Clarion

ANNUAL REPORT '99

Fiscal Year Ended March 31, 1999

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.

CONTENTS

NON-CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of Yen		Thousands of U.S. dollars
For the years ended March 31,	**1999**	1998	**1999**
Net sales	**¥153,251**	¥153,578	**$1,277,091**
Operating income	**2,014**	5,114	**16,783**
Net income	**1,295**	3,074	**10,792**
Per share of common stock (yen or U.S. dollars):			
Net income	**8.3**	19.8	**0.0069**
Cash dividends	**3.0**	3.0	**0.025**

As at March 31,			
Shareholders' equity	**50,260**	49,432	**418,833**
Total assets	**138,834**	128,117	**1,156,950**

Note: U.S. dollar amounts are translated, for convenience only, at ¥120 = U.S.$1, the rate prevailing on March 31, 1999.

Business Environment and Results

In the fiscal year ending March 31 1999, with the recession and employment instability continuing, and despite government policies intended to boost the economy, consumer spending and corporate investment in equipment remained sluggish, and employment conditions did not improve.

Automobile manufacturers, our main clients, also suffered a serious slump in domestic production and sales prompted by consumers' insecurity about future prospects. In household appliances, sales of audio-visual equipment also declined.

Facing this tough business environment, Clarion actively launched new products and strove to expand sales of retail products in domestic and overseas markets. Nevertheless, heavy price competition and a slump in original equipment manufacturing (OEM) sales thwarted these efforts. Accordingly, non-consolidated net sales declined by 0.2% to ¥153,251 million ($1,277.0 million) from the previous term.

Although we worked to reduce costs and boost productivity in order to improve profits, accelerated price competition and increasing development costs reduced operating income by 60.3% to ¥2,014 million ($16.7 million). Net income also fell by 57.9% to ¥1,294 million ($10.7 million), despite the return of reserves against loss for our overseas subsidiary which enjoyed improved earnings.

Consolidated net sales, including those of our 64 consolidated subsidiaries, improved, particularly in North America, recording an increase of 1.8% to ¥199,576 million ($1,663.1 million). However, due to lower profitability resulting from price competition and increased loss from disposal of inventories, net income decreased by 71.9% to ¥1,052 million ($8.7 million).

Sales by Category

Car Audio-Visual Equipment

Under the influence of the drop in the number of cars produced in Japan below 10 million for the first time in 20 years, total OEM sales to Japanese car manufacturers decreased, despite growth in sales of CD players prompted by the shift from cassette tapes to CDs. However, we launched on the domestic retail market a new car navigation system, S-Navi, which boasts great cost performance. The new product won popular acclaim and enabled us to expand our sales and market share in this segment. Overall, our sales of car audio equipment grew by 2.3% to ¥142,368 million ($1,186.4 million).

Sales of car visual equipment fell by 32.3% to ¥5,463 million ($45.5 million) as sales of separate car TVs dropped due to the widespread adoption of integrated TV & navigation systems.

Special Equipment

With a slump in demand for new buses, sales of automated voice-synthesis PA systems for intracity buses and audio-visual equipment for tour buses dropped. Sales of SS (Spread Spectrum) wireless modems, installed in factories or store automation systems for wireless operation, foundered under the influence of depressed business equipment investment, falling by 9.8% to ¥4,956 million ($41.3 million).

Exports

Export sales of OEM and retail products performed well in North America and Europe. Boosted by the depreciation of the yen, sales increased by 5.1% to ¥73,996 million ($616.6 million). As OEM exports for automobile manufacturers in Europe expanded, the ratio of exports in total sales rose 2.4 points from 45.9% to 48.3%.

Dividend Policy

Clarion's basic policy is to give top priority to rewarding shareholders by providing steady dividends. Although we still face a difficult business environment in light of the prolonged recession, we issued a dividend of ¥3.00 per share, the same amount as paid in the previous term.

In the future, we will continue to strive to improve business results further in order to return profits to shareholders through steady dividends.

Management Policy

In this term, products with high added value and differentiation performed well. For example, the Clarion AutoPC, a next-generation product announced in the spring of last year with great expectations, was launched in the U.S. Our navigation systems won a greater share of the domestic market for retail car audio products. We will continue to pursue these value-added and differentiation strategies in cooperating with our partners to develop products for Intelligent Transport Systems (ITS), a segment in which high growth is forecast.

In other areas, we are taking seriously the corporate challenge of contributing to global environmental preservation. In July 1998, Clarion committed itself to introducing systems compliant with ISO14000, an international standard for environmental preservation. We are building new in-house systems to improve performance in six target areas, including product life cycles, energy use, and waste reduction, in preparation for inspection in March 2000.

Outlook

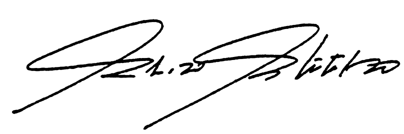
Due to uncertainty about prospects for the U.S. and European economies, and depressed consumption and

continuing deflation in Japan, we do not foresee any easing of competition. In the automobile industry, we expect the trend toward further international mergers cooperation to continue, and production to be further curtailed.

In response, Clarion will strive to improve productivity, reduce costs through rationalization of management, and efficiently develop and market new products in order to expand sales and secure steady income. Meanwhile, to strengthen our financial structure through early repayment of loans, we will advance sales of fixed assets and held stock and reduction of inventory.

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

June 29, 1999



Ichizo Ishitsubo
President

Development of Intelligent Transport Systems (ITS)

On March 31, 1999, Clarion reached an agreement with Hitachi, Ltd. and Xanavi Informatics Corp. to cooperate in technical development, production and sales of products related to Intelligent Transport Systems (ITS). Xanavi Informatics, in which Nissan Motor Co., Ltd. and Hitachi are both capital participants, develops and markets car navigation systems. Hitachi brings with it strengths in transport infrastructure technology, including Electronic Toll Collection System (ETC) and Vehicle Information and Communication Systems (VICS) which provide information about traffic congestion and other subjects to cars on the road. Promoting more effective development of ITS, which is expected to greatly expand the market, Clarion has chosen to pursue joint development in order bring to bear the strengths of each company.

Japan's ITS market is forecast to grow to about ¥50 trillion ($41.5 billion) in 20 years. The three-way tie-up is intended to minimize development costs and achieve a market share of about 15% in 2015.

Launch of the AutoPC

In January 1998, Clarion gained wide attention when it announced the Auto PC. The new product went on sale in the U.S. as a retail product in January 1999. Based on Windows CE (Microsoft Corp.), it serves as a car audio system, a computer, and a navigation system, and offers voice recognition and wireless communication. To market it in OEM and other markets in the future, we transferred the product's development team from Clarion Corporation of America to Clarion Advanced Technology Corporation (CATC), a new company established in California in October 1998. We are also moving toward launching the product in Europe, Japan, and other countries in Asia.

Development of New Products

In the car audio field, the shift from cassette tapes to CDs is accelerating, and MDs (Mini Discs), which offer digital recording capability, are gaining popularity. We are filling out our lineup to include a wide range of products, from affordable to hi-end items.

Our navigation systems featuring large screens in 1DIN enclosures, advanced functionality, and high cost performance, have gained popularity, and are winning an increasing share of the retail market. In June 1999, we announced a navigation system which uses DVD-ROM to handle the greatly increased volume of information needed for such advanced technologies as voice guidance. Further, we expect to win a new class of customers with a product developed in cooperation with travel agency Japan Travel Bureau Inc. (JTB) for our DVD navigation systems. The product allows drivers to enjoy guided tours in their own cars, and is the first of its kind in the industry.

In January 1999, we also launched sales of the industry's smallest, lowest-cost CCD color camera for automotive use, which measures just 4x8x6cm. Users of small and mid-size cargo trucks can mount the camera on the back and view the image on a monitor by the driver's seat. The camera features automatic adjustment for backlighting. Demand for the product is expected to be high, as blind spots pose a significant safety problem for truck drivers.

Global Expansion

In its car audio business, Clarion's fundamental policy is to conduct product development, parts procurement, manufacturing, and sales in regions of high demand for our products. Based on this policy, we are building a regional headquarters system which divides the world into four areas, one of which is Japan. We also have established technology bases in each region to ensure that development systems take into account the specific demands of each region.

