Consolidated Statements of Cash Flows

	Year ended March 31			
	2008	2007	2006	**2008**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 4,298**	¥ 167	¥ 4,534	**$ 42,903**
Adjustments to reconcile income before income taxes and minority interests to cash flows from operating activities:				
Depreciation and amortization	**6,364**	5,447	4,955	**63,527**
Amortization of goodwill	**940**	85	82	**9,385**
Equity in earnings of affiliates	**(102)**	(22)	(222)	**(1,025)**
Decrease in allowance for doubtful accounts	**(808)**	(243)	(67)	**(8,069)**
(Decrease)/increase in accrued pension and severance costs, less payment	**(756)**	161	382	**(7,552)**
Increase in accrued retirement benefit for directors and corporate auditors	**362**	—	—	**3,613**
Increase in accrued warranty costs	**318**	—	—	**3,177**
Interest and dividend income	**(323)**	(336)	(270)	**(3,232)**
Interest expense	**795**	867	835	**7,936**
Devaluation of investments in securities	**296**	16	54	**2,962**
Gain on sales of investments in securities	**(0)**	(50)	(1,373)	**(8)**
Gain on sales of property, plant and equipment	**(358)**	(259)	(2,000)	**(3,578)**
Loss on sales and disposal of property, plant and equipment	**614**	341	812	**6,133**
Impairment loss on fixed assets	**364**	113	1,335	**3,641**
Purification cost for land	**—**	1,436	—	—
Changes in assets and liabilities:				
Notes and accounts receivable	**(5,100)**	1,618	1,446	**(50,903)**
Inventories	**1,090**	(1,128)	(732)	**10,880**
Notes and accounts payable	**2,101**	2,898	553	**20,975**
Other, net	**2,152**	(1,193)	(31)	**21,481**
Sub-total	**12,248**	9,920	10,295	**122,249**
Interest and dividend received	**384**	385	270	**3,839**
Interest paid	**(811)**	(849)	(849)	**(8,098)**
Income taxes paid	**(1,049)**	(636)	(479)	**(10,479)**
Net cash provided by operating activities	**10,771**	8,820	9,236	**107,511**
Cash flows from investing activities:				
Increase in time deposits	**—**	—	(134)	**—**
Decrease in time deposits	**7**	145	—	**70**
Payment for purchases of property, plant and equipment	**(6,855)**	(6,074)	(8,106)	**(68,426)**
Proceeds from sales of property, plant and equipment	**1,482**	1,108	7,802	**14,798**
Payment for purchases of intangible assets	**(3,938)**	(2,768)	(3,092)	**(39,306)**
Proceeds from sales of investments in securities	**27**	673	2,430	**271**
Increase in loans receivable	**(9)**	(7)	(6)	**(93)**
Decrease in loans receivable	**43**	155	65	**430**
Payment for acquisition of shares of a subsidiary, net of cash acquired (Note15)	**—**	(13,716)	—	**—**
Other, net	**(4)**	(17)	(13)	**(42)**
Net cash used in investing activities	**(9,247)**	(20,501)	(1,055)	**(92,298)**
Cash flows from financing activities:				
(Decrease)/increase in short-term loans, net	**(2,117)**	5,709	(10,880)	**(21,134)**
Proceeds from long-term loans	**7,000**	12,000	10,000	**69,867**
Repayment of long-term loans	**(3,246)**	(7,045)	(7,047)	**(32,401)**
Cash dividends	**(564)**	(564)	—	**(5,634)**
Other, net	**(10)**	(43)	(10)	**(106)**
Net cash provided by/(used in) financing activities	**1,061**	10,054	(7,938)	**10,590**
Effect of exchange rate changes on cash and cash equivalents	**(713)**	363	694	**(7,119)**
Net increase/(decrease) in cash and cash equivalents	**1,871**	(1,262)	937	**18,684**
Cash and cash equivalents at beginning of year	**10,691**	11,954	11,016	**106,716**
Cash and cash equivalents at end of year (Note 13)	**¥12,563**	¥10,691	¥11,954	**$125,400**

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

Notes to the Consolidated Financial Statements

March 31, 2008

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 Financial Instruments and Exchange Law of Japan.

