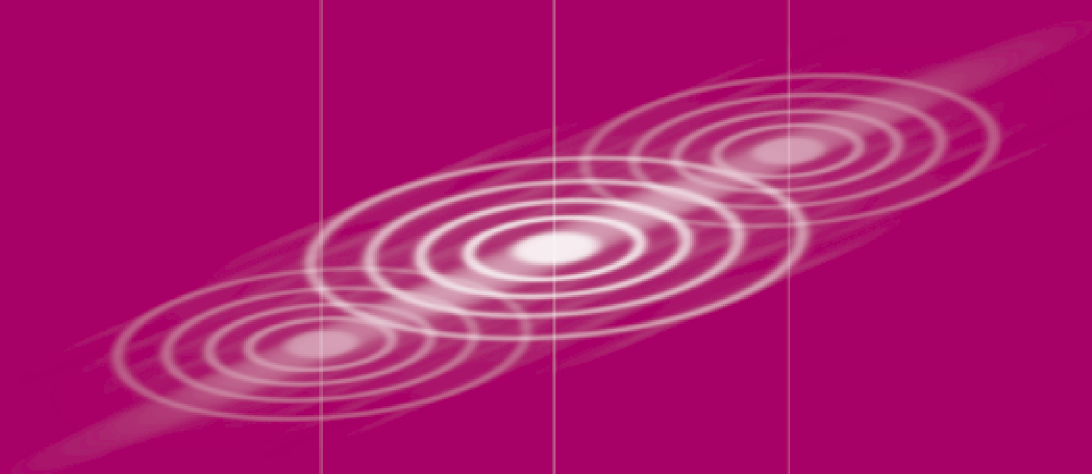
clarion

ANNUAL REPORT '98

Fiscal Year Ended March 31, 1998



Since 1948, Clarion has been a leader in the car audio electronics industry by developing highly innovative products which consistently set new standards for quality, ingenuity and durability. Around the world, the Clarion name stands for creativity and quality.

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NON-CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of Yen		Thousands of U.S. dollars
For the years ended March 31,	**1998**	1997	**1998**
Net sales	**¥153,578**	¥134,548	**$1,163,470**
Operating income	**5,114**	3,756	**38,743**
Net income	**3,074**	1,274	**23,288**
Per share of common stock (yen or U.S. dollars):			
Net income	**19.8**	8.2	**0.150**
Cash dividends	**3.0**	0.0	**0.023**
As at March 31,			
Shareholders' equity	**49,432**	46,358	**374,485**
Total assets	**128,117**	127,497	**970,583**

Note: U.S. dollar amounts are translated, for convenience only, at ¥132 = U.S.$1, the rate prevailing on March 31, 1998.

Environment and Results

In fiscal 1997, ended March 31, 1998, the Japanese economy continued to face difficulties, such as depressed personal consumption, growing deflationary trends, financial instability, and reductions in public works due to fiscal restructuring. The operating environment for Clarion was characterized by a year-on-year upturn in domestic automobile production, which contrasted with a decline in automobile sales for the first time in four years. In the electrical appliance industry, sales of audio-visual equipment declined as consumers restrained purchases due to growing concern about the state of the economy.

Amid these conditions, Clarion endeavored to expand sales of car audio equipment to original equipment manufacturer (OEM) markets, both domestic and overseas, as well as to the retail market. As a result, fiscal 1997 non-consolidated net sales amounted to ¥153,578 million ($1,163.5 million), up 14.1% from the previous year.

During the period, Clarion benefited from a weakened yen and higher productivity thanks to companywide rationalization efforts, which compensated for a decline in demand for automobiles, stemming from the consumption tax hike in April 1997, and a consequent drop in prices. Accordingly, operating income grew 36.2%, to ¥5,114 million ($38.7 million). Net income saw a sharp rise, growing 141.3%, to ¥3,074 million ($23.3 million) despite a loss from write-down of securities.

Consolidated net sales - including results of 65 consolidated subsidiaries - grew 7.5%, to ¥196,006 million ($1,484.9 million). Consolidated net income recorded a substantial 2.5-fold gain, to ¥3,740 million ($28.3 million).

Performance by Product Category

In our Car Audio-Visual Equipment category, we recorded an 8.8% gain in OEM sales to automakers, to ¥56,351 million ($426.9 million), owing to higher production of automobiles in the first half of the period and increased sales of visual equipment for car navigation systems.

In the retail market, we expanded market share thanks to strong acceptance of car navigation equipment and our Z-Series of car audio products. The Z-Series symbolizes our “In-Car Net” concept, which integrated car audio-visual equipment with computers. As a result, retail sales grew 7.7%, to ¥20,811 million ($157.7 million).

In the Special Equipment category, Clarion reported increased sales of audio-visual systems for long-distance buses, and generated large orders for voice-synthesis broadcasting systems for intracity buses, karaoke VCR systems for tourist buses, broadcast satellite (BS) transmission systems, and other products. Demand from various industrial sectors for wireless systems flourished, prompting our SS wireless modems to be incorporated into factory and store automation systems. As a result, sales in this category rose 16.4%, to ¥5,494 million ($41.6 million).

Exports in fiscal 1997 jumped 23.9%, to ¥70,430 million ($533.6 million), supported by a strong automobile industry in the United States and Europe, as well as increased OEM sales and the weak yen.

Dividend Policy

Clarion's fundamental policy is to place top importance on rewarding shareholders for profitability by providing stable dividends. Since fiscal 1993, unfortunately, we have been unable to pay dividends, due to our depressed business results.

During that period, we have worked hard to raise revenues and profitability, and in fiscal 1997 we achieved sufficient results to permit reintroduction of cash dividend payments. At the 58th Shareholders' Meeting, we proposed a cash dividend of ¥3.00 ($0.023) per share, which was approved by shareholders.

In the future, we will continue striving to improve our results and return our profits to shareholders in the form of ongoing stable dividend payments.

Outlook

In the year ahead, we forecast that stock markets will stagnate and foreign exchange markets will remain unstable, leading to growing uncertainty about where the economy is headed. Accordingly, we expect domestic automobile production and OEM sales to decline and prices, including to the retail market, to fall.

In response, Clarion will endeavor to cut costs by improving productivity and reduce other expenses by streamlining overall operations. We will also aim to raise sales by stimulating demand through the development and introduction of new products.

We look forward to the continued support of our shareholders and customers in these endeavors.

June 26, 1998

Ichizo Ishitsubo
President

Announcement of Clarion Auto-PC

A major technological highlight of fiscal 1997 was our announcement of the Clarion Auto-PC, a personal computer for automobiles incorporating software developed jointly with Microsoft Corporation. Based on Microsoft's Windows CE2.0 operating system, this product features a software platform with voice recognition capabilities and integrates audio and computer (including electronic mail and search functions), as well as navigation and wireless telecommunications technologies. We announced Clarion Auto-PC at the January 1998 Consumer Electronics Show in Las Vegas, where it sparked instant international attention. It will be launched in the United States after autumn 1998. We also plan to add Japanese-language and other new functions before releasing Clarion Auto-PC in Japan in the latter half of 1999.

Product Development

In recent years, the car audio sector has seen a shift toward compact disc (CD) players offering excellent sound quality, as well as growing popularity of mini disc (MD) systems featuring digital sound and extra compactness. In the current fiscal period, Clarion has already released a broad variation of products, from high-end to medium-range items. These include additions of MD players with disc-changer functions to our ADDZEST series. In car navigation, we have developed a global positioning system (GPS) receiver unit in collaboration with Rockwell Semiconductor Systems of the United States. In developing this product, we succeeded in achieving considerably higher reliability and lower cost than previous models.

In other areas, our spectrum-diffusion wireless modems are being incorporated into automated ticket gate systems for lifts at ski resorts. These products are regarded as being the automated ticket gate systems of the future. Hereafter, we expect increased sales as these systems are adopted by various sectors.

Global Expansion

In the car audio business, Clarion's fundamental policy is to undertake product development, parts procurement, manufacture, and sale in regions where demand for our products exists. In order to maximize the benefit of our global activities, we are building a regional headquarters system that separates the world into four parts, including Japan. We plan to establish an Advanced Technology Division in each regional headquarters to promote region-specific product development.

The Americas: California-based Clarion Corporation of America serves as our headquarters in North America, integrating Clarion Group operations in that region, including Mexico. It has also set up an Advanced Technology Division to develop products with leading-edge technologies, with the intention of being able to refine its own products for market introduction in the future.

In the United States, Clarion has acquired QS-9000 certification, officially recognizing the Company as a supplier of components to the Big Three automakers in that nation. This certification is a basic requirement for dealing with the Big Three and complements our efforts to obtain internationally recognized ISO9000 series certification for our quality assurance systems.

In Mexico, Electronica Clarion S.A. de C.V. assembles and ships our products. Recently, we established Precision Metal S.A. de C.V. in that country to manufacture metal parts for car audio systems. That company will commence mass production in August 1998, marking our accomplishment of an integrated production system, from parts manufacture to final product assembly, in Mexico.

We will also step up sales in Mexico, Brazil, Argentina, and other Latin American nations. Previously, marketing there was one of the responsibilities of Clarion Corporation of America, but it is now handled exclusively by Clarion Latin America Corporation, which we established in April 1998 in Miami, Florida.

Europe: Clarion Europa GmbH, based in Germany, will serve as our integrated European headquarters. It will also set up an Advanced Technology Division to pursue local product development.

In October 1997, we established Clarion Hungary Electronics Kft. in Hungary to manufacture and supply printed circuit boards and other electronic components for car audio systems to other Clarion Group companies in Europe, such as Clarion (G.B.) Ltd. and Clarion France S.A., as well as to make completed products. The new company is scheduled to start production in January 1999. As a result of this strategy, we expect to raise our price competitiveness from the viewpoint of European automakers and increase our share of the OEM market. We also aim to expand our share of the European retail market.

