

CONSOLIDATED FINANCIAL STATEMENTS**Consolidated Balance Sheets** March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
ASSETS			
Current Assets:			
Cash on Hand and in Banks	¥ 22,190	¥21,521	\$ 209,051
Notes and Accounts Receivable	35,183	34,740	331,446
Less: Allowance for Doubtful Accounts	(2,545)	(1,152)	(23,983)
Marketable Securities	4,144	2,594	39,040
Inventories	38,277	44,784	360,593
Deferred Income Taxes	700	—	6,599
Prepaid Expenses and Other Current Assets	7,089	7,936	66,788
Total Current Assets	105,039	110,423	989,536
Investments in Securities	14,347	18,224	135,166
Property, Plant and Equipment:			
Buildings and Structures	25,214	25,088	237,539
Machinery and Equipment	45,719	51,288	430,702
	70,933	76,376	668,241
Less: Accumulated Depreciation	(49,320)	(53,854)	(464,632)
	21,613	22,522	203,608
Land	8,701	9,054	81,976
Construction in Progress	108	940	1,022
	30,423	32,518	286,607
Intangible Assets	7,028	3,430	66,208
Other Assets	4,528	9,882	42,664
Adjustments on Foreign Currency Translation	9,644	6,378	90,854
Total Assets	¥171,011	¥180,858	\$1,611,038

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
LIABILITIES, MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-Term Loans	¥ 67,521	¥ 65,146	\$ 636,092
Commercial Papers	2,000	5,500	18,841
Notes and Accounts Payable	29,587	30,165	278,730
Accrued Bonus	2,235	2,370	21,063
Income Taxes Payable	386	1,079	3,638
Other Current Liabilities	11,036	9,748	103,973
Total Current Liabilities	112,767	114,009	1,062,339
Long-Term Loans	25,123	21,045	236,680
Accrued Employees' Severance Indemnities	9,785	4,646	92,182
Other Long-Term Liabilities	701	1,915	6,611
Deferred Income Taxes	1,468	—	13,833
Total Liabilities	149,846	141,617	1,411,646
Minority Interests in Consolidated Subsidiaries	761	770	7,177
Commitments and Contingencies			
Shareholders' Equity:			
Common Stock, par value ¥50 per Share			
Authorized:450,000,000 shares			
Issued:155,624,878 shares at March 31, 2000 and 1999	19,432	19,432	183,066
Additional Paid-in Capital	26,934	26,933	253,742
Deficit	(25,962)	(7,894)	(244,586)
Treasury Stock	(1)	(1)	(9)
Total Shareholders' Equity	20,403	38,469	192,213
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	¥171,011	¥180,858	\$1,611,038

The accompanying notes are an integral part of these statements.

Consolidated Statements of (Loss) Income for each of the three years in the period ended March 31, 2000

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Net Sales	¥191,855	¥199,575	¥196,006	\$1,807,401
Cost of Sales	150,002	150,742	145,593	1,413,114
Gross Profit	41,853	48,833	50,412	394,287
Selling, General and Administrative Expenses	38,520	41,800	42,500	362,891
Operating Income	3,332	7,033	7,912	31,395
Other Income (Expenses):				
Interest Income	420	409	618	3,959
Dividend Income	130	120	132	1,233
Interest Expenses	(2,473)	(2,938)	(3,432)	(23,305)
Provision for Allowance for Doubtful Accounts	(1,474)	—	—	(13,888)
Loss on Sale or Disposal of Property, Plant and Equipment, Net	(909)	(185)	(587)	(8,567)
Loss from Write-Down and Disposal of Inventories	(5,096)	(384)	—	(48,008)
Loss from Write-Down of Investments in Securities	(1,853)	—	—	(17,460)
Officers' Retirement Expenses	(197)	(27)	(391)	(1,860)
Additional Accrual for Employees' Severance Indemnities	(4,645)	—	—	(43,762)
Gain (Loss) on Sale of Investments in Securities, Net	241	(68)	600	2,275
Loss from Write-Down of Marketable Securities	(151)	(84)	(845)	(1,423)
Exchange (Loss) Income, Net	(948)	(1,939)	660	(8,940)
Others, Net	(3,254)	33	305	(30,660)
	(20,212)	(5,066)	(2,938)	(190,410)
(Loss) Income before Income Taxes	(16,879)	1,966	4,974	(159,014)
Provision for Income Taxes:				
Current	710	747	889	6,693
Deferred	60	—	—	571
	771	747	889	7,265
	(17,650)	1,219	4,084	(166,280)
Minority Interests	(62)	(168)	(151)	(590)
Amortization of Goodwill	—	—	218	—
Equity in Loss of Affiliates	—	—	25	—
Net (Loss) Income	¥ (17,713)	¥ 1,051	¥ 3,739	\$ (166,870)
		Yen		U.S. Dollars
Per Share:				
Net (Loss) Income	¥ (113.82)	¥ 6.76	¥ 24.03	\$ (1.072)
Cash Dividends	—	¥ 3.00	¥ 3.00	—