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

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

The amounts presented in millions of yen are truncated for amounts less than 1 million. Totals may not add 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 company in accordance with accounting standards generally accepted in Japan. 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. Net income in the accompanying consolidated statements of operations includes Clarion's equity in earnings or losses 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' financial statements for their fiscal periods. For significant transactions during the period between those subsidiaries' fiscal year-end and the balance sheet date of Clarion, necessary adjustments are made in the consolidated financial statements.

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. Goodwill relating to Mexican subsidiaries is being amortized over a period of 20 years. Goodwill relating to Xanavi Informatics Corp. is being amortized over a period of 10 years.

(2) Translation of foreign currency transactions and balances

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

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

(3) Cash and cash equivalents

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

(4) Financial instruments

(a) Securities

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

Trading securities are held for the purpose of generating profits from changes in market value and 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 consolidated balance sheets. Unrealized gains and losses on these other securities were classified as a separate component of net assets at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost, based on the weighted-average cost method.

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

(c) Hedge accounting
The Company has a policy to utilize hedging instruments to reduce their exposure to the risk of fluctuation in foreign currency exchange rates.

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as a separate component of net assets at a net-of-tax amount and charged to income in the same period the gains and losses on the hedged items or transactions are recognized.

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

(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 calculated using historical write-off experience from certain prior periods for receivables other than doubtful receivables.

(6) Inventories
For Clarion and its domestic subsidiaries, inventories are stated principally at cost determined by the weighted-average method. As for overseas subsidiaries, inventories are stated at the lower of cost, which is mainly determined by the first-in, first-out method, or market. Supplies are stated at cost, which is determined by last purchase price method.

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

For Clarion and its domestic subsidiaries, depreciation, except for dies, is computed under the declining-balance method at rates based on the estimated useful lives of the assets, which are prescribed by the Corporation Tax Law of Japan. For buildings acquired by Clarion and some of the domestic subsidiaries on or after April 1, 1998, depreciation is computed under the straight-line method. Dies, included in machinery and equipment, are depreciated under the straight-line method over the estimated useful lives of the assets for Clarion, while a domestic subsidiary applies the declining-balance method at rates based on the estimated useful lives of the assets. For overseas subsidiaries, depreciation is computed under the straight-line method in accordance with the generally accepted accounting principles generally accepted in the respective countries of domicile.

In line with the fiscal year 2007 Japanese tax reforms, effective April 1, 2007, property, plant and equipment that were acquired before April 1, 2007, and that have been depreciated to the final depreciable limit (5% of acquisition costs), are to be depreciated to ¥1 over a period of five years commencing the year following the year in which they have been fully depreciated to their respective depreciable limits using the straight-line method. As the result of this change, operating income and income before taxes and minority interests for the year ended March 31, 2008 decreased by ¥90 million ($903 thousand), respectively, compared with those would have been recorded under previous method.

(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 fair value of the business acquired and is amortized using the straight-line method.

Capitalized software costs consist of costs of purchased or developed software. Amortization of software for internal use and for sales purpose is computed using the straight-line method over periods of five years and three years, respectively.

(9) Impairment of fixed assets
The accumulated impairment loss is deducted from the net book value of each asset. Impairment loss are measured and recognized as required by accounting principles generally accepted in the respective countries of domicile of the companies.

(10) Accrued bonuses
Accrued bonuses to employees are provided at the estimated amounts, which Clarion and some of its 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
For Clarion and its domestic subsidiaries, accrued pension and severance costs are stated at an amount calculated based on the projected benefit obligation and the fair value of pension plan assets as adjusted for unrecognized net obligation at transition, unrecognized actuarial differences and unrecognized prior service costs. Unrecognized net obligation at transition is amortized over a period of 10 years. Unrecognized actuarial differences are amortized on a straight-line basis over a period of 7 to 15 years commencing the year following the year in which they arise. Unrecognized prior service costs of Clarion are amortized on a straight-line basis over a period of 13 years which is within the average remaining years of services of employees. Some of the overseas subsidiaries are posting necessary amounts as required by accounting principles generally accepted in the respective countries of domicile.

(12) Accrued warranty costs
For Clarion and a domestic subsidiary, accrued warranty costs are provided based on the past actual results of such expense. Some of the overseas subsidiaries are posting necessary amounts as required by accounting principles generally accepted in their respective countries of domicile.

