KENWOOD

ANNUAL REPORT 2004

For the year ended March 31, 2004

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).

KENWOOD

KENWOOD Corporate vision

Vision

Reaching out to discover, inspire and enhance the enjoyment of life

Principle

Cultivate original thinking and execute with pride, passion and precision

The heritage, strength and future aspiration of the Kenwood brand are reflected in the values we share.

We must ensure that every aspects of our corporate activity, from product development through customer relations, is consistent with the following core values to realize our vision.

Core Value

A Step Ahead

To drive dynamic evolution through progressive thinking and a willingness to embarace change.

The Right Fit

To create products and services that have an intuitive appeal because they fit customer needs and lifestyles.

Fresh Experience

To foster the spirit of discover at work and refreshing surprise in daily life.

Quality and Performance

To insist on uncompromising quality and performance in our products, our people and our business practices.

Confidence and Trust

To build confidence in the brand and lasting goodwill through relationships based on trust.

Brand Statement

Listen to the Future

Financial highlights

Kenwood Corporation and consolidated subsidiaries
Years ended March 31

	Millions of yen				
	Mar. 2000	Mar. 2001	Mar. 2002	Mar. 2003	**Mar. 2004**
Net sales	274,517	303,356	302,604	225,579	**178,731**
Operating income	5,144	0	6,101	12,260	**12,610**
Ordinary income (loss)	1,315	(3,727)	1,046	7,059	**8,541**
Net income (loss)	(1,017)	(21,843)	(26,658)	4,221	**7,318**
Net income (loss) per share	(7)	(148)	(160)	21	**34**
Net income per share after adjustment for latent shareholdings	—	—	—	16	**16**
Shareholders' equity	35,287	1,485	(17,002)	13,704	**20,161**
Shareholders' equity ratio	16.6%	0.7%	-9.3%	9.6%	**14.9%**
ROE	-3.1%	-118.8%	—	—	**—**
Retained earnings (deficit)	(8,398)	(30,066)	(38,581)	(34,238)	**(9,777)**
Interest-bearing debt	105,529	122,438	110,143	80,851	**67,272**
Net debt	82,298	100,936	85,907	50,083	**29,885**
Cash flows from operating activities	16,792	(7,421)	15,173	10,358	**27,502**
Number of employees	9,560	9,765	8,628	4,877	**4,440**

Record high income booked as efforts for sweeping restructuring and concentrating on core businesses take hold

Kenwood Corporation, which had continuously expanded its audio and radio communications businesses as core competences since its foundation, had kept its operating balance in the black even after Japan's bubble economy collapsed. The strong performance was achieved as the automotive electronics and wireless radio businesses offset unprofitable business areas such as home electronics, a matured sector, and CD-ROM drives and GSM, the Company's new business. However, it is true that these unprofitable businesses weighed on the Company's bottom line, and in the course of promoting measures to cope with the situation, the balance sheet deteriorated markedly. In fiscal 2000 (ending March 2001), the Company booked an extraordinary loss as a result of the withdrawal from new businesses, and in the following year it posted another extraordinary loss due to evaluation losses as deflation worsened. Hurt by these negative legacies, the Company stated its negative net worth[*1] at 17.0 billion yen, interest-bearing debt[*1] at 110.1 billion yen and a loss carryforward[*2] of 44.6 billion yen as of the end of March 2002. Against this backdrop, corporate management restructuring was a pressing task for the Company.

Under such circumstances, I assumed the Kenwood presidency at the end of June 2002. There have been many Japanese corporations whose performance became sluggish as their industry matured, but I believe that such an industry is intrinsically quite attractive. In the matured field, no growth is expected, but a large and stable market already exists. While an increasing number of companies are withdrawing from this industry due to declined profitability, it is difficult for new entrants, because, in this industry, resources such as technologies, facilities and sales networks have generally been established and brand presence has been built, constituting an extremely high barrier for entrants.

To eliminate the past negative legacies as soon as possible and restructure the Company by leveraging the benefits of a mature industry, we formulated our "Revitalization Action Plan" in July 2002 (immediately after I became CEO), under which the entire staff is striving to achieve drastic restructuring of finances, business, costs and the industry. As a result, we were able to eliminate the negative net worth in December 2002 and completed various restructuring measures within nine months. In fiscal 2002 (ended March 31, 2003), the Company booked the largest consolidated net income in its 57-year history.

Enhancement of competitiveness enabled a V-shaped recovery in net income and elimination of the past negative legacies

As earlier mentioned, the Company had completed various restructuring measures as part of the "Revitalization Action Plan" by the end of March 2003, and shifted its management priorities to a new leap forward as the reborn Kenwood. In May 2003, aiming to become one of the world's truly excellent companies, the Company drafted its midterm business plan, the "Excellent Kenwood Plan" that focuses on the business domain of "Mobile & Home Multimedia System," which is expected to be the most promising field in the 21st century."

In fiscal 2003, the initial year for the midterm plan, the effects of restructuring efforts, which were completed in the previous year, together with the result of production innovations launched in March 2003 to further improve profits and cash flows, clearly contributed to the Company's earnings for the whole year. As a result, net income rose substantially to a record high for two consecutive years, literally achieving a V-shaped recovery. Managing to reduce loss carryforward and interest-bearing debt significantly, the balance sheet also became healthier, as the Company took its first step towards becoming a truly excellent company.

Aiming to drastically strengthen its financial and capital structure, the Company in May 2004 formulated the "New Financial Strategy," which involves the simultaneous execution of four measures: entirely eliminating loss carried over; retiring preferred stock through public offering; terminating the repayment agreement through refinancing; and substantially reducing interest-bearing debt. The Company completed this unprecedented scheme (for Japan) by the end of August 2004. This accomplishment translated into a dramatic improvement in its financial basis, a big step toward attaining three of the four objectives set in the midterm business plan: "Excellent Kenwood Plan." The three goals are to "achieve a 20% return on equity (ROE)," "resume dividend payments" and "implement zero net-debt business management."

We could complete the above-mentioned scheme thanks to the understanding and support of every shareholder, financial institution as well as the other stakeholders. Taking this opportunity, I would like to express my heartfelt gratitude to you.

Promotion of growth strategy led us to shift our management priorities to full-scale growth for a new leap forward

As described above, departing from the past negative legacies, the Company shifted its management priorities to a full-scale growth. To achieve an operating income margin of 10%, the remaining objective of the midterm business plan: "Excellent Kenwood Plan," the Company will proactively carry out measures to grow in fiscal 2004 (ending March 31, 2005), the second year of the midterm plan. To this end, the Company, with "strategic investment" as its basic policy, will develop new products and innovative technologies that are competitive, strengthen the brand name to increase the corporate presence worldwide and enhance human resources to bolster its business promotion capabilities and aggressively proceed the "M&A Strategy."

In June 2004, as part of its M&A strategy, the Company acquired the radio operations of Toyo Communication Equipment Co., Ltd. to further reinforce the communications business, centering on domestic operations. In October, as part of its brand strategy, the Company defined its "Principle"[*3] and "Core Value,"[*3] by further developing the corporate vision: "Reaching out to discover, inspire and enhance the enjoyment of life." To further increase the presence of the Kenwood brand, the Company also redefined the method for promoting the brand logo and decided on a "Brand Statement."[*3] On top of this, the Company will continue to provide the West McLaren-Mercedes team with radio systems for the Formula One (F1) world auto-racing championship, as an official supplier, aiming to promote its brand with high technology and reliability by playing a role in leading this team to victory in these highly demanding races. Furthermore, the Company will commercialize flagship models that are appropriate for the new corporate vision, with which it will make an appeal to the world for the reborn Kenwood.

The Company is promoting the growth strategy in its three core businesses through proactive development and investment, aiming to further strengthen the audio and radio communications fields, its core competences. Consequently, the Company has already materialized the networking of home audio systems and personal computers, and commercialized home audio equipment that is compatible with online (web-based) music distribution services. The Company is now working on networking of home audio systems and automotive electronics, commercialization of new car-navigation and car-multimedia systems by integrating PCs, networks and home audio equipment based on proprietary Kenwood technologies, and production of business-use digital radio equipment that is compatible with the U.S. APCO standard. Through this move, the Company will make the framework of the core businesses seamless and create a new sound entertainment and mobile world, aiming to establish the Mobile & Home Multimedia System business, which is designed to provide customers with fresh innovations and impressions."

In proceeding with these measures for growth, we will increase the transparency of our corporate management and strengthen accountability so that all the stakeholders, including the shareholders, investors, financial institutions and customers, can understand well what we are doing. The Company will also strive to contribute to the public good through its business operations as well as to improve corporate value. We appreciate your continued understanding and support.

Haruo Kawahara, President & CEO

H. Kawahara

*1 Consolidated figures posted as of the end of March 2004
*2 Non-consolidated figures registered as of the end of March 2004
*3 "Principle" "Core Value" and "Brand Statement" are described on page 3.

Outline of Kenwood

"Reaching out to discover, inspire and enhance the enjoyment of life"

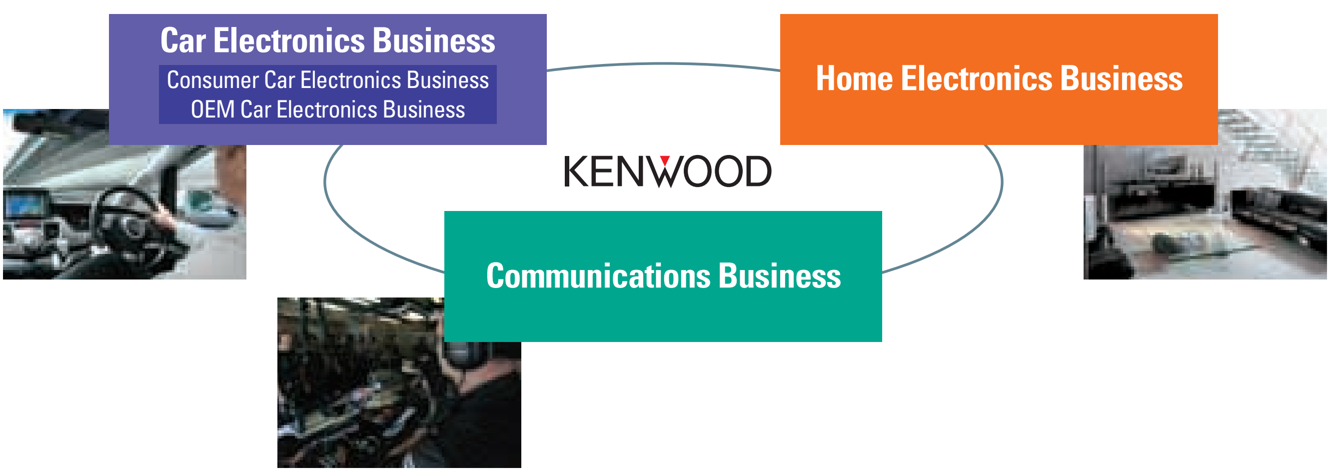
Corporate Profile — Aiming to become a Global Excellent Company with our core competencies in audio and wireless radio communication technologies.

Kenwood, which was established in 1946 in Akaho, Nagano Prefecture as a company specializing in radio assembly and repair, produced an advanced high-frequency coil by taking advantage of its location surrounded by mountains, where radio waves were weak. Based on the high-frequency technology, the Company developed high-grade FM tuners and radio equipment. Since then, it has expanded its business domains steadily to include radio equipment and home-use as well as car-mounted audio systems. Its business areas have also expanded into North America, Europe, Asia, particularly China, East Europe, particularly Russia, Latin America and the Middle East.

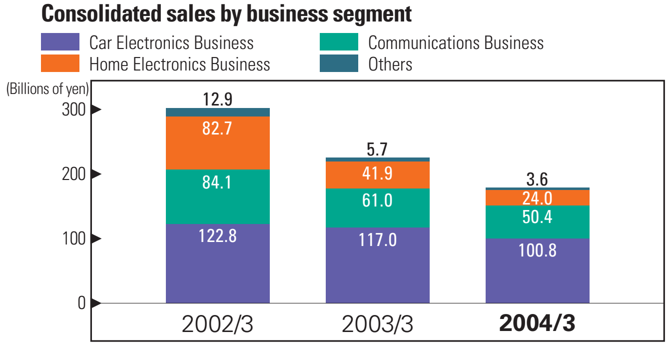
However, the Company's earnings weakened, because profitability in the home audio business, a mature field, deteriorated amid the harsh business environment caused by the economic slump, fierce competition with peers and fluctuations in exchange rates. On top of this, new businesses such as CD-ROM drive and GSM did not get off the ground, against the Company's initial expectation. To cope with this, the Company did its utmost effort to rebuild financial footing by implementing drastic restructuring measures under the "Revitalization Action Plan," which was formulated in July 2002.

The restructuring measures were completed only a mere nine months later, and the Company posted a record-high consolidated net income in fiscal 2002 (the year ending March 2003). Then, in May 2003, the Company devised its midterm business plan, the "Excellent Kenwood Plan," taking its first step as reborn Kenwood towards a new leap forward. As a result of concentrating management resources on varied measures for strengthening the operational capabilities, the Company registered an all-time high in consolidated net income in fiscal 2003 for the second consecutive year, achieving a V-shaped recovery.

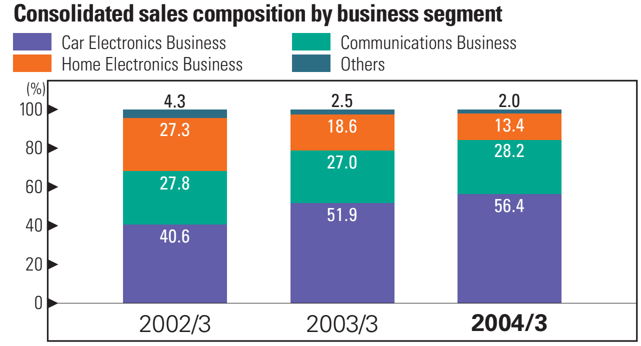
At present, the Company is implementing a growth strategy in the businesses of automotive electronics, communications and home electronics under the new corporate vision-"Reaching out to discover, inspire and enhance the enjoyment of life" by leveraging its assets such as technical prowess, products planning capability, global networks and the brand. We will continue our utmost effort to establish the business of "Mobile & Home Multimedia Systems" by combining audio and radio communications technologies, our core competences, and become the dominant company in the world.



