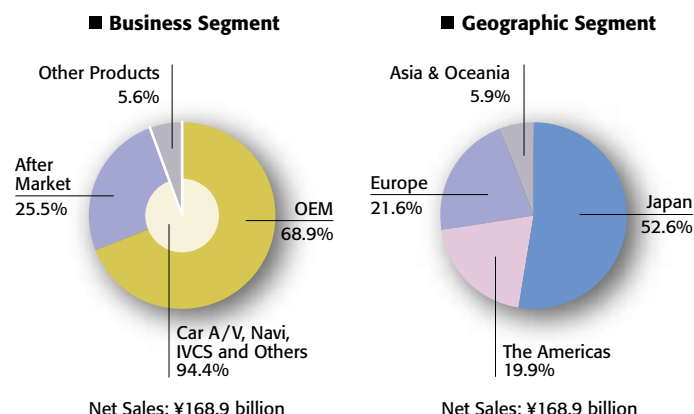


## Review of Operations

### Revenues



In fiscal 2003, consolidated net sales fell 8.9%, to ¥168.9 billion. Major factors causing net sales to decline included withdrawal from the karaoke systems business and a dramatic fall in sales of devices in the OEM market due to a lull between equipment upgrades by vehicle manufacturers.

Sales in our core Car A/V, Navigation, and IVCS Devices segment were down 5.4%, to ¥159.5 billion, or 94.4% of net sales. In this segment, which centers on car audio and navigation systems, OEM sales to automakers account for 73% of segment sales. The remaining 27% is derived from sales of Clarion, ADDZEST (Japan only), and other in-house brands in the aftermarket. In fiscal 2003, OEM sales in this segment declined 7.0%, due mainly to a lull between equipment upgrades, which caused sales of devices to fall significantly. Aftermarket sales edged down 1.1%.

Sales in the Other Products segment grew 17.0%, to ¥6.1 billion, as bus and truck operators renewed their fleets in response to tighter domestic gas emission regulations, thus boosting demand for devices for such vehicles. Another factor was firm demand for large-vehicle audio-visual equipment, rear-view monitor systems, and other products.

Sales in the Other Businesses segment dropped 48.9%, to ¥3.2 billion, due to actions taken in the previous year: the Company's withdrawal from the karaoke systems business and the sale of its holding in McIntosh Laboratory, Inc., a maker of high-end home audio systems.

By geographical region, sales in Japan slipped 8.7%, or ¥8.5 billion, to ¥88.8 billion, and accounted for 52.6% of net sales. About ¥3.0 billion of this decline stemmed from the Company's withdrawal from the karaoke business.

Sales in the Americas (including Central and South America) fell ¥5.6 billion, to ¥33.7 billion, or 20.0% of net sales. Although our OEM business in the region was solid, it could not compensate for a ¥2.2 billion fall in sales of karaoke systems and a ¥4.0 billion decline in sales of precision devices.

In Europe, sales declined 5.7%, to ¥36.5 billion, and sales in Asia-Oceania slipped 2.4%, to ¥9.9 billion.

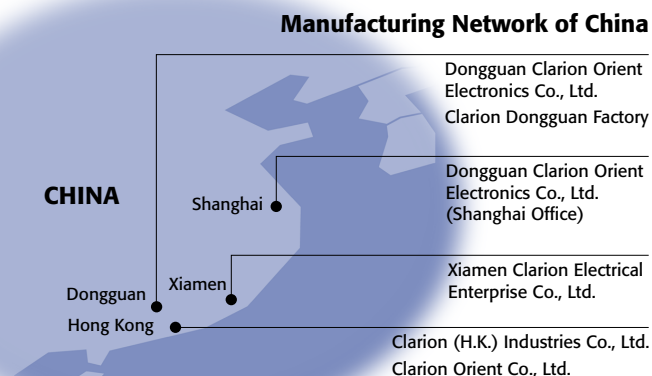
On the earnings side, operating income, ordinary income, and net income rose considerably thanks to concentration of resources in core businesses, especially in Japan, as well as improvement in productivity and reductions in costs, interest-bearing borrowings, and inventories.

### Reinforcing Our Business in China

To increase revenues and expand our business scope, it is crucial that we broaden our presence in the global market. At present, the Chinese market is showing tremendous growth. In that nation, we make mechanisms and completed units at factories operated by Xiamen Clarion Electrical Enterprise Co., Ltd., and Dongguan Clarion Orient Electronics Co, Ltd., the latter of which also sells our products via its Shanghai office.

In recent years, China has rapidly transformed itself from a production base to a growing consumption center. In response, we are stepping up business expansion and sales of products in the aftermarket. Over the next two years, we plan to increase our sales network to four offices, and expand our service center network from four to 14 locations. In addition, we will increase the number of product development personnel in China, from 100 to more than 200. The objective of these initiatives is to raise annual sales in China from the present level of ¥5.0 billion to ¥30.0 billion by the year to March 2010.

Meanwhile, we will strive to increase OEM sales in the North America market, with the focus on Japanese automakers. In addition, we will reinforce sales in the aftermarket segments of Europe and Asia.



## “Driving with IVCS”

In our quest to realize more comfortable driving environments under our “Driving with IVCS” slogan, we are working to strengthen our dominant position as a specialist manufacturer by developing high-value-added, functional products that stand out against the competition. In the year under review, we released a number of revolutionary products. In the spring of 2003, for example, we launched MAX930HD/735HD, a car navigation and audio-visual system for the aftermarket. Featuring a built-in hard disk drive, wide 6.5-inch LCD monitor, and capacity to store 1,500 songs, it has been very well received. In the summer of 2004, we unveiled MAX940HD/740HD, an upgraded version with a wide 7-inch monitor. As the world’s first 2-DIN car navigation system for the aftermarket, this product is garnering much attention for its wide screen and high functionality.

Our 2-DIN Audio Center systems with CD and MD players also have a strong following. In the summer of 2003, we released three models, following by four models in the summer of 2004. At the same time, we launched five 1-DIN Audio/AV Center models, with DVD and MD players.

Going forward, we will develop DVD audio, digital broadcasting, and compressed audio devices on a worldwide basis under our global business strategy. In the car navigation field, we will augment our presence in Japan and Europe with an aggressive push into China and other overseas markets.

We have already completed development and commercialization of ITRON, Windows, and Linux platforms for our in-vehicle computing systems (IVCSs), which we have positioned as strategic products. In 2006, we will establish new platforms as part of our strategic plan to further expand our IVCS business.



HDD AV-Navigation System – MAX940HD



DVD/Wide 7-inch AV Center Unit – VRX745VD



CD Center Unit with Touch Panel – DXZ945MP



2DIN CD/MD Center Unit – DMZ345BK