KENWOOD

ANNUAL REPORT 2003

For the year ended March 31, 2003

Profile

Almost half a century ago, Kenwood started its business with the production of components for communications equipment. Today, its business domain has expanded to include wireless radio equipment, fixed-line telephones and high-grade audio products for the home and the car. Its operations span the entire globe. In recent years, however, the Company has struggled to offset the losses suffered in the home audio and cellular phone businesses amidst prolonged economic slumps in Japan itself and throughout Asia, coupled with the difficulty in dealing with the unstable Forex market. This predicament led to the announcement of Kenwood Revitalization Action Plan, under which the Company did its utmost to reconstruct operations through a drastic reform of its business and cost structures. As a result, the Company achieved a "V-shaped" recovery, posting a record net income on a consolidated basis.

Furthermore, Kenwood has formulated a new corporate vision — "Creating Exciting through Surprising Ideas" and redefined its brand image as Innovative & Intelligent. With these guidelines, we are working hard to bring forward more value-added products to yield higher profits in our car electronics, home electronics and wireless radio businesses. We are progressing towards our goal of becoming a company of global prominence in Mobile & Home Multimedia Systems, utilizing our comprehensive technical prowess and products planning capability based on proprietary audio and communications technologies.

Contents

Note regarding forward-looking statements

Certain information in this Annual Report, such as Kenwood business plans, strategies and predictions, contains forward-looking statements that may prove to be incorrect. Although any statements that express or involve management judgement are based on currently-available information, they involve known and unknown risks, uncertainties and other factors that may cause the actual results to materially differ from those considered by the forward-looking statements. Potential risks, uncertainties and other factors include, but not limited to: overall economic climate and consumer spending in Japan as well as other major countries; demand for Kenwood's products and pressure of falling prices due to fierce competition; corporate ability to continue to develop products and cutting-edge technologies that appeal to consumers in a highly competitive market; and currency exchange rates (especially between the Japanese yen and the U.S. dollar, as well as other key currencies in which Kenwood carries out a large portion of its business transactions).

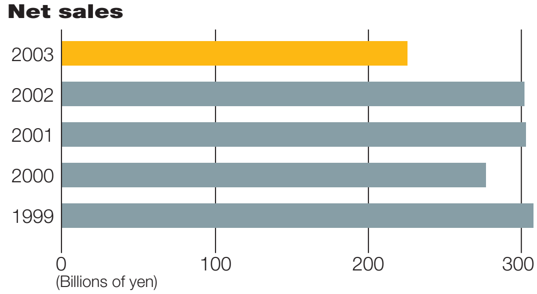
Financial Highlights

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

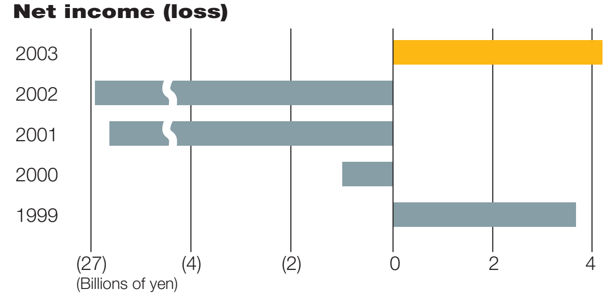
	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
For the year:			
Net sales	**¥ 225,579**	¥ 302,604	**$ 1,879,825**
Net income (loss)	**4,221**	(26,658)	**35,175**
Per share data (in yen and U.S. dollars)**:**			
Net income (loss)	**¥ 21.41**	¥ (160.02)	**$ 0.18**
Cash dividends applicable to the year	**—**	—	**—**
At year-end:			
Total assets	**¥ 142,124**	¥ 182,918	**$ 1,184,367**
Total shareholders' equity	**13,704**	(17,002)	**114,200**

*For the sake of convenience, the U.S. dollar amounts in this report are translated at the exchange rate of ¥120 to $1, the approximate rate in effect on March 31, 2003.

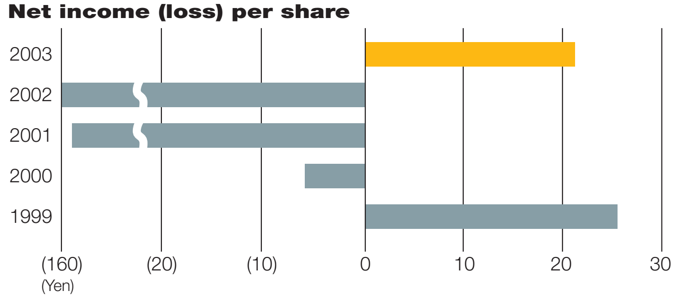
Net sales



Net income (loss)



Net income (loss) per share



To Shareholders

The business climate of Kenwood Corporation remained harsh due to weakened capital investment and consumer spending, amid the prolonged sluggish economy and falling stock prices, as well as the ongoing deflation in Japan and abroad.

Under these circumstances, the Company booked an extraordinary loss of 27.9 billion yen in the fiscal year ended March 2002 due to a valuation loss on investment securities as well as losses on sales of investment securities, disposal of inventories and fixed assets — dormant assets that had no effects on cash and cash equivalents. As a result, the Company had a negative net worth of 17 billion yen by the end of March 2002.

Considering the situation extremely grave, the Company reshuffled the entire executive management team in June 2002, creating a wholly new management board. On July 11, 2002, the new management team announced its Kenwood Revitalization Action Plan that focuses on a sweeping reform of the Kenwood's corporate and cost structures. Since then, the Company has been implementing the plan.

Under the plan, the Company proceeded with drastic, epochal reorganizations, including: structural streamlining of the home electronics business, whereby a stand-alone profitability was secured for this segment; terminating the cellular phone business operations with no outlook of fresh demand; liquidating other unprofitable businesses; shutting down and consolidating production facilities and sales bases in Japan and elsewhere; reducing approximately 45% of its global employee workforce; realigning affiliated firms; and cutting material as well as other costs.

The Company moved ahead with the measures in the action plan, completing its downsizing and other measures by the end of September 2002.

In the course of these voluntary restructuring activities, The Asahi Bank, Ltd. (present Resona Holdings, Inc.), which has always been a true believer in the Company, undertook a debt-for-equity swap amounting to 25 billion yen in an effort to rebuild the manufacturing industry. Concurrently, we were able to receive further support from other banks we do business with in finalizing special arrangements for a three-year repayment period.

Also noteworthy was the fact that a third party allotment totaling some 2 billion yen was provided by our major shareholder SPARX Asset Management Co., Ltd. who has shown continuing interest in Kenwood's potential, as well as Merrill Lynch Investment Managers Co., Ltd. With this unprecedented simultaneous debt-for-equity swap and capital increase by allotting these new shares, the Company's capital grew by approximately 27 billion yen.

As a result, the Company could eliminate the negative net worth by the end of 2002. Taking this opportunity, we would like to express our deep gratitude to all concerned.

In the fiscal year ended March 2003, overseas sales of car electronics products were brisk, which, however, was offset by negative factors, including the sluggish domestic economy, as well as the effects of phasing out the personal digital cellular (PDC) terminal business and the home electronics operations in Asia. As a result, consolidated net sales dropped 25.5%, year on year, to 225.6 billion yen from 302.6 billion yen for the previous fiscal year.

Meanwhile, operating income doubled to top 12.3 billion yen, a sharp rise of 6.2 billion yen from a year earlier. The favorable performance is attributable to substantially strong results from the three core operations, with the car electronics business expanding dramatically, the home electronics business improving its financial structure and the wireless radio business posting a solid performance. Moreover, various revitalization measures and effects from a cost structure overhaul contributed to pushing up operating income.

Ordinary income soared 570% to 7.1 billion yen, an improvement of 6 billion yen from the previous fiscal year.

Net balance achieved a "V-shaped" recovery, posting a record net income of 4.2 billion yen (an improvement of 30.9 billion yen from the previous fiscal year) — a turnaround from the third consecutive year of substantial deficit — despite the booking of valuation losses on investment securities and losses from disposal of fixed assets related to the consolidation of overseas production subsidiaries. The figure marked the first record in 14 years, exceeding the previous record 4.1 billion yen posted in the fiscal year ended November 1989 (the fiscal year shifted to end in March from 1990).

Taking advantage of the results of fiscal year as a springboard, the Company has decided to switch its business strategy from reconstruction to rebirth and a new leap forward. On March 2003, it established the Production Reform Headquarter with sharply reducing costs and inventories. In May 2003, it mapped out the Mid-term Business Plan — 'Excellent Kenwood Plan', a mid-term business plan to last from fiscal 2003 to 2005 (April 2003 to March 2006).

The 'Excellent Kenwood Plan' aims to make Kenwood a *company of global excellence* in our core business domains in the three-year period under its vision "Creating Exciting through Surprising Ideas" by maximizing shareholder value. For this, we aim at achieving an operating income margin of 10% and return on equity (ROE) of 20%, resuming dividend payments and implementing zero net-debt business management. By allocating 3-5 billion yen to be earned as a result of manufacturing innovation efforts, we will reinvest in developing attractive and competitive products, strengthening the brand name and sharing profits among the employees, in order to dramatically improve competitiveness and profitability, while enhancing our core competence — audio and communications technologies — to the greatest extent.

The Company will regain its original brand image of Innovation and Intelligence, and make its presence the strongest as the world's leader in the field of Mobile & Home Multimedia Systems, which is expected to be the most promising business in the 21st century.

We humbly ask for your continued support of Kenwood.

H. Kawahara

Haruo Kawahara, President & CEO

Management Policy

Principal Management Policy

From reconstruction to rebirth

During the fiscal year ended March 2003, Kenwood did its utmost to implement restructuring across the company, aiming to eliminate the negative net worth that was booked in the previous fiscal year. In June 2002, the entire executive management team was replaced by a newly created management board. On July 11, 2002, the new management team launched the Kenwood Revitalization Action Plan (announced on the same day).

Kenwood Revitalization Action Plan and its results

The Kenwood Revitalization Action Plan calls for eliminating the negative net worth, which stood at 17 billion yen on a consolidated basis by the end of fiscal 2003, through the three reforms described below.

Afterward, financial institutions and investors helped the Company increase its capital by some 27 billion yen, which allowed us to eliminate the negative net worth as of December 27, 2002. The Kenwood Revitalization Action Plan also generated more positive effects than expected.

1. Reform of business structure: phasing out of unprofitable operations

- The Home Electronics Business effectively turned a profit in the latter half of the fiscal year, excluding restructuring costs, through a change in product strategies, reduction of marketing territories, concentration of manufacturing bases and cutback in personnel.
- The Company completed to terminate production and sales of PDC terminals in November 2002, by drastically scaling down operations of manufacturing base Kenwood Yamagata Corporation as scheduled.

Through these moves, the Company established a management framework that centers on the three core businesses: car electronics, home electronics and wireless radio.

2. Overhaul of cost structure: reduction in consolidated fixed costs and production costs

- In its sweeping overhaul of its production structure, the Company has completed divestment of production plants in Mexico and Huizhou (China), closure of a factory in Hungary as well as scaling down of its operations at plants in Yamagata (Japan), France and Singapore, as part of the Kenwood Revitalization Action Plan.