Consolidated sales by business segment



Consolidated sales composition by business segment



Business Bases

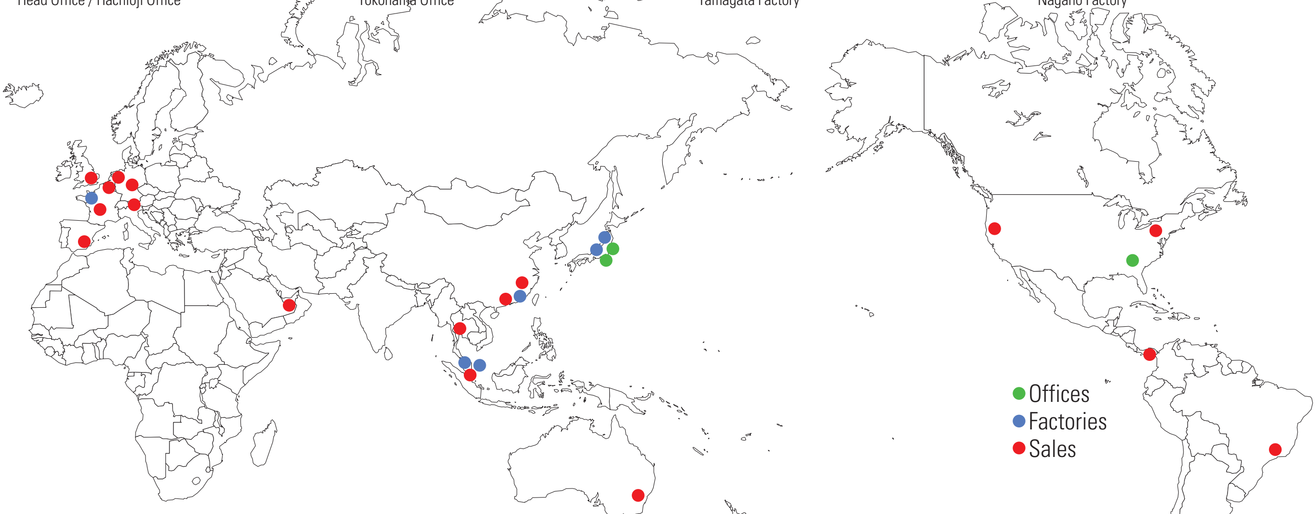
"KENWOOD" brand is enhanced at 17 nations and 53 sites in the world.

Head Office / Hachioji Office

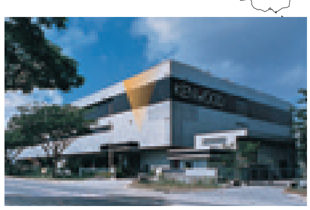
Yokohama Office

Yamagata Factory

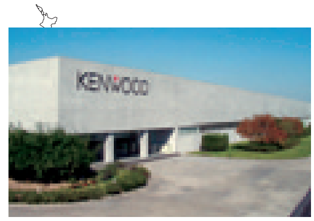
Nagano Factory



Malaysia Factory



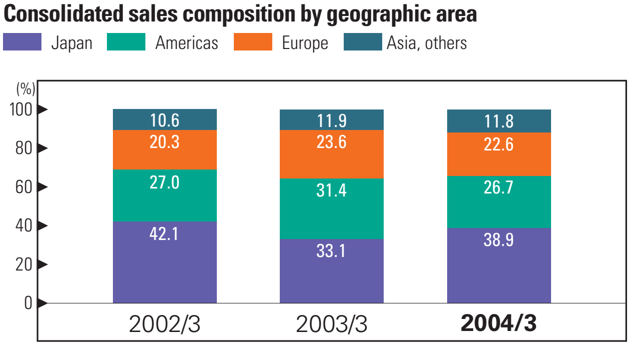
Singapore Factory



Shanghai Factory

France Factory

Consolidated sales composition by geographic area



Three core businesses

In pursuit of further value creation by integrality our three core business segments and establish "Mobile & Home Multimedia System" business

Car Electronics Business

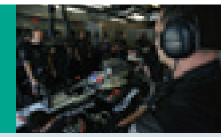
Development of digital and network technologies for automobiles has opened remarkable possibilities in the fields of car audio and navigation systems. Since its entry into the automotive electronics market in 1980, the Company has built a high brand presence worldwide, utilizing the capability to cultivate potential needs of the market and the ability to plan and develop products, while emphasizing a consumer business based on the high fidelity technology it has accumulated over the years.

In the consumer business, we are selling new proposal-oriented products that combine high tone quality technique with advanced technology, in the car multimedia field, which continues to grow. Among others there is an audio-visual hard disc navigation system that focuses on entertainment and convenience, tuners for digital satellite broadcasting and the first civilian use of tuners for terrestrial digital broadcasting. To further solidify its global presence in the traditional automotive audio field, the Company is increasing its product lineups by commercializing flagship models bringing together the essence of the most advanced tone quality technologies, while raising its presence in emerging regions through the use of global networks.

As for the OEM business, the Company is rapidly expanding operations not only in Japan but also in north America, Europe and elsewhere in Asia, by taking advantage of its high grade technologies, which consistently receive high marks for the consumer business, the ability to plan and develop products, as well as reliability and brand presence. In April 2004, the OEM section became independent of the Car Electronics Division and has been increasing its presence in components for automotive electronics as well as in car multimedia and audio systems.

Currently, the Company is launching large projects and proactively investing in them to commercialize car multimedia products that are more attractive and competitive, aiming to enhance competitiveness in the field of car navigation systems, the use of which is expected to fully spread in Europe and China. The Company is also working hard to boost business competitiveness and profitability, by vertically integrating plants at home and abroad in the consumer and OEM businesses, separately.

Communications Business



Since its foundation, the Company has operated the radio equipment business using the high-frequency technology, developing proprietary techniques and high know-how in the field of wireless communications, which is not included in the Car Electronics and Home Electronics businesses. The Company has increased its market share of commercial communications systems, becoming the world's second largest supplier. To achieve this, the Company has speedily complied not only with various countries' laws and regulations on radio waves but also with digitalization of radio equipment, which requires cutting-edge technologies. The Company has supplied radio systems that require extremely high reliability, privacy and security, durability and operability to the West McLaren-Mercedes Formula One (F1) auto-racing team-referred to "Olympic Games of technologies"-as an official supplier, for more than 10 years. This is indicative of our equipment's high performance and reliability.

In recent years, the Company has entered the mobile communications field, introducing PDC, PHS and GSM terminals in the domestic market. However, we pulled out of this sector in November 2002, as profitability weakened due to the maturing of the market and heightened competition in development. Against this backdrop, the Company endeavored to strengthen operations and improve profitability by focusing on the businesses of radio equipment, including commercial radio systems, amateur radios and specially-designated low power transceivers, from which stable profits are expected.

The Company has moved the division headquarters to the U.S., the largest market for Kenwood, where it is enhancing the cooperative system of marketing, sales, development and production, digital radio equipment and further shifting from being a terminal manufacturer to becoming a system provider.

Kenwood is expanding operations in Asia, particularly China, where spectacular growth is forecasted, and the regions, in which growth is projected, including East Europe, particularly Russia, the Middle East, Latin America and Africa. Meanwhile, in mature markets, the Company is carrying out a growth strategy for expanding the size of operations by increasing its presence through strategic M&As. As part of this strategy, the Company acquired the radio operations of Toyo Communication Equipment Co., Ltd. in June 2004. With this acquisition, the Company now can supply a large number of products to public agencies and power utilities, as well as utilize networks and huge resources or technologies relating to radio equipment operations. It is now expanding its radio equipment business in Japan.

Home Electronics Business

The Home Electronics Business is another of our longstanding operations like the radio equipment business. Since our commercialization of a high-class FM tuner using advanced high-frequency technology, Kenwood has steadily expanded the business under the concept of "high fidelity" and expanded its presence as an audio system manufacturer around the world. At the same time, the Company has produced many proprietary sound technologies that significantly improve quality, and continued to offer fresh, attractive sound entertainment for the market, at a time when media technology shifted from analog to digital.

However, profitability of the business deteriorated as the market matured and trends changed. To turn around the situation, the Company implemented drastic restructuring in fiscal 2002 (ending March 2003), integrating product lineups into the three categories that are profitable and promising while reducing sales areas by changing sales strategy. Furthermore, the Company strengthened operational capabilities and earnings power by advancing the production innovation project. As a result, profitability improved remarkably in the year ended March 31, 2004, although sales declined sharply.

The Company now focuses on the development of digital amplifiers with high fidelity and high power, the features meeting the needs of the digital era, and products compatible with networks, which match with the Company's concept of providing sound entertainment in every living scene. As part of this effort, the Company in May 2004 launched a hard-disc audio system that can handle music distribution services offered by Any Music Inc., in which the Company has a stake. This was followed by the release of a network-based theater system, which reads music and videos stored on a PC through wireless networks and reproduces them with at high quality.

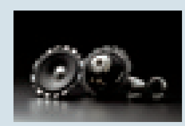
From now on, the Company will continue to position home electronics as the core in the world of sound entertainment, and evolve them while putting emphasis on the high fidelity sound reproduction that the Company has traditionally pursued. We will also integrate home electronics with portable audio equipment and car electronics to further make our products seamless. Through these efforts, we will establish the "Mobile & Home Multimedia Systems" business that offers higher quality and a high degree of entertainment value.

Speaker System Business

The Company has been enhancing its audio operations while focusing on high fidelity and increased its presence as an audio manufacturer. Despite the widespread progress of digital media, speaker systems remain a sensitive field as they rely on the physical phenomenon of air oscillation to convey sound. The Company has accumulated extensive proprietary analog technologies and relevant know-how through a painstaking process of trial and error in its high fidelity design as well as development of new materials for speaker systems.

In April 2004, the Company created the Speaker System Division by integrating the speaker operations of the Car Electronics Division and the Home Electronics Division, aiming at offering attractive, value-added products with high-fidelity sound reproduction based on the above-mentioned technologies and know-how.

The Speaker System Division, as an important division for the Consumer Business Sector, is expected to contribute to the Car Electronics and the Home Electronics divisions and establish a business centering on speaker systems, through which it plays a part in further enhancement of the audio sector.



Consumer Business Development Center

The Company conducts research and development for advanced technologies on the cutting edge in anticipation of the full-scale arrival of the fully digitalized and networked society. In April 2004, the Company established the Consumer Business Development Center, aiming to develop new, competitive technologies and products that match our vision as well as design platforms, in the consumer electronics field where technical innovation is remarkable.

This new R&D organization is proactively engaged in development of basic technologies common to every business, advanced development and strategic development, while combining core technologies, optimizing the use of resources and devising common strategic development themes for the entire company.

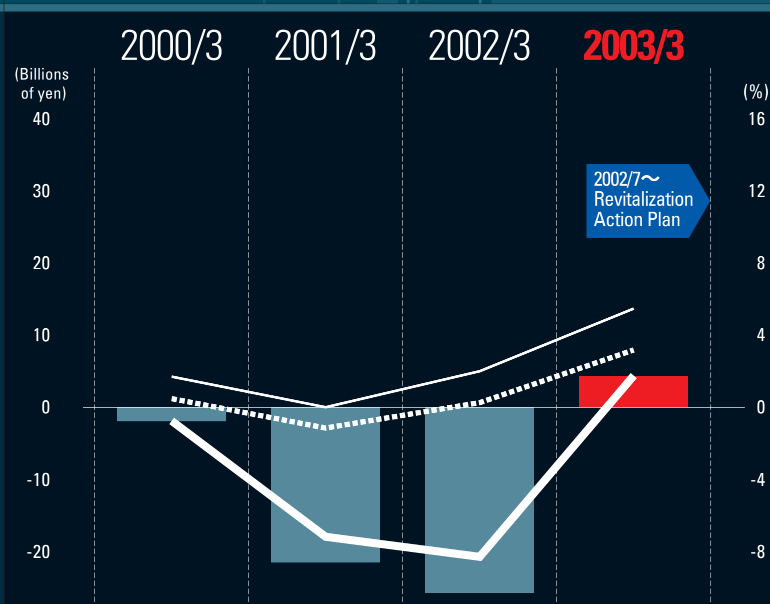
We strive to explore new possibilities in the multimedia era, while implementing R&D activities dynamically, aiming to establish the "Mobile & Home Multimedia System" business and create new businesses. To this end, the Company will commercialize an agent function that combines voice recognition/synthesis techniques with dialogue control technology and new functions that utilize digital and network technologies.

Kenwood posted a record net income mainly by concentrating resources on core businesses through a sweeping restructuring — Fiscal year through March 2003

In fiscal 2000 and 2001, the Company liquidated its CD-ROM drive and GSM businesses to concentrate on core businesses and reevaluated its assets under the market value accounting rules. As a result, consolidated negative net worth totaled about 17 billion yen at the end of March 2002, which made it urgently necessary for the Company to rebuild its operations.

Against this backdrop, the Company in May 2002 formulated its "Kenwood Drastic Revitalization Plan," the essence of restructuring measures, and two months later announced the "Revitalization Action Plan," which includes various restructuring measures, under the new corporate management structure. Under the action plan, we implemented restructuring across the company seeking to break free of the negative net worth specter, focusing on "business," "cost," "management" and "financial restructuring."

As a result, the Company could receive support from financial institutions and investors, which enabled it to increase capital and eventually eliminate the negative net worth by December 2002. On top of this, the various rebuilding measures produced better results than planned. Operating, ordinary and net income all increased sharply from the previous year on a consolidated as well as non-consolidated basis, despite negative external factors, such as the sluggishness of the economy and the stock market, the war in Iraq, and the outbreak of severe acute respiratory syndrome (SARS). In particular, the net balance moved back into the black, marking an all-time high income, swinging from the third consecutive year of substantial losses.



Net income
Net income ratio
Operating income ratio
Ordinary income ratio

2003.3

Elimination of money-losing businesses through "business restructuring"

In the Home Electronics Business, after reassessing product models and sales territories, the Company revised its marketing strategy and decided to sell home theater systems, pure audio equipment and portable radio devices mainly in the three major markets, Japan, North America and Europe. As for the Communications Business, the Company in November 2002 pulled out of the development and production of cellular telephones, while focusing on the radio equipment business, with the emphasis on: commercial radio systems, amateur radios and specially-designated small power transceivers.

Through these moves, the Company established a management framework that centers on the three core businesses, car electronics, home electronics and radio communication equipment, with "audio" and "radio communications," which are the core competence the Company has been engaged in for over five decades since its foundation.

Reduction in consolidated fixed and production costs through "cost restructuring"

Of the nine production bases worldwide, the Company sold plants in Mexico and Huizhou (China), closed a factory in Hungary as well as scaled down its operations at plants in Yamagata (Japan), France and Singapore, through "business restructuring" moves that enabled fixed and production costs to be reduced.

In an effort to overhaul the sales structure, the Company succeeded in reducing sales, general and administrative expenses at home by consolidating sales offices and introducing a sales agent system. Outside Japan, it consolidated sales firms in the Americas, while setting up regional supervisory offices in Europe and Asia.

Furthermore, to optimize resources in the group, the Company consolidated its 19 Japanese affiliates into 12, which resulted in staff reductions of about 45% throughout the group. It also cut employees' salaries and outsourcing fees paid to domestic affiliates. Consequently, it reduced fixed and production costs substantially, and its profitability was enhanced.

Enhancement of management framework and transparency through "management restructuring"

After the general shareholders meeting in June 2002, the Company adopted an executive officer system, streamlined the corporate organization and rejuvenated the management teams at affiliated firms in Japan and overseas. Under the integrated corporate management policy, the Company built a consolidated management structure for all functions from production to marketing, to ensure enhanced competitiveness and ability to respond to changing markets, and improvement of corporate governance organizational structure was revamped and additional measures for affiliated firms were implemented.

