net income	¥—	$—
Weighted average number of shares outstanding	199,029,478	

There were 162,736 shares in treasury stocks as at March 31, 2003.

	Yen	U.S. dollars
Net income per share	¥7.82	$0.065

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

On September 25, 2002, the Accounting Standards Board of Japan issued new accounting standards concerning accounting for net income per share, effective for fiscal years beginning on or after April 1, 2002. Under the new accounting standards, "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 statement of income of 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 ¥120.20 = US$1, the approximate rate of exchange as at March 31, 2003, 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 less than 1 thousand. Totals may not add up exactly because of such truncation.

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Finished products	**¥16,849**	¥20,400	**$140,182**
Work in process	**893**	1,658	**7,436**
Raw materials and supplies	**10,945**	13,912	**91,063**
Total	**¥28,689**	¥35,972	**$238,682**

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, 2003 and 2002 were as follows:

	Millions of yen			
		Gross unrealized		
March 31, 2003	Cost	Gains	Losses	Market value (carrying value)
Equity securities	**¥4,228**	**¥61**	**¥(1,185)**	**¥3,104**
Debt securities	**—**	**—**	**—**	**—**
Other	**2**	**—**	**—**	**2**
Total	**¥4,231**	**¥61**	**¥(1,185)**	**¥3,107**

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

	Thousands of U.S. dollars			
		Gross unrealized		
March 31, 2003	Cost	Gains	Losses	Market value (carrying value)
Equity securities	**$35,179**	**$512**	**$(9,860)**	**$25,830**
Debt securities	**—**	**—**	**—**	**—**
Other	**20**	**—**	**—**	**20**
Total	**$35,199**	**$512**	**$(9,860)**	**$25,851**

Other securities sold for the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
For the years ended March 31,	**2003**	2002	2001	**2003**
Sold amount	**¥452**	¥4,417	¥2,325	**$3,765**
Total gains on sale	**—**	1,046	908	**—**
Total losses on sale	**(92)**	(5)	(67)	**(771)**

The carrying value of unlisted investment equity securities and others at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Other securities			
Unlisted equity securities	**¥308**	¥438	**$2,565**
Others	**—**	1	**—**

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 listed contract amount and fair value as at March 31, 2003 and 2002 were as follows:

	Millions of yen		
	2003		
March 31,	Contract amounts	Fair values	Unrealized gains (losses)
Forward foreign exchange contracts:			
Sold			
U.S. dollar	**¥4,837**	**¥4,863**	**¥(25)**
Euro	**765**	**777**	**(11)**
H.K. dollar	**10**	**10**	**0**
Purchased			
U.S. dollar	**688**	**692**	**4**
Total unrealized gains (losses) from forward exchange contracts			**¥(33)**

	Millions of yen		
	2002		
March 31,	Contract amounts	Fair values	Unrealized gains (losses)
Forward foreign exchange contracts:			
Sold			
U.S. dollar	¥4,077	¥4,132	¥(55)
Euro	914	926	(11)
H.K. dollar	—	—	—
Purchased			
U.S. dollar	2,295	2,306	11
Total unrealized gains (losses) from forward exchange contracts			¥(56)

	Thousands of U.S. dollars		
	2003		
March 31,	Contract amounts	Fair values	Unrealized gains (losses)
Forward foreign exchange contracts:			
Sold			
U.S. dollar	**$40,246**	**$40,458**	**$(212)**
Euro	**6,368**	**6,466**	**(97)**
H.K. dollar	**88**	**89**	**0**
Purchased			
U.S. dollar	**5,726**	**5,759**	**33**
Total unrealized gains (losses) from forward exchange contracts			**$(277)**

	Millions of yen		
	2003		
March 31,	National amounts	Fair values	Unrealized gains (losses)
Interest rate swaps:			
Pay-fixed, Receive-floating	**¥8,555**	**¥(212)**	**¥(212)**

	Millions of yen		
	2002		
March 31,	National amounts	Fair values	Unrealized gains (losses)
Interest rate swaps:			
Pay-fixed, Receive-floating	¥9,314	¥(281)	¥(281)

	Thousands of U.S. dollars		
	2003		
March 31,	National amounts	Fair values	Unrealized gains (losses)
Interest rate swaps:			
Pay-fixed, Receive-floating	**$71,173**	**$(1,769)**	**$(1,769)**

7. SHORT-TERM AND LONG-TERM LOANS

Short-term and long-term loans at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Short-term loans	**¥55,942**	¥63,140	**$465,415**
Current portion of long-term loans from banks and insurance companies	**7,460**	9,810	**62,067**
Total short-term loans	**63,403**	72,951	**527,482**
Long-term loans from banks and insurance companies	**10,012**	14,765	**83,299**
Total	**¥73,416**	¥87,716	**$610,782**

The weighted-average rates for the short-term loans and long-term loans except for current portion at March 31, 2003, were 3.23% and 2.21%, respectively.

