

Annual Report
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Financial Section
for Kenwood

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Corporate Data (As of March 31, 2008)

Corporate Name	Kenwood Corporation
Date of Incorporation	December 21, 1946
Capital	¥11.1 Billion
Location	<ul style="list-style-type: none"> •Head Office /Hachioji Business Center 2967-3, Ishikawa-machi, Hachioji-shi, Tokyo, 192-8525, Japan Phone: +81-42-646-5111 Fax: +81-42-646-7960 •Yokohama Business Center 1-16-2, Hakusan, Midori-ku, Yokohama-shi, Kanagawa, 226-8525, Japan Phone: +81-45-939-7000 Fax: +81-45-939-7090 •Show Room (Kenwood Square Marunouchi) Shin-Kokusai Building, 3-4-1, Marunouchi, Chiyoda-ku, Tokyo, 100-0005, Japan Phone: +81-3-3213-8775 Fax: +81-3-3213-7400
URL	http://www.kenwood.com/

Management Team (As of 27 June, 2008)

Directors and Auditors

Chairman (Representative Director of the Board)	Haruo Kawahara	(Reelected)
President (Representative Director of the Board)	Kazuo Shiohata	(Reelected)
Director of the Board	Hiroyuki Taki	(Reelected)
Director of the Board	Kazuhiro Aigami	(Newly elected)
Director of the Board	Takayoshi Sakamoto	(Newly elected)
Director of the Board (Part-time, External)	Nobuo Seo	(Reelected)
Director of the Board (Part-time, External)	Takenori Kawafune	(Reelected)
Director of the Board (Part-time, External)	Takeo Nagatomo	(Reelected)
Standing Statutory Auditor	Hideaki Kato	(Reelected)
Standing Statutory Auditor	Osamu Hamada	(Reelected)
Statutory Auditor (Part-time)	Koichi Kurosaki	(Reelected)
Statutory Auditor (Part-time)	Shojiro Asai	(Not eligible for reelection)
Statutory Auditor (Part-time)	Akihiko Washida	(Not eligible for reelection)

Executive Officers “*” means Director and the following position

*CEO Kazuo Shiohata

Chairman, Kenwood Environment Council

*Executive Vice President & Executive Officer Hiroyuki Taki

CFO

General Manager, Financial & Accounting Division

Senior Manager, Business Accounting Department, Financial & Accounting Division

*Executive Vice President & Executive Officer Kazuo Aigami

General Executive, Communications Equipment Division

Assistant to CEO; Communications Business

Strategy (Changes in Executive Officers at July 1)

General Manager, Yokohama Business Center

Executive Vice President & Executive Officer Shoichiro Eguchi

Assistant to CEO; Car Electronics Overseas Sales Strategy

Representative, Kenwood Americas Headquarters

President, Kenwood U.S.A. Corporation

*Senior Vice President & Executive Officer Takayoshi Sakamoto

Operation Manager, Corporate Relations Division

CEO, J&K Technologies Corp.

Senior Vice President & Executive Officer Shuntaro Tanaka

Assistant to CEO; E-Business

General Executive, Communications System Division

Chief Engineer, Communications System Division

General Executive, Joint Business Development Project

Senior Vice President & Executive Officer Makoto Inukai

General Executive, Car Electronics Consumer Division

Senior Vice President & Executive Officer Masachika Komiyama

General Executive, Car Electronic OEM Division

Senior Vice President & Executive Officer Tomohiko Yoshimura

General Executive, Procurement Division

Assistant to CEO; Corporate Production and Quality

Senior Vice President & Executive Officer Satoru Maeda

Assistant to CEO; Corporate Technologies & Strategic Products Development, Business Integration

General Executive, Advanced Product Development Center

Senior Manager, Advanced Product Planning Department, Advanced Product Development Center (Changes in Executive Officers at July 1)

*Refer to the Annual Report 2008 Company Profile Section for information on the management structure prior to October 1, 2008.

Financial Highlights

Kenwood Corporation and consolidated subsidiaries
Fiscal years ended March 31

	2004/3	2005/3	2006/3	2007/3	2008/3
Net sales (JPY in million)	178,731	181,112	183,616	169,194	165,262
Operating profit (JPY in million)	12,610	7,061	8,686	5,617	6,259
Ordinary income (JPY in million)	8,541	4,696	4,886	2,339	3,876
Net income (JPY in million)	7,318	4,836	6,104	1,586	3,181
Net income per share (JPY)	34	17	17	4	8
Diluted net income per share (JPY)	16	11	15	—	—
Total assets (JPY in million)	135,763	116,137	109,554	111,220	126,088
Interest-bearing debt (JPY in million)	67,272	31,088	26,263	23,754	51,420
Net debt (JPY in million)	29,885	15,147	12,215	6,782	36,432
Net assets (JPY in million)	20,161	33,132	37,486	39,066	29,925
Shareholder's equity ratio (%)	14.9	28.5	34.2	35.1	23.7
Return on equity (%)	—	—	21.0%*	4.1%*	9.2%
Shareholders' equity ratio at market value (%)	52.2	60.6	91.5	59.1	32.0
Net assets per share (JPY)	(23.03)	66.29	101.97	106.46	81.57
Retained earnings (JPY in million)	(9,777)	13,199	18,316	19,096	21,534
Ratio of cash flow to interest-bearing debts (%)	244.6	200.1	207.4	207.3	757.9
Interest coverage ratio (times)	12.6	13.6	19.9	22.4	11.7
Cash flows from operating activities (JPY in million)	27,502	15,539	12,664	11,456	6,784
Cash flows from investing activities (JPY in million)	(7,674)	(3,513)	(4,320)	(5,218)	(34,589)
Cash flows from financing activities (JPY in million)	(12,783)	(30,333)	(10,673)	(3,717)	26,565
Number of employees	4,440	4,334	4,424	4,483	4,691

* ROE is calculated based on common shareholders' equity at the beginning of the fiscal year. (excluding book value of preferred stock worth 12.5 billion yen from the shareholders' equity at the beginning of the fiscal year)

Disclaimer

Forward-looking statements and charts contained in our documents are based on currently available information and therefore actual results may significantly differ from projected figures depending on various factors. Please do not make any material judgments based on the projections contained herein alone. Our core businesses deals with the rapidly changing electronics sector and factors including technology, demand, price, competitive environment, changes in economic environment, exchange rate fluctuations and many other factors may adversely impact to management results or the financial condition of the company. For details on risks and uncertainties related to our results, financial conditions and other matters deemed important for investment decisions, please refer to "Business and Other Risks" contained in the "Consolidated Annual Summary Report" of Kenwood.

Basic Management Policy

Kenwood Group will see the results of investments in strategic development promoted in the fiscal year ended March 2007, and will promote efforts toward the restructuring and growth of the Car Electronics, Communications Equipment and Home Electronics businesses, and meanwhile, in order to overcome our limitations in realizing growth in a mature industry with stiff competition, and to create new corporate value, we will strive for a medium-to-long term growth strategy through M&A and business alliances, keeping in our sights the reorganization of industry.

Management Strategy for Mid-to-long Term

1. Formulation of a New Mid-term Business Plan

Kenwood Group promoted various measures including strategic development, sale expansion, and recovery of profits, etc. in accordance with our mid-term business plan "Value Creation Plan," starting in the fiscal year ended March 2006, and has succeeded in growing profits through the results of the partial actualization of these in the fiscal year ended March 2008.

We have now formulated a new mid-term business plan, aiming at promoting steady growth of our existing businesses and expansion of corporate value, through actualization of the results of measures to the maximum extent for the fiscal year ended March 2009 and thereafter.

Specifically, we will focus our efforts as presented in "Issues that the Group Must Address" below, setting goals for net sales of JPY200 billion and for operating profit of JPY9 billion for the fiscal year ended March 2011.

2. Effort toward Reorganization of Specialized Manufacturers of Japan —On the Management Integration with JVC

Victor Company of Japan, Limited ("JVC") and Kenwood Corporation entered into a capital alliance agreement on July 24, 2007, in a spirit of equality, with the ultimate goal being management integration.

Both companies consider this to be the first step toward realignment of the Japanese AV specialty manufacturers, and JVC is already implementing structural reforms supported by the August 10, 2007, capital increase through third-party allocation from Kenwood and several investment funds managed by SPARX International (Hong Kong).

Both companies have established J&K Technologies Corp. ("J&K Technologies"), a joint venture in the Car Electronics and Home/Portable Audio ("Home Audio") business, to work on technological development and enhancement of the competitiveness of their products.

Paralleling this, both companies jointly established a committee—the Management Integration Review Committee—to consider and prepare for the management integration. This is seen as the second step toward

industry realignment.

Both companies decided to implement the proposed management integration on October 1, 2008, because (i) JVC completed major structural reforms of its display business aimed at stabilizing its management infrastructure, and Kenwood completed its own structural reforms, which target the car electronics OEM business to improve the profitability of its consumer electronics business, and (ii) it turned out to generate greater synergy through the integration of management resources and provide a new perspective on growth strategies.

Issues that the Group Must Address

1. Structural Reform toward Improvement of Earnings

Kenwood has been striving for the following structural reform with an aim at improving earnings for our unprofitable Car Electronics OEM business and Home Electronics business.

In addition, we will make efforts to reinforce our business competitiveness for further improvements of results in our strong Car Electronics Consumer and Communications Equipment businesses.

1-1. Car Electronics OEM Business (Announced on April 15, 2008)

Sales in the Car Electronics OEM business for the fiscal year ended March 2008 were sluggish due, in addition to the stagnation of automobile sales, to the shorter-than-expected installation rate of genuine products for automobile manufacturers. As it is projected that such conditions will continue in the mid-term, we will strive for improved earnings while maintaining and even expanding net sales through structural cost reforms of the genuine products business and structural business reform via an expansion of the Dealer Option business oriented to automobile dealers and the Device business, which is not strongly affected by automobile sales market trends, aiming at making the business profitable at an early stage.

1-2. Home Electronics Business (Announced on March 21, 2008)

We finished up a withdrawal on non-profitable models and sales areas in the fiscal year ended March 2007, and in the fiscal year ended March 2008 promoted conversion to a high value-added type business structure through the injection of high value-added products, and as a result, the earnings structure was greatly improved and a profit was successfully posted in the second half of the fiscal year.