North America

In the U.S. market, the Big Three have adopted QS-9000 as the product quality standard to be met by parts makers. Meeting this standard, established by the Big Three by adding their own specifications to those of the ISO9000 international standard, is a requirement for trade with them. Among our group companies, the Precision Device (PD) Business Division, which produces cassette and CD mechanisms, and five factories in the U.S., Mexico, and China have already won certification. The OEM Business Division has also won certification under QS-9000.

Europe

Clarion established Clarion Hungary Electronikai Kft. in Nagykata, Hungary, as a production base for car audio systems and parts for group companies in Europe. The new company started production in January 1999. Through it, we aim to improve productivity and increase market share in OEM supply to European auto manufacturers.

In the navigation system business, following the launch of retail products in Germany in June 1998 and in Italy at the end of April 1999, we will launch products using the language and maps of each of five European countries, including France and Belgium, from September 1999. As the development of VICS moves ahead in Europe, especially in Germany, we will strengthen our sales activities in Europe.

Asia

In Malaysia, Clarion (Malaysia) Sdn., Bhd. handles OEM sales to a local auto manufacturer, and plans to supply car audio equipment for its cars destined for export to Europe in 2000. In China, Xiamen Clarion Electrical Enterprise Co., Ltd. (CXEE), established in Xiamen in May 1998, started production in December 1998, contributing to Clarion's expansion of production of precision devices. Our factory in the Philippines is becoming a major production base for our OEM products.

Year 2000 Countermeasures for Computers

We are addressing the year 2000 problem at all domestic and overseas bases, including those of group companies, to ensure that all host computers, manufacturing and warehousing facilities, in-company networks, PCs, clients and suppliers, research and development facilities, and company products are fully prepared. Preparations for the host computers were completed by the end of 1998. Preparations for manufacturing and warehousing facilities, PCs, and research and development facilities will be completed by July 1999, those for in-company networks will be completed by August, and affiliated companies will be fully prepared by September.

Consolidated Balance Sheets March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1999	1998	1999
ASSETS			
Current Assets:			
Cash on hand and in banks	¥ 21,522	¥ 19,708	$ 179,350
Marketable securities (Note 5)	2,594	2,214	21,617
Cash and cash equivalents	24,116	21,922	200,967
Notes and accounts receivable (Note 7):			
Trade	34,533	38,400	287,775
Unconsolidated subsidiaries and affiliates (Note 11)	1,106	852	9,216
	35,639	39,252	296,991
Less: Allowance for bad debts	(1,153)	(1,562)	(9,608)
	34,486	37,690	287,383
Inventories (Note 4)	44,784	48,620	373,200
Prepaid expenses and other	7,037	6,711	58,642
Total current assets	110,423	114,943	920,192
Investments and Advances:			
Investments in securities (Notes 5 and 7)	17,830	14,677	148,583
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 6)	2,501	676	20,842
Other investments and advances	3,714	3,461	30,950
	24,045	18,814	200,375
Property, Plant and Equipment (Note 7):			
Buildings and structures	25,089	23,668	209,075
Machinery and equipment	51,288	52,841	427,400
	76,377	76,509	636,475
Less: Accumulated depreciation	(53,854)	(53,653)	(448,783)
	22,523	22,856	187,692
Land	9,055	9,094	75,458
Construction in progress	940	887	7,833
	32,518	32,837	270,983
Other Assets	7,494	6,841	62,450
Adjustments on Foreign Currency Translation (Note 2(4)B)	6,378	4,433	53,150
	¥180,858	¥177,868	$1,507,150

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1999	1998	1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 7)	**¥ 58,591**	¥ 67,149	**$ 488,258**
Commercial paper	**5,500**	—	**45,833**
Current portion of long-term debt (Note 7)	**6,555**	6,942	**54,625**
Notes and accounts payable:			
Trade	**29,802**	31,120	**248,350**
Unconsolidated subsidiaries and affiliates (Note 11)	**454**	480	**3,783**
	30,256	31,600	**252,133**
Accrued expenses	**7,319**	7,860	**60,992**
Income taxes payable (Note 8)	**1,079**	1,089	**8,992**
Other current liabilities	**4,708**	5,029	**39,233**
Total current liabilities	**114,008**	119,669	**950,066**
Long-Term Debt (Note 7)	**21,632**	14,776	**180,267**
Accrued Employees' Severance Indemnities	**4,647**	4,549	**38,725**
Deferred income taxes	**1,329**	—	**11,075**
Total liabilities	**141,616**	138,994	**1,180,133**
Minority Interests in Consolidated Subsidiaries	**770**	956	**6,417**
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, 1999 and 1998	**19,433**	19,433	**161,942**
Additional paid-in capital	**26,933**	26,935	**224,441**
Legal reserve	**—**	288	**—**
Accumulated deficit	**(7,894)**	(8,738)	**(65,783)**
	38,472	37,918	**320,600**
	¥180,858	¥177,868	**$1,507,150**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income for the years ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	1999	1998	1997	**1999**
Net Sales (Note 11)	**¥199,576**	¥196,006	¥182,278	**$1,663,133**
Cost of sales (Note 11)	**150,742**	145,593	136,091	**1,256,183**
Gross profit	**48,834**	50,413	46,187	**406,950**
Selling, General and Administrative Expenses (Note 12)	**41,800**	42,440	39,415	**348,333**
Operating income	**7,034**	7,973	6,772	**58,617**
Other Income (Expenses):				
Interest income	**410**	619	638	**3,417**
Interest expenses	**(2,939)**	(3,432)	(3,204)	**(24,492)**
Provision for allowance for bad debts	**—**	—	(271)	**—**
Loss on sale or disposal of property, plant and equipment, net	**(186)**	(588)	(222)	**(1,550)**
Loss from write-down and disposal of inventories	**(385)**	—	(395)	**(3,208)**
Officers' retirement expenses	**(28)**	(392)	—	**(233)**
Gain (loss) on sale of investments in securities, net	**(68)**	601	201	**(567)**
Loss from write-down of securities	**(85)**	(845)	(322)	**(708)**
Exchange income (loss), net	**(1,940)**	660	(572)	**(16,167)**
Equity in income (loss) of affiliates	**51**	26	(349)	**425**
Other, net	**103**	219	(49)	**858**
	(5,067)	(3,132)	(4,545)	**(42,225)**
Income before income taxes	**1,967**	4,841	2,227	**16,392**
Income Taxes (Note 8)	**747**	950	533	**6,225**
	1,220	3,891	1,694	**10,167**
Minority Interests in (Income) of Consolidated Subsidiaries	**(168)**	(151)	(181)	**(1,400)**
Net income	**¥ 1,052**	¥ 3,740	¥ 1,513	**$ 8,767**

	Yen			U.S. Dollars (Note 3)
Per Share:				
Net income	**¥ 6.8**	¥ 24.0	¥ 9.7	**$ 0.057**
Cash dividends	**¥ 3.0**	¥ 3.0	¥ 0	**$ 0.025**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity for the years ended March 31, 1999, 1998 and 1997

	Number of shares of common stock (thousands)	Millions of Yen			
		Common stock	Additional paid-in capital	Legal reserve	Accumulated deficit
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)	—	—
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)	—	—
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)
Net income for the year ended March 31, 1999	—	—	—	—	1,052
Cash dividends paid	—	—	—	—	(467)
Transfer from legal reserve	—	—	—	(288)	288
Subsidy from French government paid back for reduced employment	—	—	(2)	—	—
Decrease due to exclusion of subsidiaries out of consolidation	—	—	—	—	(29)
Balance at March 31, 1999	155,625	¥ 19,433	¥ 26,933	¥ —	¥ (7,894)

