Consolidated Statements of Cash Flows

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	**2007**
Cash flows from operating activities:				
Income before income taxes	**¥ 167**	¥ 4,534	¥ 2,950	**$ 1,421**
Adjustments—				
Depreciation and amortization	**5,447**	4,955	4,497	**46,147**
Amortization of goodwill	**85**	82	78	**726**
Equity in gain of affiliates	**(22)**	(222)	(136)	**(193)**
(Decrease)/increase in allowance for doubtful accounts	**(243)**	(67)	2,591	**(2,060)**
Increase in accrued pension and severance costs, less payment	**161**	382	629	**1,369**
Interest and dividend income	**(336)**	(270)	(255)	**(2,848)**
Interest expense	**867**	835	1,501	**7,344**
Devaluation of investments in securities	**16**	54	96	**140**
Gain on sales of investments in securities	**(50)**	(1,373)	(78)	**(426)**
Gain on sales of property, plant and equipment	**(259)**	(2,000)	(55)	**(2,199)**
Impairment loss on fixed assets	**113**	1,335	270	**963**
Purification cost for land	**1,436**	—	—	**12,164**
Changes in assets and liabilities:				
Decrease/(increase) in notes and accounts receivable	**1,618**	1,446	(3,671)	**13,709**
Increase in inventories	**(1,128)**	(732)	(210)	**(9,560)**
Increase in notes and accounts payable	**2,898**	553	331	**24,551**
Others, net	**(851)**	780	1,193	**(7,215)**
Subtotal	**9,920**	10,295	9,734	**84,032**
Interest and dividend received	**385**	270	255	**3,268**
Interest paid	**(849)**	(849)	(1,448)	**(7,192)**
Income taxes paid	**(636)**	(479)	(502)	**(5,391)**
Net cash provided by operating activities	**8,820**	9,236	8,038	**74,716**
Cash flows from investing activities:				
Increase in time deposits	**—**	(134)	(43)	**—**
Decrease in time deposits	**145**	—	—	**1,231**
Payment for purchases of property, plant and equipment	**(6,074)**	(8,106)	(3,066)	**(51,458)**
Proceeds from sales of property, plant and equipment	**1,108**	7,802	77	**9,394**
Payment for purchases of intangible assets	**(2,768)**	(3,092)	(2,709)	**(23,455)**
Proceeds from sales of investments in securities	**673**	2,430	329	**5,707**
Increase in loans receivable	**(7)**	(6)	(9)	**(60)**
Decrease in loans receivable	**155**	65	95	**1,318**
Payment for acquisition of shares of a subsidiary	**(13,716)**	—	—	**(116,191)**
Payment for acquisition of shares from minority shareholders	**—**	—	(690)	**—**
Others, net	**(17)**	(13)	(15)	**(151)**
Net cash used in investing activities	**(20,501)**	(1,055)	(6,030)	**(173,666)**
Cash flows from financing activities:				
Increase/(decrease) in short-term loans, net	**5,709**	(10,880)	(19,540)	**48,363**
Proceeds from long-term loans	**12,000**	10,000	20,019	**101,651**
Repayment of long-term loans	**(7,045)**	(7,047)	(17,886)	**(59,683)**
Cash dividends	**(564)**	—	—	**(4,785)**
Others, net	**(43)**	(10)	(130)	**(371)**
Net cash provided by/(used in) financing activities	**10,054**	(7,938)	(17,537)	**85,175**
Effect of exchange rate changes on cash and cash equivalents	**363**	694	540	**3,079**
Net (decrease)/increase in cash and cash equivalents	**(1,262)**	937	(14,989)	**(10,694)**
Cash and cash equivalents at beginning of year	**11,954**	11,016	26,005	**101,265**
Cash and cash equivalents at end of year (Note 13)	**¥10,691**	¥11,954	¥11,016	**$90,571**

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

Notes to the Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

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

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

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

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

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates

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

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

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

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. Goodwill relating to the Mexican subsidiaries is amortized over 20 years. Goodwill relating to Xanavi Informatics Corp. is amortized in equal amounts over 10 years from consolidated fiscal year beginning from April 1, 2007.

(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, 2007 and 2006, 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.