In addition, we are targeting increased sales of navigation systems in Europe. A road traffic information system is currently under development in Germany, and this will be expanded in the future to cover the integrated European Union. We intend to reinforce sales of our navigation systems in line with these developments. We expect that our high-technology products will have an impact on the European market.

Asia: In other Asian nations, Malaysian-based Clarion (Malaysia) Sdn., Bhd., has successfully generated OEM orders to supply car audio equipment to Malaysia's national automaker, for automobiles to be exported to Europe. Deliveries will start in October 1998.

Responding to anticipated major demand growth in China, in May 1998 we established Xiamen Clarion Electrical Enterprise Co., Ltd., to manufacture car audio equipment and conduct related R&D and design. The new company is building a production plant, scheduled to become operational in October 1998. It has already started R&D and design activities, employing young engineers locally.

In the Philippines, we maintain a production operation that outputs 1.2 million car audio units annually for supply on an OEM basis.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1998	1997	1998
ASSETS			
Current Assets:			
Cash on hand and in banks	¥ 19,708	¥ 23,785	$ 149,303
Marketable securities (Note 5)	2,214	2,845	16,773
Cash and cash equivalents	21,922	26,630	166,076
Notes and accounts receivable (Note 7):			
Trade	38,400	38,926	290,909
Unconsolidated subsidiaries and affiliates (Note 11)	852	1,405	6,454
	39,252	40,331	297,363
Less: Allowance for bad debts	(1,562)	(1,328)	(11,833)
	37,690	39,003	285,530
Inventories (Note 4)	48,620	44,164	368,333
Prepaid expenses and other (Note 11)	6,711	7,888	50,841
Total current assets	114,943	117,685	870,780
Investments and Advances:			
Investments in securities (Notes 5 and 7)	14,677	14,153	111,189
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6)	676	508	5,121
Other investments and advances	3,461	3,176	26,220
	18,814	17,837	142,530
Property, Plant and Equipment (Note 7):			
Buildings and structures	23,668	24,426	179,303
Machinery and equipment	52,841	55,180	400,311
	76,509	79,606	579,614
Less: Accumulated depreciation	(53,653)	(56,138)	(406,462)
	22,856	23,468	173,152
Land	9,094	8,520	68,894
Construction in progress	887	201	6,719
	32,837	32,189	248,765
Other Assets	6,841	6,543	51,826
Adjustments on Foreign Currency Translation (Note 2(4)B)	4,433	4,204	33,583
	¥177,868	¥178,458	$1,347,484

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1998	1997	1998
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Notes 7 and Note 11)	**¥ 67,149**	¥ 71,492	**$ 508,705**
Current portion of long-term debt (Note 7)	**6,942**	9,101	**52,591**
Notes and accounts payable:			
Trade	**31,120**	29,650	**235,758**
Unconsolidated subsidiaries and affiliates (Note 11)	**480**	383	**3,636**
	31,600	30,033	**239,394**
Accrued expenses	**7,860**	8,250	**59,545**
Income taxes payable (Note 8)	**1,089**	224	**8,250**
Other current liabilities	**5,029**	5,168	**38,098**
Total current liabilities	**119,669**	124,268	**906,583**
Long-Term Debt (Note 7)	**14,776**	14,609	**111,939**
Accrued Employees' Severance Indemnities	**4,549**	4,366	**34,462**
Minority Interests in Consolidated Subsidiaries	**956**	1,025	**7,242**
Total liabilities	**139,950**	144,268	**1,060,226**
Lease Commitments and Contingent Liabilities (Note 9)			
Shareholders' Equity:			
Common stock, par value ¥50 per share;			
Authorized: 450,000,000 shares			
Issued: 155,624,878 shares at March 31, 1998 and 1997	**19,433**	19,433	**147,220**
Additional paid-in capital	**26,935**	39,310	**204,053**
Legal reserve	**288**	1,954	**2,182**
Deficit	**(8,738)**	(26,507)	**(66,197)**
	37,918	34,190	**287,258**
	¥177,868	¥178,458	**$1,347,484**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income for the years ended March 31, 1998, 1997 and 1996

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	1998	1997	1996	**1998**
Net Sales (Note 11)	**¥196,006**	¥182,278	¥164,625	**$1,484,894**
Cost of sales (Note 11)	**145,593**	136,091	123,944	**1,102,977**
Gross profit	**50,413**	46,187	40,681	**381,917**
Selling, General and Administrative Expenses (Notes 11 and 12)	**42,440**	39,415	39,048	**321,515**
Operating income (Note 10)	**7,973**	6,772	1,633	**60,402**
Other Income (Expenses):				
Interest income	**619**	638	445	**4,689**
Interest expenses	**(3,432)**	(3,204)	(3,376)	**(26,000)**
Provision for allowance for bad debts	**—**	(271)	—	**—**
Gain (loss) on sale or disposal of property, plant and equipment, net	**(588)**	(222)	(126)	**(4,455)**
Loss from write-down and disposal of inventories	**—**	(395)	(185)	**—**
Officers' retirement expenses	**(392)**	—	(387)	**(2,970)**
Gain on sale of investments in securities	**601**	201	457	**4,553**
Loss from write-down of securities	**(845)**	(322)	—	**(6,401)**
Exchange income (loss), net	**660**	(572)	966	**5,000**
Other, net	**219**	(49)	(309)	**1,659**
	(3,158)	(4,196)	(2,515)	**(23,925)**
Income (loss) before income taxes	**4,815**	2,576	(882)	**36,477**
Income Taxes (Note 8)	**950**	533	453	**7,197**
	3,865	2,043	(1,335)	**29,280**
Minority Interests in Income (Loss) of Consolidated Subsidiaries	**(151)**	(181)	(32)	**(1,144)**
Equity in Income (Loss) of Affiliates	**26**	(349)	(107)	**197**
Adjustments on Foreign Currency Translation (Note 2(4)B)	**—**	—	(831)	**—**
Net income (loss)	**¥ 3,740**	¥ 1,513	¥ (2,305)	**$ 28,333**
	Yen			U.S. Dollars (Note 3)
Per Share:				
Net income (loss)	**¥ 24.0**	¥ 9.7	¥ (14.8)	**$ 0.182**
Cash dividends	**¥ 3.0**	¥ 0	¥ 0	**$ 0.023**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity for the years ended March 31, 1998, 1997 and 1996

	Number of shares of common stock (thousands)	Millions of Yen			
		Common stock	Additional paid-in capital	Legal reserve	Deficit
Balance at March 31, 1995	155,625	19,433	39,325	1,881	(24,381)
Net loss for the year ended March 31, 1996	—	—	—	—	(2,305)
Adjustments on foreign currency translation (Note 2(4)B)	—	—	—	—	(1,046)
Transfer to legal reserve	—	—	—	37	(37)
Subsidy from French government paid back for reduced employment	—	—	(11)	—	—
Adjustment due to inflation accounting adopted by an affiliate	—	—	—	—	133
Officers' bonuses	—	—	—	—	(3)
Balance at March 31, 1996	155,625	19,433	39,314	1,918	(27,639)
Net income for the year ended March 31, 1997	—	—	—	—	1,513
Transfer to legal reserve	—	—	—	36	(36)
Subsidy from French government paid back for reduced employment	—	—	(11)	—	—
Increase (decrease) due to inclusion of subsidiaries additionally into consolidation	—	—	—	—	(251)
Adjustment due to inflation accounting adopted by an affiliate	—	—	—	—	(86)
Other appropriation of overseas subsidiary	—	—	7	—	(8)
Balance at March 31, 1997	155,625	19,433	39,310	1,954	(26,507)
Net income for the year ended March 31, 1998	—	—	—	—	3,740
Transfer to legal reserve	—	—	—	2	(2)
Subsidy from French government paid back for reduced employment	—	—	(8)	—	—
Increase (decrease) due to inclusion of subsidiaries additionally into consolidation	—	—	—	—	(4)
Transfer from legal reserve	—	—	—	(1,668)	1,668
Transfer from additional paid-in capital	—	—	(12,367)	—	12,367
Balance at March 31, 1998	155,625	¥ 19,433	¥ 26,935	¥ 288	¥ (8,738)

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)			
		Common stock	Additional paid-in capital	Legal reserve	Deficit
Balance at March 31, 1997	155,625	$147,220	$297,803	$14,803	$(200,810)
Net income for the year ended March 31, 1998	—	—	—	—	28,333
Transfer to legal reserve	—	—	—	15	(15)
Subsidy from French government paid back for reduced employment	—	—	(61)	—	—
Increase (decrease) due to inclusion of subsidiaries additionally into consolidation	—	—	—	—	(30)
Transfer from legal reserve	—	—	—	(12,636)	12,636
Transfer from additional paid-in capital	—	—	(93,689)	—	93,689
Balance at March 31, 1998	155,625	$147,220	$204,053	$ 2,182	$ (66,197)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows for the years ended March 31, 1998, 1997 and 1996