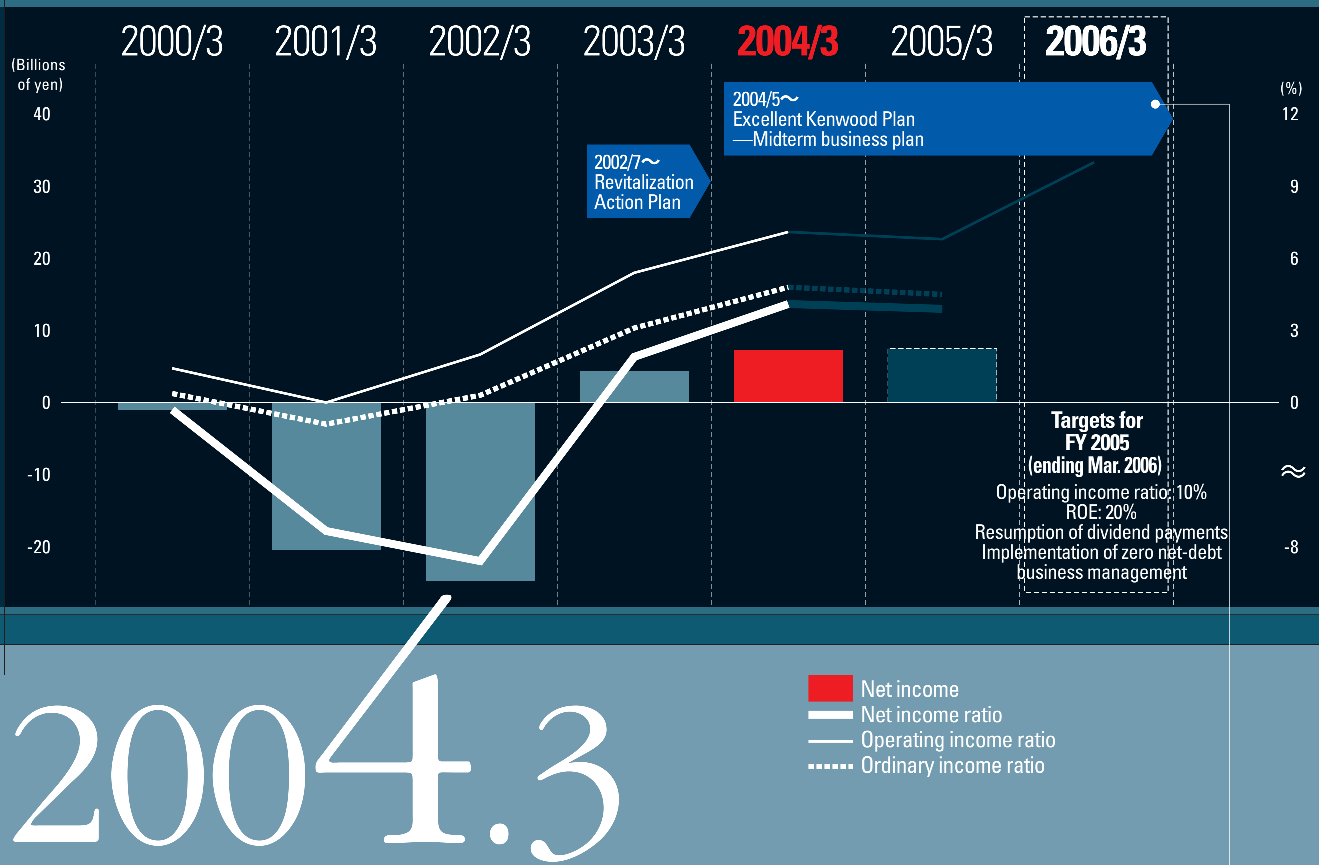
Elimination of negative net worth through "financial restructuring"

Thanks to full understanding and support by all stakeholders the Company could boost capital by some 2 billion yen in October 2002 through a third-party allocation of new shares. In December, after an extraordinary shareholders meeting, The Asahi Bank, Ltd. (present Resona Holdings, Inc.) undertook a debt-for-equity swap amounting to 25 billion yen through an issuance of preferred stock. As a result, the Company ultimately was able to eliminate negative net worth both on a consolidated and non-consolidated basis-the most important issue we had been facing.

Kenwood achieved a V-shaped recovery, while eliminating the past "negative legacies" —Fiscal year through March 2004

In fiscal 2002, the Company completed restructuring measures under the plan called "Revitalization Action Plan" and shifted its management priorities to regeneration, revitalization and a new leap forward, as a reborn Kenwood. In May 2003, the Company devised its three-year midterm business plan "Excellent Kenwood Plan" for fiscal 2003 to 2005, aiming to become a "world's truly excellent company," while focusing on the business domain of "Mobile & Home Multimedia Systems," which is expected to be the most promising field in the 21st century.

In fiscal 2003, the initial year for the midterm plan, the effects of the four restructuring phases which were completed in the previous year, together with the result of production innovations launched in March 2003 to further improve profits and cash flows, clearly contributed to the Company's earnings for the whole year. As a result, the Company booked a record high consolidated and non-consolidated net income in its 57-year history, for the second consecutive year. On top of this, managing to reduce loss carried forward and interest-bearing debt significantly, the balance sheet also became healthier, as the Company took its first step towards becoming a truly excellent company.



"Excellent Kenwood Plan" —Midterm business plan

The Company drafted its midterm business plan "Excellent Kenwood Plan" starting fiscal 2003 (ended March 2004) through 2005 (ending March 2006), as a step towards regeneration, revitalization and a new leap forward.

This plan is designed so that Kenwood will regenerate itself by breaking with the past and become one of the "world's truly excellent companies" with the brand image of innovation and intelligence in "Mobile & Home Multimedia Systems," one of the most promising fields in the 21st century, as part of its vision of "Reaching out to discover, inspire and enhance the enjoyment of life." To this end, the Company intends to dramatically improve its competitiveness and profitability, by allocating profits earned as a result of the progress of production innovation and other systematized management for reinvestment in developing new products and technologies, strengthening the brand name and "sharing profits among employees," while expanding audio and radio communications businesses as core competences to the greatest extent.

Production innovations-Best practice reflected on all production sites at home and abroad

In March 2003, the Company launched a production innovation project to further improve profits and cash flows through "Kenwood Quarter QCD (quality, cost and delivery) Revolution"-the supply chain management (SCM) overhaul targeting production, marketing and technology. The themes of the project were "revival of domestic plants to outdo Asian peers" and "reinforcing overseas plants' competitiveness."

The best practical example for the project was the return of the production of portable MD players for the Japanese market from the Malaysian plant to the factory in Yamagata (Japan), where manufacture resumed in September 2003. The move resulted in a reduction in costs, a substantial cut in the lead time from manufacturing to marketing, and a decrease in the percentage of defective products, which helped turn a profit in the home electronics business in the second half of the year and contributed to improving cash flows.

In a similar move, the Company shifted the production of "Theater Navi," a high potential audio-visual hard disc navigation system, from the Nagano plant to the Yamagata factory, where manufacture of the product started in January 2004, while positioning the Nagano plant as the main production center of OEM car electronics products. This production innovations were adopted in the car electronics business. Through these moves, the Company established a system to propagate best practice methods at all manufacturing bases both in Japan and overseas.

As a result, inventories decreased approximately 7.7 billion yen from the previous year. Cash flows from operating activities increased about 17.1 billion yen, marking a significant improvement, due to cuts in inventories, a sharp rise in net income and a reduction in accounts receivable due to restructuring of marketing functions. In addition, indirect fixed costs and direct processing costs declined, wastage costs decreased thanks to improved product quality, and procurement costs went down owing to innovative procurement activities. Reduction in these costs translated into an increase in earnings for every business division.

Development of new product lines

The Company strove to develop new product lines leveraging its core competencies, "audio" and "radio communication" technologies, aiming to establish the "Mobile & Home Multimedia Systems" business.

In the car electronics business, the Company enjoyed strong sales of DVD theater systems that use proprietary audio and multimedia technologies, as well as "Theater Navi," an audio-visual hard disc navigation system that integrates DVD theater and automotive navigation systems for the domestic market. The Company strengthened its multimedia equipment lines, through development of tuners for digital satellite broadcasting (provided by Sirius Satellite Radio, Inc. of the United States) and the first civilian use of tuners for terrestrial digital broadcasting high definition radios, both for the U.S. market. Sales of multimedia and mechanical systems fared well, and the Company stepped up their production. Accordingly, its OEM business expanded remarkably.

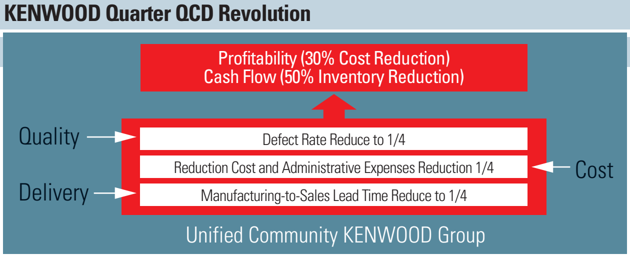
In the communications business, the Company focused on developing digital radio communication terminals and radio communication systems in response to the digitalization wave affecting radio communication domain.

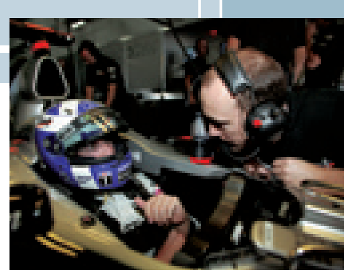
In the home electronics business, the Company, concentrating its efforts on home theater systems, pure audio equipment and portable audio devices, developed digital amplifiers with high quality and next-generation network-based audio systems, as well as products with excellent tone quality by stepping up research on tone quality.

Reinforcement of the brand

After its start as a reborn Kenwood, the Company strove to rebuild its brand, aiming to increase its global presence. In January 2004, the Company launched a brand management project, in which Group staff around the world joined, to work on a brand strategy to provide new value to the market. The Company also signed an official supplier contract with McLaren-Mercedes Racing to provide the renowned team with its radio communication equipment for the Formula One (F-1) world auto-racing championship.

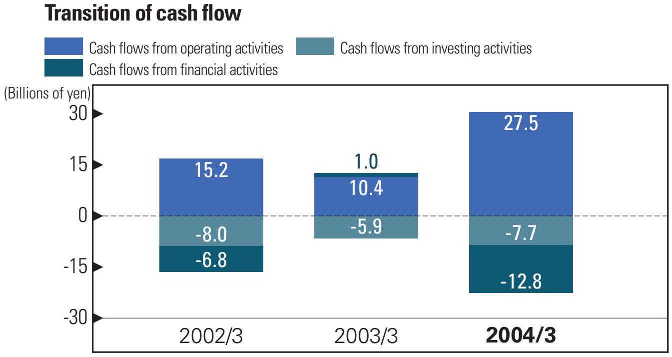
KENWOOD Quarter QCD Revolution



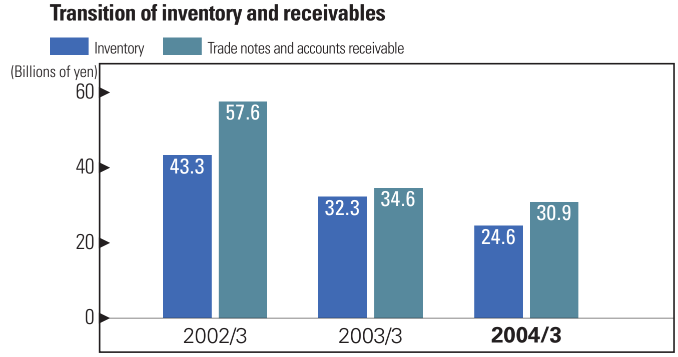


Transceiver system provided to West Maclaren Mercedes Team, as an official supplier

Transition of cash flow



Transition of inventory and receivables



Results and expansion of restructuring

■Corporate restructuring

As a result of business restructuring implemented the previous year, consolidated sales for the communications and home electronics businesses decreased about 28.6 billion yen from the previous year. However, operating income margin of the communications business rose 5.3 percentage points year-on-year to 13.7%. Meanwhile, the home electronics business saw profitability improve significantly and it turned a profit in the latter half of the year, due partly to robust sales of products introduced in the summer 2003 after its corporate makeover.

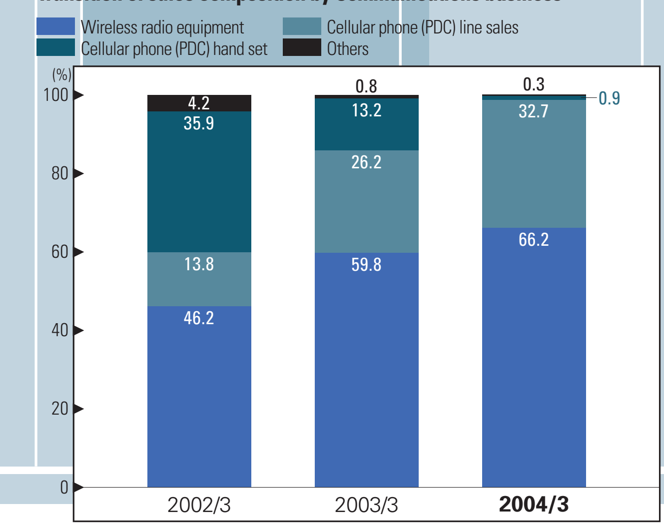
■Cost restructuring

The Company lowered fixed costs by approximately 20.7 billion yen from a year earlier, through closures, divestments and reorganizations of production sites, realignments of its marketing structure and domestic affiliates, under its business restructuring initiative. As a result, its profitability was enhanced, with the cost-to-sales ratio standing at 70.7%, an improvement of 1.3 percentage points from the preceding year.