Toward even further reforms of the profit structure for the fiscal year ended March 2009, Kenwood reorganized the existing business department system as of April 1, 2008 aiming at turning a profit for the full year, and meanwhile consigned a portion of development resources to new business fields where future growth is expected, and also through activation of the results of joint development with JVC, we will explore new fields for growth.

2. Reinforcement of Competitiveness in Business toward Improvement of Results

2-1. Car Electronics Consumer Business

In the Car Audio business where the market environment is tough, we will strive to reinforce its cost competitiveness through exploration of new emerging markets and alliance with JVC (with which a management integration is planned as of October 1, 2008), and meanwhile in the Car Multimedia business we will make efforts for business expansion and profit improvement in Japanese and overseas markets.

•Audio Business Reinforcement (Partially announced on May 1, 2008)

We will reconsider the alliance relationship with the Brazilian major automobile goods manufacturer, Visteron Corporation (head office: Michigan State, U.S.), Visteron Sistemas Automotivos Ltda, and start direct sales of car electronics consumer products in Brazil upon succeeding to the sales network of the relevant company, aiming at expansion of sales in that market through direct entry into the entire South American market. Additionally, in Russia as well, our registration having been completed, we will start full-scale operation of a distributor company, in promoting exploration of emerging markets where future growth can be predicted.

Moreover, through activation of alliance with JVC (with which a management integration as of October 1, 2008 is planned), we will work toward reinforcement of cost competitiveness by lightening development costs through joint development of platforms, etc., and alliance in production and procurement aspects, and reinforcement of presence in markets.

•Sales Expansion and Reinforcement of Profitability in Multimedia Business (Announced on March 25, 2008)

In the Multimedia business, which is a growing field for us, we are striving to enhance our line-up of new concept flash memory car navigation systems upon the integration of Kenwood's automobile-installed audio and video systems (TV/DVD/CD receiver) and Garmin Ltd. ("Garmin"), a U.S. major PND (Portable/Personal Navigation Device) manufacturer, Garmin's PND navigation core parts, and have expanded sales territories from Europe and United States to Asia, Middle East and Oceania, etc., with the number of units shipped worldwide for the fiscal year ended March 2008 surpassing the year-beginning plan, to approximately 120,000 units, which is about double that of the previous fiscal year.

Moreover, aiming at finding even stronger synergies, on December 2007 Kenwood entered into an exclusive sales agreement on an AV-integrated car navigation system with Garmin in December 2007. Going forward we will reinforce our car navigation systems for the Japanese market and aim at business expansion and enhancement of profitability in the Car Multimedia business.

2-2. Communications Equipment Business

In the LMR (Land Mobile Radio) business, Kenwood's largest fundamental business, where it boasts the second largest global market share, based on stable sales of analog LMR equipment, it will strive to expand sales of digital LMR equipment, where take-up has been growing, centered on Zetron, Inc., ("Zetron") a U.S. systems-based communications company that was converted to one of subsidiaries of Kenwood on May 10, 2007.

•Promotion of Digitalization (Announced partially on December 21, 2007)

In the United States, which is the largest market for LMR equipment, digitization of radio formats has been progressing and digital LMR equipment based on P25, a digital radio format for the Public Safety market, including police and fire stations, is spreading. We will promote exploration of new customers through the activation of EADS Secure Networks North America*, and meanwhile attempt to expand sales of digital LMR equipment based on P25.

Additionally, we have developed digital LMR equipment in accordance with a new digital radio format optimum, not P25, for the Business & Industry (private-sector industry) market, where future growth is anticipated, and started sales in December 2007. Going forward, making use of the characteristics of the capability to easily transfer from analog systems resulting from the capability to build systems on a small-to-medium scale, we will make full-scale efforts for sales expansion and also expand this into other areas including Europe.

*wholly-owned subsidiary of EADS North America, the North America base of major European aerospace defense corporation EADS (European Aeronautic Defense and Space Company) Group.

•Expansion of Business Areas from Land Mobile Radio Terminal to Land Mobile Radio System Solution (Announced on October 1, 2007)

In parallel with promotion of digitalization, in order to expand the business area from supply of LMR terminals to supply of LMR system solutions, we converted Zetron, Inc., a U.S. systems-based communications company, to a subsidiary in May 2007. In October 2007, we newly established the Communications System Division, and integrated the LMR system business for which we accepted assignment from Toyo Communications Equipment Co., Ltd. (present Epson Toyocom Corporation) in June 2004, and other businesses, and built an optimal organizational system for promotion of land mobile radio systems that is different from land mobile radio terminals.

For the future, we will integrate our resources on expansion of business worldwide centering on LMR terminals, and resources of technologies and know-how assigned from Zetron and Toyo Communications Equipment, aiming at a 10 to 20% expansion per year of net sales of LMR system business through synergies.

Operating Results

Overview of Fiscal Year Ended March 2008

Concerning the world economy during the fiscal year under review, the U.S. economy has seen a slowdown due to the consequences of the Subprime home mortgage crisis, and European and Asian economies have also showed indications of recession.

Japanese economy has seen a recovery due to favorable business results in the first half, along with stable capital investments. However, price rise in crude oil and materials and yen appreciation for the end of fiscal year has also shown indications of recession.

For Kenwood Group's business results under such circumstances, going into the fourth quarter, the rapid rise of the yen against the dollar had a large effect on net sales, which decreased by 2.3% year-on-year, while on a local currency basis, excluding the effects of currency fluctuations, net sales increased by 4.1% year-on-year.

Furthermore, earnings from our Car Electronics and Home Electronics businesses were improved compared to the previous fiscal year, halving the loss, and as a result, operating profit, ordinary income and net income, on which the impact of currency fluctuations is minor, thanks to the effects of forward exchange, outperformed the previous fiscal years' results, by 11.4%, 65.7% and 100.5%, respectively.

Sales and Income

Consolidated Operating Results

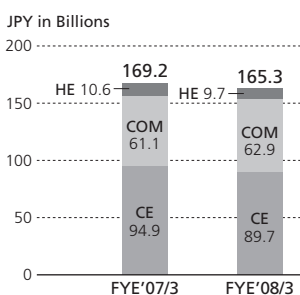
•Net Sales

Since Kenwood has the accounting policy of converting aggregated foreign currency denominated overseas sales from the beginning of the year into yen currency using the year-end exchange rate, the abrupt yen rise in the fourth quarter impacted the performance for the entire year, including the nine months up to the third quarter of the fiscal year.

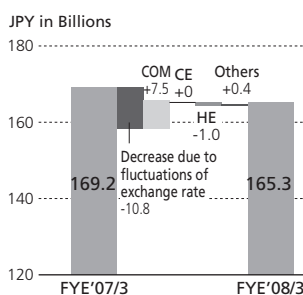
As the impact of this yen rise factored in the decline by about JPY10.8 billion compared to the year-beginning plan, consolidated net sales decreased by approximately JPY3.9 billion (or 2.3%) from the previous fiscal year to JPY165,262 million.

For reference, on a local currency base, sales of the Car Electronics Consumer business expanded and supplemented the decrease in sales in the OEM business, and in addition, due to the effects of the addition of net sales of Zetron that was converted to a subsidiary on May 10, 2007, in the Communications Equipment business, net sales increased by 4.1% year-on-year.

Consolidated Net Sales



Increase/Decrease Factors (YoY)

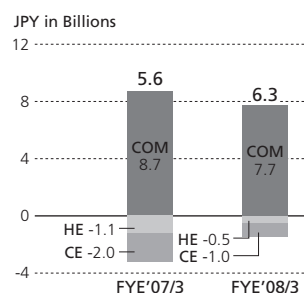


•Operating Profit

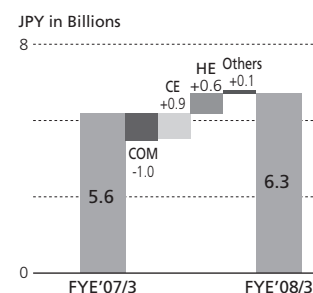
Although earnings in the Car Electronics OEM business deteriorated under the impact of the decline in sales, the Car Electronics Consumer business was improved thanks to the effects of the expansion of sales, aiding overall earnings for the Car Electronics business in improving. In addition, earnings in our Home Electronics business also improved due to the effects of the change of strategy, and as a result, consolidated operating profit increased by approximately JPY600 million (or 11.4%) from the previous fiscal year to JPY6,259 million.

The impact of currency fluctuations on earnings is minor, thanks to the effects of forward exchange.

Consolidated Operating Profit



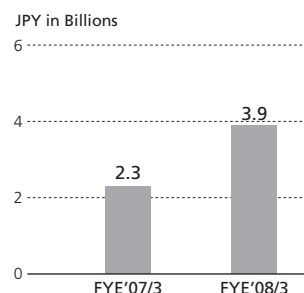
Increase/Decrease Factors



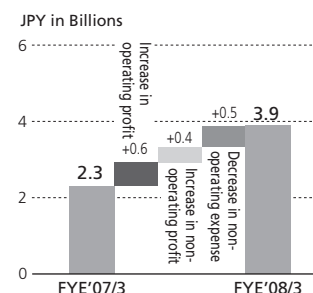
•Ordinary Income

In addition to the increase in consolidated operating profit, there was non-operating profit relevant to intellectual property rights that was not predicted at the beginning of the year and that improved non-operating profit and the expense balance, and as a result, consolidated ordinary income increased approximately JPY1.5 billion (or 65.7%) from the previous fiscal year to JPY3,876 million.

Consolidated Ordinary Income



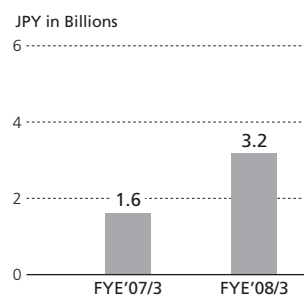
Increase/Decrease Factors



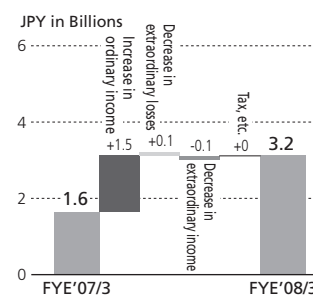
•Net Income

In addition to the effects of the increase in ordinary income, since retirement benefits paid to directors, which were posted as extraordinary loss in the previous fiscal year, did not accrue in the current fiscal year, the extraordinary profit and expense balance was improved, and as a result consolidated net income increased by approximately JPY1.6 billion (or 100.5%) from the previous fiscal year to JPY3,181 million.