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	1998	1997	1996	**1998**
Cash flows from Operating Activities:				
Net income (loss)	**¥ 3,740**	¥ 1,513	¥ (2,305)	**$ 28,333**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**6,514**	5,724	5,876	**49,349**
Loss on sale or disposal of property, plant and equipment and other investments	**588**	222	126	**4,455**
Losses from write-down of securities	**845**	322	—	**6,401**
Increase in accrued severance indemnities	**183**	77	249	**1,386**
Provision for allowance for bad debts	**—**	271	—	**—**
Loss from write-down and disposal of inventories	**—**	395	185	**—**
Exchange loss, net	**—**	572	—	**—**
Equity in (income) loss of affiliates	**(26)**	349	107	**(197)**
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	**1,374**	(6,292)	454	**10,409**
Decrease (increase) in inventories	**(4,456)**	(5,253)	(4,455)	**(33,757)**
Decrease (increase) in prepaid expenses and other	**1,116**	(2,390)	1,400	**8,455**
Increase (decrease) in notes and accounts payable	**1,567**	(1,875)	2,997	**11,871**
Increase (decrease) in accrued expenses	**(390)**	(578)	1,361	**(2,955)**
Increase (decrease) in income taxes payable	**865**	(191)	67	**6,553**
Increase (decrease) in other current liabilities	**(139)**	2,902	282	**(1,053)**
Other payments	**(1,950)**	(1,777)	(1,097)	**(14,773)**
Net cash provided by operating activities	**9,831**	(6,009)	5,247	**74,477**
Cash Flows from Investing Activities:				
Acquisition of property plant and equipment	**(7,284)**	(6,669)	(4,917)	**(55,181)**
Proceeds from sale of property, plant and equipment	**876**	415	194	**6,636**
Decrease (increase) in investments and advances	**(1,796)**	(1,311)	(284)	**(13,606)**
Net cash used for investing activities	**(8,204)**	(7,565)	(5,007)	**(62,151)**
Cash Flows from Financing Activities:				
Borrowing of long-term debt	**11,821**	6,869	6,916	**89,553**
Repayment of long-term debt	**(13,813)**	(9,013)	(6,520)	**(104,644)**
Increase (decrease) in short-term bank loans	**(4,343)**	14,065	6,222	**(32,901)**
Net cash provided by/(used for) financing activities	**(6,335)**	11,921	6,618	**(47,992)**
Net Change in Cash and Cash Equivalents	**(4,708)**	(1,653)	6,858	**(35,666)**
Cash and Cash Equivalents at Beginning of Year	**26,630**	28,283	21,425	**201,742**
Cash and Cash Equivalents at End of Year	**¥21,922**	¥26,630	¥28,283	**$166,076**

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Clarion Co., Ltd. (the "Company") have been prepared based on the accounting records of the Company and its consolidated domestic subsidiaries, which are maintained in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles prevailing in Japan.

The consolidated financial statements also include the accounts of the overseas subsidiaries as listed below. The accounts of these subsidiaries and overseas affiliates accounted for by the equity method are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries and affiliates have been incorporated. In general, no adjustments on the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to comply with the Japanese accounting principles and practices followed by the Company.

Relevant notes have been added, and certain reclassifications of account balances as disclosed in the consolidated financial statements in Japan, have been made so as to present them in a form which is more familiar to readers outside Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company had 68 subsidiaries at March 31, 1998, (64 at March 31, 1997). The consolidated financial statements for the year ended March 31, 1998 include the accounts of the Company and its 62 subsidiaries (59 at March 31, 1997) (together, referred to as the "Companies"). The major consolidated subsidiaries are listed below:

* Clarion Shoji Co., Ltd. ("Clarion Shoji")	100% owned
* Clarion Tokyo Sales Co., Ltd.	100% owned
* Clarion Kansai Sales Co., Ltd.	100% owned
* Clarion Chugoku Sales Co., Ltd.	100% owned
* Clarion Shikoku Sales Co., Ltd.	100% owned
* Fukuoka Clarion Co., Ltd.	100% owned
* Tochigi Clarion Electronics Co.,Ltd.	100% owned
* Clarion Corporation of America ("CCA")	94.8% owned by the Company and 5.2% owned by Clarion Shoji
* Clarion Sales Corporation	100% owned by CCA
* Clarion Manufacturing Corporation of America	100% owned by CCA
* Clarion Canada Inc.	100% owned by CCA
* McIntosh Laboratory Inc.	100% owned by CCA
* Ungo Security Corporation .	100% owned by CCA
* Clarion Deutschland GmbH	100% owned
* Clarion Svenska AB	100% owned
* Clarion (G.B.) Ltd.	100% owned
* Clarion France S.A.	99.3% owned
* Clarion Spain S.A.	100% owned
* Clarion (H.K.) Co., Ltd.	100% owned
* Crystal Precision (M) Sdn., Bhd.	75% owned
* Clarion (Taiwan) Manufacturing Co.,Ltd. ("CTC")	100% owned
* Clarion Manufacturing Corporation of the Philippines	100% owned
* Clarion Europa GmbH	100% owned
* Clarion Australia Pty. Ltd.	100% owned
* Clarion Asia Pte. Ltd.	100% owned
* Clarion Electronics (S) Pte. Ltd.	100% owned
* Clarion (H.K.) Industries Co., Ltd.("CHI")	100% owned
* Clarion Orient Co., Ltd. ("COC")	51% owned by CHI
* Dongguan Clarion Orient Electronics Co., Ltd.	100% owned by COC
* Clarion Mitsuwa Philippines, Inc.	51% owned
* Electronica Clarion, S.A. de C.V.	40% owned by the Company and 60% owned by CCA
* Dispositivos de Precision Electronica, S.A. de C.V.	40% owned by the Company and 60% owned by CCA
* Ultra Industrial, S.A. de C.V.	40% owned by the Company and 60% owned by CCA
* Comercializadora Clarion S.A.de C.V.	40% owned by the Company and 60% owned by CCA
* Clarion (Cayman) Co., Ltd.	100% owned by CTC
* McIntosh Sales Corporation	100% owned by CCA
* InfoGation Corporation	64.1% owned by the Company and 25.6% owned by CCA

The accounts of additional four subsidiaries were included in consolidation in the year ended March 31, 1998 as two subsidiaries was newly incorporated and two subsidiaries started their sales activities.

One subsidiary was excluded from consolidation due to merger into other consolidated subsidiary.

The three unconsolidated subsidiaries had total assets, net sales and net income, none of which, in the aggregate, is significant, in relation to those of the consolidated financial statements of the Companies and therefore, have not been consolidated with the Companies.

(2) Consolidation and Elimination

Significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated. The Company and its consolidated subsidiaries, except for Electronica Clarion, S.A. DE C.V.,Dispositivos de Precision Electronica, S.A. DE C.V., Ultra Industrial, S.A. DE C.V. and Comercializadora Clarion, S.A. DE C.V. which use a fiscal year ending December 31, use a fiscal year ending March 31 of each year.

In consolidating the accounts of these subsidiaries, balances as at and for the year ending December 31 were used with appropriate adjustments to recognize effects of any material transactions between December 31 and March 31.

Any difference arising from elimination of the cost of an investment in a subsidiary against the amount of underlying equity in net assets of the subsidiary is, if material, deferred as an asset or a liability, as the case may be, and amortized over a period of 5 years on a straight-line basis except for the differences arising from the elimination of investments in stock of consolidated subsidiaries, McIntosh Laboratory Inc., Electronica Clarion,S.A. DE C.V., Dispositivos de Precision Electronica, S.A. DE C.V., Ultra Industrial, S.A.DE C.V. and Comercializadora Clarion S.A. DE C.V.

The differences arising from acquisition of the equity interests in these subsidiaries have been appropriately allocated to the value of respective assets from which the differences originate and the unidentifiable portion of the differences remained unallocated are deferred as an asset and amortized over a period of 20 years on a straight-line basis.

With respect to the elimination of unrealized intercompany profits included in inventories or other assets remaining within the Companies at the balance sheet date, such profits have been entirely eliminated and charged to the consolidated net income.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

At March 31, 1998, the Company had 11(11 for 1997) affiliates (meaning those companies between 20% to 50% of the share capital of which is held directly or indirectly by the Company).

The investments in 1 affiliate at March 31, 1998(1 for 1997) were accounted for by the equity method thereby the equity in earnings of the affiliate is recognized by the Company.

The investments in 3 unconsolidated subsidiaries and the remaining 10 affiliates at March 31, 1998 (10 affiliates at March 31, 1997) are not accounted for by the equity method since these companies' combined net income (loss) and retained earnings in the aggregate are not significant in relation to consolidated net income (loss) and consolidated retained earnings. Investments in these companies are carried at cost, except for certain companies which have incurred substantial losses and are not expected to recover such losses in the near future. Appropriate write-downs are recorded for such investments. Cost is determined by the moving average method.

(4) Foreign Currency Translation

A. Translation of foreign currency transactions:

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates effective at the respective transaction dates.

Foreign currency deposits and short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate prevailing at the respective balance sheet dates and the resulting translation gains or losses are included in determination of net income for the year.

Long-term receivables and payables denominated in foreign currencies including investments in overseas unconsolidated subsidiaries and affiliates are translated at the historical rates prevailing at the transaction dates.

Exceptionally, receivables and payables denominated in foreign currencies which are hedged by forward exchange contracts are translated at the contracted rate of exchange.

The new Japanese accounting standards for translation of transactions and account balances denominated in foreign currencies have been amended and became effective in the year ended March 31, 1997. The new standards were adopted by the Company and its domestic subsidiaries during the year ended March 31, 1997. If the new standards had been applied in the year ended March 31, 1996, there would have been no significant effect on the accompanying consolidated financial statements.

B. Translation of foreign currency financial statements (accounts of overseas consolidated subsidiaries):

The translation of foreign currency financial statements of overseas subsidiaries or affiliates into Japanese yen for consolidation purposes is made according to the following categories:

Until the year ended March 31, 1996, short-term monetary items had been translated at the current rates of exchange at the respective balance sheet date. In contrast short-term non-monetary items and all long-term assets and liabilities had been translated at the historical rates. Net income (loss) for the year and the balance of retained earnings (deficit) at year-end are translated at the current exchange rate while revenue and expense items had been translated at the average rate or at the historical rate, as appropriate.

Under this translation method, certain adjusting accounts had been set up in the balance sheets, statements of operations and statements of shareholders' equity to enable balancing of debit and credit totals as well as the reconciliation of the beginning balance with the ending balance of retained earnings (deficit). Such adjusting account balances are shown as “Adjustments on foreign currency translation” in the accompanying consolidated financial statements.

In compliance with the new accounting standards for foreign currency transactions, which became effective in the year ended March 31,1997, the Company changed its translation method. Under the new standards, all assets and liabilities are translated into Japanese yen at current exchange rates while capital accounts is translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year.

