

clarion

ANNUAL REPORT 2004

Fiscal Year Ended March 31, 2004

Since its establishment in 1948, Clarion has been a prominent innovator in the world automobile audio electronics industry. We introduced Japan's first car radio in 1951, Japan's first car stereo in 1963, and the world's first automobile PC in 1998. Recently, we have seen major changes, including the shift from analog audio to digital audio-visual and the emergence of car navigation systems and in-vehicle computing systems (IVCSs). Throughout this revolution, Clarion has remained at the forefront of the industry. Our mission is to deliver products with new levels of reliability and comfort that "enhance the mobile info-entertainment environments of customers."

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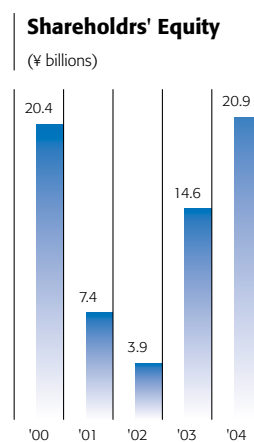
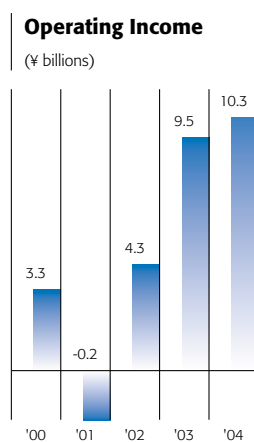
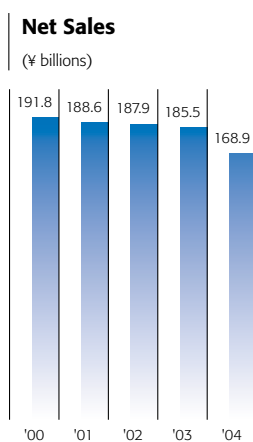
Consolidated Financial Highlights

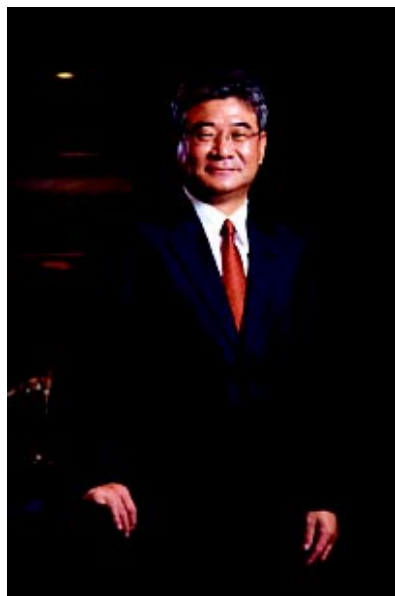
<i>For the years ended March 31,</i>	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net Sales	¥168,947	¥185,530	\$1,598,517
Operating Income	10,352	9,534	97,950
Net Income	6,305	1,555	59,661
Per Share of Common Stock (Yen or U.S. dollars):			
Net Income	22.32	7.82	0.211
Cash Dividends	—	—	—

As at March 31,

Shareholders' Equity	20,987	14,617	198,577
Total Assets	128,536	140,621	1,216,164

Note: U.S. dollar amounts are translated, for convenience only, at ¥105.69 = U.S.\$1, the rate prevailing on March 31, 2004.





Profitability Improving Thanks to Management Plan

In fiscal 2003, ended March 31, 2004, the domestic automobile and automotive audio-visual (AV) equipment markets benefited from year-on-year gains in production and sales owing to the successive release of new models by Japanese automakers. However, the automotive AV equipment market remained difficult overall, due to stiff competition in the OEM market and aftermarket, which caused prices to decline. In North America and Europe, however, shipments of new vehicles remained largely unchanged, which was a factor preventing increases in sales.

Fiscal 2003 was the final year of the Clarion Group's medium-term management plan, New Creation 21, which began in April 2001. During the years, we continued consolidating our domestic and overseas production and distribution systems while implementing various structural reforms designed to slash costs, cut interest-bearing borrowings, and reduce inventories.

Adopting a "selection and concentration" strategy, we renewed our focus on our core business—automotive equipment. At the same time, we withdrew from the karaoke business and sold our interest in McIntosh Laboratory, Inc., a high-end U.S. home audio equipment maker. As a result, consolidated net sales amounted to ¥168.9 billion, down 8.9% from the previous year. However, operating income grew 8.6%, to ¥10.4 billion, and net income reached ¥6.3 billion, a 4.0-fold jump. Both income figures represented record-high amounts for Clarion.

On a non-consolidated basis, the Company addressed its cumulative losses, amounting to ¥32,789 million, by appropriating ¥1,800 million from an unappropriated reserve, ¥100 million from a legal earnings reserve, and ¥30,889 million from a capital reserve, following approval from the General Meeting of Shareholders. As a consequence, the Company eliminated losses to be carried forward.

On the earnings front, we are striving to strengthen our operating foundation and reinforce our shareholders' equity ratio. We are also selectively allocating resources to solidify our financial position. To fortify our market competitiveness, we are working to increase retained earnings for strategic R&D and business investments.

Cost competition will continue to intensify in the automotive industry. To prevail, we will need to make full use of IT and international parts procurement to cut costs, while improving productivity and delivering attractive products.

Building on progress made to date, we have formulated a long-term vision for the Company, entitled Vision-70. To realize this vision, we have also created a new medium-term business plan, called MOVE20, under which we will redouble our efforts to maximize enterprise value.

To this end, we will reinforce our global R&D, production, and sales operations in Japan, North America, Europe, China, and elsewhere, in order to swiftly and flexibly meet the changing needs of customers. At the same time, we will strive to improve customer satisfaction levels by strengthening our R&D capabilities and formulating effective new brand strategies.

We look forward to your continued understanding and encouragement as we embrace the challenges of the future.

June 25, 2004

A handwritten signature in black ink, reading "T. Izumi". The signature is stylized with a long horizontal stroke at the end.