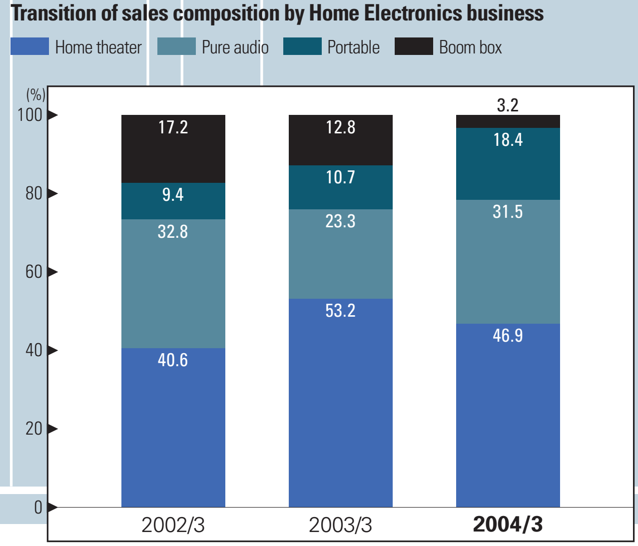
■Management restructuring

Under the consolidated management system adopted in the previous year, the Company developed a "systematized management" featuring more precise management based on numerical data. To this end, it strengthened its consolidated operations from production to marketing, and implemented

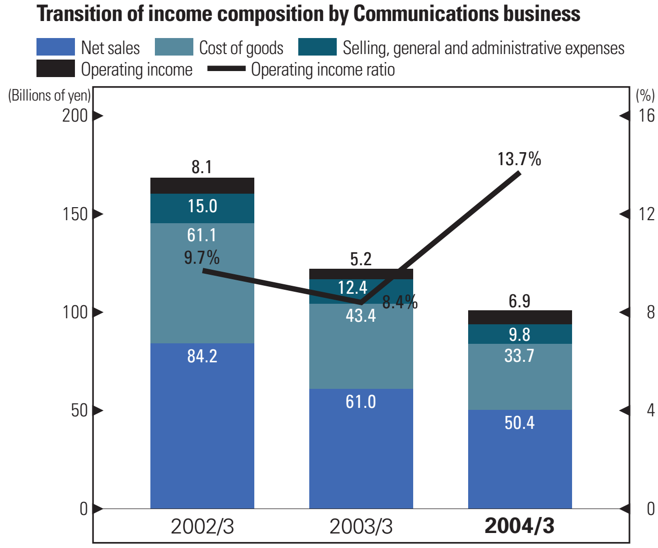
Transition of sales composition by Communications business



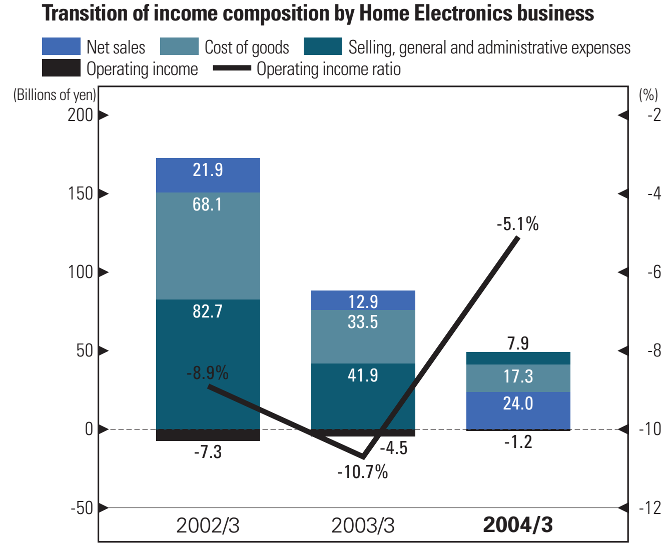
Transition of sales composition by Home Electronics business



Transition of income composition by Communications business



Transition of income composition by Home Electronics business



organizational reforms and various measures for affiliated firms to enhance competitiveness and ability to respond to market change. In view of making the use of resources on a consolidated basis more efficient, improving SCM and increasing CS, the Company further accelerated the reorganization of domestic affiliates, merging Kenwood Service Corporation, an after-sales service subsidiary, and Kenwood Logistics Corporation, a distribution unit, in January 2004.

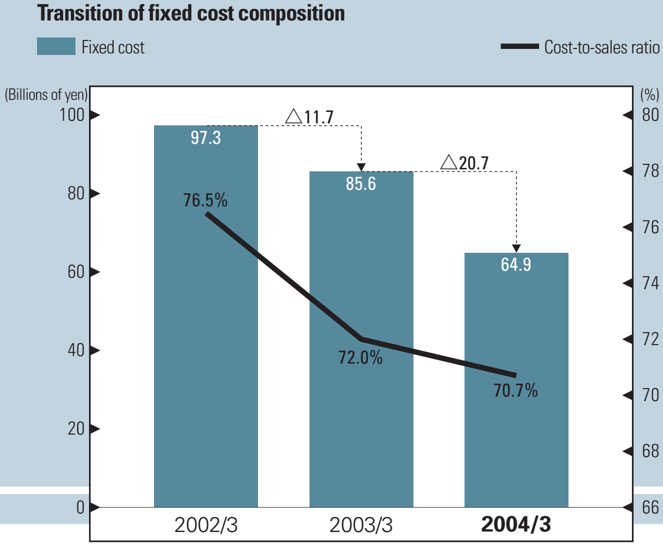
■Financial restructuring

Cash flows from operating activities increased about 17.1 billion yen, or some 170%, from a year earlier, to 27.502 billion yen, due mainly to a reduction in inventories through production innovations, increased net income and contraction in accounts receivable thanks to the reforms in marketing structure that started during the previous year.

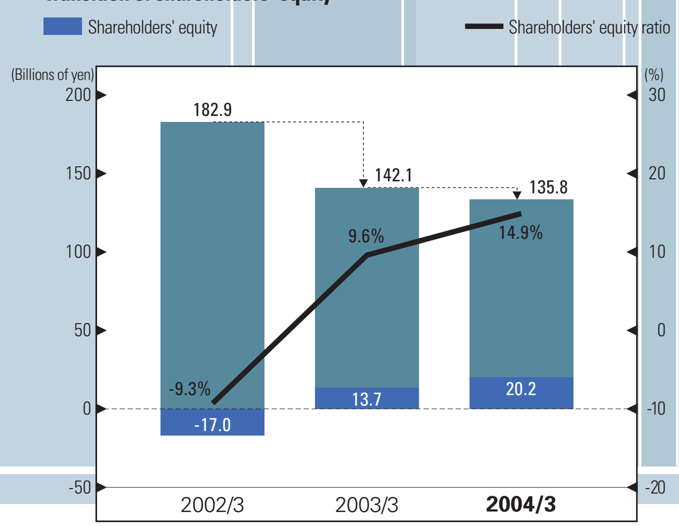
Consolidated interest-bearing debts fell around 13.6 billion yen to 67.272 billion yen, owing to an active repayment of borrowings supported by strong cash flows, and net debts were 29.885 billion yen, achieving the initial target of 30.0 billion yen or less.

Loss carried forward decreased about 24.5 billion yen to 9.777 billion yen, due to the disposition of additional paid-in capital that was enhanced with increase of capital through a third-party allocation of new shares and a debt-for-equity swap in the previous year, as well as a record net income for the second straight year. Shareholders' equity increased some 6.5 billion yen year-on-year to 20.161 billion yen, and the equity ratio gained 5.3 percentage points to 14.9%, by the end of the fiscal year.

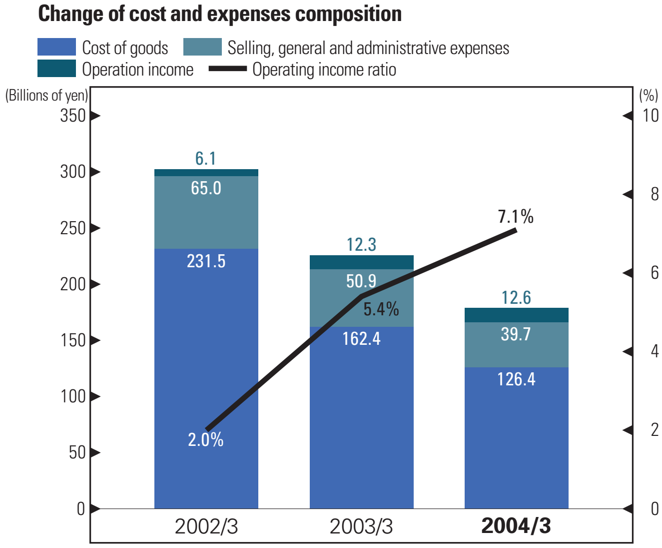
Transition of fixed cost composition



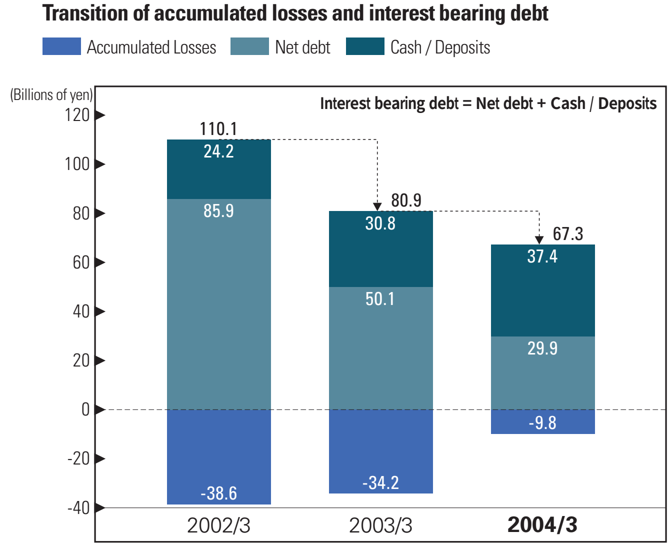
Transition of shareholders' equity



Change of cost and expenses composition



Transition of accumulated losses and interest bearing debt



Kenwood will promote its strategy for full-scale growth as preparation for a new leap forward —Fiscal year through March 2005

The year through March 2005 is the second year of the three-year business plan "Excellent Kenwood Plan." While aiming to post a record high of consolidated net income for the third consecutive year, the Company will strive to rebuild its financial framework through implementation of the "New Financial Strategy." It will also enhance competitiveness and promote a growth strategy by actively making strategic investments, in a bid to build up momentum for a new leap forward.

2005.3

New Financial Strategy—Rebuilding a sound financial base

Aiming at achieving the goals of the "Excellent Kenwood Plan," the Company devised and carried out a pioneering program referred to as the "New Financial Strategy," which includes a simultaneous execution of four measures that is unprecedented in Japan, "elimination of losses carried forward through capital reduction without compensation," "retirement of preferred stock through public share offering," "debt refinancing through syndicated loans" and "termination of the financial agreement."

■"Elimination of losses carried forward through capital reduction without compensation"

With the completion on 6th August 2004 of nominal capital reduction totaling 20.0 billion yen without compensation, the Company eliminated both of its consolidated and non-consolidated losses carryforward which had posted a major challenge to the Company. This paved the way for resumption of dividend disbursement and led to a significant improvement in its financial foundation.

■"Retirement of preferred stock through public share offering"

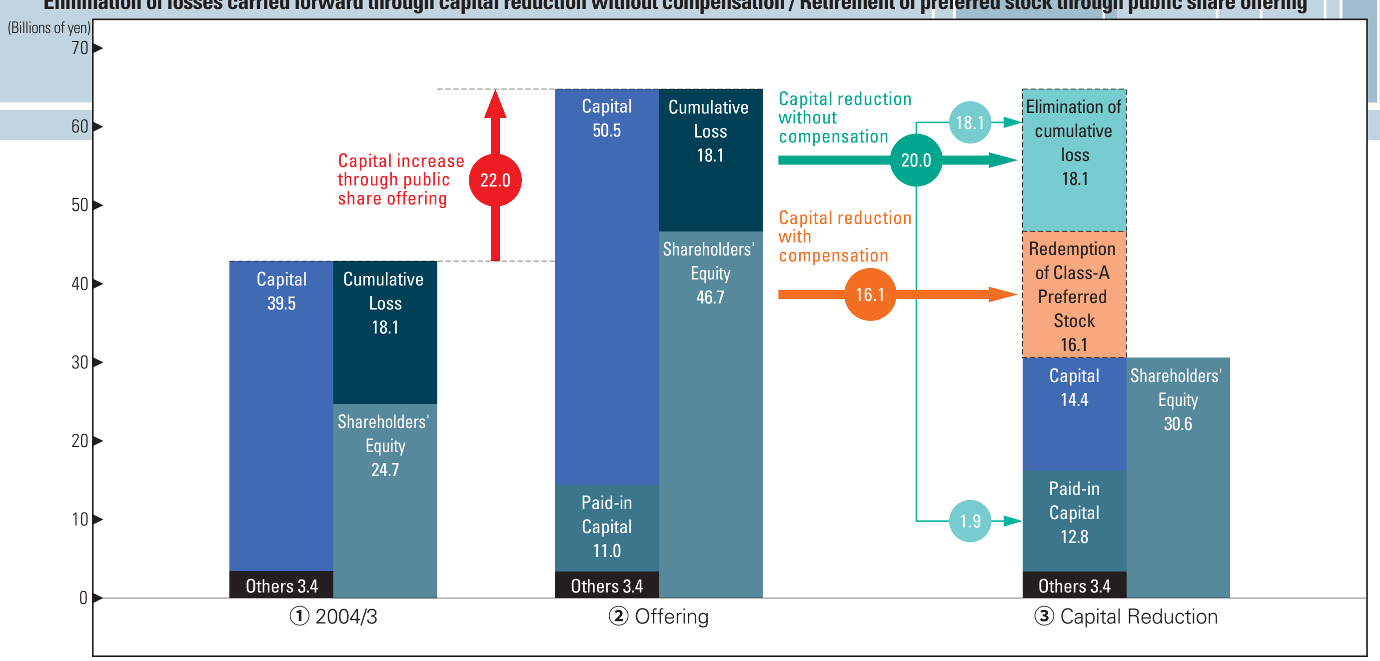
The Company on 1st July 2004 completed the capital increase of 23.0 billion yen through the issuance of new shares, procuring 22.0 billion yen from domestic and overseas markets. On 6th August the Company completed a capital reduction with compensation, paying back 16.1 billion yen, from the raised funds, to Resona Bank, the holder of the First Tranche of Class-A Preferred Stock, realizing an above-par redemption. As a result, the Company retired the First Tranche of Class-A Preferred Stock, representing half of all the preferred stock it had issued, significantly reducing the impact of any future dilution of shareholder value.

■"Debt refinancing through syndicated loans" and "Termination of financial agreement"

The Company eliminated its losses carryforward that had posted a major challenge and retired half of the preferred stock it had issued, through public share offering on 1st July 2004 and capital reduction with and without compensation on 6th August 2004. As a result, it became possible for the Company to organize a new syndicated loan (including commitment line contracts with a number of financial institutions), and the Company concluded a new syndicated loan agreement of 40.0 billion yen on 23rd August with Resona Bank and Mitsubishi Trust and Banking Corp. acting as co-arrangers.

With the funds made available from this new syndicated loan and the utilization of its own cash reserves, Kenwood completed the refinancing of existing bank borrowings effective 31st August, and became autonomous in terms of its financial strategy by terminating existing financial accords with various financial institutions in a constructive manner one year ahead of schedule, a major step toward realizing "zero net-debt business management" targeted under the medium-term "Excellent Kenwood Plan" by substantially reducing interest-bearing debts, and thus completed a series of "New Financial Strategies."

Elimination of losses carried forward through capital reduction without compensation / Retirement of preferred stock through public share offering



Making active strategic investment toward a new leap forward

Aiming for a new leap forward, the Company seeks to enhance its corporate competitiveness and strongly promote a growth strategy, by making strategic investments in the development of new competitive products in the car electronics, communications, and home electronics businesses.

The Company will also reinvest in its employees to increase incentives for them. As part of such efforts, it hired college graduates for the first time in three years and in March 2004 it stopped the wage cuts, which had been implemented since October 2002. In addition, the Company will proceed with a brand promotion, proactively investing to increase the global presence of the Kenwood brand.

Promotion of a brand strategy

The Company will work on a brand strategy to increase awareness for the Kenwood brand and provide new value to the market, centering on a brand management project, which was launched on 1st January 2004.

As part of such efforts, the Company will participate as an official supplier of the West McLaren-Mercedes team in the Formula One (F1) world auto-racing championship, where industries around the globe vie with each other to determine who has the superior cutting-edge technologies. Through the move, the Company will proceed with brand promotion activities around the world focusing on high technology and reliability in order to further increase the presence of reborn Kenwood brand.