If the new standards had been applied in the year ended March 31,1996, loss before income taxes was increased by ¥867 million.

(5) Accounting for leases

For finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees, the Company and domestic consolidated subsidiaries account by the method that is applicable to ordinary operating leases.

(6) Income Taxes

Income taxes applicable to the Company and its consolidated domestic subsidiaries are provided based on amounts required by the tax returns for the year. No tax effect is recorded for timing differences in the recognition of certain expenses between tax and financial reporting.

Income taxes applicable to consolidated overseas subsidiaries (principally subsidiaries in the United States of America) are accounted for by the interperiod tax allocation method which is a common practice in those countries.

(7) Other Accounting Policies

The other accounting policies employed by the Companies in preparing the accompanying consolidated financial statements are described in Note 2 of the Notes to Non-Consolidated Financial Statements contained elsewhere in this reports. Accordingly, the accompanying consolidated financial statements should be read in conjunction with such notes.

3. UNITED STATES DOLLAR AMOUNTS

The accounts of the Company and the consolidated financial statements and notes presented herein are expressed in Japanese yen, and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥132=U.S.$1, the rate prevailing on March 31, 1998. This translation should not be construed as a representation that the yen amounts shown could be so converted into U.S.dollars.

4. INVENTORIES

Inventories at March 31, 1998 and 1997 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Finished products	¥31,520	¥26,196	$238,788
Work in process	2,684	3,063	20,333
Raw materials and supplies	14,416	14,905	109,212
	¥48,620	¥44,164	$368,333

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities (current assets) and investments in securities (non-current assets) at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Marketable securities:			
Listed corporate shares	¥ 1,616	¥ 2,233	$ 12,243
Bonds, including government bonds and other	598	612	4,530
	¥ 2,214	¥ 2,845	$ 16,773
Investment in securities:			
Listed corporate shares	¥14,188	¥13,709	$107,485
Bonds	115	119	871
Beneficially certificates of investment trusts	28	24	212
Other unquoted equity securities	346	301	2,621
	¥14,677	¥14,153	$111,189

Market value and net unrealized gains (loss) of listed corporate shares at March 31, 1998 and 1997 were as follows:

	Market Value		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Listed corporate shares included in:			
Marketable securities	¥ 1,051	¥ 1,204	$ 7,962
Investments in securities	¥ 9,120	¥11,693	$69,091

	Net Unrealized Gains (Loss)		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Listed corporate shares included in:			
Marketable securities	¥(565)	¥(1,029)	$(4,281)
Investments in securities	¥(5,068)	¥(2,016)	$(38,394)

6. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates of the Companies at March 31, 1998 and 1997 were as follows:

	Company's direct and indirect ownership percentage (*1)	Millions of Yen March 31, 1998	Millions of Yen March 31, 1997	Thousands of U.S. Dollars March 31, 1998
Precision Metal S.A. de C.V. (*3)	100%	**¥256**	—	**$1,939**
Clarion Hungary Elektronikai Kft. (*3)	100	**76**	—	**576**
Clarion (Malaysia) Sdn., Bhd. (*4)	45	**162**	211	**1,227**
InfoGation Corporation (*2)	90	**—**	124	**—**
Higo Clarion Co., Ltd.	42	**37**	37	**280**
Other	—	**145**	136	**1,099**
		¥676	¥508	**$5,121**

(*1) As of March 31, 1998.
(*2) This company was included in consolidation in the year ended March 31, 1998.
(*3) These company were incorporated in the year ended March 31, 1998.
(*4) This company was accounted for by the equity method and the carrying value was adjusted to reflect the Company's equity in net income.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans outstanding at March 31,1998 and 1997 are represented generally by 90-day notes issued by the Companies to banks and bear interest at average annual rates of primarily 3.3% and 3.1%, respectively.

The maximum and average outstanding balances of short-term bank loans for the years ended March 31, 1998, 1997 and 1996 were as follows:

	Millions of Yen March 31, 1998	Millions of Yen March 31, 1997	Millions of Yen March 31, 1996	Thousands of U.S. Dollars March 31, 1998
Maximum balance	**¥74,091**	¥66,431	¥57,427	**$561,295**
Average balance	**¥65,271**	¥60,470	¥54,250	**$494,477**

As is customary in Japan, bank loans are made under general agreements to the effect that, with respect to all present or future loans, the Company and its consolidated domestic subsidiaries shall, under certain circumstances, provide collateral (including sums on deposit with the bank) or guarantors therefore immediately upon the bank's request, and that any collateral furnished pursuant to such agreement or otherwise will be applicable to all indebtedness to the bank. The Company and its consolidated domestic subsidiaries have not received any such requests to date.

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen March 31, 1998	Millions of Yen March 31, 1997	Thousands of U.S. Dollars March 31, 1998
Loans principally from banks and insurance companies due from 1997 to 2003:			
Secured by collateral	**¥15,669**	¥18,578	**$118,704**
Unsecured	**5,615**	4,560	**42,538**
Long-term payables	**306**	363	**2,318**
Deposits from dealers	**128**	209	**970**
	21,718	23,710	**164,530**
Less: Portion due within one year	**(6,942)**	(9,101)	**(52,591)**
	¥14,776	¥14,609	**$111,939**

At March 31, 1998, assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes receivable	¥ 230	$ 1,742
Net book value of:		
Buildings and structures	4,156	31,485
Machinery and equipment	262	1,985
Land	6,246	47,318
Investments in securities	12,576	95,273
	¥23,470	$177,803

8. INCOME TAXES

The amounts of income tax expenses as shown in the consolidated statements of income for the years ended March 31, 1998, 1997 and 1996 represent the total of income taxes payable by the Company and respective consolidated subsidiaries based on individual tax returns filed with the tax authorities for each year. These amounts are the reflection of net loss incurred by certain consolidated subsidiaries, which are included in arriving at the amount of "income (loss) before income taxes" but are not available to reduce taxable income of other consolidated subsidiaries since the tax returns are filed by each company within the Companies individually.

The Company incurred net loss from its operations in the year 1994 and prior thereto. As allowed by the tax laws, the net loss has been carried forward to the succeeding 5-year period to offset against future taxable income of the Company. In the accompanying consolidate financial statements, the tax benefits of net loss carryforward are recognized when realized by means of an offset against taxable income of each year.

"Income taxes" of the Company reflected in the consolidated statements of operations for the years ended March 31, 1998, 1997 and 1996 are mainly represented by per-capital levy of resident income taxes imposed by local governments irrespective of taxable income.

9. LEASE COMMITMENTS AND CONTINGENT LIABILITIES

(I) Finance Leases

The Company and its domestic consolidated subsidiaries account for all finance lease contracts other than those by which the ownership of the leased assets to be transferred to lessees by the method similar to the operating lease method.

Lease rental expenses and revenues on finance lease contracts without ownership-transfer for the year ended March 31, 1998 and 1997 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	**1998**
Lease rental expenses	**¥1,165**	¥1,163	**$ 8,826**
Lease rental revenues	**¥ 102**	¥ 30	**$ 773**

The amount of outstanding future lease payments due at March 31, 1998, which not included the portion of interest thereon, was summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Future lease payments		
Within one year	¥ 775	$ 5,871
Over one year	1,999	15,144
Total	¥2,774	$21,015

The amount of outstanding future lease reception due at March 31, 1998 which included the portion of interest, was summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Future lease reception		
Within one year	¥120	$ 909
Over one year	137	1,038
Total	¥257	$1,947

(2) Contingent Liabilities

The Companies were contingently liable as a guarantor of indebtedness of affiliates and other companies in the aggregate amount of ¥77 million ($583 thousand) at March 31, 1998. The Companies were also contingently liable for outstanding notes discounted by banks in the ordinary course of business, amounting to ¥311 million ($2,356 thousand) at March 31, 1998.

10. SEGMENT INFORMATION

(I) Information by Industry Segment

The Company and its subsidiaries operate principally in three industrial segments.

Industry Segment	Major Products/Services
Car equipment	Car audio equipment (Car radios, car stereo players, system components, other audio equipment, assemblies and others)
Audio equipment	Karaoke system (karaoke systems and music software such as music tapes and video disks)
Others	Bus amplifiers, car television with diversity antenna system and VCRs, and SS modems

Sales of the Company and subsidiaries for the year ended March 31, 1998 and 1997, classified by industry segments are summarized as follows:

	Millions of Yen				
	For the year ended March 31, 1998				
	Industry Segment				
	Car equipment	Audio equipment	Others	Elimination or All Company	Total
Net sales	¥165,555	¥11,521	¥18,930	¥ —	¥196,006
Operating expenses:	155,680	11,497	20,856	—	188,033
Operating income (loss)	¥ 9,875	¥ 24	¥ (1,926)	¥ —	¥ 7,973
Assets	¥141,175	¥ 9,699	¥13,180	¥13,814	¥177,868
Depreciation	¥ 5,445	¥ 350	¥ 719	¥ —	¥ 6,514
Capital expenditure	¥ 6,980	¥ 845	¥ 858	¥ —	¥ 8,683

	Millions of Yen				
	For the year ended March 31, 1997				
	Industry Segment				
	Car equipment	Audio equipment	Others	Elimination or All Company	Total
Net sales	¥143,786	¥13,051	¥25,441	¥ —	¥182,278
Operating expenses:	136,632	12,941	25,933	—	175,506
Operating income (loss)	¥ 7,154	¥ 110	¥ (492)	¥ —	¥ 6,772
Assets	¥137,398	¥10,729	¥17,167	¥ 13,164	¥178,458
Depreciation	¥ 4,669	¥ 391	¥ 664	¥ —	¥ 5,724
Capital expenditure	¥ 6,577	¥ 984	¥ 740	¥ —	¥ 8,301