Consolidated Net Income



Increase/Decrease Factors



Net Sales and Earnings by Segment

•Car Electronics Business

Although on a local currency base net sales were almost the same as those of the previous fiscal year, since the Consumer business, which accounts for a high percentage of overall sales, was affected by the strong yen trend, and since OEM business sales remained sluggish due to the stagnation of automobile sales and sluggishness in the installation rate of genuine products for automobile manufacturers, net sales underperformed those of the previous fiscal year.

For reference, on a local currency base, sales of new-concept car

navigation systems through collaboration with Garmin have been strong, centering on overseas markets, and introduction of new audio products lines has been going well, and therefore the results were about the same as those for the previous fiscal year.

Although earnings in the OEM business deteriorated under the impact of the reduction in sales, earnings for the overall Car Electronics business were improved compared to those of the previous fiscal year, with a halving of the loss, thanks to the improvement in Consumer business profits due to the effects of the increase in sales, and, in addition, because of the effects of forward exchange.

•Communications Equipment Business

In the aspect of sales, our wireless radio equipments business, a large percentage of which is made up of overseas sales, was affected by the yen rise; however, due to the effects from May 10th of the consolidation of sales of Zetron, which was converted to a subsidiary, net sales outperformed the previous fiscal year's results.

For reference, on a local currency base, in addition to the increased sales of wireless radio equipments business compared to those of the previous fiscal year's results and newly consolidated sales of Zetron, as a result of the increase in net sales for the PDC (Personal Digital Cellular phone) business, due to aggressive sales promotion measures by PDC carriers and a change of strategy by Kenwood Group, net sales outperformed the previous fiscal year's results.

In earnings, in addition to the effects of currency fluctuations as a factor in the decline, due to the effects of the posting of non-permanent expenses pertaining to the conversion of Zetron to a subsidiary, and depreciation cost of intangible fixed assets, earnings for the entire Communications Equipment business undershot those of the previous fiscal year.

•Home Electronics Business

Since sales of new products groups did not exhibit strong growth due to the effects of market trends in the third quarter of the current fiscal year, which is the biggest selling season during the year, we were unable to absorb the impact of the previous fiscal year's strategy change by squeezing out some conventional audio products, and net sales were below the previous fiscal year's results.

However, in earnings, we attempted to enhance our line-up through the injection of high value-added products, and meanwhile promoted conversion to a high value-added type business structure by extending premium long tail strategies, and as a result, a profit was successfully posted in the second half of the fiscal year, and loss throughout the fiscal year was reduced by half, compared to the previous fiscal year.

		(JPY in Million)			
Segment		Previous Fiscal Year	Current Fiscal Year	Increase or Decrease	
Car Electronics	Net Sales	94,939	89,666	-5,273	-5.6%
	Operating Profit	-1,975	-1,031	+944	—
Communications Equipment	Net Sales	61,096	62,940	+1,844	+3.0%
	Operating Profit	8,670	7,680	-990	-11.4%
Home Electronics	Net Sales	10,584	9,680	-904	-8.5%
	Operating Profit	-1,125	-545	+580	—
Others	Net Sales	2,575	2,976	+401	+15.6%
	Operating Profit	47	155	+108	+229.8%
Total	Net Sales	169,194	165,262	-3,931	-2.3%
	Operating Profit	5,617	6,259	+642	+11.4%
	Ordinary Income	2,339	3,876	+1,536	+65.7%
	Net Income	1,586	3,181	+1,594	+100.5%

Consolidated Financial Position

Analysis of Assets, Liabilities and Net Assets

Total assets as of the end of the fiscal year under review stood at JPY126,088 million, representing an increase by approximately JPY14.9

billion from the previous fiscal year end, reflecting that fact that, while there was some decline in accounts receivable, etc., due to the increase of intangible fixed assets as a result of conversion of Zetron into a subsidiary, and the increase of investment securities as a result of the subscription to the third-party allocation capital increase of JVC.

As for net assets, while retained earnings increased as a result of the posting of net income, and shareholders' equity increased, because of the impact of the decline in the stock price of investment securities such as JVC stock held by us, unrealized gain and loss on available-for-sale securities decreased, and also the foreign currency translation adjustment account decreased under the effect of exchange fluctuations, and therefore net assets decreased approximately JPY9.1 billion from the previous fiscal year end to JPY29,925 million, as a result.

Accordingly, the shareholders' equity ratio declined by 11.4 percentage points from the end of the previous fiscal year end to finish at 23.7%.

Interest-bearing debts increased by approximately JPY27.7 billion from the previous fiscal year to JPY51,420 million, and net debts also increased approximately JPY29.7 billion from the previous fiscal year to JPY36,432 million, as Kenwood procured funds required for the conversion of Zetron into a subsidiary and subscription to the third-party allocation capital increase of JVC through short-term borrowings from financial institutions.

Cash Flow Analysis

Cash flows from operating activities under review stood at JPY6,784 million, down by approximately JPY4.7 billion from the previous fiscal year. This was attributable to the fact that there was an increase in required operating funds due to a decrease of accounts payable under the effects of the carrying forward of the settlement to the current year as a result of the fact that the previous fiscal year-end was a holiday, and an increase in inventories, etc., although there were revenues from posting net income.

Cash flows from investing activities increased approximately JPY29.4 billion from the previous fiscal year to JPY34,589 million. This was attributable to expenditures accompanying the acquisition of stock of Zetron and JVC.

Cash flows from financing activities increased by approximately JPY30.3 billion from the previous fiscal year to JPY26,565 million. This was attributable to the fact that Kenwood procured funds required for investment activities using short-term borrowings from financial institutions.

(Ref.) Changes in Cash Flow-Related Indices

	FY2003	FY2004	FY2005	FY2006	FY2007
Shareholders' Equity Ratio (%)	14.9	28.5	34.2	35.1	23.7
Shareholders' Equity Ratio at Market Value (%)	52.2	60.6	91.5	59.1	32.0
Ratio of Interest-Bearing Debts to Cash Flow (%)	244.6	200.1	207.4	207.3	757.9
Interest Coverage Ratio (times)	12.6	13.6	19.9	22.4	11.7

(Calculation Method)

- Shareholders' equity ratio = Net assets / Total assets
- Shareholders' equity ratio at market value = Market capitalization / Total assets
- Ratio of interest-bearing debts to cash flow = Interest-bearing debts / Operating cash flows
- Interest coverage ratio = Operating cash flows / Interest payment

Notes:

- Each index is calculated based on consolidated financial figures.
- Market capitalization is calculated by multiplying closing stock price at the end of the fiscal year under review by the number of outstanding shares at the end of the fiscal year under review (after deducting the number of treasury shares).
- Interest-bearing debts include all debts whose interests are paid in the consolidated balance sheets. As for cash and cash equivalents, "Cash and cash equivalents" in the consolidated balance sheets is used.
- As for operating cash flows and interest payment figures, "Cash flows from operating activities" and "Interest paid" of the consolidated statements of cash flows are used.

Consolidated Balance Sheets

Kenwood Corporation and Consolidated Subsidiaries
As of March 31, 2008 and 2007

ASSETS	Millions of yen		Thousands of
	2008	2007	U.S. dollars (Note 1(a)) 2008
Current Assets:			
Cash and cash equivalents	¥ 14,952	¥ 16,934	\$ 149,236
Time deposits	36	38	359
Receivables —			
Trade notes and accounts receivable	28,467	29,892	284,130
Less: Allowance for doubtful receivables	(584)	(752)	(5,829)
Inventories —			
Finished goods	18,478	19,109	184,430
Work in process, raw materials and supplies	8,642	7,295	86,256
Deferred tax assets (Note 10)	529	453	5,280
Prepaid expenses and other	5,299	4,595	52,890
Total current assets	<u>75,819</u>	<u>77,564</u>	<u>756,752</u>
Property, Plant and Equipment (Note 4):			
Land (Note 5)	9,414	9,443	93,961
Buildings and structures	16,753	17,042	167,212
Machinery and equipment	19,526	20,284	194,890
Tools, furniture and fixtures	13,738	14,228	137,119
Construction in progress	-	4	-
	<u>59,431</u>	<u>61,001</u>	<u>593,182</u>
Less: Accumulated depreciation	(39,523)	(39,931)	(394,480)
Net property, plant and equipment	<u>19,908</u>	<u>21,070</u>	<u>198,702</u>
Investments and Other Assets:			
Investment securities (Note 2)	15,647	3,931	156,173
Investments in and advances to			
unconsolidated subsidiaries and associated companies	300	20	2,995
Goodwill (Notes 3 and 15)	6,009	201	59,976
Software	5,655	5,943	56,443
Other intangible assets (Note 15)	1,300	423	12,975
Deferred tax assets (Note 10)	380	675	3,793
Other	1,131	1,479	11,289
Less: Allowance for doubtful accounts	(60)	(85)	(599)
Total investments and other assets	<u>30,362</u>	<u>12,587</u>	<u>303,045</u>
Total	<u>¥ 126,089</u>	<u>¥ 111,221</u>	<u>\$ 1,258,499</u>

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2008	2007	2008
Current Liabilities:			
Short-term borrowings (Note 6)	¥ 31,420	¥ 3,755	\$ 313,604
Trade notes and accounts payable	15,676	19,169	156,463
Other accounts payable	6,899	7,567	68,859
Income taxes payable	569	529	5,679
Accrued expenses	7,655	7,106	76,405
Deferred tax liabilities (Note 10)	-	2	-
Other	1,612	1,206	16,090
Total current liabilities	<u>63,831</u>	<u>39,334</u>	<u>637,100</u>
Long-term Liabilities:			
Long-term debt (Note 6)	20,000	20,000	199,621
Liability for retirement benefits (Note 7)	9,623	9,609	96,048
Deferred tax liabilities (Note 10)	2,392	2,882	23,875
Other	317	330	3,163
Total long-term liabilities	<u>32,332</u>	<u>32,821</u>	<u>322,707</u>
Commitments and Contingent Liabilities (Notes 4, 12 and 13)			
Equity (Note 8):			
Common stock, authorized - 672,500,000 shares issued - 367,524,995 shares in 2008 and 2007	11,059	11,059	110,380
Capital surplus	13,374	13,374	133,486
Retained earnings	21,534	19,096	214,932
Net unrealized gain (loss) on available-for-sale securities	(7,319)	1,097	(73,051)
Deferred gain (loss) on derivatives under hedge accounting	-	71	-
Land revaluation surplus (Note 5)	2,954	2,954	29,484
Foreign currency translation adjustments	(11,558)	(8,480)	(115,361)
Total	<u>30,044</u>	<u>39,171</u>	<u>299,870</u>
Less: Treasury stock, at cost; Common Stock, 651,742 shares in 2008 and 576,494 shares in 2007	(118)	(105)	(1,178)
Total equity	<u>29,926</u>	<u>39,066</u>	<u>298,692</u>
Total	¥ <u>126,089</u>	¥ <u>111,221</u>	\$ <u>1,258,499</u>