These moves, combined with further personnel cuts at a Malaysian plant, enabled to further reduce production and fixed costs.

- In an effort to drastically overhaul the sales structure, the Company succeeded in reducing selling, general and administrative expenses at home by 30%, by consolidating sales offices, cutting staff and introducing a sales agent system. Outside Japan, it integrated sales firms in the Americas into a single corporation, while setting up regional supervisory offices in Europe and Asia.
- Meanwhile, Kenwood itself began to cut employees' salaries by 15% in October, while reducing outsourcing fees paid to domestic affiliates. It consolidated its 19 Japanese affiliates (as of the end of March 2002) into 12.

Through these efforts, the Kenwood Group reduced 3,965 workers (45% of the total 8,820 at the end of March 2002), considerably more than the 3,000 target of the Kenwood Revitalization Action Plan. Consequently, it reduced consolidated fixed costs by 11.7 billion yen, approximately 10% more than the plan's goal.

3. Management reforms: enhancement of management framework and transparency

- The Company has revamped its management framework after the general shareholders' meeting in June 2002, through adoption of the executive officer system, streamlining of the corporate organization, a drastic rejuvenation of the management teams at affiliated firms in Japan and overseas, as well as a full-scale introduction of a framework for consolidation.

Reform of financial structure: elimination of negative net worth by capital increase

Our rebuilding measures are steadily progressing, which was favorably accepted by all concerned. Consequently, we could boost capital by some 2 billion yen at the end of October 2002 through a third-party allocation of new shares. After an extraordinary shareholders meeting on December 10, 2002, The Asahi Bank, Ltd. (present Resona Holdings, Inc.) undertook on December 27, 2002 a debt-for-equity swap amounting to 25 billion yen through an issuance of preferred stock. Owing to these capital increase measures, the Company could eliminate its negative net worth (both on a consolidated and non-consolidated basis) — our largest pending matter — by the end of 2002. As a result, we resolved the most important issue in the reform of our financial structure. The Company will repay its credits on an appropriate schedule, aiming to achieve a zero net-debt level in the medium-range term.

Fiscal year ended March 2003: net balance shows first profit in four years while marking a "V-shaped" recovery — Consolidated net income hits record high

In the fiscal year ended March 2003, the Company proceeded with various reconstruction measures at a faster pace than originally scheduled, and posted a sharp rise in operating and ordinary income from the previous fiscal year, and further progressed its structural reform. This strong performance offset the adverse factors causing corporate earnings to deteriorate, including a weakened stock market, deflation taking root, the Iraq war, and the outbreak of severe acute respiratory syndrome (SARS). As a result, the Company showed a large profit while achieving a "V-shaped" recovery in both non-consolidated and consolidated net balance, which had posted a large loss for the third straight year.

These figures were all above the latest projections at the time, and consolidated net income hit a record high.

Fiscal year ending March 2004 — Year of true rebirth

In the fiscal year ended March 2003, the Company completed its management rebuilding, through a sweeping overhaul of business, cost, management and financial structures. If the results are fully reflected in its operations throughout the fiscal year ending March 2004, it can be said that the Company succeeds in rebirthing.

Earnings outlook will be discussed later in Business Results.

Enhancement of competitiveness through Production Revolution

The following three factors appear to be the major reasons why a corporation running chiefly traditional businesses, such as Kenwood, suffers weak earnings.

1. Products and services are out of tune with market and customer demand.
2. Business structure and management methods do not correspond to the current business and market climate.
3. Net balance slipped into the red due to poor competitiveness, which is caused by outdated manufacturing systems and methods, and deep-rooted inefficiency in management processes.

To solve these problems, the Company, which always strived to strengthen its brand name and provide products that are suitable for the brand, has strengthened its product competitiveness in the deficit-ridden home electronics business as part of the above-mentioned reconstruction measures, by reassessing its product policy. As the Company also completed the overhaul of business, cost, management and financial structures across the company, it established in March 2003 the Production Revolution Headquarters under which the entire group began to work on innovating manufacturing systems. Through these moves, the Company hopes to rapidly enhance corporate competitiveness and profitability.

Production Revolution

- The Company has begun company-wide activities to transform it into a unified "community" by integrating production, marketing and technologies, in a bid to revive domestic plants, so that they can outdo their Asian peers and to further boost competitiveness at overseas factories.
- Under the slogan of Kenwood Quarter QCD Revolution, the Company intends to slash overall costs by 30% and halve inventories over the next two years. To this end, it will carry out the following measures:
  1. Reduce the defect rate for products to one-fourth (Quarter)
  2. Reduce procurement and production costs, while cutting back on administration expenses to one-fourth (Quarter)
  3. Shorten the entire lead time from manufacturing to sales phase to one-fourth (Quarter)

Formulation of the Mid-Term Business Plan — 'Excellent Kenwood Plan' — To truly become a *company of global excellence* in our core business domains with operating income margin of 10%, ROE of 20%, resumption of dividend payments and zero net-debt management

As a decisive step from reconstruction to a new leap forward, the Company mapped out Mid-term Business Plan — 'Excellent Kenwood Plan', a three-year mid-term business plan that lasts from the fiscal year ending in March 2004 through the year ending in March 2006.

The Mid-term Business Plan — 'Excellent Kenwood Plan' is designed so that Kenwood will become a *company of global excellence* in the field of Mobile & Home Multimedia Systems — which is expected to be the most promising business in the 21st century — in the three-year period as part of its vision of "Creating Exciting through Surprising Ideas" by maximizing shareholder value. By allocating 3-5 billion yen to be earned as a result of manufacturing innovation efforts, we will reinvest in developing attractive and competitive products, strengthening the brand name and sharing profits among the employees, in order to dramatically improve competitiveness and profitability, while enhancing our core competence — audio and communications technologies — to the greatest extent.

Setting of targets

Breaking with the past and reinventing itself, Kenwood will make a great leap toward truly becoming a *company of global excellence* in our core business domains, achieving an operating income margin of 10% and an ROE of 20%, resuming dividend payments and implementing zero net-debt business management.

We will dramatically improve competitiveness and profitability in each business field by enhancing our core competence — audio and communications technologies — to the greatest possible extent. By doing so, we intend to become the prominent company of global excellence in the field of Mobile & Home Multimedia Systems, which is expected to grow substantially in the 21st century.

We will set the following targets for the fiscal year ending March 2004, the initial year of the Mid-term Business Plan — 'Excellent Kenwood Plan', and the fiscal year ending March 2006, the final year of the plan. Under the plan, we aim to resume dividend payments.

		'Excellent Kenwood Plan'		
Consolidated performance	Results in the fiscal year ended March 2003	Targets for the fiscal year ending March 2004	Targets	Targets for the fiscal year ending March 2006
Net sales	225.6 billion yen	185 billion yen	Annual 12.2% rises in the fiscal year ending March 2004 onward	233 billion yen
Operating income	12.3 billion yen	15.5 billion yen	Double that of fiscal year ended March 2003	24 billion yen
Operating income margin	5.4%	8.4%	Double that of fiscal year ended March 2003	10.3%
Inventories	32.2 billion yen	23 billion yen	Half that of fiscal year ended March 2003	17.5 billion yen
Net interest-bearing debt	50.1 billion yen	30 billion yen	Zero net-debt	0 billion yen
Interest-bearing debt	80.9 billion yen	68 billion yen		33 billion yen
ROE	(Note) —	(Note) —	20%	20% or more
Shareholders' equity	13.7 billion yen	24 billion yen		58 billion yen

(Note) ROE
ROE is excluded because the resultant percentage becomes an extremely large figure due to a large sum of loss carryforwards. If loss carryforwards are subtracted from net shareholders' equity, ROE would be 7.4% in the fiscal year ended March 2003, when net income was 4.2 billion yen.

Plan for initial year (the fiscal year ending March 2004)

- **Net sales**
  Net sales are expected to decline in the first year after the corporate rebuilding.
- **Operating income**
  Operating income is predicted to rise sharply as a result of restructuring of the home electronics business. This, coupled with the withdrawal from the cellular phone business and liquidation of unprofitable operations, will likely increase operating income by a steep 26% over the previous fiscal year.
- **Inventories**
  In the initial year of the Production Revolution campaign, the Company aims to reduce inventories by one-third of the previous fiscal year's levels.
- **Interest-bearing debt (Net interest-bearing debt = Interest-bearing debt – Cash and cash equivalents)**
  The Company had completely redeemed its corporate bonds worth 5 billion yen in April, and agreed on a repayment schedule with the lenders.

Targets for final year (the fiscal year ending March 2006)

- **Net sales**
  The Company aims to increase net sales by annual 12.2% for the fiscal year ending March 2004 onward.
- **Operating income**
  The Company is hoping that operating income will be double that of fiscal year ended March 2003. For this purpose, it will make the home electronics business profitable as well as maintain or enhance the high profitability of the car electronics and communications businesses, by reinvesting in product development and these businesses.
- **Inventories**
  The Company will halve its inventories from the level of fiscal year ended March 2003, through Production Revolution efforts.
- **Net interest-bearing debt**
  The Company, which requires credit for approximately 20 billion yen of its operating funds, intends to achieve a zero net-debt management, by keeping debts below the level of cash and cash equivalents.
- **ROE**
  Assuming loss carryforwards are eliminated by the end of the plan's final year, the Company will achieve an ROE of 20% — the threshold for becoming a *company of global excellence* in our core business domains backed by sufficient shareholders' equity.
- **Resumption of dividends**
  In anticipation of the disposal of loss carryforwards by the end of the plan's final year, the Company hopes to resume dividend payments.

Principle strategy and policy

Now that the Company has completed its structural overhaul under the Kenwood Revitalization Action Plan, it will strive to achieve the above-mentioned targets. To this end, the Company will drastically reduce costs and generate cash flows by innovating production systems. The gains will be reinvested to develop new products and technologies, plants and equipment, enhance the brand name, and share profits among the employees, in order to substantially improve market competitiveness and profitability. Concurrently, the Company will concentrate its management resources on the three core businesses: car electronics, home electronics and communications (wireless radio).

1. Drastic improvement in competitiveness and profitability through Production Revolution

The Company will fully leverage the effects of Production Revolution initiatives to: strengthen competitiveness in products; develop technologies; make capital investment (plant and equipment); enhance the brand name; and share profits among the employees. Through these moves, the Company will substantially improve its market competitiveness and corporate profitability.

2. Overhaul of domestic sales structure and development of five-pronged global sales structure

3. Further overhaul of financial structure to realize a zero net-debt management

4. Group-wide management and IT system reforms to strengthen consolidated management

5. Enhancing environmental awareness in the operations

6. Active involvement in industrial rearrangement

Drastic improvement in competitiveness and profitability through Production Revolution

Succeeded in restructuring, the Company has switched its focus to the strategy for new growth, and began to innovate production systems in the fiscal year ending March 2004.