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity for each of the three years in the period ended March 31, 2000

	Number of Shares of Common Stock Outstanding (Thousands)	Millions of Yen				
		Common Stock	Additional Paid-in Capital	Legal Reserve	Deficit	Treasury Stocks
Balance at March 31, 1997	155,625	¥19,432	¥39,310	¥1,954	¥(26,506)	¥(1)
Net Income for the Year Ended March 31, 1998	—	—	—	—	3,739	—
Transfer to Legal Reserve	—	—	—	1	(1)	—
Subsidy from French Government Paid Back for Reduced Employment	—	—	(8)	—	—	—
Decrease from Initial Consolidation of Subsidiaries	—	—	—	—	(3)	—
Transfer from Legal Reserve	—	—	—	(1,668)	1,668	—
Transfer from Additional Paid - in Capital	—	—	(12,367)	—	12,367	—
Treasury Stock Transactions, Net	—	—	—	—	—	0
Balance at March 31, 1998	155,625	19,432	26,935	288	(8,738)	(0)
Net Income for the Year Ended March 31, 1999	—	—	—	—	1,051	—
Cash Dividends Paid	—	—	—	—	(466)	—
Transfer from Legal Reserve	—	—	—	(288)	288	—
Subsidy from French Government Paid Back for Reduced Employment	—	—	(2)	—	—	—
Decrease from Discontinued Consolidation of Subsidiaries	—	—	—	—	(28)	—
Treasury Stock Transactions, Net	—	—	—	—	—	(1)
Others	—	—	—	—	(1)	—
Balance at March 31, 1999	155,625	19,432	26,933	—	(7,894)	(1)
Cumulative Effect of an Accounting Change	—	—	—	—	134	—
Net Loss for the Year Ended March 31, 2000	—	—	—	—	(17,713)	—
Cash Dividends Paid	—	—	—	—	(466)	—
Increase from Initial Application of Equity Method for Investments in Affiliates	—	—	—	—	18	—
Decrease from Initial Consolidation of Subsidiaries	—	—	—	—	(38)	—
Treasury Stock Transactions, Net	—	—	—	—	—	0
Others	—	—	1	—	(2)	—
Balance at March 31, 2000	155,625	¥19,432	¥26,934	¥ —	¥(25,962)	¥(1)

	Number of Shares of Common Stock Outstanding (Thousands)	Thousands of U.S. Dollars				
		Common Stock	Additional Paid-in Capital	Legal Reserve	Deficit	Treasury Stocks
Balance at March 31, 1999	155,625	\$183,066	\$253,727	\$ —	\$(74,367)	\$(15)
Cumulative Effect of an Accounting Change	—	—	—	—	1,265	—
Net Loss for the Year Ended March 31, 2000	—	—	—	—	(166,870)	—
Cash Dividends Paid	—	—	—	—	(4,398)	—
Increase from Initial Application of Equity Method for Investments in Affiliates	—	—	—	—	176	—
Decrease from Initial Consolidation of Subsidiaries	—	—	—	—	(367)	—
Treasury Stock Transactions, Net	—	—	—	—	—	5
Others	—	—	15	—	(24)	—
Balance at March 31, 2000	155,625	\$183,066	\$253,742	\$ —	\$(244,586)	\$(9)

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows for the year ended March 31, 2000

