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		Thousands of U.S. Dollars
		March 31,		March 31,
		1998	1997	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			Thousands of U.S. Dollars
	March 31,			March 31,
	1998	1997	1996	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		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	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,		
Name of related parties	Paid-in capital (million)	Equity ownership percentage	Nature of business	Volume of transactions 1998	1997	Account name	Balance 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

Chuo Audit Corporation
certified public accountants

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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