Investments in securities as of March 31, 2007 and 2006, included net unrealized gains on other securities amounting to ¥622 million and ¥918 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.

Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)" and "Implementaion guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)," both issued by the Accounting Standard Board of Japan on December 9, 2005.

The amounts corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥34,020 million.

(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, 2007 was a bank holiday, 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	Thousands of U.S. dollars
Notes receivable	¥ 133	$ 1,129
Notes payable	¥1,133	$10,052

(7) 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.

(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, 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.

(9) 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.

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

From the fiscal year ended March 31, 2006, Clarion and its domestic subsidiaries adopted these standards. The accumulated impairment loss is deducted from the net book value of each asset.

(11) 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.

(12) Accrued pension and severance costs
Accrued pension and severance costs at the end of each fiscal year represent the estimated present value of projected benefit obligation in excess of the fair value of pension plan assets. The unrecognized transition amounts are amortized over 10 years. The unrecognized actuarial differences are amortized on a straight-line basis over 7-15 years from the next fiscal year in which they arise. Prior service costs of Clarion are amortized on a straight-line basis by the number of specific years not exceeding the average remaining years of employment (13 years) from this consolidated fiscal year. Aforementioned prior service costs are accrued due to adoption of a new pension plan and employees' severance indemnities plan of Clarion.

(13) Provision for warranty costs
A provision for future warranty costs are provided based on the past actual results of such expense.

Some of the overseas consolidated subsidiaries are posting necessary amounts as required by the generally accepted accounting principles prevailing in the respective countries.

(14) Research and development costs
Research and development costs are expensed as incurred.

(15) 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.

(16) Revenue recognition
Sales are generally recognized at the time the goods are delivered to the customers.

(17) 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.

(18) Net loss per share
Calculation of net loss per share for the year ended March 31, 2007 follows:

	Millions of yen	Thousands of U.S. dollars
Net loss	¥(784)	$(6,644)

Weighted-average number of shares outstanding	282,372,675

There were 496,072 of treasury shares as of March 31, 2007.

	Yen	U.S. dollars
Net loss per share	¥(2.78)	$(0.024)

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

"Bonuses to directors and corporate auditors," which is determined through appropriation of retained earnings by resolution at the general shareholders' meeting subsequent to the 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 "bonuses 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 ¥118.05 = US$1, the approximate rate of exchange as of March 31, 2007, has been used in translation. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. The amounts presented in thousands of U.S. dollars are truncated for amounts less than 1 thousand. Totals may not be added up exactly because of such truncation.

4. Impairment loss on fixed assets:

The Company has recognized impairment loss of ¥113 million ($963 thousand) and ¥1,335 million for the following group of assets as of March 31, 2007 and 2006, respectively.

Location	Use	Category	Impairment loss (millions of yen)	
			2007	2006
Gunma office in Japan	Logistic warehouse	Land and buildings and structures	**—**	¥1,181
Others	Others	Land and intangible assets	**¥113**	¥ 153

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

Due to the decline in real estate value and poor performance of assets, operating profitability has worsened substantially. Therefore, the Company has decided to mark the assets down to the recoverable value, and recognized impairment loss of ¥133 million ($963 thousand), which comprises of land ¥68 million ($577 thousand), and other totaling ¥45 million ($385 thousand).

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

5. Inventories:

Inventories as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	**2007**
Finished products	**¥16,234**	¥16,563	**$137,522**
Work in process	**2,813**	480	**23,832**
Raw materials and supplies	**10,558**	7,469	**89,441**
Total	**¥29,606**	¥24,513	**$250,797**

6. Marketable securities and investments in securities:

The aggregate cost and market value of other securities with market values, which were included in investment securities as of March 31, 2007 and 2006 follow:

	Millions of yen			
	March 31, 2007			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
Other securities	**¥1,753**	**¥918**	**¥(153)**	**¥2,517**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**¥1,753**	**¥918**	**¥(153)**	**¥2,517**

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

	Thousands of U.S. dollars			
	March 31, 2007			
		Gross unrealized		
	Cost	Gain	Loss	Market value (carrying value)
Other securities	**$14,851**	**$7,779**	**$(1,301)**	**$21,329**
Debt securities	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**
Total	**$14,851**	**$7,779**	**$(1,301)**	**$21,329**