	Millions of Yen	Thousands of U.S. Dollars
	2000	2000
Cash Flows from Operating Activities:		
Loss before Income Taxes	¥(16,879)	\$(159,014)
Adjustments:		
Depreciation	6,743	63,527
Amortization of Goodwill	189	1,781
Equity in Loss of Affiliates	(38)	(360)
Provision for Doubtful Accounts	1,518	14,308
Provision for Severance Indemnities, Less Payments	5,142	48,446
Interest and Dividend Income	(551)	(5,192)
Interest Expenses	2,473	23,305
Devaluation of Marketable Securities and Investments in Securities	2,002	18,868
Exchange Loss	496	4,675
Gain on Sales of Marketable Securities	(118)	(1,114)
Gain on Sales of Investments in Securities	(241)	(2,276)
Gain on Sales of Property, Plant and Equipment	(126)	(1,195)
Loss on Disposal of Property, Plant and Equipment	1,480	13,950
Changes in Assets and Liabilities:		
Receivables	(3,398)	(32,017)
Inventories	3,209	30,233
Notes and Accounts Payable	(1,169)	(11,021)
Others, Net	5,110	48,141
Sub-Total	5,843	55,045
Interest and Dividend Received	548	5,168
Interest Paid	(2,519)	(23,733)
Income Taxes Paid	(1,004)	(9,461)
Net Cash Provided by Operating Activities	2,868	27,018
Cash Flows from Investing Activities:		
Increase in Time Deposits	(1,043)	(9,828)
Decrease in Time Deposits	1,619	15,252
Purchases of Marketable Securities	(296)	(2,791)
Sales of Marketable Securities	529	4,990
Purchases of Property, Plant and Equipment	(6,316)	(59,507)
Sales of Property, Plant and Equipment	1,896	17,869
Purchases of Intangible Assets	(3,024)	(28,492)
Sales of Intangible Assets	38	366
Purchases of Investments in Securities	(1,404)	(13,233)
Sales of Investments in Securities	1,243	11,714
New Acquisition of Subsidiaries	(80)	(762)
Increase in Loans	(2,551)	(24,037)
Collection of Loans	1,652	15,571
Others, Net	(10)	(96)
Net Cash Used in Investing Activities	(7,747)	(72,986)
Cash Flows from Financing Activities:		
Increase in Short-Term Loans, Net	2,632	24,802
Repayment of Commercial Papers	(3,500)	(32,972)
Proceeds from Long-Term Loans	15,672	147,643
Repayment of Long-Term Loans	(8,355)	(78,716)
Purchases of Treasury Stock	(90)	(855)
Sales of Treasury Stock	89	839
Cash Dividends Paid	(466)	(4,398)
Cash Dividends Paid to Minority Shareholders	(0)	(5)
Net Cash Provided by Financing Activities	5,980	56,337
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,195)	(11,261)
Net Increase in Cash and Cash Equivalents	(94)	(892)
Cash and Cash Equivalents, at beginning	18,159	171,077
Cash and Cash Equivalents of Subsidiaries Initially Consolidated, at beginning	683	6,439
Cash and Cash Equivalents, at end	¥18,748	\$176,624

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Clarion Co., Ltd. ("Clarion") and Consolidated Subsidiaries (collectively, the "Company") are basically an English version of those which have been prepared in accordance with accounting principles and practices generally accepted in Japan and filed with the Japanese Ministry of Finance as a part of the Annual Security Report (a Japanese equivalent of Form 10-K in the U.S.). The accounting records of Clarion and its domestic consolidated subsidiaries and affiliates accounted for under the equity method 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 from International Accounting Standards. The accounting records of overseas consolidated subsidiaries and affiliates accounted for under the equity method are maintained in accordance with generally accepted accounting principles prevailing in the respective regions in which they were incorporated. In general, no adjustments on the accounts of overseas consolidated subsidiaries are reflected in the accompanying Consolidated Financial Statements to comply with the Japanese accounting principles and practices followed by Clarion and its domestic consolidated subsidiaries.

Effective April 1, 1999, the Company adopted a new accounting standard

requiring presentation of a statement of cash flows for the fiscal year ended March 31, 2000.

The Consolidated Financial Statements incorporate certain reclassifications of figures from those included in the Annual Security Report Statements in order to present in a form more familiar to the readers outside Japan. In addition, the Notes to Consolidated Financial Statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

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

The amounts presented in millions of yen are truncated after million. Totals may not add up exactly because of such truncation.

The U.S. dollar amounts stated in the Consolidated Financial Statements are included solely for convenience of readers outside Japan. The rate of ¥106.15=US\$1, the approximate rate of exchange as at March 31, 2000 has been used for the purpose of such translation. Those translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation and Investments in Affiliates

The Consolidated Financial Statements include the accounts of Clarion and those of its subsidiaries in which it has control. Effective April 1, 1999, Clarion modified its method of identification for consolidated subsidiaries and affiliates in accordance with "Implementation Guideline on Revised Definition of Subsidiaries and Affiliates for Consolidated Financial Statements" issued by the Business Accounting Deliberation Council on October 30, 1998. Under this new method, companies controlled by Clarion are consolidated as subsidiaries regardless of the ownership percentage by Clarion, and companies influenced by Clarion in material degree on their financial, operating, or business policies through investment, personnel, financing, technology, trading or other relationship are accounted for as affiliates regardless of the ownership percentage by Clarion. This change did not identify additional consolidated subsidiaries or affiliates accounted for under the equity method in the year ended March 31, 2000.

All significant intercompany transactions, balances and unrealized intercompany profits are eliminated on consolidation.

