KENWOOD

KENWOOD

ANNUAL REPORT

For the year ended March 31, 2001

2001

Company Profile

Approximately half a century ago, Kenwood started its business with the production of parts and components for communications equipment. Today, its business field has expanded to include wireless radio equipment, telephones, high-grade audio products for homes and automobiles, and other electronics equipment. Its operation also stretches throughout the world to include not only Japan, the US, and Europe, but also Asia, Africa, and Latin America.

In recent years, Information Technology (IT) revolution has brought about a rapid change throughout the world in people's lifestyles, witness the widespread use of the Internet and cellular phones. We are observing the beginning of a new era where immense amounts of content and a multitude of services are offered over networks, not only by computers but via various types of information and audio-visual equipment including mobile terminals on automobiles. By fusing IT with its unique technologies in sound and communications, Kenwood is actively developing new products that will lead the digital-networking society.

In the meantime, in its existing business areas, Kenwood is striving to offer more appealing products by utilizing its distinctive know-how in product planning and design. Further, in order to solidify its foothold as a manufacturer, an effort is being made to restructure its production, distribution, and sales facilities on a global scale. Kenwood continues to revitalize itself with its innovative management and pertinent business strategies for higher profitability.

Contents

Notes on business outlook

Kenwood's business plans, strategies, beliefs, etc. expressed in this annual report also contain some business outlooks for the future that are not part of the historical truth. Although Kenwood's management wish to present an accurate view based on all information available today, it is inevitable that business forecasts contain risks and uncertainties. Actual business performance depends on various factors and may contradict with what has been predicted. Critical factors that may affect the business outcome include, but are not limited to, the followings. • Economic surroundings and consumer spending in Japan and other major countries • Demand for Kenwood's products and price reduction pressure arising from competition • Rapid technological development in a highly competitive market and availability of unique and innovative products that appeal to consumers • Currency exchange rates (especially Japanese yen vs. US dollar and other currencies with which Kenwood carries out a large portion of its business transactions)

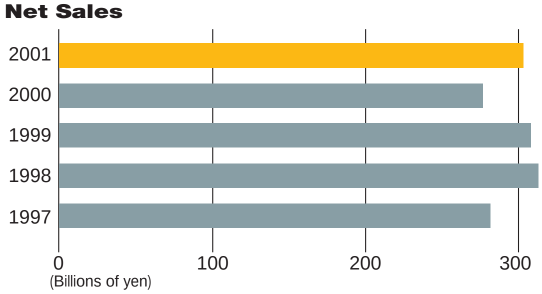
Financial Highlights

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

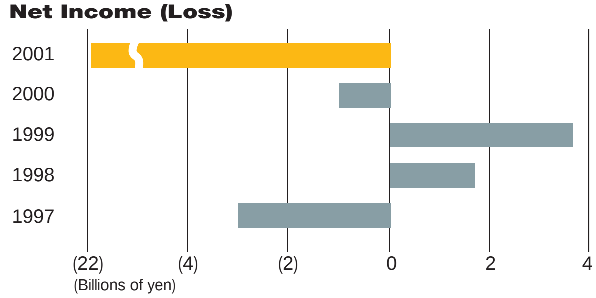
	Millions of yen		Thousands of U.S. dollars*
	2001	2000	2001
For the year:			
Net sales	\ 303,356	\ 274,517	$ 2,446,419
Net income (loss)	(21,843)	(1,017)	(176,153)
Per share data (in yen and U.S. dollars)**:**			
Net income (loss)	\ (148.26)	\ (6.91)	$ (1.20)
Cash dividends applicable to the year	—	—	—
At year-end:			
Total assets	\ 208,415	\ 212,472	$ 1,680,766
Total shareholders' equity	1,485	35,287	11,976

*The U.S. dollar amounts in this report are provided for convenience only and have been converted at the rate of ¥124 to $1, the approximate rate of exchange in effect at March 31, 2001.

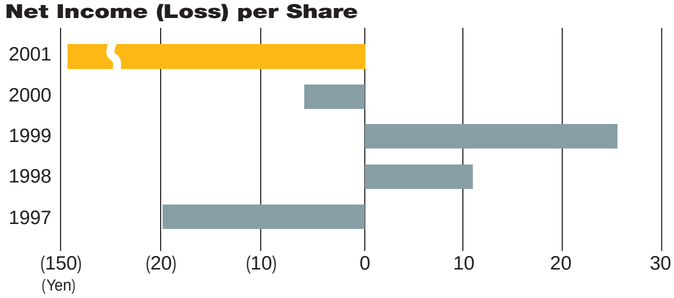
Net Sales



Net Income (Loss)



Net Income (Loss) per Share



A Message from the President

Business Environment

The Japanese economy in 2000 and 2001 suffered from a serious deflation arising from a prolonged slump in consumer spending and vigorous competition among corporations. The price fall in audio-visual products, the company's mainstay, is especially big and has yet to find its bottom. Moreover, the cellular phone market, comprising a large portion of the Japanese communications market, shows a slowing down in the growth rate and the center of attention is shifting to replacement demand among existing users. Overseas, the long sustained growth of the US market has finally come to an end and even the growth of the economy-leading IT industry is in recess. In Europe, although production in general has slowed down and exports are declining, improvements in employment and tax relief in major countries are keeping consumer spending afloat. In Asia, the US influenced waning demand for semiconductors and a slowdown in exports are starting to stifle domestic demand as well.

Corporate Performance

Under these circumstances, Kenwood recorded a solid figure in terms of sales for the year ended in March 2001 of ¥303.4 billion, an increase of 10.5% from the previous year. In the profit and loss column, however, a sharp price fall in home audio and car audio products worldwide and delays in new product introductions have resulted in a net loss of ¥21.8 billion.

Kenwood further opted to settle ¥28.4 billion independently (non-consolidated) in extraordinary losses for the term. These losses were caused by the withdrawal from the CD-ROM and GSM businesses, in which losses have been accumulating over the years, and by reserving allowances for losses in subsidiary investments. Taking these measures and nullifying the negative legacy was inevitable if we were to revitalize the business without

wasting time. Of these, losses in subsidiary investments have originally been included in the consolidation financial position and thus the net consolidated loss stood at \15.0 billion.

Although Kenwood believes in making a constant return to all shareholders, the severe financial status has forced the company not to pay dividends for the year, giving priority to amortization of negative legacy and revitalization of the organization. In the future, expanding profits and sharing the rewards will be the company's major focus.

The Mid-term Restructuring Plan

Aggressiveness & Speed

...A full-blown business reform for an early resurgence

In order to leave behind the current deficit operation, Kenwood made a mid-term restructuring plan and announced a plan to replace the president and change the task of each director in March 2001. The new top management was formed in April and we are now undertaking the challenge of reforming the management system fundamentally based on the above restructuring plan and endeavoring to improve profitability and cash flow.

The three objectives to be pursued in the mid-term restructuring plan are:

(1) Establish a corporate culture of "vitality" and "action,"

(2) Withdraw from non-profitable businesses, and

(3) Create a new Kenwood style in business through restructuring.

Create a Flexible and Revitalized Organization through Restructuring on a Large Scale

In order to "establish a corporate culture of vitality and action," we are focusing our attention on the restructuring on a large scale and strengthening of the management system. The new Home Electronics Division, Car Electronics Division, Communications Division, and Devices Division which have the functions for both of manufacturing and selling were formed on May 21, 2001. These organizations are not companies in the legal viewpoint, but are "quasi-companies" that are expected to operate independent of each other. Each division manager is given to full authority within their business, from production to sales, in order to accelerate the decision making process and clarify accountability. Each division bears the responsibility for profits and losses in its business including manufacturing and selling, and it must undertake management of its business by using its balance sheet and cash flow chart and improve the cash flow of its division.

In addition to the strengthening of the organizations by market or by products, the coordinating power of the activities of the divisions are solidified.

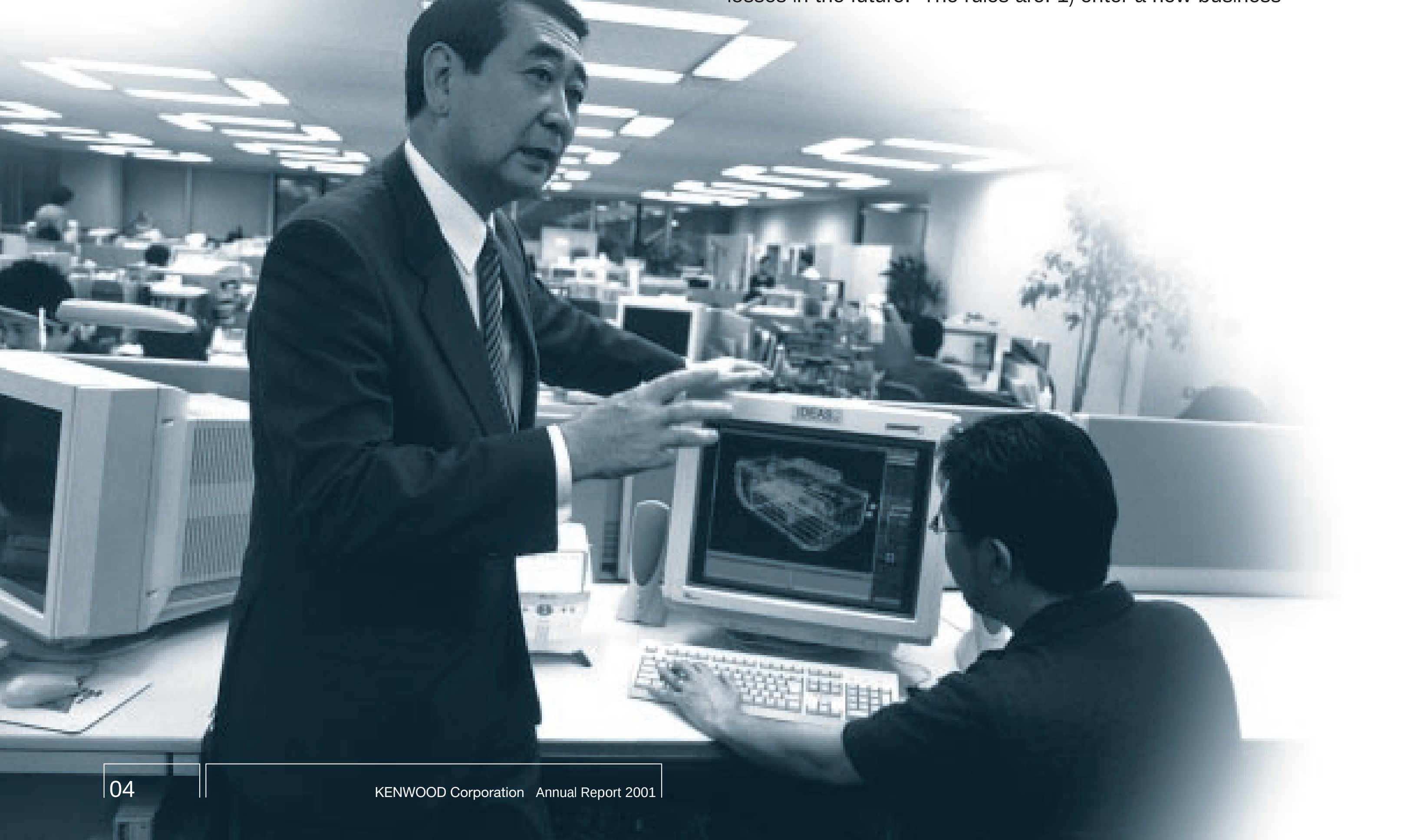
First, factories throughout the world, once controlled by