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2008	2007	2008
Common Stock (Note 8) :			
Beginning balance	¥ 11,059	¥ 11,059	\$ 110,380
Ending balance	¥ <u>11,059</u>	¥ <u>11,059</u>	\$ <u>110,380</u>
Capital Surplus (Note 8) :			
Beginning balance	¥ 13,374	¥ 13,374	\$ 133,486
Ending balance	¥ <u>13,374</u>	¥ <u>13,374</u>	\$ <u>133,486</u>
Retained Earnings (Note 8) :			
Beginning balance	¥ 19,096	¥ 18,317	\$ 190,598
Net income	3,181	1,586	31,750
Cash dividends paid	(734)	(734)	(7,326)
Transfer to employee welfare fund	(9)	(13)	(90)
Bonuses paid to directors and corporate auditors	-	(60)	-
Ending balance	¥ <u>21,534</u>	¥ <u>19,096</u>	\$ <u>214,932</u>
Net Unrealized Gain (Loss) on Available-for-sale Securities:			
Beginning balance	¥ 1,097	¥ 1,890	\$ 10,949
Net decrease of unrealized gain of available-for-sale securities	(8,416)	(793)	(84,000)
Ending balance	¥ <u>(7,319)</u>	¥ <u>1,097</u>	\$ <u>(73,051)</u>
Deferred Gain (Loss) on Derivatives under Hedge Accounting :			
Beginning balance	¥ 71	¥ -	\$ 709
Net increase (decrease) of gain on deferred hedge	(71)	71	(709)
Ending balance	¥ <u>-</u>	¥ <u>71</u>	\$ <u>-</u>
Land Revaluation Surplus (Note 5):			
Beginning balance	¥ 2,954	¥ 2,954	\$ 29,484
Ending balance	¥ <u>2,954</u>	¥ <u>2,954</u>	\$ <u>29,484</u>
Foreign Currency Translation Adjustments:			
Beginning balance	¥ (8,480)	¥ (10,021)	\$ (84,639)
Net increase (decrease) of foreign currency translation adjustments	(3,078)	1,541	(30,722)
Ending balance	¥ <u>(11,558)</u>	¥ <u>(8,480)</u>	\$ <u>(115,361)</u>
Treasury Stock, at cost, Common Stock:			
Beginning balance	¥ (105)	¥ (86)	\$ (1,048)
Repurchase of treasury stock	(13)	(19)	(130)
Ending balance	¥ <u>(118)</u>	¥ <u>(105)</u>	\$ <u>(1,178)</u>
Total Equity	¥ <u>29,926</u>	¥ <u>39,066</u>	\$ <u>298,692</u>
Thousands of shares			
Number of Outstanding Shares:			
Beginning balance	366,949	367,038	
Repurchase of treasury stock	(76)	(89)	
Ending balance	<u>366,873</u>	<u>366,949</u>	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of
	2008	2007	U.S. dollars (Note 1(a)) 2008
Operating Activities:			
Income before income taxes	¥ 4,073	¥ 2,517	\$ 40,653
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Income taxes-paid	(671)	(647)	(6,697)
Depreciation and amortization	6,897	6,950	68,839
Goodwill amortization	395	59	3,943
Provision for doubtful receivables	(143)	(19)	(1,427)
Loss on disposal of property, plant and equipment	311	98	3,104
Gain on sales of property, plant and equipment, net	(46)	(84)	(459)
Gain on sales of investment securities	(473)	(588)	(4,721)
Loss on impairment of investment securities	46	42	459
Equity in losses of affiliate	148	-	1,477
Changes in assets and liabilities:			
Decrease (Increase) in trade notes and accounts receivable	(33)	827	(329)
Decrease (Increase) in inventories	(1,533)	388	(15,301)
Increase (Decrease) in trade notes and accounts payable	(2,678)	1,475	(26,729)
Increase in retirement benefits	13	210	130
Other, net	479	229	4,779
Net cash provided by operating activities	<u>6,785</u>	<u>11,457</u>	<u>67,721</u>
Investing Activities:			
Proceeds from sales of property, plant and equipment	39	481	389
Proceeds from sales of investment securities	702	806	7,007
Purchases of property, plant and equipment	(2,527)	(2,408)	(25,222)
Purchases of investment securities	(21,306)	(1)	(212,656)
Purchases of software and other intangibles	(3,471)	(4,102)	(34,644)
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 14)	(8,024)	-	(80,088)
Other, net	(2)	6	(20)
Net cash used in investing activities	<u>(34,589)</u>	<u>(5,218)</u>	<u>(345,234)</u>
Financing Activities:			
Increase (Decrease) in short-term borrowings, net	27,386	(22,796)	273,341
Proceeds from long-term debt	-	19,925	-
Cash dividends paid	(721)	(729)	(7,196)
Other, net	(99)	(118)	(989)
Net cash provided by (used in) financing activities	<u>26,566</u>	<u>(3,718)</u>	<u>265,156</u>
Foreign Currency Translation Adjustments			
on Cash and Cash Equivalents	(744)	404	(7,426)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,982)	2,925	(19,783)
Cash and Cash Equivalents			
at Beginning of Year	<u>16,934</u>	<u>14,009</u>	<u>169,019</u>
Cash and Cash Equivalents at End of Year	¥ 14,952	¥ 16,934	\$ 149,236

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2008 and 2007

1. Significant Accounting Policies

The following is a summary of the significant accounting policies adopted by Kenwood Corporation (the "Company") and its consolidated subsidiaries in the preparation of the accompanying consolidated financial statements.

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the consolidated financial statements filed with the Financial Services Agency as required by the Financial Instruments and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under Japanese GAAP but is presented herein as additional information.

Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and have been made at the rate of ¥100.19 to \$1, the approximate rate of exchange at March 31, 2008. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant 42 (39 in 2007) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Komagane Kenwood LLC was excluded from scope of consolidation because the company was liquidated during the fiscal year ended March 31, 2008. Zetron, Inc., Zetron UK Ltd., Zetron Australasia Pty Ltd. and Zetron Air Systems Pty Ltd. became consolidated subsidiaries since fiscal year ended March 31, 2008 as the company acquired shares of these companies on May 10, 2008. J&K Technologies Ltd became an associated company and the equity method has been applied since fiscal year ended March 31, 2008 as it was newly established.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary ("goodwill" or "negative goodwill") is being amortized over five to twenty years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material intercompany profit included in assets resulting from transactions within the Group is eliminated.

(c) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, and commercial paper, all of which mature or become due within three months of the date of acquisition.

(d) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

(e) Foreign Currency Financial Statements

In translating the financial statements of foreign subsidiaries and associated companies into Japanese yen, all assets and liabilities and revenues and expenses are translated at the current exchange rates in effect at balance sheet date, except for equity which is translated at the historical exchange rates in effect at the time of the transactions. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

(f) Inventories

Inventories maintained by the Company and its domestic subsidiaries are principally stated at average cost. Inventories maintained by foreign subsidiaries are principally stated at the lower of cost, determined by the first-in, first-out method, or market.

(g) Depreciation and Amortization

Depreciation of property, plant and equipment is principally computed on the declining-balance method for the Company and its domestic subsidiaries and on the straight-line method for foreign subsidiaries over their estimated useful lives.

The estimated useful lives are as follows:

Buildings and structures	2 to 60 years
Machinery and equipment	2 to 16 years
Tools, furniture and fixtures	2 to 20 years

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized.

Software for internal use is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over their estimated useful lives (five years). Software installed in products is carried at cost less accumulated amortization, which is calculated by the proportion of the actual sales volume of the products during the current year to the estimated total sales volume over the estimated salable years of the products or by the straight-line method over the estimated salable years of the products (one to five years), considering the nature of the products. Goodwill and other intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method over five to twenty years for goodwill and five to fifteen years for other intangible assets.

(h) Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is higher of the discounted cash flows from the continued use and eventual disposition of the asset or net selling price at disposition.

(i) Marketable and Investment Securities

The Company has classified all debt and equity securities as available-for-sale securities based on management's intention. Available-for-sale securities other than non-marketable are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(j) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying

currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the Company and its wholly-owned domestic subsidiaries.

(k) Leases

All leases of the Company and domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(l) Derivative Financial Instruments

The Group uses foreign currency forward contracts and interest rate swaps as a means of hedging exposure to foreign currencies and interest risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures for export sales and procurement of raw materials from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Forward contracts applied for forecasted transactions are also measured at fair value and the unrealized gains / losses are deferred until the underlying transactions are completed.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

(m) Stock Issuance Costs

Stock issuance costs, which are capitalized and included in other assets, net of accumulated amortization, are amortized using the straight-line method over three years.

(n) Liability for Retirement Benefits

The Company has a funded defined benefit pension plan covering substantially all employees.

The Company and domestic consolidated subsidiaries account for the liability for retirement benefits based on projected benefit obligations and fair value of plan assets at the balance sheet date.

Prior service costs are amortized using the straight-line method over five years, which is less than the average remaining years of service of the employees.

Actuarial gains or losses are recognized in expenses mainly using the straight-line method over ten years, which are less than the average remaining years of service of the employees, commencing with the succeeding period.

The transitional obligation as of April 1, 2000, is being amortized over fifteen years.

(o) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the accompanying consolidated financial statements for the following year upon the Board of Directors' approval.

(p) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not presented in accompanying consolidated financial statements as the Company does not have any dilutive items.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends to be paid after the end of the year.

(q) New Accounting Pronouncements Measurement of Inventories

Under generally accepted accounting principles in Japan, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable.

