

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
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 Elektronikai 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		
	1999	March 31, 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, 1999	March 31, 1998	March 31, 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 Elektronikai 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, 1999	March 31, 1998	1997	March 31, 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

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

We have audited the non-consolidated balance sheets of Clarion Co., Ltd. as of March 31, 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