each manufacturing division, are now under the control of the newly established Production Control Div. This office is responsible for defining the objectives of each factory and for restructuring the manufacturing system on a global scale disregarding divisional interests. The Committee for SCM (Supply Chain Management), the Committee for Technology Planning, the Quality Assurance Committee, and the Purchasing Committee are being formed so that these specialized functions will be coordinated throughout the company. More, financial department is being augmented to enforce fund management on a consolidated basis.

Next, in order to revitalize the organization and motivate employees, a presidential project called "Young Management Committee 21 (YMC21)" is getting set up so that the companies' business operations reflect the opinions of group leaders in their twenties and thirties. In YMC21, young employees will be given an issue to address by management and they must submit a proposal at a management meeting within a period of three months in normal cases, and no later than six months. This project will be launched in the near future when the new organization is stabilized. Likewise, in order to revitalize divisional organizations, a similar unit will be established within each division for the discussion of issues unique to that division.

Defining the Rules for Business Participation/Continuation and Promoting Profit Oriented Activities

In order to withdraw from non-profitable businesses, the company will review all existing money-losing operations so that they are either turned around to yield a profit or terminated before March 2004. Since we failed to cover losses for two consecutive years and the need for making up for losses prevented us from making new investments, we are determined that all of us think profits first and shoulder additional burdens, if necessary, under the current unfavorable circumstances. Learning from the lessons in the GSM and CD-ROM businesses, which were the major reasons for the loss in the period ended March 2001, we are establishing the rules for decision-making regarding business participation and/or continuation to prevent large losses in the future. The rules are: 1) enter a new business



only if a profit is expected within three years and the initial investment can be collected within five years (new business participation), 2) consider withdrawing from a business when it is obvious that the above two conditions can not be met (continuation after participation), and 3) consider a withdrawal when accumulated losses exceeded \1.0 billion.

Now that the CD-ROM and GSM businesses have been terminated, the biggest challenge is the restructuring of the home audio business so that profits can be expected. In this area, the original plan was to turn it around by March 2004 by cutting overhead while maintaining sales through the introduction of more value-added products. A change in the plan was made, however, in the direction of "balanced contraction" in order to assure the outcome no matter how the market and foreign currencies may behave. More specifically, business operations in non-profitable markets will be diminished, non-profitable models will be terminated, and overheads will be cut down to the level appropriate to the diminished sales. By taking these measures, we intend to turn the business around to yield a profit by March 2003, one year earlier than the original plan.

The Mobile-Electronics Corporation of the Future

The third objective in the restructuring plan is to "create a new Kenwood style in business through restructuring." Currently, Kenwood's product development is done within the respective framework of home electronics, car electronics, and communications. Meanwhile, it is expected that market demand will shift towards products in which the functionalities of a PC, audio equipment and communications equipment are integrated. Thus, the company will focus more on the development of integrated products, such as PC-compatible audio equipment or a car electronics product with a communication capability, at the same time shifting its weight from the home audio business to the car electronics and communications businesses. In doing so, the old characterization of Kenwood as an audio manufacturer will be discarded and we will grow into a mobile-electronics corporation that is capable of putting together audio, car electronics, and communications technology. Further, the company will strive to build another pillar in the B-to-B business out of the electronic device business, taking advantage of the stronghold it established in the field of digital broadcasting and optical microphones. These reforms in the company's business structure are difficult to achieve if management resources are to be sought after within the group alone. Thus, we plan to strengthen our joint development efforts and sales partnerships with computer manufacturers, car electronics manufacturers, and hi-tech venture businesses inside and outside Japan.

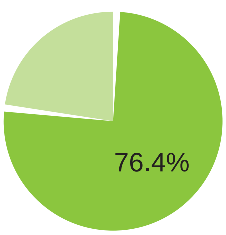
The purpose of the aforementioned reforms is to lay a foundation on which Kenwood can sustain mid- to long-term growth in the future, not to mention a positive performance in the year 2002. The road to reconstruction, of course, may not be smooth and easy. Nevertheless, we believe that the write-off of the negative legacy we opted for in the year ended in March 2001 has freed ourselves from obstacles getting in the way of Kenwood's resurgence. Now we are determined to carry out the mid-term plan to reform Kenwood into a revitalized, highly profitable corporation. Your continuous support will be highly appreciated.

Hiroshi Nakano
President

Audio Equipment

Sales of audio equipment for the year ended in March 2001 rose by 9.5% from the previous year to \231.8 billion aided by the introduction of new products with higher values, such as home audio equipment with a built-in CD-R/RW drive and car audio with a MP3 decoder. However, profit has declined as primary products in both fields got involved in price wars and sales failed to meet our expectation in the overseas market.

Percent of Net Sales



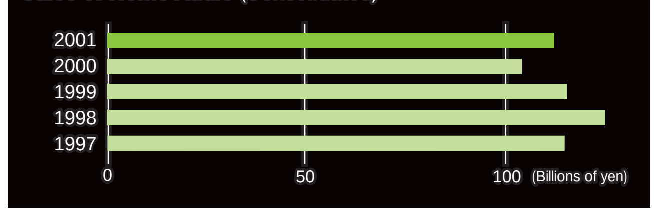
Home Audio

While sales of home audio for the year ended in March 2001 grew to \102.0 billion, a 7.2% increase from the previous year, the bottom-line analysis reveals a huge loss in the business.

Domestically, Kenwood holds the top share in the market for both system component and portable component. In the system component category, new models designed for integration with PC systems, such as the one with a built-in CD-R/RW drive, gained popularity and, in the personal audio category, the MD radio-cassette player "Rampage" continued to perform well. However, the prolonged slump in consumer spending had further intensified the price war in the market.

Business overseas also suffered a setback as our effort to introduce new DVD players and home-theater audio systems in the US and Europe in the latter half of the term was not enough to negate the effects of a general price fall in conventional models.

Sales of Home Audio (Consolidated)



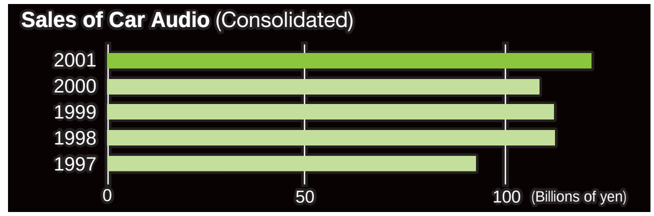
Car Audio

Sales of car audio for the year ended in March 2001 were up by 11.6% to \120.5 billion but operating income declined. Falling market prices in Japan along with the insufficient product supply caused by the worldwide shortage in major components during the first half led to the poor performance below the business plan expectations.

Kenwood, the leader in the after-market, launched a receiver with built-in MP3 decoder, the first of its kind in the industry, during the term. The company's effort was well rewarded as the new model with the unique function appealed to the consumer and the company had to triple the original production plan. Meanwhile, car navigation systems also performed well and, especially in Japan, sales of DVD navigation systems reached approximately double the quantity sold during the previous term. In the OEM market, we are concentrating our efforts in expanding the business not only for car audio, but also for car navigation systems.

In the overseas after-market, the fact that CD receivers have reached the growth stage and the solid performance of our MASK series with a unique anti-theft mechanism led to a sales increase of approximately 10% from the previous year.

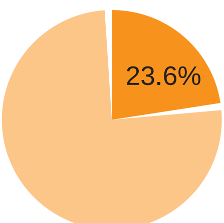
Sales of Car Audio (Consolidated)



Communications Equipment

Sales of communications equipment during the term ended in March 2001 were \71.6 billion, up by 13.7% from the previous year. Although PDC (Personal Digital Cellular), the staple product in the domestic market, did not make the business plan due to the delay in introduction of a new model that was originally scheduled in the first half of the term, another model introduced late in the year turned out to be very successful. Regarding commercial radios and land mobile radio (LMR), the mainstay products in the communications business, sales in Asia continued to grow due to the strong Chinese economy.

Percent of Net Sales



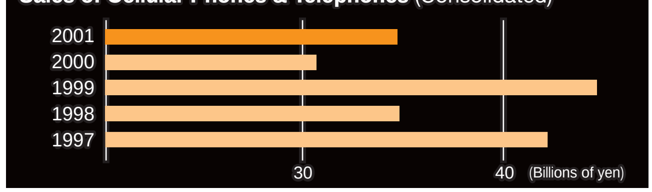
Cellular Phones & Telephones

Sales of cellular phones and telephones for the year ended in March 2001 increased to \35.1 billion, up 13.5% from the previous year. During the year ended in March 2001, Kenwood effected a new system with which it can develop two new models of PDC each year instead of the previous one-model-per-year development system. Although the model introduced in the first half fell well behind the plan due to the delay in its introduction, our first folding type model introduced late in the term turned out to be very successful with its advanced features and sophisticated design.

The company has withdrawn from the GSM business that had been the source of a huge deficit and, with regard to the PHS business in Japan, the operation was suspended for the time being as improvement in the market surroundings is not expected very soon.