On May 17, 2006 the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements".

The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

(r) Business Combination

In October 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, "Accounting for Business Combinations", and in December 2005 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures". These new accounting pronouncements were effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

The Company acquired 100% of the shares of Zetron, Inc. from Zetron Holdings, Inc. on May 10, 2007 and accounted for it by the purchase method of accounting, making Zetron, Inc. a wholly-owned subsidiary of the Company.

2. Investment Securities

All the debt and equity securities, classified as available-for-sale securities, are included in non-current investment securities. The carrying amounts and aggregate fair values of the available-for-sale securities as of March 31, 2008 and 2007 were as follows:

	2008				2007			
	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 22,691	¥ 502	¥ (7,635)	¥ 15,558	\$ 226,480	\$ 5,010	\$ (76,205)	\$ 155,285
Total	¥ 22,691	¥ 502	¥ (7,635)	¥ 15,558	\$ 226,480	\$ 5,010	\$ (76,205)	\$ 155,285

	2007			
	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 2,064	¥ 1,750	¥ (13)	¥ 3,801
Total	¥ 2,064	¥ 1,750	¥ (13)	¥ 3,801

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥703 million (\$7,017 thousand) and ¥809 million, respectively. Gross realized gains on these sales for the years ended

March 31, 2008 and 2007 computed on the moving average cost basis, were ¥473 million (\$4,721 thousand) and ¥588 million.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 are as follows:

	Carrying amount		
	Millions of yen	2007	Thousands of U.S. dollars
	2008	2007	2008
Equity securities	¥ 89	¥ 130	\$ 888
Total	¥ 89	¥ 130	\$ 888

3. Goodwill

Goodwill at March 31, 2008 and 2007 consisted of following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	2008	2007	2008
Consolidated goodwill	¥ 5,816	¥ 67	\$ 58,050
Purchased goodwill	193	134	1,926
Total	¥ 6,009	¥ 201	\$ 59,976

4. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were ¥52 million (\$519 thousand) and ¥231 million for the years ended March 31, 2008 and 2007, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	Acquisition Cost	Accumulated Depreciation	Net leased Property	Acquisition Cost	Accumulated Depreciation	Net leased Property	Acquisition Cost	Accumulated Depreciation	Net leased Property
Machinery and equipment	¥ 34	¥ 30	¥ 4	¥ 314	¥ 291	¥ 23	\$ 339	\$ 299	\$ 40
Tools, furniture and fixtures	-	-	-	151	124	27	-	-	-
Others	-	-	-	22	20	2	-	-	-
Total	¥ 34	¥ 30	¥ 4	¥ 487	¥ 435	¥ 52	\$ 339	\$ 299	\$ 40

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	2008	2007	2008
Due within one year	¥ 3	¥ 51	\$ 30
Due after one year	1	4	10
Total	¥ 4	¥ 55	\$ 40

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, computed by straight-line method and the interest method are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	2008	2007	2008
Depreciation expense	¥ 48	¥ 216	\$ 479
Interest expense	¥ 1	¥ 5	\$ 10

5. Land Revaluation Surplus

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2000. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity.

There was no effect on the consolidated statements of income.

Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account

and related deferred tax liabilities. The details of the one-time revaluation as of March 31, 2000 were as follows:

	Millions of yen
Land before revaluation:	¥ 3,984
Land after revaluation:	¥ 8,966
Land revaluation surplus, net of income taxes of ¥2,028 million:	¥ 2,954

As of March 31, 2008, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥2,373 million (\$23,685 thousand).

6. Short-term Borrowings and Long-Term Debt

Short-term borrowings, which generally consist of notes to banks and bank overdrafts, are due within one year. The interest rates on these

borrowings ranged from 1.26% to 5.18% and 1.26% to 6.02% as of March 31, 2008 and 2007, respectively.

Long-term debt as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Banks, 1.50%, due through 2009	¥ 20,000	¥ 20,000	\$ 199,621
Total	20,000	20,000	199,621
Long-term debt, less current portion	¥ 20,000	¥ 20,000	\$ 199,621

The aggregate annual maturities of long-term debt as of March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ -	\$ -
2010	20,000	199,621
Total	¥ 20,000	\$ 199,621

As of March 31, 2008, no assets were pledged as collateral for short-term borrowings and long-term debt.

Outstanding bank revolving loans contracted, but not provided for as of March 31, 2008 were as follows:

	2008	
	Millions of yen	Thousands of U.S. dollars
Credit facilities	¥ 20,000	\$ 199,621
Used	1,800	17,966
Unused	¥ 18,200	\$ 181,655

Outstanding bank commitment lines contracted, but not provided for as of March 31, 2008 were as follows:

	2008	
	Millions of yen	Thousands of U.S. dollars
Credit facilities	¥ 30,000	\$ 299,431
Used	28,100	280,467
Unused	¥ 1,900	\$ 18,964

(Financial covenant)

Majority of short-term borrowings and long-term debt at March 31, 2008 are subject to the financial covenants under agreements with banks. The following conditions are required to be met by the Company (When the covenants set several conditions, the strictest condition is presented below):

- (1) keep the total equity more than 75% of the prior year for both consolidated balance sheet of the Group and non-consolidated balance sheet of the Company at the end of fiscal year and half fiscal year.
- (2) keep interest-bearing liabilities (i.e. long-term debt, short-term

borrowings, corporate bonds, etc.) under ¥80,000 million (\$798,482 thousand).

(3) avoid operating loss on the Group's consolidated statement of income. In the case the Company breaches these conditions, it is possible that the Company will be required to repay its obligation in a lump sum and unused credit facilities cannot be utilized.

7. Liability for Retirement Benefits

The Company has a funded defined benefit pension plan, which covers all employees of the Company. Under the plan, employees terminating their employment after more than ten years of participation

or upon reaching the age of 60 are entitled to pension benefits. Certain consolidated subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

The liability for retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Projected benefit obligation	¥ 22,548	¥ 21,220	\$ 225,052
Fair value of plan assets	(7,021)	(6,979)	(70,077)
Unrecognized actuarial gain	(2,752)	(1,040)	(27,468)
Unrecognized prior service cost	33	48	329
Unrecognized transitional obligation	(3,185)	(3,640)	(31,788)
Net liability	¥ 9,623	¥ 9,609	\$ 96,048

Note: Some consolidated subsidiaries use simple method for calculation.

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Service cost	¥ 857	¥ 830	\$ 8,554
Interest cost	401	385	4,002
Expected return on plan assets	(206)	(230)	(2,056)
Amortization of prior service cost	(15)	(18)	(150)
Recognized actuarial loss	280	255	2,795
Amortization of transitional obligations	456	455	4,551
Net periodic retirement benefit costs	¥ 1,773	¥ 1,677	\$ 17,696

Note: The periodic retirement benefits cost on the consolidated subsidiaries using simple method for calculation is included in service cost.

Assumptions used for the years ended March 31, 2008 and 2007 are set forth as follows:

	2,008	2,007
Discount rate	mainly 2.0%	mainly 2.0%
Expected rate of return on plan assets	mainly 3.0%	mainly 4.0%
Amortization period of prior service cost	5 years	5 years
Recognition period of actuarial gain / loss	10 years	10 years
Amortization period of transitional obligation	15 years	15 years

8. Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends at any time during the fiscal year (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate.

The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation

is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors.

The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase

both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. Research and Development Costs

Research and development costs charged to income were ¥1,293 million (\$12,905 thousand) and ¥1,108 million for the years ended

March 31, 2008 and 2007, respectively.

10. Income Taxes

Under the consolidated corporate-tax system, the normal effective statutory tax rate of the Company and domestic subsidiaries was approximately 40.7% for the years ended March 31, 2008 and 2007.

The tax effects of temporary differences and tax loss carry-forwards which resulted in deferred tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Deferred Tax Assets:			
Impairment of investment securities	¥ 843	¥ 830	\$ 8,414
Tax loss carryforwards	7,628	7,760	76,135
Liability for employees' retirement benefits	3,822	3,710	38,148
Other	2,828	2,946	28,226
Less: valuation allowance	(14,212)	(14,118)	(141,850)
Total	¥ 909	¥ 1,128	\$ 9,073

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Deferred Tax Liabilities:			
Investment securities	¥ 188	¥ 640	\$ 1,876
Deferred gain on derivatives under hedge accounting	-	49	0
Loss on devaluation of investment in affiliate's stock	30	30	299
Excess of capital allowance over depreciation	120	129	1,198
Land revaluation	2,028	2,028	20,242
Other	26	8	260
Total	2,392	2,884	23,875
Deferred Tax Liabilities, Net:	¥ (1,483)	¥ (1,756)	\$ (14,802)

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying

consolidated statements of income for years ended March 31, 2008 and 2007 are as follows:

	2008	2007
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	0.3%	1.0%
Income not counted for income tax purposes	(0.9%)	(1.4%)
Tax benefits not recognized on operating losses of subsidiaries	4.0%	(11.8%)
Tax benefits not recognized on temporary differences	(13.6%)	(12.4%)
Difference of normal effective statutory tax rate among countries other than Japan	(10.8%)	(16.9%)
Increase of valuation allowance	(1.1%)	-
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	8.5%	49.2%
Effect of tax rate reduction on consolidated corporate-tax system	(6.1%)	(7.8%)
Per capita inhabitant tax	0.8%	1.5%
Foreign withholding taxes not recognized on losses	1.0%	-
Changes in effective statutory tax rates of foreign subsidiaries	-	(4.0%)
Other, net	(0.9%)	(1.1%)
Actual effective tax rate	21.9%	37.0%

As of March 31, 2008, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately ¥18,977

million (\$189,410 thousand), which are available to apply against future taxable income.

These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 9,525	\$ 95,069
2010	6,941	69,278
2011	218	2,176
2012	653	6,518
2013	426	4,252
thereafter	1,214	12,117
Total	¥ 18,977	\$ 189,410

11. Net Income Per Share of Common Stock

Net income per share is based on the weighted average number of outstanding shares of common stock.

Reconciliation of the differences between basic and diluted net income per share ("EPS")
for the years ended March 31, 2008 and 2007 are as follows:

For the year ended March 31, 2008:

	Millions of yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted average Shares	EPS	
Basic EPS				
Net income available to common shareholders	¥ 3,181	366,902	¥ 8.67	\$ 0.09

Diluted net income per share is not presented in accompanying consolidated financial statements as the Company does not have any dilutive items.