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 3)			
		Common stock	Additional paid-in capital	Legal reserve	Accumulated deficit
Balance at March 31, 1998	155,625	$161,942	$224,458	$2,400	$(72,816)
Net income for the year ended March 31, 1999	—	—	—	—	8,767
Cash dividends paid	—	—	—	—	(3,892)
Transfer from legal reserve	—	—	—	(2,400)	2,400
Subsidy from French government paid back for reduced employment	—	—	(17)	—	—
Decrease due to exclusion of subsidiaries out of consolidation	—	—	—	—	(242)
Balance at March 31, 1999	155,625	$162,942	$224,441	$ —	$(65,783)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows for the years ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	1999	1998	1997	**1999**
Cash flows from Operating Activities:				
Net income	**¥ 1,052**	¥ 3,740	¥ 1,513	**$ 8,767**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**6,852**	6,514	5,724	**57,100**
Loss on sale or disposal of property, plant and equipment and other investments	**186**	588	222	**1,550**
Loss from write-down of securities	**85**	845	322	**708**
Increase in accrued severance indemnities	**98**	183	77	**817**
Provision for allowance for bad debts	**—**	—	271	**—**
Loss from write-down and disposal of inventories	**385**	—	395	**3,208**
Exchange (income) loss, net	**1,940**	(660)	572	**16,167**
Equity in (income) loss of affiliates	**(51)**	(26)	349	**(425)**
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	**1,264**	2,034	(6,292)	**10,533**
Increase in inventories	**3,451**	(4,456)	(5,253)	**28,758**
Decrease (increase) in prepaid expenses and other	**(326)**	1,116	(2,390)	**(2,717)**
Increase (decrease) in notes and accounts payable	**(1,344)**	1,567	(1,875)	**(11,200)**
Increase (decrease) in accrued expenses	**(541)**	(390)	(578)	**(4,508)**
Increase (decrease) in income taxes payable	**(10)**	865	(191)	**(83)**
Increase (decrease) in other current liabilities	**(321)**	(139)	2,902	**(2,675)**
Other payments	**(3,540)**	(1,950)	(1,777)	**(29,500)**
Net cash provided by/(used for) operating activities	**9,180**	9,831	(6,009)	**76,500**
Cash Flows from Investing Activities:				
Acquisition of property plant and equipment	**(6,198)**	(7,284)	(6,669)	**(51,650)**
Proceeds from sale of property, plant and equipment	**1,014**	876	415	**8,450**
Increase in investments and advances	**(5,265)**	(1,796)	(1,311)	**(43,875)**
Net cash used for investing activities	**(10,449)**	(8,204)	(7,565)	**(87,075)**
Cash Flows from Financing Activities:				
Borrowing of long-term debt	**15,964**	11,821	6,869	**133,033**
Repayment of long-term debt	**(8,976)**	(13,813)	(9,013)	**(74,800)**
Increase (decrease) in short-term bank loans and commercial paper	**(3,058)**	(4,343)	14,065	**(25,483)**
Cash dividends	**(467)**	—	—	**(3,892)**
Net cash provided by/(used for) financing activities	**3,463**	(6,335)	11,921	**28,858**
Net Change in Cash and Cash Equivalents	**2,194**	(4,708)	(1,653)	**18,283**
Cash and Cash Equivalents at Beginning of Year	**21,922**	26,630	28,283	**182,684**
Cash and Cash Equivalents at End of Year	**¥24,116**	¥21,922	¥26,630	**$200,967**

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Principles

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 accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

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.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan. In addition, the consolidated financial statements of cash flows are not required to be filed with the MOF, but have been prepared and included in the consolidated financial statements.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(2) Change in Presentation of Accounts

Due to the amendments of the Consolidated Financial Statements Regulation, the following presentations of the accounts in the consolidated financial statements have been changed for the fiscal year ended March 31, 1999.

1) "Legal Reserve", which was previously reported as a separate account within Shareholders' Equity, is included in "Accumulated Deficit". Accordingly, the beginning balance, the movements during the fiscal year, and the ending balance of the fiscal year "Accumulated Deficit" include "Legal Reserve".
2) "Minority Interests in Consolidated Subsidiaries", which was previously reported within Liabilities, is reported as a separate section between Liabilities and Shareholders' Equity.
3) "Equity in Income (Loss) of Affiliates", which was previously reported as a separate account after "Income before Income Taxes", is included in "Other Income" or "Other Expenses".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Scope of Consolidation

The Company had 65 subsidiaries at March 31, 1999, (68 at March 31, 1998). The consolidated financial statements for the year ended March 31, 1999 include the accounts of the Company and its 64 subsidiaries (65 at March 31, 1998) (together, referred to as the "Companies"). The major consolidated subsidiaries are listed below:

* Clarion Shoji Co., Ltd. ("Clarion Shoji")	100% owned
* Clarion Hokkaido Sales Co., Ltd.	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")	95.0% owned by the Company and 5.0% 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 Advanced Technology Corporation	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 Europa GmbH	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 ("CMCP")	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.	100% owned by CMCP
* 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

*	Precision Metal S.A. de C.V.	40% owned by the Company and 60% owned by CCA
*	Clarion Latin America Corporation	100% owned by CCA
*	Clarion (Cayman) Co., Ltd. ("Cayman")	100% owned by CTC
*	Xiamen Clarion Electronical Enterprise Co., Ltd.	100% owned by Cayman
*	McIntosh Sales Corporation	100% owned by CCA
*	InfoGation Corporation	43.5% owned by the Company and 17.4% owned by CCA

The accounts of additional seven subsidiaries were included in consolidation in the year ended March 31, 1999 as five subsidiaries was newly incorporated and two subsidiaries started their sales activities.

Eight subsidiaries were excluded from consolidation in the year ended March 31, 1999 as one subsidiary due to merger into other consolidated subsidiary, two subsidiaries due to liquidation and five subsidiaries due to pre-liquidation.

One unconsolidated subsidiary 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, has 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. and Precision Metal 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, 1999, the Company had 11 (11 for 1998) 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, 1999 (1 for 1998) were accounted for by the equity method thereby the equity in earnings of the affiliate is recognized by the Company.

The investments in 1 unconsolidated subsidiary and the remaining 10 affiliates at March 31, 1999 (3 subsidiaries and 10 affiliates at March 31, 1998) 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.

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 as follows:

The Company has applied the new accounting standards for foreign currency transactions, which became effective in the year ended March 31, 1997 to 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. Under this translation method, certain adjusting account is set up to the balance sheets. Such adjusting account balances are shown as "Adjustments on foreign currency translation" in the accompanying consolidated Balance Sheets.

(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 ¥120=U.S.$1, the rate prevailing on March 31, 1999. 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, 1999 and 1998 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	1999
Finished products	¥28,776	¥31,520	$239,800
Work in process	3,092	2,684	25,767
Raw materials and supplies	12,916	14,416	107,633
	¥44,784	¥48,620	$373,200

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities (current assets) and investments in securities (non-current assets) at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	1999
Marketable securities:			
Listed corporate shares	¥ 1,747	¥ 1,616	$ 14,558
Bonds, including government bonds and other	847	598	7,059
	¥ 2,594	¥ 2,214	$ 21,617
Investment in securities:			
Listed corporate shares	¥17,315	¥14,188	$144,292
Bonds and beneficiary certificates of investment trusts	115	143	958
Other unquoted equity securities	400	346	3,333
	¥17,830	¥14,677	$148,583

Market value and net unrealized loss of listed corporate shares at March 31, 1999 and 1998 were as follows:

	Market Value		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	1999
Listed corporate shares included in:			
Marketable securities	¥ 1,206	¥ 1,051	$ 10,050
Investments in securities	¥13,738	¥ 9,120	$114,483

	Net Unrealized Loss		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	1999
Listed corporate shares included in:			
Marketable securities	¥ 541	¥ 565	$ 4,508
Investments in securities	¥ 3,577	¥ 5,068	$ 29,809

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, 1999 and 1998 were as follows:

	Company's direct and indirect ownership percentage (*1)	Millions of Yen March 31,		Thousands of U.S. Dollars March 31,
		1999	1998	1999
Precision Metal S.A. de C.V. (*2)	100%	**¥ —**	¥256	**$ —**
Clarion Hungary Elektronikai Kft. (*3)	100	**2,053**	76	**17,108**
Clarion (Malaysia) Sdn., Bhd. (*4)	45	**258**	162	**2,150**
Higo Clarion Co., Ltd.	42	**70**	37	**584**
Other	—	**120**	145	**1,000**
		¥2,501	¥676	**$20,842**

(*1) At March 31, 1999.
(*2) This company was included in consolidation in the year ended March 31, 1999.
(*3) This company was incorporated in the year ended March 31, 1998 and additionally increased capital by ¥1,977 million in the year ended March 31, 1999.
(*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, 1999 and 1998 are represented generally by 90-day notes issued by the Companies to banks and bear interest at average annual rates of primarily 3.4% and 3.3%, respectively.