Other securities sold for the years ended March 31, 2007, 2006 and 2005, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	**2007**
Sales amount	**¥128**	¥2,430	¥329	**$1,090**
Total gain on sales	**50**	1,373	78	**426**
Total loss on sales	**—**	(0)	—	**—**

The carrying value of unlisted investment equity securities and other as of March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	**2007**
Other securities			
Unlisted equity securities	**¥69**	¥77	**$592**

7. Fair values of derivative financial instruments:

The Company enters into forward foreign currency exchange contracts and interest rate swaps to manage market risks relating to fluctuations in the foreign currency exchange rates and interest rates. The Company does not hold or issue financial instruments for trading purposes. The listed contract amount and fair values as of March 31, 2007 and 2006 follow:

	Millions of yen		
	March 31, 2007		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:			
Sold			
U.S. dollar	**¥4,536**	**¥4,527**	**¥ 9**
Euro	**4,580**	**4,637**	**(57)**
Singapore dollar	**337**	**341**	**(3)**
Purchased			
U.S. dollar	**800**	**803**	**3**
Euro	**780**	**785**	**4**
U.K. pound	**229**	**231**	**1**
Total unrealized loss from forward foreign currency exchange contracts			**¥(41)**

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

	Thousands of U.S. dollars		
	March 31, 2007		
	Contract amount	Fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:			
Sold			
U.S. dollar	**$38,430**	**$38,351**	**$ 79**
Euro	**38,797**	**39,281**	**(483)**
Singapore dollar	**2,862**	**2,890**	**(28)**
Purchased			
U.S. dollar	**6,780**	**6,807**	**27**
Euro	**6,612**	**6,649**	**36**
U.K. pound	**1,942**	**1,957**	**14**
Total unrealized loss from forward foreign currency exchange contracts			**$(354)**

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, 2007		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, receive-floating	**¥—**	**¥—**	**¥—**

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

	Thousands of U.S. dollars		
	March 31, 2007		
	Nominal amount	Fair value	Unrealized loss
Interest rate swaps:			
Pay-fixed, receive-floating	**$—**	**$—**	**$–**

8. Short-term and long-term loans:

Short-term and long-term loans as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	**2007**
Short-term loans	**¥15,440**	¥13,141	**$130,793**
Current portion of long-term loans from banks and insurance companies	**3,247**	7,045	**27,512**
Total short-term loans	**18,687**	20,187	**158,305**
Long-term loans from banks and insurance companies	**22,795**	14,040	**193,100**
Total	**¥41,483**	¥34,227	**$351,406**

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2007 were 1.78%, 1.34% and 1.45%, respectively.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 3,247	$27,512
2009	10,250	86,829
2010	12,052	102,096
2011	54	465
2012	57	490

As of March 31, 2007 and 2006, assets pledged as collateral for short-term and long-term loans follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Buildings and structures, net	¥627	¥2,137	$5,313
Machinery and equipment, net	46	69	393
Land	128	3,818	1,090
Total	¥802	¥6,026	$6,797

In addition to the above, time deposits of ¥7 million ($60 thousand) and ¥7 million were pledged as a guarantee as of March 31, 2007 and 2006, respectively.

Secured loans and debt as of March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Short-term loans	¥ 47	¥ 7,045	$ 405
Long-term loans	595	4,040	5,045
Total	¥643	¥11,086	$5,450

9. Accrued retirement benefits to employees:

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

The funded status of retirement benefit obligations as of March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Projected benefit obligations	¥(16,132)	¥(14,584)	$(136,655)
Plan assets at fair value	3,158	2,557	26,754
Securities contributed to employee retirement benefit trust	344	321	2,921
Unfunded status	(12,628)	(11,705)	(106,979)
Unrecognized transition amount	45	—	381
Unrecognized actuarial differences	723	722	6,127
Unrecognized prior service costs due to plan amendment	526	570	4,458
Accrued pension and severance costs	¥(11,334)	¥(10,413)	$ (96,013)

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2007, 2006 and 2005 follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	2007
Service cost	¥ 741	¥ 732	¥ 720	$6,279
Interest cost	331	327	328	2,805
Expected return on plan assets	(61)	(56)	(42)	(517)
Amortization of transition amount	—	—	464	—
Amortization of prior service costs due to plan amendment	44	3	—	374
Amortization of actuarial difference	112	122	110	951
Net periodic pension expense	¥1,167	¥1,130	¥1,581	$9,893

In addition to the above, extra employees' severance indemnities of ¥138 million ($1,173 thousand), ¥452 million and ¥46 million were included in other expenses for the periods ended March 31, 2007, 2006 and 2005, respectively.