For the year ended March 31, 2007:

	Millions of yen	Thousands of Shares	Yen
	Net Income	Weighted average Shares	EPS
Basic EPS			
Net income available to common shareholders	¥ 1,586	366,996	¥ 4.32

Diluted net income per share is not presented in accompanying consolidated financial statements as the Company does not have any dilutive items.

12. Commitments and Contingent Liabilities

At March 31, 2008, the Group had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense was ¥1,368 million (\$13,654 thousand) and ¥1,581 million for the years ended March 31, 2008 and 2007.

Since reasonable estimation of the liability for the tax investigation is not possible at this point, the impact of this matter is not reflected to the consolidated financial statements for the year ended March 31, 2008.

Kenwood Electronics Technologies (M) Sdn.Bhd., a consolidated foreign subsidiary, was investigated on transfer pricing taxation by Malaysian tax authorities for six accounting periods from the fiscal year ended March 31, 2000 through the fiscal year ended March 31, 2005. The investigation has not been finalized.

13. Derivatives

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets, liabilities and future transactions denominated in foreign currencies. The Group also enters into interest rate swap agreements as a means of managing their interest rate exposures. Interest rate swaps effectively convert some floating rate debts to a fixed basis.

major financial institutions, the Group does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the CEO of the Company and execution and control of derivatives are controlled by the Company's Finance Department.

A current status of the derivatives is reported to the Corporate Executive Officers and the Board of Directors of the Company.

Because the counterparties to those derivatives are limited to

The Group had the following derivatives contracts outstanding at March 31, 2008 and 2007:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
Contract or Notional Amount	Fair Value	Unrealized Gain/(Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain/(Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain/(Loss)	
Foreign Exchange Contracts: (Singapore\$, buying) ¥	- ¥	- ¥	- ¥ 1,221	¥ 1,230	¥ 9	\$ -	\$ -	\$ -	

Note a: The contract or notional amounts of derivatives do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

Note b: Fair value information of derivatives are not presented as all derivative meet hedge accounting criteria.

14. Additional Information for Statements of Cash Flows

For the year ended March 31, 2008, the Company paid ¥8,024 million for purchase of stock of Zetron, Inc. All subsidiaries of Zetron Inc., were newly consolidated. Major components of cash payments for the acquisition are as follows.

	Millions of yen	Thousand of U.S. dollars
Current assets	¥ 1,648	\$ 16,449
Non-current assets	1,457	14,542
Goodwill	6,077	60,655
Current liabilities	(883)	(8,813)
Long-term liabilities	(25)	(250)
Acquisition cost	<u>8,274</u>	<u>82,583</u>
Cash and cash equivalents acquired	(250)	(2,495)
Payment for purchase of newly consolidated subsidiaries' stock	<u>¥ 8,024</u>	<u>\$ 80,088</u>

15. Business Combination

On May 10, 2007, the Company acquired 100% of the issued capital stock of Zetron Inc. from Zetron Holdings, Inc. thereby converting Zetron Inc. into its wholly-owned subsidiary. The Company accounted for this business combination by the purchase method of accounting.

Name of the company acquired	Zetron, Inc.
Business description of the company acquired	Development, production and sales of products and systems used in mission-critical command and control and private mobile network communications for both the governmental and commercial markets
Main reason of the business combination	In the communication equipment business, the Company is striving to expand its business scope from supplying radio terminals to offering turnkey system* solutions that address the evolving demands of the Company's customers and further enhance its presence in the global market. * Turnkey system: A comprehensive radio communication system that provides a complete and ready-to-use system from base station equipment to radio terminals already set up for customers.
Effective date of business combination	May 10, 2007
Legal structure of the business combination	Stock acquisition by the Company from Zetron Holdings, Inc.
Name of company after business combination	Zetron, Inc.
Percentage of voting rights acquired	100%

Periods of the operating results of Zetron, Inc. included in the consolidated financial statements:
From May 10, 2007 through March 31, 2008.

Acquisition cost details:

	Millions of yen	Thousand of U.S. dollars
Stock acquisition cost	¥ 8,144	\$ 81,286
Expenses related to the acquisition	130	1,297
Total acquisition cost	<u>¥ 8,274</u>	<u>\$ 82,583</u>

Goodwill amount	¥6,077 million (\$60,655 thousand)
Reason of the goodwill	The goodwill was recognized because future economic benefits are expected.
Amortization method and period	Amortized using straight-line method over twenty years.
Other intangible assets	¥1,219 million (\$12,167 thousand) (Mainly trademarks)
Amortization method and period	Amortized using weighted average method over fifteen years.

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of yen	Thousand of U.S. dollars
Current assets	¥ 1,648	\$ 16,449
Non-current assets	1,457	14,542
Goodwill	6,077	60,655
Current liabilities	(883)	(8,813)
Long-term liabilities	(25)	(250)
Total	<u>8,274</u>	<u>82,583</u>

16. Subsequent Events

(a) The followings appropriation of retained earnings at March 31, 2008 was approved at the Board of Directors meeting held on May 12, 2008 :

	Millions of yen	Thousands of U.S. dollars
Cash dividends applicable to the year, ¥2.00 (\$0.02) per share.....	¥ 733	\$ 7,316
	<u>¥ 733</u>	<u>\$ 7,316</u>

(b) Management integration (the "Management Intergration") by establishing a Joint Holding Company with Victor Company of Japan through a Share Transfer
Victor Company of Japan, Limited ("JVC") and the Company agreed on May 12, 2008 on the implementation of management integration by establishing a joint holding company, to be named JVC KENWOOD Holdings, Inc. (the "Joint Holding Company"), on October 1, 2008 through a share transfer ("Share Transfer"), which means that the Joint Holding Company will hold 100% of the shares of both companies, subject to approval of the matter at the General Meetings of Shareholders of both companies.

Since the share transfer plan for the Management Integration was approved and adopted by the General Meetings of Shareholders held on June 27, 2008 of both companies and it is now predicted that Management Integration will be brought into effect as of October 1, 2008 as planned.

1. Reason for the Share Transfer

(1) Background to the Share Transfer

In recent years, the consumer electronics industry has witnessed the appearance of new rivals in such countries as South Korea, Taiwan and China, and increasingly fierce battles over market share and heightened price competition in the global market, paralleling progress in digitization, which has precipitated higher capital investment and saddled companies with heavier software development burdens and prompted the development of products based on universal components that make product differentiation increasingly difficult. The entry of competitors from the information technology (IT) industry has also raised the level of competition.

To survive such a fiercely competitive environment and continue to generate and enhance corporate value, JVC and the Company regard the restructuring of Japan's audio-visual (AV) specialty manufacturing industry to be absolutely necessary.

(2) The establishment of the wholly owning parent company through the share transfer

In this Management Integration, the Company is planning that the Holding Company newly established through the Share Transfer will own a 100% stake of the shares of the Company and JVC. In connection with the Management Integration, the Joint Holding Company will promptly apply to be listed on the First Section of the Tokyo Stock Exchange. In addition, the Company will be delisted from the First Section of the Tokyo Stock Exchange and JVC will be delisted from the First Section of the Tokyo Stock Exchange and the First Section of the Osaka Securities Exchange. Shareholders of each company will be granted shares at a certain share transfer ratio in the Joint Holding Company, which is expected to be listed on the First Section of the Tokyo Stock Exchange.

(3) Purpose of the Management Integration

The Management Integration will expand the scope of previous cooperative efforts, which were limited to such aspects of operations as development, production and procurement in common business segments—car electronics and home audio, to other existing business segments and facilitate expansion into new domains in addition to reinforcing such business activities as marketing and sales.

As for common businesses, the companies plan to grow the Car Electronics business into a strong profit center and increase the profitability of the Home Audio business by expanding the role of J&K Technologies to general procurement and manufacturing and ultimately, position the company as an operating company standing shoulder to shoulder with JVC and the Company.

Through such efforts, both companies will maximize synergy and enhance unified global corporate value while creating new corporate value. Guided by the new integration vision, both companies will strive to establish solid positions as world-leading manufacturers specializing in AV products.

2. Outline of the Share Transfer

(1) Schedule of the Share Transfer

Record date for general meetings of shareholders	March 31, 2008 (both companies)
Approval of share transfer by the boards of directors	May 12, 2008 (both companies)
Share transfer agreement execution	May 12, 2008 (both companies)
Creation of the Share Transfer Plan	May 12, 2008 (both companies)
Approval of the share transfer at the (ordinary) general meeting of shareholders of JVC	June 27, 2008
Approval of the share transfer at the (ordinary) general meeting of shareholders of the Company	June 27, 2008
Delisting from the Osaka Securities Exchange	September 25, 2008 (JVC) (expected)
Delisting from the Tokyo Stock Exchange	September 25, 2008 (both companies) (expected)
Date of registration of incorporation of the Joint Holding Company (effective date)	October 1, 2008 (expected)
Listing date of the Joint Holding Company	October 1, 2008 (expected)
Delivery date of share certificates	Late November 2008 (expected)

(2) Allotment of Shares in the Share Transfer

Company Name	Victor Company of Japan, Limited	Kenwood Corporation
Allotment of shares in the share transfer	2	1

Note a: 2 shares of stock of the Joint Holding Company will be allotted for each share of stock in JVC, and 1 share of stock in the Joint Holding Company will be allotted for each share of stock in the Company. Furthermore, the trading unit of the Joint Holding Company's stock shall be 100 shares. (Currently, the trading unit of both companies' stock is 1,000 shares.)

The above share transfer ratio may be changed through consultations between both companies if any material change occurs in the conditions that form the basis of the calculation.

Note b: Newly issued shares by the Joint Holding Company (to be determined)

Common stock: 1,091,371 thousand shares

The above number of shares is based on both companies' current outstanding shares. Because all treasury stock owned by both companies will be retired, the number of shares issued by the Joint Holding Company is subject to change.

(3) Basis of Calculation of the Share Transfer Ratio

a. Basis of Calculation and Background

To ensure fairness in calculating the share transfer ratio, JVC and the Company have appointed UBS Securities Japan Ltd ("UBS") and GCA Savvian Corporation ("GCA Savvian"), respectively, as financial advisors in connection with the Management Integration and have asked each of them to calculate respective share transfer ratios.