Tatsuhiko Izumi
President

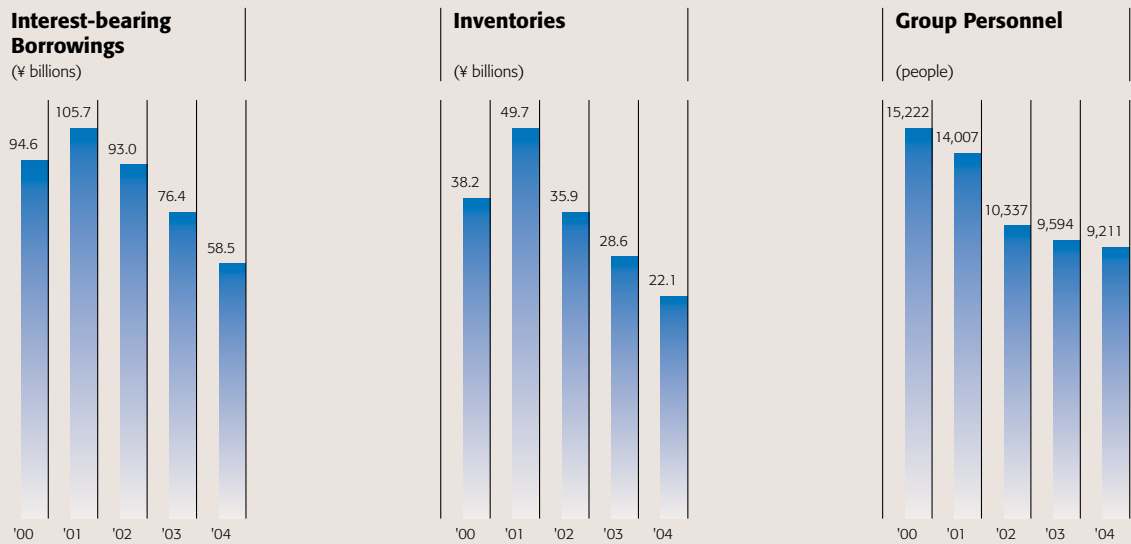
Building on progress made under the management plan just ended, we have formulated a new long-term vision and launched a new medium-term management plan. President Izumi provides more details in the following interview.



Q. How would you summarize progress made under New Creation 21, the management plan just ended?

Guided by New Creation 21, which began in April 2001, we undertook a series of management and structural reforms. We worked to lower fixed costs by streamlining our operations—including through consolidation of domestic and overseas production and sales systems, as well as reductions in personnel. Through these and other cost-cutting measures, we strove to improve profitability. We also focused particular effort on creating a rigorous inventory management system.

As a result, our earnings structure improved dramatically compared with at the beginning of the plan. Through major reductions in inventories and interest-bearing liabilities, we also succeeded in greatly enhancing our net worth ratio and achieving a leaner, stronger financial position. While net sales declined as we reorganized our business under a “selection and concentration” strategy, we succeeded in posting record-high figures for operating income, ordinary income, and net income. We attribute this success to the support that all shareholders and employees have given to our management policies.

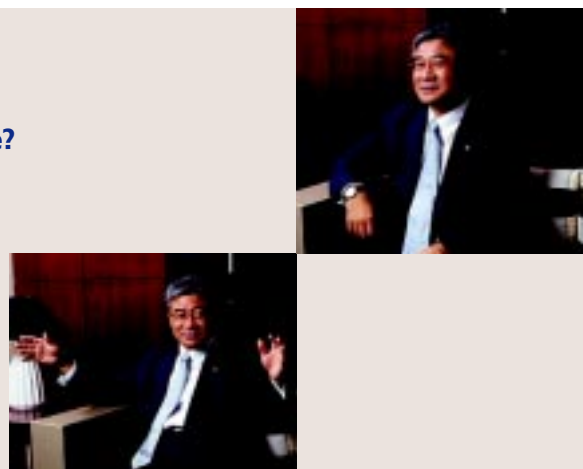


Q. Where do you plan to focus your efforts in the future?

Reforms to our earnings structure implemented over the past three years have enabled us to build a foundation for relaunching aggressive business initiatives in the future. At this juncture, we need to shape a vision of how we want Clarion to evolve down the road.

With this in mind, we formulated Vision-70, a long-term vision that will guide the Company to its 70th anniversary in the year to March 2010. Under the vision, we will continue introducing new innovations to our in-vehicle computing system (IVCS) business—including automotive AV equipment—so that we can become a company that always delivers products that meet customer needs. In other words, we will seek to become a “company that is truly needed by society.” Meanwhile, we are strengthening our corporate social responsibility (CSR) awareness and instituting measures aimed at increasing our true value as a corporation.

To this end, we have created a new three-year management plan, MOVE20 (More Valuable Enterprise 20), which contains specific measures to be undertaken.



Q. Please give an overview of Vision-70 and its objectives.

In an environment of “Mobile Infoentertainment*” where people can enjoy sound and information in their cars, we will create products that emphasize a “Fresh Feeling of Safety” and “Fresh Pleasure” and provide excitement and satisfaction to our customers.

Clarion’s business is to provide “automobile-based environments enabling people to seamlessly enjoy and share sound and information with anyone, anywhere, at any time.” By consistently making revolutionary products, especially for the aftermarket, we seek to create a high image for the Clarion brand. By exploiting the resultant synergies, we believe that we can also develop a superior position in the OEM market.

The market for mobile information devices continues to expand, symbolized by the proliferation of cellular phones and personal digital assistants (PDAs). In response, we aim to develop and commercialize attractive products, not only for automobiles but for other environments as well.

To this end, we are building up the universal appeal of our corporate brand in our mission to become a company that meets the expectations of all customers and is “truly needed by society.” We will ensure that all employees in the Company share this mindset so they can realize this mission with a sense of pride.

* Mobile-Infoentertainment is a mixture of Mobile, Information and Entertainment.

Q. What specific areas will you concentrate on?

To develop attractive products and improve our brand image, we are making new strategic investments in key areas. Specifically, we are securing top-level human resources in both product development and sales while investing in such areas as product planning and development, improvement of our manufacturing capabilities, creation of information systems, and development of a brand image as a highly reliable corporation. We are focusing on supplying revolutionary products to the aftermarket as a direct means of building a strong corporate image.