(13) Accrued retirement benefit for directors and corporate auditors
Accrued retirement benefit for directors and corporate auditors have been made for the vested benefits to which they were entitled if they were to retire or sever immediately at the balance sheet date.

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

(15) Income taxes
The provision for income taxes is computed based on income before income taxes and minority interests in the consolidated statements of operations. 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 tax basis of assets and liabilities and their reported amount in the financial statements.

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

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

(17) Leases
Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessee are accounted for by a method similar to that applicable to ordinary operating leases.

(18) Amount per share
Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds or the exercise of warrants.

Net assets per share is computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the balance sheet date.

3. Accounting changes

(1) Change in depreciation method
In line with the fiscal year 2007 Japanese tax reforms, effective April 1, 2007, Clarion and its domestic subsidiaries have changed their depreciation method of the property, plant and equipment acquired on or after April 1, 2007, as prescribed by the Corporation Tax Law of Japan. The method requires that property, plant and equipment be depreciated to ¥1 (memorandum value) at the end of their useful lives. As a result of this change, operating income and income before taxes and minority interests for the year ended March 31, 2008 decreased by ¥134 million ($1,345 thousand), respectively, compared with those would have been recorded under previous method.

(2) Change in accounting for warranty costs
Effective the year ended March 31, 2008, Clarion has changed its method of accounting for warranty costs and provided an accrual for warranty costs instead of recognizing such costs when warranty services are actually rendered in order to unify its accounting policy with that of Hitachi, Ltd., parent company. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥58 million ($578 thousand) and ¥361 million ($3,603 thousand), respectively, compared with those would have been recorded under the previous method.

(3) Change in accounting for retirement benefit for directors and corporate auditors
Effective the year ended March 31, 2008, Clarion has changed its method of accounting for retirement benefit for directors and corporate auditors and provided an accrual for retirement benefit for directors and corporate auditors instead of recognizing such costs when paid.

This change was made because it has been genellary required to make an accrual for compensation for directors based on “Accounting Standard for Directors’ Bonus” issued by the Accounting Standards Board of Japan and is in line with the release dated April 13, 2007 of the Japanese Institute of Certified Public Accountants Audit and Assurance Practice Committee Report No.42, “Reserve for Executive Retirement Benefit”.

As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥89 million ($896 thousand) and ¥367 million ($3,669 thousand), respectively, computed with those would have been recorded under the previous method.

4 . 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 ¥100.19 = US$1, the approximate rate of exchange as of March 31, 2008, 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.

5. Impairment loss on fixed assets

The Company has recognized impairment loss of ¥364 million ($3,641 thousand), ¥113 million, and ¥1,335 million for the following group of assets as of March 31, 2008, 2007 and 2006 respectively:

Location	Use	Category	Impairment loss 2008	2007	2006	2008
			(Millions of yen)			(Thousands of U.S. dollars)
Ninohe county, Iwate prefecture and others	Others	Land and buildings	**¥ 59**	–	–	**$ 592**
Moerfelden, Germany	Office	Land	**¥305**	–	–	**$3,048**
Others	Others	Land and intangible assets	**–**	¥ 113	¥ 153	**–**
Gunma office in Japan	Logistic warehouse	Land and buildings and structures	**–**	–	¥ 1,181	**–**

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

Due to the decline in real estate value and poor performance of assets, operating profitability has worsened substantially. Therefore, the Company has decided to mark the assets down to the recoverable value, and recognized impairment loss of ¥364 million ($3,641 thousand), ¥113 million and ¥1,335 million for the years ended March 31, 2008, 2007 and 2006, respectively which comprises of land totaling ¥333 million ($3,327 thousand), ¥68 million and ¥717 million, respectively, and other totaling ¥31 million ($314 thousand), ¥45 million and ¥617 million, respectively.