Assumptions used in calculating the above information follow:

	Year ended March 31		
	2007	2006	2005
Discount rate	2.0~2.5%	2.0~2.5%	2.0~2.5%
Expected rate of return on plan assets	2.0~3.0%	2.0~2.5%	2.0~2.5%
Amortization term of prior service costs due to plan amendment	13 years	13 years	—
Amortization term of actuarial difference (Amortized from the next fiscal year)	7~15 years	7~13 years	10~15 years
Amortization term of transition obligation	10 years	—	5 years

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

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

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

The differences between fair value and carrying amount after revaluation as of March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	2007
Difference between fair value and carrying amount after revaluation	¥(1,160)	¥(966)	$(9,831)

Date of latest revaluation: March 31, 2001

11. Income taxes:

Significant components of the Company's deferred income tax assets and liabilities as of March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	**2007**
Deferred income tax assets:			
Net operating tax losses carried forward	**¥4,363**	¥8,239	**$36,964**
Accrued pension and severance costs	**4,635**	3,875	**39,268**
Loss on devaluation of inventories	**809**	332	**6,856**
Loss on devaluation of marketable securities	**969**	1,536	**8,213**
Accrued expenses	**2,003**	—	**16,968**
Allowance for doubtful accounts	**174**	1,014	**1,480**
Foreign taxes paid	**170**	219	**1,444**
Accrued bonuses	**473**	225	**4,012**
Other	**1,562**	2,150	**13,235**
Subtotal	**15,562**	17,592	**128,444**
Deferred income tax liabilities:			
Inventory valuation	**—**	32	**—**
Other	**239**	167	**2,031**
Subtotal	**239**	200	**2,031**
Less: valuation allowance	**(6,764)**	(10,883)	**(57,300)**
Net deferred income tax assets	**¥8,158**	¥6,509	**$69,112**

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	
	2007	2006
Statutory income tax rate	**40.7%**	40.7%
Permanent differences	**31.7**	0.6
Fixed levy of local inhabitant taxes	**24.3**	0.8
Valuation allowance	**539.6**	(63.0)
Variance of effective tax rate between Clarion and the subsidiaries	**(61.7)**	(4.5)
Foreign income tax credit	**(11.8)**	—
Reversal of net unrealized gain on revaluation of land	**—**	(5.5)
Other	**(3.4)**	1.4
Effective income tax rate	**559.4%**	(29.5)%

12. Research and development expenses:

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005 totaled ¥975 million ($8,263 thousand), ¥710 million and ¥309 million, respectively.

13. Cash flow information:

Cash and cash equivalents as of March 31, 2007 and 2006 were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	**2007**
Cash on hand and in banks	**¥10,746**	¥12,148	**$91,030**
Deposits with original maturities of more than three months	**(54)**	(194)	**(459)**
Cash and cash equivalents	**¥10,691**	¥11,954	**$90,571**

The following assets and liabilities have been included into subsidiaries after the acquisition of common stock of Xanavi informatics Corp. and the acquisition amount of the common stock follow:

	Millions of yen	Thousands of U.S. dollars
	March 31, 2007	March 31, 2007
Current assets	**¥ 21,007**	**$ 177,954**
Fixed assets	**2,865**	**24,273**
Goodwill	**8,566**	**72,567**
Current liabilities	**(17,526)**	**(148,470)**
Fixed liabilities	**(822)**	**(6,968)**
Acquisition amount of the common stock	**14,090**	**119,356**
Cash and cash equivalents	**(373)**	**(3,164)**
Netting with cash and cash equivalents	**¥ 13,716**	**$ 116,191**

14. Leases:

The Company, as a lessee, charges periodic lease payments for capital leases to expense on payment. Such payments for the years ended March 31, 2007, 2006 and 2005 were ¥1,587 million ($13,447 thousand), ¥1,757 million and ¥1,591 million, respectively.