Subsidiaries with year-end dates other than March 31 are consolidated based on respective balance sheet dates. Necessary adjustments have been recorded to the Consolidated Financial Statements for significant transactions recorded during the period between those subsidiaries' year-end dates and the balance sheet date.

The excess of the cost over the underlying fair value of investments in subsidiaries is recognized as goodwill. In the year ended March 31, 2000, the Company changed the amortization period for goodwill relating to domestic subsidiaries to 10 years. In the year ended March 31, 1999 and prior, the Company amortized the same over 5 years. Goodwill of a U.S. subsidiary arising from its consolidation in the U.S. is amortized over 20 years.

(2) Translation of Foreign Currency Balances and Transactions

Foreign currency transactions are translated using foreign exchange rates prevailing at the transaction dates. Short-term receivables and payables denominated in foreign currencies are translated at the current exchange rates at balance sheet date.

All the assets and liabilities of foreign subsidiaries and affiliates are translated at current rates at the respective balance sheet dates and all the income and expense accounts are translated at average rates for respective periods. Foreign currency financial statement translation differences are recorded in the Consolidated Balance Sheets as a component of assets or liabilities.

(3) Cash and Cash Equivalents

For the purpose of the Consolidated Statement of Cash Flows, Cash and Cash Equivalents consists of cash, certificates of deposits with original maturity of three months or less, and other highly liquid investments which are virtually without risk of loss in value.

(4) Marketable Securities

Marketable Securities are stated at cost: cost being determined principally by the moving-average method.

(5) Allowance for Doubtful Accounts

Allowance for Doubtful Accounts is maintained for the amounts deemed uncollectible based on solvency analyses and for estimated delinquency based on collection rates estimated from historical credit loss experiences.

(6) Inventories

Inventories are stated principally at cost: cost being determined by the periodic average method. Reserve for potentially obsolete or slow-moving inventory is provided based on management's recoverability analysis. Supplies are stated at cost: cost being determined by the last purchase method.

(7) Investments in Securities

Investments in unconsolidated subsidiaries and affiliates, except for those immaterial to the Consolidated Financial Statements which are carried at cost, are accounted for under the equity method and included in Investments in Securities.

The carrying value of an investment is written down to its fair value when the fair value of the investment declines below cost and the impairment is judged to be other than temporary.

(8) Property, Plant and Equipment

Property, Plant and Equipment, including significant renewals and improvements, are carried at cost. Maintenance and repairs including minor renewals and betterments are charged to income as incurred. Depreciation is computed principally under the declining-balance method at rates based on the estimated useful lives of the assets, which are prescribed by the Japanese income tax laws. Dies, included in Machinery and Equipment, are depreciated under the straight-line method over the estimated useful lives of the assets. When retired or disposed of, the difference between the net book value and sales proceeds is charged or credited to income.

(9) Intangible Assets

Intangible Assets including goodwill and capitalized software costs are carried at cost less accumulated depreciation. Goodwill represents the excess of purchase price and related costs over the value assigned to the fair value of business acquired and is amortized under the straight-line method over the estimated economic lives of respective premiums paid on acquisitions.

(10) Capitalized Software Costs

Capitalized software costs consist of costs to purchase and develop software. All capitalized software costs are amortized under the straight-line method over 5 years.

At March 31, 2000, capitalized software costs are included in Intangible Assets. At March 31, 1999 and prior, capitalized software costs were included in Other Assets.

(11) Accrued Employees' Severance Indemnities

Generally, employees are entitled to lump sum indemnities upon termination of employment with the Company. The amount paid is calculated based on factors such as length of service, basic rates of pay, and conditions under which the terminations occur.

50% of such payments are covered by a contributory pension plan. The annual contribution to the fund, which consists of annual benefits and amortization of prior service costs, are charged to income when paid. At September 1, 1999, unamortized prior service costs, which is amortized over 10 years, amounted to ¥2,059 million.

The remaining 50% of the payments to the terminated employees are disbursed by the Company as terminations occur.

At March 31, 2000, Accrued Employees' Severance Indemnities is

provided for 100% of the Company's payments to employees based on the amount that would have been required assuming voluntary retirement of all employees at the balance sheet date.

At March 31, 1999 and prior, the same accrual was provided for 50% of the Company's payments to employees based on the amount that would have been required assuming voluntary retirement of all employees at the balance sheet date.

Such change caused an increase in Cost of Sales for ¥108 million, increase in Selling, General and Administrative Expenses for ¥132 million, decrease in Operating Income for ¥241 million, increase in Other Expenses for ¥4,645 million, increase in Loss before Income Taxes for ¥4,887 million, increase in Net Loss for ¥4,885 million, and increase in Deficit for ¥4,882 million.