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

6. Inventories

Inventories as of March 31, 2008 and 2007 consisted of the following:

	March 31 2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Finished goods	**¥15,496**	¥16,234	**$154,672**
Work in process	**2,043**	2,813	**20,398**
Raw materials and supplies	**9,593**	10,558	**95,749**
Total	**¥27,133**	¥29,606	**$270,820**

7. Marketable securities and investments in securities

The aggregate cost and market value of other securities with market values, which were included in investment securities as of March 31, 2008 and 2007, are as follows:

	March 31, 2008 Cost	Gross unrealized Gain	Loss	Market value (carrying value)
		(Millions of yen)		
Other securities	**¥1,451**	**¥272**	**¥(133)**	**¥1,590**
Debt securities	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
Total	**¥1,451**	**¥272**	**¥(133)**	**¥1,590**

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

	March 31, 2008 Cost	Gross unrealized Gain	Loss	Market value (carrying value)
		(Thousands of U.S. dollars)		
Other securities	**$14,492**	**$2,715**	**$(1,330)**	**$15,877**
Debt securities	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**
Total	**$14,492**	**$2,715**	**$(1,330)**	**$15,877**

Other securities sold for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Year ended March 31 2008	2007	2006	2008
	(Millions of yen)			(Thousands of U.S. dollars)
Sales amount	**¥27**	¥128	¥2,430	**$271**
Total gain on sales	**0**	50	1,373	**8**
Total loss on sales	**(5)**	–	(0)	**(57)**

At March 31, 2008 and 2007, the carrying value of the securities classified as other securities for which market quotation were unavailable were as follows:

	March 31 2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Other securities			
Unlisted equity securities	**¥64**	¥69	**$641**

8. Fair values of derivative financial instruments

The Company enters into forward foreign currency exchange contracts to manage market risks relating to fluctuations in the foreign currency exchange rates. The Company does not hold or issue financial instruments for trading purposes. The listed contract amount and fair values as of March 31, 2008 and 2007 were as follows:

	March 31, 2008		
	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:		(Millions of yen)	
Selling			
U.S. dollar	¥2,333	¥2,221	¥111
Euro	5,675	5,674	0
Buying			
U.S. dollar	738	745	7
Euro	86	86	0
British pound	197	199	1
Total unrealized gain from forward foreign currency exchange contracts			¥121

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

	March 31, 2008		
	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:		(Thousands of U.S. dollars)	
Selling			
U.S. dollar	$23,293	$22,175	$1,117
Euro	56,642	56,639	3
Buying			
U.S. dollar	7,370	7,444	73
Euro	861	867	6
British pound	1,974	1,987	13
Total unrealized gain from forward foreign currency exchange contracts			$1,214

These forward foreign exchange contracts were entered into for hedging purposes. Unrealized gains and losses from these contracts are recognized in earnings. Forward foreign exchange contracts to which hedge accounting is applied are excluded from the above table.

9. Short-term and long-term loans

Short-term and long-term loans as of March 31, 2008 and 2007 consisted of the following:

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term loans	¥13,133	¥15,440	$131,086
Current portion of long-term loans	10,242	3,247	102,231
Total short-term loans	23,376	18,687	233,317
Long-term loans	19,462	22,795	194,259
Total	¥42,838	¥41,483	$427,577

The weighted-average rates for short-term loans, current portion of long-term loans and long-term loans as of March 31, 2008 were 1.60%, 1.49% and 1.26%, respectively.

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

Year ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2009	¥10,242	$102,231
2010	12,044	120,217
2011	7,046	70,332
2012	49	490
2013	51	510

As of March 31, 2008 and 2007, assets pledged as collateral for short-term and long-term loans are as follows:

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures, net	¥498	¥627	$4,975
Machinery and equipment, net	29	46	293
Land	109	128	1,090
Total	¥637	¥802	$6,360

There was no such pledged as a guarantee as of March 31, 2008 in spite the Company was pledged time deposits of ¥7 million as a guarantee as of March 31, 2007.

Secured loans as of March 31, 2008 and 2007 are as follows:

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term loans	¥ 42	¥ 47	$ 425
Long-term loans	462	595	4,620
Total	¥505	¥643	$5,045

10. Accrued retirement benefits to employees

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

The funded status of retirement benefit plans as of March 31, 2008 and 2007 were as follows:

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligations	**¥(15,405)**	¥(16,132)	**$(153,763)**
Plan assets at fair value	**2,801**	3,158	**27,958**
Securities contributed to employee retirement benefit trust	**265**	344	**2,650**
Unfunded status	**(12,338)**	(12,628)	**(123,153)**
Unrecognized net obligation at transition	**31**	45	**309**
Unrecognized actuarial differences	**1,263**	723	**12,611**
Unrecognized prior service costs due to plan amendment	**482**	526	**4,812**
Accrued pension and severance costs	**¥(10,562)**	¥(11,334)	**$(105,420)**