The amount of outstanding future lease payments for capital leases as of March 31, 2007 and 2006, excluding the interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	**2007**
Future lease payments:			
Due within one year	**¥1,291**	¥1,359	**$10,941**
Due after one year	**2,098**	1,387	**17,773**
Total	**¥3,389**	¥2,746	**$28,714**

Pro forma information for capital leases as of March 31, 2007 and 2006 (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
	2007	2006	**2007**
Acquisition cost	**¥6,674**	¥4,678	**$56,535**
Accumulated depreciation	**(3,891)**	(1,932)	**(32,968)**
Carrying value	**¥2,782**	¥2,746	**$23,567**
Depreciation expense	**¥1,474**	¥1,613	**$12,494**
Interest expense	**¥ 104**	¥ 150	**$ 888**

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

Future lease obligations for non-cancelable operating leases at March 31, 2007 and 2006 follow:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2007	2006	**2007**
Due within one year	**¥ 397**	¥327	**$ 3,363**
Due after one year	**1,063**	573	**9,007**
Total	**¥1,460**	¥900	**$12,370**

15. Commitments and contingencies:

The Company was contingently liable for transfer of notes receivables due to factoring, amounting to ¥333 million ($2,822 thousand) and ¥403 million as of March 31, 2007 and 2006, respectively.

16. Segment information:

(1)Information by business segment

The Company operates principally in three business segments.

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

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

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

	Millions of yen				
	Year ended March 31, 2007				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	**¥161,786**	**¥7,833**	**¥11,422**	**¥ —**	**¥181,041**
Operating expenses	**160,138**	**6,628**	**11,202**	**—**	**177,968**
Operating income	**¥ 1,648**	**¥1,204**	**¥ 220**	**¥ —**	**¥ 3,072**
Total assets	**¥144,056**	**¥5,305**	**¥12,964**	**¥(12,836)**	**¥149,490**
Depreciation	**¥ 5,817**	**¥ 204**	**¥ 127**	**¥ —**	**¥ 6,149**
Impairment loss	**¥ —**	**¥ —**	**¥ —**	**¥ 113**	**¥113**
Capital expenditures	**¥ 8,900**	**¥ 386**	**¥ 224**	**¥ —**	**¥ 9,511**

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

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

	Thousands of U.S. dollars				
	Year ended March 31, 2007				
	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	**$1,370,489**	**$66,355**	**$ 96,757**	**$ —**	**$1,533,602**
Operating expenses	**1,356,528**	**56,150**	**94,893**	**—**	**1,507,571**
Operating income	**$ 13,960**	**$10,205**	**$ 1,864**	**$ —**	**$ 26,030**
Total assets	**$1,220,302**	**$44,946**	**$109,822**	**$(108,735)**	**$1,266,335**
Depreciation	**$ 49,284**	**$ 1,729**	**$ 1,078**	**$ —**	**$ 52,091**
Impairment loss	**$ —**	**$ —**	**$ —**	**$ 963**	**$ 963**
Capital expenditures	**$ 75,392**	**$ 3,270**	**$ 1,905**	**$ —**	**$ 80,568**

Corporate assets included in “Elimination and corporate” mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2007, 2006 and 2005 were ¥492 million ($4,172 thousand), ¥1,392 million and ¥2,564 million, respectively.