As a first step, the Company established Production Revolution Headquarters under the direct control of CEO as of March 1, 2003, aiming to revive Japan Manufacturing winning to Asia and enhance competitiveness at overseas factories.

Under the slogan of Kenwood Quarter QCD Revolution, the Company is proceeding with Production Revolution initiatives targeting all of the Group's all manufacturing bases, aiming to reduce the defect rate for products, administration expenses, and lead time from manufacturing to sales, to one-fourth (Quarter). It also plans to cut down on material costs by 10% a year, through further innovations in the procurement process.

Through its efforts, the Company expects to slash overall costs by 30% and halve inventories over the next two years.

The savings derived from these initiatives will be passed on to the efforts to strengthen competitiveness in the market, while spending 3-5 billion yen annually to develop new products and technologies, make capital investment, enhance the brand name, and share profits among the employees. By doing so, the Company intends to substantially increase its overall profitability.

Strategy by business

Consolidated performance by business	Results in the fiscal year ended March 2003	Targets for the fiscal year ending March 2004	Targets for the fiscal year ending March 2006
Car Electronics			
Sales (Billions of yen)	117	102	129
Operating income (Billions of yen)	11.7	9.2	12.3
Operating income margin (%)	10.2	9.0	9.5
Home Electronics			
Sales (Billions of yen)	41.9	26.5	43
Operating income (Billions of yen)	△ 4.5	△ 0.9	2.5
Operating income margin (%)	△ 11.5	△ 3.4	5.8
Wireless Radio			
Sales (Billions of yen)	36.5	36	40
Operating income (Billions of yen)	7.3	7.3	8
Operating income margin (%)	20.0	20.3	20.0
Others			
Sales (Billions of yen)	30.2	20.5	21
Operating income (Billions of yen)	△ 2.2	△ 0.1	1.2
Operating income margin (%)	△ 7.3	△ 0.5	5.7
Total (Consolidated)			
Net sales (Billions of yen)	225.6	185	233
Operating income (Billions of yen)	12.3	15.5	24
Operating income margin (%)	5.4	8.4	10.3

Car Electronics Business

Targets

- Become the top supplier in the global market
- Double net sales by the end of the fiscal year ending March 2006 by boosting the OEM business
- Meet the needs of a growing market by elaborating the strategy for audio/visual products

Numerical targets
- Sales growth: 12.5% annually (Growth through increase in the OEM business)
- Operating income margin: 9.5% (Gradual rise according to changes in products and the market)

Strategy
The Company is determined to maintain its top spot in the global audio field, through continued development of creative products with the emphasis on the audio to human interface.

In an aim to consolidate its presence in the rapidly growing navigation/visual market, the Company will boost the development structure, increase product lineups and expand sales, thereby improving profitability.

To increase OEM sales, Kenwood will strive to raise this segment's market share and form alliances with more automakers. For this purpose, we will develop products for OEM, enhance production systems and expand sales structures at home and abroad.

The Company will respond to growing market demand by enhancing the development structure of navigation/visual products (navigation and DVD systems) and developing telematics products.

In R&D, the Company will actively seek cooperation from other firms.

Home Electronics Business

Targets
- Become the world's top manufacturer specializing in profitable home entertainment products
- Proceed with operations worldwide, centering on multimedia, pure audio and portable systems
- Integrate home and car/mobile multimedia, and portable audio systems under a unified concept, by developing networked audio devices

Numerical targets
- Sales growth: 27.4% annually (Growth through increase in new product lines)
- Operating income margin: 5.8% (To make the business profitable through elaborate product and sales strategies)

Strategy
The Company will strive to become the world's top manufacturer specializing in home entertainment products, by proposing new products that are being developed on the basis of home theaters. The Company will evolve networked audio devices into home entertainment network systems, while putting an emphasis on the pure audio (sound) quality of products.

Communications Business

Targets
- Maintain its 10% share of the global market for commercial radio communication systems
- Establish a business for supplying industrial-data communication systems, including wireless LAN technologies

Numerical targets
- Sales growth: 5.4% annually (Growth expected mainly in the Americas and Asia, including China)
- Operating income margin: 20% (Maintaining solid profitability)

Strategy
Kenwood will shift from being a terminal manufacturer to becoming a system provider in the Americas, the primary market, by digitizing commercial radio communication systems and enhancing sales of systems (packages comprise of communications infrastructure and terminal).

We will expand our communications technology business in Asia, particularly China, where demand is expected to grow in the years ahead. Furthermore, we will establish new business platforms in the industrial-data communication market, including wireless LAN technologies, aiming to make them the core of the communications business.

Financial strategy
- Eliminate loss carryforwards and resume dividend disbursements at an early date.

The Company will dispose of loss carryforwards and resume dividend payments as early as possible, by strengthening profitability and tapping into additional paid-in capital.
- Achieve a zero net-debt management, by substantially increasing cash flows through an improvement in profitability and reduction in inventories.

Strategy for technological development
- The Company will strive to become a knowledge-based group that provides customers with exciting through Surprising Ideas, strengthen the brand name, and provide products that are suitable for the brand. To achieve this, we will implement the following technological measures:

We will make great efforts to polish our core competence, while developing cutting-edge technologies for digital, network and audio/visual products.

As for the R&D structure, we will enhance expertise and Kenwood's differentiating characteristics in technologies and products as we have already established a sound quality laboratory and technological strategy development center.

1. Desired applications
The Company is dedicated to providing application technologies and products that are easy to use, useful and enjoyable.

2. Advanced multimedia; synergy effects
We will pursue technologies and products that generate synergies through the combination of core techniques in the three businesses: car electronics, home electronics, and wireless radio. At the same time, we will develop strategic digitization, networking and visual technologies as well as differentiate our multimedia audio and imaging techniques from those of our peers.

3. Pure sound and visual
We will develop sound and picture quality, which would create exciting through Surprising Ideas, following the principle of "pure quality".

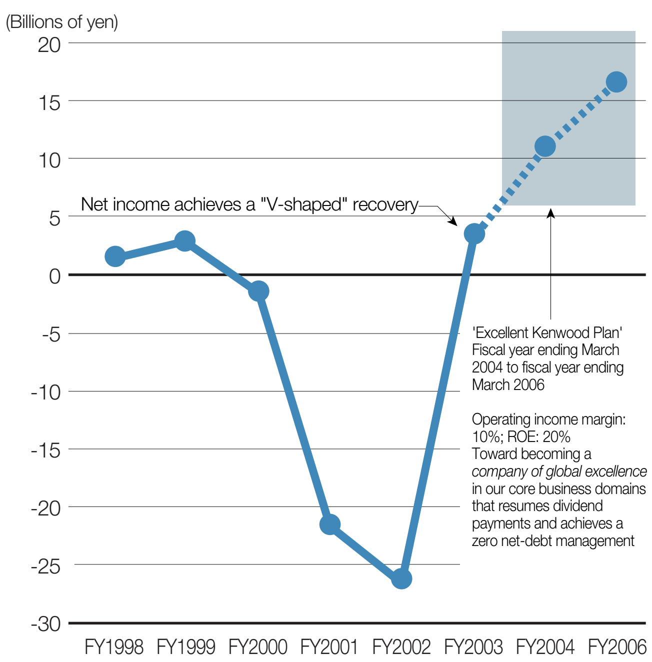
Strategy for brand enhancement

- Strengthen Kenwood as a global brand

We will promote the brand name worldwide under a unified concept, while tailoring the campaign to each region.

- Strengthen planning and developing capability, as well as overall competitiveness to propose products suitable for the brand name.

Consolidated net income



*Figures for the fiscal years ending March 2004 and 2006 indicate targets of 'Excellent Kenwood Plan'.

Fundamental strategy for allocation of profits

The Company makes it a rule to comprehensively decide on the allocation of profits by taking into account profitability and financial conditions. It completed a debt-for-equity swap in December 2002 and posted a net income in the fiscal year ended March 2003, which resulted in eliminating negative net worth — the largest problem that had been preventing the financial standing from improving. Against this backdrop, we aim to resume dividends as soon as possible, improve earnings and cash flows by achieving targets set in the mid-term business plan, recover our financial strength, and increase internal reserves.

Fundamental notion concerning corporate governance and status quo of implementation of related measures

On June 27, 2002, Kenwood's Board of Directors introduced a new management structure centering on the executive officer system. To facilitate this, the Company invited community and business leaders of varying backgrounds to serve as outside board members and participate in the business decision-making process in open board meetings. On the other hand, the Board designated executive officers who are tasked to focus on the management of respective business units. As part of this new framework designed to enhance decision-making and management functions, we will make the management process more transparent.

In March 2003, the Company established the Internal Auditing Division, which is responsible for inspecting the Group's management from the viewpoint of corporate governance and compliance reports to the Board of Directors, in a bid to improve overall corporate governance.

Business Results

Overview

During the fiscal year ended March 2003, the business climate for the Company remained sluggish in general, hurt by weakened capital spending and consumer spending amid falling stock prices and prolonged deflation worldwide, although the economy displayed some signs of recovery in the first half of the fiscal year.

The European economy moderately picked up, while the economies in Japan and the Americas remained sluggish due to uncertain prospects.

Under such circumstances, the electronics industry suffered from sliding prices throughout the world. To cope with the situation, the Company endeavored to strengthen financial standing, by carrying out a drastic restructuring under the Kenwood Revitalization Action Plan.

Sales and earnings — Consolidated net income hits record

Exceeding figures projected on April 23, 2003, consolidated net balance marked a record income, achieving a "V-shaped" recovery from the previous fiscal year, when the Company registered a huge loss for three consecutive years.

Consolidated results

In the fiscal year ended March 2003, sales of car electronic products fared well overseas, which, however, was offset by the adverse effects of the sluggish economy in Japan as well as the phasing out of cellular phone production and the home electronics business in Asia. As a result, consolidated net sales declined 25.5% on the fiscal year to 225.6 billion yen from 302.6 billion yen in the previous fiscal year.

However, operating income soared 100%, or 6.2 billion yen, to 12.3 billion yen. The strong performance is attributed to robust results at the three core businesses: earnings of the car electronics business grew rapidly; the home electronics business actually became profitable; and the wireless radio operations remained steady. On top of this, effects of the overhaul of our business and cost structures contributed to income.

Ordinary income surged 570%, or 6 billion yen, to 7.1 billion yen, with non-operating loss, such as accrued interest, subtracted from operating income.

Meanwhile, the Company booked an evaluation loss on its investment securities and a loss on disposal of fixed assets associated with the consolidation of overseas production subsidiaries. Despite this, the Company achieved a "V-shaped" recovery in its net balance, posting a net income of 4.2 billion yen (an improvement of 30.9 billion yen from a year earlier), in stark contrast with the third consecutive year of large loss. The figure is a record high, exceeding the 4.1 billion yen posted in the fiscal year ended November 1999.