The maximum and average outstanding balances of short-term bank loans for the years ended March 31, 1999, 1998 and 1997 were as follows:

	Millions of Yen March 31,			Thousands of U.S. Dollars March 31,
	1999	1998	1997	1999
Maximum balance	**¥68,535**	¥74,091	¥66,431	**$571,125**
Average balance	**¥65,595**	¥65,271	¥60,470	**$546,625**

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, 1999 and 1998 consisted of the following:

	Millions of Yen March 31,		Thousands of U.S. Dollars March 31,
	1999	1998	1999
Loans principally from banks and insurance companies due from 1998 to 2008:			
Secured by collateral	**¥19,891**	¥15,669	**$165,759**
Unsecured	**7,710**	5,615	**64,250**
Long-term payables	**457**	306	**3,808**
Deposits from dealers	**129**	128	**1,075**
	28,187	21,718	**234,892**
Less: Portion due within one year	**(6,555)**	(6,942)	**(54,625)**
	¥21,632	¥14,776	**$180,267**

At March 31, 1999, 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	¥ 122	$ 1,017
Net book value of:		
Buildings and structures	3,724	31,033
Machinery and equipment	295	2,458
Land	5,534	46,117
Investments in securities	11,563	96,358
	¥21,238	$176,983

8. INCOME TAXES

The amounts of income tax expenses as shown in the consolidated statements of income for the years ended March 31, 1999, 1998 and 1997 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 consolidated 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, 1999, 1998 and 1997 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

(1) 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, 1999 and 1998 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Lease rental expenses	**¥1,744**	¥1,165	**$14,533**
Lease rental revenues	**¥ 161**	¥ 102	**$ 1,342**

The amount of outstanding future lease payments due at March 31, 1999, 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	¥1,916	$15,967
Over one year	2,356	19,633
Total	¥4,272	$35,600

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, 1999	
Acquisition cost	¥6,786	$56,550
Accumulated depreciation	2,744	22,867
Net book value	4,042	33,683
Depreciation	1,470	12,250
Interest	¥ 289	$ 2,408

Depreciation is based on the straight-line method over the lease term of the leased assets with no residual value.

Interest expenses on leased assets are calculated as a difference between the amount of total lease rental payments and the assumed acquisition cost of the assets and are allocated over the lease term by using the interest method.

The amount of outstanding future lease reception due at March 31, 1999 which included the portion of interest, was summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Future lease reception		
Within one year	¥113	$ 942
Over one year	105	875
Total	¥218	$1,817

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery and equipment), which included the portion of interest thereon, were summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
	March 31, 1999	
Acquisition cost	¥172	$1,433
Accumulated depreciation	73	608
Net book value	¥ 99	$ 825
Depreciation	¥ 39	$ 325

(2) Contingent Liabilities

The Companies were contingently liable as a guarantor of indebtedness of affiliates and other companies in the aggregate amount of ¥962 million ($8,017 thousand) at March 31, 1999. The Companies were also contingently liable for outstanding notes discounted by banks in the ordinary course of business, amounting to ¥186 million ($1,550 thousand) at March 31, 1999.

10. SEGMENT INFORMATION

(1) 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, car television with diversity antenna system and VCRs and others
Audio equipment	Karaoke system (for commercial and home use, home stereo equipment and music software such as music tapes and video disks)
Others	Coach audio and visual siren amplifier, camera and monitor system, and SS modems

During the year ended March 31, 1999, the Companies changed the industry segment classification scheme for product lines, which was previously based on where the majority of products were sold, into a classification scheme based upon such factors as types of products, the functional character of products, and similarity of product use.

In connection with this change, picture equipment (mainly car televisions with diversity antenna systems), which had previously been included in the "Others" segment, was reclassified into the "Car equipment" segment.

This change was made because car television products are closely related to the "Car equipment" industry segment and the major products of the picture equipment product line have been shipped primarily for use as monitor components of car navigation systems, the sales of which increased recently.

As a result, the sales of the car equipment segment increased by ¥4,971 million, its operating income decreased by ¥1,547 million, and its assets, depreciation, and capital expenditures increased by ¥2,902 million, ¥297 million, and ¥329 million, respectively.

Sales of the Company and subsidiaries for the year ended March 31, 1999 and 1998, classified by industry segments, are summarized as follows:

	Millions of Yen				
	For the year ended March 31, 1999				
	Industry Segment				
	Car equipment	Audio equipment	Others	Elimination or All Company	Total
Net sales	¥179,111	¥ 9,966	¥10,499	¥ —	¥199,576
Operating expenses:	170,412	10,503	11,627	—	192,542
Operating income (loss)	¥ 8,699	¥ (537)	¥ (1,128)	¥ —	¥ 7,034
Assets	¥145,398	¥ 9,493	¥14,603	¥11,364	¥180,858
Depreciation	¥ 6,125	¥ 501	¥ 226	¥ —	¥ 6,852
Capital expenditure	¥ 8,761	¥ 598	¥ 312	¥ —	¥ 9,671

	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

Segment information of 1998 applied newly segment classification for 1999 was 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	¥172,316	¥11,521	¥12,169	¥ —	¥196,006
Operating expenses:	163,207	11,497	13,329	—	188,033
Operating income (loss)	¥ 9,109	¥ 24	¥ (1,160)	¥ —	¥ 7,973
Assets	¥146,941	¥ 9,699	¥ 7,414	¥13,814	¥177,868
Depreciation	¥ 5,870	¥ 350	¥ 294	¥ —	¥ 6,514
Capital expenditure	¥ 7,509	¥ 844	¥ 330	¥ —	¥ 8,683

	Thousands of U.S. Dollars				
	For the year ended March 31, 1999				
	Industry Segment				
	Car equipment	Audio equipment	Others	Elimination or All Company	Total
Net sales	$1,492,592	$ 83,050	$ 87,491	$ —	$1,663,133
Operating expenses:	1,420,100	87,525	96,891	—	1,604,516
Operating income (loss)	$ 72,492	$ (4,475)	$ (9,400)	$ —	$ 58,617
Assets	$1,211,650	$ 79,108	$121,692	$ 94,700	$1,507,150
Depreciation	$ 51,042	$ 4,175	$ 1,883	$ —	$ 57,100
Capital expenditure	$ 73,008	$ 4,983	$ 2,600	$ —	$ 80,591

(2) Information by geographic segment

Sales of the Companies classified by geographic area (inside and outside Japan) for the years ended March 31, 1999 and 1998 are summarized as follows:

	Millions of Yen									
	For the year ended March 31, 1999					For the year ended March 31, 1998				
	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)	¥ 97,380	¥ 70,816	¥168,196	¥165,120	¥3,076	¥107,351	¥ 64,230	¥171,581	¥166,599	¥4,982
Outside Japan										
North and Central America (*1)	62,056	13,065	75,121	74,231	890	54,726	12,674	67,400	66,201	1,199
Asia and Australia (*2)	5,946	36,492	42,438	41,447	991	6,162	37,626	43,788	42,074	1,714
Europe (*3)	34,194	357	34,551	33,301	1,250	27,767	445	28,212	26,781	1,431
	102,196	49,914	152,110	148,979	3,131	88,655	50,745	139,400	135,056	4,344
Total	199,576	120,730	320,306	314,099	6,207	196,006	114,975	310,981	301,655	9,326
Elimination of inter segment sales and expenses	—	(120,730)	(120,730)	(121,557)	827	—	(114,975)	(114,975)	(113,622)	(1,353)
Consolidated total	¥199,576	¥ —	¥199,576	¥192,542	¥7,034	¥196,006	¥ —	¥196,006	¥188,033	¥7,973

	Thousands of U.S. Dollars				
	For the year ended March 31, 1999				
	Sales to outside customers	Inter-segment sales	Total sales	Operating expenses	Operating income
Geographic area					
Domestic (inside Japan)	$ 811,500	$ 590,133	$1,401,633	$1,376,000	$25,633
Outside Japan					
North and Central America (*1)	517,133	108,875	626,008	618,591	7,417
Asia and Australia (*2)	49,550	304,100	353,650	345,392	8,258
Europe (*3)	284,950	2,975	289,925	277,508	10,417
	851,633	415,950	1,267,583	1,241,491	26,092
Total	1,663,133	1,006,083	2,669,216	2,617,491	51,725
Elimination of inter segment sales and expenses	—	(1,006,083)	(1,006,083)	(1,012,975)	6,892
Consolidated total	$1,663,133	$ —	$1,663,133	$1,604,516	$58,617