The domestic home telephone market has been shrinking in recent years. Responding to the trend, the company added another telecom carrier account and now offers products compatible with services provided by NTT Communications and Japan Telecom.

Sales of Cellular Phones & Telephones (Consolidated)



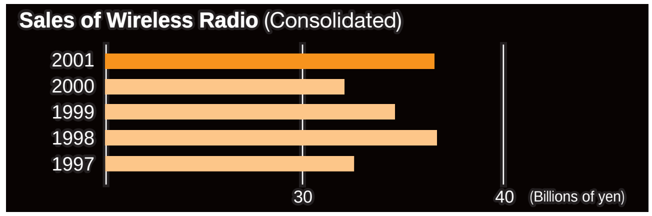
Wireless Radio

Sales of wireless radio equipment in the year ended in March 2001 increased 14.0% from the previous year to \36.5 billion.

Amidst the global regression of the amateur radio market, Kenwood is shifting to the commercial radio market in Japan and emphasizing systems integration, including base station systems, in addition to the sales of terminals. Another item being heavily promoted is the vehicle management system utilizing the GPS system. Low-power transceivers, the field in which Kenwood holds approximately 60% of the Japanese market share, are not only popular among vacationers but also among distributors and event organizers for they do not require licenses while offering superior performance.

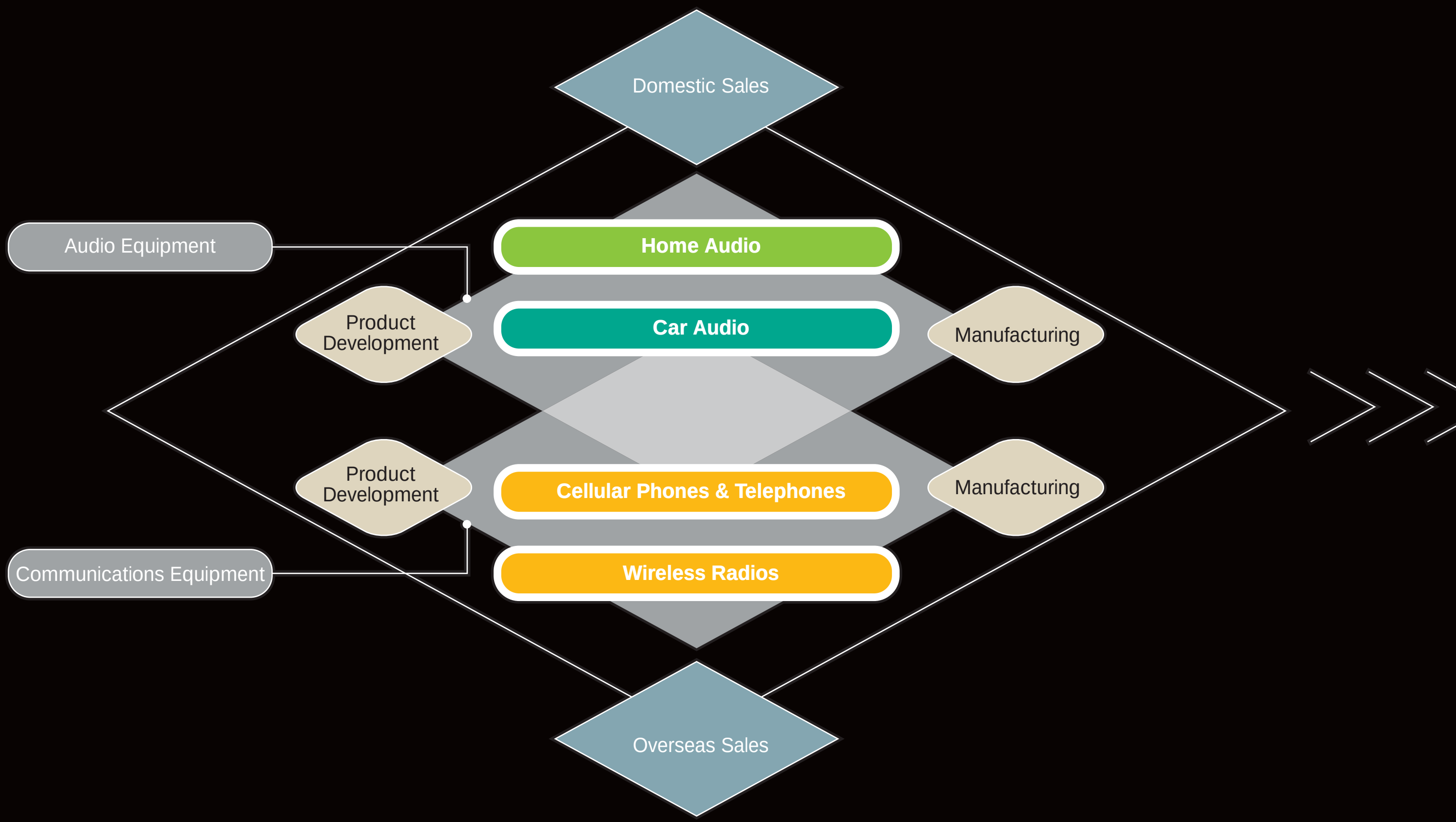
On the other hand, our overseas operation is built around the commercial LMR business including the sales of integrated systems. In the US, Kenwood had been enjoying a successful business with LMR systems for public offices and private corporations, but suffered a setback during the term due to the slowdown in the economy in the latter half. Meanwhile, business in the European market thrived for we now have a complete product lineup and sales in Asia continued to grow thanks largely to the strong Chinese economy.

Sales of Wireless Radio (Consolidated)



Construct a New Organization to Instill Vigor into Business

Previous Organization



Since April 2001, Kenwood has been undertaking a total reform of its business operations based on the mid-term restructuring plan to solidify its financial backbone and to be able to secure constant gains even under severe economical circumstances like the ones we are facing right now. At the heart of various activities is the major organizational reform starting with the introduction of the "quasi-companies."

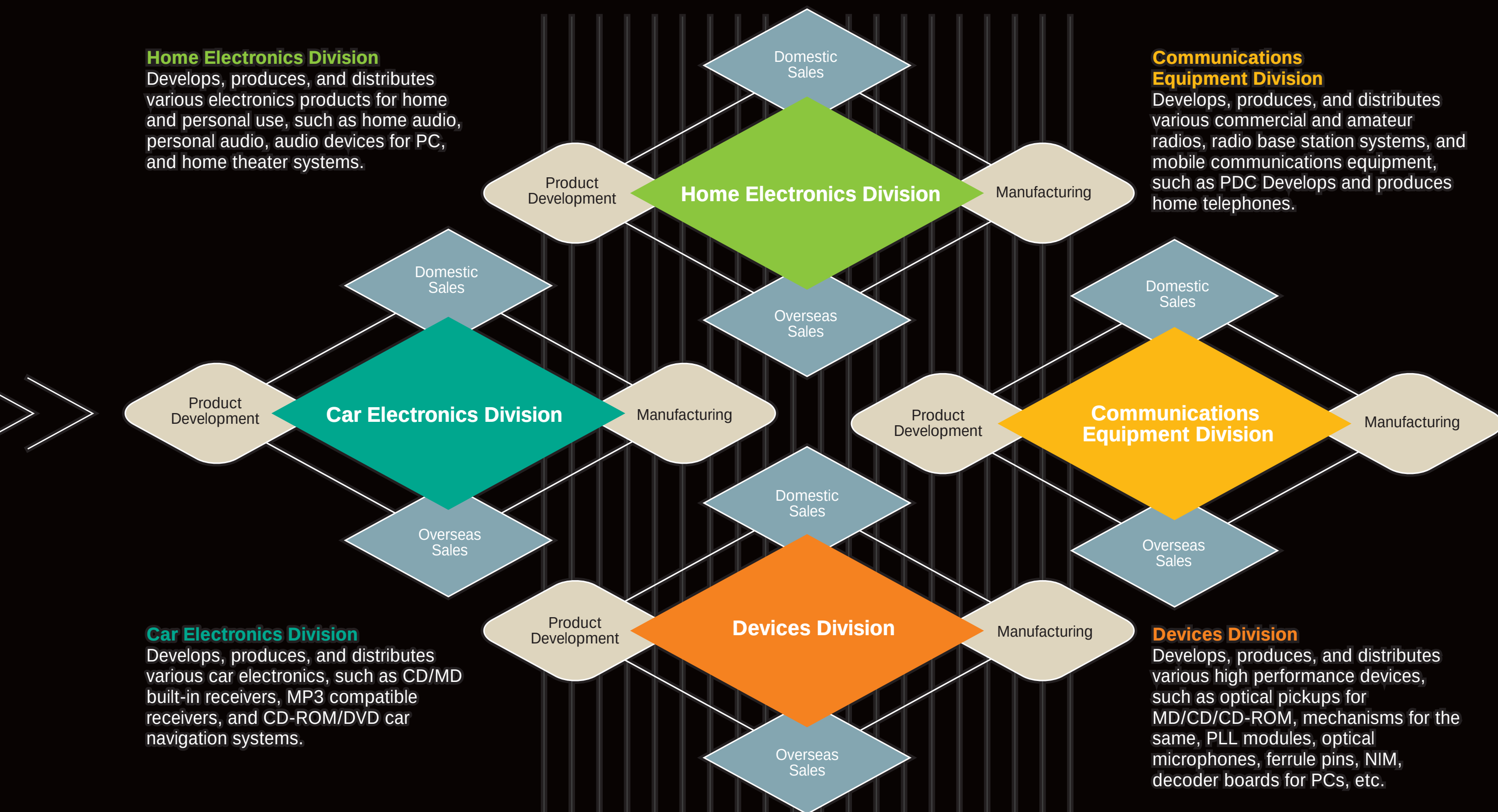
The business environment in which we are has been changing rapidly as evidenced in various technological innovations especially in IT, the fall in retail prices, and fluctuations of exchange rate. In order to cope with these changes and to enable dynamic business management, Kenwood has installed the "quasi-company" system by integrating the manufacturing and the sales organizations in May 2001.

As a result, four different divisions - the Home Electronics Division, the Car Electronics Division, the Communications Division, and the Devices Division - were formed and these market and product oriented divisions are supported and linked together by means of cross-sectional organization such as the Production Control Div., the Quality Assurance Committee, the Committee for Technology Planning, etc. Each division bears the responsibility for profits and losses through manufacturing and selling, and undertake management by using its balance sheet and cash flow chart based on profit-oriented independent policy under the leadership of the division manager.