By further developing the corporate vision, "Reaching out to discover, inspire and enhance the enjoyment of life" the Company set down the business activities policy, "Cultivate original thinking and execute with pride, passion and precision," and five "core values*1." The Company also redefined the method for promoting the brand logo and picked the brand statement, "Listen to the Future." Furthermore, the Company will commercialize flagship models attuned to the corporate vision for every business, to present to the world the reborn Kenwood.

Promotion of a growth strategy through M&As

M&A is an important growth strategy for corporations to become top players in matured sectors and increase each other's market presence. Given this, the Company in June 2004 acquired the domestic radio communication operations from Toyo Communication Equipment Co., Ltd., which boasts a substantial presence, networks and technical resources in the radio communication equipment market. By optimally leveraging this acquisition, we will strengthen the radio communication equipment business for the domestic market, while proactively considering implementing M&As aiming for a further leap forward of every business.

Finishing touches on production innovation

The Company will strengthen the relationships between divisions and manufacturing companies. Concurrently, as the Company positions the three firms (Kenwood Yamagata Corporation, Kenwood Nagano Corporation and Kenwood Electronics [Singapore] Pte. Ltd.) that are ahead of other Group members in terms of production innovation, as the headquarters for production innovation, the Company will also dispatch leaders to every section of its group-wide global manufacturing bases to propagate the practice they have learned. In the Singapore and Malaysia regions, where the Group's largest manufacturing facilities are operating, a supervisory organization established in February 2004 will advance the production innovation process.

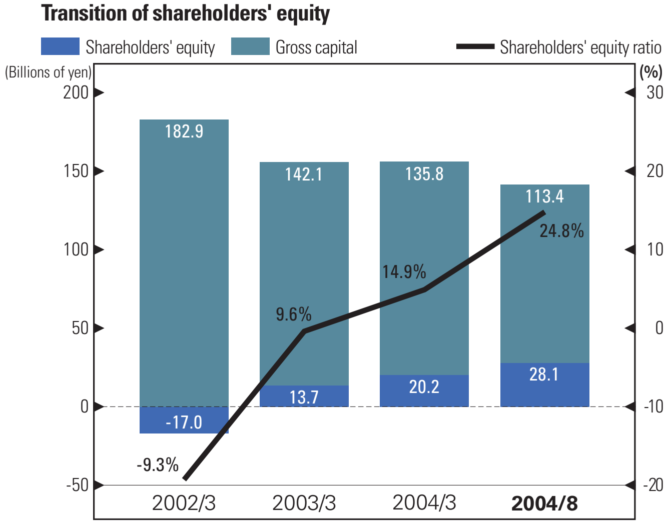
Reinforcement of competitiveness and promotion of a growth strategy under the four-profit center system

To reinforce competitiveness and strongly promote a growth strategy, the Company will effectively make proactive strategic investments and put finishing touches to its production innovations, (both mentioned earlier). To facilitate this strategy, the Company reorganized its operations on 1st April 2004, centering on the consumer electronics sector, where the business climate is dramatically changing due to progress in technical innovation and diversified needs of users.

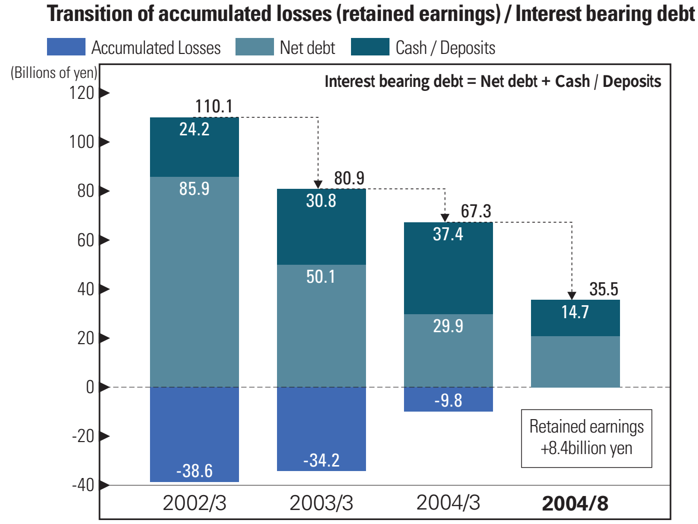
Under the new organization, the Car Electronics Division, which consists of the consumer and OEM businesses that differ substantially in characteristics, was divided into the Consumer Car Electronics Division and the OEM Car Electronics Division. The new two divisions were combined with the Home Electronics Division and the Communications Division to establish the "4 Profit Center System*2." The Company then combined the three divisions-Consumer Car Electronics, OEM Car Electronics, and Home Electronics-which were integrated into the Profit Center, as well as the newly established Speaker System Division and the Consumer Business Development Center, which make up the Cost Center, into the "Consumer Business Sector" under the direct supervision of the chief executive officer.

Under this new management structure, the Company will enhance its

Transition of shareholders' equity



Transition of accumulated losses (retained earnings) / Interest bearing debt



capabilities to respond to the rapidly changing consumer electronics markets in the world, develop new technologies, promote strategic joint-development, and put the finishing touches on production innovations to increase its competitiveness.

Business strategy

■Car Electronics Business

Kenwood, an expert in the audio sector, will make great efforts to increase its presence in the audio field, the Company's forte, and introduce new product lines in the visual and digital broadcasting fields, which are rapidly growing.

Furthermore, the Company will launch a project, on which it will concentrate entire resources, to develop proprietary technologies in order to create new attractive automotive multimedia products.

In the OEM business, which has been developing rapidly thanks to the cumulative efforts of many years, the share of multimedia products is high and technical innovation is accelerating. Therefore, the Company will set up an independent division for this business to develop new products, while promoting strategies for further growth.

■Communications Business

Centered on the U.S. regional headquarters, the Company will further enhance the cooperative system of marketing, sales, development and production, step up digital radio devices while responding attentively to the digitalization wave, and further promoting the shift from terminal device manufacturer to system provider.

The Company will expand operations in Asia, particularly China, where spectacular growth is forecast, and regions such as East Europe, particularly Russia, the Middle East, Latin America and Africa, where growth is forecasted. It will also strengthen its domestic business by integrating the radio operations acquired from Toyo Communication Equipment Co., Ltd. and strive to grow in the global market, while maintaining high profitability.

■Home Electronics Business

Now that its earnings structure significantly improved thanks to a series of restructuring and production innovations, the Company will promote a growth strategy to realize the home multimedia operations that offer new added value to the market. To this end, the Company will further develop the home electronics business by putting emphasis on high-fidelity reproduction-it has traditionally pursued as the core of audio entertainment-to create digital amplifiers and next-generation network-based audio equipment.

Earnings outlook—Aiming for the third straight year of record income

For the year through March 2005, the second year of the three-year midterm business plan "Excellent Kenwood Plan," the Company aims to post a record consolidated net income for the third consecutive year. To achieve this, it will enhance competitiveness and strongly promote its growth strategy, by reorganizing its financial base, proactively making strategic investments, and putting the finishing touches on its production innovations.

The Company expects consolidated net sales will rise 6.3% year-on-year to 190.0 billion yen, due to the effects of the introduction of new product lines planned by every business.

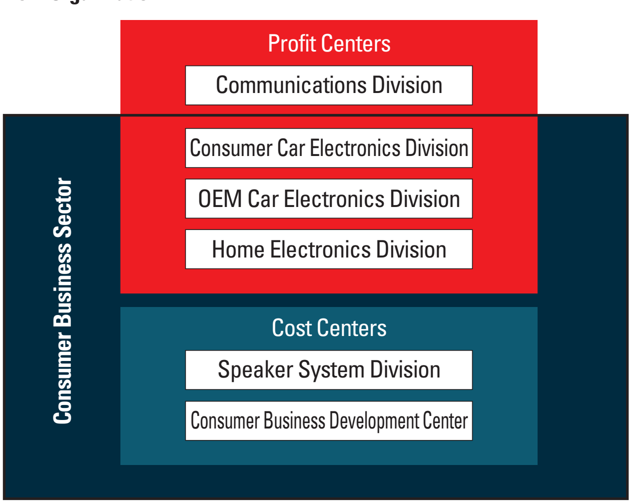
Income is forecast to further improve, thanks to the ongoing reduction in costs through production innovations. Despite a proactive strategic investment to enhance competitiveness and promote a growth strategy, consolidated ordinary income is estimated to be 8.5 billion yen, remaining unchanged from the fiscal 2003 (ended March 2004). Net income will likely increase year- on-year to 7.5 billion yen for the third consecutive year of record highs, due to less impact of an extraordinary loss with restructuring already completed.

Partial return of the employees' pension fund to the government

The corporate pension fund has been granted a waiver of the obligation to handle future disbursement of pension benefits from the Minister of Health, Labor and Welfare on 1st April 2004, in association with the return to the state of the assets, which the fund has been managing as a proxy for the state, based on the Defined Benefit Corporate Pension Law.

The Company's retirement benefits obligation will be terminated and gains/losses will be realized on the day when the portion for proxy disbursement is returned to the state, in accordance with the provisions of Paragraph 44-2 of the interim "Practical guidelines for the accounting of retirement benefits" (Accounting Committee Report No. 13; the Japanese Institute of Certified Public Accountants). It is forecast that such gains/losses will have little effect on the financial results for fiscal 2004 (ending March 2005).

New Organization



Outlook for fiscal year ending March 2005 (Millions of yen)

	Results for FY 2004	Outlook for FY 2005	Year-on-year change
Net sales	178,731	190,000	+11,269
Operating income	12,610	13,000	+390
Ordinary income	8,541	8,500	△41
Net income	7,318	7,500	+182

*1 Five core values are described on page 3.
*2 There is no change in the classification for accounts settlement of the three business segments (car electronics, communications, and home electronics), despite the newly established "4 Profit Center System."

Implementation status of corporate governance

The Company in June 2002 introduced a new management structure, centering on the executive officer system, as part of restructuring measures provided in "Revitalization Action Plan." Under the new framework, the Company invited community and business leaders of diverse values as outside directors to make management accountable and clarify the responsibility for operation execution, and strove to implement transparent decision-making and speedy, precise operations.

In March 2003, the Company established the "Management Audit Division," which is tasked with conducting internal audits of group-wide operations and reporting to the board of directors. It also set up a consolidated business framework, centering on the core businesses, under which it formed a new consolidated management system to optimize the group's resources. Through these moves, the Company is enhancing corporate governance and compliance functions.

The Company also launched the "Kenwood Environmental Committee," which is chaired by CEO and responsible for strengthening measures to control the risk associated with product sales and environmental compliance. Under the Committee, "Environment Protection Promotion Conference" and "Green Products Promotion Conference" were created. In addition, the Company established the "Company-wide PL Meeting" to enhance measures for product liability. Thus, the Company endeavors to carry out operations with emphasis on corporate society responsibility (CSR).

Furthermore, the Company in January 2004 established "Kenwood Compliance Guidelines" as guideline for the conduct of all employees of the group, in order to form a corporate group that has the community's trust and develops together with the society it is a part of.

As mentioned above, Kenwood is doing its utmost efforts to enhance the compliance function on a group-wide basis, ranging from strengthening management auditing functions to mapping out guidelines for employees' conduct, while stepping up the corporate governance as a consolidated organization. The Company is dedicated to continue to further enhance its CSR measures.

Management structure

Now that it completed restructuring, the Company will proactively strengthen its business competitiveness and promote a growth strategy aiming for a new leap forward, as part of its new management structure comprising three external and four internal directors including two new members who are directly responsible for their respective business segments in which they have long track records.

President (Representative Director of the Board)	Haruo Kawahara
Director of the Board	Kazuo Shiohata
Director of the Board	Shoichiro Eguchi (Newly elected)
Director of the Board	Yoshihiko Ueno (Newly elected)
Director of the Board (Part-time, external)	Nobuo Seo
Director of the Board (Part-time, external)	Takenori Kawafune
Director of the Board (Part-time, external)	Takeo Nagatomo
Standing Statutory Auditor	Hideaki Kato (Not eligible for reelection)
Standing Statutory Auditor	Kazuhiro Kitahara (Not eligible for reelection)
Standing Statutory Auditor	Osamu Hamada (Not eligible for reelection)
Auditor (part-time)	Koichi Kurosaki (Not eligible for reelection)
& CEO	Haruo Kawahara
& Executive Vice President & Executive Officer	Kazuo Shiohata CFO, Assistant to CEO; Equity, IR & PR Affairs
Executive Vice President & Executive Officer	Hiroyasu Hata Assistant to CEO; Personnel & Employment General Manager, Strategic Business Planning Division
Executive Vice President & Executive Officer	Akio Ueda General Executive, Procurement Division
Executive Vice President & Executive Officer	Hiroshi Komatsuzaki Assistant to CEO; Consumer Business Sector - Overseas Markets (Resident in U.S.A.)
Senior Vice President & Executive Officer	Masateru Ando Assistant to CEO; Consumer Business Sector - Domestic Markets, Statutory Auditor, Any Music Inc. (Seconded)
& Senior Vice President & Executive Officer	Shoichiro Eguchi General Executive, Consumer Car Electronics Division Representative, Kenwood Europe Headquarter President, Kenwood Electronics Europe B.V.
& Senior Vice President & Executive Officer	Yoshihiko Ueno General Executive, Communications Division (Resident in the U.S.A.)
& Senior Vice President & Executive Officer	Makoto Inukai President, Kenwood U.S.A. Corporation
& Senior Vice President & Executive Officer	Hiroyuki Taki Deputy General Executive, Communications Division

Financial Sections

Financial Review

Overview of fiscal year ended March 2004

In the period under review, the economy improved in the United States and Asia as the negative impacts of the situation in Iraq and of the SARS epidemic started to fade, while the European economy also moved onto a recovery track helped by robust external demand. Against this backdrop, the Japanese economy showed some bright signs of recovery, with exports increasing, corporate earnings and capital spending recovering, and the Nikkei average even reaching the 12,000. However, the economic recovery was generally moderate in Japan, due to lingering fears over future economic prospects: the yen's sharp appreciation; a rise in long-term interest rates; and uncertainties over the economic outlook in the United States and Europe.

In the consumer electronics market, demand was strong for the so-called "three digital crown jewels" comprising digital cameras, DVD recorders, and flat-screen TVs. As for the markets the Company is involved in, business sentiment varied from market to market, with the audio equipment market shrinking while the visual device market expanded.

Consolidated operating results

In the year under review, the Company suffered negative effects in the wake of its phasing-out of the production of cell phone terminals as part of the corporate structural reform and the reassessment of models and sales territories in the home electronics business. This was combined with such external factors as the much higher-than-expected yen's strengthening, as well as a contraction in the global audio equipment market. As a result, consolidated net sales dropped 20.8% from the previous year to ¥178.731 billion.

Meanwhile, earnings in the communications and home electronics businesses improved thanks to business restructuring effects, fixed costs declined through cost restructuring efforts, interest burdens decreased, while procurement and production costs declined due to production innovation effects. As a result, profitability increased, with the operating and ordinary profit margins marking their second consecutive year of record highs. Net income margin hit an all-time high for the first time in 15 years, significantly exceeding the last record high.

Despite a decline in net sales, operating income gained from a year earlier to ¥12.610 billion, helped by the effects of business restructuring, cost restructuring and production innovation. Ordinary profit jumped 21.0%, year on year, to ¥8.541 billion, hitting a record high for the first time in five years, due mainly to a fall in the interest burden as a result of financial restructuring. Net income soared 73.4% to ¥7.318 billion, posting an all-time high for the second straight year. The impact of extraordinary loss on net income was low due to the restructuring which was completed in the previous fiscal year.