	Thousands of U.S. Dollars				
	For the year ended March 31, 1998				
	Industry Segment				
	Car equipment	Audio equipment	Others	Elimination or All Company	Total
Net sales	$1,254,205	$ 87,280	$143,409	$ —	$1,484,894
Operating expenses:	1,179,394	87,098	158,000	—	1,424,492
Operating income (loss)	$ 74,811	$ 182	$ (14,591)	$ —	$ 60,402
Assets	$1,069,507	$ 73,477	$ 99,848	$104,652	$1,347,484
Depreciation	$ 41,250	$ 2,651	$ 5,447	$ —	$ 49,349
Capital expenditure	$ 52,879	$ 6,401	$ 6,500	$ —	$ 65,780

(II) Information by geographic segment

Sales of the Companies classified by geographic area (inside and outside Japan) for the years ended March 31, 1998 and 1997 are summarized as follows:

	Millions of Yen									
	For the year ended March 31, 1998					For the year ended March 31, 1997				
	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income
Geographic area										
Domestic (inside Japan)	¥107,351	¥ 64,230	¥171,581	¥166,599	¥4,982	¥107,359	¥ 49,241	¥156,600	¥151,847	¥4,753
Outside Japan										
North and Middle America (*1)	54,726	12,674	67,400	66,201	1,199					
Asia and Australia (*2)	6,162	37,626	43,788	42,074	1,714					
Europe (*3)	27,767	445	28,212	26,781	1,431					
	88,655	50,745	139,400	135,056	4,344	74,919	28,983	103,902	102,693	1,209
Total	196,006	114,975	310,981	301,655	9,326	182,278	78,224	260,502	254,540	5,962
Elimination of inter segment sales and expenses	—	(114,975)	(114,975)	(113,622)	(1,353)	—	(78,224)	(78,224)	(79,034)	810
Consolidated total	¥196,006	¥ —	¥196,006	¥188,033	¥7,973	¥182,278	¥ —	¥182,278	¥175,506	¥6,772

	Thousands of U.S. Dollars				
	For the year ended March 31, 1998				
	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income
Geographic area					
Domestic (inside Japan)	$ 813,265	$ 486,591	$1,299,856	$1,262,114	$37,742
Outside Japan					
North and Middle America (*1)	414,591	96,015	510,606	501,523	9,083
Asia and Australia (*2)	46,682	285,046	331,728	318,742	12,986
Europe (*3)	210,356	3,371	213,727	202,886	10,841
	671,629	384,432	1,056,061	1,023,151	32,910
Total	1,484,894	871,023	2,355,917	2,285,265	70,652
Elimination of inter segment sales and expenses	—	(871,023)	(871,023)	(860,773)	(10,250)
Consolidated total	$1,484,894	$ —	$1,484,894	$1,424,492	$60,402

Note: (*1) North and Middle America: America, Canada, Mexico
(*2) Asia and Australia: the People's Republic of China, the Republic of China, Singapore, Malaysia, Philippine, Australia
(*3) Europe: Germany, Sweden, England, Spain, France

(III) Export sales and sales by overseas subsidiaries

Export sales information of the Companies for the years ended March 31, 1998 and 1997 is presented below:

	Millions of Yen		Thousands of U.S. Dollars
	For the years ended March 31,		For the year ended March 31,
	1998	1997	**1998**
Export sales and sales by overseas subsidiaries			
North, Middle and South America	**¥55,670**	—	**$421,742**
Europe	**29,775**	—	**225,568**
Other	**9,493**	—	**71,917**
	¥94,938	¥82,258	**$719,227**
Percentage of such against consolidated net sales	**48.4%**	45.1%	**48.4%**

11. UNAUDITED RELATED PARTY TRANSACTIONS

Material transactions of the Company with its related parties for the years ended March 31, 1998 and 1997 other than those eliminated in the consolidation or indicated elsewhere in these statements were as follows:

			Millions of Yen					
			Transactions made in the year ended March 31,			Resulting account balance of the Company at March 31,		
				Volume of transactions			Balance	
Name of related parties	Paid-in capital (million)	Equity ownership percentage	Nature of business	**1998**	1997	Account name	**1998**	1997
Clarion (Malaysia) Sdn., Bhd.	M$4	45%	Purchases of products	**¥ 3,518**	¥ 3,504	Accounts payable	**¥ 179**	¥ 144
Tokai Clarion Co., Ltd.	¥80	25%	Sales of products	**¥ 786**	¥ 763	Accounts receivable	**¥ 173**	¥ 226
Miwa Clarion Electronics Co., Ltd.	¥10	40%	Purchases of products	**¥ 1,060**	¥ 844	Accounts payable	**¥ 76**	¥ 81

The terms and conditions of transactions between the Company and its related parties are determined on the arm's length basis and by reference to normal market price level.

12. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

An analysis of selling, general and administrative expenses for each of the three years in the period ended March 31, 1998 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1998	1997	1996	**1998**
Advertising expenses	**¥ 1,710**	¥ 2,076	¥ 3,242	**$ 12,955**
Packing and shipping charge	**3,138**	2,720	2,537	**23,773**
Sales commission expenses	**2,436**	2,003	1,652	**18,455**
Sales promotion expenses	**2,241**	2,879	2,407	**16,977**
Payroll costs	**14,521**	14,627	13,840	**110,008**
Depreciation	**1,333**	1,307	1,383	**10,098**
Rent	**2,113**	1,961	1,936	**16,007**
Other	**14,948**	11,842	12,051	**113,242**
	¥42,440	¥39,415	¥39,048	**$321,515**

Report of the Independent Certified Public Accountants on the Consolidated Financial Statements

Coopers
&Lybrand

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Corporation**
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**To: the Board of Directors of
Clarion Co., Ltd.**

We have audited the consolidated balance sheets of Clarion Co., Ltd. and its subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income and shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarion Co., Ltd. and its subsidiaries as of March 31, 1998 and 1997, and the consolidated results of their operations, the changes in their shareholders' equity and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Chuo Audit Corporation

CHUO AUDIT CORPORATION

June 26, 1998
Tokyo, Japan

Non-Consolidated Balance Sheets March 31, 1998 and 1997

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1998	1997	1998
ASSETS			
Current Assets:			
Cash on hand and in banks	¥ 6,108	¥ 8,306	$ 46,273
Marketable securities (Notes 5 and 7)	1,843	2,460	13,962
Cash and cash equivalents	7,951	10,766	60,235
Notes and accounts receivable:			
Trade	12,794	15,669	96,924
Subsidiaries and affiliates	25,078	21,380	189,985
	37,872	37,049	286,909
Less: Allowance for bad debts	(6,515)	(5,643)	(49,356)
	31,357	31,406	237,553
Inventories (Note 4)	16,686	13,089	126,409
Prepaid expenses and other	2,507	4,550	18,992
Total current assets	58,501	59,811	443,189
Investments and Advances:			
Investments in securities (Notes 5 and 7)	14,523	14,002	110,023
Investments in and advances to subsidiaries and affiliates (Note 6)	33,149	32,396	251,129
Other investments and advances	1,658	1,330	12,560
	49,330	47,728	373,712
Property, Plant and Equipment (Note 7):			
Buildings and structures	15,329	15,327	116,129
Machinery and equipment	37,671	40,906	285,386
	53,000	56,233	401,515
Less: Accumulated depreciation	(40,775)	(43,797)	(308,901)
	12,225	12,436	92,614
Land	5,372	4,864	40,697
Construction in progress	73	131	553
	17,670	17,431	133,864
Other Assets	2,616	2,527	19,818
	¥128,117	¥127,497	$970,583

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1998	1997	1998
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 7)	**¥ 23,892**	¥ 26,488	**$181,000**
Current portion of long-term debt (Note 7)	**5,896**	8,264	**44,667**
Notes and accounts payable:			
Trade	**23,186**	21,204	**175,652**
Subsidiaries and affiliates	**5,400**	4,302	**40,909**
	28,586	25,506	**216,561**
Accrued expenses	**4,907**	4,723	**37,174**
Income taxes payable (Note 8)	**62**	60	**470**
Other current liabilities	**609**	1,267	**4,613**
Total current liabilities	**63,952**	66,308	**484,485**
Long-Term Debt (Note 7)	**9,303**	9,412	**70,477**
Accrued Employees' Severance Indemnities (Note 9)	**3,094**	3,083	**23,439**
Reserve for Possible Losses from Guarantee of Loans of Subsidiaries (Note 2(10))	**2,336**	2,336	**17,697**
Total liabilities	**78,685**	81,139	**596,098**
Lease Commitments and Contingent Liabilities (Note 10)			
Shareholders' Equity:			
Common stock, par value ¥50 per share; Authorized: 450,000,000 shares Issued: 155,624,878 shares at March 31, 1998 and 1997	**19,433**	19,433	**147,220**
Additional paid-in capital	**26,925**	39,292	**203,977**
Legal reserve (Notes 11 and 15)	**—**	1,668	**—**
Retained earnings (Deficit) (Note 15)	**3,074**	(14,035)	**23,288**
	49,432	46,358	**374,485**
	¥128,117	¥127,497	**$970,583**

Non-Consolidated Statements of Income for the years ended March 31, 1998, 1997 and 1996

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	1998	1997	1996	1998
Net Sales (Note 12)	**¥153,578**	¥134,548	¥122,316	**$1,163,470**
Cost of Sales (Note 12)	**125,685**	108,893	101,254	**952,159**
Gross profit	**27,893**	25,655	21,062	**211,311**
Selling, General and Administrative Expenses (Note 13)	**22,779**	21,899	20,645	**172,568**
Operating income	**5,114**	3,756	417	**38,743**
Other Income (Expenses) (Note 12):				
Interest income	**57**	337	230	**432**
Interest expenses	**(1,220)**	(1,414)	(1,638)	**(9,243)**
Losses from subsidiaries and affiliates	**(320)**	(893)	—	**(2,424)**
Loss on sale or disposal of property, plant and equipment, net	**(135)**	(51)	(219)	**(1,023)**
Gain on sale of investments in securities	**601**	201	452	**4,553**
Officers' retirement expenses	**(391)**	—	(384)	**(2,962)**
Provision for allowance for bad debts	**(155)**	(880)	—	**(1,174)**
Losses from write-down of securities	**(845)**	(322)	—	**(6,402)**
Exchange gain (loss), net	**34**	(134)	1,226	**258**
Other, net	**396**	734	531	**3,000**
	(1,978)	(2,422)	198	**(14,985)**
Income before income taxes	**3,136**	1,334	615	**23,758**
Income Taxes (Note 8)	**62**	60	67	**470**
Net income	**¥ 3,074**	¥ 1,274	¥ 548	**$ 23,288**