Note: (*1) North and Central America: U.S.A., Canada, Mexico
(*2) Asia and Australia: the People's Republic of China, Taiwan R.O.C., Singapore, Malaysia, The Philippines, Australia
(*3) Europe: Germany, Sweden, U.K., Spain, France

(3) Export sales and sales by overseas subsidiaries

Export sales information of the Companies for the years ended March 31, 1999 and 1998 is presented below:

	Millions of Yen		Thousands of U.S. Dollars
	For the years ended March 31,		For the year ended March 31,
	1999	1998	1999
Export sales and sales by overseas subsidiaries			
North, Central and South America	**¥ 61,857**	¥55,670	**$515,475**
Europe	**34,905**	29,775	**290,875**
Other	**8,403**	9,493	**70,025**
	¥105,165	¥94,938	**$876,375**
Percentage of such against consolidated net sales	**52.7%**	48.4%	**52.7%**

11. UNAUDITED RELATED PARTY TRANSACTIONS

Material transactions of the Company with its related parties for the years ended March 31, 1999 and 1998 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	1999	1998	Account name	1999	1998
Clarion Hungary Electronikai Kft.	H.Ft.3,374	100%	Purchases of products	¥ 209	¥ —	Accounts payable	¥ 140	¥ —
			Additional investment	¥ 1,092	¥ —			
			Guarantee for bank loans	¥ 912	¥ —			
Clarion (Malaysia) Sdn., Bhd.	M$4	45%	Purchases of products	¥ 3,081	¥ 3,518	Accounts payable	¥ 110	¥ 179
Tokai Clarion Co., Ltd.	¥80	25%	Sales of products	¥ 737	¥ 786	Accounts receivable	¥ 107	¥ 173
Miwa Clarion Electronics Co., Ltd.	¥10	40%	Purchases of products	¥ 939	¥ 1,060	Accounts payable	¥ 72	¥ 76

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, 1999 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1999	1998	1997	1999
Advertising expenses	**¥ 2,363**	¥1,710	¥ 2,076	**$ 19,692**
Packing and shipping charge	**2,135**	3,138	2,720	**17,792**
Sales commission expenses	**2,399**	2,436	2,003	**19,992**
Sales promotion expenses	**1,954**	2,241	2,879	**16,283**
Payroll costs	**15,091**	14,521	14,627	**125,758**
Depreciation	**1,368**	1,333	1,307	**11,400**
Rent	**1,783**	2,113	1,961	**14,858**
Other	**14,707**	14,948	11,842	**122,558**
	¥41,800	¥42,440	¥39,415	**$348,333**

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

Coopers
&Lybrand

**Chuo
Audit
Corporation**
certified public accountants

Head office:
Kasumigaseki Building
32nd Floor
3-2-5 Kasumigaseki
Chiyoda-ku
Tokyo 100-6088

telephone:(03)3581-6281

**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, 1999 and 1998, 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, 1999, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Clarion Co., Ltd. and its subsidiaries as of March 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 10, "Segment Information," of the notes to the Consolidated Financial Statements for the year ended March 31, 1999, the Companies changed the industry segment classification scheme for product lines. In connection with this change, picture equipment (mainly car television), which had previously been included in the "Others" segment, was reclassified into the "Car Equipment" segment. This was done because car television products are closely related to the "Car Equipment" industry segment and the major products of the picture equipment product line have been shipped primarily for use as monitor components of car navigation systems, the sales of which increased recently; accordingly, we concur that the change was appropriate.

The amount expressed in U.S. dollars, provided solely for the convenience of the reader, has been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

Chuo Audit Corporation

June 29, 1999
Tokyo, Japan

CHUO AUDIT CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

Non-Consolidated Balance Sheets March 31, 1999 and 1998

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1999	1998	1999
ASSETS			
Current Assets:			
Cash on hand and in banks	¥10,760	¥ 6,108	$ 89,667
Marketable securities (Notes 5 and 7)	1,930	1,843	16,083
Cash and cash equivalents	12,690	7,951	105,750
Notes and accounts receivable:			
Trade	10,670	12,794	88,917
Subsidiaries and affiliates	30,343	25,078	252,858
	41,013	37,872	341,775
Less: Allowance for bad debts	(6,631)	(6,515)	(55,258)
	34,382	31,357	286,517
Inventories (Note 4)	15,580	16,686	129,833
Prepaid expenses and other	2,891	2,507	24,091
Total current assets	65,543	58,501	546,191
Investments and Advances:			
Investments in securities (Notes 5 and 7)	17,645	14,523	147,042
Investments in and advances to subsidiaries and affiliates (Note 6)	33,585	33,149	279,875
Other investments and advances	1,999	1,658	16,658
	53,229	49,330	443,575
Property, Plant and Equipment (Note 7):			
Buildings and structures	15,825	15,329	131,875
Machinery and equipment	35,353	37,671	294,608
	51,178	53,000	426,483
Less: Accumulated depreciation	(40,532)	(40,775)	(337,766)
	10,646	12,225	88,717
Land	5,372	5,372	44,767
Construction in progress	118	73	983
	16,136	17,670	134,467
Other Assets	3,926	2,616	32,717
	¥138,834	¥128,117	$1,156,950

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	1999	1998	1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 7)	**¥ 22,933**	¥ 23,892	**$ 191,109**
Current portion of long-term debt (Note 7)	**5,380**	5,896	**44,833**
Commerical paper	**5,500**	—	**45,833**
Notes and accounts payable:			
Trade	**23,728**	23,186	**197,734**
Subsidiaries and affiliates	**6,286**	5,400	**52,383**
	30,014	28,586	**250,117**
Accrued expenses	**3,843**	4,907	**32,025**
Income taxes payable (Note 8)	**19**	62	**158**
Other current liabilities	**869**	609	**7,242**
Total current liabilities	**68,558**	63,952	**571,317**
Long-Term Debt (Note 7)	**16,889**	9,303	**140,742**
Accrued Employees' Severance Indemnities (Note 9)	**3,127**	3,094	**26,058**
Reserve for Possible Losses from Guarantee of Loans of Subsidiaries (Note 2(10))	**—**	2,336	**—**
Total liabilities	**88,574**	78,685	**738,117**
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, 1999 and 1998	**19,433**	19,433	**161,942**
Additional paid-in capital	**26,925**	26,925	**224,375**
Legal reserve (Notes 11 and 15)	**50**	—	**416**
Retained earnings (Note 15)	**3,852**	3,074	**32,100**
	50,260	49,432	**418,833**
	¥138,834	¥128,117	**$1,156,950**

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Income for the years ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	1999	1998	1997	1999
Net Sales (Note 12)	**¥153,251**	¥153,578	¥134,548	**$1,277,091**
Cost of Sales (Note 12)	**129,067**	125,685	108,893	**1,075,558**
Gross profit	**24,184**	27,893	25,655	**201,533**
Selling, General and Administrative Expenses (Note 13)	**22,170**	22,779	21,899	**184,750**
Operating income	**2,014**	5,114	3,756	**16,783**
Other Income (Expenses) (Note 12):				
Interest income	**82**	57	337	**683**
Interest expenses	**(925)**	(1,220)	(1,414)	**(7,708)**
Losses from subsidiaries and affiliates	**(442)**	(320)	(893)	**(3,683)**
Provision for losses of investments in subsidiaries	**(1,634)**	—	—	**(13,617)**
Return of reserve for possible losses from guarantee of loans of subsidiaries	**2,336**	—	—	**19,467**
Loss on sale or disposal of property, plant and equipment, net	**(41)**	(135)	(51)	**(342)**
Gain (loss) on sale of investments in securities, net	**(68)**	601	201	**(567)**
Officers' retirement expenses	**(28)**	(391)	—	**(233)**
Provision for allowance for bad debts	**—**	(155)	(880)	**—**
Losses from write-down of securities	**(85)**	(845)	(322)	**(708)**
Exchange gain (loss), net	**(1,019)**	34	(134)	**(8,492)**
Other, net	**1,124**	396	734	**9,367**
	(700)	(1,978)	(2,422)	**(5,833)**
Income before income taxes	**1,314**	3,136	1,334	**10,950**
Income Taxes (Note 8)	**19**	62	60	**158**
Net income	**¥ 1,295**	¥ 3,074	¥ 1,274	**$ 10,792**