(Millions of yen)

Segment		Current fiscal year	Previous fiscal year	Year-on-year change
Car electronics	Sales	100,783	117,002	△16,219
	Operating income	7,019	11,712	△4,693
Communications	Sales	50,373	61,015	△10,642
	Operating income	6,876	5,207	1,669
Home electronics	Sales	23,987	41,904	△17,917
	Operating income	△1,217	△4,483	3,266
Others	Sales	3,588	5,658	△2,070
	Operating income	△68	△176	108
Total	Sales	178,731	225,579	△46,848
	Operating income	12,610	12,260	350
	Ordinary income	8,541	7,059	1,481
	Net income	7,318	4,221	3,097

■ Car electronics business

In the OEM market, sales soared approximately 70% over the preceding year's, as some audio systems were adopted as standard specs by one Japanese automaker for its vehicles.

The consumer market was adversely affected by external factors, including a higher-than-expected rise in the yen's value, a contraction in the global audio systems market, the war against Iraq and the SARS epidemic in the first half of the fiscal year. In Japan, the navigation/visual systems market expanded, while the visual equipment market grew both in Europe and the United States. However, the Company failed to capitalize on this golden opportunity, because the introduction of new products was substantially behind schedule due to a delay in the development of LSI engines outsourced to outside companies. As a result, sales declined and profitability deteriorated. Nevertheless, the Company had raised the ratio of navigation/visual systems, which are projected to grow, to total sales. Therefore, given that new visual products launched in February and March in the domestic and overseas markets, respectively, are selling well, the initial losses caused by their delayed introduction is likely to be offset.

The Company also shifted manufacture of new visual products for the domestic market to Kenwood Yamagata Corporation, so that well-coordinated production and marketing activities are directly linked to the market.

Sales of digital broadcasting-related products remained strong in the United States. In this sector, the Company reinforced its multimedia product line, by launching tuners for digital satellite broadcasting (supplied by Sirius Satellite Radio, Inc. of the USA) and the first civilian use of tuners for terrestrial digital broadcasting high definition radios.

The Company also embarked on the full-fledged introduction of complete navigation systems on the Chinese consumer market as the first Japanese manufacturer to do so.

■ Communications business

With the phasing out of its cell phone terminals through corporate restructuring, the Company focused on the radio business. This led the communications business sector to sharply improve profitability. In the radio market, demand sagged in the first half of the year as the war against Iraq made itself felt, but, steadily recovered after the headquarters was relocated to Atlanta in the United States (the largest market), and improved the coordination of its marketing, development and production. With development of digital radios progressing smoothly, the Company launched new products based on the Association of Public-Safety Communication Officials (APCO) standard in the USA. It also plans to switch to digital systems for its Formula One racing radio communications.

On February 6 of this year, Kenwood and Toyo Communication Equipment negotiated the Company's acquisition of the latter's radio business, and the two parties on April 9 signed an agreement for the business transfer. Accordingly, the Company will acquire the radio business from Toyo Communication Equipment on June 1. This is expected to increase the Company's presence in the commercial-use radio sector (especially for government and municipal offices and electric power companies) in Japan, as well as provide the Company with a strong contact nexus in the sector. Furthermore, the Company will obtain radio business-related resources and technologies. Using these benefits as a springboard, the Company will strive to further expand its radio business at home.

■ Home electronics business

Through business restructuring efforts, the Company concentrated on home theater systems, pure audio equipment, and portable audio devices in terms of product categories, in the related sales territories as Japan, Europe and the United States. Resultant reorganization of production and marketing structures led to a reduction in fixed costs. In addition, production innovation and introduction of new products generated favorable effects, while European sales continued to be strong. As a result, the Company's earnings improved significantly and turned to a profit in the second half of the year, weathering a decline in sales.

Consolidated financial position

■Assets, liabilities and shareholders' equity at the end of the year under review

Total assets decreased ¥6.361 billion from the previous year to ¥135.763 billion at the end of March 2004. Due to the effects of restructuring and production innovation, cash and deposits increased ¥6.619 billion, while trade notes and accounts receivable dropped ¥3.674 billion, inventories fell ¥7.650 billion and tangible fixed assets sagged ¥2.159 billion.

Total liabilities declined ¥12.462 billion to ¥115.596 billion. The Company reduced short-term bank borrowings by ¥6.253 billion and long-term debt by ¥2.324 billion, benefiting from strong cash flows from operating activities.

(Millions of yen)

	Current fiscal year	Previous fiscal year	Year-on-year change
Total assets	135,763	142,124	△6,361
Shareholders' equity	20,161	13,704	+6,457
Equity ratio	14.9%	9.6%	+5.3 percentage point
Interest coverage ratio (Note)	12.61	—	—

Note: As the Company began to disclose the interest coverage ratio (cash flows from operating activities/interest expenses) from this fiscal year, no year-on-year comparison is available.

Total shareholders' equity was ¥20.161 billion, up ¥6.457 billion from ¥13.704 billion posted at the end of the previous fiscal year. The growth was attributed to an increase of ¥24.460 billion in retained earnings, as a result of disposition of capital surplus worth ¥17.087 billion and booking of net income totaling ¥7.318 billion.

■ Cash flows

Cash flows from operating activities increased ¥17.144 billion, or more than 150%, from the preceding year and the Company reported an income of ¥27.502 billion, due mainly to a reduction in inventories through production innovations, increased net income and contraction in accounts receivable due to the reforms in marketing structure that started during the previous year.

Cash flows from investing activities saw a net spending of ¥7.674 billion, ¥1.779 billion more than the previous year, due chiefly to acquisition of tangible and intangible fixed assets and spending related to making a Chinese joint venture into a wholly owned subsidiary.

Cash flows from financial activities decreased ¥13.751 billion and posted a net spending of ¥12.783 billion, as a result of proactive repayment of borrowings due to the strong cash flows from operating activities.

(Millions of yen)

	Current fiscal year	Previous fiscal year	Year-on-year change
Cash flows from operating activities	10,358	27,502	+17,144
Cash flows from investing activities	△5,895	△7,674	△1,779
Cash flows from financial activities	968	△12,783	△13,751
Effect of exchange rate changes on cash and cash equivalents	△210	△409	△199
Net increase (decrease) in cash and cash equivalents	5,220	6,634	+1,414
Cash and cash equivalents at beginning of year	21,686	27,064	+5,378
Net increase (decrease) in cash and cash equivalents in accordance with change of consolidated subsidiaries	157	△0	△157
Cash and cash equivalents at end of year	27,064	33,698	+6,634

Consolidated Balance Sheets

Kenwood Corporation and Consolidated Subsidiaries
As of March 31, 2004 and 2003

ASSETS	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current Assets:			
Cash and cash equivalents (Note 5)	¥ **33,698**	¥ 27,064	$ **317,906**
Time deposits (Note 5)	**3,689**	3,704	**34,802**
Receivables (Note 5) —			
Trade notes and accounts receivable	**30,715**	34,465	**289,764**
Trade notes and accounts receivable from unconsolidated subsidiaries and associated companies	**194**	119	**1,830**
Less: Allowance for doubtful receivables	**(861)**	(1,129)	**(8,122)**
Inventories (Note5) —			
Finished goods	**15,009**	20,902	**141,594**
Work in process and raw materials	**9,631**	11,389	**90,858**
Deferred tax assets (Note 9)	**867**	859	**8,179**
Prepaid expenses and other	**5,337**	6,017	**50,349**
Total current assets	**98,279**	103,390	**927,160**
Property, Plant and Equipment, at Cost (Notes 3 and 5):			
Land (Note 4)	**11,882**	12,217	**112,094**
Buildings and structures	**19,519**	21,623	**184,142**
Machinery and equipment	**16,549**	17,613	**156,123**
Tools, furniture and fixtures	**10,672**	9,782	**100,679**
Construction in progress	**7**	48	**66**
	58,629	61,283	**553,104**
Less: Accumulated depreciation	**(33,413)**	(33,909)	**(315,217)**
Net property, plant and equipment	**25,216**	27,374	**237,887**
Investments and Other Assets:			
Investment securities (Notes 2 and 5)	**3,697**	2,858	**34,877**
Investments in and advances to unconsolidated subsidiaries and associated companies	**82**	170	**774**
Goodwill	**198**	-	**1,868**
Software	**6,735**	5,596	**63,538**
Deferred tax assets (Note 9)	**712**	895	**6,717**
Lease deposits and other	**2,581**	3,580	**24,349**
Less: Allowance for doubtful accounts (Note 2)	**(1,737)**	(1,739)	**(16,387)**
Total investments and other assets	**12,268**	11,360	**115,736**
Total	¥ **135,763**	¥ 142,124	$ **1,280,783**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current Liabilities:			
Short-term borrowings (Note 5)	¥ **50,833**	¥ 55,315	$ **479,557**
Current portion of long-term debt (Note 5)	**11,199**	12,972	**105,651**
Bonds due within one year (Note 5)	**-**	5,000	**-**
Trade notes and accounts payable	**25,247**	24,705	**238,179**
Income taxes payable (Note 9)	**624**	631	**5,887**
Accrued expenses	**6,714**	7,863	**63,340**
Deferred tax liabilities (Note 9)	**39**	55	**368**
Other	**1,386**	1,900	**13,075**
Total current liabilities	**96,042**	108,441	**906,057**
Long-term Liabilities:			
Long-term debt (Note 5)	**5,241**	7,565	**49,443**
Liability for employees' retirement benefits (Note 6)	**11,768**	9,225	**111,019**
Deferred tax liabilities (Note 9)	**2,451**	2,324	**23,123**
Other	**94**	503	**887**
Total long-term liabilities	**19,554**	19,617	**184,472**
Minority Interests	**6**	362	**56**
Commitments and Contingent Liabilities (Notes 3, 11 and 12)			
Shareholders' Equity (Notes 7 and 14):			
Common stock, authorized - 735,000,000 shares issued - 210,455,995 shares	**26,969**	26,969	**254,425**
Preferred stock, authorized - 62,500,000 shares issued - 62,500,000 shares	**12,500**	12,500	**117,925**
Capital Surplus	**-**	17,087	**-**
Accumulated deficit	**(9,778)**	(34,238)	**(92,245)**
Land revaluation surplus (Note 4)	**3,167**	3,235	**29,877**
Net unrealized gain (loss) on available-for-sale securities	**254**	(269)	**2,396**
Foreign currency translation adjustments	**(12,901)**	(11,548)	**(121,708)**
Total	**20,211**	13,736	**190,670**
Less: Treasury stock, at cost; Common Stock, 326,987 shares in 2004 and 268,167 shares in 2003	**(50)**	(32)	**(472)**
Total shareholders' equity	**20,161**	13,704	**190,198**
Total	¥ **135,763**	¥ 142,124	$ **1,280,783**

Consolidated Statements of Operations

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net Sales	**¥ 178,731**	¥ 225,579	**$ 1,686,141**
Cost of Sales (Note 8)	**126,440**	162,443	**1,192,830**
Gross profit	**52,291**	63,136	**493,311**
Selling, General and Administrative Expenses (Note 8)	**39,681**	50,876	**374,349**
Operating income	**12,610**	12,260	**118,962**
Other Income (Expenses):			
Interest expense, net	**(2,092)**	(3,094)	**(19,736)**
Cash discount	**(686)**	(919)	**(6,472)**
Equity in losses of unconsolidated subsidiaries and associated companies	**(36)**	(64)	**(339)**
Loss on sales of investment securities, net	**(8)**	(1)	**(75)**
Loss on impairment of investment securities	**(23)**	(461)	**(217)**
Loss on disposal of inventories	**(1,631)**	(1,485)	**(15,387)**
Loss on impairment of inventories	**(42)**	(150)	**(396)**
Loss on sales of property, plant and equipment, net	**(182)**	(581)	**(1,717)**
Gain on liquidation of consolidated subsidiaries, net	**104**	-	**981**
Additional retirement allowances paid to employees	**-**	(391)	**-**
Loss on sales of shares of associated company	**-**	(147)	**-**
Profit on reversal of provision for loss on business restructuring	**-**	105	**-**
Other, net,	**94**	64	**887**
Total	**(4,502)**	(7,124)	**(42,471)**
Income before Income Taxes and Minority Interests	**8,108**	5,136	**76,491**
Income Taxes (Note 9):			
Current	**870**	940	**8,208**
Deferred	**(82)**	(27)	**(774)**
Total income taxes	**788**	913	**7,434**
Minority Interests in Net Income	**2**	2	**19**
Net Income	**¥ 7,318**	¥ 4,221	**$ 69,038**

	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 10):			
Basic net income	**¥ 33.99**	¥ 21.41	**$ 0.32**
Diluted net income	**15.73**	16.15	**0.15**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity (Capital Deficiency)

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Common Stock:			
Beginning balance	**¥ 26,969**	¥ 25,937	**$ 254,425**
Capital increase upon issuance of 26,472,000 shares on October 30, 2002	**-**	1,032	**-**
Ending balance	**¥ 26,969**	¥ 26,969	**$ 254,425**
Preferred Stock:			
Beginning balance	**¥ 12,500**	¥ -	**$ 117,925**
Capital increase upon issuance of 62,650,000 shares through debt-for-equity swap on December 27, 2002	**-**	12,500	**-**
Ending balance	**¥ 12,500**	¥ 12,500	**$ 117,925**
Capital Surplus:			
Beginning balance	**¥ 17,087**	¥ 3,555	**$ 161,198**
Transfer to accumulated deficit	**(17,087)**	-	**(161,198)**
Capital increase upon issuance of 26,472,000 shares of common stock on October 30, 2002	**-**	1,032	**-**
Capital increase upon issuance of 62,650,000 shares of preferred stock on December 27, 2002	**-**	12,500	**-**
Ending balance	**¥ -**	¥ 17,087	**$ -**
Accumulated Deficit :			
Beginning balance	**¥ (34,238)**	¥ (38,581)	**$ (323,000)**
Net income	**7,318**	4,221	**69,038**
Transfer from capital surplus	**17,087**	-	**161,198**
Transfer to employee welfare fund	**-**	(4)	**-**
Reversal of land revaluation surplus due to sale of land	**57**	-	**538**
Adjustment to retained earnings for consolidation of additional subsidiaries	**-**	126	**-**
Adjustment to retained earnings for dismiss of consolidated subsidiaries	**(2)**	-	**(19)**
Ending balance	**¥ (9,778)**	¥ (34,238)	**$ (92,245)**
Land Revaluation Surplus (Note 4):			
Beginning balance	**¥ 3,235**	¥ 3,154	**30,519**
Change of enterprise tax rate	**(11)**	81	**(104)**
Reversal of land revaluation due to sale of land	**(57)**	-	**(538)**
Ending balance	**¥ 3,167**	¥ 3,235	**$ 29,877**
Net Unrealized Gain (Loss) on Available-for-sale Securities:			
Beginning balance	**¥ (269)**	¥ (108)	**$ (2,538)**
Net increase (decrease) of unrealized gain (loss) of available-for-sale securities	**523**	(161)	**4,934**
Ending balance	**¥ 254**	¥ (269)	**$ 2,396**
Foreign Currency Translation Adjustments:			
Beginning balance	**¥ (11,548)**	¥ (10,954)	**$ (108,944)**
Net increase of foreign currency translation adjustments	**(1,353)**	(594)	**(12,764)**
Ending balance	**¥ (12,901)**	¥ (11,548)	**$ (121,708)**
Treasury Stock, at cost, Common Stock:			
Beginning balance	**¥ (32)**	¥ (5)	**$ (302)**
Repurchase of treasury stock	**(18)**	(27)	**(170)**
Ending balance	**¥ (50)**	¥ (32)	**$ (472)**
Total Shareholders' Equity	**¥ 20,161**	¥ 13,704	**$ 190,198**