Net periodic pension expense relating to the retirement benefits for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Year ended March 31			
	2008	2007	2006	2008
	(Millions of yen)			(Thousands of U.S. dollars)
Service cost	**¥ 941**	¥ 741	¥ 732	**$ 9,398**
Interest cost	**359**	331	327	**3,589**
Expected return on plan assets	**(75)**	(61)	(56)	**(750)**
Amortization of unrecognized net obligation at transition	**14**	—	—	**139**
Amortization of unrecognized prior service costs due to plan amendment	**44**	44	3	**440**
Amortization of unrecognized actuarial difference	**115**	112	122	**1,150**
Net periodic pension expense	**¥1,399**	¥1,167	¥1,130	**$13,968**

In addition to the above, extra employees' severance indemnities of ¥70 million ($698 thousand), ¥138 million and ¥452 million were included in other expenses for the periods ended March 31, 2008, 2007 and 2006, respectively.

Assumptions used in calculating the above information were as follows:

	Year ended March 31		
	2008	2007	2006
Discount rates	**2.0~2.5%**	2.0~2.5%	2.0~2.5%
Expected rates of return on plan assets	**2.0~3.0%**	2.0~3.0%	2.0~2.5%
Amortization period for unrecognized prior service costs due to plan amendment	**13 years**	13 years	13 years
Amortization period for unrecognized actuarial difference	**7~15 years**	7~15 years	7~13 years
Amortization period for unrecognized net obligation at transition	**10 years**	10 years	—

11. Shareholders' equity

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

12. Revaluation of land used for business operations in accordance with the Land Revaluation Law

In accordance with Article 119 of 1998 Cabinet Order – Article 2-1 of the Enforcement Ordinance relating to the Land Revaluation Law, revaluation is performed by the method of calculating land value for the standard basis of land in accordance with the Law for Government Appraisal of Land Prices. Under Article 2-4 of the Enforcement Ordinance, revaluation is performed by using the method of calculating land value for a taxable basis of the 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 the 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 net assets.

As of March 31, 2008 and 2007, the differences between fair value and carrying amount after revaluation dated March 31, 2001 were as follows:

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Difference between fair value and carrying amount after revaluation	**¥(1,062)**	¥(1,160)	**$(10,606)**

13. Income taxes

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	March 31		
	2008	2007	2008
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Net operating tax loss carryforwards	**¥2,219**	¥4,363	**$22,153**
Accrued pension and severance costs	**4,328**	4,635	**43,199**
Accrued warranty costs	**1,019**	—	**10,171**
Loss on devaluation of inventories	**748**	809	**7,470**
Loss on devaluation of marketable securities	**1,095**	969	**10,937**
Accrued expenses	**1,670**	2,003	**16,674**
Allowance for doubtful accounts	**99**	174	**997**
Foreign tax credit carryforwards	**323**	170	**3,225**
Accrued bonuses	**621**	473	**6,198**
Other	**2,001**	1,562	**19,981**
Sub-total	**14,127**	15,162	**141,010**
Deferred tax liabilities:			
Depreciation	**56**	231	**562**
Other	**127**	8	**1,276**
Sub-total	**184**	239	**1,839**
Less: Valuation allowance	**(6,951)**	(6,764)	**(69,386)**
Net deferred tax assets	**¥6,991**	¥8,158	**$69,784**

The differences between the Company's statutory income tax rate and effective income tax rates reflected in the consolidated statements of operations were reconciled as follows:

	March 31	
	2008	2007
Statutory income tax rate	**40.7%**	40.7%
Permanent differences	**13.0**	31.7
Fixed levy of local inhabitant taxes	**1.0**	24.3
Valuation allowance	**8.6**	539.6
Variance of effective tax rate between Clarion and the subsidiaries	**(1.3)**	(61.7)
Amortization of goodwill	**8.9**	—
Foreign income tax credit	**(2.9)**	(11.8)
Reversal of net unrealized gain on revaluation of land	**1.9**	—
Other	**(2.4)**	(3.4)
Effective income tax rates	**67.5%**	559.4%

14. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006 totaled ¥2,255 million ($22,517 thousand), ¥975 million and ¥710 million, respectively.

