

# CONSOLIDATED FINANCIAL STATEMENTS

## 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
<b>ASSETS</b>			
<b>Current Assets:</b>			
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
<b>Investments and Advances:</b>			
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
<b>Property, Plant and Equipment (Note 7):</b>			
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
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
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
<b>Total current liabilities</b> .....	<b>114,008</b>	<b>119,669</b>	<b>950,066</b>
<b>Long-Term Debt</b> (Note 7) .....	<b>21,632</b>	<b>14,776</b>	<b>180,267</b>
<b>Accrued Employees' Severance Indemnities</b> .....	<b>4,647</b>	<b>4,549</b>	<b>38,725</b>
<b>Deferred income taxes</b> .....	<b>1,329</b>	<b>—</b>	<b>11,075</b>
<b>Total liabilities</b> .....	<b>141,616</b>	<b>138,994</b>	<b>1,180,133</b>
<b>Minority Interests in Consolidated Subsidiaries</b> .....	<b>770</b>	<b>956</b>	<b>6,417</b>
<b>Lease Commitments and Contingent Liabilities (Note 9)</b>			
<b>Shareholders' Equity:</b>			
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
	<b>¥180,858</b>	<b>¥177,868</b>	<b>\$1,507,150</b>

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)
	1999	March 31, 1998	1997	March 31, 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
<b>Other Income (Expenses):</b>				
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
<b>Minority Interests in (Income) of</b>				
Consolidated Subsidiaries .....	(168)	(151)	(181)	(1,400)
Net income .....	¥ 1,052	¥ 3,740	¥ 1,513	\$ 8,767
		Yen		U.S. Dollars (Note 3)
<b>Per Share:</b>				
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
<b>Balance at March 31, 1996</b> .....	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)
<b>Balance at March 31, 1997</b> .....	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
<b>Balance at March 31, 1998</b> .....	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)
<b>Balance at March 31, 1999</b> .....	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
<b>Balance at March 31, 1998</b> .....	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)
<b>Balance at March 31, 1999</b> .....	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
<b>Cash flows from Operating Activities:</b>				
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
<b>Cash Flows from Investing Activities:</b>				
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)
<b>Cash Flows from Financing Activities:</b>				
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
<b>Net Change in Cash and Cash Equivalents .....</b>	<b>2,194</b>	<b>(4,708)</b>	<b>(1,653)</b>	<b>18,283</b>
<b>Cash and Cash Equivalents at Beginning of Year .....</b>	<b>21,922</b>	<b>26,630</b>	<b>28,283</b>	<b>182,684</b>
<b>Cash and Cash Equivalents at End of Year .....</b>	<b>¥24,116</b>	<b>¥21,922</b>	<b>¥26,630</b>	<b>\$200,967</b>

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 Electrical 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 were 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
	March 31,		U.S. Dollars
	1999	1998	March 31,
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
	March 31,		U.S. Dollars
	1999	1998	March 31,
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		Thousands of U.S. Dollars
	Millions of Yen		
	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		Thousands of U.S. Dollars
	Millions of Yen		
	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		Thousands of U.S. Dollars
		March 31,		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
		<b>¥2,501</b>	<b>¥676</b>	<b>\$20,842</b>

(\*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			Thousands of U.S. Dollars
	March 31,			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		Thousands of U.S. Dollars
	March 31,		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
	<b>28,187</b>	<b>21,718</b>	<b>234,892</b>
Less: Portion due within one year .....	(6,555)	(6,942)	(54,625)
	<b>¥21,632</b>	<b>¥14,776</b>	<b>\$180,267</b>

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-capita 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				Total
Car equipment	Audio equipment	Others	Elimination or All Company		
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:

Geographic area	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
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

Geographic area	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
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:

Name of related parties	Paid-in capital (million)	Equity ownership percentage	Nature of business	Millions of Yen		Account name	Resulting account balance of the Company at March 31,	
				Transactions made in the year ended March 31,			Balance	
				Volume of transactions			1999	1998
Clarion Hungary Elektronikai 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

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

We have audited the consolidated balance sheets of Clarion Co., Ltd. and its subsidiaries as of March 31, 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.

June 29, 1999  
Tokyo, Japan

*Chuo Audit Corporation*  
CHUO AUDIT CORPORATION