Business Environment Results

During the year ending March 31, 2000, the business environment for Clarion and members of the Clarion Group was buoyed in the international arena by the robust performance of the U.S. economy, recovery in Europe driven by strong export demand due to a weaker Euro and the success of Asian economies in finally overcoming the effects of the currency crisis. On the domestic front, however, conditions remained bleak, with consumer spending continuing to decline despite massive public spending initiatives. The situation was further aggravated by a sharp rise in the value of the yen that left some export-oriented firms struggling.

Sales of automobiles, the company's main area of interest, expanded in the U.S. market while continuing to struggle here at home, with production falling below last year's level. One bright spot did appear in the new mini-class car market where sales have been doing well.

In response to these difficult conditions, Clarion seized the initiative and launched an aggressive campaign to introduce new products in both domestic and overseas markets. Helped along by growth in the new mini-class car category, domestic original equipment manufacturer (OEM) sales for the year grew by 10.5% over the previous year to ¥55,310 million ($521.1 million). In overseas markets, however, the increase in unit sales of products was overshadowed by a fall in revenues of 9.1% for the term due to both the weaker dollar and the sliding Euro.

Falling prices for aftermarket and OEM products, in both domestic and overseas markets, contributed to a year-on-year decline in consolidated net sales of 3.9% to ¥191,855 million ($1,807.4 million).

During the year, Clarion introduced special rationalization measures designed to raise productivity and lower the bottom line on cost price and fixed expenses. Such determined efforts, however, floundered against the tide of demands by customers for price reductions that were compounded by foreign exchange factors, namely a weaker dollar and a Euro still seeking its own level. As a result, consolidated operating income went down 52.6% year-on-year to ¥3,332 million ($31.4 million). In the area of consolidated net income, there was a net loss for the year of ¥17,713 million ($166.9 million). Extraordinary losses for the term included one-off costs of ¥5,096 million ($48.0 million) for write-down and disposal of inventories incurred over the course of restructuring efforts to streamline distribution channels and ¥4,645 million ($43.8 million) arising from introduction of new accounting procedures that increased the reserve for accrued employee retirement benefits. Losses were also incurred from the write-down on investments in securities, which came to ¥1,853 million ($17.5 million).

Sales by Category

Car Audio-Visual Equipment

With domestic car production falling below last year's level, Clarion launched special efforts to expand sales of car CD, car television and car navigation systems.

Success in increasing OEM sales in the domestic market was offset by a fall in revenue from overseas due to appreciation of the yen in relation to other currencies. Sales in the car audio-visual equipment category declined by 2.9% from the previous year to ¥173,911 million ($1,638.4 million).

Special Equipment

In the area of commercial karaoke systems, Clarion's efforts to invest in new market development with the spread spectrum (SS) synthesizer karaoke system were thwarted by a drop in business at karaoke rooms and hotels and the general decline of the karaoke market. Sales in this category declined by 5.6% from the previous year to 9,408 million ($88.6 million).

An aggressive drive to boost sales of audio-visual equipment for buses was overshadowed by falling demand for voice-synthesizer PA systems for intracity buses and audio-visual equipment for tour buses. Sales for this category declined by 19.3% to ¥4,141 million ($39.0 million).

Restraints on investment in plants and facilities in general also affected sales of SS wireless modems, with sales declining 18.1% from the previous year to ¥4,393 million ($41.4 million).

Overseas Sales

Strong markets for OEM and aftermarket products in North America and Europe led to growth in unit sales. Despite this, however, a stronger yen in relation to the dollar and the Euro led to an actual decline in yen denominated revenues. On the bright side, exports to the Asia Region grew, buoyed by strong performances, particularly in the recovering Taiwanese and Australian economies.

Dividend Policy

The Clarion policy with regard to dividends is to place top priority on rewarding shareholders with regular dividend payments. Due to the sharp fall in profits for this fiscal period, however, Clarion was forced to forgo payment of dividends for the 1999 fiscal year.

The company will devote maximum effort to improving business results during the current year in order to be able to return profits to shareholders in the form of regular dividend payments.

Outlook

Clarion expects the coming year to bring mild economic recovery based on growth in investment in plants and facilities in information technology related sectors. At the same time, the company will be keeping a watchful eye on conditions in the business environment as apprehension continues over the decline in product prices, employment and future foreign-exchange trends.

The Clarion Group will work together to respond to these difficult conditions by adhering closely to the basic tenets of the management policy set out by the Clarion group. The Clarion Group will work together on developing IT technology in order to create technically superior products, while continuing efforts to strengthen the management system and increase profitability.

We look forward to the continued patronage and support of our shareholders and customers as we implement these efforts.

Ichizo Ishitsubo
Chairman and President