The maturity of long-term loans from banks and insurance companies are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥7,460	$62,067
2005	4,414	36,723
2006	2,352	19,573
2007	644	5,357
2008	631	5,257

At March 31, 2003 and 2002, assets pledged as collateral for short-term and long-term loans were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Time deposits	**¥ 72**	¥ 125	**$ 600**
Notes receivable	**—**	2	**—**
Accounts receivable	**4,560**	—	**37,943**
Buildings and structures (net)	**3,743**	2,756	**31,142**
Machinery and equipment (net)	**188**	183	**1,566**
Land	**9,087**	8,916	**75,600**
Investments in securities	**2,819**	4,435	**23,459**
Total	**¥20,471**	¥16,419	**$170,312**

Secured loans and debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Short-term loans	**¥31,995**	¥35,885	**$266,182**
Long-term loans	**9,597**	13,324	**79,842**
Total	**¥41,952**	¥49,209	**$346,025**

8. DEBENTURES AND CONVERTIBLE BOND

Debentures and convertible bond as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	2003	2002	2003
Unsecured 0.19% debentures due April 11, 2003	¥3,000	¥3,000	$24,958
Unsecured 0.125% convertible bond due March 31, 2005	—	2,350	—
Total	¥3,000	¥5,350	$24,958

Clarion converted ¥2,350 million of convertible bond during the period.

9. ACCRUED RETIREMENT BENEFITS TO EMPLOYEES

Clarion and some of the domestic consolidated subsidiaries maintain a tax qualified pension plan and employees' severance indemnities plan, which are defined benefit pension plan covering all of the employees. The other domestic consolidated subsidiaries and some of the overseas 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	2003	2002	2003
Projected benefit obligations	¥(12,737)	¥(14,126)	$(105,966)
Plan assets of fair value	1,576	2,580	13,115
Securities contributed to employee retirement benefit trust	179	266	1,495
Unfunded status	(10,980)	(11,279)	(91,354)
Unrecognized transition amount	928	1,392	7,725
Unrecognized actuarial differences	1,539	150	12,809
Accrued pension and severance costs	¥ (8,512)	¥ (9,736)	$ (70,819)

Net pension expense related to the retirement benefits for the year ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
For the years ended March 31,	2003	2002	2001	2003
Service cost	¥ 933	¥ 931	¥ 818	$ 7,766
Interest cost	380	407	292	3,169
Expected return on plan assets	(77)	(93)	(76)	(644)
Amortization of transition amount	464	464	464	3,862
Amortization of actuarial difference	9	(1)	—	79
Pension expense on securities contributed to employee retirement benefit trust	—	—	518	—
Net pension expense	¥1,710	¥1,708	¥2,017	$14,233

In addition to the above, extra employees' severance indemnities of ¥1,127 million ($9,381 thousand), ¥1,342 million and ¥410 million were included in the other expenses in the respective period ended March 31, 2003, 2002 and 2001.

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

For the years ended March 31	2003	2002	2001
Discount rate	2.0~2.5%	3.0%	3.0%
Expected rate of return on plan assets	3.0%	3.0%	3.0%
Amortization term of actuarial difference (Amortized from next fiscal year)	10~15 years	15 years	15 years
Amortization term of transition obligation	5 years	5 years	5 years

10. 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, 2003 and carrying amount after revaluation	¥ (878) million

11. INCOME TAXES

Significant components of the Company's deferred income tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	2003	2002	2003
Deferred income tax assets:			
Net operating tax losses carried-forward	**¥11,751**	¥12,334	**$ 97,768**
Accrued pension and severance costs	**3,623**	3,144	**30,145**
Losses on devaluation of inventories	**596**	262	**4,963**
Losses on devaluation of marketable securities	**4,893**	4,053	**40,708**
Allowance for doubtful accounts	**507**	214	**4,221**
Foreign taxes paid	**332**	320	**2,768**
Accrued bonus	**434**	349	**3,617**
Others	**1,993**	2,356	**16,582**
Sub-total	**24,133**	23,035	**200,776**
Deferred income tax liabilities:			
Inventory valuation	**677**	908	**5,634**
Others	**92**	131	**768**
Sub-total	**769**	1,039	**6,402**
Less: Valuation allowance	**(20,989)**	(20,013)	**(174,619)**
Net deferred income tax assets	**¥ 2,374**	¥ 1,982	**$ 19,754**

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,	2003	2002
Statutory income tax rate	**42.1%**	42.1%
Permanent differences	**2.1**	(2.4)
Fixed levy of local inhabitant taxes	**2.2**	(0.5)
Elimination of dividend income	**3.6**	—
Valuation allowance	**(9.3)**	—
Variance of effective tax rate between Clarion and the consolidated subsidiaries	**(13.3)**	—
Income taxes withheld in foreign countries	**—**	(1.7)
Unrecognized deferred tax assets during the year	**—**	(26.1)
Others	**2.9**	(2.1)
Effective income tax rate	**30.3%**	9.3%

The statutory income tax rate used in calculation of deferred tax assets and liabilities has been charged to a change in Japanese tax laws. At March 31, 2001 and 2002, 42.1% was used in the calculation. At March 31, 2003, deferred tax assets and liabilities expected to be realized in the following year were calculated using a 42.1% tax rate, while those expected to be realized after April 1, 2004 were calculated using a 40.7% tax rate.