	Yen			U.S. Dollars (Note 3)
Per Share:				
Net income	**¥ 8.3**	¥ 19.8	¥ 8.2	**$ 0.069**
Cash dividends	**¥ 3.0**	¥ 3.0	¥ 0	**$ 0.025**

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Shareholders' Equity for the years ended March 31, 1999, 1998 and 1997

	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, 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	155,625	19,433	26,925	—	3,074
Net income for the year ended March 31, 1999	—	—	—	—	1,295
Cash dividends paid	—	—	—	—	(467)
Transfer to legal reserve	—	—	—	50	(50)
Balance at March 31, 1999	155,625	¥19,433	¥26,925	¥ 50	¥ 3,852

	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, 1998	155,625	$161,942	$224,375	$ —	$25,616
Net income for the year ended March 31, 1999	—	—	—	—	10,792
Cash dividends paid	—	—	—	—	(3,892)
Transfer to legal reserve	—	—	—	416	(416)
Balance at March 31, 1999	155,625	$161,942	$224,375	$ 416	$32,100

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Cash Flows for the years ended March 31, 1999, 1998 and 1997

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	March 31,			March 31,
	1999	1998	1997	1999
Cash Flows from Operating Activities:				
Net income	¥ 1,295	¥ 3,074	¥ 1,274	$ 10,792
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	3,135	3,285	3,013	26,125
Amortization	1,198	1,099	1,098	9,983
Loss on sale or disposal of property, plant and equipment, net	41	135	51	342
Losses from subsidiaries and affiliates	442	320	893	3,683
Increase in accrued severance indemnities	33	11	98	275
Provision for allowance for bad debts	—	155	880	—
Provision for allowance for losses of investments in subsidiaries	1,634	—	—	13,617
Return of reserve for possible losses from guarantee of loans of subsidiaries	(2,336)	—	—	(19,467)
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	(3,025)	49	(1,474)	(25,208)
Decrease (increase) in inventories	1,106	(3,597)	631	9,217
Decrease (increase) in prepaid expenses and other	(384)	2,043	(2,354)	(3,200)
Increase (decrease) in notes and accounts payable	1,428	3,080	(2,985)	11,900
Increase in accrued expenses	(1,064)	184	879	(8,867)
Increase (decrease) in income taxes payable	(43)	2	(4)	(358)
Increase (decrease) in other current liabilities	260	(658)	468	2,167
Other payments	(2,528)	(1,212)	(1,319)	(21,067)
Net cash provided by operating activities	1,192	7,970	1,149	9,934
Cash Flows from Investing Activities:				
Acquisition of property plant and equipment	(2,068)	(4,279)	(3,282)	(17,233)
Proceeds from sale of property, plant and equipment	426	620	242	3,550
Increase in investments and advances	(5,975)	(2,077)	(3,988)	(49,792)
Net cash used for investing activities	(7,617)	(5,736)	(7,028)	(63,475)
Cash Flows from Financing Activities:				
Borrowing of long-term debt	13,330	6,097	5,618	111,083
Repayment of long-term debt	(6,240)	(8,550)	(7,355)	(52,000)
Increase (decrease) in short-term bank loans and commercial paper	4,541	(2,596)	3,215	37,842
Cash dividends	(467)	—	—	(3,892)
Net cash provided by/(used for) financing activities	11,164	(5,049)	1,478	93,033
Net Change in Cash and Cash Equivalents	4,739	(2,815)	(4,401)	39,492
Cash and Cash Equivalents at Beginning of Year	7,951	10,766	15,167	66,258
Cash and Cash Equivalents at End of Year	¥12,690	¥ 7,951	¥10,766	$105,750

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 have been prepared from the accounts maintained by Clarion Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the non-consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan. In addition, the non-consolidated financial statements of cash flows are not required to be filed with the MOF, but have been prepared and included in the non-consolidated financial statements.

The non-consolidated financial statements are not intended to present the non-consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than 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 as being determined by the moving average method. Investments in securities, both quoted and unquoted, are valued at cost as 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 as 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, 1999 and 1998.

(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.

Especially, the Company provided for allowance for losses of investments in subsidiaries in an amount of ¥1,634 million which the Company considered necessary according to the reduced net equity of the subsidiaries in the year ended March 31, 1999. The amount of allowance for losses of investments in subsidiaries was offset against the investments in and advances to subsidiaries and affiliates in the Non-Consolidated Balance Sheets at March 31, 1999.

(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 income tax laws. Depreciation of mold is computed on the straight-line method. The estimated useful lives range from 3 to 50 years for buildings and structures and 2 to 20 years for machinery and equipment.

The Company has adopted the estimated useful lives of buildings which decreased due to the amendment of the Japanese income tax laws. This change did not have a significant impact on the non-consolidated results of operations.

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 income tax laws.

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, 1999 and 1998.

(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.

Effectively, during the year ended March 31, 1999, the Company has been free from reserve for possible losses from guarantee of loans of overseas subsidiaries. The Company reduced entirely ¥2,336 million of reserve for possible losses from guarantee of loans of subsidiaries in the non-consolidated statement of income for the year ended March 31, 1999.

(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 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 ¥120=U.S.$1, the rate prevailing on March 31, 1999. 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, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	1999
Finished products	¥ 9,317	¥11,188	$ 77,641
Work in process	188	217	1,567
Raw materials and supplies	6,075	5,281	50,625
	¥15,580	¥16,686	$129,833

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Marketable securities (current assets) and investments in securities (non-current assets) at March 31, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	1999
Marketable securities:			
Listed corporate shares	¥ 1,747	¥ 1,616	$ 14,558
Bonds, including government bonds and other	183	227	1,525
	¥ 1,930	¥ 1,843	$ 16,083
Investment in securities:			
Listed corporate shares	¥17,189	¥14,065	$143,242
Beneficiary certificates of investment trusts	115	115	958
Other unquoted equity securities	341	343	2,842
	¥17,645	¥14,523	$147,042

Market value and net unrealized loss of listed corporate shares at March 31, 1999 and 1998 were as follows:

	Market Value		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	**1999**
Listed corporate shares included in:			
Marketable securities	**¥ 1,206**	¥ 1,051	**$ 10,050**
Investments in securities	**¥13,526**	¥ 8,873	**$112,717**

	Net Unrealized Loss		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	**1999**
Listed corporate shares included in:			
Marketable securities	**¥ 541**	¥ 565	**$ 4,508**
Investments in securities	**¥ 3,663**	¥ 5,192	**$ 30,525**

6. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND AFFILIATES

The Company had 65 subsidiaries and 11 affiliates at March 31, 1999.

Investments in and advances to subsidiaries and affiliates of the Company at March 31, 1999 and 1998 were as follows:

	Company's direct and indirect ownership percentage (*1)	Millions of Yen		Thousands of U.S. Dollars
		March 31,		March 31,
		1999	1998	**1999**
Clarion Corporation of America	100%	**¥15,254**	¥14,898	**$127,117**
Clarion Manufacturing Corporation of the Philippines	100	**2,519**	2,519	**20,992**
Clarion Hungary Electronikai Kft.	100	**2,053**	76	**17,108**
Clarion Europa GmbH (*2)	100	**2,042**	813	**17,017**
Clarion Shoji Co., Ltd.	100	**2,041**	2,041	**17,008**
Electronica Clarion, S.A. de C.V.	100	**1,340**	716	**11,167**
Clarion (Taiwan) Manufacturing Co., Ltd.	100	**1,330**	1,079	**11,083**
Clarion Tokyo Sales Co., Ltd.	100	**989**	989	**8,242**
Clarion (H.K.) Industries Co., Ltd.	100	**567**	567	**4,725**
Clarion (G.B.) Ltd.	100	**520**	520	**4,333**
McIntosh Car Audio Japan Co., Ltd.	100	**500**	500	**4,167**
Clarion Hokkaido Sales Co., Ltd.	100	**457**	450	**3,808**
Tohoku Clarion Electronics Co., Ltd.	100	**1**	858	**8**
Tochigi Clarion Electronics Co., Ltd.	100	**0**	300	**0**
Clarion Deutschland GmbH (*2)	100	**—**	1,229	**—**
Clarion France S.A. (*3)	99.3	**630**	2,264	**5,250**
Crystal Precision (M) Sdn., Bhd.	75	**543**	543	**4,525**
Clarion Soft Co., Ltd.	99.3	**4**	220	**33**
Other	—	**2,795**	2,567	**23,292**
		¥33,585	¥33,149	**$279,875**

(Notes) (*1) At March 31, 1999.
(*2) Clarion Deutschland GmbH was merged into Clarion Europa GmbH during the year ended March 31, 1999.
(*3) Allowance for losses of investments in subsidiaries was reduced by ¥1,634 million from this subsidiaries' investment.