	Yen			U.S. Dollars (Note 3)
Per Share:				
Net income	**¥ 19.8**	¥ 8.2	¥ 3.5	**$ 0.150**
Cash dividends	**¥ 3.0**	¥ 0	¥ 0	**$ 0.023**

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Shareholders' Equity for the years ended March 31, 1998, 1997 and 1996

	Number of shares of common stock (thousands)	Millions of Yen			
		Common stock	Additional paid- in capital	Legal reserve	Retained earnings (Deficit)
Balance at March 31, 1995	155,625	¥19,433	¥39,292	¥1,668	¥(15,857)
Net income for the year ended March 31, 1996	—	—	—	—	548
Balance at March 31, 1996	155,625	19,433	39,292	1,668	(15,309)
Net income for the year ended March 31, 1997	—	—	—	—	1,274
Balance at March 31, 1997	155,625	19,433	39,292	1,668	(14,035)
Net income for the year ended March 31, 1998	—	—	—	—	3,074
Transfer from legal reserve	—	—	—	(1,668)	1,668
Transfer from additional paid-in capital	—	—	(12,367)	—	12,367
Balance at March 31, 1998	155,265	¥19,433	¥26,925	¥ —	¥ 3,074

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)			
		Common stock	Additional paid- in capital	Legal reserve	Retained earnings (Deficit)
Balance at March 31, 1997	155,625	$147,220	$297,667	$12,636	$(106,326)
Net income for the year ended March 31, 1998	—	—	—	—	23,288
Transfer from legal reserve	—	—	—	(12,636)	12,636
Transfer from additional paid-in capital	—	—	(93,690)	—	93,690
Balance at March 31, 1998	155,625	$147,220	$203,977	$ —	$ 23,288

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Cash Flows for the years ended March 31, 1998, 1997 and 1996

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	1998	1997	1996	1998
Cash Flows from Operating Activities:				
Net income (loss)	¥ 3,074	¥ 1,274	¥ 548	$ 23,288
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	3,285	3,013	2,919	24,886
Amortization	1,099	1,098	736	8,326
Loss on sale or disposal of property, plant and equipment, net	135	51	219	1,023
Losses from subsidiaries and affiliates	320	893	—	2,424
Increase in accrued severance indemnities	11	98	111	83
Provision for allowance for bad debts	155	880	—	1,174
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	49	(1,474)	(5,875)	371
Decrease (increase) in inventories	(3,597)	631	(21)	(27,250)
Decrease (increase) in prepaid expenses and other	2,043	(2,354)	1,941	15,477
Increase (decrease) in notes and accounts payable	3,080	(2,985)	3,845	23,333
Increase in accrued expenses	184	879	141	1,394
Increase (decrease) in income taxes payable	2	(4)	7	15
Increase (decrease) in other current liabilities	(658)	468	182	(4,984)
Other payments	(1,212)	(1,319)	(873)	(9,181)
Net cash provided by operating activities	7,970	1,149	3,880	60,379
Cash Flows from Investing Activities:				
Acquisition of property plant and equipment	(4,279)	(3,282)	(2,969)	(32,417)
Proceeds from sale of property, plant and equipment	620	242	194	4,697
Decrease (increase) in investments and advances	(2,077)	(3,988)	(1,871)	(15,735)
Net cash used for investing activities	(5,736)	(7,028)	(4,646)	(43,455)
Cash Flows from Financing Activities:				
Borrowing of long-term debt	6,097	5,618	5,424	46,189
Repayment of long-term debt	(8,550)	(7,355)	(4,854)	(64,773)
Increase (decrease) in short-term bank loans	(2,596)	3,215	3,619	(19,666)
Net cash provided by (used for) financing activities	(5,049)	1,478	4,189	(38,250)
Net Change in Cash and Cash Equivalents	(2,815)	(4,401)	3,423	(21,326)
Cash and Cash Equivalents at Beginning of Year	10,766	15,167	11,744	81,561
Cash and Cash Equivalents at End of Year	¥ 7,951	¥ 10,766	¥15,167	$ 60,235

The accompanying notes are an integral part of these statements.

Notes to Non-Consolidated Financial Statements

1. BASIS OF PRESENTING THE NON-CONSOLIDATED FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements of Clarion Co., Ltd. (the "Company") have been prepared based on the accounting records which are maintained in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles prevailing in Japan.

Relevant notes have been added, and certain reclassifications of account balances as disclosed in the basic non-consolidated financial statements in Japan, have been made so as to present them in a form which is more familiar to readers outside Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Foreign Currency Translation

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates effective at the respective transaction dates.

Foreign currencies and short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate prevailing at the respective balance sheet dates and the resulting translation gains or losses are included in determination of net income for the year.

Long-term receivables and payables denominated in foreign currencies including investments in overseas subsidiaries and affiliates are translated at the historical rates prevailing at the transaction dates.

Exceptionally, receivables and payables denominated in foreign currencies which are hedged by forward exchange contracts are translated at the contracted rate of exchange.

The new Japanese accounting standards for translation of transactions and account balances denominated in foreign currencies have been amended and became effective in the year ended March 31, 1997. The new standards were adopted by the Company during the year ended March 31, 1997. If the previous standards had been applied in the year ended March 31, 1997, there would have been no significant effect on the accompanying non-consolidated financial statements.

(2) Cash and Cash Equivalents

Cash equivalents include marketable securities in conformity with generally accepted Japanese practices.

(3) Valuation of Securities

Marketable securities, all of which are quoted, are valued at cost, cost being determined by the moving average method. Investments in securities, both quoted and unquoted, are valued at cost, cost being determined by the moving average method. However, appropriate write-downs are recorded for securities in cases where their value has declined substantially and such impairments of the value are not deemed to be temporary.

(4) Inventory Valuation

Inventories are stated at cost determined by the simple average method, except for supplies which are stated at last purchase invoice price method. However, when the net realizable value of certain items of inventories is substantially less than the carrying value (cost), and such decline of value is not deemed to be temporary, appropriate write-downs are recorded on such items.

(5) Allowance for Bad Debts

Allowance for bad debts of the Company is computed on the basis of the maximum amount deductible under Japanese tax laws, plus additional amounts required for financial reporting purposes.

Provision for bad debts was sufficient to cover the estimated uncollectible receivables at March 31, 1998 and 1997.

(6) Investments in Subsidiaries and Affiliates

Investments in subsidiaries (majority-owned companies) and affiliates (20% to 50% owned companies) are valued at cost, except for certain companies which have incurred substantial losses and are not expected to recover such losses in the near future. Write-downs of investments in these subsidiaries and affiliates are included in the "Other Income (Expenses) - Losses from subsidiaries and affiliates" in the accompanying Non-Consolidated Statements of Income.

(7) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is computed on the declining-balance method, except for molds (included in machinery and equipment) at rates based on the estimated useful lives of assets prescribed by the Japanese tax laws. Depreciation of mold is computed on the straight-line method. The estimated useful lives range from 3 to 65 years for buildings and structures and 2 to 20 years for machinery and equipment.

Amortization of other assets (intangible assets and long-term prepaid expenses) is computed on the straight-line method over the period regulated by the Japanese Tax Law.

The cost of maintenance, repairs and minor renewals is charged to income as incurred; major renewals and improvements are capitalized.

(8) Accounting for leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases.

(9) Consumption Tax

Consumption tax is imposed at the flat rate of 3% until March 31, 1997 and 5% on and after April 1, 1997 on all domestic consumption of goods and services (with certain exemptions).

The consumption tax imposed on the Company's sales to customers is withheld by the Company at the time of sale and is paid to the national government subsequently. The consumption tax withheld upon sale is not included in the amount of "net sales" in the accompanying Non-Consolidated Statement of Income but is recorded as a liability, "consumption tax withheld". The balances of "consumption tax withheld" and "consumption tax paid" (an asset item), which is borne by the Company on the purchases of products, merchandise and services from vendors, are not included in the amounts of costs and expenses but are offset and the net balance is included in "Prepaid expenses and other" of the Balance Sheets at March 31, 1998 and 1997.

(10) Reserve for Possible Losses from Guarantee of Loans of Subsidiaries

The Company has provided for reserve for possible losses from guarantee of loans of overseas subsidiaries, the balance of which is shown in the Long-Term Liabilities section at March 31, 1998 and 1997.

(11) Income Taxes

Income taxes which is applicable to the Company are provided based on amounts required by the tax returns for the year. No tax effect is recorded for timing differences in the recognition of certain expenses between tax and financial reporting.

(12) Appropriation of Retained Earnings or Disposal of Deficit

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings (disposal of deficit) proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within 3 months after the end of each financial year. The appropriation of retained earnings (disposal of deficit) reflected in the accompanying non-consolidated statements of shareholders' equity represents the result of such appropriations/disposals which is applicable to the immediately preceding financial year but was approved at the shareholders' meeting and effected during that year. Dividends are paid to shareholders registered on the shareholders' register at the end of each financial year.

(13) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the accompanying non-consolidated statement of income represent dividends declared as applicable to the respective year.

3. UNITED STATES DOLLAR AMOUNTS

The accounts of the Company and the financial statements and notes presented herein are expressed in Japanese yen, and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥132=U.S.$1, the rate prevailing on March 31, 1998. This translation should not be construed as a representation that the yen amounts shown could be so converted into U.S. dollars.

