

NON-CONSOLIDATED FINANCIAL STATEMENTS

Non-Consolidated Balance Sheets March 31, 1998 and 1997

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

The accompanying notes are an integral part of these statements.

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

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

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

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

Notes to Non-Consolidated Financial Statements

1. BASIS OF PRESENTING THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Foreign Currency Translation

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

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

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

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

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

(2) Cash and Cash Equivalents

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

(3) Valuation of Securities

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

(4) Inventory Valuation

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

(5) Allowance for Bad Debts

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

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

(6) Investments in Subsidiaries and Affiliates

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

(7) Property, Plant and Equipment

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

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

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

(8) Accounting for leases

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

(9) Consumption Tax

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

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

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

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

(11) Income Taxes

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

(12) Appropriation of Retained Earnings or Disposal of Deficit

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the appropriation of retained earnings (disposal of deficit) proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within 3 months after the end of each financial year. The appropriation of retained earnings (disposal of deficit) reflected in the accompanying non-consolidated statements of shareholders'

equity represents the result of such appropriations/disposals which is applicable to the immediately preceding financial year but was approved at the shareholders' meeting and effected during that year. Dividends are paid to shareholders registered on the shareholders' register at the end of each financial year.

(13) Net Income and Dividends per Share

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

3. UNITED STATES DOLLAR AMOUNTS

The accounts of the Company and the financial statements and notes presented herein are expressed in Japanese yen, and, solely for the convenience of the reader, have been translated into U.S. dollars at the

rate of ¥132=U.S.\$1, the rate prevailing on March 31, 1998. This translation should not be construed as a representation that the yen amounts shown could be so converted into U.S. dollars.

4. INVENTORIES

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

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

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

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

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

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

	Market Value		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Listed corporate shares included in:			
Marketable securities	¥ 1,051	¥ 1,204	\$ 7,962
Investments in securities	¥ 8,873	¥11,457	\$ 67,220
	Net Unrealized Gains (Loss)		
	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1998	1997	1998
Listed corporate shares included in:			
Marketable securities	¥ (565)	¥(1,029)	\$ (4,280)
Investments in securities	¥(5,192)	¥(2,137)	\$ (39,333)

6. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND AFFILIATES

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

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

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

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

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

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

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

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

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

As is customary in Japan, bank loans are made under general agreements which provide to the effect that, with respect to all present or future loans, the Company shall, under certain circumstances, provide collateral (including sums on deposit with the bank), or guarantors therefore immediately upon the bank's request, and that any collateral

furnished pursuant to such agreement or otherwise will be applicable to all indebtedness to the bank. The Company has not received any such requests to date.

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

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

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

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

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

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

8. INCOME TAXES

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

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

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

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

9. ACCRUED EMPLOYEES' SEVERANCE INDEMNITIES (RETIREMENT PLAN)

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

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

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

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

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

10. LEASE COMMITMENTS AND CONTINGENT LIABILITIES

(1) Finance Leases

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

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

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

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

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

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

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

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

(2) Contingent Liabilities

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

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

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

11. LEGAL RESERVE

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends and officers' bonuses paid out of retained earnings each year be appropriated as a legal reserve until such reserve equals 25% of its common stock account. The legal reserve may be used

to reduce a deficit or may be transferred to common stock account through appropriate shareholder and director actions but is not available for dividend payment.

12. RELATED PARTY TRANSACTIONS

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

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

13. ANALYSIS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

14. FORWARD EXCHANGE CONTRACTS

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

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

The receivables and payables denominated in foreign currencies and hedged by forward foreign exchange contracts, thus being stated in yen amounts in the accompanying non-consolidated balance sheet at March

31, 1998 are not included in the foreign currency balances shown above.

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

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

15. SUBSEQUENT EVENT

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

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

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

Coopers
& Lybrand

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

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

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

June 26, 1998
Tokyo, Japan

Chuo Audit Corporation
CHUO AUDIT CORPORATION