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

Short-term bank loans outstanding during the years ended March 31, 1999, 1998 and 1997 are represented generally by 90-day notes issued by the Company to banks and bear interest at average annual rates of primarily 1.16%, 1.45% and 1.51%, respectively.

The maximum and average outstanding balances of short-term bank loans during the years ended March 31, 1999, 1998 and 1997 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	March 31,			March 31,
	1999	1998	1997	1999
Maximum balance	**¥29,941**	¥27,721	¥26,488	**$249,508**
Average balance	**¥28,785**	¥25,050	¥24,853	**$239,875**

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, 1999 and 1998 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1999	1998	1999
Loans from banks and insurance companies due from 1998 to 2008:			
Secured by collateral	**¥18,033**	¥13,851	**$150,275**
Unsecured	**4,178**	1,270	**34,817**
	22,211	15,121	**185,092**
Deposits from dealers	**58**	78	**483**
	22,269	15,199	**185,575**
Less: Portion due within one year	**(5,380)**	(5,896)	**(44,833)**
	¥16,889	¥ 9,303	**$140,742**

At March 31, 1999, 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	¥ 3,043	$ 25,358
Machinery and equipment	183	1,525
Land	3,945	32,875
	7,171	59,758
Marketable securities	55	458
Investments in securities	11,508	95,900
	¥18,734	$156,116

The aggregate annual maturities of long-term debt as at March 31, 1999 are as shown below:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2000	¥ 5,380	$ 44,833
2001	4,889	40,742
2002	4,685	39,042
2003 and thereafter	7,315	60,958
	¥22,269	$185,575

8. INCOME TAXES

Japanese income taxes applicable to the Company for the years ended March 31, 1999, 1998 and 1997 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,		
	1999	1998	1997
Corporate income tax	**34.5%**	37.5%	37.5%
Enterprise tax	**11.2**	12.6	12.6
Resident income taxes	**7.2**	7.8	7.8
	52.9%	57.9%	57.9%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	**47.6%**	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, 1999, 1998 and 1997 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, 1998, the most recent valuation date of the fund assets, unfunded past service costs aggregated ¥2,031million ($16,925 thousand).

Charges to income for the employees' pension plan for the year ended March 31, 1999, 1998 and 1997 were ¥318 million ($2,650 thousand), ¥386 million and ¥392 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, 1999 were summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	1999	1998	1997	1999
Lease rental expenses	**¥ 1,452**	¥ 929	¥ 938	**$ 12,100**

The amount of outstanding future lease payments due at March 31, 1999 and 1998, which not included the portion of interest thereon, was summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Future lease payments			
Within one year	**¥1,690**	¥ 597	**$14,083**
Over one year	**2,044**	1,626	**17,033**
Total	**¥3,734**	¥2,223	**$31,116**

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,
	1999	1998	1999
Acquisition cost	¥5,675	¥3,674	$47,292
Accumulated depreciation	2,135	1,627	17,792
Net book value	¥3,540	¥2,047	$29,500
Depreciation	¥1,227	¥ 672	$10,225
Interest	¥ 244	¥ 221	$ 2,033

Depreciation is based on the straight-line method over the lease term of the leased assets with no residual value.

(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 Finance Co., Ltd.	¥ 6,710	$ 55,917
Clarion Corporation of America	6,627	55,225
Clarion Soft Co., Ltd.	3,819	31,825
Clarion Europa GmbH	3,789	31,575
Clarion Orient Co., Ltd.	1,634	13,617
Electronica Clarion, S.A. de C.V.	1,435	11,958
Clarion Hungary Electronikai Kft.	912	7,600
Clarion Hokkaido Sales Co., Ltd.	612	5,100
Clarion Tokyo Sales Co., Ltd.	458	3,817
Clarion (H.K.) Industries Co., Ltd.	412	3,433
Clarion Electronics (S) Pte. Ltd.	356	2,967
Clarion Kansai Sales Co., Ltd.	355	2,958
Other	3,188	26,566
	¥30,307	$252,558

11. LEGAL RESERVE

The 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, 1999, 1998 and 1997 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	March 31,			March 31,
	1999	1998	1997	1999
Net sales	¥82,140	¥76,003	¥63,318	$684,500
Purchase	¥52,511	¥49,211	¥32,245	$437,592
Other income:				
Interest income	¥ 15	¥ 5	¥ 257	$ 125
Dividend income	1,075	216	933	8,958
Rental income	418	278	269	3,483
Other	200	121	80	1,667
	¥ 1,708	¥ 620	¥ 1,539	$ 14,233

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, 1999 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	March 31,			March 31,
	1999	1998	1997	1999
Advertising expenses	¥ 1,963	¥ 2,071	¥ 1,846	$ 16,358
Packing and shipping charge	2,091	1,801	1,574	17,425
Sales service expenses	2,454	2,213	2,431	20,450
Sales commission expenses	4,663	4,217	3,986	38,858
Sales promotion expenses	1,117	1,428	1,809	9,308
Payroll costs	4,160	4,484	4,359	34,667
Depreciation	180	234	239	1,500
Research and development costs	1,319	1,460	1,224	10,992
Other	4,223	4,871	4,431	35,192
	¥22,170	¥22,779	¥21,899	$184,750

14. FORWARD EXCHANGE CONTRACTS

The Company has forward foreign exchange contracts at March 31, 1999 as follows:

	Amount translated at the forward exchange contract rate	Amount translated at current exchange rate
	(Millions of Yen)	
Put option of Euro	¥839	¥827
Put option of U.S.$	416	428
Put option of STG.£	203	202
Put option of A.$	53	53

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, 1999 are not included in the foreign currency balances shown above.

The Company has interest rate swap contracts at March 31, 1999 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	¥6,000	¥6,000	¥(145)	¥(145)
Total	¥6,000	¥6,000	¥(145)	¥(145)

15. SUBSEQUENT EVENT

The Company made the following appropriation of retained earnings at March 31, 1999, upon approval by the shareholders at the general meeting held on June 29, 1999:

	Millions of Yen	Thousands of U.S. Dollars
Retained earnings:		
Balance at March 31,1999	¥3,852	$32,100
Appropriation:		
Transfer to legal reserve	50	416
Dividends (¥3 per share)	467	3,892
	517	4,308
Balance to be carried forward	¥3,335	$27,792

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

Coopers
&Lybrand

Chuo Audit Corporation
certified public accountants

Head office:
Kasumigaseki Building
32nd Floor
3-2-5 Kasumigaseki
Chiyoda-ku
Tokyo 100-6088

telephone:(03)3581-6281

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, 1999 and 1998, 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, 1999, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of Clarion Co., Ltd. as of March 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

The amount expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying non-consolidated financial statements.