The change of this had an immaterial impact on the Company's results of operations and financial position.

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 totaled ¥495 million ($4,126 thousand), ¥511 million and ¥594 million, respectively.

13. CASH FLOW INFORMATION

Cash and cash equivalents at March 31, 2003 and 2002 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	2003	2002	2003
Cash on hand and in banks	¥28,565	¥22,131	$237,652
Deposits with original maturity of more than three months	(770)	(3,188)	(6,405)
Debt security mutual funds	—	1	—
Cash and cash equivalents	¥27,795	¥18,943	$231,246

The following assets and liabilities excluded from consolidated subsidiaries after sale of common stocks of Clarion Soft Co., Ltd. and its subsidiaries, and the sale amount of the common stocks and loss on sale from the transaction were as follows:

	Millions of yen	Thousands of U.S. dollars
March 31,	2003	2003
Current assets	¥3,501	$29,126
Non-current assets	1,608	13,380
Goodwill	(0)	(2)
Current liabilities	(4,702)	(39,126)
Non-current liabilities	(338)	(2,817)
Loss on sale of common stocks	(67)	(560)
Sale amount of the common stocks	0	0
Cash and cash equivalents	(168)	(1,402)
Netting with cash and cash equivalents	¥ (168)	$ (1,402)

Significant non-financing transactions were as follows:

	Millions of yen	Thousands of U.S. dollars
March 31,	2003	2003
Conversion from convertible bonds:		
Increase of common stock	¥1,188	$ 9,888
Increase of additional paid-in capital	1,161	9,662
Decreased of convertible bonds by conversion	¥2,350	$19,550

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

	Millions of yen
March 31,	2002
Current assets	¥147
Non-current assets	188
Total	¥335
Current liabilities	213
Non-current liabilities	119
Total	¥333

14. LEASES

The Company, as a lessee, charges periodic capital lease payments to expense when paid. Such payments for the years ended March 31, 2003, 2002 and 2001 amounted ¥2,448 million ($20,372 thousand), ¥2,995 million and ¥3,147 million respectively. On the other hand, the Company, as a lessor, recognizes periodic lease receipt as revenue. Such receipts for the years ended March 31, 2003, 2002 and 2001 amounted ¥109 million ($912 thousand), ¥114 million and ¥93 million, respectively.

The amount of outstanding future lease payments for capital lease at March 31, 2003 and 2002, excluding the interest thereon, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	2003	2002	2003
Future lease payments:			
Due within one year	¥1,449	¥1,816	$12,059
Due after one year	940	1,058	7,822
Total	¥2,389	¥2,875	$19,882

Proforma information on capital leases at March 31, 2003 and 2002 (acquisition cost, accumulated depreciation, and depreciation expense for the period) were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	2003	2002	2003
Acquisition cost	¥5,254	¥6,258	$43,716
Accumulated depreciation	(3,002)	(3,609)	(24,982)
Net	¥2,251	¥2,648	$18,734
Depreciation expense	¥2,208	¥2,718	$18,374
Interest	¥ 208	¥ 237	$ 1,736

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 receipts at March 31, 2003 and 2002 including the interest, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Future lease receipts:			
Due within one year	**¥3**	¥154	**$32**
Due after one year	**0**	119	**6**
Total	**¥4**	¥274	**$39**

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

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Acquisition cost	**¥ —**	¥497	**$ —**
Accumulated depreciation	**—**	(208)	**—**
Net book value	**¥ —**	¥288	**$ —**
Depreciation expense	**¥66**	¥107	**$552**

Future lease obligations for non-cancelable operating leases at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Due within one year	**¥213**	¥274	**$1,772**
Due after one year	**554**	715	**4,612**
Total	**¥767**	¥989	**$6,384**

15. COMMITMENTS AND CONTINGENCIES

The Company was contingently liable as a guarantor of indebtedness of affiliates and other companies in the aggregate amount of ¥69 million ($582 thousand) and ¥598 million at March 31, 2003 and 2002, respectively.