15. Cash flow information

Reconciliations between cash and cash equivalents and cash on hand and in bank as of March 31, 2008 and 2007 were as follows:

	March 31		
	2008	2007	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash on hand and in banks	**¥12,608**	¥10,746	**$125,847**
Deposits with original maturities of more than three months	**(44)**	(54)	**(446)**
Cash and cash equivalents	**¥12,563**	¥10,691	**$125,400**

The following is a summary of the assets acquired, the liabilities assumed, goodwill and net cash payment in connection with the acquisition of common stock of *Xanavi Informatics Corp. ("Xanavi")*:

	Year ended March 31, 2007
	(Millions of yen)
Current assets	¥ 21,007
Fixed assets	2,865
Goodwill	8,566
Current liabilities	(17,526)
Non current liabilities	(822)
Acquisition costs of Xanavi	14,090
Cash and cash equivalents acquired	(373)
Net cash payment for the acquisition	¥ 13,716

16. Leases

The Company, as a lessee, charges periodic lease payments for finance leases which do not transfer ownership of the leased property to the lessee to expense on payment. Such payments for the years ended March 31, 2008, 2007 and 2006 were ¥1,542 million ($15,391 thousand), ¥1,587 million and ¥1,757 million, respectively.

The amount of outstanding future lease payments for finance leases as of March 31, 2008 and 2007, excluding the interest thereon, are summarized as follows:

	March 31		
	2008	2007	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Future lease payments:			
Due within one year	**¥1,257**	¥1,291	**$12,554**
Due after one year	**2,256**	2,098	**22,520**
Total	**¥3,514**	¥3,389	**$35,075**

Pro forma information as of and for the years ended March 31, 2008 and 2007 relating to acquisition cost, accumulated depreciation, depreciation expense and interest expense for property held under finance leases which do not transfer ownership of the leased property to the lessee if finance lease accounting had been applied to finance leases currently accounted for as operating leases are as follows:

	March 31		
	2008	2007	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Acquisition cost	**¥6,500**	¥6,674	**$64,881**
Accumulated depreciation	**(3,648)**	(3,891)	**(36,416)**
Net book value	**¥2,851**	¥2,782	**$28,464**
Depreciation expense	**¥1,381**	¥1,474	**$13,786**
Interest expense	**¥ 145**	¥ 104	**$ 1,450**

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

Future lease obligations for non-cancelable operating leases at March 31, 2008 and 2007 follow:

	March 31		
	2008	2007	**2008**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Due within one year	**¥ 347**	¥ 397	**$ 3,466**
Due after one year	**776**	1,063	**7,747**
Total	**¥1,123**	¥1,460	**$11,214**

17. Commitments and contingencies

There was no such contingencies as of March 31, 2008 in spite that the Company was contingently liable for transfer of notes receivables due to factoring, amounting to ¥333 million as of March 31, 2007.

18. Segment information

(1) Information by business segment

The Company operates principally in three business segments.

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

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

(c) Other: SS (Spread Spectrum) wireless communication equipment, Mobile-phone, EMS (Electronics Manufacturing Service) business, and other

	Year ended March 31, 2008				
	Car audio-visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
	(Millions of yen)				
Net sales	¥217,522	¥8,732	¥20,551	¥ —	¥246,806
Operating expenses	213,191	7,992	20,156	—	241,340
Operating income	¥ 4,330	¥739	¥ 395	¥ —	¥ 5,465
Total assets	¥143,065	¥5,447	¥14,392	¥(12,063)	¥150,841
Depreciation	¥ 6,665	¥ 230	¥ 196	¥ —	¥ 7,092
Impairment loss	¥ 351	¥ 10	¥ 3	¥ —	¥ 364
Capital expenditures	¥ 10,516	¥ 444	¥ 294	¥ —	¥ 11,255

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

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

	Year ended March 31, 2008				
	Car audio-visual equipment	Special equipment	Other	Elimination and corporate	Consolidated total
	(Thousands of U.S. dollars)				
Net sales	$2,171,098	$87,155	$205,125	$ —	$2,463,380
Operating expenses	2,127,871	79,776	201,178	—	2,408,826
Operating income	$ 43,227	$ 7,379	$ 3,947	$ —	$ 54,553
Total assets	$1,427,944	$54,367	$143,651	$(120,408)	$1,505,554
Depreciation	$ 66,530	$ 2,301	$ 1,985	$ —	$ 70,789
Impairment loss	$ 3,503	$ 106	$ 31	$ —	$ 3,641
Capital expenditures	$ 104,970	$ 4,435	$ 2,939	$ —	$ 112,345

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2008, 2007 and 2006 were ¥289 million ($2,885 thousand), ¥492 million and ¥1,392 million, respectively.