New Organization Formed on May 2001

Home Electronics Division
Develops, produces, and distributes various electronics products for home and personal use, such as home audio, personal audio, audio devices for PC, and home theater systems.

Communications Equipment Division
Develops, produces, and distributes various commercial and amateur radios, radio base station systems, and mobile communications equipment, such as PDC Develops and produces home telephones.



Car Electronics Division
Develops, produces, and distributes various car electronics, such as CD/MD built-in receivers, MP3 compatible receivers, and CD-ROM/DVD car navigation systems.

Devices Division
Develops, produces, and distributes various high performance devices, such as optical pickups for MD/CD/CD-ROM, mechanisms for the same, PLL modules, optical microphones, ferrule pins, NIM, decoder boards for PCs, etc.

Committee for SCM
Formulates and promotes corporate wide operational reform projects, such as the supply chain management (SCM) project, including major affiliated companies.

Production Control Division
Controls all affiliated manufacturing companies in and out of Japan, sets standards for manufacturing activities, carries out consulting & supporting activities, and sets out plans for regrouping production categories and merging plants.

Quality Assurance Committee
Integrates and promotes corporate quality standards for improving product quality and minimizing waste.

Committee for Technology Planning
Selects areas of research based on a long-term product development plan without being hampered by divisional interests and sets corporate policies on R&D activities.

Purchasing Committee
Creates unified coding system for parts and sets out principles in procurement method aiming at improved productivity and cost reduction.

Home Electronics Division

Regain profitability in business through improving efficiency substantially and an aggressive move towards new business areas

Change of product lineup and cost reduction

In recent years, the home audio market has been marked by a rapid fall in retail prices both for the conventional and portable audio products. Although Kenwood's share in the home audio market is the highest in Japan and ranks high overseas, the business was hit hard by the price war and devaluation of the Japanese yen and we were forced to operate with deficits. The mission of the newly formed Home Electronics Division is to turn things around and to carry out a thorough innovation in our business so that the division will regain the strength it once had and yield profit at an earliest possible date.

First, we remove unprofitable models from the current product lineup and reduce fixed expenses for both the production and sales drastically. We are considering purchasing products which are scarcely profitable from third party manufacturers instead of our subsidiaries to reduce costs. Then, we will withdraw entirely or partially from overseas unprofitable markets and reduce R&D expenses by decreasing research subjects. In addition, we are going to reduce costs substantially, by merging factories, streamlining parts purchasing process and shortening the lead-time from production to sales to bring on lower inventories.

Cultivating new business areas

In addition to improving the profitability of conventional businesses, we will develop new products that satisfy sophisticated needs of people arising from technological innovations and dramatic changes in lifestyles. In other words, we will shift our weights onto products with more values such as DVD, other digital AV products, PC audio, networking and IT related products, etc.

In the area of DVD, the partnership agreement with Total Technology Co. Ltd., which is an affiliate of Thomson Multimedia of France, not only helps us save the licensing cost but also gives us new opportunities to delegate a product design or to launch a joint development project in improving the competitiveness of our products. In the area of PC audio products, we will pursue collaboration with new PC manufacturers in developing new products that facilitate the use of digitally encoded music data following the example of "AFiNA AV" developed in cooperation with SOTEC. Also included in the business plan is the development of a digital server with a DVD/CD changer as well as a storage medium, such as a HDD or a CD-R/RW drive, for the US market.

Utilizing the Kenwood brand and its unique audio technology

Even in the days when the Internet becomes the essential part in people's lives and various digital contents are distributed over the network, people still have a desire for quality music and video. Kenwood will continue to develop quality products answering such a desire by incorporating the latest computer and networking technology with Kenwood's core technology in digital & analog audio and market them by utilizing the power of Kenwood brand that has been a household name for decades.

Sadaharu Katoh
Director & Division Manager,
Home Electronics Division

Car Electronics Division

Gain new grounds by expanding into the OEM market and by nourishing seedlings of new technology

Expanding the OEM business for further growth

Kenwood is in its 22nd year since entering into the car audio business in 1980. During the past, Kenwood has gained popularity among users with its superior Hi-Fi performance and versatility as well as sophisticated design and now holds approximately 15% of the world's car audio after-market. In recent years, major automobile manufacturers have acknowledged Kenwood's success in the consumer market and started to adopt its products in their automobiles. Despite these long lasted successes in the car audio market, however, Kenwood struggled in the 72nd fiscal term due to the low demand for pure audio products in the stagnant Japanese consumer market and the slowdown of the US market in the latter half. In addition to the economic recesses, shortages in major components and fluctuating exchange rate held down the company's sales figure as well as income below the business plan. Operating under the new system formed in May 2001, the division intends to improve the profitability of its business through an operational reform and to aim for further growth by enhancing its marketing efforts in the OEM market.

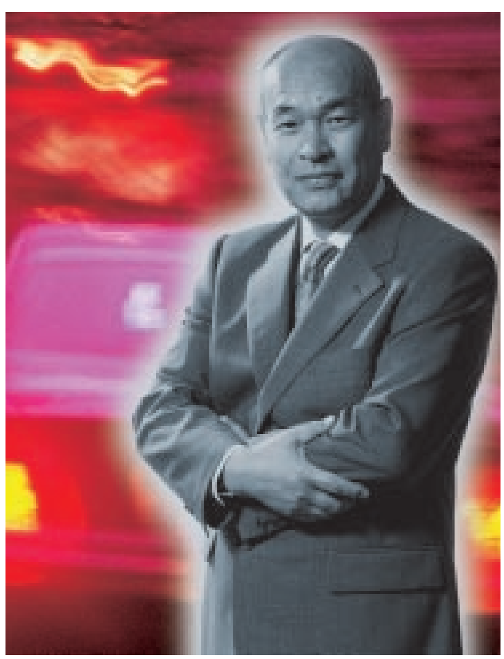
Pursuing collaboration with tier-1 suppliers in the world

The OEM car audio market that is estimated at one trillion yen, twice as big as the after-market, provides a huge opportunity for Kenwood. One of the strategies taken by the company in developing the OEM business is the creation of business collaboration with the major automotive component suppliers who are closely tied to automobile manufacturers. Currently, the company is co-developing an audio-visual navigation system with DENSO and is planning to apply the same approach to the tier-1 automotive component suppliers throughout the world so that our products will be adopted as standard components by major automobile manufacturers in the world.

On the other hand, Kenwood is also working hard to develop unique products for the after-market, like the MP3 decoder built-in receiver that shipped 270% of the original plan, and to raise the status of the brand even further.

Exploring new areas of business

Product development at Kenwood will be more focused on the navigation systems, for which the market continues to expand, in addition to the value-added audio products as explained above. We have already introduced the DVD navigation system that had performed extremely well in Japan last year and in the US and European market this year. Now the company's efforts are centered on the development of digital broadcast receivers, which are expected to be the bread and butter products in the future. In addition to the first DAB receiver for the European market introduced earlier, the company is currently planning to release a product for Sirius Satellite in the US, which will start its broadcasting in 2001, and new car audio equipment aimed at the digital terrestrial broadcasting and the digital satellite broadcasting that are expected to take off in 2003 in Japan. Besides these, we will also work hard to develop new products by integrating audio, navigation, and communications functions - products that are unique to Kenwood in their nature, representing the three business sectors of the company.



Haruo Kasuya
Director & Division Manager,
Car Electronics Division

Construct a New Organization to Instill Vigor into Business

Communications Equipment Division

Distinguish and concentrate on the areas of interest for enhanced profitability and cultivation of new businesses

Termination of non-profitable businesses paves the way to the future

Communications Division has put an end to business operations that have been losing money in the past. First, the company had withdrawn from the GSM business during the last fiscal term and then the business operation of PHS (Personal Handy-phone System) was suspended. With the new management system formed in May 2001, the division will focus on securing steady income by concentrating its resources in areas where the profitability is higher or the potential in the future is greater and further aims at a long-term business expansion.

In the US, the bandwidth open to the public will be cut down to 6.25kHz, half of the current bandwidth, with the planned revision of regulations on radio communications in 2005. Kenwood already has a technology that addresses the problems associated with a narrow bandwidth and thus intends to take advantage of the new regulation in expanding its market share in the US. Besides LMR, the company is planning to promote a vehicle management system utilizing GPS in Japan and to introduce new models of low-power transceivers, which are gaining in popularity for amateur radio and business use, both in and outside Japan. With these measures, we will try to expand the sales in every possible way.

Enhancement of the sales organization for systems integration

In the wireless radio business, we are undertaking an effort to strengthen and expand the sales of commercial radio systems, including base station equipment, with the understanding that this is an area where a growth is expected. Although Kenwood had already done much work in integration of LMR systems both in Japan and the US in the past, it further enhanced the organization in the US, the largest market of all, by relocating the marketing team of Kenwood Systems Inc. to Atlanta in June 2001 for better communication with the development team stationed there. The move enables the company to offer precise solutions addressing particular needs of every customer, whether it is a public office, distributor, manufacturer, or a business in some other field. With the business know-how and experiences gained in Japan and the US, we are planning to expand the systems integration business to Europe and Asia.

Enhanced development system and collaboration for PDC

In the mobile communications business, we will concentrate our resources on the PDC, which are currently supplied to J-PHONE. The development team has already been expanded to three groups and has started its operation based on the new plan to release two new models each year - up from the previous one-per-year schedule. From now on, the lead-time for new model introduction will be further shortened and joint development and production programs with other companies will be pursued so that we will be able to adapt to rapid changes in the PDC market.

On the other hand, the company will try to stop the bleeding in the home telephone business by adding more sophisticated machines in its product range. In addition to the existing business with Japan Telecom, the company is planning to introduce new models compatible with "L-mode," a new service introduced by the NTT group.