	Thousands of shares	
Number of Outstanding Shares:		
Beginning balance	**272,688**	183,940
Issuance of common stock	**-**	26,472
Issuance of preferred stock	**-**	62,500
Repurchase of treasury stock	**(59)**	(224)
Ending balance	**272,629**	272,688

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Operating Activities:			
Income before income taxes and minority interests	**¥ 8,108**	¥ 5,136	**$ 76,491**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Income taxes-paid	**(728)**	(1,172)	**(6,868)**
Depreciation and amortization	**6,687**	8,378	**63,085**
Provision for doubtful receivables	**(199)**	(128)	**(1,877)**
Loss on disposal of property, plant and equipment	**213**	797	**2,009**
Gain on sales of property, plant and equipment, net	**(30)**	(216)	**(283)**
Loss on sales of investment securities, net	**8**	148	**76**
Loss on impairment of investment securities	**23**	461	**217**
Changes in assets and liabilities:			
Decrease in provision for loss on business restructuring	**-**	(10,000)	**-**
Decrease in trade notes and accounts receivable	**1,646**	21,416	**15,528**
Decrease in inventories	**6,109**	9,031	**57,632**
Increase (decrease) in trade notes and accounts payable	**2,360**	(31,096)	**22,264**
Increase in retirement benefits	**2,547**	3,546	**24,028**
Other, net	**758**	4,057	**7,151**
Net cash provided by operating activities	**27,502**	10,358	**259,453**
Investing Activities:			
Decrease (increase) in time deposits, net	**8**	(1,165)	**75**
Proceeds from sales of property, plant and equipment	**738**	2,228	**6,962**
Proceeds from sales of investment securities	**35**	11	**330**
Proceeds from sales of shares of associated company	**-**	125	**-**
Purchases of property, plant and equipment	**(3,582)**	(3,237)	**(33,792)**
Purchases of investment securities	**(156)**	(538)	**(1,472)**
Purchases of software	**(4,105)**	(3,400)	**(38,726)**
Other, net	**(613)**	81	**(5,783)**
Net cash used in investing activities	**(7,675)**	(5,895)	**(72,406)**
Financing Activities:			
(Decrease) increase in short-term bank borrowings, net	**(5,828)**	4,982	**(54,981)**
Proceeds from long-term debt	**-**	3,464	**-**
Proceeds from issuance of common stock	**-**	1,970	**-**
Repayments of Bonds	**(5,000)**	-	**(47,170)**
Repayments of long-term debt	**(1,724)**	(9,177)	**(16,264)**
Other, net	**(231)**	(271)	**(2,179)**
Net cash (used in) provided by financing activities	**(12,783)**	968	**(120,594)**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**(410)**	(211)	**(3,868)**
Net Increase in Cash and Cash Equivalents	**6,634**	5,220	**62,585**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year	**-**	157	**-**
Cash and Cash Equivalents at Beginning of Year	**27,064**	21,687	**255,321**
Cash and Cash Equivalents at End of Year	**¥ 33,698**	¥ 27,064	**$ 317,906**
Non-Cash Financing Activity:			
Capital increase on issuance of convertible preferred stock Through debt-for-equity-swap (Note 7)	**¥ -**	¥ 25,000	**$ -**

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information. Certain reclassifications have been made to the 2003 consolidated financial statements to conform to the 2004 presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant 47 (51 in 2003) subsidiaries (together, the "Group").

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

Kenwood Electronics Precision Cebu, Inc., Kenwood Electronics Precision (HK) Ltd., and Kenwood Logistics (HK) Ltd. were excluded from scope of consolidation because those companies had been liquidated during the fiscal year 2004.

On January 1, 2004, Kenwood Service Corporation merged Kenwood Logistics Corporation in order to improve the service functions and the distribution operations of the corporate group.

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 income.

(e) Foreign Currency Financial Statements

In translating the financial statements of foreign subsidiaries and associated companies into Japanese yen, all assets and liabilities and revenues and expenses are translated at the current exchange rates in effect at balance sheet date, except for 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 “Foreign currency 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 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 16 years
Tools, furniture and fixtures	2 to 20 years

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

Software for 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.

Prior service costs are amortized using the straight-line method over 5 years, which are less than the average remaining years of service of the employees.

Actuarial gain or loss is amortized mainly using the straight-line method over 10 years, which are less than the average remaining years of service of the employees, and the amortization will be started in 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) Income Taxes

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

The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2003, which allows companies to base tax payments on the combined profits or losses of the Company and its wholly owned domestic subsidiaries. Under the consolidated-tax system, a surcharge tax of 2% of taxable income is levied in addition to the national corporate income tax rate for the fiscal years ended March 31, 2003 and 2004.

(l) 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.

(m) Derivative Financial Instruments

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

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

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

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

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. 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.

(n) 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.

(o) Per Share Information

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

Diluted net income per share reflects the potential dilution that could occur if diluted 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.

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

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, 2004 and 2003, are as follows:

	2004							
	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 1,356	¥ 449	¥ (22)	¥ 1,783	$ 12,792	$ 4,236	$ (208)	$ 16,820
Total	¥ 1,356	¥ 449	¥ (22)	¥ 1,783	$ 12,792	$ 4,236	$ (208)	$ 16,820

	2003			
	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 1,362	¥ 5	¥ (274)	¥ 1,093
Total	¥ 1,362	¥ 5	¥ (274)	¥ 1,093

Proceeds from sales of available-for-sale securities for the year ended March 31, 2004 and 2003, were ¥35 million ($330 thousand) and ¥13 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥0.2 million for the year ended March 31, 2003, and gross realized losses computed on the moving average cost basis, for the year ended March 31, 2004 and 2003, were ¥8 million ($75 thousand) and ¥1 million, respectively.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004, and 2003 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Available-for-sale:			
Equity securities	¥ 414	¥ 265	$ 3,906
Debt securities	1,500	1,500	14,151
Total	¥ 1,914	¥ 1,765	$ 18,057

The carrying values at March 31, 2004 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	1,500	14,151
Due from five years to ten years	-	-
Total	¥ 1,500	$ 14,151

Allowance for doubtful accounts of ¥1,500 million was booked on the Consolidated Balance Sheets against the above mentioned debt securities of ¥1,500 million .

3. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were ¥1,270 million ($11,981 thousand) and ¥3,096 million for the years ended March 31, 2004 and 2003, respectively.

Obligations under finance leases as of March 31, 2004 and 2003 are due as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 779**	¥ 1,211	**$ 7,349**
Due after one year	**730**	1,397	**6,887**
Total	**¥ 1,509**	¥ 2,608	**$ 14,236**

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, 2004 and 2003 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	**¥ 2,078**	**¥ 1,336**	**¥ 742**	¥ 3,568	¥ 2,362	¥ 1,206	**$ 19,604**	**$ 12,604**	**$ 7,000**
Tools, furniture and fixtures	**1,758**	**1,135**	**623**	2,381	1,219	1,162	**16,585**	**10,708**	**5,877**
Others	**213**	**121**	**92**	246	75	171	**2,009**	**1,142**	**867**
Total	**¥ 4,049**	**¥ 2,592**	**¥ 1,457**	¥ 6,195	¥ 3,656	¥ 2,539	**$ 38,198**	**$ 24,454**	**$ 13,744**

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Depreciation expense	**¥ 1,200**	¥ 2,897	**$ 11,321**
Interest expense	**¥ 48**	¥ 98	**$ 453**

4. Land Revaluation Surplus

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2000. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the consolidated statements of income.
Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities. The details of the one-time revaluation as of March 31, 2000 were as follows:

	Millions of yen
Land before revaluation:	¥ 4,413
Land after revaluation:	¥ 9,754
Land revaluation surplus, net of income taxes of ¥2,174 million:	¥ 3,167

As of March 31, 2004, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥2,301 million ($21,707 thousand).

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

Short-term 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 8.3% and 1.375% to 7.8125% as of March 31, 2004 and 2003, respectively.

Bonds and long-term debt as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Bonds - subordinated debentures with an interest rate at 2.82%, due in April 2003	¥ **-**	¥ 5,000	$ **-**
Banks, 1.65%-3.125%, due through 2006	¥ **11,811**	¥ 15,522	$ **111,425**
Japanese government-sponsored agencies, 2.15%-6.00%, due through 2006	**4**	7	**38**
Insurance companies, 1.60%-2.90%, due through 2004	**4,481**	4,858	**42,273**
Mortgage loans, 11.0%, due through 2007	**144**	150	**1,358**
Total	**16,440**	20,537	**155,094**
Less: Current portion included in current liabilities	**(11,199)**	(12,972)	**(105,651)**
Long-term debt, less current portion	¥ **5,241**	¥ 7,565	$ **49,443**

The aggregate annual maturities of long-term debt as of March 31, 2004, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 11,199	$ 105,651
2006	5,109	48,198
2007	132	1,245
2008	-	-
2009 and thereafter	-	-
Total	¥ 16,440	$ 155,094

As of March 31, 2004, the carrying amount of asset pledged as collateral for short-term borrowings of ¥44,891 million ($423,505 thousand) and long-term debt (including current portion) of ¥16,040 million ($151,322 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥ 1,478	$ 13,943
Accounts receivable	10,655	100,519
Inventories	6,771	63,877
Buildings and structures, net	5,791	54,632
Machinery and equipment, net	16	151
Tools, furniture and fixtures, net	24	226
Investment securities	1,767	16,670
Land	11,645	109,859
Total	¥ 38,147	$ 359,877

Outstanding bank overdraft commitments contracted, but not provided for as of March 31, 2004 were as follow:

	2004	
	Millions of yen	Thousands of U.S. dollars
Credit facilities	¥ 20,000	$ 188,679
Used	(11,000)	(103,774)
Unused	¥ 9,000	$ 84,905

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, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥ 37,914	¥ 34,873	$ 357,679
Fair value of plan assets	(13,065)	(12,231)	(123,255)
Unrecognized actuarial gain	(5,529)	(5,310)	(52,160)
Unrecognized prior service cost	620	827	5,849
Prepaid pension cost	34	31	321
Unrecognized transitional obligation	(8,206)	(8,965)	(77,415)
Net liability	¥ 11,768	¥ 9,225	$ 111,019

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥ 1,381	¥ 1,820	$ 13,028
Interest cost	853	970	8,047
Expected return on plan assets	(182)	(208)	(1,717)
Amortization of prior service cost	(207)	(237)	(1,953)
Recognized actuarial loss	649	907	6,123
Amortization of transitional obligations	758	1,096	7,151
Supplemental retirement benefits	-	77	-
Net periodic retirement benefit costs	¥ 3,252	¥ 4,425	$ 30,679

Assumptions used for the years ended March 31, 2004 and 2003 are set forth as follows:

	2004	2003
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	1.5%	1.5%
Amortization period of prior service cost	5 years	5 years
Recognition period of actuarial gain / loss	10 years	5 to 10 years
Amortization period of transitional obligation	15 years	15 years

7. Shareholders' Equity

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 the capital stock balance. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the capital stock balance 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 Company's additional paid-in capital, which was included in the account of capital surplus totaled ¥17,087 million ($161,198 thousand) as of March 31,2003, was netted against the accumulated deficit on resolution by the shareholder's meeting held on June 27, 2003.

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. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the 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, 2004, based on the amount recorded in the 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 an annual general shareholders' 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, ¥1,032 million of which was recorded in common stock and the remaining ¥1,032 million was recorded in capital surplus.

ii) Issuance of 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. The amount of the swapped equity was ¥25,000 million in total, ¥12,500 million of which was recorded in common stock and the remaining ¥12,500 million was recorded in capital surplus.

At the 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.

As of March 31, 2004, the preferred stock outstanding was as follows:

	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 rights	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 share-holders of common stock.	At ¥400 per share and accrued accumulated dividends, preferred distributions to share-holders of common stock.
Redemption	Redeemable by Board Resolution	Redeemable by Board Resolution

8. Research and Development Costs

Research and development costs charged to income were ¥1,461 million ($13,783 thousand) and ¥936 million for the year ended March 31, 2004 and 2003, respectively.

9. Income Taxes

Under the consolidated corporate tax system, the normal effective statutory tax rate of the Company is approximately 42.0% for the year ended March 31, 2004 and 2003.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred Tax Assets:			
Impairment of investment securities	¥ **1,684**	¥ 1,669	$ **15,887**
Tax loss carryforwards	**12,765**	16,476	**120,424**
Liability for employees' retirement benefits	**4,518**	3,180	**42,623**
Other	**3,452**	3,256	**32,566**
Less: valuation allowance	**(20,840)**	(22,827)	**(196,604)**
Total	¥ **1,579**	¥ 1,754	$ **14,896**
Deferred Tax Liabilities:			
Investment securities	¥ **173**	¥ -	$ **1,632**
Investments	**103**	145	**972**
Land revaluation	**2,174**	2,202	**20,509**
Other	**40**	32	**378**
Total	**2,490**	2,379	**23,491**
Deferred Tax Liabilities, Net:	¥ **(911)**	¥ (625)	$ **(8,595)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for years ended March 31, 2004 and 2003 is as follows:

	2004	2003
Normal effective statutory tax rate	**42.0%**	42.0%
Expenses not deductible for income tax purposes	**0.2%**	0.2%
Tax benefits not recognized on operating losses of subsidiaries	**(23.6%)**	68.3%
Temporary differences not recognized on operating losses of subsidiaries	**15.6%**	(92.5%)
Decrease of valuation allowance	**(24.5%)**	-
Reversal of deferred tax assets of prior years	**-**	1.5%
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	**0.4%**	(0.5%)
Effect of tax rate reduction on consolidated taxation system	**(7.5%)**	(4.6%)
Per capita inhabitant tax	**0.6%**	-
Foreign withholding taxes not recognized as on losses	**1.2%**	-
Temporary enterprise tax	**0.4%**	-
Other, net	**4.9%**	3.4%
Actual effective tax rate	**9.7%**	17.8%

As of March 31, 2004, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately ¥31,738 million ($299,415 thousand), which are available to apply against future taxable income.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ -	$ -
2006	10,782	101,717
2007	74	698
2008	345	3,255
2009	11,395	107,500
thereafter	9,142	86,245
Total	¥ 31,738	$ 299,415

10. Per Share of Common Stock

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

Reconciliation of the differences between basic and diluted net income per share ("EPS")

Reconciliation of the differences between basic and diluted EPS for the year ended March 31, 2004 and 2003 are as follows:

For the year ended March 31, 2004:	Millions of yen	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥ 7,144	210,159	¥ 33.99	$ 0.32
Effect of Diluted Securities				
Preference shares	174	255,102		
Diluted EPS				
Net income for computation	¥ 7,318	465,261	¥ 15.73	$ 0.15

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

11. Commitments and Contingent Liabilities

The Company was contingently liable as of March 31, 2004, as a guarantor for borrowings of employees aggregating ¥0 million ($3 thousand) and ¥2 million as of March 31, 2004 and 2003, respectively.