Sales and earnings by business segment

(Billions of yen)

Consolidated performance by business segment	Fiscal year ended March 2002	Fiscal year ended March 2003	Year-on-year comparison
Car Electronics			
Sales	122.8	117	△ 5.8
Operating income	5.7	11.7	6
Home Electronics			
Sales	82.7	41.9	△ 40.8
Operating income	△ 7.3	△ 4.5	2.8
Wireless Radio			
Sales	38.9	36.5	△ 2.4
Operating income	7.6	7.3	△ 0.4
Others			
Sales	58.3	30.2	△ 28.1
Operating income	0.1	△ 2.2	△ 2.3
Total			
Net sales	302.6	225.6	△ 77
Operating income	6.1	12.3	6.2

(Note) Performance of other businesses

	Fiscal year ended March 2002	Fiscal year ended March 2003
Audio-related business		
Sales	12.9	5.7
Operating income	△ 0.4	△ 0.2
Communications-related business		
Sales	45.3	24.5
Operating income	0.5	△ 2.1

- The home electronics business effectively moved into the black, despite a temporary loss attributable to restructuring overseas, as the overall effects of restructuring began contributing to its earnings in the latter half of the fiscal year under review.
- The car electronics business earned a large income, supported by strong demand in the Americas and Europe.
- The wireless radio business registered steady earnings results again just as for the preceding year.
- Some other businesses sustained losses. One is the cellular phone business, whose production was phased out at the end of October 2002. We think the loss from these businesses was a one time phenomenon for the fiscal year ended March 2003.

Non-consolidated results

In the fiscal year ended March 2003, non-consolidated net sales followed almost the same path as consolidated net sales. While domestic sales fell due to Japan's stagnant economy and withdrawal from the production of cell phone terminals, sales overseas declined below the previous year's levels, due mainly to the withdrawal from the home electronics business in Asia. As a result, non-consolidated net sales at home and abroad dropped by 65.2 billion yen, year on year, to 157.8 billion yen.

On the other hand, the Company improved operating balance by a remarkable 5.7 billion yen from the previous fiscal year, posting a net income of 5.3 billion yen, thanks to: strong demand overseas for car electronics/wireless radio equipment, the effects of restructuring of the home electronics business, and company-wide reduction in fixed costs.

Ordinary balance improved by 6 billion yen, year on year, to register an income of 4.7 billion yen, a turnaround from the loss in the previous fiscal year, after non-operating loss, such as interest expense, was deducted from operating income.

Although the Company booked evaluation loss on its investment securities, it posted an extraordinary income related to the return of provisions for losses on investments in sales units overseas, whose earnings picked up. As a result, net balance achieved a "V-shaped" recovery, with an income of 4.2 billion yen, an improvement of 32.8 billion yen from a year earlier, significantly exceeding the Company's earlier forecast.

Consolidated Financial Position

Assets, liabilities, and shareholders' equity at the end of fiscal year ended March 2003

Total assets	142.1 billion yen
Shareholders' equity	13.7 billion yen
Equity ratio	9.6%

At the end of March 2003, total assets of the Kenwood Group decreased 40.8 billion yen from the previous fiscal year. Cash and deposits increased by 6.5 billion yen. Meanwhile, trade notes and accounts receivable were 23 billion yen lower and inventories dropped by 11 billion yen, while tangible fixed assets were down by 5.3 billion yen, due to restructuring of the home electronics business and reduction in inventories at sales firms. Intangible fixed assets were also 2.9 billion yen down, affected by the withdrawal from the cellular phone business.

Total liabilities decreased by 71.4 billion yen. Trade notes and accounts payable were 27.2 billion yen less, due to the overhaul of the business structure and the fact that the final day of the previous fiscal year fell on a Sunday. Short-term and long-term debts reduced by 20.1 billion yen and 9.2 billion yen, respectively, as a result of a debt-for-equity swap worth 25 billion yen. Provision for losses on business restructuring worth 10 billion yen was removed, in the wake of the completion of this restructuring.

Of the total proceeds from a debt-for-equity swap and third-party allotment of shares, 13.5 billion yen was credited each to common stock and additional paid-in capital. Retained earnings increased by 4.3 billion yen, reflecting a net income of 4.2 billion yen and others. As a result, retained earnings were in the red by 34.2 billion, compared with the negative 38.6 billion yen at the end of the previous fiscal year, thus the undisposed losses decreased.

Consequently, total shareholders' equity increased 30.7 billion yen, while negative net worth totaling 17 billion yen was erased.

Cash flows

The Company reported an income of 10.4 billion yen in cash flows from operating activities. Net income sharply improved and inventories reduced, while payments were needed for business restructuring implemented under the Kenwood Revitalization Action Plan and trade notes and accounts payable were reduced.

Cash flows from investing activities were 5.9 billion yen in net spending. Investments in intangible fixed assets declined as a result of the phasing out of the production of cellular phones as part of the Kenwood Revitalization Action Plan.

Cash flows from financing activities marked an income of 1 billion yen, partly because of third-party allotment of shares worth 2.1 billion yen.

Cash flows

(Billions of yen)

	Fiscal year ended March 2002	Fiscal year ended March 2003	Increase (decrease)
Cash flows from operating activities	15.2	10.4	△ 4.8
Cash flows from investing activities	△ 8	△ 5.9	2.1
Cash flows from financing activities	△ 6.8	1	7.8
Effect of exchange rate fluctuations on cash and cash equivalents	0.4	△ 0.2	△ 0.6
Net increase in cash and cash equivalents	0.8	5.2	4.4
Cash and cash equivalents at beginning of year	20.9	21.7	0.8
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	0	0.2	0.2
Cash and cash equivalents at end of year	21.7	27.1	5.4

Financial Sections

Financial Review

In the fiscal year ended March 2003, the Japanese economy displayed signs of a moderate recovery at the beginning, led by strong demand overseas. However, the recovery pace remained slow due to the prolonged deflation, and the sluggish stock market also depressed the domestic economy. Although consumer spending in the United States had been growing rapidly, it began to lose steam, and the uncertainty over the future outlook for the economy worsened amid mounting tension over Iraq in the latter half of the fiscal year. In Europe, the economy was far from a full-scale recovery track, as anxiety over economic prospects rose affected by the Iraq war and SARS. Under these circumstances, Kenwood announced the Kenwood Revitalization Action Plan on July 11, 2002 under its new management team, which was elected at a regular general meeting of shareholders held in June 2002, in a bid to eliminate negative net worth. Under this plan, the Company proceeded with drastic restructuring measures and enhanced its financial disposition. As a result, it could emerge from the adversity of posting losses for the third straight year, and consolidated net income hit a record high, achieving a "V-shaped" recovery.

Consolidated performance

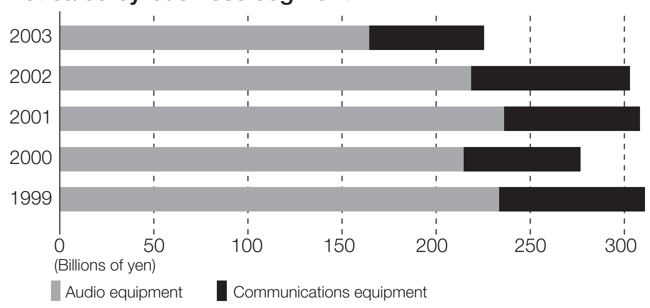
Sales

In the fiscal year ended March 2003, sales of car electronics products rose in Japan and Europe, which, however, was decimated by the effects of the slow domestic economy, as well as the phasing out of cellular phone production and the home electronics operations in Asia. As a result, consolidated net sales declined 25.5%, year on year, to 225.6 billion yen from 302.6 billion yen in the previous fiscal year.

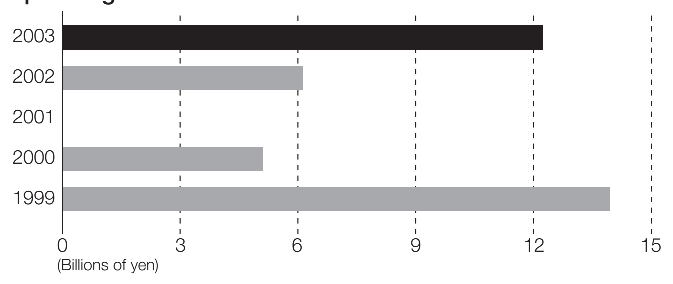
According to sales breakdown by region, domestic sales were 74.7 billion yen (down 41.4% from the preceding fiscal year), while overseas sales amounted to 150.9 billion yen (down 13.9%). Of the total, sales in Japan accounted for 33.1% (42.1% in the previous fiscal year) and the remaining 66.9% (57.9%) came from overseas.

By business, the audio-related businesses were affected by the weak demand for home electronics products in the domestic market and termination of the home electronics operations in Asia. Meanwhile, sales of car electronics products were brisk in Japan and Europe. As a result, sales totaled 164.6 billion yen (down 24.7% from the previous fiscal year). In the communications-related businesses, sales of radio equipment

Net sales by business segment



Operating income



fared well, but the withdrawal from the production of cell phone terminals in the domestic market weighed on overall sales. As a result, sales dropped to 61 billion yen (a decline of 27.5%).

Expenses and earnings

The cost to sales ratio improved from the previous year's 76.5% to 72% on a consolidated basis, due chiefly to a dramatic rise in performance at the three core businesses: the home electronics business moved effectively into the black; earnings at the car electronics business sharply advanced; and the wireless radio business performed well. The effects derived from the improvements in business, and cost structures also contributed to improving the ratio. Selling, general and administrative expenses fell 21.7% to 50.9 billion yen. Against the backdrop, group operating income approximately doubled from the previous year's level to 12.3 billion yen.

Although the Company booked an evaluation loss from investment securities and disposal of fixed assets in associated with the consolidation of overseas production firms, it posted a record net income of 4.2 billion yen, achieving a "V-shaped" recovery in net balance, a turnaround from the third consecutive year of large loss.

Performance by Business Segment

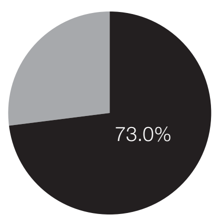
Audio Equipment

Sales of audio equipment in the fiscal year ended March 2003 dropped 24.7% from the previous fiscal year to 164.6 billion yen, hurt by declining sales of home electronics products in Japan and withdrawal from the business of such products in Asia. However, the Company posted an operating income of 7.1 billion yen, an improvement of 9.1 billion yen in operating balance, thanks to the effects of restructuring efforts by both the home electronics and car electronics businesses, as well as robust sales of car electronics products in Japan and Europe.

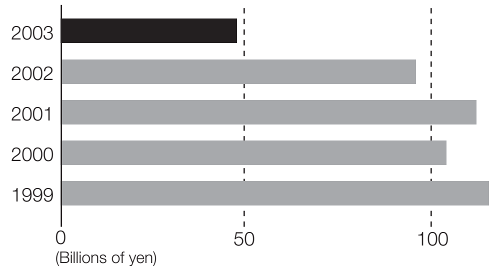
Home Electronics

In the fiscal year under review, sales of home electronics products dropped to 41.9 billion yen or about half of their previous level, and operating income dropped to negative 4.5 billion yen, affected largely by weakened sales in the domestic market and the withdrawal from business in Asia. However, effects of restructuring emerged in the latter half of the fiscal year, and the business moved back into the black, excluding temporary losses caused by the restructuring of operations overseas.