16. 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, 2003	Car audio-visual equipment	Audio entertainment 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**
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**

	Millions of yen					
For the year ended March 31, 2002	Car audio-visual equipment	Audio entertainment equipment	Specialty equipment	Others	Elimination and corporate	Consolidated 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	Consolidated 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, 2003	Car audio-visual equipment	Audio entertainment equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	**$1,403,628**	**$42,945**	**$43,556**	**$ 53,382**	**$ —**	**$1,543,513**
Operating expenses	**1,332,477**	**42,243**	**39,145**	**50,323**	**—**	**1,464,189**
Operating income	**$ 71,151**	**$ 702**	**$ 4,410**	**$ 3,058**	**$ —**	**$ 79,323**
Assets	**$1,072,831**	**$13,839**	**$49,004**	**$115,267**	**$(81,045)**	**$1,169,897**
Depreciation	**$ 45,396**	**$ 1,405**	**$ 1,193**	**$ 1,101**	**$ —**	**$ 49,097**
Capital expenditures	**$ 33,187**	**$ 2,993**	**$ 1,017**	**$ 656**	**$ —**	**$ 37,854**

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

The amounts of corporate assets included in "Elimination and corporate" mainly consisted of investments in securities.

(2) Information by Geographic Segment

Sales of the Company classified by geographic area for the years ended March 31, 2003, 2002 and 2001 were summarized as follows:

	Millions of yen					
For the 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**	**44,853**	**(107,148)**	**175,995**
Operating income	**¥ 6,194**	**¥ 609**	**¥ 953**	**¥ 440**	**¥ 1,336**	**¥ 9,534**
Assets	**¥124,462**	**¥26,306**	**¥16,359**	**¥20,464**	**¥ (46,971)**	**¥140,621**

	Millions of yen					
For the year ended March 31, 2002	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated 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

	Millions of yen					
For the year ended March 31, 2001	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated 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, 2003	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	Thousands of U.S. dollars					
Sales to outside customers	$ 809,766	$326,887	$ 84,370	$322,489	$ —	$1,543,513
Inter-segment sales	413,076	69,264	327,872	52,087	(880,300)	—
Total sales	1,240,843	396,151	412,242	374,576	(880,300)	1,543,513
Operating expenses	1,189,309	391,080	404,307	370,913	(891,422)	1,464,189
Operating income	$ 51,533	$ 5,070	$ 7,935	$ 3,662	$ 11,122	$ 79,323
Assets	$1,035,465	$218,855	$136,105	$170,250	$(390,779)	$1,169,897

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

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

The amounts of corporate assets included in "Elimination and corporate" mainly consisted of investments in securities.

(3) Export Sales and Sales by Overseas Subsidiaries

Export sales information of the Company for the years ended March 31, 2003, 2002 and 2001 were as follows:

For the years ended March 31,	Millions of yen 2003	2002	2001	Thousands of U.S. dollars 2003
Export sales and sales by overseas subsidiaries:				
Americas	¥ 38,394	¥ 45,061	¥ 51,488	$ 319,423
Europe	39,049	37,382	36,458	324,869
Others	12,616	11,820	9,252	104,962
Total	90,060	94,264	97,199	749,255
Total consolidated sales	¥185,530	¥187,954	¥188,686	$1,543,513
Ratio	48.5%	50.2%	51.5%	48.5%

17. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

An analysis of selling, general and administrative expenses for the period ended March 31, 2003, 2002 and 2001 were as follows:

For the years ended March 31,	Millions of yen 2003	2002	2001	Thousands of U.S. dollars 2003
Advertising expenses	¥ 1,508	¥ 1,594	¥ 1,267	$ 12,548
Packing and shipping charge	1,724	1,319	1,525	14,345
Sales commission expenses	1,586	1,548	1,676	13,196
Sales promotion expenses	1,965	1,787	2,320	16,355
Payroll costs	9,702	11,019	13,749	80,717
Depreciation	1,224	1,481	1,490	10,187
Rent	1,234	1,603	1,873	10,271
Others	10,102	9,840	11,209	84,050
Total	¥29,049	¥30,194	¥35,114	$241,673

ChuoAoyama Audit Corporation

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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 31st March, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, 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 audit.

We conducted our audit 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As described in Note 2 (2), (4), and (11), effective for the year ended March 31, 2001, Clarion Co., Ltd. and its domestic consolidated subsidiaries adopted the new Japanese accounting standards for translation of foreign currency transaction, for financial instruments, and for pension and severances costs.

As described in Note 2 (4), effective for the year ended March 31, 2002, Clarion Co., Ltd. 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 3 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

Tokyo, Japan
June 27th, 2003

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Seishi Kasai
Toshiharu Osaka
Hiroshi Oniki

Corporate Auditors
Michio Shirai
Masayuki Kawahara
Yasuhiro Sasai
Shunjiro Karasawa

(as of June 27, 2003)

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Number of Shareholders: 30,522
Number of Employees: 1,430

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