Moriyuki Tamura
Director & Division Manager, Communications Division

Devices Division

Accommodate the industry with key devices based on unique R&D activities and sophisticated production engineering to spur the advancement of digital equipment

Expand the B-to-B business for stabilized operation

The Devices Division is a new business sector created as a result of the organizational reform that took place in May 2001. The objectives of the division are to integrate the production of all high-performance devices for audio and communications equipment, which had been manufactured by affiliated companies and ourselves and consumed internally, and to satisfy internal needs of cost reduction and improved performance by taking more professional approaches, as well as to officially enter the component business in the industry. The division is hoping to make a positive impact in stabilizing the performance of the company through a stable and sustained supply of components by expanding the B-to-B business complementing other divisions specializing in consumer products, such as audio equipment and cellular phones, of which sales depend more on personal preferences and market trend.

Pickups and PLL support the division

We will start the business with the development and production of pickups and mechanical components used in CD and MD players, as well as PLL (Phase Locked Loop) modules for cellular phones. The development of a DVD pickup has already been completed and will be added to the existing line of CD/MD pickups and mechanisms. Although current customers are other divisions in Kenwood, we intend to expand the sales to other manufacturers as well. As for the PLL module, an easy-to-use module with a higher degree of integration is under development for use in Kenwood's next PDC model.

Commercialization of optical devices and devices for digital broadcasting

Included in the products being developed are optical devices, such as optical microphones, and NIM (Network Interface Module) for digital broadcasting. The optical microphone is the first of its kind in the world and has been realized based on the research carried out by Phone-Or Ltd. in Israel. It has many characteristics that have been impossible with conventional microphones — extraordinary directionality, superior sensitivity, quality sound, etc. — and is expected to serve as a sound sensor, not to mention applications in various electronic equipment. Currently, we are in the preparation stage for the introduction of optical microphones as applications are being developed targeting the field of car navigation.

As for the NIM, which is the core component in the digital broadcast receiver and for which we had carried out a prolonged research, samples have been shipped and inquiries are coming in from CATV operators. In the future, we plan to develop products with added values, such as a PC card for receiving High Definition broadcast, to expand the product range.

Tsuneo Abe
Director & Division Manager, Devices Division

The Japanese economy during the term under review continued to struggle under a prolonged recession and intensified competition in the market. The trend was no different in the audio-visual market in which the falling market prices of home and car audio products prohibited Kenwood from increasing its income despite the increased number of units sold. Meanwhile, the communications business has come to a turning point as the cellular phone market, of which rapid growth provided an opportunity for business expansion, is showing more signs of transition from the growth stage to the maturity stage.

Overseas, the business climate was mixed as the prolonged growth of the US economy has slowed down in the latter half of the year while consumer spending in the European market remained solid.

Performance

Sales

Sales of the Kenwood Group for the year ended in March 2001 rose 10.5% from the previous year to \303.4 billion. Looking at the sales amount by region, \131.9 billion (an increase of 6.8% from the previous year) was earned in Japan while overseas sales amounted to \171.5 billion (an increase of 13.5%).

Composition-wise, 43.5% (45% the previous year) of total sales were from domestic market and 56.5% (55% the previous year) overseas.

Sales from the audio business increased 9.5% from the previous year to \231.8 billion thanks largely to the solid performances of value added products such as audio systems with built-in CD-R/RW drive, MD-LP compatible audio systems, and car audio receivers with a MP3 decoder, as well as MD built-in portable stereo players.

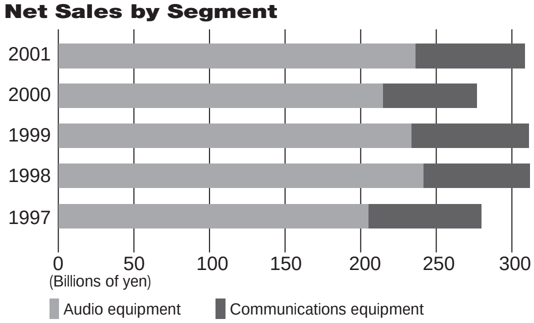
On the other hand, sales from the communications business were \71.6 billion (an increase of 13.7%). While the LMRs (Land Mobile Radio - commercial radio transceivers), the staple product in the overseas market, struggled in the US due to the economic slow down, the introduction of new PDC cellular phones has contributed to increased sales in the domestic market.

Expenses and Earnings

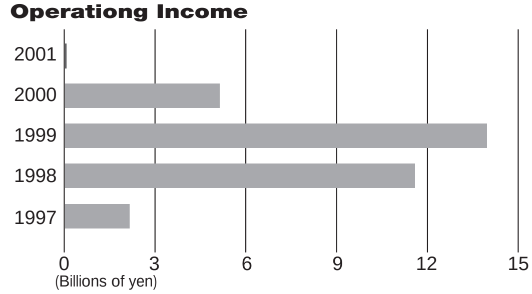
The cost to sales ratio deteriorated from the previous year's 74.5% mark to 77.8% affected by the price drop in the market owing to the fierce competition for home audio and car audio products. Sales cost rose to \235.9 billion (\204.5 billion for the previous year), gross profit was down by 3.7% to \67.4 billion, and selling, general and administrative expenses increased 3.9% to \67.4 billion. Consequently, the company's operation ended up right at the break-even point (\5.1 billion operational income for the previous year).

Other expenses swelled from \6.3 billion in the previous year to \18.0 billion due to the cost associated with the withdrawal from non-profitable businesses. As a result, the company posted a loss of \18.0 billion before tax (a \1.2 billion loss the previous year) and a net loss of \21.8 billion (\1.0

Net Sales by Segment



Operationg Income



billion the previous year) after tax.

Loss per share was \148.26 (a \6.91 net loss per share for the previous year).

Financial Position

As of March 31, 2001, total assets of the Kenwood Group amounted to \208.4 billion (down 1.9% from the previous year). Current assets increased to \148.2 billion (an increase of 13.8%) mainly due to the increased trade notes and accounts receivable for the domestic market. Sales of production equipment led to a 6.6% decrease in fixed assets at \33.7 billion and investments and other assets decreased 42.6% to \26.5 billion from sales of investment securities, expending the deferred tax asset, and the exclusion of translation adjustments based on the new accounting rule.

Current liabilities amounted to \163.7 billion (up 20.5% from the previous year). Increased short-term borrowings and trade notes and accounts payable led to the increase. Long-term liabilities rose 4.9% from the previous year to \42.8 billion due to reinforcement of employees' retirement benefits.

Cash Flows

Cash and cash equivalents outstanding at the end of the term under review were \20.9 billion, an increase of \2.4 billion from the previous year (\18.5 billion).

Cash flows from operating activities decreased \24.2 billion from the previous year and the company lost \7.4 billion. The \18.0 billion loss before tax (a decrease of \16.8 billion) owing to the deteriorating profit margin in the home and car audio businesses was the major reason. Despite gaining some proceeds from decrease of time deposits and sales of investment securities, net cash used in investing activities was \4.8 billion (decrease of \4.4 billion from the previous year), as the company spent \13.1 billion in acquiring property and software. Net cash provided by financing activities was \12.7 billion, of which \5.0 billion was gained by issuing corporate bonds and \8.0 billion by added long-term and short-term borrowings.

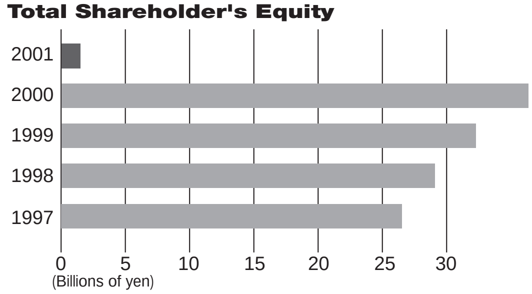
Capital Expenditures

Total capital expenditure during the term was \13.8 billion, an increase of 25.9% from the previous year. The majority was spent in purchases of tools and dies for new products.

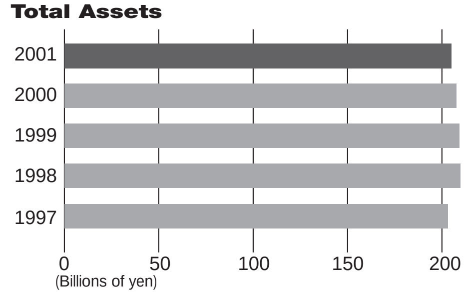
Financial Indicators

The deficit in working capital at the end of the financial year was \15.5 billion. The current ratio was 0.91 (0.96 for the previous year). The shareholders' equity ratio was 0.7% (16.6% for the previous year) and the asset turnover rate was 1.46 times (1.29 for the previous year).

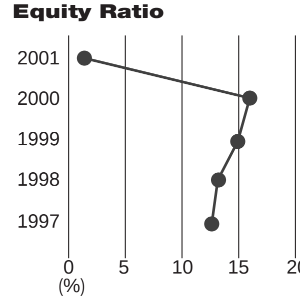
Total Shareholder's Equity



Total Assets



Equity Ratio



Consolidated Balance Sheets

Kenwood Corporation and Consolidated Subsidiaries
As of March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2001	2000	2001
Current Assets:			
Cash and cash equivalents	\ 20,854	\ 18,496	$ 168,177
Time deposits	649	4,736	5,234
Marketable securities (Note 1)	—	365	—
Trade notes and accounts receivable	61,891	48,881	499,121
Less: Allowance for doubtful receivables	(1,610)	(1,194)	(12,984)
Inventories—			
Finished goods	33,041	30,048	266,460
Work in process and raw materials	24,664	19,864	198,903
Deferred tax assets (Note10)	1,543	2,402	12,443
Prepaid expenses and other	7,175	6,620	57,863
Total current assets	148,207	130,218	1,195,217
Property, Plant and Equipment, at Cost (Notes 3 and 6)**:**			
Land (Note 4)	13,230	13,104	106,693
Buildings and structures	23,674	22,560	190,919
Machinery and equipment	20,910	19,479	168,629
Tools, furniture and fixtures	13,187	39,659	106,347
Construction in progress	210	68	1,693
	71,211	94,870	574,281
Less: Accumulated depreciation	(37,486)	(58,781)	(302,306)
Net property, plant and equipment	33,725	36,089	271,975
Investments and Other Assets:			
Investment securities (Note 2)	15,772	18,066	127,194
Investments in and advances to unconsolidated subsidiaries and associated companies	546	1,305	4,403
Software	5,792	5,056	46,710
Deferred tax assets (Note 10)	1,063	2,523	8,573
Lease deposits and other	3,310	5,145	26,694
Financial statement translation adjustments	—	14,070	—
Total investments and other assets	26,483	46,165	213,574
Total	\ 208,415	\ 212,472	$ 1,680,766