The board of directors of JVC obtained a written opinion from UBS dated May 12, 2008 that the agreed share transfer ratio is fair to JVC's shareholders from a financial perspective under the following assumptions and other specific conditions (the "UBS Written Opinion").

UBS has taken into account various factors for the Management Integration to state its opinion from a comprehensive perspective, using the discounted cash flow (DCF) method, the market price method, the comparable company analysis method, the profit contribution analysis method, the past case analysis method and the dilution of shares analysis method.

The main valuation methods and outline of the Management Integration ratio used in the UBS Written Opinion are as follows:

- 1) The DCF method: It is assumed that in the event one share of the company were exchanged for one share of the Joint Holding Company, then one share of JVC would be exchanged for 1.70 to 2.27 shares of the Joint Holding Company.
- 2) The market price method: It is assumed that if one share of the Company were exchanged for one share of the Joint Holding Company, then one share of JVC would be exchanged for 1.99 to 2.15 shares of the Joint Holding Company.
- 3) The comparable company analysis method, the profit contribution analysis method, the past case analysis method and the dilution of shares analysis method were used.

Regarding the market price method, setting May 9, 2008 as the appraisal reference date, the share price on the appraisal reference date, the average share prices for the one-week, one-month and three-month periods prior to the appraisal date, and the average share price from the day after April 15, 2008, when JVC and the Company released their revised business forecasts for the year ended March 31 2008, taking into account scheduled dividend payments to the Company's shareholders of record as of the end of March 2008 and the end of September 2008 were used for the calculation.

In submitting the UBS Written Opinion and implementing the underlying analysis, UBS assumes that public information obtained, information provided to UBS by JVC and the Company, and other information investigated and analyzed in formulating the UBS Written Opinion are accurate and complete. (Regarding the UBS Opinion, please also refer to the note at the end.)

GCA Savvian decided to use the market price method and the DCF method as the main analysis methods based on investigation of JVC and the Company's financial information and various factors for the Management Integration, in addition to an analysis of due diligence. The price-to-book ratio (PBR) method and the fair value of net assets method were also used because they bring a multifaceted perspective to analyses and underpinned a comprehensive view toward drafting the "GCA Written Opinion." Using May 9, 2008, as a reference date, analyses were conducted of the average closing share prices and weighted average trading volume for the 15-business-day-period counting back from such reference date to April 16, 2008, when there was some speculation in the press that JVC would withdraw from the domestic display business, as well as for the one-month, three-month and six-month periods prior to such reference date.

The main valuation method and outline of the management integration ratio used in the GCA Opinion are as follows.

Calculation Method	Exchange Ratio for Share Transfer
Market price method	1.76-2.15
DCF method	1.98-2.50

(Regarding the GCA Opinion, please also refer to the note at the end.)

JVC, by reference to the share transfer ratio calculated by UBS, and the Company, by reference to the share transfer ratio calculated by GCA Savvian, comprehensively examined factors such as financial conditions, status of assets, and future prospects of both companies. After careful negotiations and consultations regarding the share transfer ratio, both companies finally agreed and decided on the above share transfer ratio.

b. Relationship with Financial Advisors

Neither UBS nor GCA Savvian are a related party (including consolidated subsidiary) as stipulated in Article 15-4 of JVC and the Company's Regulations on Consolidated Financial Statements or Article 8, Paragraph 17 of the Regulations on Financial Statements (hereinafter collectively means "related party").

(4) Treatment of Stock Acquisition Rights and Bonds with Stock Acquisition Rights of Wholly-owned Subsidiaries
Not applicable.

(5) Concerning Treasury Stock of JVC and the Company, which Become Wholly-owned Subsidiaries
Prior to the date of establishment of the Joint Holding Company, JVC and the Company shall retire all treasury stock they own.

3. Outlines of Parties Concerned in the Share Transfer (as of March 31, 2008)

(1) Corporate Name	Victor Company of Japan, Limited ("JVC")	Kenwood Corporation (the "Company")
(2) Principal Business	Research, development, manufacturing, and sales of audio, visual, computer-related consumer and professional equipment, and magnetic tapes and discs, etc.	Manufacture and sales of products related to car-electronics, communications and home-electronics, and other related businesses
(3) Date of Incorporation	September 13, 1927	December 21, 1946
(4) Location of Head Office	12, Moriya-cho 3-chome, Kanagawa-ku, Yokohama-shi, Kanagawa	2967-3 Ishikawa-machi, Hachioji, Tokyo
(5) Name and Title of Representative	Kunihiko Sato, President and Representative Director	Kazuo Shiohata, President and CEO
(6) Capital	¥51,615 million (\$515,171 thousand)	¥11,059 million (\$110,380 thousand)
(7) Number of Outstanding Shares	361,923 thousand shares	367,524 thousand shares
(8) Net Assets	¥114,126 million (\$1,139,096 thousand)	¥29,926 million (\$298,692 thousand)
(9) Total Assets	¥315,003 million (\$3,144,056 thousand)	¥126,089 million (\$1,258,499 thousand)
(10) Fiscal Year-End	March 31	March 31
(11) Number of Employees	4,423 (non-consolidated)	1,622 (non-consolidated)
(12) Major Customers	YAMADA DENKI Co., Ltd. Best Buy Co., Inc. Metro A.G.	DENSO CORPORATION Fuji Heavy Industries Ltd. Best Buy Co., Inc.
(13) Major Shareholders and Shareholding Ratios	Matsushita Electric Industrial Co., Ltd. 36.81% The Company 17.00% HSBC Fund Services SPARX Asset Management Co., Ltd 6.57%	HSBC Fund Services SPARX Asset Management Co., Ltd 10.41% HSBC Fund Services SPARX Asset Management Limited US Client 7.65% Resona Bank, Ltd. 3.73%
(14) Main Lenders	Sumitomo Mitsui Banking Corporation The Sumitomo Trust & Banking Co., Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Corporate Bank, Ltd. The Bank of Yokohama, Ltd.	Resona Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation The Chuo Mitsui Trust and Banking Company, Limited Sumitomo Mitsui Banking Corporation The Hachijuni Bank, Ltd. The Sumitomo Trust & Banking Co., Ltd.
(15) Relationship between the Parties	Capital Relationship Personnel Relationship Trading Relationship Related Party or Not	JVC implemented a third-party allotment of new shares to the Company on August 10, 2007, and the Company holds 61,539 thousand shares of JVC's stock (17.0% of outstanding shares). JVC has accepted the Company's Chairman, Haruo Kawahara as a part-time advisor to the parties' joint Structural Reform Committee. Not applicable. The Company is a major shareholder of JVC, thus becoming a related party.

4. Status of the Newly-Established Company through Share Transfer

(1) Corporate Name	JVC KENWOOD Holdings, Inc.
(2) Principal Business	Controlling and managing the business activities by owning shares and interest in the companies which run car electronics business, home & mobile electronics business, operational system business and entertainment business.

(3) Location of Head Office	12, Moriya-cho 3-chome, Kanagawa-ku, Yokohama-shi, Kanagawa
(4) Assumption of Office of Representatives and Officers	Chairman (Representative Director of the Board) (CEO) Haruo Kawahara, Currently Chairman (Representative Director of the Board) of the Company President (Representative Director of the Board) Kunihiko Sato, Currently President and Representative Director of JVC Executive Vice President Hiroshi Odaka, Currently Representative Director and President of Daiichi Kasei Co., Ltd. Director Motoyoshi Adachi, Currently Associate Director of JVC. Director (External Director) Koji Kashiwaya, Former Vice President of the World Bank Director (External Director) Makoto Matsuo, Currently External Auditor of JVC Director (External Director) Jiro Iwasaki, Currently Director and Executive Vice President of TDK Corporation Statutory Auditor Shigeharu Tsuchitani, Currently Statutory Auditor of JVC. Statutory Auditor Hideaki Kato, Currently Statutory Auditor of the Company. Statutory Auditor (External Auditor) Noriyuki Shouyama (*), Currently External Auditor of JVC. Statutory Auditor (External Auditor) Akihiko Washida (*), Currently External Auditor of the Company. Statutory Auditor (External Auditor) Norimichi Saito (*), Currently Advisor of Corporate Legal Affairs Division of Matsushita Electric Industrial Co., Ltd. (*): "External Auditor" as stipulated in Article 2 Item 16 of the Corporate Law.
(5) Capital	¥10,000 million (\$99,810 thousand)
(6) Net assets	To be determined
(7) Total Assets	To be determined
(8) Fiscal Year-End	March 31

(Note)
UBS has not independently valued or assessed the assets or liabilities (including derivatives, hidden assets and liabilities, and other contingent liabilities) of JVC, the Company, and their affiliated companies, and the financial and tax impacts of this matter on JVC.

All of the assumptions in the UBS Written Opinion have been discussed with JVC, but the impact of each assumption is not independently valued or considered. Each analysis and valuation by UBS is based on many assumptions and essentially involves great uncertainties. At the same time, UBS has conducted a qualitative assessment of the importance and association of each analysis and factor considered, and abstracting a part of such analysis and assessment could lead to misunderstanding of the underlying process. UBS's opinions are only based on current terms and conditions including economic environment, regulatory environment and market environment, and the information obtained by UBS as of the date of the UBS Written Opinion.

The UBS Written Opinion is only submitted to the board of directors of JVC in reference to, or for the purpose of its consideration on this matter, and shall not be used for saving the rights of JVC's shareholders and others or solicitation of voting rights of JVC's shareholders.

GCA Savvian has, upon the submission of the GCA Written Opinion and the implementation of its supporting analysis, assumed that the information provided from the management of JVC and the Company to GCA Savvian and the information released publicly by such management are accurate and integral, and has not conducted any independent verification of their accuracy and integrity. Furthermore, GCA Savvian has not conducted any independent evaluation, appraisal, or assessment of the assets or debts (including contingency liabilities) of the Company or JVC or of their affiliates, including the analysis or evaluation of individual asset or debt. In addition, the information concerning the financial prospects and expected synergy of both companies are reasonably created based on the best possible projection at this point of time by the management of both companies. The GCA Written Opinion is based on the information and economic conditions to the knowledge of GCA Savvian at the point of the submission of the GCA Written Opinion.

The GCA Written Opinion is provided for the information and advice upon the deliberation of the case by the Company's board of directors.