As described in 3-(1), Clarion and its domestic subsidiaries have changed their depreciation method of property, plant and equipment. The total effect of this change and another change described in 2-(7) on the operating results of each segment compared with those would have been recorded under the previous method was as follows: For car audio-visual equipment business, operating expenses increased by ¥213 million ($2,128 thousand), and operating income decreased by the same amount. As well, ¥9 million ($92 thousand) of effect was given for special equipment business and ¥2 million ($27 thousand) of effect for other business.

As described in 3-(2), Clarion has changed its method of accounting for warranty costs. The effect of this change on the operating results of each segment compared with those would have been recorded under the previous method was as follows: For car audio-visual equipment business, operating expenses increased by ¥54 million ($543 thousand), and operating income decreased by the same amount. As well, ¥3 million ($35 thousand) of effect was given for special equipment business.

As described in 3-(3), Clarion has changed its method of accounting for retirement benefit for directors and corporate auditors. The effect of this change on the operating results of each segment compared with those would have been recorded under the previous method was as follows: For car audio-visual equipment business, operating expenses increased by ¥84 million ($841 thousand), and operating income decreased by the same amount. As well, ¥5 million ($55 thousand) of effect was given for special equipment business.

(2) Information by geographic segment

Sales of the Company classified by geographic area for the years ended March 31, 2008, 2007 and 2006, respectively, are summarized as follows:

	Year ended March 31, 2008					
	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	(Millions of yen)					
Sales to outside customers	¥151,015	¥55,497	¥12,952	¥27,340	¥ —	¥246,806
Inter-segment sales	37,864	1,257	39,791	357	(79,271)	—
Total sales	188,880	56,755	52,744	27,697	(79,271)	246,806
Operating expenses	184,714	55,659	52,277	27,550	(78,861)	241,340
Operating income	¥ 4,165	¥ 1,096	¥ 466	¥ 147	¥ (410)	¥ 5,465
Total assets	¥135,674	¥21,570	¥22,809	¥15,582	¥(44,795)	¥150,841

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

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

	Japan	Americas (*1)	Asia and Australia (*2)	Europe (*3)	Elimination and corporate	Consolidated total
	Year ended March 31, 2008					
	(Thousands of U.S. dollars)					
Sales to outside customers	**$1,507,289**	**$553,925**	**$129,280**	**$272,884**	**$ —**	**$2,463,380**
Inter-segment sales	**377,929**	**12,554**	**397,160**	**3,567**	**(791,211)**	**—**
Total sales	**1,885,218**	**566,480**	**526,440**	**276,452**	**(791,211)**	**2,463,380**
Operating expenses	**1,843,642**	**555,535**	**521,786**	**274,981**	**(787,119)**	**2,408,826**
Operating income	**$ 41,575**	**$ 10,944**	**$ 4,654**	**$ 1,471**	**$ (4,092)**	**$ 54,553**
Total assets	**$1,354,167**	**$215,300**	**$227,662**	**$155,526**	**$(447,102)**	**$1,505,554**

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

Corporate assets included in "Elimination and corporate" mainly consist of investments in securities. Such investments in securities for the years ended March 31, 2008, 2007 and 2006 were ¥289 million ($2,885 thousand), ¥492 million and ¥1,392 million, respectively.

As described in 3-(1), Clarion and its domestic subsidiaries have changed their depreciation method of property, plant and equipment. The total effect of this change and another change described in 2-(7) on the operating results of the segments compared with those would have been recorded under the previous method was as follows: For the Japan segment, operating expenses increased by ¥225 million ($2,248 thousand), and operating income decreased by the same amount.

As described in 3-(2), Clarion has changed its method of accounting for warranty costs. As a result of this change, operating expenses of the Japan segment increased by ¥58 million ($578 thousand), and operating income decreased by the same amount compared with those would have been recorded under the previous method.