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Current Liabilities:			
Short-term bank borrowings (Note 5)	\ 71,641	\ 58,963	$ 577,750
Current portion of long-term debt (Note 6)	14,628	10,700	117,968
Trade notes and accounts payable	63,754	54,616	514,145
Income taxes payable (Note 10)	836	568	6,742
Deferred tax liabilities	36	—	290
Accrued expenses	10,203	8,177	82,282
Other	2,562	2,793	20,662
Total current liabilities	163,660	135,817	1,319,839
Long-term Liabilities:			
Bonds	5,000	—	40,323
Long-term debt (Note 6)	31,170	35,867	251,371
Liability for employees' retirement benefits (Note 7)	3,633	2,147	29,298
Deferred tax liabilities (Note 4)	2,312	2,288	18,645
Other	641	471	5,169
Total long-term liabilities	42,756	40,773	344,806
Minority Interests	514	595	4,145
Commitments and Contingent Liabilities (Note 3 and 12)			
Shareholders' Equity (Note 8)**:**			
Common stock, par value \50 per share; authorized–500,000,000 shares issued and outstanding–147,333,995 shares	22,382	22,382	180,500
Additional paid-in capital	18,144	18,144	146,323
Revaluation surplus (Note 4)	3,160	3,160	25,484
Accumulated deficit	(30,066)	(8,398)	(242,468)
Financial statement translation adjustments	(12,134)	—	(97,855)
	1,486	35,288	11,984
Less: Treasury stock, at cost	(1)	(1)	(8)
Total shareholders' equity	1,485	35,287	11,976
Total	\ 208,415	\ 212,472	$ 1,680,766

Consolidated Statements of Operations

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
Net Sales	\ 303,356	\ 274,517	\ 309,825	$ 2,446,419
Cost of Sales	235,949	204,506	227,340	1,902,814
Gross profit	67,407	70,011	82,485	543,605
Selling, General and Administrative Expenses	67,407	64,867	68,741	543,605
Operating income	0	5,144	13,744	0
Other Income (Expenses):				
Interest expense, net	(3,700)	(3,028)	(3,634)	(29,839)
Equity in earnings of affiliates	190	70	61	1,532
Gain on sales of investment securities, net	352	3,494	584	2,839
Loss on devaluation of investment securities	(2,775)	(3,141)	(1,736)	(22,379)
Loss on disposal of inventories	(1,445)	(2,921)	(1,923)	(11,653)
Loss on sales of property, plant and equipment, net	(1,199)	(303)	(71)	(9,669)
Additional retirement allowances paid to employees	(1,004)	(90)	(462)	(8,097)
Retirement allowances paid to directors and corporate auditors	(495)	(467)	—	(3,992)
Loss on closing of business	(6,263)	—	—	(50,508)
Loss on provision for doubtful receivables	(1,649)	—	—	(13,298)
Other, net, including cash discounts	2	52	(875)	16
Total	(17,986)	(6,334)	(8,056)	(145,048)
Income (loss) before Income Taxes and Minority Interests	(17,986)	(1,190)	5,688	(145,048)
Income Taxes (Note 10)**:**				
Current	1,220	1,187	1,559	9,839
Deferred	2,570	(1,441)	373	20,726
Total	3,790	(254)	1,932	30,565
Minority Interests in Net Income	67	81	22	540
Net Income (Loss)	\ (21,843)	\ (1,017)	\ 3,734	$ (176,153)

	Yen			U.S. dollars (Note 1)
Per Share Data (Note 11)**:**				
Net income (loss)	\ (148.26)	\ (6.91)	\ 25.35	$ (1.20)
Cash dividends applicable to the year	—	—	3.00	—

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
Common Stock:				
Beginning balance	\ 22,382	\ 22,382	\ 22,382	$ 180,500
Ending balance	\ 22,382	\ 22,382	\ 22,382	$ 180,500
Additional Paid-in Capital:				
Beginning balance	\ 18,144	\ 18,144	\ 18,144	$ 146,323
Ending balance	\ 18,144	\ 18,144	\ 18,144	$ 146,323
Revaluation Surplus (Note 4)**:**				
Beginning balance	\ 3,160	\ —	\ —	$ 25,484
Land revaluation	—	3,160	—	—
Ending balance	\ 3,160	\ 3,160	\ —	$ 25,484
Accumulated Deficit:				
Beginning balance	\ (8,398)	\ (8,276)	\ (11,470)	$ (67,726)
Adjustment to retained earnings for the adoption of deferred tax accounting method	—	1,467	—	—
Net income (loss)	(21,843)	(1,017)	3,734	(176,153)
Cash dividends paid	—	(442)	(442)	—
Transfer to employee welfare fund	—	(12)	—	—
Bonuses paid to directors and corporate auditors	(3)	(118)	(98)	(24)
Adjustment to retained earnings from consolidation of additional subsidiaries	178	—	—	1,435
Ending balance	\ (30,066)	\ (8,398)	\ (8,276)	$ (242,468)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	2001
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interests	\ (17,986)	\ (1,190)	\ 5,688	$ (145,048)
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Income taxes-paid	(1,033)	(1,553)	(904)	(8,331)
Depreciation and amortization	9,969	10,194	9,920	80,395
Provision for doubtful receivables	1,896	74	214	15,290
Loss on disposal of property, plant and equipment	1,374	—	—	11,081
Loss on liquidation of business division	6,263	—	—	50,508
Loss (gain) on sales of property, plant and equipment, net	(180)	303	71	(1,452)
Increase (decrease) in retirement benefits	1,486	60	(187)	11,984
Gain on sales of investment securities	(408)	(3,494)	(584)	(3,290)
Devaluation of investment securities	2,550	3,141	1,736	20,564
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	(8,532)	1,769	(402)	(68,806)
Decrease (increase) in inventories	(8,713)	1,314	5,948	(70,266)
Increase in trade notes and accounts payable	5,105	5,348	666	41,169
Other, net	788	826	(196)	6,355
Net cash (used in) provided by operating activities	(7,421)	16,792	21,970	(59,847)
Cash Flows from Investing Activities:				
(Increase) decrease in time deposits, net	4,102	157	(2,234)	33,080
Proceeds from sales of marketable securities, net	—	270	680	—
Proceeds from sales of property, plant and equipment	4,165	434	1,976	33,589
Proceeds from sales of investment securities	1,399	7,740	1,643	11,282
Purchases of property, plant and equipment	(6,679)	(6,547)	(7,564)	(53,863)
Purchases of investment securities	(1,271)	(7,291)	(6,725)	(10,250)
Purchases of software	(6,436)	(3,927)	(2,479)	(51,903)
Other, net	(82)	(26)	(872)	(661)
Net cash used in investing activities	(4,802)	(9,190)	(15,575)	(38,726)
Cash Flows from Financing Activities:				
(Decrease) increase in short-term bank borrowings, net	9,027	(3,808)	(12,266)	72,798
Proceeds from long-term debt	8,518	10,419	33,000	68,694
Proceeds from bonds	5,000	—	—	40,323
Repayments of long-term debt	(9,526)	(7,903)	(21,225)	(76,823)
Cash dividends paid	—	(442)	(442)	—
Other, net	(344)	(8)	7	(2,774)
Net cash (used in) provided by financing activities	12,675	(1,742)	(926)	102,218
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,261	(1,076)	(213)	10,169
Net Increase in Cash and Cash Equivalents	1,713	4,784	5,256	13,814
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year	645	—	—	5,202
Cash and Cash Equivalents at Beginning of Year	18,496	13,712	8,456	149,161
Cash and Cash Equivalents at End of Year	\ 20,854	\ 18,496	\ 13,712	$ 168,177

See notes to consolidated financial statements.

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 Ministry of Finance as required by the Securities and Exchange Law of Japan, which are prepared in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

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

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 accounting principles generally accepted in Japan but is presented herein as additional information.Certain reclassifications have been made to the 2000 and 1999 consolidated financial statements to conform to the 2001 presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥124 to $1, the approximate rate of exchange at March 31, 2001. Such translations should not be construed as representations 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 51 (42 in 2000 and 41 in 1999) subsidiaries (together, the "Group").

Investments in an (one in 2000 and none in 1999) unconsolidated subsidiary and an (one in 2000 and two in 1999) associated company are accounted for by the equity method.

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 excess of the cost of the Company's investments in consolidated subsidiaries over its equity in the net assets until March 31, 1999, is being amortized over 5 years.

Effective April 1, 1999, the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary is being amortized over 5 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

Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Group adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, 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 statement of operations.

(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 each balance sheet date, except for shareholders' equity which is translated at the historical exchange rates in effect at the time of the transactions. Prior to April 1, 2000, differences arising from such translation were shown as "Financial statement translation adjustments" as either all assets or liabilities in the balance sheet.

Effective April 1. 2000, such differences are shown as "Financial statement translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

(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

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	3 to 60 years
Machinery and equipment	2 to 15 years
Tools, furniture and fixtures	2 to 20 years

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

Software for company use is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over their estimated useful lives (5 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 (1 to 5 years), considering the nature of the products.

(h) Marketable and Investment Securities

Prior to April 1, 2000, marketable and investment securities are stated at cost, determined by the moving-average method. Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments, including marketable and investment securities. Under this standard, all securities are classified as available-for-sale securities and are stated at cost, determined principally by the moving-average method at March 31, 2001. The effect of adopting of the new standard was immaterial.

(i) Liability for Employees' Retirement Benefits

The Company has a contributory funded pension plan covering substantially all of their employees. Prior to April 1, 2000, amounts contributed to the plan were charged to income when paid.

The company and certain consolidated subsidiaries have unfunded retirement benefit plans and have recorded employees' retirement allowances at 40% of the amount which would be required if all employees voluntarily terminated their employment at the balance sheet date prior to April 1, 2000.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of \14,974 million ($120,758 thousand), determined as of the beginning of year, is being amortized over fifteen years. As a result, net periodic benefit costs, as compared with the prior method, increased by \ 971million ($ 7,831 thousand) and loss before income taxes and minority interests increased by \ 971 million ($ 7,831 thousand).

(j) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. 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.

(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 a variety of derivative financial instruments, including foreign currency forward contracts and interest rate swaps as a means of hedging exposure to foreign currency and interest rate risks. The Group dose not enter into derivatives for trading or speculative purposes.