At March 31,2004, the Company had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense was ¥3,074million ($29,000 thousand) and ¥5,098 million for the years ended March 31, 2004 and 2003.

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, 2004 and 2003:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	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)	**¥ 3,000**	**¥ (54)**	**¥ (54)**	¥ 3,500	¥ (102)	¥ (102)	**$ 28,302**	**$ (509)**	**$ (509)**

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

Effective April 1, 2003, the Group changed its business segmentation. Audio equipment segment was classified into three segments as Car electronics business, Home electronics business, and Others.

Communication equipment segment was renamed as Communications business.

The Company defines the new segments as follows:

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

Communications business:
Communications equipment, such as amateur radios, UHF CB transceivers, and land mobile radios.

Home electronics business:
Home electronics equipment, such as home HI-FI audio, home theater systems, and portable audio.

Others:
Other electrical equipment and parts.

Operations by business segment and by geographic area for the year ended March 31, 2004 was summarized as follows:

Operations by business segment:

	Car Electronics business	Communications business	Home Electronics business	Others	Total	Corporate assets and eliminations	Consolidated
	Millions of yen						
2004							
Net sales:							
Sales to customers	**¥ 100,783**	**¥ 50,373**	**¥ 23,987**	**¥ 3,588**	**¥ 178,731**	**¥ -**	**¥ 178,731**
Intersegment sales and transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**¥ 100,783**	**¥ 50,373**	**¥ 23,987**	**¥ 3,588**	**¥ 178,731**	**¥ -**	**¥ 178,731**
Operating income (loss)	**¥ 7,019**	**¥ 6,876**	**¥ (1,217)**	**¥ (68)**	**¥ 12,610**	**¥ -**	**¥ 12,610**
Identifiable assets	**¥ 63,926**	**¥ 24,456**	**¥ 14,496**	**¥ 3,388**	**¥ 106,266**	**¥ 29,497**	**¥ 135,763**
Depreciation	**¥ 4,745**	**¥ 1,033**	**¥ 848**	**¥ 61**	**¥ 6,687**	**¥ -**	**¥ 6,687**
Capital expenditures	**¥ 5,780**	**¥ 1,004**	**¥ 716**	**¥ 8**	**¥ 7,508**	**¥ -**	**¥ 7,508**

Corporate assets as of March 31, 2004, amounted to ¥29,497 million ($278,274 thousand) and consisted primarily of the Company's cash, time deposits and investment securities.

If the segment information for the year ended March 31, 2003 were prepared using the new segmentation, such information would be as follows:

	Car Electronics business	Communications business	Home Electronics business	Others	Total	Corporate assets and eliminations	Consolidated
	Millions of yen						
2003							
Net sales:							
Sales to customers	¥ 117,002	¥ 61,015	¥ 41,904	¥ 5,658	¥ 225,579	¥ -	¥ 225,579
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	¥ 117,002	¥ 61,015	¥ 41,904	¥ 5,658	¥ 225,579	¥ -	¥ 225,579
Operating income (loss)	¥ 11,712	¥ 5,207	¥ (4,483)	¥ (176)	¥ 12,260	¥ -	¥ 12,260
Identifiable assets	¥ 65,692	¥ 27,594	¥ 21,743	¥ 4,050	¥ 119,079	¥ 23,045	¥ 142,124
Depreciation	¥ 4,705	¥ 2,145	¥ 1,356	¥ 172	¥ 8,378	¥ -	¥ 8,378
Capital expenditures	¥ 4,726	¥ 959	¥ 937	¥ 97	¥ 6,719	¥ -	¥ 6,719

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

	Car Electronics business	Communications business	Home Electronics business	Others	Total	Corporate assets and eliminations	Consolidated
	Thousands of U.S. Dollars						
2004							
Net sales:							
Sales to customers	**$ 950,783**	**$ 475,217**	**$ 226,292**	**$ 33,849**	**$ 1,686,141**	**$ -**	**$ 1,686,141**
Intersegment sales and transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 950,783**	**$ 475,217**	**$ 226,292**	**$ 33,849**	**$ 1,686,141**	**$ -**	**$ 1,686,141**
Operating income (loss)	**$ 66,217**	**$ 64,868**	**$ (11,481)**	**$ (642)**	**$ 118,962**	**$ -**	**$ 118,962**
Identifiable assets	**$ 603,075**	**$ 230,717**	**$ 136,755**	**$ 31,962**	**$ 1,002,509**	**$ 278,274**	**$ 1,280,783**
Depreciation	**$ 44,764**	**$ 9,745**	**$ 8,000**	**$ 576**	**$ 63,085**	**$ -**	**$ 63,085**
Capital expenditures	**$ 54,528**	**$ 9,472**	**$ 6,755**	**$ 75**	**$ 70,830**	**$ -**	**$ 70,830**

Operations by geographic area:

	Millions of yen							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2004								
Net sales:								
Sales to customers	¥ 78,367	¥ 44,237	¥ 40,254	¥ 13,648	¥ 2,225	¥ 178,731	¥ -	¥ 178,731
Intersegment sales	70,153	382	1,875	42,748	1	115,159	(115,159)	-
Total	¥ 148,520	¥ 44,619	¥ 42,129	¥ 56,396	¥ 2,226	¥ 293,890	¥ (115,159)	¥ 178,731
Operating income	¥ 8,012	¥ 1,217	¥ 647	¥ 916	¥ 27	¥ 10,819	¥ 1,791	¥ 12,610
Identifiable assets	¥ 101,090	¥ 16,483	¥ 17,061	¥ 17,854	¥ 1,430	¥ 153,918	¥ (18,155)	¥ 135,763
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

	Thousands of U.S. dollars							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2004								
Net sales:								
Sales to customers	$ 739,311	$ 417,330	$ 379,754	$ 128,755	$ 20,991	$ 1,686,141	$ -	$ 1,686,141
Intersegment sales	661,821	3,604	17,689	403,283	9	1,086,406	(1,086,406)	-
Total	$ 1,401,132	$ 420,934	$ 397,443	$ 532,038	$ 21,000	$ 2,772,547	$ (1,086,406)	$ 1,686,141
Operating income	$ 75,585	$ 11,481	$ 6,104	$ 8,641	$ 255	$ 102,066	$ 16,896	$ 118,962
Identifiable assets	$ 953,679	$ 155,500	$ 160,953	$ 168,434	$ 13,491	$ 1,452,057	$ (171,274)	$ 1,280,783

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
2004					
Overseas sales	¥ 47,656	¥ 40,424	¥ 17,802	¥ 3,329	¥ 109,211
Consolidated net sales					¥ 178,731
Ratios of overseas sales	26.7%	22.6%	10.0%	1.9%	61.1%
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%

	Thousands of U.S. Dollars				
	America	Europe	Asia	Other	Total
2004					
Overseas sales	$ 449,585	$ 381,358	$ 167,943	$ 31,406	$ 1,030,292
Consolidated net sales					$ 1,686,141

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

i) Reduction in shareholders' stated capital without a reduction in the number of shares outstanding.

The annual general shareholders' meeting held on June 29, 2004 resolved a reduction in shareholders' stated capital without a reduction in the number of shares outstanding. Further, no shares have actually been repurchased by the Company from shareholders. Therefore, since this is only a reorganization of the capital structure, no transfers of shares have taken place, and no payments for the modification of the capital structure have been made to the shareholders of the Company. The purpose of the capital reduction is to make up for the accumulated deficits and to possibly resume dividends. The capital reduction is to be implemented as a transfer from common stock to accumulated deficits and capital surplus. The total amount of capital reduction is to be ¥20,000 million ($188,679 thousand).

Schedule

a) Resolution at the Board of Directors Meeting:	May 21, 2004
b) Resolution at the General Shareholders' Meeting:	June 29, 2004
c) Deadline for creditors to lodge protests:	August 5, 2004
d) Effective date of Capital Reduction:	August 6, 2004

ii) New share issuance

The Company's board of directors meeting held on May 21, 2004 and June 7, 2004, resolved a new share issuance with a payment due date of June 30, 2004.

The proceeds from the issuance of new shares are to be appropriated to redemption of Class A preferred stock, repayment of bank borrowing and working capital.

1) Number of new shares issued:	92,000,000 shares of common stock
2) Offering price per share:	¥250 ($2.36)
3) Total offering price:	¥23,000,000,000 ($216,981,132)
4) Issue price per share:	¥239.375 ($2.26)
5) Total Issue price:	¥22,022,500,000 ($207,759,434)
6) Stated capital per share:	¥120 ($1.13)
7) Total stated capital:	¥11,040,000,000 ($104,150,943)
8) Initial date of dividend recognition:	April 1, 2004

iii) Reduction in the stated capital through the redemption of the Class A preferred stock.

The annual general shareholders' meeting and the Class A preferred stock shareholders meeting, held on June 29, 2004 resolved the reduction in the stated capital through the redemption of the Class A preferred stock. The purpose of the capital reduction is to minimize potential dilution on the shareholders of common stock caused by the conversion of Class A preferred stock into common stock and to reduce future dividend payments. The total amount of capital reduction is to be ¥16,100 million ($151,887 thousand).

Schedule

a) Resolution at the Board of Directors Meeting:	May 21, 2004
b) Resolution at the General Shareholders' Meeting:	June 29, 2004
c) Deadline for creditors to lodge protests:	August 5, 2004
d) Effective date of Capital Reduction:	August 6, 2004

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Kenwood Corporation:

We have audited the accompanying consolidated balance sheets of Kenwood Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kenwood Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 13 to the consolidated financial statements, the Company changed its business segmentation, effective April 1, 2003.

And as discussed in Note 14 to the consolidated financial statements, the Company's new shares issuance was approved at the board of directors meetings held on May 21, 2004 and June 7, 2004. In addition, a reduction in shareholders' stated capital without a reduction in the number of shares outstanding was approved at the annual general shareholders meeting held on June 29, 2004. And a reduction in the stated capital through the redemption of the Class A preferred stock was approved at the annual general shareholders meeting and the Class A preferred stock shareholders meeting, held on June 29, 2004.

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 29, 2004

Member of
Deloitte Touche Tohmatsu

Corporate Data

Established	December 21, 1946
Paid-in Capital	¥39.5 Billion (As of March 31, 2004) ¥14.4 Billion (As of August 31, 2004)
Number of Employees	Consolidated 4,440 Non-Consolidated 1,536 (As of March 31, 2004)

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Domestic sales offices	22sales offices and 33bases (As of August 31, 2004)

Company history

December	1946	Kasuga Radio Co., Ltd. (predecessor of Kenwood Corporation) established in Komagane, Nagano Prefecture
June	1949	High-frequency transformer passes the NHK approval certificate for the first time in Japan
January	1950	Renamed Kasuga Radio Industry Corporation
February	1955	Establishes the Tokyo office in Ota-ku, Tokyo. Begins mass production of audio, communications and measuring equipment
January	1960	Renamed Trio Electronics, Inc.
October	1961	Lists shares in the second section of the Tokyo Stock Exchange
September	1962	Launches the industry's first transistor amplifier
August	1963	Establishes the Hachioji office in Hachioji, Tokyo
December	1963	Sets up Company's first overseas sales firm in the U.S.
January	1966	Fully transistorizes audio products for the first time in the industry
October	1969	Listing switched to the first section of the Tokyo Stock Exchange
November	1977	Launches Japan's first commercial radio equipment
June	1979	Sets up Company's first overseas production firm in Singapore
June	1980	Enters the car audio field
December	1980	Launches CI activities, and determines Kenwood as the corporate brand
October	1982	Enters the general audio field
November	1983	Launches a CD player
June	1986	Renamed Kenwood Corporation
June	1986	Becomes the primary sponsor for "Kenwood Cup," one of the world's four biggest yacht races
November	1987	Lists shares on the first section of the Osaka Securities Exchange
August	1989	Establishes the Yokohama office in Midori-ku, Yokohama, Kanagawa Prefecture (Closes the Tokyo office)
October	1991	Begins to an official supply contract with McLaren Racing to provide radio equipment for the F-1 world auto-racing championship
March	1992	Launches a car navigation system
July	1993	Enters the business of personal digital cellular (PDC) phone terminals
November	1993	Launches an MD recorder
December	1993	Develops industry's highest-level voice recognition IC
January	1996	Establishes one of the Company's largest manufacturing plants in Malaysia
September	1996	Makes the subsidiary name "Trio-Kenwood" into "Kenwood" taking advantage of the Company's 50th anniversary
December	1997	Launches a DVD player
December	1997	Enters the business of radio systems for promoting regional economy
March	1998	Manufactures the premium model "Sliver Signature" of "K's Esule" by taking orders
April	1998	Launches a high-speed CD-ROM drive, entering the PC peripherals field
October	1999	Jointly develops the world's first optical microphone
March	2001	Announces "midterm reconstruction plan"
April	2001	Launches an MP3/WMA-compatible portable CD player
May	2001	Announces "expanded midterm reconstruction plan"
August	2001	Announces "progress of midterm reconstruction plan and its further expansion"
September	2001	Issues new shares worth a total 7.1 billion yen through a third-party allocation
November	2001	Posts negative net worth on a consolidated basis for the first half of fiscal 2001
May	2002	Announces the "Revitalization Action Plan"
May	2002	Sells shares in Kenwood TMI Corporation (Withdraws from the test and measuring equipment business)
June	2002	Relocates the head office to Hachioji, Tokyo
July	2002	Announces "Revitalization Action Plan"
August	2002	Launches commercial digital radio equipment for the first time in the U.S.
October	2002	Issues new shares worth a total 2.0 billion yen through a third-party allocation
December	2002	Eliminates negative net worth through a debt-for-equity swap amounting to 25.0 billion yen
February	2003	Announces "production innovation measures"
February	2003	Opens a theater room in the Hachioji office
February	2003	Integrates "Kenwood Parts Center Corporation" into "Kenwood Service Corporation"
April	2003	Announces "resumption of regular recruitment"
May	2003	Announces the midterm business plan "Excellent Kenwood Plan"
July	2003	Begins to hold an "excellent Kenwood meeting"
July	2003	Relocates the headquarters of Communications Division to Atlanta in the U.S.
August	2003	Transfers production of portable MD players from Malaysia to Kenwood Yamagata Corporation
August	2003	Makes Shanghai Kenwood Electronics Co., Ltd. into a wholly owned company
September	2003	Begins to manufacture portable MD players at Kenwood Yamagata Corporation
November	2003	Posts a record net income in the first half of the year through March 2004
April	2004	Signs an agreement with Toyo Communication Equipment Co., Ltd. to acquire its radio equipment operations
April	2004	Establishes Any Music Inc., a music distribution service firm, with other companies
May	2004	Formulates "New Financial Strategy"
August	2004	Completes capital reduction with and without compensation
August	2004	Completes debt refinancing through syndicated loan

The Kenwood group

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KENWOOD

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