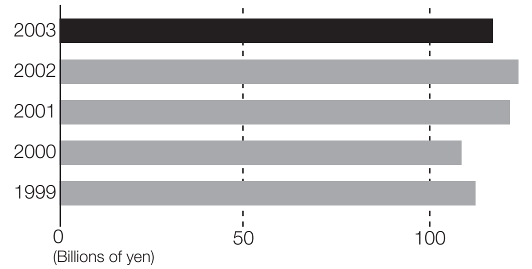
Audio equipment sales



Sales of Home Electronics



Sales of Car Electronics



Car Electronics

While sales of car electronics products declined 4.7% from the previous fiscal year to 117 billion yen in the fiscal year ended March 2003, operating income from this segment almost doubled to 11.7 billion yen primarily due to strong demand in Japan and Europe.

Communications Equipment

In the fiscal year under review, sales of communications equipment fell 27.5% from a year earlier to 61 billion yen, and operating income decreased 2.9 billion yen to 5.2 billion yen, hurt by the phasing out of cellular phone production in Japan, despite robust sales of wireless radio products.

Cellular Phones and Home Telephones

As sales of cellular phones and home telephones for the fiscal year ended March 2003 slid 45.9% to 24.5 billion yen, an operating loss of 2.1 billion yen was recorded, in contrast to the 0.5 billion yen income of the previous fiscal year. The cell phone business was terminated in November 2002.

Wireless Radio

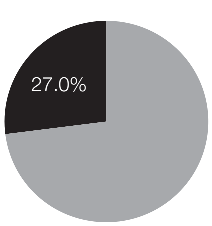
During the fiscal year ended March 2003, wireless radio products, led by terrestrial mobile radio products, performed well in the United States, Europe, Japan and the rest of Asia, including China. However, sales dropped 6.1% to 36.5 billion yen and operating income sagged 4.6% to 7.3 billion yen.

Financial Position

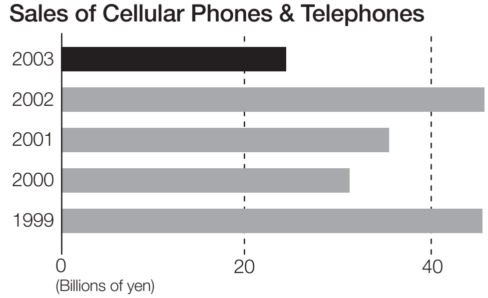
Assets and liabilities

By the end of March 2003, the total assets of the Kenwood Group had declined 22.3% from the previous fiscal year to 142.1 billion yen. The current assets totaled 103.4 billion yen, down 21.8%, as trade notes and accounts receivable as well as inventories were reduced through the implementation of various reconstruction measures, while fixed assets went down by 16.2% to 27.4 billion yen. Investments and other assets decreased 37% to 11.4 billion yen, owing largely to the disposal of software for installation in cell phone terminals, which business segment was terminated. On the other hand, current liabilities stood at 108.4 billion yen, down 35.8% from a year earlier, as a result of a debt-for-equity swap, reduction in accounts payable, and reversal of provisions for losses from

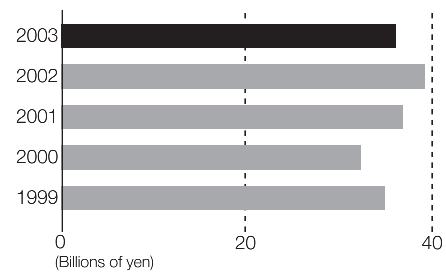
Communications Equipment Sales



Sales of Cellular Phones & Telephones



Sales of Wireless Radio



business restructuring, which were offset in the previous fiscal year.

Long-term liabilities shrank 35.8% to 19.6 billion yen, as corporate bonds and long-term borrowings decreased, although reserves for employees' retirement allowances were added.

Cash flows

The outstanding balance of cash and cash equivalents stood at 27.1 billion yen at the end of March 2003, up 5.4 billion yen from the previous fiscal year. Cash flows from operating activities dropped 4.8 billion yen to an income of 10.4 billion yen; trade notes and accounts receivable, as well as inventories declined 21.4 billion yen and 9 billion yen, respectively, but trade notes and accounts payable also fell 31.1 billion yen. Cash flow from investing activities was net expenditure of 5.9 billion yen, 2.1 billion yen less than the previous fiscal year, due to decreased spending on the payment for the purchase of tangible fixed assets and software. Cash flows from financing activities marked an income of 1 billion yen, thanks to proceeds worth 2 billion yen from the issuance of shares and decreased spending on the repayment of long-term debt.

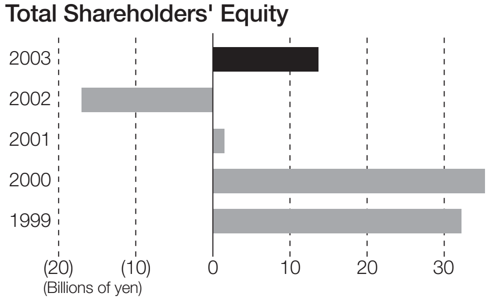
Capital expenditure

Total capital expenditure for the fiscal year ended March 2003 decreased 45.8% from the preceding fiscal year to 6.7 billion yen, which was spent mainly on molds and dies for new products, equipment replacements, and development of software installed in products.

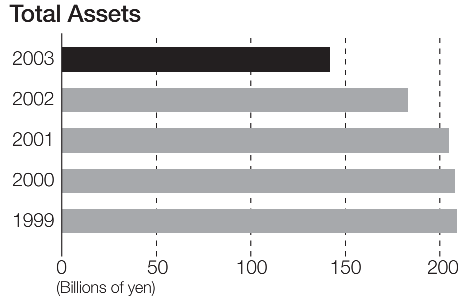
Financial indicators

The deficit in working capital at the end of the fiscal year ended March 2003 was 5.1 billion yen. The current ratio was 95.3% (78.3% for the previous fiscal year). The shareholders' equity ratio was 9.6% (negative 9.3% for the previous fiscal year) and the capital turnover rate was 1.59 (1.65 for the previous fiscal year).

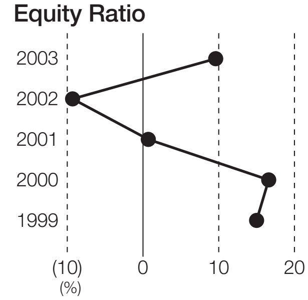
Total Shareholders' Equity



Total Assets



Equity Ratio



Consolidated Balance Sheets

Kenwood Corporation and Consolidated Subsidiaries
As of March 31, 2003 and 2002

ASSETS	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Current Assets:			
Cash and cash equivalents	¥ **27,064**	¥ 21,687	$ **225,533**
Time deposits	**3,704**	2,550	**30,867**
Receivables—			
Trade notes and accounts receivable	**34,465**	57,603	**287,208**
Trade notes and accounts receivable from unconsolidated subsidiaries and associated companies	**119**	-	**992**
Less: Allowance for doubtful receivables	**(1,129)**	(1,424)	**(9,408)**
Inventories—			
Finished goods	**20,902**	27,227	**174,183**
Work in process and raw materials	**11,389**	16,062	**94,908**
Deferred tax assets (Note 9)	**859**	451	**7,158**
Prepaid expenses and other	**6,017**	8,063	**50,142**
Total current assets	**103,390**	132,219	**861,583**
Property, Plant and Equipment, at Cost (Notes 3 and 5):			
Land (Note 4)	**12,217**	13,016	**101,808**
Buildings and structures	**21,623**	23,512	**180,192**
Machinery and equipment	**17,613**	20,951	**146,775**
Tools, furniture and fixtures	**9,782**	14,224	**81,517**
Construction in progress	**48**	280	**400**
	61,283	71,983	**510,692**
Less: Accumulated depreciation	**(33,909)**	(39,306)	**(282,575)**
Net property, plant and equipment	**27,374**	32,677	**228,117**
Investments and Other Assets:			
Investment securities (Note 2)	**2,858**	3,117	**23,817**
Investments in and advances to unconsolidated subsidiaries and associated companies	**170**	808	**1,417**
Software	**5,596**	8,559	**46,633**
Deferred tax assets (Note 9)	**895**	1,351	**7,458**
Lease deposits and other	**1,841**	4,187	**15,342**
Total investments and other assets	**11,360**	18,022	**94,667**
Total	¥ **142,124**	¥ 182,918	$ **1,184,367**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 1) 2003
Current Liabilities:			
Short-term bank borrowings (Note 5)	¥ **55,315**	¥ 75,400	$ **460,958**
Current portion of long-term debt (Note 5)	**12,972**	12,950	**108,100**
Bonds due within one year (Note 5)	**5,000**	-	**41,667**
Trade notes and accounts payable	**24,705**	57,018	**205,875**
Income taxes payable (Note 9)	**631**	732	**5,258**
Accrued expenses	**7,863**	9,144	**65,525**
Provision for loss on business restructuring	**-**	10,000	**-**
Deferred tax liabilities (Note 9)	**55**	19	**458**
Other	**1,900**	3,605	**15,834**
Total current liabilities	**108,441**	168,868	**903,675**
Long-term Liabilities:			
Bonds (Note 5)	**-**	5,000	**-**
Long-term debt (Note 5)	**7,565**	16,793	**63,042**
Liability for employees' retirement benefits (Note 6)	**9,225**	5,713	**76,875**
Deferred tax liabilities (Note 9)	**2,324**	2,286	**19,366**
Other	**503**	775	**4,192**
Total long-term liabilities	**19,617**	30,567	**163,475**
Minority Interests	**362**	485	**3,017**
Commitments and Contingent Liabilities (Note 3, 11 and 12)			
Shareholders' Equity (Capital Deficiency) (Note 7 and 14):			
Common stock, authorized - 735,000,000 shares issued - 272,955,995 shares in 2003 and 183,983,995 in 2002	**26,969**	25,937	**224,742**
Preferred stock, authorized - 62,500,000 shares issued and outstanding - 62,500,000 shares in 2003	**12,500**	-	**104,166**
Capital Surplus	**17,087**	3,555	**142,392**
Accumulated deficit	**(34,238)**	(38,581)	**(285,317)**
Land revaluation surplus (Note 4)	**3,235**	3,154	**26,958**
Net unrealized loss on available-for-sale securities	**(269)**	(108)	**(2,241)**
Financial statement translation adjustments	**(11,548)**	(10,954)	**(96,233)**
Total	**13,736**	(16,997)	**114,467**
Less: Treasury stock, at cost; Common Stock, 268,167 shares in 2003 and 43,649 shares in 2002	**(32)**	(5)	**(267)**
Total shareholders' equity (capital deficiency)	**13,704**	(17,002)	**114,200**
Total	¥ **142,124**	¥ 182,918	$ **1,184,367**

