

## Consolidated Financial Statements

## Consolidated Balance Sheets as of March 31, 2004 and 2003

|   | Millions of yen |          | Thousands of<br>U.S. dollars |
|---|-----------------|----------|------------------------------|
|   | 2004            | 2003     | 2004                         |
| <b>ASSETS</b>                             |                 |          |                              |
| <b>Current assets:</b>                    |                 |          |                              |
| 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                       |
| <b>Property, plant and equipment:</b>     |                 |          |                              |
| 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                      |
| <b>Other assets:</b>                      |                 |          |                              |
| 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<br>U.S. dollars |
|---|-----------------|----------|------------------------------|
|   | 2004            | 2003     | 2004                         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                 |                 |          |                              |
| <b>Current liabilities:</b>                                 |                 |          |                              |
| 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                      |
| <b>Long-term liabilities:</b>                               |                 |          |                              |
| 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                        |
| <b>Shareholders' equity:</b>                                |                 |          |                              |
| 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                      |
| <b>Commitments and contingencies</b>                        |                 |          |                              |
| 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<br>common shares<br>outstanding<br>(Thousands) | Millions of yen |                                  |                      |  |   |   |                   | Total<br>shareholders'<br>equity |
|---|--|-----------------|----------------------------------|----------------------|--|---|---|-------------------|----------------------------------|
|   |  | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Net unrealized<br>gain/(loss) on<br>revaluation of<br>land | Net unrealized<br>gain/(loss) on<br>other<br>securities | Foreign<br>currency<br>translation<br>adjustments | Treasury<br>stock |                                  |
| <b>Balance at March 31, 2001</b> .....                  | 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)                              |
| <b>Balance at March 31, 2002</b> .....                  | 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)                             |
| <b>Balance at March 31, 2003</b> .....                  | 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)                             |
| <b>Balance at March 31, 2004</b> .....                  | 282,744  | ¥26,100         | ¥33,559                          | ¥(33,062)            | ¥2,572   | ¥ 561   | ¥(8,726)  | ¥(17)             | ¥20,987                          |

|   | Number of<br>common shares<br>outstanding<br>(Thousands) | Thousands of U.S. dollars |                                  |                      |  |   |   |                   | Total<br>shareholders'<br>equity |
|---|--|---------------------------|----------------------------------|----------------------|--|---|---|-------------------|----------------------------------|
|   |  | Common<br>stock           | Additional<br>paid-in<br>capital | Retained<br>earnings | Net unrealized<br>gain/(loss) on<br>revaluation of<br>land | Net unrealized<br>gain/(loss) on<br>other<br>securities | Foreign<br>currency<br>translation<br>adjustments | Treasury<br>stock |                                  |
| <b>Balance at March 31, 2003</b> .....                  | 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)                            |
| <b>Balance at March 31, 2004</b> .....                  | 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<br>U.S. dollars |
|---|-----------------|---------|-----------|------------------------------|
|   | 2004            | 2003    | 2002      | 2004                         |
| <b>Cash flows from operating activities:</b>                                    |                 |         |           |                              |
| 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                      |
| <b>Cash flows from investing activities:</b>                                    |                 |         |           |                              |
| 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)                      |
| <b>Cash flows from financing activities:</b>                                    |                 |         |           |                              |
| 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<br>of yen | Thousands of<br>U.S. dollars |
|--|--------------------|------------------------------|
| Net income .....   | ¥6,305             | \$59,661                     |
| Weighted average number of shares<br>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)                  |

## 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                  |

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 | \$—                       |

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<br>equipment | Audio<br>entertainment<br>equipment | Specialty<br>equipment | Others  | Elimination<br>and corporate | Consolidated<br>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<br>equipment | Specialty<br>equipment | Others   | Elimination<br>and corporate | Consolidated<br>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