In order to achieve a more unified cash management of the Company, Clarion introduced a commitment line and term loan on a syndicated loan during the year ended March 31, 2005, and reconstituted the scheme during the year ended March 31, 2006 and 2007. As a result, loans to subsidiaries, which belong to the “Car audio-visual equipment” segment and the “Special 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, 2007, 2006 and 2005, respectively, are summarized as follows:

	Millions of yen					
	Year ended March 31, 2007					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers	**¥ 93,365**	**¥49,537**	**¥14,475**	**¥23,663**	**¥ —**	**¥181,041**
Inter-segment sales	**40,424**	**1,051**	**48,130**	**284**	**(89,890)**	**—**
Total sales	**133,789**	**50,588**	**62,605**	**23,948**	**(89,890)**	**181,041**
Operating expenses	**132,513**	**49,453**	**62,134**	**23,947**	**(90,080)**	**177,968**
Operating income	**¥ 1,275**	**¥ 1,135**	**¥ 470**	**¥ 1**	**¥ 189**	**¥ 3,072**
Total assets	**¥135,707**	**¥25,908**	**¥20,757**	**¥14,883**	**¥(47,766)**	**¥149,490**

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

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

	Thousands of U.S. dollars					
	Year ended March 31, 2007					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
Sales to outside customers	**$ 790,894**	**$419,633**	**$122,618**	**$200,457**	**$ —**	**$1,533,602**
Inter-segment sales	**342,436**	**8,905**	**407,710**	**2,412**	**(761,464)**	**—**
Total sales	**1,133,330**	**428,538**	**530,328**	**202,869**	**(761,464)**	**1,533,602**
Operating expenses	**1,122,521**	**418,923**	**526,341**	**202,855**	**(763,069)**	**1,507,571**
Operating Income	**$ 10,808**	**$ 9,615**	**$ 3,987**	**$ 14**	**$ 1,604**	**$ 26,030**
Total assets	**$1,149,578**	**$219,473**	**$175,834**	**$126,080**	**$(404,631)**	**$1,266,335**

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, 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, 2007, 2006 and 2005 were ¥492 million ($4,172 thousand), ¥1,392 million and ¥2,564 million, respectively.

In order to achieve a more unified cash management of the Company, Clarion introduced a commitment line and term loan on a syndicated loan during the year ended March 31, 2005, and reconstituted the scheme during the year ended March 31, 2006 and 2007. As a result, loans to subsidiaries, which belong to “Americas,” “Asia and Australia” and “Europe,” were carried out through Clarion Finance Co., Ltd., which belongs to “Japan.”

(3) Export sales and sales by overseas subsidiaries

Export sales information of the Company for the years ended March 31, 2007, 2006 and 2005, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	**2007**
Export sales and sales by overseas subsidiaries:				
Americas (*1)	**¥ 49,357**	¥ 43,701	¥ 38,610	**$ 418,108**
Europe (*2)	**23,668**	25,874	32,361	**200,498**
Others (*3)	**16,268**	15,431	11,412	**137,810**
	89,295	85,007	82,384	**756,417**
Consolidated net sales	**¥181,041**	¥184,176	¥178,325	**$1,533,602**
Ratio	**49.3%**	46.2%	46.2%	**49.3%**

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

17. Analysis of selling, general and administrative expenses:

An analysis of selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005, respectively, follow:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	2007	2006	2005	**2007**
Provision of allowance for doubtful accounts	**¥ 45**	¥ 105	¥ 64	**$ 388**
Payroll costs	**9,394**	9,108	9,016	**79,578**
Provision of accrued bonuses	**261**	293	468	**2,218**
Pension expenses	**516**	496	499	**4,375**
Freight out	**3,859**	4,340	2,103	**32,691**
Other	**15,690**	17,480	15,804	**132,916**
Total	**¥29,768**	¥31,824	¥27,956	**$252,168**

18. Transactions with related parties

As a result of TOB on Company's common stocks, as of December 7, 2006, Hitachi, Ltd. newly acquired 139,108,174 shares (49.29%).

Category	Name	Ownership of voting rights/%	Relationship
Parent Company	Hitachi, Ltd.	Hitachi: 64.02%	Loans from Hitachi's pooling system

Description of Transaction	Amount of Transaction		Subject	Balance at the end of period	
	Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Borrowing of fund	¥14,000	$118,593	Short-term loans	¥12,056	$102,126
Acquisition of shares of subsidiary	¥14,000	$118,593			

Misuzu Audit Corporation

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 audit provides 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, 2007, and the consolidated results of their operations and their cash flows for the year then ended 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.

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan
June 28, 2007

Grant Thornton Taiyo ASG

Grant Thornton Taiyo ASG
Tokyo, Japan
June 28, 2007