17. Segment Information

The Company defines its business segments as follows:

Car electronics business:

Car electronics equipment, such as car audio products and car navigation systems

Home electronics business:

Home electronics equipment, such as home HI-FI audio, home theater systems, DVD player and portable audio

Communications business:

Communications equipment, such as amateur radios, UHF CB transceivers, land mobile radios and PDC (personal digital cellular phone) sales business

Others:

Other electrical equipment and parts

Operations by business segment for the years ended March 31, 2008 and 2007 were summarized as follows:

Operations by business segment:

	Millions of yen						
	Car Electronics Business	Communications Business	Home Electronics Business	Others	Total	Corporate Assets and Eliminations	Consolidated
2008							
Net sales:							
Sales to customers	¥ 89,666	¥ 62,941	¥ 9,680	¥ 2,975	¥ 165,262	¥ -	¥ 165,262
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	¥ 89,666	¥ 62,941	¥ 9,680	¥ 2,975	¥ 165,262	¥ -	¥ 165,262
Operating expenses	¥ 90,697	¥ 55,261	¥ 10,225	¥ 2,820	¥ 159,003	¥ -	¥ 159,003
Operating income (loss)	¥ (1,031)	¥ 7,680	¥ (545)	¥ 155	¥ 6,259	¥ -	¥ 6,259
Identifiable assets	¥ 60,904	¥ 36,032	¥ 7,611	¥ 1,684	¥ 106,231	¥ 19,858	¥ 126,089
Depreciation	¥ 4,799	¥ 1,652	¥ 431	¥ 15	¥ 6,897	¥ -	¥ 6,897
Capital expenditures	¥ 3,997	¥ 1,597	¥ 363	¥ 5	¥ 5,962	¥ -	¥ 5,962

Corporate assets as of March 31, 2008 amounted to ¥19,858 million (\$198,203 thousand) and consisted primarily of the Company's cash, time deposits and investment securities.

	Millions of yen						
	Car Electronics Business	Communications Business	Home Electronics Business	Others	Total	Corporate Assets and Eliminations	Consolidated
2007							
Net sales:							
Sales to customers	¥ 94,939	¥ 61,096	¥ 10,584	¥ 2,575	¥ 169,194	¥ -	¥ 169,194
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	¥ 94,939	¥ 61,096	¥ 10,584	¥ 2,575	¥ 169,194	¥ -	¥ 169,194
Operating expenses	¥ 96,914	¥ 52,425	¥ 11,710	¥ 2,528	¥ 163,577	¥ -	¥ 163,577
Operating income (loss)	¥ (1,975)	¥ 8,671	¥ (1,126)	¥ 47	¥ 5,617	¥ -	¥ 5,617
Identifiable assets	¥ 66,044	¥ 29,350	¥ 7,817	¥ 1,715	¥ 104,926	¥ 6,295	¥ 111,221
Depreciation	¥ 5,030	¥ 1,476	¥ 429	¥ 15	¥ 6,950	¥ -	¥ 6,950
Capital expenditures	¥ 4,553	¥ 1,611	¥ 347	¥ 5	¥ 6,516	¥ -	¥ 6,516

Corporate assets as of March 31, 2007 amounted to ¥6,295 million and consisted primarily of the Company's cash, time deposits and investment securities.

	Thousands of U.S. dollars						
	Car Electronics Business	Communications Business	Home Electronics Business	Others	Total	Corporate Assets and Eliminations	Consolidated
2008							
Net sales:							
Sales to customers	\$ 894,960	\$ 628,216	\$ 96,616	\$ 29,694	\$ 1,649,486	\$ -	\$ 1,649,486
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	\$ 894,960	\$ 628,216	\$ 96,616	\$ 29,694	\$ 1,649,486	\$ -	\$ 1,649,486
Operating expenses	\$ 905,250	\$ 551,562	\$ 102,056	\$ 28,147	\$ 1,587,015	\$ -	\$ 1,587,015
Operating income (loss)	\$ (10,290)	\$ 76,654	\$ (5,440)	\$ 1,547	\$ 62,471	\$ -	\$ 62,471
Identifiable assets	\$ 607,885	\$ 359,637	\$ 75,966	\$ 16,808	\$ 1,060,296	\$ 198,203	\$ 1,258,499
Depreciation	\$ 47,899	\$ 16,489	\$ 4,302	\$ 149	\$ 68,839	\$ -	\$ 68,839
Capital expenditures	\$ 39,894	\$ 15,940	\$ 3,623	\$ 50	\$ 59,507	\$ -	\$ 59,507

Note : There is no unallocatable operating expense for the year ended March 31, 2008

Operations by geographic area for the years ended March 31, 2008 and 2007 were summarized as follows:

Operations by geographic area:

	Millions of yen						Corporate Assets and Eliminations	Consolidated
	Japan	America	Europe	Asia	Other	Total		
2008								
Net sales:								
Sales to customers	¥ 58,731	¥ 49,981	¥ 36,853	¥ 16,332	¥ 3,365	¥ 165,262	¥ -	¥ 165,262
Intersegment sales	83,446	67	1,931	54,569	12	140,025	(140,025)	-
Total	¥ 142,177	¥ 50,048	¥ 38,784	¥ 70,901	¥ 3,377	¥ 305,287	¥ (140,025)	¥ 165,262
Operating expenses	¥ 140,972	¥ 48,999	¥ 37,797	¥ 68,505	¥ 3,312	¥ 299,585	¥ (140,582)	¥ 159,003
Operating income (loss)	¥ 1,205	¥ 1,049	¥ 987	¥ 2,396	¥ 65	¥ 5,702	¥ 557	¥ 6,259
Identifiable assets	¥ 100,326	¥ 25,723	¥ 13,603	¥ 22,215	¥ 1,550	¥ 163,417	¥ (37,328)	¥ 126,089

	Millions of yen						Corporate Assets and Eliminations	Consolidated
	Japan	America	Europe	Asia	Other	Total		
2007								
Net sales:								
Sales to customers	¥ 62,428	¥ 49,694	¥ 36,642	¥ 17,034	¥ 3,396	¥ 169,194	¥ -	¥ 169,194
Intersegment sales	82,601	22	2,629	58,520	30	143,802	(143,802)	-
Total	¥ 145,029	¥ 49,716	¥ 39,271	¥ 75,554	¥ 3,426	¥ 312,996	¥ (143,802)	¥ 169,194
Operating expenses	¥ 143,335	¥ 48,044	¥ 38,233	¥ 73,233	¥ 3,448	¥ 306,293	¥ (142,716)	¥ 163,577
Operating income (loss)	¥ 1,694	¥ 1,672	¥ 1,038	¥ 2,321	¥ (22)	¥ 6,703	¥ (1,086)	¥ 5,617
Identifiable assets	¥ 99,231	¥ 18,698	¥ 15,020	¥ 22,751	¥ 1,596	¥ 157,296	¥ (46,075)	¥ 111,221

	Thousands of U.S. dollars						Corporate Assets and Eliminations	Consolidated
	Japan	America	Europe	Asia	Other	Total		
2008								
Net sales:								
Sales to customers	\$ 586,196	\$ 498,862	\$ 367,831	\$ 163,010	\$ 33,587	\$ 1,649,486	\$ -	\$ 1,649,486
Intersegment sales	832,878	669	19,274	544,655	119	1,397,595	(1,397,595)	-
Total	\$ 1,419,074	\$ 499,531	\$ 387,105	\$ 707,665	\$ 33,706	\$ 3,047,081	\$ (1,397,595)	\$ 1,649,486
Operating expenses	\$ 1,407,047	\$ 489,061	\$ 377,254	\$ 683,750	\$ 33,057	\$ 2,990,169	\$ (1,403,154)	\$ 1,587,015
Operating income (loss)	\$ 12,027	\$ 10,470	\$ 9,851	\$ 23,915	\$ 649	\$ 56,912	\$ 5,559	\$ 62,471
Identifiable assets	\$ 1,001,357	\$ 256,742	\$ 135,772	\$ 221,729	\$ 15,471	\$ 1,631,071	\$ (372,572)	\$ 1,258,499

The geographic areas consist primarily of the following countries and regions:

America... U.S., Canada and Panama
 Europe..... Germany, France and the United Kingdom
 Asia..... China, Singapore and U.A.E.
 Other..... Australia

Note a: There is no unallocatable operating expense for the year ended March 31, 2008.

Note b: Corporate assets in corporate assets and eliminations column of ¥19,858 million (\$198,203 thousand) mainly consist of cash and investment securities of the Company.

Overseas sales:

	Millions of yen				
	America	Europe	Asia	Other	Total
2008					
Overseas sales	¥ <u>50,121</u>	¥ <u>35,550</u>	¥ <u>18,205</u>	¥ <u>4,328</u>	¥ <u>108,204</u>
Consolidated net sales					¥ <u>165,262</u>
Ratios of overseas sales	30.4 %	21.5 %	11.0 %	2.6 %	65.5 %

	Millions of yen				
	America	Europe	Asia	Other	Total
2007					
Overseas sales	¥ <u>49,788</u>	¥ <u>36,721</u>	¥ <u>18,074</u>	¥ <u>4,409</u>	¥ <u>108,992</u>
Consolidated net sales					¥ <u>169,194</u>
Ratios of overseas sales	29.4 %	21.7 %	10.7 %	2.6 %	64.4 %

	Thousands of U.S. dollars				
	America	Europe	Asia	Other	Total
2008					
Overseas sales	\$ <u>500,260</u>	\$ <u>354,826</u>	\$ <u>181,705</u>	\$ <u>43,197</u>	\$ <u>1,079,988</u>
Consolidated net sales					\$ <u>1,649,486</u>

The geographic areas consist primarily of the following countries and regions:

America..... U.S., Canada and Panama

Asia China, Singapore and U.A.E.

Europe..... Germany, France and the United Kingdom

Other..... Australia and Africa

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Kenwood Corporation:

We have audited the accompanying consolidated balance sheets of Kenwood Corporation (the "Company") and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kenwood Corporation and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 16 to the consolidated financial statements, the Company and Victor Company of Japan, Limited agreed on May 12, 2008 to establish a joint holding company through a share transfer, and the share transfer plan was approved by the general meetings of shareholders of both companies held on June 27, 2008.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.


June 27, 2008

Member of
Deloitte Touche Tohmatsu