Consolidated Statements of Operations

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Net Sales	¥ 225,579	¥ 302,604	$ 1,879,825
Cost of Sales (Note 8)	162,443	231,539	1,353,692
Gross profit	63,136	71,065	526,133
Selling, General and Administrative Expenses (Note 8)	50,876	64,964	423,966
Operating income	12,260	6,101	102,167
Other Income (Expenses):			
Interest expense, net	(3,094)	(3,583)	(25,783)
Cash discount	(919)	(1,200)	(7,658)
Equity in earnings (losses) of unconsolidated subsidiaries and associated companies	(64)	181	(533)
Loss on sales of investment securities, net	(1)	(17)	(8)
Gain on early extinguishment of loan payable	-	791	-
Loss on impairment of investment securities	(461)	(6,470)	(3,842)
Loss on disposal of inventories	(1,485)	(6,558)	(12,375)
Loss on impairment of inventories	(150)	-	(1,250)
Loss on sales of property, plant and equipment, net	(581)	(1,258)	(4,842)
Additional retirement allowances paid to employees	(391)	(351)	(3,258)
Retirement allowances paid to directors and corporate auditors	-	(112)	-
Loss on sales of shares of associated company	(147)	-	(1,225)
Loss on prior years patent fee	-	(1,055)	-
Provision for loss on business restructuring	-	(10,000)	-
Profit on reversal of provision for loss on business restructuring	105	-	875
Other, net,	64	(979)	532
Total	(7,124)	(30,611)	(59,367)
Income (loss) before Income Taxes and Minority Interests	5,136	(24,510)	42,800
Income Taxes (Note 9):			
Current	940	1,286	7,833
Deferred	(27)	841	(225)
Total income taxes	913	2,127	7,608
Minority Interests in Net Income	2	21	17
Net Income (loss)	¥ 4,221	¥ (26,658)	$ 35,175

	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 10):			
Basic net income (loss)	¥ 21.41	¥ (160.02)	$ 0.18
Diluted net income	16.15		0.13

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity (Capital Deficiency)

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Common Stock:			
Beginning balance	¥ 25,937	¥ 22,382	$ 216,142
Capital increase upon issuance of 36,650,000 shares on September 21, 2001	-	3,555	-
Capital increase upon issuance of 26,472,000 shares on October 30, 2002	1,032	-	8,600
Ending balance	¥ 26,969	¥ 25,937	$ 224,742
Preferred Stock:			
Beginning balance	¥ -	¥ -	$ -
Capital increase upon issuance of 62,650,000 shares through debt-for-equity swap on December 27, 2002	12,500	-	104,166
Ending balance	¥ 12,500	¥ -	$ 104,166
Capital Surplus:			
Beginning balance	¥ 3,555	¥ 18,144	$ 29,625
Transfer to accumulated deficit	-	(18,144)	-
Capital increase upon issuance of 36,650,000 shares of common stock on September 21, 2001	-	3,555	-
Capital increase upon issuance of 26,472,000 shares of common stock on October 30, 2002	1,032	-	8,600
Capital increase upon issuance of 62,650,000 shares of preferred stock on December 27, 2002	12,500	-	104,167
Ending balance	¥ 17,087	¥ 3,555	$ 142,392
Accumulated Deficit :			
Beginning balance	¥ (38,581)	¥ (30,066)	$ (321,509)
Net income (loss)	4,221	(26,658)	35,175
Transfer from additional paid-in capital	-	18,144	-
Transfer to employee welfare fund	(4)	(9)	(33)
Reversal of revaluation surplus	-	6	-
Adjustment to retained earnings for consolidation of additional subsidiaries	126	2	1,050
Ending balance	¥ (34,238)	¥ (38,581)	$ (285,317)
Land Revaluation Surplus (Note 4):			
Beginning balance	¥ 3,154	¥ 3,160	$ 26,283
Land revaluation	81	-	675
Reversal of land revaluation	-	(6)	-
Ending balance	¥ 3,235	¥ 3,154	$ 26,958
Net Unrealized Loss on Available-for-sale Securities:			
Beginning balance	¥ (108)	¥ -	$ (900)
Net increase of unrealized loss of available-for-sale securities	(161)	(108)	(1,341)
Ending balance	¥ (269)	¥ (108)	$ (2,241)
Financial Statement Translation Adjustments:			
Beginning balance	¥ (10,954)	¥ (12,134)	$ (91,283)
Net increase of financial statement translation adjustments	(594)	1,180	(4,950)
Ending balance	¥ (11,548)	¥ (10,954)	$ (96,233)
Treasury Stock, at cost, Common Stock:			
Beginning balance	¥ (5)	¥ (1)	$ (42)
Increase of treasury stock	(27)	(4)	(225)
Ending balance	¥ (32)	¥ (5)	$ (267)
Total Shareholders' Equity (Capital Deficiency)	¥ 13,704	¥ (17,002)	$ 114,200
	Thousands of shares		
Number of Issued Shares:			
Beginning balance	183,984	147,334	
Issuance of common stock	26,472	36,650	
Issuance of preferred stock	62,500	-	
Ending balance	272,956	183,984	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Operating Activities:			
Income (loss) before income taxes and minority interests	¥ **5,136**	¥ (24,510)	$ **42,800**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Income taxes-paid	**(1,172)**	(1,452)	**(9,767)**
Depreciation and amortization	**8,378**	9,654	**69,817**
Provision for doubtful receivables	**(128)**	(298)	**(1,067)**
Loss on disposal of property, plant and equipment	**797**	1,081	**6,642**
(Gain) loss on sales of property, plant and equipment, net	**(216)**	178	**(1,800)**
Increase in retirement benefits	**3,546**	2,062	**29,550**
Loss on sales of investment securities, net	**148**	17	**1,233**
Gain on early extinguishment of loan payable	**-**	(791)	**-**
Loss on impairment of investment securities	**461**	6,470	**3,842**
Changes in assets and liabilities:			
(Decrease) increase in provision for loss on business restructuring	**(10,000)**	10,000	**(83,333)**
Decrease in trade notes and accounts receivable	**21,416**	6,632	**178,467**
Decrease in inventories	**9,031**	16,540	**75,258**
Decrease in trade notes and accounts payable	**(31,096)**	(8,545)	**(259,133)**
Other, net	**4,057**	(1,865)	**33,808**
Net cash provided by operating activities	**10,358**	15,173	**86,317**
Investing Activities:			
Increase in time deposits, net	**(1,165)**	(1,900)	**(9,708)**
Proceeds from sales of property, plant and equipment	**2,228**	758	**18,566**
Proceeds from sales of investment securities	**11**	6,589	**91**
Proceeds from sales of shares of associated company	**125**	340	**1,042**
Purchases of property, plant and equipment	**(3,237)**	(5,095)	**(26,975)**
Purchases of investment securities	**(538)**	(1,024)	**(4,483)**
Purchases of software	**(3,400)**	(7,609)	**(28,333)**
Other, net	**81**	(25)	**675**
Net cash used in investing activities	**(5,895)**	(7,966)	**(49,125)**
Financing Activities:			
Increase in short-term bank borrowings, net	**4,982**	1,724	**41,516**
Proceeds from long-term debt	**3,464**	-	**28,867**
Proceeds from issuance of common stock	**1,970**	7,110	**16,417**
Repayments of long-term debt	**(9,177)**	(15,380)	**(76,475)**
Other, net	**(271)**	(244)	**(2,258)**
Net cash provided by (used in) financing activities	**968**	(6,790)	**8,067**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**(211)**	411	**(1,759)**
Net Increase in Cash and Cash Equivalents	**5,220**	828	**43,500**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year	**157**	5	**1,308**
Cash and Cash Equivalents at Beginning of Year	**21,687**	20,854	**180,725**
Cash and Cash Equivalents at End of Year	¥ **27,064**	¥ 21,687	$ **225,533**
Non-Cash Financing Activity:			
Capital increase on issuance of convertible preferred stock through debt-for-equity-swap (Note 7 (ii))	¥ **25,000**	¥ -	$ **208,333**

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

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 Service Agency 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 Financial Reporting 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 2002 consolidated financial statements to conform to the 2003 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 ¥120 to $1, the approximate rate of exchange at March 31, 2003. 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 (53 in 2002) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent, 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.

Kenwood Personnel Corporation, Kenwood Design Corporation, and Kenwood Admi. Corporation were newly consolidated from 2003 because those companies have become material to the consolidated financial statements of the Company.

On October 31, 2002, Kenwood U.S.A. Corporation merged Kenwood Americas Corporation, Kenwood Communications Corporation, Kenwood Service Corporation, and Kenwood Systems Inc. as a restructuring of the sales network in North America.

Kenwood TMI Corporation was excluded from the scope of consolidation from the beginning of this fiscal year because most of the investments in this company were sold.

Investments in an unconsolidated subsidiary is 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 an acquisition over the fair value of the net assets of the acquired subsidiary is being amortized over five 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 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. Differences arising from such translation are shown as "Financial statement translation adjustments" in a separate component of shareholders' 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 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 11 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 (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.

(h) Marketable and Investment Securities

The Company has classified all debt and equity securities as available-for-sale securities based on the 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 shareholders' equity.

Non-marketable available-for-sales 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.

(i) Stock Issue Costs

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

(j) Liability for Employees' 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 plan assets at the balance sheet date. Actuarial gain or loss is amortized mainly using the straight-line method over periods (principally 5 to 10 years) which are less than the average remaining years of service of the employees, and the amortization will be started in the year following the year in which the gain or loss is recognized.

The transitional obligation as of April 1, 2000, is being amortized over 15 years.

(k) Provision for loss on business restructuring

The Company established a provision for loss on business restructuring to accrue the expected loss through the execution of "Kenwood New Restructuring Plan" announced on May 24, 2002.

(l) 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.

The Company adopted the consolidated taxation system option for 2003, which provides the ability to offset taxable income and losses of the Company and domestic wholly owned subsidiaries.

(m) 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.

(n) 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 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 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. Swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until the maturity of the transactions.

(o) Appropriations of Retained Earnings

Appropriations of retained earnings, if any, are reflected in the accompanying consolidated financial statements for the following year upon shareholders' approval.

(p) Per Share Information

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding preference shares at the time of issuance.

Basic net income per share for the years ended March 31, 2003 and 2002, and diluted net income per share of the year ended March 31, 2003 are computed in accordance with the new standard. Diluted net income per share for the year ended March 31, 2002 is not disclosed because there were not outstanding dilutive financial instruments or obligations.