Effective April 1, 2000, the Group adopted a new accounting standard for derivative financial instruments and a revised accounting standard for foreign currency transactions. These standards require that: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of operations 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 the 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. These swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are recognized in income.

As a result of adopting the new accounting standard for derivative financial instruments, loss before income taxes and minority interests decreased by \ 138 million ($ 1,113 thousand).

(m) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

2. Investment Securities

The amount of fair value of the available-for-sale securities was \10,472million ($84,452thousand) and the unrealized losses, net of applicable taxes and minority interests were \3,492million ($28,161thousand) at the balance sheet date.

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001, were \824 million ($6,645thousand). Gross realized gains and losses on these sales, computed on the moving average cost basis, were \363 million ($2,927 thousand) and \12 million ($97thousand), respectively.

The available-for-sale securities as of March 31, 2001, include debt securities as follows:

Maturity	Millions of yen	Thousands of U.S. dollars
Due in one year or less	\ 87	$ 702
Due from one year to five years	693	5,589
Due from five years to ten years	1,721	13,879
Total	\ 2,501	$ 20,170

Carrying amounts and aggregate market values of quoted investment securities, consisting of marketable equity securities and bonds, were \14,838 million and \14,056 million as of March 31, 2000.

3. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were \2,443 million ($19,702 thousand) and \2,104 million for the years ended March 31, 2001 and 2000, respectively.

Obligations under finance leases as of March 31, 2001 and 2000 are due as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within one year	\ 3,237	\ 1,603	$ 26,105
Due after one year	3,608	2,682	29,097
Total	\ 6,845	\ 4,285	$ 55,202

Pro forma information of leased property on an "as if capitalized" basis, such as acquisition cost, accumulated depreciation, and net lease property under finance lease as of March 31, 2001 and 2000 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2001			2000			2001		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	\ 5,310	\ 2,861	\ 2,449	\ 5,297	\ 2,955	\ 2,342	$ 42,823	$ 23,073	$ 19,750
Tools, furniture and fixtures	6,241	2,118	4,123	3,215	1,640	1,575	50,331	17,081	33,250
Others	443	316	127	427	223	204	3,573	2,548	1,025
Total	\ 11,994	\ 5,295	\ 6,699	\ 8,939	\ 4,818	\ 4,121	$ 96,727	$ 42,702	$ 54,025

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

		Millions of yen			Thousands of U.S. dollars	
		2001		2000		2001
Depreciation expense	\	2,268	\	1,907	$	18,290
Interest expense	\	157	\	176	$	1,266

4. Revaluation Surplus

Under the "Law of Land Revaluation", promulgated and revised on March 31, 1998, 1999 and 2001, respectively, 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 surplus represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the statement of operations. 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 surplus 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:	\	4,924
Land after revaluation:	\	10,372
Land revaluation surplus, net of income taxes of \2,288 million:	\	3,160

As of March 31, 2001, the carrying amount of the land after the one-time revaluation exceeded the market value by \ 540 million ($4,355 thousand).

5. Short-Term Bank Borrowings

Short-term bank borrowings are due within one year. The interest rates on these borrowings ranged from 0.63% to 6.66% and 0.67% to 9.0% as of March 31, 2001 and 2000, respectively.

6. Long-Term Debt

Long-term debt as of March 31, 2001 and 2000, consisted of the following:

		Millions of yen				Thousands of U.S. dollars
		2001		2000		2001
Unsecured loans —						
Banks, 1.251%-6.710%, due through 2006	\	32,564	\	31,458	$	262,613
Japanese government-sponsored agencies, 2.15%-2.75%, due through 2005		17		22		137
Japanese insurance companies, 1.90%-2.90%, due through 2004		13,062		14,938		105,339
Others		2		4		16
Total unsecured loans		45,645		46,422		368,105
Mortgage loans		153		145		1,234
Total		45,798		46,567		369,339
Less: Current portion included in current liabilities		(14,628)		(10,700)		(117,968)
Long-term debt, less current portion	\	31,170	\	35,867	$	251,371

As of March 31, 2001, long-term debt in the amount of \155 million ($1,250thousand) was collateralized by land and buildings having a net book value of \425 million ($3,427 thousand).

The aggregate annual maturities of long-term debt as of March 31, 2001, were as follows:

Year ending March 31		Millions of yen		Thousands of U.S. dollars
2002	\	14,628	$	117,968
2003		13,670		110,242
2004		11,286		91,016
2005		3,276		26,419
2006		2,810		22,661
2007 and thereafter		128		1,033
Total	\	45,798	$	369,339

7. Liability for Employees' Retirement Benefits

The Company has a contributory trusteed pension plan, which covers all employees of the Company. Under the plan, employees terminating their employment after more than 10 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.

Employees are entitled to larger payments in case of voluntary retirement at certain specific ages prior to the mandatory retirement age.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits.

The components of net periodic benefit costs are as follows:

		Millions of yen		Thousands of U.S. dollars
Service cost	\	1,553	$	12,524
Interest cost		1,191		9,605
Expected return on plan assets		(604)		(4,871)
Amortization of transitional obligation		998		8,048
Larger payments by voluntary retirement on certain specific ages prior to mandatory retirement age		1,004		8,097
Net periodic benefit costs	\	4,142	$	33,403

The liability (asset) for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	\ 39,444	$ 318,097
Fair value of plan assets	(16,451)	(132,669)
Unrecognized actuarial (gain) loss	5,447	43,927
Unrecognized transitional obligation	(13,913)	(112,202)
Net liability (asset)	\ 3,633	$ 29,299

Assumptions used for the year ended March 31, 2001 is set forth as follows:

Discount rate	3.0%
Expected rate of return on plan assets	3.5%
Recognition period of actuarial gain / loss	10years
Amortization period of transitional obligation	15years

8. Shareholders' Equity

The Japanese Commercial Code provides that at least one-half of the proceeds from shares issued at a price in excess of par value be included in common stock.

The Japanese Commercial Code provides that a portion of retained earnings in an amount equal to at least 10% of the aggregate amount of cash dividends and certain other items made as appropriations of retained earnings associated with cash outlays with respect to each fiscal or interim six-month period be appropriated as a legal reserve until such reserve equals 25% of the stated capital. The legal reserve and additional paid-in capital are not available for dividends, but may be used to reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

Cash dividends are approved by the shareholders after the end of each fiscal period or declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each such fiscal or interim six-month period.

9. Research and Development Cost

Research and development costs charged to income were \1,198 million ($9,661 thousand) for the year ended March 31, 2001.

10. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income with normal tax rates aggregating 42%, 42% and 48% for the years ended March 31, 2001, 2000, and 1999, respectively.

As of March 31, 2001, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately \26,936 million ($217,226 thousand), which are available to apply against future taxable income.

Tax effects of significant temporary differences and loss carry-forwards which resulted in deferred tax assets and liabilities at March 31, 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred Tax Assets:			
Devaluation of marketable securities	\ —	\ 1,778	$ —
Devaluation of investment securities	2,597	—	20,944
Tax loss carryforwards	12,660	7,860	102,097
Deferred interest expense	717	594	5,782
Liability for retirement benefits	640	—	5,161
Other	2,281	2,354	18,395
Less: valuation allowance	(16,289)	(7,661)	(131,363)
Deferred Tax Assets:	\ 2,606	\ 4,925	$ 21,016
Deferred Tax Liabilities:			
Inventories	\ 16	\ —	\ 129
Land revaluation	2,288	2,288	18,452
Other	44	—	354
Deferred Tax Liabilities:	2,348	2,288	18,935
Deferred Tax Assets, Net:	\ 258	\ 2,637	\ 2,081

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2001 and the actual effective tax rates reflected in the accompanying consolidated statement of operations is as follows:

	2001	2000
Normal effective statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	(0.3%)	(4.7%)
Tax benefits not recognized on operating losses of subsidiaries	(46.8%)	(57.3%)
Reversal of deferred tax assets of prior years	(16.5%)	—
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	3.6%	39.6%
Other, net	(3.1%)	1.7%
Actual effective tax rate	(21.1%)	21.3%

11. Per Share Data

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

The average number of common shares used in the computation was 147,332 thousand for the years ended March 31, 2001, 2000, and 1999, respectively.

Diluted net income per share is not disclosed because of the Company's net loss position.

Cash dividends per share shown in the accompanying consolidated statements of operations have been presented on the accrual basis and include, in the year ended March 31, 1999, dividends approved and paid after such date, but which were applicable to those periods.

12. Commitments and Contingent Liabilities

The Company was contingently liable as of March 31, 2001, as a guarantor for borrowings of employees aggregating \14 million ($113 thousand).

At March 31, 2001, the Company had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense for

the years ended March 31, 2001, 2000 and 1999 was \4,858 million ($39,177 thousand), \4,404 million and \5,707 million, respectively.
One of the Company's subsidiaries, Kenwood Electronics Technologies (S) PTE LTD ("KETS") has an unresolved matter with the Inland Revenue Authority of Singapore with regard to profitability of KETS. No provision has been made in the financial statements because the likelihood of additional corporate tax and penalties is uncertain, and if any, they cannot be quantified.

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 fixed rate debts to a floating basis.
Because the counterparties to those derivatives are limited to major financial institutions, the Group dose not anticipate any losses arising from credit risk.
The basic policies for the use of derivatives are approved by the Board of Directors of the Company and execution and control of derivatives are controlled by the Company's Financial & Accounting Division. Each derivative transaction is periodically reported to management, where evaluation and analysis of derivatives are made.

The Group had the following derivatives contracts outstanding at March 31, 2001 and 2000:

	Millions of yen					
	2001			2000		
	Contract or Notional Amount	Fair Value	Unrealized Gain / Loss	Contract or Notional Amount	Fair Value	Unrealized Gain / Loss
Interest Rate Swaps:						
(floating rate receipt, fixed rate payment)	\3,500	\ (138)	\ (138)	\3,500	\ (18)	\ (18)

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.

14. Segment Information

The Group manufactures and distributes audio and communications equipment. The Company defines its major segments as:

Audio equipment segment:
Home, car, and general audio products and test and measuring instruments related to audio equipment.

Communications equipment segment:
Amateur radios, UHF CB transceivers, land mobile radios, telephones and personal digital cellular telephones.