(12) Research and Development Costs

Research and development costs are charged to income as incurred.

(13) Income Taxes

Effective April 1, 1999, the Company adopted the asset and liability method for accounting for income taxes. This method recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The cumulative effect at April 1, 1999, of an accounting change relating to accounting for income taxes is charged directly to Deficit and is reflected in the Consolidated Statement of Shareholders' Equity for the year ended March 31, 2000.

As of and for the year ended March 31, 1999 and 1998, income taxes are provided based on amounts required by the tax returns for the respective year.

(14) Revenue Recognition

Sales are generally recognized at the time the goods are delivered to the customers.

(15) Leases

Finance leases, other than those which involve transferring of ownership to the lessee of the leased assets by the end of the lease terms, are accounted for in a manner similar to operating leases.

(16) Appropriation of Deficit

Appropriation of Deficit reflected in the Consolidated Financial Statements is recorded after approval by the shareholders as required by the Japanese Commercial Code.

(17) Net (Loss) Income per Share

Net (Loss) Income per Share-Basic is computed by dividing (loss) income applicable to Common Stock by weighted-average number of shares of Common Stock outstanding during each year. The Company has no outstanding financial instruments with dilutive effects on its Net (Loss) Income per Share.

3. CONSOLIDATED STATEMENT OF CASH FLOWS

Cash on Hand and in Banks at March 31, 2000, on the Consolidated Balance Sheet and Cash and Cash Equivalents at March 31, 2000, on the Consolidated Statement of Cash Flows are reconciled as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash on Hand and in Banks	¥22,190	\$209,051
Deposits with original maturities of three months or more	(3,513)	(33,101)
Debt security mutual funds	71	674
Cash and Cash Equivalents	¥18,748	\$176,624

4. INVENTORIES

Inventories at March 31, 2000 and 1999 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2000	1999	2000
Finished products	¥21,224	¥28,775	\$199,944
Work in process	2,501	3,092	23,569
Raw materials and supplies	14,551	12,916	137,080
	¥38,277	¥44,784	\$360,593

5. MARKETABLE SECURITIES AND INVESTMENTS IN SECURITIES

Investments in Securities at March 31, 2000 and 1999 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2000	1999	2000
Equity securities:			
Public companies	¥13,940	¥17,715	\$131,324
Affiliates:			
Clarion (Malaysia) Sdn. Bhd.	90	90	849
Higo Clarion Co., Ltd.	—	36	—
Others	277	268	2,609
Others	40	115	382
	¥14,347	¥18,224	\$135,166

Fair values of Marketable Securities and Investments in Securities at March 31, 2000 are as follows:

	Millions of Yen		Unrealized Gain (Loss)
	Book Value	Fair Value	
Marketable Securities:			
Equity securities	¥3,879	¥5,317	¥ 1,438
Debt securities	45	33	(12)
Others	92	84	(8)
	¥4,017	¥5,435	¥ 1,417
Investments in Securities:			
Equity securities	¥13,510	¥11,986	¥(1,524)
Others	40	25	(14)
	¥13,551	¥12,011	¥(1,539)

	Thousands of U.S. Dollars		Unrealized Gain (Loss)
	Book Value	Fair Value	
Marketable Securities:			
Equity securities	\$36,548	\$50,096	\$13,547
Debt securities	428	312	(115)
Others	872	793	(78)
	\$37,849	\$51,202	\$13,353
Investments in Securities:			
Equity securities	\$127,281	\$112,917	\$(14,364)
Others	382	241	(140)
	\$127,664	\$113,159	\$(14,505)

The market values of listed securities represent principally the closing prices of the Tokyo Stock Exchange. The market values of equity securities traded over-the-counter represent the prices announced by Japanese Securities Dealers Association. The market values of non-listed mutual funds represent the standard quoted prices announced

by the fund managers.

Discount debentures, balances in money management funds, and non-public equity securities for ¥54 million, ¥36 million, and ¥796 million, respectively, are excluded from this table.

6. SHORT-TERM AND LONG-TERM LOANS

Short-Term and Long-Term Loans at March 31, 2000 and 1999 consist of the following :

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2000	1999	2000
Short-term bank loans, consisting principally of 90 - day notes issued to banks	¥57,747	¥58,591	\$544,017
Current portion of long-term loans from banks and insurance companies	9,773	6,554	92,074
Total Short-Term Loans	67,521	65,146	636,092
Long-term loans from banks and insurance companies due through 2019	25,123	21,045	236,680
	¥92,644	¥86,191	\$872,772

The weighted-average rates for the Short-Term Loans and Long-Term Loans at March 31, 2000, were 3.03% and 2.30%, respectively.