4. INVENTORIES

Inventories at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Finished products	¥ 11,188	¥ 9,459	$ 84,758
Work in process	217	206	1,644
Raw materials and supplies	5,281	3,424	40,007
	¥16,686	¥13,089	$126,409

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities (current assets) and investments in securities (non-current assets) at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Marketable securities:			
Listed corporate shares	¥ 1,616	¥ 2,233	$ 12,242
Bonds, including government bonds and other	227	227	1,720
	¥ 1,843	¥ 2,460	$ 13,962
Investment in securities:			
Listed corporate shares	¥14,065	¥13,594	$106,553
Beneficiary certificates of investment trusts	115	115	871
Other unquoted equity securities	343	293	2,599
	¥14,523	¥14,002	$110,023

Market value and net unrealized gains (loss) of listed corporate shares at March 31, 1998 and 1997 were as follows:

	Market Value		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	**1998**
Listed corporate shares included in:			
Marketable securities	**¥ 1,051**	¥ 1,204	**$ 7,962**
Investments in securities	**¥ 8,873**	¥11,457	**$ 67,220**

	Net Unrealized Gains (Loss)		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	**1998**
Listed corporate shares included in:			
Marketable securities	**¥ (565)**	¥(1,029)	**$ (4,280)**
Investments in securities	**¥(5,192)**	¥(2,137)	**$ (39,333)**

6. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND AFFILIATES

The Company had 68 subsidiaries and 11 affiliates as at March 31, 1998.

Investments in and advances to subsidiaries and affiliates of the Company at March 31, 1998 and 1997 were as follows:

	Company's direct and indirect ownership percentage (*1)	Millions of Yen		Thousands of U.S. Dollars
		March 31,		March 31,
		1998	1997	**1998**
Clarion Corporation of America	100%	**¥14,898**	¥14,463	**$112,864**
Clarion Manufacturing Corporation of the Philippines	100	**2,519**	2,519	**19,083**
Clarion Shoji Co., Ltd. (*2).	100	**2,041**	2,041	**15,462**
Clarion Deutschland GmbH	100	**1,229**	1,229	**9,311**
Clarion (Taiwan) Manufacturing Co., Ltd.	100	**1,079**	1,079	**8,174**
Clarion Tokyo Sales Co., Ltd.	100	**989**	989	**7,492**
Tohoku Clarion Electronics Co., Ltd.	100	**858**	879	**6,500**
Clarion Europa GmbH	100	**813**	666	**6,159**
Electronica Clarion S.A.de C.V.	100	**716**	716	**5,424**
Clarion (H.K.) Industries Co., Ltd.	100	**567**	567	**4,295**
Clarion (G.B.) Ltd.	100	**520**	520	**3,939**
McIntosh Car Audio Japan Co., Ltd.	100	**500**	500	**3,788**
Tochigi Clarion Electronics Co., Ltd.	100	**300**	536	**2,273**
Clarion France S.A.	99.3	**2,264**	1,909	**17,152**
Crystal Precision (M) Sdn., Bhd.	75	**543**	543	**4,114**
Clarion Soft Co., Ltd.	79.7	**220**	183	**1,667**
Clarion Hokkaido Sales Co., Ltd (*2).	98.5	**450**	—	**3,409**
Other	—	**2,643**	3,057	**20,023**
		¥33,149	¥32,396	**$251,129**

Notes: (*1) As of March 31, 1998.

(*2) Sapporo Clarion Co., Ltd. merged with Donan Clarion Co., Ltd. and changed its name to Clarion Hokkaido Sales Co., Ltd. during the year ended March 31, 1998.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans outstanding during the years ended March 31, 1998, 1997 and 1996 are represented generally by 90-day notes issued by the Company to banks and bear interest at average annual rates of primarily 1.45%, 1.51% and 1.89%, respectively.

The maximum and average outstanding balances of short-term bank loans during the years ended March 31, 1998, 1997 and 1996 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	March 31,			March 31,
	1998	1997	1996	**1998**
Maximum balance	**¥27,721**	¥26,488	¥23,273	**$210,008**
Average balance	**¥25,050**	¥24,853	¥22,459	**$189,773**

As is customary in Japan, bank loans are made under general agreements which provide to the effect that, with respect to all present or future loans, the Company shall, under certain circumstances, provide collateral (including sums on deposit with the bank), or guarantors therefore immediately upon the bank's request, and that any collateral furnished pursuant to such agreement or otherwise will be applicable to all indebtedness to the bank. The Company has not received any such requests to date.

Long-term debt at March 31, 1998 and 1997 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	**1998**
Loans from banks and insurance companies due from 1997 to 2003:			
Secured by collateral	**¥13,851**	¥16,529	**$104,932**
Unsecured	**1,270**	1,047	**9,621**
	15,121	17,576	**114,553**
Deposits from dealers	**78**	100	**591**
	15,199	17,676	**115,144**
Less: Portion due within one year	**(5,896)**	(8,264)	**(44,667)**
	¥ 9,303	¥ 9,412	**$ 70,477**

At March 31, 1998, the Company's assets were pledged as collateral for short-term bank loans and long-term debt, which are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net book value of:		
Buildings and structures	¥ 3,276	$ 24,818
Machinery and equipment	183	1,386
Land	3,945	29,887
	7,404	56,091
Marketable securities	54	409
Investments in securities	12,522	94,864
	¥19,980	$151,364

The aggregate annual maturities of long-term debt as at March 31, 1998 are as shown below:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
1999	¥ 5,895	$ 44,659
2000	3,578	27,106
2001	3,566	27,015
2002 and thereafter	2,160	16,364
	¥15,199	$115,144

8. INCOME TAXES

Japanese income taxes applicable to the Company for the years ended March 31, 1998, 1997 and 1996 consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income March 31,		
	1998	1997	1996
Corporate income tax	**37.5%**	37.5%	37.5%
Enterprise tax	**12.6**	12.6	12.6
Resident income taxes	**7.8**	7.8	7.8
	57.9%	57.9%	57.9%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	**51.4%**	51.4%	51.4%

The Company incurred net loss from its operations in the year 1994 and prior thereto. The net loss can be carried forward to the succeeding 5-year period to offset against future taxable income under the Japanese tax laws. In the accompanying non-consolidated financial statements, the tax benefits of net loss carryforward are recognized when realized as a reduction of income taxes through offset against taxable income of each year.

"Income taxes" reflected in the non-consolidated statements of operations for the years ended March 31, 1998, 1997 and 1996 are mainly represented by per-capita levy of resident income taxes imposed by local governments irrespective of taxable income.

9. ACCRUED EMPLOYEES' SEVERANCE INDEMNITIES (RETIREMENT PLAN)

Employees whose service with the Company is terminated are, under most circumstances, entitled to lump-sum indemnities determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

The Company has adopted a funded contributory pension plan which covers 50% of the liability for such retirement benefits.

The annual contributions to the fund, which include normal costs and amortization of past service costs, are charged to income when paid. The past service costs are amortized over 10 years. At September 1, 1997, the most recent valuation date of the fund assets, unfunded past service costs aggregated ¥2,034 million ($15,409 thousand).

Charges to income for the employees' pension plan for the year ended March 31, 1998, 1997 and 1996 were ¥386 million ($2,924 thousand), ¥392 million and ¥412 million, respectively.

The accrued employees' severance indemnities included in the accompanying non-consolidated balance sheets represent 50% of the total benefits the Company would be required to pay (total liability reduced by the 50% benefits payable under the new pension plan), if all employees voluntarily terminated their employment at the respective balance sheet dates.

10. LEASE COMMITMENTS AND CONTINGENT LIABILITIES

(1) Finance Leases

All finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees, are accounted for by the method similar to the operating lease method.

Lease rental expenses on finance lease contracts without ownership-transfer for the three years ended March 31, 1998 were summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1998	1997	1996	1998
Lease rental expenses	**¥ 929**	¥ 938	¥ 1,050	**$ 7,038**

The amount of outstanding future lease payments due at March 31, 1998 and 1997, which not included the portion of interest thereon, was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Future lease payments			
Within one year	**¥ 597**	¥ 682	**$ 4,523**
Over one year	**1,626**	1,219	**12,318**
Total	**¥2,223**	¥1,901	**$16,841**

Assumed data where these financial leases were capitalized as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery and equipment) were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Acquisition cost	¥3,674	¥3,880	$27,833
Accumulated depreciation	1,627	2,204	12,326
Net book value	¥2,047	¥1,676	$15,507
Depreciation	¥ 972	¥ 661	$ 7,364
Interest	¥ 221	¥ 247	$ 1,674

Depreciation is based on the straight-line method over the lease term of the leased assets.

(2) Contingent Liabilities

The Company was contingently liable as a guarantor of indebtedness principally of subsidiaries and affiliates as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loans borrowed by:		
Clarion Corporation of America	¥ 7,829	$ 59,311
Clarion Europa GmbH	3,794	28,742
Clarion Soft Co., Ltd.	3,520	26,667
Clarion Tokyo Sales Co., Ltd.	2,483	18,811
Clarion Kansai Sales Co., Ltd.	2,025	15,341
Clarion Orient Co., Ltd.	1,946	14,742
Clarion (H.K.) Industries Co., Ltd.	970	7,348
Clarion Electronics (S) Pte. Ltd.	782	5,924
Chiba Clarion Co., Ltd.	716	5,424
Other	6,195	46,932
	¥30,260	$229,242

The Company was also contingently liable for outstanding notes discounted by banks in the ordinary course of business, amounting to ¥4,919 million ($37,265 thousand) at March 31, 1998.

11. LEGAL RESERVE

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends and officers' bonuses paid out of retained earnings each year be appropriated as a legal reserve until such reserve equals 25% of its common stock account. The legal reserve may be used to reduce a deficit or may be transferred to common stock account through appropriate shareholder and director actions but is not available for dividend payment.

