

## Review of Operations

The Japanese economy in fiscal 2005 (ended March 31, 2006) recovered steadily on the back of strong private-sector capital investment in line with improved corporate earnings, despite cost increases in production infrastructure such as oil prices. Signs of revitalization were also seen in personal spending along with an improvement in the employment environment. Overseas, the Chinese economy continued to expand, while in the United States, personal spending was robust despite continued increases of official interest rates. In Europe, the economy demonstrated its underlying strength with the EU economic bloc continuing to expand. The automobile industry, which directly concerns the Group, displayed a slightly improved performance year-on-year in terms of both production and sales of new cars in Japan. Domestic sales of subcompact and smaller cars (what we call “kei” category cars in Japan) made a particularly strong contribution. In China, production and sales increased considerably spurred by relatively stable growth. Sales in North America and Europe remained roughly on a par with the previous fiscal year.

In such a market environment, consolidated net sales for fiscal 2005 amounted to ¥184,176 million, up ¥5,851 million, or 3.3% year-on-year. Although intensifying price competition eroded sales prices, sales growth was posted in car navigation systems both in domestic OEM and aftermarkets, and for audio-visual equipment for buses. This was accompanied by an increase in sales of the EMS business in North and Central America and in Europe.

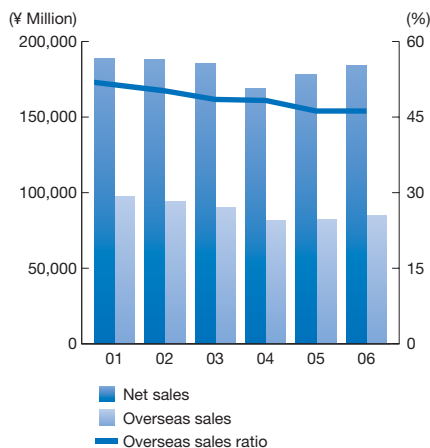
With regard to income, consolidated operating income totaled ¥5,228 million, down ¥4,353 million, or 45.4%, owing to an increase in strategic investments such as R&D investment and capital investment,

higher logistics costs and sales and promotion expenses in line with aggressive advertising campaigns.

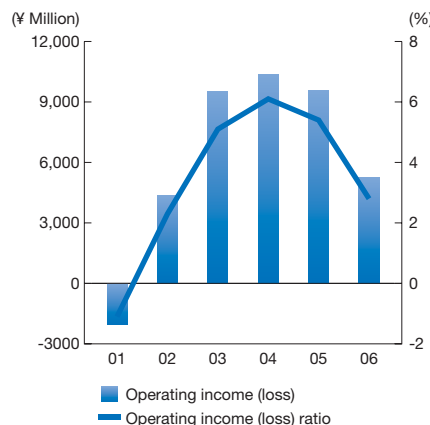
Consolidated income before income taxes was ¥4,534 million, up ¥1,583 million, or 53.7%. Other income amounted to ¥5,192 million. This included, among others, a ¥2,000 million gain from sales of property, plant and equipment including sales of land of the Saitama Head Office in connection with the plan to move the head office to Saitama Shin Toshin (Saitama’s newly developed metropolitan area) and ¥1,373 million from gain on sales of investments in securities. Other expenses totaled ¥5,886 million, of which ¥1,335 million was for an impairment loss due to the application of new accounting standards related to impairment of fixed assets, ¥812 million was for loss on sales and disposal of property, plant and equipment due mainly to the sale of the Saitama Head Office building. Also, interest expenses amounted to ¥835 million, down ¥665 million, or 44.3% year-on-year, due to repayment to banks.

After current and deferred tax adjustments and a deduction of minority interests, consolidated net income rose ¥751 million, or 14.7%, to ¥5,862 million. Net income per share improved from ¥18.09 to ¥20.76.

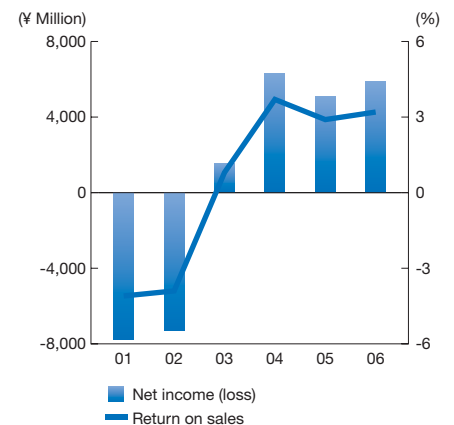
**Net Sales, Overseas Sales and Overseas Sales Ratio**



**Operating Income (Loss) and Operating Income (Loss) Ratio**



**Net Income (Loss) and Return on Sales**



The overview by the segment is as follows.

#### < Car Audio-Visual Equipment >

This segment is our core segment that involves car audio and visual devices, navigation and car multimedia devices. We saw a sales increase of navigation systems in the domestic aftermarket and general sales increase in OEM markets in Japan, North America and China where economic growth is remarkable. The European aftermarket, however, suffered from sluggish sales and declining sales prices caused by fierce price competition. Overall segment sales increased ¥2,321 million, or 1.4% year-on-year, to ¥168,686 million. Operating income was down ¥4,554 million, or 56.0%, to ¥3,578 million, due primarily to increased logistics costs, strategic investment in R&D and aggressive spending in advertisement and sales promotions.