Repayment schedule for long-term loans from banks and insurance companies are as follows:

In the year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2001	¥9,773	\$92,074
2002	8,378	78,930
2003	7,163	67,481
2004	4,601	43,352
2005	2,476	23,327

At March 31, 2000, assets pledged as collateral for short-term and long-term loans are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Notes Receivable	¥ 100	\$ 942
Net book value of :		
Buildings and Structures	3,593	33,851
Machinery and Equipment	246	2,319
Land	4,683	44,119
Marketable Securities	1,892	17,826
Investments in Securities	7,414	69,849
	¥17,929	\$168,909

7. COMMERCIAL PAPERS

The Company uses commercial papers, principally consisting of 90-day notes, to finance its short-term capital requirements. The weighted-average interest rates for these obligations at March 31, 2000 was 0.57%.

8. FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into forward exchange contracts and interest rate swaps to manage market risks relating to fluctuations in the foreign exchange and interest rates. The Company does not hold or issue financial instruments for trading purposes. The estimated unrealized losses from these contracts at March 31, 2000 are as follows:

	Millions of Yen	
	Carrying Amount	Unrealized Loss
Foreign currency contracts	—	¥ (7)
Interest rate swaps	—	¥ (137)

9. INCOME TAXES

Effective April 1, 1999, the Company adopted the asset and liability method for accounting for income taxes. The change resulted in Total Assets, Total Liabilities, and Net Loss to increase by ¥78 million, ¥53

million, and ¥55 million, respectively; and in Deficit to decrease by ¥78 million.

Significant components of the Company's deferred income tax assets and liabilities at March 31, 2000 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred income tax assets:		
Net operating losses carried-forward	¥3,821	\$36,000
Accrued pension costs	2,166	20,406
Valuation losses on inventories	1,784	16,814
Valuation allowance on marketable securities	1,295	12,192
Allowance for doubtful accounts	1,099	10,360
Foreign taxes paid	396	3,732
Accrued bonus	276	2,609
Others	1,520	14,321
Sub-Total	12,361	116,434
Netting with deferred income tax liabilities	(261)	(2,460)
Sub-Total	12,100	113,993
Valuation allowance	(11,391)	(107,316)
Total deferred income tax assets	708	6,677
Deferred income tax liabilities:		
Inventory valuation	1,568	14,773
Others	161	1,518
Sub-Total	1,729	16,292
Netting with deferred income tax assets	(261)	(2,460)
Total deferred income tax liabilities	1,468	13,833
Net deferred income tax liabilities	¥(759)	\$(7,156)

Provision for Income Taxes for the year ended March 31, 2000 consists of the following:

	Millions of Yen	Thousands of U.S. Dollars
Net provision for income taxes for consolidated subsidiaries	¥527	\$4,971
Base portion of the inhabitant taxes	48	456
Income taxes withheld on foreign interest income	131	1,237
Others	63	599
	¥771	\$7,265

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in Selling, General and Administrative Expenses for the years ended March 31, 2000, 1999 and

1998, totaled ¥625 million, ¥1,176 million and ¥1,460 million, respectively.

11. LEASES

The Company leases certain office and manufacturing equipment under lease contracts. The Company also leases audio equipment to customers. Lease expense and revenue on such lease transactions without ownership-transfer for the year ended March 31, 2000 and 1999 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Lease expense	¥2,902	¥1,743	\$27,346
Lease revenue	¥ 148	¥ 160	\$ 1,399

The amount of outstanding future lease payments at March 31, 2000, excluding the interest thereon, is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Future lease payments:		
Within one year	¥ 2,369	\$22,326
Thereafter	2,595	24,448
Total	¥4,965	\$46,774

Proforma data on finance leases at March 31, 2000 (acquisition cost, accumulated depreciation, and depreciation expense for the period) are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Proforma acquisition cost	¥9,357	\$88,149
Proforma accumulated depreciation	¥4,609	\$43,426
Proforma net book value	¥4,747	\$44,722
Proforma depreciation expense	¥2,459	\$23,169
Proforma interest	¥ 431	\$ 4,060

Depreciation is calculated based on the straight-line method over the lease term of the assets with no residual value. Interest expense on a leased asset is calculated as a difference between the total lease payments and the assumed acquisition cost for the asset and is allocated over the lease term under the effective interest method.