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

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, 2003 and 2002, are as follows:

	2003							
	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 1,362	¥ 5	¥ (274)	¥ 1,093	$ 11,350	$ 42	$ (2,283)	$ 9,109
Total	¥ 1,362	¥ 5	¥ (274)	¥ 1,093	$ 11,350	$ 42	$ (2,283)	$ 9,109

	2002			
	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 1,984	¥ 3	¥ (623)	¥ 1,364
Total	¥ 1,984	¥ 3	¥ (623)	¥ 1,364

Proceeds from sales of available-for-sale securities for the year ended March 31, 2003 and 2002, were ¥13 million ($108 thousand) and ¥6,589 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥0.2 million ($2 thousand) and ¥1 million ($8 thousand), respectively, for the year ended March 31, 2003, and ¥1,183 million and ¥1,397 million, respectively, for the year ended March 31, 2002.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003, and 2002 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
Available-for-sale:	**2003**	2002	**2003**
Equity securities	¥ **265**	¥ 253	$ **2,208**
Debt securities	**1,500**	1,500	**12,500**
Total	¥ **1,765**	¥ 1,753	$ **14,708**

The carrying values at March 31, 2003 of debt securities by contractual maturities for securities classified as available-for-sale are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥ -	$ -
Due from one year to five years	-	-
Due from five years to ten years	1,500	12,500
Total	¥ 1,500	$ 12,500

3. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were ¥3,096 million ($25,800 thousand) and ¥3,726 million for the years ended March 31, 2003 and 2002, respectively.

Obligations under finance leases as of March 31, 2003 and 2002 are due as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	¥ **1,211**	¥ 2,827	$ **10,092**
Due after one year	**1,397**	2,224	**11,642**
Total	¥ **2,608**	¥ 5,051	$ **21,734**

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, 2003 and 2002 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			**2003**		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥ **3,568**	¥ **2,362**	¥ **1,206**	¥ 4,617	¥ 2,707	¥ 1,910	$ **29,733**	$ **19,683**	$ **10,050**
Tools, furniture and fixtures	**2,381**	**1,219**	**1,162**	6,750	3,994	2,756	**19,842**	**10,158**	**9,684**
Others	**246**	**75**	**171**	485	249	236	**2,050**	**625**	**1,425**
Total	¥ **6,195**	¥ **3,656**	¥ **2,539**	¥ 11,852	¥ 6,950	¥ 4,902	$ **51,625**	$ **30,466**	$ **21,159**

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
	2003	2002	**2003**
Depreciation expense	¥ **2,897**	¥ 3,518	$ **24,142**
Interest expense	¥ **98**	¥ 161	$ **817**

4. Land 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 consolidated 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:	¥ 4,559
Land after revaluation:	¥ 9,996
Land revaluation surplus, net of income taxes of ¥2,202 million:	¥ 3,235

As of March 31, 2003, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥ 1,746 million ($14,550 thousand).

5. Short-term Bank Borrowings, Bonds and Long-Term Debt

Short-term bank borrowings, which generally represented by notes to banks and bank overdrafts, are due within one year. The interest rates on these borrowings ranged from 1.375% to 7.8125% and 1.332% to 5.18% as of March 31, 2003 and 2002, respectively.

Bonds and long-term debt as of March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Bonds - subordinated debentures with an interest rate at 2.82%, due in April 2003	¥ **5,000**	¥ 5,000	$ **41,667**
Banks, 1.50%-6.65%, due through 2006	¥ **15,522**	¥ 24,048	$ **129,350**
Japanese government-sponsored agencies, 2.15%-6.00%, due through 2006	**7**	12	**58**
Japanese insurance companies, 1.50%-2.90%, due through 2004	**4,858**	5,530	**40,484**
Mortgage loans, 11.0%, due through 2007	**150**	153	**1,250**
Total	**20,537**	29,743	**171,142**
Less: Current portion included in current liabilities	**(12,972)**	(12,950)	**(108,100)**
Long-term debt, less current portion	¥ **7,565**	¥ 16,793	$ **63,042**

The aggregate annual maturities of long-term debt as of March 31, 2003, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ **12,972**	$ 108,100
2005	**2,005**	16,709
2006	**5,427**	45,225
2007	**133**	1,108
2008 and thereafter	**-**	-
Total	¥ **20,537**	$ 171,142

As of March 31, 2003, the carrying amount of asset pledged as collateral for short-term borrowings of ¥47,015 million ($391,792 thousand) and long-term debt (including current portion) of ¥19,779 million ($164,825 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥ 337	$ 2,808
Accounts receivable	12,222	101,850
Inventories	10,909	90,908
Buildings and structures, net	6,622	55,183
Machinery and equipment, net	17	142
Tools, furniture and fixtures, net	31	258
Investment securities	1,082	9,017
Land	11,938	99,484
Total	¥ 43,158	$ 359,650

Outstanding bank overdraft commitments contracted, but not provided for as of March 31, 2003 were as follow:

	2003	
	Millions of yen	Thousands of U.S. dollars
Credit facilities	¥ 20,000	$ 166,667
Used	(11,000)	(91,667)
Unused	¥ 9,000	$ 75,000

Concerning repayments of the Company's debt, the Company and the Company's major financial institutions, made an agreement, which allowed the Company to repay the amount calculated by a prescribed formula based on free cash flow of each fiscal year.

6. Liability for Employees' 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 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.

The liability for employees' retirement benefits at March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation	**¥ 34,873**	¥ 42,790	**$ 290,608**
Fair value of plan assets	**(12,231)**	(15,134)	**(101,925)**
Unrecognized actuarial gain	**(5,310)**	(9,037)	**(44,250)**
Unrecognized prior service cost	**827**	-	**6,892**
Prepaid pension cost	**31**	-	**258**
Unrecognized transitional obligation	**(8,965)**	(12,906)	**(74,708)**
Net liability	**¥ 9,225**	¥ 5,713	**$ 76,875**

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥ 1,820**	¥ 1,713	**$ 15,167**
Interest cost	**970**	1,155	**8,083**
Expected return on plan assets	**(208)**	(244)	**(1,733)**
Amortization of prior service cost	**(237)**	-	**(1,975)**
Recognized actuarial loss	**907**	549	**7,558**
Amortization of transitional obligation	**1,096**	993	**9,133**
Supplemental retirement benefits	**77**	38	**642**
Net periodic retirement benefit costs	**¥ 4,425**	¥ 4,204	**$ 36,875**

Assumptions used for the years ended March 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**1.5%**	1.5%
Amortization period of prior service cost	**5years**	-
Recognition period of actuarial gain / loss	**5 to 10years**	5 to 10years
Amortization period of transitional obligation	**15years**	15years

7. Shareholders' Equity (Capital Deficiency)

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby capital stock (common stock and preferred stock) par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as capital stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of capital stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the capital stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the capital stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of capital stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

There were no retained earnings available for dividends under the Code as of March 31, 2003, base on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

i) Issuance of common stock through a third party allotment of shares

On October 30, 2002, by the resolution of the Board of Directors, the Company issued 26,472 thousand shares of its common stock at ¥78 per each share newly issued, through a third-party allotment of shares. The Company received total proceeds of ¥2,064 million ($17,200 thousand), ¥1,032 million ($8,600 thousand) of which was recorded in common stock and the remaining ¥1,032 million ($8,600 thousand) was recorded in capital surplus.

ii) Issuance of convertible preferred stock through debt-for-equity swap

On December 27, 2002, the Company issued 62,500 thousand shares of its preferred stock at ¥400 per each share newly issued, through a third-party allotment of shares. The issuance was made by debt-equity-swap for the debt of the Company for ¥25,000 million ($208,333 thousand). The amount of the swapped equity was ¥25,000 million ($208,333 thousand) in total, ¥12,500 million ($104,167 thousand) of which was recorded in common stock and the remaining ¥12,500 million ($104,166 thousand) was recorded in capital surplus.

At an extraordinary general shareholders meeting, held on December 10, 2002, articles of incorporation of the Company were amended as follows:

Authorized number of shares was increased to 735,000 thousand shares, which consists of 672,500 thousand shares of common stock, 31,250 thousand shares of Class A preferred stock and 31,250 thousand shares of Class B preferred stock

On December 10, 2002, the Company's board meeting approved an execution of the debt-for-equity-swap arrangements with the Resona Bank, and the Company issued the following preferred stock on December 27, 2002.

	Class A	Class B
Number of shares issued	31,250 thousand	31,250 thousand
Issue price	¥ 400 per share	¥ 400 per share
Total issue price	¥ 12,500 million	¥ 12,500 million
Stated capital per share	¥ 200	¥ 200
Total stated capital	¥ 6,250 million	¥ 6,250 million
Preferred dividends	For the fiscal years ended March 31, 2003, 2004, 2005, 2006, and 2007, maximum ¥7.5 per share cumulative and non-participating. For the fiscal years ended March 31, 2008 and thereafter, maximum ¥12 per share non-cumulative and non-participating.	For the fiscal years ended March 31, 2003, 2004, 2005, 2006, and 2007, maximum ¥7.5 per share cumulative and non-participating. For the fiscal years ended March 31, 2008 and thereafter, maximum ¥28 per share non-cumulative and non-participating.
Voting right	None	None except for a case as follows: -the appropriation of preferred dividends were not resolved at any annual general shareholders' meeting held after March 1, 2007.
Shareholder's option of conversion to common stock	At ¥98 (to be adjusted) from December 1, 2005 to November 30, 2018.	At ¥98 (to be adjusted) from December 1, 2007 to November 30, 2022.
Mandatory conversion to common stock	At the end of December 1, 2018, the outstanding Class A preferred stock shall be mandatory converted to common stock at the prescribed average market price, provided that all the conditions of the Code shall be satisfied.	At the end of December 1, 2022, the outstanding Class B preferred stock shall be mandatory converted to common stock at the prescribed average market price, provided that all the conditions of the Code shall be satisfied.
Distribution of assets	At ¥400 per share and accrued accumulated dividends, preferred distributions to shareholders of common stock.	At ¥400 per share and accrued accumulated dividends, preferred distributions to shareholders of common stock.
Redemption	Redeemable by Board Resolution	Redeemable by Board Resolution

8. Research and Development Cost

Research and development costs charged to income were ¥936 million ($7,800 thousand) and ¥1,108 million for the year ended March 31, 2003 and 2002, respectively.

9. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income with normal effective tax rates aggregating to 42%, for the years ended March 31, 2003 and 2002.

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 42.0% to 40.5%, effective for years beginning on April 1, 2004. The effect of this change was to decrease deferred tax liabilities-non-current by ¥81million, and to increase land revaluation surplus by ¥81 million in the consolidated financial statements for the year ended March 31, 2003.