June 29, 1999
Tokyo, Japan

Chuo Audit Corporation

CHUO AUDIT CORPORATION

BOARD OF DIRECTORS AND AUDITORS

President
Ichizo Ishitsubo

Executive Directors
Ryosei Tonari
Yasuhiko Nakagawa

Managing Directors
Yasuo Saito
Keijiro Tanaka
Tsuyoshi Kitamura

Directors
Teruo Saito
Masatoshi Tanaka
Fumihiko Chiba
Yasuyuki Kawada
Hidenori Niimura
Tatsuhiko Izumi

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: 27,571
Number of Employees: 2,216

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, Nagoya

Plants:
Saitama, Tohoku

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

Clarion Corporation of America, Kentucky Office
P.O. Box 240, 237 Beaver Road, Walton, Kentucky 41094, U.S.A.
Tel: (1) 606-485-6600, Fax: (1) 606-485-4099

Clarion Corporation of America, Weslaco Office
1908 Joe Stephans Drive, Weslaco, Texas 78596, U.S.A.
Tel: (1) 956-968-1600, Fax: (1) 956-969-2095

Clarion Corporation of America, Kokomo Office
608 East Blvd., Kokomo, Indiana 46902, U.S.A.
Tel: (1) 765-455-0444, Fax: (1) 765-455-4213

Clarion Corporation of America, Ohio Office
325 Cramer Creek Court #206, Dublin, Ohio 43017, U.S.A.
Tel: (1) 614-791-1488, Fax: (1) 614-791-1688

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.
Tel: (1) 606-485-6600, Fax: (1) 606-485-4099

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.
Tel: (1) 310-327-9107, Fax: (1) 310-217-9288

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) 858-535-9870, Fax: (1) 858-535-9871

Clarion Latin America Corporation
6161 Blue Lagoon Drive, Suite 360, Miami, Florida 33126, U.S.A.
Tel: (1) 305-263-5888, Fax: (1) 305-263-8086

Clarion Advanced Technology Corporation
8001 Irvine Center Drive, Suite 800, Irvine, California 92618, U.S.A.
Tel: (1) 949-790-3500, Fax: (1) 949-790-3599

Clarion Canada Inc.
2239 Winston Park Drive, Oakville, Ontario, L6H 5R1, Canada
Tel: (1) 905-829-4600, Fax: (1) 905-829-4608

Clarion Europa GmbH*
Hessenring 19-21, 64546 Morfelden-Walldorf, Germany
Tel: (49) 6105-9770

Clarion Europa Liaison Office (NL)
Ramgatseweg 15A, 4941 VN Raamsdonksveer, the Netherlands
Tel: (31) 162-570257, Fax: (31) 162-514159

Clarion Europa GmbH. Sektion Deutschland*
Hessenring 19-21, 64546 Morfelden-Walldorf, Germany
Tel: (49) 6105-9770

Clarion Europa GmbH. Filiaal Nederland
Ramgatseweg 15A, 4941 VN Raamsdonksveer, the Netherlands
Tel: (31) 162-521110, Fax: (31) 162-514159

Clarion Europa GmbH. Filiale Italiana
Via Carlo Ravizza, 34/1-20149 Milano, Italy
Tel: (39) 02-4692574, Fax: (39) 02-4390656

Clarion Svenska AB
Geometrivägen 5, S-127 24 Skärholmen, Sweden
Tel: (46) 8-721-9150, Fax: (46) 8-721-9250

Clarion (G.B.) Ltd.
Unit 1, Marshall Road, Hillmead, Swindon, Wiltshire SN5 9FZ, U.K.
Tel: (44) 1793-870400, 870404, 874875,
Fax: (44) 1793-875747

Clarion France S.A.
Head Office: Le Pré à Varois, Route de Pompey, F54670 CUSTINES, France
Tel: (33) 3-83-49-4400, Fax: (33) 3-83-24-1762
Paris Branch Office: 24 Avenue de la Grande, Armée, 75017 Paris, France
Tel: (33) 1-40-55-8140/8230, Fax: (33) 1-40-55-8239

Clarion Spain S.A.
Argenters 2, Parc Tecnològic del Vallès
08290 Cerdanyola, Barcelona, Spain
Tel: (34) 93-582-0273, Fax: (34) 93-582-0274

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.
Head Office: Unit 1601-2, 16/F., Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong
Tel: (852) 2723-2088, Fax: (852) 2723-1991
Plant: c/o: Dongguan Yanion Electronics Manufacturing Ltd.
No. 6 Industrial Zone, Guan Zhang Gong Lao (zhu Shan) Fu Cheng, Dongguan City, Guangdong, The People's Republic of China
Tel: (86) 769-2250423, Fax: (86) 769-2296241

Clarion Orient Co., Ltd.
Room 6, 4/F., Tower 1, Harbour Centre, 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong
Tel: (852) 2303-1395, Fax: (852) 2365-9929

Dongguan Clarion Orient Electronics Co., Ltd.
Junda Industrial Zone, Dong Keng Industrial Road, Dong Keng Town, Dongguan, Guangdong Province 511734, The People's Republic of China
Tel: (86) 769-33-85611, Fax: (86) 769-33-85604

Clarion (Malaysia) Sdn., Bhd.
Phase 3, Free Industrial 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 Industrial 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, Valle De Oro, San Juan Del Rio, Queretaro, C.P. 76802, Mexico
Tel: (52) 427-23991, Fax: (52) 427-27059

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) 427-21741, Fax: (52) 427-21689

Comercializadora Clarion, S.A. de C.V.
Tata Vasco #77, Col. Villa Coyoacan, C.P.04000 Mexico D.F.
Tel: (52) 5-554-0542, Fax: (52) 5-658-1594

Precision Metal S.A.de C.V.
Betania #15, Infonavit San Cayetano, San Juan Del Rio, Queretaro, C.P. 76805 Apartado Postal 61, Mexico
Tel: (52) 427-28583, Fax: (52) 427-21689

Clarion (Taiwan) Manufacturing Co., Ltd.
Head Office: 5F., NO. 69-8, Sec. 2, Chung Tsun East Rd., Tamsui Taipei, Hsien, Taiwan R.O.C.
Tel: (886) 22-809-1333, Fax: (886) 22-808-3348
Plant: 2 North Nei-Huan East Rd., N.E.P.Z., Kaohsiung, Taiwan R.O.C.
P.O. Box Kaohsiung 35-107, Taiwan
Tel: (886) 7-362-7151, Fax: (886) 7-363-7877

Xiamen Clarion Electrical Enterprise Co., Ltd.
Cheng Dong Industrial Area, Dong-An Distric, Xiamen, The People's Republic of China
Tel: (86) 592-713-2350/2351, Fax: (86) 592-713-2650

Clarion Manufacturing Corporation of the Philippines
Makati Branch Office: 3/F Cacho-Gonzales Bldg.
101 Aguirre St., Legaspi Village,
1200 Makati, Metro Manila, Philippines
Tel: (63) 2816-3681, Fax: (63) 2816-3684
Head Office·Plant: Phase II Block 7, Cavite Export Processing Zone, Rosario, Cavite, Philippines
Tel: (63) 46-437-0401, Fax: (63) 2-741-7598

Clarion Mitsuwa Philippines, Inc.
Makati Liaison Office: 3/F Cacho-Gonzales Bldg., 101 Aguirre St., Legaspi Village 1200 Makati, Metro Manila, Philippines
(63) 2816-3681, Fax: (63) 2816-3684
Plant: Phase II Block 7, Cavite Export Processing Zone, Rosario, Cavite, Philippines
Tel: (63) 46-437-6285, Fax: (63) 46-437-6296

Clarion Asia Pte. Ltd.
315 Alexandra Road #04-03
Performance Centre, Singapore 159944
Tel: (65) 4755233, Fax: (65) 4755928

Clarion Co., Ltd., Athens Office
33, 1 Metaxa Str. 2F/8 Florida Mall, Glyfada, 16675 Athens, Greece
Tel: (30) 1-968-0894, Fax: (30) 1-968-0895

Clarion Asia Pte. Ltd., Thailand Office
2532 Rama 3 Tower Room 503, Ratchadaphisek-Rama 3 Road, Bangkhlo, Bangholaem, Bangkok 10120, Thailand
Tel: (66) 2-683-7960, Fax: (66) 2-683-7962

Clarion Aisa Pte. Ltd., India Office
B-21, Phase-II, Noida (U.P.), India
Tel: (91) 11-91-562580/562573, Fax: (91) 11-91-568530

Clarion Australia Pty. Ltd.
30 Corporate Drive, Moorabbin, Victoria 3189, Australia
Tel: (61) 3-8558-1115, Fax: (61) 3-9551-1766

Clarion Hungary Electronikai Kft.
H-2760 Nagykáta Jászberényi út 116, Hungary
Tel: (36) 29-640-100, Fax: (36) 29-640-160~162

This annual report is printed on recycled paper

* The address of Clarion Europa GmbH and Clarion Europa GmbH. Sektion Deutschland are expected to change in November 1999.

Clarion Co., Ltd.
2-22-3, Shibuya, Shibuya-ku, Tokyo 150-8335, Japan
Phone: (03) 3400-1121

Printed in Japan