Consistent with our corporate image-building efforts, we will target stronger CSR initiatives. We believe that this comprehensive approach will enable us to improve corporate and shareholder value.



Q. What are the goals of the new medium-term management plan?

The new plan, called MOVE20, was created to facilitate strategic investments in areas outlined by Vision-70. The plan has a number of numerical goals for the fiscal year to March 2007. On a consolidated basis, for example, we are targeting net sales of ¥200 billion, a capital ratio of 20%, net interest-bearing debt of ¥22 billion or less, and a 20% improvement in corporate value.

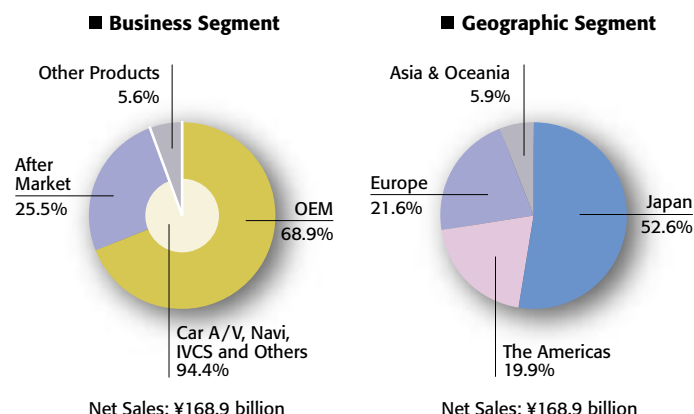
Q. What specific initiatives are outlined in the plan?

For various reasons, such as more selective business development and withdrawal from unprofitable areas, net sales have not been increasing recently. Going forward, however, we will seek to expand revenues by concentrating on core businesses and adopting aggressive measures. We will also pursue higher profitability while maintaining the low-cost operations we have built to date. We are focusing particular attention on developing distinctive, attractive products for the aftermarket, and we are unveiling these products in succession. By launching new products and increasing revenues, we intend to improve our brand image and expand OEM sales.

In the future, we plan to increase OEM and aftermarket sales overseas, centering on China. To consistently develop attractive products, we will reinforce our technological development capabilities and actively invest in human resources. We will also solidify our global production system, with particular emphasis on China. In addition, we will ensure good corporate governance and renew our CSR focus, including protection of the environments surrounding our domestic and overseas facilities.

Review of Operations

Revenues



In fiscal 2003, consolidated net sales fell 8.9%, to ¥168.9 billion. Major factors causing net sales to decline included withdrawal from the karaoke systems business and a dramatic fall in sales of devices in the OEM market due to a lull between equipment upgrades by vehicle manufacturers.

Sales in our core Car A/V, Navigation, and IVCS Devices segment were down 5.4%, to ¥159.5 billion, or 94.4% of net sales. In this segment, which centers on car audio and navigation systems, OEM sales to automakers account for 73% of segment sales. The remaining 27% is derived from sales of Clarion, ADDZEST (Japan only), and other in-house brands in the aftermarket. In fiscal 2003, OEM sales in this segment declined 7.0%, due mainly to a lull between equipment upgrades, which caused sales of devices to fall significantly. Aftermarket sales edged down 1.1%.

Sales in the Other Products segment grew 17.0%, to ¥6.1 billion, as bus and truck operators renewed their fleets in response to tighter domestic gas emission regulations, thus boosting demand for devices for such vehicles. Another factor was firm demand for large-vehicle audio-visual equipment, rear-view monitor systems, and other products.

Sales in the Other Businesses segment dropped 48.9%, to ¥3.2 billion, due to actions taken in the previous year: the Company's withdrawal from the karaoke systems business and the sale of its holding in McIntosh Laboratory, Inc., a maker of high-end home audio systems.

By geographical region, sales in Japan slipped 8.7%, or ¥8.5 billion, to ¥88.8 billion, and accounted for 52.6% of net sales. About ¥3.0 billion of this decline stemmed from the Company's withdrawal from the karaoke business.

Sales in the Americas (including Central and South America) fell ¥5.6 billion, to ¥33.7 billion, or 20.0% of net sales. Although our OEM business in the region was solid, it could not compensate for a ¥2.2 billion fall in sales of karaoke systems and a ¥4.0 billion decline in sales of precision devices.

In Europe, sales declined 5.7%, to ¥36.5 billion, and sales in Asia-Oceania slipped 2.4%, to ¥9.9 billion.

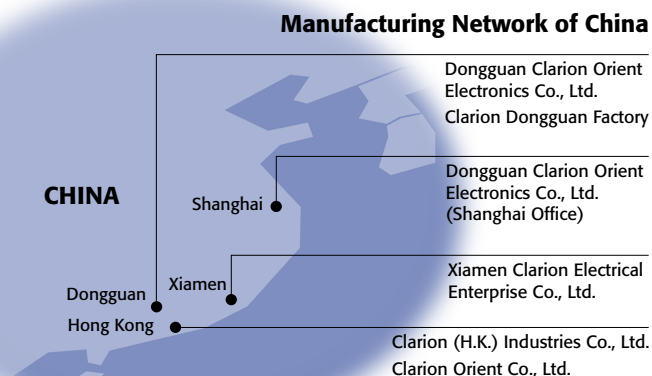
On the earnings side, operating income, ordinary income, and net income rose considerably thanks to concentration of resources in core businesses, especially in Japan, as well as improvement in productivity and reductions in costs, interest-bearing borrowings, and inventories.

Reinforcing Our Business in China

To increase revenues and expand our business scope, it is crucial that we broaden our presence in the global market. At present, the Chinese market is showing tremendous growth. In that nation, we make mechanisms and completed units at factories operated by Xiamen Clarion Electrical Enterprise Co., Ltd., and Dongguan Clarion Orient Electronics Co, Ltd., the latter of which also sells our products via its Shanghai office.

In recent years, China has rapidly transformed itself from a production base to a growing consumption center. In response, we are stepping up business expansion and sales of products in the aftermarket. Over the next two years, we plan to increase our sales network to four offices, and expand our service center network from four to 14 locations. In addition, we will increase the number of product development personnel in China, from 100 to more than 200. The objective of these initiatives is to raise annual sales in China from the present level of ¥5.0 billion to ¥30.0 billion by the year to March 2010.