The amount of outstanding future lease payments receivable at March 31, 2000 including the interest, are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Future lease payments receivable:		
Within one year	¥135	\$1,279
Thereafter	70	660
Total	¥205	\$1,939

Acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery and equipment), including the interest, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥ 232	\$ 2,186
Accumulated depreciation	(108)	(1,026)
Net book value	¥ 123	\$ 1,159
Depreciation	¥ 50	\$ 475

12. COMMITMENTS AND CONTINGENCIES

The Company is contingently liable as a guarantor of indebtedness of affiliates and other companies in the aggregate amount of ¥ 620 million (\$5,840 thousand) at March 31, 2000. The Company is also contingently liable for outstanding notes discounted by banks in the ordinary course of

business, amounting to ¥ 10 million (\$ 95 thousand) at March 31, 2000.

Future lease obligations for non-cancelable operating leases at March 31, 2000 are as follows: Due in 2001; ¥181 million (US\$1,708 thousand), Due in 2002 and thereafter; ¥299 million (US\$2,817 thousand).

13. SEGMENT INFORMATION

(1) Information by Business Segment

The Company operates principally in four business segments.

Car audio-visual equipment:

Car radios, car stereo players, car television with diversity antenna system, VCRs and others.

Audio entertainment equipment:

Karaoke system for commercial and home use, stereo equipment, music tapes, and video disks.

Specialty equipment:

Audio, visual and other specialty equipment for public transportation.

Others:

Wireless communication equipment and others.

Millions of Yen						
For the year ended March 31, 2000						
	Car audio-visual equipment	Audio entertainment equipment	Specialty equipment	Others	Elimination and Corporate	Total
Net Sales	¥173,911	¥9,408	¥ 4,141	¥ 4,393	¥ —	¥191,855
Operating Expenses	170,205	7,540	5,287	5,490	—	188,523
Operating Income (Loss)	¥ 3,706	¥1,867	¥(1,145)	¥ (1,096)	¥ —	¥ 3,332
Assets	¥138,098	¥7,073	¥ 3,188	¥14,234	¥ 8,417	¥171,011
Depreciation	¥ 6,023	¥ 465	¥ 134	¥ 119	¥ —	¥ 6,743
Capital Expenditures	¥ 8,540	¥ 553	¥ 144	¥ 189	¥ —	¥ 9,427

	Millions of Yen				
	For the year ended March 31, 1999				
	Car audio-visual equipment	Audio entertainment equipment	Others	Elimination and Corporate	Total
Net Sales	¥179,110	¥ 9,966	¥ 10,498	¥ —	¥199,575
Operating Expenses	170,411	10,503	11,626	—	192,542
Operating Income (Loss)	¥ 8,699	¥ (537)	¥ (1,128)	¥ —	¥ 7,033
Assets	¥145,398	¥ 9,493	¥ 14,603	¥ 11,363	¥180,858
Depreciation	¥ 6,124	¥ 501	¥ 226	¥ —	¥ 6,852
Capital Expenditures	¥ 8,760	¥ 598	¥ 312	¥ —	¥ 9,671

Segment information as of and for the year ended March 31, 1999 using the current classification would be as follows :

Millions of Yen						
For the year ended March 31, 1999						
	Car audio-visual equipment	Audio entertainment equipment	Specialty equipment	Others	Elimination and Corporate	Total
Net Sales	¥179,110	¥ 9,966	¥5,133	¥ 5,364	¥ —	¥199,575
Operating Expenses	170,411	10,503	5,766	5,860	—	192,542
Operating Income (Loss)	¥ 8,699	¥ (537)	¥ (632)	¥ (496)	¥ —	¥ 7,033
Assets	¥145,398	¥ 9,493	¥3,788	¥10,814	¥ 11,363	¥180,858
Depreciation	¥ 6,124	¥ 501	¥ 158	¥ 68	¥ —	¥ 6,852
Capital Expenditures	¥ 8,760	¥ 598	¥ 181	¥ 131	¥ —	¥ 9,671

Thousands of U.S. Dollars						
For the year ended March 31, 2000						
	Car audio-visual equipment	Audio entertainment equipment	Specialty equipment	Others	Elimination and Corporate	Total
Net Sales	\$1,638,358	\$88,632	\$ 39,017	\$ 41,392	\$ —	\$1,807,401
Operating Expenses	1,603,440	71,035	49,808	51,721	—	1,776,005
Operating Income (Loss)	\$ 34,918	\$17,597	\$(10,790)	\$(10,328)	\$ —	\$ 31,395
Assets	\$1,300,971	\$66,636	\$ 30,033	\$ 134,096	\$ 79,300	\$1,611,038
Depreciation	\$ 56,745	\$ 4,381	\$ 1,270	\$ 1,129	\$ —	\$ 63,527
Capital Expenditures	\$ 80,453	\$ 5,210	\$ 1,365	\$ 1,786	\$ —	\$ 88,815

(2) Information by Geographic Segment

Sales of the Company classified by geographic area for the years ended March 31, 2000 and 1999 are summarized as follows:

Millions of Yen						
For the year ended March 31, 2000						
	Japan	North and Central America (*1)	Asia and Australia (*2)	Europe (*3)	Elimination of inter segment sales and expenses	Total
Sales to Outside Customers	¥ 97,083	¥57,815	¥ 5,625	¥31,330	¥ —	¥191,855
Inter-Segment Sales	89,885	15,470	30,659	5,544	(141,559)	—
Total Sales	186,969	73,286	36,284	36,874	(141,559)	191,855
Operating Expenses	187,302	71,729	36,082	37,222	(143,813)	188,523
Operating Income (Loss)	¥ (333)	¥ 1,557	¥ 202	¥ (347)	¥ 2,253	¥ 3,332
Assets	¥106,210	¥36,688	¥13,641	¥19,552	¥ (5,082)	¥171,011

Millions of Yen						
For the year ended March 31, 1999						
	Japan	North and Central America (*1)	Asia and Australia (*2)	Europe (*4)	Elimination of inter segment sales and expenses	Total
Sales to Outside Customers	¥ 97,379	¥62,056	¥ 5,945	¥34,193	¥ —	¥199,575
Inter-Segment Sales	70,816	13,064	36,491	357	(120,730)	—
Total Sales	168,196	75,121	42,437	34,551	(120,730)	199,575
Operating Expenses	165,120	74,231	41,445	33,301	(121,556)	192,542
Operating Income	¥ 3,075	¥ 889	¥ 991	¥ 1,250	¥ 826	¥ 7,033
Assets	¥113,400	¥38,644	¥15,812	¥17,876	¥ (4,875)	¥180,858

Thousands of U.S. Dollars						
For the year ended March 31, 2000						
	Japan	North and Central America (*1)	Asia and Australia (*2)	Europe (*3)	Elimination of inter segment sales and expenses	Total
Sales to Outside Customers	\$ 914,588	\$544,661	\$ 52,998	\$295,153	\$ —	\$1,807,401
Inter-Segment Sales	846,778	145,745	288,828	52,231	(1,333,584)	—
Total Sales	1,761,366	690,406	341,826	347,385	(1,333,584)	1,807,401
Operating Expenses	1,764,506	675,735	339,922	350,657	(1,354,816)	1,776,005
Operating Income (Loss)	\$ (3,139)	\$ 14,670	\$ 1,904	\$ (3,271)	\$ 21,232	\$ 31,395
Assets	\$1,000,568	\$345,632	\$128,513	\$184,201	\$ (47,877)	\$1,611,038

Notes:

(*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, Hungary

(*4) Europe: Germany, Sweden, U.K., Spain, France

(3) Export Sales and Sales by Overseas Subsidiaries

Export sales information of the Company for the years ended March 31, 2000 and 1999 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the years ended March 31,		For the year ended March 31,
	2000	1999	2000
Export Sales and Sales by Overseas Subsidiaries			
North, Central and South America	¥57,202	¥ 61,856	\$538,885
Europe	31,997	34,905	301,439
Others	6,426	8,403	60,537
	¥95,626	¥105,165	\$900,862
Percentage of such against consolidated net sales	49.8%	52.7%	49.8%

14. 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, 2000 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Advertising Expenses	¥ 1,544	¥ 2,362	¥ 1,709	\$ 14,549
Packing and Shipping Charge	1,343	2,134	3,138	12,654
Sales Commission Expenses	2,090	2,399	2,435	19,692
Sales Promotion Expenses	2,265	1,954	2,241	21,345
Payroll Expenses	14,533	15,091	14,521	136,914
Depreciation	1,290	1,367	1,332	12,153
Rent	2,009	2,092	2,112	18,930
Others	13,444	14,399	15,007	126,651
	¥38,520	¥41,800	¥42,500	\$362,891

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of Clarion Co., Ltd. and Consolidated Subsidiaries as of March 31, 2000 and 1999; the related consolidated statements of (loss) income and shareholders' equity for each of the three years in the period ended March 31, 2000; and the related consolidated statement of cash flows for the year ended March 31, 2000, all expressed in Japanese 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 Consolidated Subsidiaries at March 31, 2000 and 1999; the consolidated results of their operations for each of the three years in the period ended March 31, 2000; and the consolidated result of their cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis except for the following paragraphs.

As discussed in Note 2(11) to the consolidated financial statements, the Company changed its method of accounting for accrued employees' severance indemnities for the year ended March 31, 2000.

As discussed in Note 2 (13) to the consolidated financial statements, the Company changed its method of accounting for income taxes for the year ended March 31, 2000.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

June 29, 2000
Tokyo, Japan

Notice to readers

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