Operations by business segment and by geographic area for the years ended March 31, 2001, 2000 and 1999, were summarized as follows:

Operations by business segment:

	Millions of yen				
	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2001					
Net sales:					
Sales to customers	\ 231,752	\ 71,604	\ 303,356	\ —	\ 303,356
Intersegment sales and transfers	—	—	—	—	—
Total	\ 231,752	\ 71,604	\ 303,356	\ —	\ 303,356
Operating income (loss)	\ (3,728)	\ 3,728	\ 0	\ —	\ 0
Identifiable assets	\ 133,574	\ 45,182	\ 178,756	\ 29,659	\ 208,415
Depreciation	\ 7,012	\ 2,956	\ 9,968	\ —	\ 9,968
Capital expenditures	\ 8,548	\ 5,268	\ 13,816	\ —	\ 13,816

Corporate assets as of March 31, 2001, amounted to \29,659 million ($239,185 thousand) and consisted primarily of the Company's investment securities

	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2000					
Net sales:					
Sales to customers	\ 211,560	\ 62,957	\ 274,517	\ —	\ 274,517
Intersegment sales and transfers	—	—	—	—	—
Total	\ 211,560	\ 62,957	\ 274,517	\ —	\ 274,517
Operating income (loss)	\ (16)	\ 5,160	\ 5,144	\ —	\ 5,144
Identifiable assets	\ 122,772	\ 41,807	\ 164,579	\ 47,893	\ 212,472
Depreciation	\ 7,159	\ 3,115	\ 10,274	\ —	\ 10,274
Capital expenditures	\ 7,179	\ 3,799	\ 10,978	\ —	\ 10,978

Corporate assets as of March 31, 2000, amounted to \47,893 million and consisted primarily of the Company's investment securities and translation adjustments.

	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
1999					
Net sales:					
Sales to customers	\ 230,051	\ 79,774	\ 309,825	\ —	\ 309,825
Intersegment sales and transfers	—	—	—	—	—
Total	\ 230,051	\ 79,774	\ 309,825	\ —	\ 309,825
Operating income	\ 5,967	\ 7,777	\ 13,744	\ —	\ 13,744
Identifiable assets	\ 128,568	\ 42,990	\ 171,558	\ 41,695	\ 213,253
Depreciation	\ 7,525	\ 2,332	\ 9,857	\ —	\ 9,857
Capital expenditures	\ 7,383	\ 2,889	\ 10,272	\ —	\ 10,272

Corporate assets as of March 31,1999, amounted to \41,695 million and consisted primarily of the Company's investment securities and translation adjustments.

	Thousands of U.S. dollars				
	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2001					
Net sales:					
Sales to customers	$ 1,868,967	$ 577,452	$ 2,446,419	$ —	$ 2,446,419
Intersegment sales and transfers	—	—	—	—	—
Total	$ 1,868,967	$ 577,452	$ 2,446,419	$ —	$ 2,446,419
Operating income (loss)	$ (30,065)	$ 30,065	$ 0	$ —	$ 0
Identifiable assets	$ 1,077,210	$ 364,371	$ 1,441,581	$ 239,185	$ 1,680,766
Depreciation	$ 56,548	$ 23,839	$ 80,387	$ —	$ 80,387
Capital expenditures	$ 68,935	$ 42,484	$ 111,419	$ —	$ 111,419

Operations by geographic area:

	Millions of yen							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2001								
Net sales:								
Sales to customers	\ 150,085	\ 74,350	\ 55,456	\ 20,598	\ 2,867	\ 303,356	\ —	\ 303,356
Intersegment sales	102,820	1,216	12,177	89,220	—	205,433	(205,433)	—
Total	\ 252,905	\ 75,566	\ 67,633	\ 109,818	\ 2,867	\ 508,789	\ (205,433)	\ 303,356
Operating income (loss)	\ (3,829)	\ 2,618	\ 219	\ 165	\ 206	\ (621)	\ 621	\ 0
Identifiable assets	\ 150,559	\ 27,318	\ 26,266	\ 33,921	\ 1,384	\ 239,448	\ (31,033)	\ 208,415
2000								
Net sales:								
Sales to customers	\ 133,937	\ 68,565	\ 53,324	\ 16,059	\ 2,632	\ 274,517	\ —	\ 274,517
Intersegment sales	110,608	932	10,562	62,421	—	184,523	(184,523)	—
Total	\ 244,545	\ 69,497	\ 63,886	\ 78,480	\ 2,632	\ 459,040	\ (184,523)	\ 274,517
Operating income (loss)	\ (464)	\ 1,448	\ 1,228	\ 679	\ 75	\ 2,966	\ 2,178	\ 5,144
Identifiable assets	\ 115,659	\ 24,643	\ 26,339	\ 24,711	\ 1,188	\ 192,540	\ 19,932	\ 212,472
1999								
Net sales:								
Sales to customers	\ 146,314	\ 75,828	\ 67,100	\ 17,551	\ 3,032	\ 309,825	\ —	\ 309,825
Intersegment sales	127,602	938	3,986	69,342	—	201,868	(201,868)	—
Total	\ 273,916	\ 76,766	\ 71,086	\ 86,893	\ 3,032	\ 511,693	\ (201,868)	\ 309,825
Operating income	\ 5,980	\ 2,301	\ 2,904	\ 957	\ 105	\ 12,247	\ 1,497	\ 13,744
Identifiable assets	\ 118,196	\ 27,459	\ 31,265	\ 23,328	\ 1,306	\ 201,554	\ 11,699	\ 213,253

	Thousands of U.S. dollars							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2001								
Net sales:								
Sales to customers	$ 1,210,363	$ 599,597	$ 447,226	$ 166,113	$ 23,120	$ 2,446,419	$ —	$ 2,446,419
Intersegment sales	829,194	9,806	98,202	719,516	—	1,656,718	(1,656,718)	—
Total	$ 2,039,557	$ 609,403	$ 545,428	$ 885,629	$ 23,120	$ 4,103,137	$ (1,656,718)	$ 2,446,419
Operating income (loss)	$ (30,879)	$ 21,113	$ 1,766	$ 1,331	$ 1,661	$ (5,008)	$ 5,008	$ 0
Identifiable assets	$ 1,214,186	$ 220,306	$ 211,823	$ 273,556	$ 11,161	$ 1,931,032	$ (250,266)	$ 1,680,766

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 Malaysia; Other······ Australia

Overseas sales:

	Millions of yen				
	America	Europe	Asia	Other	Total
2001					
Overseas sales	\ 79,352	\ 58,012	\ 27,979	\ 6,111	\ 171,454
Consolidated net sales					\ 303,356
Ratios of overseas sales	26.2%	19.1%	9.2%	2.0%	56.5%

	Thousands of U.S. dollars				
	America	Europe	Asia	Other	Total
2001					
Overseas sales	$ 639,935	$ 467,839	$ 225,637	$ 49,282	$ 1,382,693
Consolidated net sales					$ 2,446,419

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 Malaysia; Other······ Australia and Africa

The amount of overseas sales and the ratios thereof to consolidated net sales for the years ended March 31, 2000 and 1999, were \151,012 million and \172,640 million and 55.0% and 55.7%, respectively. Overseas sales consist of export sales by the Company and sales by consolidated foreign subsidiaries.

Independent Auditors' Report

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2001, 2000 and 1999

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Deloitte Touche Tohmatsu

To the Board of Directors and Shareholders of Kenwood Corporation:

We have examined the consolidated balance sheets of Kenwood Corporation and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2001, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Kenwood Corporation and consolidated subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As discussed in Note 1, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions.

Our examinations 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.

Deloitte Touche Tohmatsu

June 28, 2001

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● **Kenwood Communications Corporation**
● **Kenwood Service Corporation**
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● **Kenwood Devices Corporation**
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JAPAN

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Established
December 21, 1946

Paid-in Capital
\22,382 million
(As of March 31, 2001)

Number of Employees
2,183 (As of March 31, 2001)

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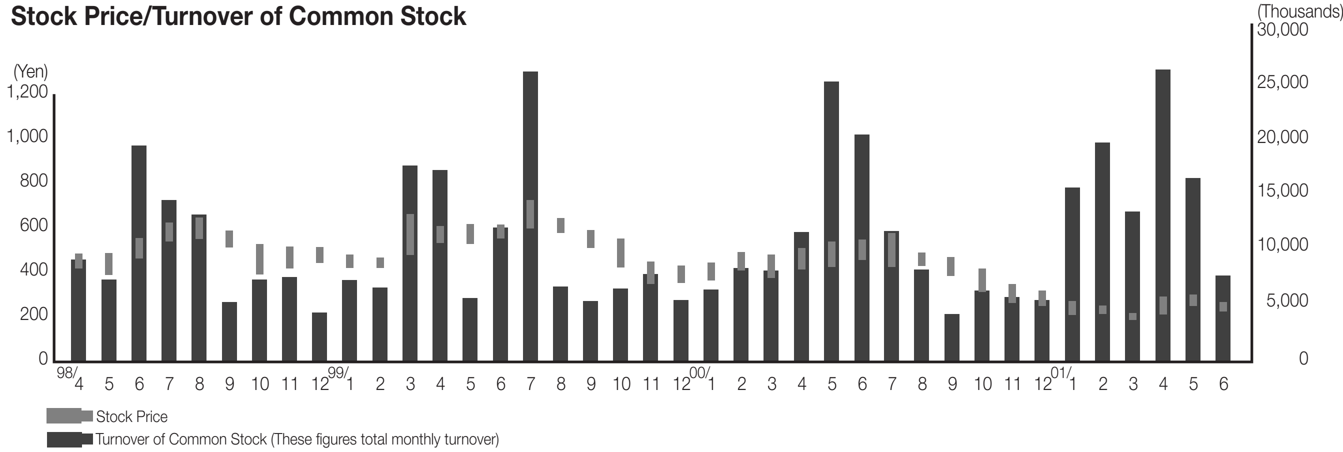
Sadaharu Kato
Hitoshi Ohnishi
Moriyuki Tamura
Akio Ueda
Shigeru Amano

Standing Statutory Auditors
Akira Koyama
Hideaki Kato

Statutory Auditors
Motoaki Hirabayashi
Kyosuke Endo

(As of June 28, 2001)

Stock Price/Turnover of Common Stock



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