Meanwhile, we will strive to increase OEM sales in the North America market, with the focus on Japanese automakers. In addition, we will reinforce sales in the aftermarket segments of Europe and Asia.



“Driving with IVCS”

In our quest to realize more comfortable driving environments under our “Driving with IVCS” slogan, we are working to strengthen our dominant position as a specialist manufacturer by developing high-value-added, functional products that stand out against the competition. In the year under review, we released a number of revolutionary products. In the spring of 2003, for example, we launched MAX930HD/735HD, a car navigation and audio-visual system for the aftermarket. Featuring a built-in hard disk drive, wide 6.5-inch LCD monitor, and capacity to store 1,500 songs, it has been very well received. In the summer of 2004, we unveiled MAX940HD/740HD, an upgraded version with a wide 7-inch monitor. As the world’s first 2-DIN car navigation system for the aftermarket, this product is garnering much attention for its wide screen and high functionality.

Our 2-DIN Audio Center systems with CD and MD players also have a strong following. In the summer of 2003, we released three models, following by four models in the summer of 2004. At the same time, we launched five 1-DIN Audio/AV Center models, with DVD and MD players.

Going forward, we will develop DVD audio, digital broadcasting, and compressed audio devices on a worldwide basis under our global business strategy. In the car navigation field, we will augment our presence in Japan and Europe with an aggressive push into China and other overseas markets.

We have already completed development and commercialization of ITRON, Windows, and Linux platforms for our in-vehicle computing systems (IVCSs), which we have positioned as strategic products. In 2006, we will establish new platforms as part of our strategic plan to further expand our IVCS business.



HDD AV-Navigation System – MAX940HD



DVD/Wide 7-inch AV Center Unit – VRX745VD



CD Center Unit with Touch Panel – DXZ945MP



2DIN CD/MD Center Unit – DMZ345BK

Consolidated Financial Statements

Consolidated Balance Sheets as of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 26,005	¥ 28,565	\$ 246,054
Notes and accounts receivable	30,712	31,272	290,593
Allowance for doubtful accounts	(1,348)	(1,236)	(12,763)
Inventories	22,181	28,689	209,872
Deferred income taxes	2,828	2,131	26,758
Other current assets	4,198	4,187	39,720
Total current assets	84,576	93,610	800,235
Investments in securities	4,376	3,891	41,413
Property, plant and equipment:			
Buildings and structures	20,240	23,050	191,511
Machinery and equipment	33,345	39,644	315,501
Land	11,688	13,026	110,593
Construction in progress	12	22	119
Accumulated depreciation	(40,686)	(46,919)	(384,962)
Total property, plant and equipment	24,600	28,823	232,764
Other assets:			
Intangible assets	7,039	8,312	66,600
Others	7,942	5,982	75,151
Total other assets	14,981	14,295	141,751
Total assets	¥128,536	¥140,621	\$1,216,164

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans	¥ 49,205	¥ 63,403	\$ 465,563
Current portion of debentures	—	3,000	—
Notes and accounts payable	22,070	21,436	208,821
Accrued bonus	954	1,265	9,027
Accrued expenses	6,849	6,920	64,811
Income taxes payable	87	73	832
Other current liabilities	5,427	6,874	51,349
Total current liabilities	84,595	102,974	800,407
Long-term liabilities:			
Long-term loans	9,379	10,012	88,749
Accrued pension and severance costs	9,391	8,512	88,858
Deferred income taxes on revaluation of land	1,765	2,005	16,701
Deferred income taxes	91	67	870
Other long-term liabilities	1,433	1,460	13,558
Total long-term liabilities	22,061	22,058	208,738
Minority interests in subsidiaries	892	971	8,442
Shareholders' equity:			
Common stock, no par value			
Authorized: 450,000,000 shares			
Issued: 282,744,185 shares at March 31, 2004 and 2003	26,100	26,100	246,951
Additional paid-in capital	33,559	33,559	317,525
Retained earnings	(33,062)	(39,581)	(312,826)
Net unrealized gain on revaluation of land	2,572	2,763	24,343
Net unrealized gain (loss) on other securities	561	(1,123)	5,317
Foreign currency translation adjustments	(8,726)	(7,088)	(82,567)
Treasury stock	(17)	(12)	(167)
Total shareholders' equity	20,987	14,617	198,577
Commitments and contingencies			
Total liabilities and shareholders' equity	¥128,536	¥140,621	\$1,216,164

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

Consolidated Statements of Income for the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Net sales	¥168,947	¥185,530	¥187,954	\$1,598,517
Cost of sales	132,103	146,946	153,424	1,249,910
Gross profit	36,844	38,583	34,530	348,607
Selling, general and administrative expenses	26,491	29,049	30,194	250,656
Operating income	10,352	9,534	4,335	97,950
Other income:				
Interest and dividend income	253	195	434	2,398
Gain on sales of property, plant and equipment	58	78	333	557
Gain on sales of investments in securities	384	—	1,046	3,634
Gain on sales of share of subsidiary and affiliate	5	16	187	51
Others	986	1,109	1,224	9,329
	1,688	1,399	3,228	15,972
Other expenses:				
Interest expenses	2,339	2,589	2,765	22,131
Net loss on foreign currency transactions	159	409	193	1,506
Loss on sales and disposal of property, plant and equipment	946	226	226	8,953
Reorganization costs	697	—	—	6,595
Transition obligation expenses for pension and severance costs	464	464	464	4,393
Loss on devaluation of investments in securities	15	765	6,648	150
Additional severance allowance	242	1,127	1,342	2,291
Others	1,275	2,949	3,748	12,070
	6,139	8,531	15,390	58,092
Income (loss) before income taxes	5,900	2,402	(7,826)	55,829
Provision (benefit) for income taxes:				
Current	669	766	1,435	6,336
Deferred	(1,184)	(38)	(2,165)	(11,203)
	(514)	727	(729)	(4,866)
Income (loss) before minority interests	6,415	1,675	(7,096)	60,696
Minority interests in subsidiaries	109	119	177	1,035
Net income (loss)	¥ 6,305	¥ 1,555	¥ (7,274)	\$ 59,661
Per share:		Yen		U.S. dollars
Net income (loss)	¥ 22.32	¥ 7.82	¥ (45.25)	\$ 0.211
Cash dividends	¥ —	¥ —	¥ —	\$ —