#### < Specialty Equipment Segment >

In this segment, we made efforts to increase sales of our IT-based Bus Location System both for tourist and community buses aimed at enhancement of customer services, and rear-view monitor equipment with CCD cameras for drivers, which, due to growing interest in safety in vehicle operations, showed a stable demand. As a result, segment sales grew ¥1,357 million, or 19.5% year-on-year, to ¥8,306 million, and operating income increased ¥218 million, or 17.7%, to ¥1,451 million.

#### < Others >

In the Others Business, sales were up ¥2,173 million, or 43.4% year-on-year, to ¥7,183 million, due mainly to growth in the EMS business in North and Central America and the launch of the EMS business in Europe. Operating income, however, decreased ¥17 million, or 8.1%, to ¥199 million, due primarily to investments in facilities.

Results by geographic segments are as follows.

#### < Japan >

In the automobile industry, production rose on the back of strong exports, while brisk sales of compact cars helped to drive demand. In terms of results, despite increasing calls from customers to lower costs, sales growth was posted in integrated AV-Navigation systems in both the OEM market and aftermarket. Net sales increased ¥2,852 million, or 3.0% year-on-year, to ¥99,511 million. Operating income was down ¥2,506 million, or 39.8%, to ¥3,798 million, due primarily to strategic investment in R&D and higher logistics costs.

#### < Americas >

Increased sales in the OEM market and sales growth in the EMS business in North and Central America culminated in net sales of ¥43,725 million, up ¥5,148 million, or 13.3% from the previous fiscal year. Operating income fell ¥617 million, or 36.9%, to ¥1,057 million, due to sales price erosion and increased logistics costs.

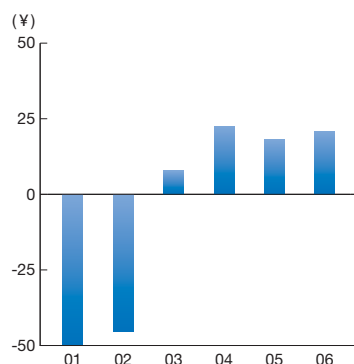
#### < Asia and Australia >

Net sales climbed ¥4,325 million, or 40.3%, to ¥15,063 million, due primarily to considerable growth in OEM deliveries in China and increased OEM deliveries in Taiwan. Operating income dropped ¥62 million, or 7.8%, to ¥728 million, due mainly to increased sales expenses coupled with increased development costs in China.

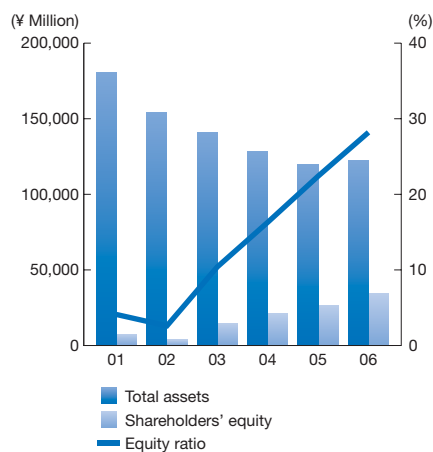
#### < Europe >

Price declines due to intense price competition and a downturn in sales in the aftermarket, plus a decrease in OEM deliveries, were the key factors behind a decrease in net sales of ¥6,474 million, or 20.0%, to ¥25,877 million. Despite concerted efforts to reduce sales expenses, an operating loss of ¥354 million was recorded (compared with operating income of ¥348 million in the previous fiscal year) due primarily to a decline in sales and sales prices.

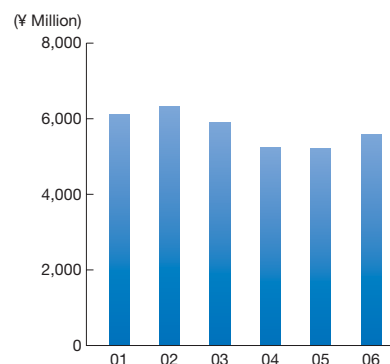
Net Income (Loss) per Share



Total Assets, Shareholders' Equity and Equity Ratio



Depreciation and Amortization



\* Years ended March 31

## Financial Position

Total assets at year-end increased by ¥2,591 million, or 2.2%, compared with the previous fiscal year-end, to ¥122,119 million. Current assets were up ¥2,802 million, or 3.8%, to ¥76,489 million. The main reasons for this increase were an increase of ¥1,089 million in cash on hand and in banks to ¥12,148 million and an increase of ¥1,642 million in inventories to ¥24,513 million. Property, plant and equipment was down ¥1,940 million, or 7.8%, from the previous fiscal year-end, to ¥22,933 million. The main factor was a decrease of ¥2,334 million in buildings and structures. Intangible assets increased ¥1,009 million, or 13.2%, to ¥8,647 million. Investments in securities and other assets were up ¥720 million, or 5.4%, to ¥14,049 million.