12. RELATED PARTY TRANSACTIONS

The Company's net sales to and purchase and other income from subsidiaries and affiliates for the years ended March 31, 1998, 1997 and 1996 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	March 31,			March 31,
	1998	1997	1996	1998
Net sales	**¥76,003**	¥63,318	¥54,613	**$575,780**
Purchase	**¥49,211**	¥32,245	¥26,690	**$372,811**
Other income:				
Interest income	**¥ 5**	¥ 257	¥ 48	**$ 38**
Dividend income	**216**	933	583	**1,636**
Rental income	**278**	269	256	**2,106**
Other	**121**	80	64	**917**
	¥ 620	¥ 1,539	¥ 951	**$ 4,697**

13. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

An analysis of selling, general and administrative expenses for the three years in the period ended March 31, 1998 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	March 31,			March 31,
	1998	1997	1996	**1998**
Advertising expenses	**¥ 2,071**	¥ 1,846	¥ 2,106	**$ 15,689**
Packing and shipping charge	**1,801**	1,574	1,728	**13,644**
Sales service expenses	**2,213**	2,431	2,013	**16,765**
Sales commission expenses	**4,217**	3,986	3,170	**31,947**
Sales promotion expenses	**1,428**	1,809	1,687	**10,818**
Payroll costs	**4,484**	4,359	4,459	**33,970**
Depreciation	**234**	239	245	**1,773**
Research and development costs	**1,460**	1,224	1,264	**11,061**
Other	**4,871**	4,431	3,973	**36,901**
	¥22,779	¥21,899	¥20,645	**$172,568**

14. FORWARD EXCHANGE CONTRACTS

The Company has forward foreign exchange contracts at March 31, 1998 as follows:

	Amount translated at the forward exchange contract rate	Amount translated at current exchange rate
	(Millions of Yen)	
Put option of D.M	¥ 1,265	¥ 1,271
Put option of F.FR.	127	126
Put option of STG.£	2	3

The receivables and payables denominated in foreign currencies and hedged by forward foreign exchange contracts, thus being stated in yen amounts in the accompanying non-consolidated balance sheet at March 31, 1998 are not included in the foreign currency balances shown above.

The Company has interest rate swap contracts at March 31, 1998 as follows:

	Millions of Yen			
	Contractual value or National Principal Amounts			
	Total	Over one Year	Market value	Unrealized Gain (loss)
Interest rate swaps transaction				
Receipts Floating·Payment Fixed	¥2,000	¥2,000	¥(22)	¥(22)
Total	¥2,000	¥2,000	¥(22)	¥(22)

15. SUBSEQUENT EVENT

The Company made the following appropriation of retained earnings at March 31, 1998, upon approval by the shareholders at the general meeting held on June 26, 1998:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at March 31,1998	¥ 3,047	$ 23,288
Appropriation:		
Transfer from legal reserve	(50)	(379)
Dividends (¥3 per share)	(467)	(3,538)
Transfer to general reserve	(1,000)	(7,576)
	(1,517)	(11,493)
Balance to be carried forward	¥ 1,557	$ 11,795

Report of the Independent Certified Public Accountants on the Non-Consolidated Financial Statements

Coopers &Lybrand

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certified public accountants

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

We have audited the non-consolidated balance sheets of Clarion Co., Ltd. as of March 31, 1998 and 1997, and the related non-consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, all expressed in yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Clarion Co., Ltd. as of March 31, 1998 and 1997, and the results of its operations, the changes in its shareholders' equity and its cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

June 26, 1998
Tokyo, Japan

Chuo Audit Corporation

CHUO AUDIT CORPORATION

BOARD OF DIRECTORS AND AUDITORS

President
Ichizo Ishitsubo

Managing Directors
Yoshio Shimada
Jiro Sakai
Yasuo Saito
Ryosei Tonari
Keijiro Tanaka

Directors
Yoshiaki Murakami
Teruo Saito
Takumi Shibata
Tsuyoshi Kitamura
Masatoshi Tanaka
Fumihiko Chiba

Corporate Auditors
Takeshi Terashima
Yoichi Matsuda
Yasuhiro Sasai
Shunjiro Karasawa

OTHER CORPORATE INFORMATION

Established: 1940
Number of Shares Outstanding: 155,624,878
Number of Shareholders: 27,427
Number of Employees: 2,231

DIRECTORY

Head Office:
2-22-3, Shibuya, Shibuya-ku, Tokyo 150-8335, Japan
Tel: (81) 03-3400-1121
Telex: 02422579 CLALTDJ
Fax: (81) 03-3400-8505

Branch Offices:
Osaka, Hiroshima, Hamamatsu

Plants:
Saitama, Tohoku, Gunma

OVERSEAS SUBSIDIARIES AND AFFILIATES

Clarion Corporation of America
661 West Redondo Beach Blvd., Gardena, California 90247, U.S.A.
Tel: (1) 310-327-9100, Fax: (1) 310-327-1999/0499

Clarion Corporation of America (Eastern Division)
25 Commerce Drive, Allendale, New Jersey 07401, U.S.A.
Tel: (1) 201-818-1166, Fax: (1) 201-818-1317

Clarion Corporation of America (Detroit Engineering Office)
40220 Grand River Avenue, Novi, Michigan 48375, U.S.A.
Tel: (1) 248-991-3100, Fax: (1) 248-991-3250

Clarion Sales Corporation
661 West Redondo Beach Blvd., Gardena, California 90247, U.S.A.
Tel: (1) 310-327-9100, Fax: (1) 310-327-1999/0499

Clarion Manufacturing Corporation of America
P.O. Box 240, 237 Beaver Road,Walton, Kentucky 41094, U.S.A.
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McIntosh Laboratory Inc.
2 Chambers Street, Binghamton, New York 13903-2699, U.S.A.
Tel: (1) 607-723-3512, Fax: (1) 607-724-0549

McIntosh Sales Corporation
661 West Redondo Beach Blvd., Gardena, California 90247, U.S.A.
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Ungo Security Corporation
26427 Research Road, Hayward, California 94545, U.S.A.
Tel: (1) 510-670-8646, Fax: (1) 510-670-8655

InfoGation Corporation
6125 Cornerstone Court East, San Diego, California 92121, U.S.A.
Tel: (1) 619-535-9870, Fax: (1) 619-535-9871

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Tel: (1) 905-829-4600, Fax: (1) 905-829-4608

Clarion Europa GmbH
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Clarion Europa Liaison Office (NL)
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Clarion Deutschland GmbH
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Clarion Deutschland GmbH. Filiaal Netherland
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Clarion Svenska AB
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Fax: (44) 1793-898524

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Paris Branch Office: 267, Boulevard Poreire, 75017 Paris, France
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Clarion Europa GmbH Filiale Italiana
Via Ravizza, 34/1-20149 Milano, Italy
Tel: (39) 02-4692574, Fax: (39) 02-4390656

Clarion Spain S.A.
Argenters 2, Parc Tecnològic del Vallès
08290 Cerdanyola, Barcelona, Spain
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Clarion (H.K.) Co., Ltd.
Room 908, Silvercord, Tower 1, 30 Canton Road, Tsimshatsui, Kowloon, Hong Kong
Tel: (852) 2317-0008, Fax: (852) 2317-0030

Clarion (H.K.) Industries Co., Ltd.
Unit 1601-2, 16/F., Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong
Tel: (852) 2723-2088, Fax: (852) 2723-1991

Clarion Orient Co., Ltd.
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Tel: (852) 2303-1395, Fax: (852) 2365-9929

Clarion (Malaysia) Sdn., Bhd.
Free Trade Zone One, 11900 Bayan Lepas, Penang, Malaysia
Tel: (60) 4-6439-106/107, Fax: (60) 4-6439-108

Crystal Precision (M) Sdn., Bhd.
Phase 3, Free Trade Zone, 11900 Bayan Lepas, Penang, Malaysia
Tel: (60) 4-6438-712 ~ 4, Fax: (60) 4-6438-763

Clarion Electronics (S) Pte. Ltd.
60 Albert Street
#05-04/05/06 Albert Complex
Singapore 189969
Tel: (65) 338-1522, Fax: (65) 338-5159

Electronica Clarion, S.A. de C.V.
Head Office: Tata Vasco #77, Col. Villa Coyoacan, C.P.04000 Mexico D.F.
Tel: (52) 5-420-9500/9600, Fax: (52) 5-658-1592
Plant: Av. 3 Esq. Calle #9, Zona Industrial, San Juan Del Rio, Queretaro, C.P.76800 Mexico
Tel: (52) 427-25158, Fax: (52) 427-25503

Dispositivos de Precision Electronica, S.A. de C.V.
Fulton #96, Zona Industrial, San Juan Del Rio, Queretaro, C.P. 76800, Mexico
Tel: (52) 427-23991, Fax: (52) 427-2-7059

Ultra Industrial S.A.de C.V.
Betania #13, Infonavit San Cayetano, San Juan Del Rio, Queretaro, C.P. 76805 Apartado Postal 61, Mexico
Tel: (52) 427-21585/21533, Fax: (52) 427-21689

Comercializadora Clarion, S.A. de C.V.
Tata Vasco #77, Col. Villa Coyoacan, C.P.04000 Mexico D.F.
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P.O. Box Kaohsiung 35-107, Taiwan
Tel: (886) 7-362-7151, Fax: (886) 7-363-7877

Dongguan Clarion Orient Electronics Co., Ltd.
Junda Industrial Zone, Dong Keng Industrial Road, Dong Keng Town, Dongguan, Guangdong Province, The People's Republic of China
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Clarion Manufacturing Corporation of the Philippines
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Branch Office: Makati Liaison Office 3/F Cacho-Gonzales Bldg., 101 Aguirre St., Legaspi Village 1200 Makati, Metro Manila, Philippines
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Clarion Asia Pte. Ltd.
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This annual report is printed on recycled paper

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Printed in Japan