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

Consolidated Statements of Shareholders' Equity for the years ended March 31, 2004, 2003 and 2002

	Number of common shares outstanding (Thousands)	Millions of yen							Total shareholders' equity
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain/(loss) on revaluation of land	Net unrealized gain/(loss) on other securities	Foreign currency translation adjustments	Treasury stock	
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)	—	—	—	—	(0)
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
Net income	—	—	—	6,305	—	—	—	—	6,305
Decrease due to change in equity method affiliate	—	—	—	(6)	—	—	—	—	(6)
Change in treasury stock	—	—	—	—	—	—	—	(5)	(5)
Net unrealized gain/(loss) on revaluation of land	—	—	—	250	(191)	—	—	—	58
Net unrealized gain on securities	—	—	—	—	—	1,685	—	—	1,685
Foreign currency translation adjustments	—	—	—	—	—	—	(1,637)	—	(1,637)
Others	—	—	—	(29)	—	—	—	—	(29)
Balance at March 31, 2004	282,744	¥26,100	¥33,559	¥(33,062)	¥2,572	¥ 561	¥(8,726)	¥(17)	¥20,987

	Number of common shares outstanding (Thousands)	Thousands of U.S. dollars							Total shareholders' equity
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain/(loss) on revaluation of land	Net unrealized gain/(loss) on other securities	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2003	282,744	\$246,951	\$317,525	\$(374,508)	\$26,150	\$(10,631)	\$(67,069)	\$(115)	\$138,302
Net income	—	—	—	59,661	—	—	—	—	59,661
Decrease due to change in equity method affiliate	—	—	—	(64)	—	—	—	—	(64)
Change in treasury stock	—	—	—	—	—	—	—	(51)	(51)
Net unrealized gain/(loss) on revaluation of land	—	—	—	2,365	(1,807)	—	—	—	558
Net unrealized gain on securities	—	—	—	—	—	15,948	—	—	15,948
Foreign currency translation adjustments	—	—	—	—	—	—	(15,497)	—	(15,497)
Others	—	—	—	(280)	—	—	—	—	(280)
Balance at March 31, 2004	282,744	\$246,951	\$317,525	\$(312,826)	\$24,343	\$5,317	\$(82,567)	\$(167)	\$198,577

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

Consolidated Statements of Cash Flows

for the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Cash flows from operating activities:				
Income (loss) before income taxes	¥ 5,900	¥ 2,402	¥ (7,826)	\$ 55,829
Adjustments —				
Depreciation	4,587	5,090	5,572	43,404
Amortization of goodwill	74	428	223	704
Equity in (gain) loss of affiliates	(112)	(120)	63	(1,067)
Increase (decrease) in allowance for doubtful accounts	226	282	(144)	2,141
Increase (decrease) in allowance for severance indemnities, less payments	881	(1,066)	(154)	8,344
Interest and dividend income	(253)	(195)	(434)	(2,398)
Interest expense	2,339	2,589	2,765	22,131
Devaluation of marketable securities and investments in securities	15	765	6,648	150
Gain on sales of investments in securities	(384)	—	(1,046)	(3,634)
Gain on sales of property, plant and equipment	(58)	(78)	(333)	(557)
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(1,628)	3,433	2,967	(15,409)
Decrease in inventories	4,932	5,465	14,262	46,672
Increase (decrease) in notes and accounts payable	1,920	(5,693)	(10,234)	18,174
Others, net	431	2,046	1,616	4,079
Sub-total	18,872	15,349	13,946	178,566
Interest and dividend received	247	235	557	2,338
Interest paid	(2,401)	(2,528)	(2,872)	(22,725)
Income taxes paid	(659)	(904)	(1,196)	(6,236)
Net cash provided by operating activities	16,058	12,153	10,434	151,943
Cash flows from investing activities:				
Increase in time deposits	(10)	(359)	(544)	(94)
Decrease in time deposits	780	2,712	877	7,380
Payment for purchases of property, plant and equipment	(1,816)	(2,410)	(4,676)	(17,189)
Proceeds from sales of property, plant and equipment	942	699	2,798	8,918
Payment for purchases of intangible assets	(1,713)	(1,624)	(2,772)	(16,207)
Proceeds from sales of investments in securities	1,616	476	4,417	15,296
Proceeds from sales of common stock in subsidiaries	(31)	(186)	—	(300)
Increase in loans	(8)	(9)	(2,727)	(78)
Decrease in loans	110	193	241	1,049
Others, net	(29)	(22)	12	(275)
Net cash used in investing activities	(158)	(530)	(2,373)	(1,502)
Cash flows from financing activities:				
Decrease in short-term loans, net	(12,010)	(1,082)	(5,515)	(113,635)
Proceeds from long-term loans	6,840	30	4,400	64,720
Repayment of long-term loans	(8,241)	(9,396)	(10,798)	(77,982)
Proceeds from issuance of common stock	—	8,300	—	—
Payment for redemption of debentures	(3,000)	—	—	(28,384)
Others, net	(55)	(9)	0	(522)
Net cash used in financing activities	(16,467)	(2,158)	(11,912)	(155,805)
Effect of exchange rate changes on cash and cash equivalents	(1,223)	(612)	611	(11,574)
Net increase (decrease) in cash and cash equivalents	(1,790)	8,852	(3,239)	(16,939)
Cash and cash equivalents at beginning of year	27,795	18,943	22,374	262,994
Cash and cash equivalents of subsidiaries excluded from consolidation	—	—	(191)	—
Cash and cash equivalents at end of year	¥26,005	¥27,795	¥ 18,943	\$246,054

The accompanying notes are an integral part of these financial 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, 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 or 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 in 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 is amortized over 10 years, except for that relating to the Mexican 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 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 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 respect a minor risk of fluctuations in value.