As described in 3-(3), Clarion has changed its method of accounting for retirement benefit for directors and corporate auditors. As a result of this change, operating expenses of the Japan segment increased by ¥89 million ($896 thousand) and operating income decreased by the same amount compared with those would have been recorded under the previous method.

(3) Overseas sales

Overseas sales, which include export sales of Clarion and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Year ended March 31			
	2008	2007	2006	**2008**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Overseas sales:				
Americas (*1)	**¥ 55,871**	¥ 49,357	¥ 43,701	**$ 557,656**
Europe (*2)	**37,141**	23,668	25,874	**370,711**
Other (*3)	**14,414**	16,268	15,431	**143,875**
	107,428	89,295	85,007	**1,072,243**
Consolidated net sales	**¥246,806**	¥181,041	¥184,176	**$2,463,380**
Ratio	**43.5%**	49.3%	46.2%	**43.5%**

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

19. Analysis of selling, general and administrative expenses

An analysis of selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Year ended March 31			
	2008	2007	2006	**2008**
		(Millions of yen)		*(Thousands of U.S. dollars)*
Payroll costs	**¥ 9,971**	¥ 9,394	¥ 9,108	**$ 99,527**
Provision for bonuses	**578**	261	293	**5,772**
Pension expenses	**562**	516	496	**5,611**
Freight out	**4,157**	3,859	4,340	**41,500**
Provision for retirement benefit for directors and corporate auditors	**107**	—	—	**1,077**
Other	**20,903**	15,736	17,585	**208,641**
Total	**¥36,281**	¥29,768	¥31,824	**$362,131**

20. Transactions with related parties

As the result of TOB on Company's common stocks, as of December 7, 2006, Hitachi, Ltd. became a parent company.

Year ended March 31, 2008:

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

Description of transaction	Amount of transaction		Subject	Balance at the end of period	
	(Millions of yen)	*(Thousands of U.S. dollars)*		*(Millions of yen)*	*(Thousands of U.S. dollars)*
Borrowing of fund	¥ (5,349)	$ (53,389)	Short-term loans	¥6,707	$66,948
Borrowing of fund	¥ 7,000	$ 69,867	Long-term loans	¥7,000	$69,867

Short-term loans were made under the Hitachi's pooling system and the transaction amount shown above represents the decrease in the short-term loan balance as of March 31, 2008 compared with that as of March 31, 2007.

Year ended March 31, 2007:

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

Description of transaction	Amount of transaction	Subject	Balance at the end of period
	(Millions of yen)		*(Millions of yen)*
Borrowing of fund	¥14,000	Short-term loans	¥12,056
Acquisition of shares of subsidiary	¥14,000		

The Company has participated in the Hitachi's pooling system since December 2006.

21. Amounts per share

Net income per share for the years ended March 31, 2008, 2007 and 2006 and net assets per share as of March 31, 2008 and 2007 are as follows:

	Year ended March 31			
	2008	2007	2006	**2008**
		(Yen)		*(U.S. dollars)*
Net income/(loss) per share:				
Basic	**¥ 4.88**	¥ (2.78)	¥20.76	**$0.05**
Diluted	**—**	—	—	**—**

	March 31		
	2008	2007	**2008**
	(Yen)		*(U.S. dollars)*
Net assets per share	**¥113.12**	¥120.56	**$1.12**

Diluted net income per share is not disclosed because Clarion had no potentially dilutive shares.

22. Subsequent event

The following appropriation of retained earnings of Clarion, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, was approved at an ordinary general meeting of shareholders held on June 25, 2008:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year-end cash dividends (¥2.00=U.S.$0.02 per share)	¥ 564	**$5,634**

ERNST & YOUNG SHINNIHON
Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641
Tel 03 3503 1100
Fax 03 3503 1197

Report of Independent Auditors

The Board of Directors
Clarion Co., Ltd.

We have audited the accompanying consolidated balance sheet of Clarion Co., Ltd. and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and consolidated subsidiaries at March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 3 (2) to the financial statements, effective the year ended March 31, 2008, the Company changed its method of accounting for warranty costs.
2. As described in Note 3 (3) to the financial statements, effective the year ended March 31, 2008, the Company changed its method of accounting for retirement benefit for directors and corporate auditors.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young ShinNihon

A MEMBER OF ERNST & YOUNG GLOBAL

June 25, 2008