The tax effects of significant temporary differences and loss carry-forwards which resulted in deferred tax assets and liabilities as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred Tax Assets:			
Impairment of investment securities	¥ **1,669**	¥ 2,396	$ **13,908**
Tax loss carryforwards	**16,476**	15,025	**137,300**
Provision for loss on business restructuring	**-**	4,200	**-**
Liability for employees' retirement benefits	**3,180**	1,179	**26,500**
Other	**3,256**	5,455	**27,133**
Less: valuation allowance	**(22,827)**	(26,453)	**(190,225)**
Total	¥ **1,754**	¥ 1,802	$ **14,616**
Deferred Tax Liabilities:			
Investments	¥ **145**	¥ -	$ **1,208**
Land revaluation	**2,202**	2,283	**18,350**
Other	**32**	22	**267**
Total	**2,379**	2,305	**19,825**
Deferred Tax Liabilities, Net:	¥ **(625)**	¥ (503)	$ **(5,209)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of operations for years ended March 31, 2003 and 2002 is as follows:

	2003	2002
Normal effective statutory tax rate	**42.0%**	42.0%
Expenses not deductible for income tax purposes	**0.2%**	(0.3%)
Tax benefits not recognized on operating losses of subsidiaries	**68.3%**	(20.1%)
Temporary differences not recognized on operating losses of subsidiaries	**(92.5%)**	(33.3%)
Reversal of deferred tax assets of prior years	**1.5%**	(3.5%)
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	**(0.5%)**	0.3%
Effect of tax rate reduction on consolidated taxation system	**(4.6%)**	-
Other, net	**3.4%**	6.2%
Actual effective tax rate	**17.8%**	(8.7%)

As of March 31,2003, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately ¥41,169 million ($343,075 thousand), which are available to apply against future taxable income.

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

Year ending March 31	**Millions of Yen**	Thousands of U.S. dollars
2004	¥ **-**	$ -
2005	**-**	-
2006	**18,077**	150,642
2007	**11,693**	97,442
2008	**8,254**	68,783
thereafter	**3,145**	26,208
Total	¥ **41,169**	$ 343,075

10. Per Share of Common Stock

Net income (loss) 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")

Reconciliation of the differences between basic and diluted EPS for the year ended March 31, 2003 and 2002 are as follows:

For the year ended March 31, 2003:	Millions of yen	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥ 4,175	194,952	¥ 21.41	$ 0.18
Effect of Diluted Securities				
Preference shares	46	66,396		
Diluted EPS				
Net income for computation	¥ 4,221	261,348	¥ 16.15	$ 0.13

For the year ended March 31, 2002:	Millions of yen	Thousands of shares	Yen
	Net (loss)	Weighted average shares	EPS
Basic EPS			
Net (loss) available to common shareholders	¥ (26,658)	166,600	¥ (160.02)

Diluted net (loss) per share is not disclosed because there are no outstanding dilutive financial instruments or obligations.

11. Commitments and Contingent Liabilities

The Company was contingently liable as of March 31, 2003, as a guarantor for borrowings of employees aggregating ¥2 million ($17 thousand) and ¥10 million as of March 31, 2003 and 2002, respectively.

At March 31,2003, the Company had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense was ¥5,098million ($42,483 thousand) and ¥6,061 million for the years ended March 31, 2003 and 2002.

12. 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.

Because the counterparties to those derivatives are limited to 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.

The Group had the following derivatives contracts outstanding at March 31, 2003 and 2002:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	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
Interest Rate Swaps: (floating rate receipt, fixed rate payment)	¥ **3,500**	¥ **(102)**	¥ **(102)**	¥ **3,500**	¥ (131)	¥ (131)	$ **29,167**	$ **(850)**	$ **(850)**

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.

13. 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.

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, 2003 and 2002 were summarized as follows:

Operations by business segment:

	Millions of yen				
	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2003					
Net sales:					
Sales to customers	**¥ 164,564**	**¥ 61,015**	**¥ 225,579**	**¥ -**	**¥ 225,579**
Intersegment sales and transfers	**-**	**-**	**-**	**-**	**-**
Total	**¥ 164,564**	**¥ 61,015**	**¥ 225,579**	**¥ -**	**¥ 225,579**
Operating income	**¥ 7,053**	**¥ 5,207**	**¥ 12,260**	**¥ -**	**¥ 12,260**
Identifiable assets	**¥ 91,485**	**¥ 27,594**	**¥ 119,079**	**¥ 23,045**	**¥ 142,124**
Depreciation	**¥ 6,233**	**¥ 2,145**	**¥ 8,378**	**¥ -**	**¥ 8,378**
Capital expenditures	**¥ 5,760**	**¥ 959**	**¥ 6,719**	**¥ -**	**¥ 6,719**

Corporate assets as of March 31, 2003, amounted to ¥23,045 million ($192,042 thousand) and consisted primarily of the Company's cash, time deposits and investment securities.

	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2002					
Net sales:					
Sales to customers	¥ 218,427	¥ 84,177	¥ 302,604	¥ -	¥ 302,604
Intersegment sales and transfers	-	-	-	-	-
Total	¥ 218,427	¥ 84,177	¥ 302,604	¥ -	¥ 302,604
Operating income (loss)	¥ (2,030)	¥ 8,131	¥ 6,101	¥ -	¥ 6,101
Identifiable assets	¥ 118,524	¥ 44,819	¥ 163,343	¥ 19,575	¥ 182,918
Depreciation	¥ 6,912	¥ 2,740	¥ 9,652	¥ -	¥ 9,652
Capital expenditures	¥ 8,012	¥ 4,378	¥ 12,390	¥ -	¥ 12,390

Corporate assets as of March 31, 2002, amounted to ¥19,575 million ($147,180 thousand) and consisted primarily of the Company's cash, time deposits and investment securities.

	Thousands of U.S. dollars				
	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2003					
Net sales:					
Sales to customers	$ 1,371,367	$ 508,458	$ 1,879,825	$ -	$ 1,879,825
Intersegment sales and transfers	-	-	-	-	-
Total	$ 1,371,367	$ 508,458	$ 1,879,825	$ -	$ 1,879,825
Operating income	$ 58,775	$ 43,392	$ 102,167	$ -	$ 102,167
Identifiable assets	$ 762,375	$ 229,950	$ 992,325	$ 192,042	$ 1,184,367
Depreciation	$ 51,942	$ 17,875	$ 69,817	$ -	$ 69,817
Capital expenditures	$ 48,000	$ 7,992	$ 55,992	$ -	$ 55,992

Operations by geographic area:

	Millions of yen							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2003								
Net sales:								
Sales to customers	¥ 87,646	¥ 67,311	¥ 53,152	¥ 14,767	¥ 2,703	¥ 225,579	¥ -	¥ 225,579
Intersegment sales	94,124	487	10,320	63,421	12	168,364	(168,364)	-
Total	¥ 181,770	¥ 67,798	¥ 63,472	¥ 78,188	¥ 2,715	¥ 393,943	¥ (168,364)	¥ 225,579
Operating income (loss)	¥ 7,374	¥ 2,210	¥ 1,186	¥ 1,091	¥ (75)	¥ 11,786	¥ 474	¥ 12,260
Identifiable assets	¥ 109,789	¥ 22,019	¥ 21,143	¥ 22,513	¥ 1,283	¥ 176,747	¥ (34,623)	¥ 142,124

	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2002								
Net sales:								
Sales to customers	¥ 145,743	¥ 76,383	¥ 59,759	¥ 17,112	¥ 3,607	¥ 302,604	¥ -	¥ 302,604
Intersegment sales	108,568	978	12,961	104,101	3	226,611	(226,611)	-
Total	¥ 254,311	¥ 77,361	¥ 72,720	¥ 121,213	¥ 3,610	¥ 529,215	¥ (226,611)	¥ 302,604
Operating income	¥ 1,372	¥ 2,456	¥ 1,274	¥ 1,950	¥ 138	¥ 7,190	¥ (1,089)	¥ 6,101
Identifiable assets	¥ 149,644	¥ 26,246	¥ 25,208	¥ 30,261	¥ 1,383	¥ 232,742	¥ (49,824)	¥ 182,918

	Thousands of U.S. dollars							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2003								
Net sales:								
Sales to customers	**$ 730,383**	**$ 560,925**	**$ 442,934**	**$ 123,058**	**$ 22,525**	**$ 1,879,825**	**$ -**	**$ 1,879,825**
Intersegment sales	**784,367**	**4,058**	**86,000**	**528,508**	**100**	**1,403,033**	**(1,403,033)**	**-**
Total	**$ 1,514,750**	**$ 564,983**	**$ 528,934**	**$ 651,566**	**$ 22,625**	**$ 3,282,858**	**$ (1,403,033)**	**$ 1,879,825**
Operating income	**$ 61,450**	**$ 18,417**	**$ 9,883**	**$ 9,092**	**$ (625)**	**$ 98,217**	**$ 3,950**	**$ 102,167**
Identifiable assets	**$ 914,908**	**$ 183,492**	**$ 176,192**	**$ 187,608**	**$ 10,692**	**$ 1,472,892**	**$ (288,525)**	**$ 1,184,367**

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

Overseas sales:

	Millions of yen				
	America	Europe	Asia	Other	Total
2003					
Overseas sales	**¥ 70,882**	**¥ 53,167**	**¥ 21,714**	**¥ 5,140**	**¥ 150,903**
Consolidated net sales					**¥ 225,579**
Ratios of overseas sales	**31.4 %**	**23.6 %**	**9.6 %**	**2.3 %**	**66.9 %**
2002					
Overseas sales	¥ 81,636	¥ 61,552	¥ 25,459	¥ 6,561	¥ 175,208
Consolidated net sales					¥ 302,604
Ratios of overseas sales	27.0 %	20.3 %	8.4 %	2.2 %	57.9 %

	Thousands of U.S. dollars				
	America	Europe	Asia	Other	Total
2003					
Overseas sales	**$ 590,684**	**$ 443,059**	**$ 180,950**	**$ 42,832**	**$ 1,257,525**
Consolidated net sales					**$ 1,879,825**

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 and Africa

14. Subsequent Event

The following proposed disposition of accumulated deficit of the Company at March 31, 2003, was approved at the shareholders' meeting held on June 27, 2003:

	Millions of Yen	Thousands of U.S. dollars
Balance of accumulated deficit at March 31, 2003	**¥ (34,238)**	$ (285,317)
Transfer from capital surplus	**17,087**	142,392
Accumulated deficit to be carried forward:	**¥ (17,151)**	$ (142,925)

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Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Kenwood Corporation:

We have audited the accompanying consolidated balance sheets of Kenwood Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity (capital deficiency), 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, procedures and practices generally accepted and applied 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

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.

Deloitte Touche Tohmatsu

June 27, 2003

KENWOOD

Mobile & Home Multimedia

The Kenwood Group

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Established
December 21, 1946

Paid-in Capital
¥39.4 Billion
(As of March 31, 2003)

Number of Employees

Consolidated	4,877
Non-Consolidated	1,498

(As of March 31, 2003)

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Director of the Board
Kazuo Shiohata
Akio Ueda
Hiroyasu Hata
Nobuo Seo
Takenori Kawafune
Takeo Nagatomo

Standing Statutory Auditor
Hideaki Kato
Kazuhiro Kitahara
Osamu Hamada

Statutory Auditor
Koichi Kurosaki

Corporate Executive Officers

Chief Executive Officer
Haruo Kawahara

Executive Vice President & Executive Officer
Kazuo Shiohata
Akio Ueda
Hiroyasu Hata
Haruo Kasuya
Hiroshi Komatsuzaki

Senior Vice President & Executive Officer
Masateru Ando
Yoshihiko Ueno
Makoto Inukai
Syoichiro Eguchi

Vice Executive
Sadaharu Kato
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Takayoshi Sakamoto

(As of Jun 27, 2003)

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