(4) Financial instruments

Effective for the year ended March 31, 2002, Clarion and its domestic subsidiaries adopted the new Japanese accounting standards for financial instruments (effective from April 1, 2000) to evaluate securities classified as other securities by market value.

(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, 2004 and 2003 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, 2004 included net unrealized gains on other securities amounting to ¥561 million, and as of March 31, 2003 included net unrealized losses on the securities amounting to ¥1,123 million, which were included in the 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

Clarion 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 Clarion are principally forward foreign currency exchange contracts and interest swaps.

(5) Allowance for doubtful accounts

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

(6) Inventories

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

(7) Property, plant and equipment

Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs including minor renewals and betterments 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 of domicile.

(8) Intangible assets

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

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

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

(9) Accounting standards for impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued “Accounting Standards for Impairment of Fixed Assets”. The standards require that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standards shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 31, 2005.

The Company has not yet applied this new standard and has not yet determined the effect of applying the new requirement.

(10) Accrued bonuses

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

(11) Accrued pension and severance costs

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

(12) Research and development costs

Research and development costs are expensed as incurred.

(13) Income taxes

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

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

(14) Revenue recognition

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

(15) Leases

Capital leases, other than those which involve 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 with footnote disclosure of the estimated acquisition cost, accumulated depreciation and future lease payments under the Japanese accounting standards.

(16) Appropriations of retained earnings

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

(17) Net income per share

Calculation of net income per share for the year ended March 31, 2004 follows:

	Millions of yen	Thousands of U.S. dollars
Net income	¥6,305	\$59,661
Weighted average number of shares outstanding	282,568,498	
There were 189,957 of treasury shares at March 31, 2004.		
	Yen	U.S. dollars
Net income per share	¥22.32	\$0.211

Clarion has no dilutive potential common shares, such as convertible bonds 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 ¥105.69 = US\$1, the approximate rate of exchange at March 31, 2004, has been used in translation. These translations should not be construed as representations that the Japanese yen amounts actually represent, or

have been or could be converted into U.S. dollars. The amounts presented in thousands of U.S. dollars are truncated for amounts less than 1 thousand. Totals may not be added up exactly because of such truncation.

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
March 31,			
Finished products	¥14,571	¥16,849	\$137,866
Work in process	479	893	4,532
Raw materials and supplies	7,131	10,945	67,473
Total	¥22,181	¥28,689	\$209,872

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

The aggregate cost and market value of other securities with market values, which were included in investments in securities at March 31, 2004 and 2003 follow:

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

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

	Thousands of U.S. dollars			
	Gross unrealized			Market value (carrying value)
March 31, 2004	Cost	Gains	Losses	
Equity securities	\$28,952	\$9,111	\$(3,794)	\$34,269
Debt securities	—	—	—	—
Other	—	—	—	—
Total	\$28,952	\$9,111	\$(3,794)	\$34,269

Other securities sold for the years ended March 31, 2004, 2003 and 2002 follow:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
For the years ended March 31,				
Sales amount	¥1,609	¥452	¥4,417	\$15,232
Total gain on sales	384	—	1,046	3,634
Total loss on sales	(0)	(92)	(5)	(0)

The carrying value of unlisted investment equity securities and others at March 31, 2004 and 2003 follow:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
March 31,			
Other securities			
Unlisted equity securities	¥242	¥308	\$2,295

6. FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

Clarion 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. Clarion does not hold or issue financial instruments for trading purposes. The listed contract amount and fair values at March 31, 2004 and 2003 follow:

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

March 31,	Millions of yen		
	2003		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contract:			
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 (loss) from forward exchange contract			¥(33)

7. SHORT-TERM AND LONG-TERM LOANS

Short-term and long-term loans at March 31, 2004 and 2003 consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term loans	¥42,662	¥55,942	\$403,660
Current portion of long-term loans from banks and insurance companies	6,542	7,460	61,903
Total short-term loans	49,205	63,403	465,563
Long-term loans from banks and insurance companies	9,379	10,012	88,749
Total	¥58,585	¥73,416	\$554,313

March 31,	Thousands of U.S. dollars		
	2004		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contract:			
Sold			
U.S. dollar	\$36,691	\$36,307	\$384
Euro	17,319	16,607	712
Purchased			
U.S. dollar	9,011	8,881	(130)
Total unrealized gains (loss) from forward exchange contract			\$966

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.

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

March 31,	Millions of yen		
	2003		
	National amount	Fair value	Unrealized gain (loss)
Interest rate swap:			
Pay-fixed, Receive-floating	¥8,555	¥(212)	¥(212)

March 31,	Thousands of U.S. dollars		
	2004		
	National amount	Fair value	Unrealized gains (losses)
Interest rate swap:			
Pay-fixed, Receive-floating	\$77,594	\$(1,134)	\$(1,134)

The weighted-average rates for the short-term loans, current portion of long-term loans and long-term loans at March 31, 2004, were 3.25%, 2.64% and 2.75%, 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
2005	¥6,542	\$61,903
2006	4,522	42,793
2007	1,638	15,505
2008	1,207	11,422
2009	1,226	11,603

At March 31, 2004 and 2003, assets pledged as collateral for short-term and long-term loans follow:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Time deposits	¥ —	¥ 72	\$ —
Accounts receivable	360	4,560	3,408
Buildings and structures (net)	3,523	3,743	33,338
Machinery and equipment (net) ...	245	188	2,327
Land	8,901	9,087	84,221
Investments in securities	3,187	2,819	30,159
Total	¥16,218	¥20,471	\$153,453

In addition to the above, time deposits of ¥6 million (\$60 thousand) were pledged as a guarantee at March 31, 2004.

Secured loans and debt at March 31, 2004 and 2003 consist of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term loans	¥29,468	¥31,995	\$278,823
Long-term loans	9,343	9,597	88,405
Total	¥38,812	¥41,592	\$367,229

8. DEBENTURES

Debentures as of March 31, 2004 and 2003 consist of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Unsecured 0.19% debentures due April 11, 2003	¥—	¥3,000	\$—
Total	¥—	¥3,000	\$—

9. ACCRUED RETIREMENT BENEFITS TO EMPLOYEES

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

subsidiaries and some of the overseas subsidiaries adopt employees' severance indemnities plans as defined benefit pension plans. In addition, some overseas subsidiaries adopt defined contribution pension plans.