Total liabilities declined ¥5,191 million, or 5.6%, from the previous fiscal year-end, to ¥87,458 million. Current liabilities were down ¥6,837 million, or 10.1%, to ¥60,953 million, due mainly to a decrease of ¥10,405 million in short-term loans to ¥20,187 million. Total long-term liabilities increased ¥1,646 million, or 6.6%, to ¥26,504 million, with the main factor being an increase of ¥3,013 million in long-term loans to ¥14,040 million.

Total shareholders' equity increased ¥7,754 million, or 29.0%, to ¥34,484 million, due primarily to an increase of ¥5,549 million in retained earnings to ¥8,483 million. The equity ratio improved from 22.4% to 28.2%.

## Cash Flows

Net cash provided by operating activities increased to ¥9,236 million. This was due mainly to income before income taxes of ¥4,534 million and depreciation and amortization of ¥4,955 million, along with gain on sales of property, plant and equipment and gain on sales of investments in securities. Other factors included the swift recovery of notes and accounts receivable and a reduction in interest paid. Net cash provided at the end of the previous consolidated fiscal year was ¥8,038 million.

Net cash used in investing activities was ¥1,055 million, compared with ¥6,030 million at the previous fiscal year-end. This was due mainly to ¥7,802 million in proceeds from sales of property, plant and equipment, ¥2,430 million in proceeds from sales of investments in

securities, ¥8,106 million in payment for purchases of property, plant and equipment, notably for land at the Saitama Shin Toshin and for production equipment in China, and ¥3,092 million in payment for purchases of intangible assets, including software.

Net cash used in financing activities was ¥7,938 million, compared with ¥17,537 million at the previous fiscal year-end, due to efforts to reduce interest-bearing borrowings.

As a result of the above, cash and cash equivalents at end of year were ¥11,954 million, an increase of ¥937 million versus ¥11,016 million at the previous fiscal year-end.

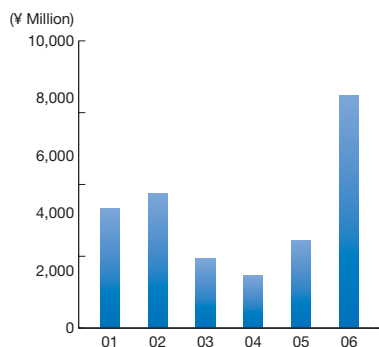
## Outlook for Fiscal 2006, Ending March 31, 2007

The global economy is forecast to recover steadily, driven by expanding economies in China and the United States. Economic revitalization in Japan is expected to gain further momentum. Meanwhile, it is unclear what impact the projected increases in oil prices and interest rates, among others, will have on business performance.

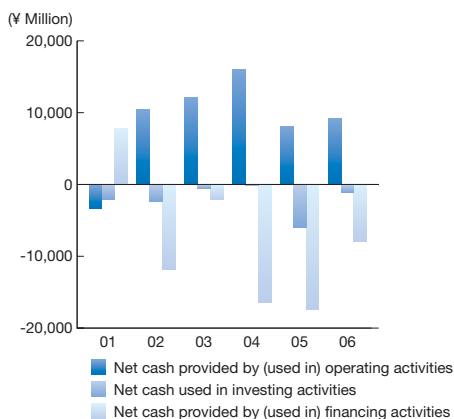
In the automobile industry, the ratio of off-shore production continues to grow as a result of intensified competition in the global market. We expect the environment for in-vehicle computing systems (IVCSs), particularly car navigation systems, to steadily develop, as automobile manufacturers have begun the full-scale introduction of information communication services. We believe that integrated AV-Navigation devices—an area of comparative strength for the Clarion Group—will steadily expand, mainly in the OEM market. We will continue to strengthen our alliance with Hitachi, Ltd., our strategic partner, in order to enhance our strength in R&D and other fields.

Amid such a business environment, we, the Clarion Group, will strive to strengthen our consolidated earnings capacity, improve consolidated cash flows and enhance shareholders' equity. For fiscal 2006, we forecast consolidated net sales of ¥190,000 million, an increase of 3.2% year-on-year, operating income of ¥5,600 million, an increase of 7.1%, and net income of ¥3,000 million, a decrease of 48.8%. The exchange rate is projected to be ¥115 to the U.S. dollar.

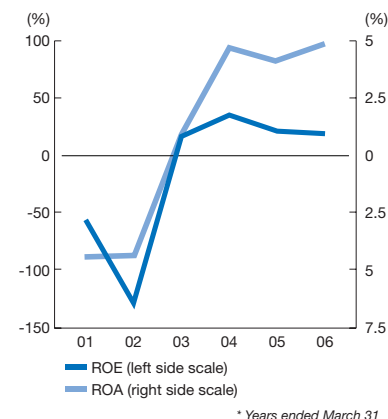
Capital Investment



Cash Flows



ROE and ROA



\* Years ended March 31