The funded status of retirement benefit obligations at March 31, 2004 and 2003 follow:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligations	¥(13,394)	¥(12,737)	\$(126,734)
Plan assets of fair value	1,901	1,576	17,993
Securities contributed to employee retirement benefit trust	266	179	2,524
Unfunded status	(11,225)	(10,980)	(106,216)
Unrecognized transition amount	464	928	4,393
Unrecognized actuarial differences	1,370	1,539	12,964
Accrued pension and severance costs	¥ (9,391)	¥ (8,512)	\$ (88,858)

Net periodic pension expense related to the retirement benefits for the years ended March 31, 2004, 2003 and 2002 follow:

For the years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Service cost	¥ 842	¥ 933	¥ 931	\$ 7,968
Interest cost	323	380	407	3,063
Expected return on plan assets	(37)	(77)	(93)	(359)
Amortization of transition amount	464	464	464	4,393
Amortization of actuarial difference	105	9	(1)	999
Net periodic pension expense	¥1,697	¥1,710	¥1,708	\$16,065

In addition to the above, extra employees' severance indemnities of ¥242 million (\$2,291 thousand), ¥1,127 million and ¥1,342 million were included in other expenses in the respective periods ended March 31, 2004, 2003 and 2002.

Assumptions used in calculating the above information follow:

For the years ended March 31	2004	2003	2002
Discount rate	2.0~2.5%	2.0~2.5%	3.0%
Expected rate of return on plan assets	2.0~2.5%	2.0~2.5%	3.0%
Amortization term of actuarial difference (Amortized from next fiscal year)	10~15 years	10~15 years	15 years
Amortization term of transition obligation	5 years	5 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. 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 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 at March 31, 2004 and 2003 follow:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Difference between fair value and carrying amount after revaluation	¥(1,319)	¥(878)	\$(12,486)
Date of revaluation: March 31, 2001			

11. INCOME TAXES

Significant components of the Company's deferred income tax assets and liabilities at March 31, 2004 and 2003 follow:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred income tax assets:			
Net operating tax loss carried-forwards	¥11,528	¥11,751	\$109,077
Accrued pension and severance costs	3,575	3,623	33,825
Loss on devaluation of inventories	530	596	5,019
Loss on devaluation of marketable securities	2,513	4,893	23,778
Allowance for doubtful accounts	469	507	4,439
Foreign taxes paid	402	332	3,803
Accrued bonuses	373	434	3,530
Others	1,470	1,993	13,910
Sub-total	20,861	24,133	197,384
Deferred income tax liabilities:			
Inventory valuation	507	677	4,803
Others	107	92	1,016
Sub-total	615	769	5,819
Less: Valuation allowance	(16,991)	(20,989)	(160,764)
Net deferred income tax assets	¥ 3,255	¥ 2,374	\$ 30,800

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,	2004	2003
Statutory income tax rate	42.1%	42.1%
Permanent differences	3.4	2.1
Fixed levy of local inhabitant taxes	0.6	2.2
Elimination of dividend income	—	3.6
Valuation allowance	(51.8)	(9.3)
Variance of effective tax rate between Clarion and the subsidiaries	(4.3)	(13.3)
Adjustment of net deferred income tax assets due to a change in enacted tax rates ...	1.1	—
Others	0.2	2.9
Effective income tax rate	(8.7)%	30.3%

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

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2004, 2003 and 2002 totaled ¥334 million (\$3,169 thousand), ¥495 million and ¥511 million, respectively.

13. CASH FLOW INFORMATION

Cash and cash equivalents at March 31, 2004 and 2003 were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	2004	2003	2004
Cash on hand and in banks	¥26,005	¥28,565	\$246,054
Deposits with original maturities of more than three months	—	(770)	—
Cash and cash equivalents	¥26,005	¥27,795	\$246,054

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

	Millions of yen	Thousands of U.S. dollars
March 31,	2004	2004
Current assets	¥1,365	\$12,919
Non-current assets	309	2,928
Goodwill	759	7,186
Current liabilities	(373)	(3,534)
Non-current liabilities	(1,923)	(18,200)
Foreign currency translation adjustments ..	(2)	(19)
Sale amount of the common stock	135	1,280
Cash and cash equivalents	(167)	(1,581)
Netting with cash and cash equivalents ...	¥ (31)	\$ (300)

The following assets and liabilities have been excluded from subsidiaries after the sale of common stock of Clarion Soft Co., Ltd. and its subsidiaries, and the sale amount and loss on the sales of common stock follow:

	Millions of yen
March 31,	2003
Current assets	¥ 3,501
Non-current assets	1,608
Goodwill	(0)
Current liabilities	(4,702)
Non-current liabilities	(338)
Loss on sales of common stock	(67)
Sale amount of the common stock	0
Cash and cash equivalents	(168)
Netting with cash and cash equivalents	¥ (168)

Significant non-financing transactions follow:

	Millions of yen		Thousands of U.S. dollars
March 31,	2004	2003	2004
Conversion from convertible bonds:			
Increase of common stock	¥—	¥1,188	\$—
Increase of additional paid-in capital	—	1,161	—
Decreased in convertible bonds by conversion	¥—	¥2,350	\$—

14. LEASES

The Company, as a lessee, charges periodic lease payments for capital leases to expense when paid. Such payments for the years ended March 31, 2004, 2003 and 2002 were ¥1,583 million (\$14,980 thousand), ¥2,448 million and ¥2,995 million respectively. As a lessor, the Company recognizes periodic lease receipts as revenue. There were no such receipts for the year ended March 31, 2004; however receipts of ¥109 million and ¥114 million were received for the years ended March 31, 2003 and 2002, respectively.

The amount of outstanding future lease payments for capital leases at March 31, 2004 and 2003, excluding the interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	2004	2003	2004
Future lease payments:			
Due within one year	¥1,066	¥1,449	\$10,093
Due after one year	970	940	9,186
Total	¥2,037	¥2,389	\$19,280

Pro forma information for capital leases at March 31, 2004 and 2003 (acquisition cost, accumulated depreciation, depreciation expense and interest expense for the period) follow:

	Millions of yen		Thousands of U.S. dollars
March 31,	2004	2003	2004
Acquisition cost	¥3,664	¥5,254	\$34,672
Accumulated depreciation	(1,726)	(3,002)	(16,334)
Net	¥1,938	¥2,251	\$18,337
Depreciation expense	¥1,404	¥2,208	\$13,290
Interest expense	¥ 150	¥ 208	\$ 1,420

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

The amount of outstanding future lease receipts at March 31, 2004 and 2003, including interest, follow:

	Millions of yen		Thousands of U.S. dollars
March 31,	2004	2003	2004
Future lease receipts:			
Due within one year	¥0	¥3	\$5
Due after one year	—	0	—
Total	¥0	¥4	\$5

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

	Millions of yen		Thousands of U.S. dollars
March 31,	2004	2003	2004
Acquisition cost	¥—	¥—	\$—
Accumulated depreciation	—	—	—
Net book value	¥—	¥—	\$—
Depreciation expense	¥—	¥66	\$—

15. COMMITMENTS AND CONTINGENCIES

The Company was contingently liable as a guarantor of indebtedness of affiliates and other companies in the aggregate amount of ¥13 million (\$129 thousand) and ¥69 million at March 31, 2004 and 2003, respectively.

16. SEGMENT INFORMATION

(1) Information by business segment

The Company operates principally in three business segments.

(a) Car audio-visual equipment:

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

(b) Specialty equipment:

Audio, visual and other specialty equipment for public transportation, and CCD (Charged-Coupled Devices) rear view camera.

(c) Others:

Wireless communication equipment and others

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

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

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

	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
Total 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

	Thousands of U.S. dollars				
For the year ended March 31, 2004	Car audio-visual equipment	Specialty equipment	Others	Elimination and corporate	Consolidated total
Net sales	\$1,509,554	\$57,970	\$30,993	\$ —	\$1,598,517
Operating expenses	1,423,318	46,894	30,354	—	1,500,567
Operating income	\$ 86,236	\$11,075	\$ 638	\$ —	\$ 97,950
Total assets	\$1,138,627	\$56,982	\$89,254	\$(68,698)	\$1,216,164
Depreciation	\$ 47,067	\$ 2,192	\$ 291	\$ —	\$ 49,551
Capital expenditures	\$ 36,513	\$ 1,740	\$ 895	\$ —	\$ 39,149

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

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2004, 2003 and 2002 were ¥2,513 million (\$23,778 thousand), ¥2,273 million and ¥4,179 million, respectively.

(2) Information by geographic segment

Sales of the Company classified by geographic area for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

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

	Millions of yen					
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
Total 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
Total assets	¥137,540	¥30,432	¥17,034	¥16,081	¥ (46,949)	¥154,138

For the year ended March 31, 2004	Thousands of U.S. dollars					Consolidated total
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	
Sales to outside customers	\$ 840,607	\$318,454	\$ 93,611	\$345,843	\$ —	\$1,598,517
Inter-segment sales	464,264	47,652	348,046	56,066	(916,029)	—
Total sales	1,304,871	366,107	441,658	401,910	(916,029)	1,598,517
Operating expenses	1,230,660	361,670	433,786	399,767	(925,318)	1,500,567
Operating income	\$74,211	\$4,437	\$7,871	\$2,142	\$9,288	\$97,950
Total assets	\$1,081,118	\$204,097	\$153,187	\$192,071	\$(414,310)	\$1,216,164

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 value its securities classified as other securities by market value. The effect of the valuation on assets in Japan was immaterial.

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2004, 2003 and 2002 were ¥2,513 million (\$23,778 thousand), ¥2,273 million and ¥4,179 million, respectively.

(3) Export sales and sales by overseas subsidiaries

Export sales information of the Company for the years ended March 31, 2004, 2003 and 2002 follow:

For the years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Export sales and sales by overseas subsidiaries:				
Americas (*1)	¥33,678	¥ 38,394	¥ 45,061	\$ 318,653
Europe (*2)	36,572	39,049	37,382	346,033
Others (*3)	11,328	12,616	11,820	107,190
Total	81,579	90,060	94,264	771,877
Consolidated net sales	¥168,947	¥185,530	¥187,954	\$1,598,517
Ratio	48.3%	48.5%	50.2%	48.3%

Notes:

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

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

(*3) Others: Australia, Republic of Korea, Taiwan R.O.C., Singapore

17. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

An analysis of selling, general and administrative expenses for the years ended March 31, 2004, 2003 and 2002 follow:

For the years ended March 31,	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Provision of allowance for doubtful accounts	¥ 420	¥ 519	¥ 55	\$ 3,978
Payroll costs	8,372	9,302	10,418	79,214
Provision of accrued bonus	400	400	503	3,786
Pension expenses	531	489	499	5,030
Others	16,767	18,338	18,717	158,647
Total	¥26,491	¥29,049	¥30,194	\$250,656

18. SUBSEQUENT EVENTS

As determined and approved at the shareholders' meeting on June 25, 2004, the accumulated deficit of ¥30,889 million (\$292,267 thousand) was written off against the additional paid-in capital account.

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and its subsidiaries as of March 31, 2004 and 2003, and related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2004, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their operations and their cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in Japan.

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

The amount 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.



Tokyo, Japan
June 25th, 2004

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President

Tatsuhiko Izumi

Vice President

Kiichiro Okura

Directors

Yutaka Wakamori

Tetsuro Yoshimine

Shoichi Minagawa

Jiro Seki

Seishi Kasai

Toshiharu Osaka

Hiroshi Oniki

Corporate Auditors

Masayuki Kawahara

Katsutoshi Takizawa

Yasuhiro Sasai

Shunjiro Karasawa

(as of June 25, 2004)

Other Corporate Information

Established: 1940

Number of Shares Outstanding: 282,744,185

Number of Shareholders: 30,504

Number of Employees: 1,379

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Plant:

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