Consolidated Annual Summary Report for the Fiscal Year Ended March 31, 2005

May 20, 2005

Company Name: Kenwood Corporation (Code No.: 6765, Stock Exchange: Tokyo Section1)
Head Office: Tokyo
URL: http://www.kenwood.com
Representative: Haruo Kawahara, President & CEO
Inquiries: Masanobu Waku, Senior Manager, Equity Affairs Office (TEL: +81-426-46-6724)
Date of Board Meeting for Approval of Consolidated Accounts: May 20, 2005
Application of US GAAP: No

1. Consolidated Annual Performance in Fiscal 2004 (April 1, 2004 ~ March 31, 2005)

(1) Operations (Amounts less than 1 million yen are discarded.)

	Net Sales		Operating Profit		Ordinary Profit	
	(millions of yen)	%	(millions of yen)	%	(millions of yen)	%
FY2004	181,112	1.3	7,061	-44.0	4,696	-45.0
FY2003	178,731	-20.8	12,610	2.9	8,541	21.0

	Net Income		Net Income per Share	Net Income per share after adjusting for latent shareholdings	Shareholders' Equity to Net Income Ratio	Total Assets to Ordinary Income Ratio	Net Sales to Ordinary Income Ratio
	(millions of yen)	%	¥	¥	%	%	%
FY2004	4,836	-33.9	16.95	10.60	-	3.7	2.6
FY2003	7,318	73.4	33.99	15.73	-	6.2	4.8

Notes:
1. Equity in Earnings (or Losses) from Associated Companies FY2004: ¥45 million FY2003: -¥35 million
2. Average Number of Shares Outstanding FY2004: 279,360,676 FY2003: 210,159,089
3. Changes to Accounting Principles: Yes
4. Percentages shown for net sales, operating income, ordinary income and net income indicate changes from the previous fiscal year
5. Shareholders' Equity to Net Income Ratio for the previous fiscal year (ended March 2004) is not displayed because when calculated based on common shareholders' equity at the end of the fiscal year (excluding book value of preferred stock worth ¥25 billion) in accordance with the "Practical Guidelines for Accounting Standards Regarding Net Income Per Share (Practical Guidelines for Corporate Accounting Standards No. 4, September 25, 2003 – Accounting Standards Board of Japan)," the value is negative. Shareholders' Equity to Net Income Ratio for the fiscal year under review (ended March 2005) is also not displayed because when calculated based on common shareholders' equity at the end of the fiscal year (excluding book value of preferred stock worth ¥25 billion) in accordance with the "Practical Guidelines for Accounting Standards Regarding Net Income Per Share (Practical Guidelines for Corporate Accounting Standards No. 4, September 25, 2003 – Accounting Standards Board of Japan)," the value is negative.

(2) Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per share
	(millions of yen)	(millions of yen)	%	(¥)
FY2004	116,137	33,132	28.5	67.18
FY2003	135,763	20,161	14.9	-23.03

Notes:
1. Number of shares outstanding:
   (Common shares) As of Mar. 31, 2005: 307,133,266 As of March 31, 2004: 210,129,008
   (Class A preferred stock) As of Mar. 31, 2005: 0 As of March 31, 2004: 31,250,000
   (Class B preferred stock) As of Mar. 31, 2005: 31,250,000 As of March 31, 2004: 31,250,000
2. Number of treasury stock: As of Mar. 31, 2005: 391,729 As of March 31, 2004: 326,987
3. Shareholders' equity per share as of the end of the fiscal year under review (ended March 31, 2005) and the previous fiscal year (ended March 31, 2004) are in accordance with the "Practical Guidelines for Accounting Standards Regarding Net Income Per Share (Practical Guidelines for Corporate Accounting Standards No. 4, September 25, 2003 – Accounting Standards Board of Japan)," and are calculated based on common shareholders' equity at the end of fiscal year (excluding book value of preferred stock worth ¥25 billion for the fiscal year ended March 31, 2004, and ¥12.5 billion for the fiscal year ended March 31, 2005) and the number of outstanding common shares at the end of fiscal year (excluding treasury stock).

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at the end
	(millions of yen)	(millions of yen)	(millions of yen)	(millions of yen)
FY2004	15,539	-3,513	-30,333	15,875
FY2003	27,502	-7,674	-12,783	-33,698

(4) Number of Consolidated Subsidiaries and Other Affiliated Companies (Equity Method)

Consolidated Subsidiaries:		43
Equity Method:	Non-consolidated Subsidiaries	1
	Affiliates	0

(5) Changes in Number of Consolidated Subsidiaries and Other Affiliated Companies (Equity Method)

Consolidation:	(New)	1	(Excluded)	5
Equity Method:	(New)	0	(Excluded)	1

2. Forecast for FY2005 (ending March 31, 2006)

	Net Sales	Ordinary Profit	Net Income
	(millions of yen)	(millions of yen)	(millions of yen)
Interim Period	80,000	1,800	3,000
Full Year	180,000	5,000	6,000

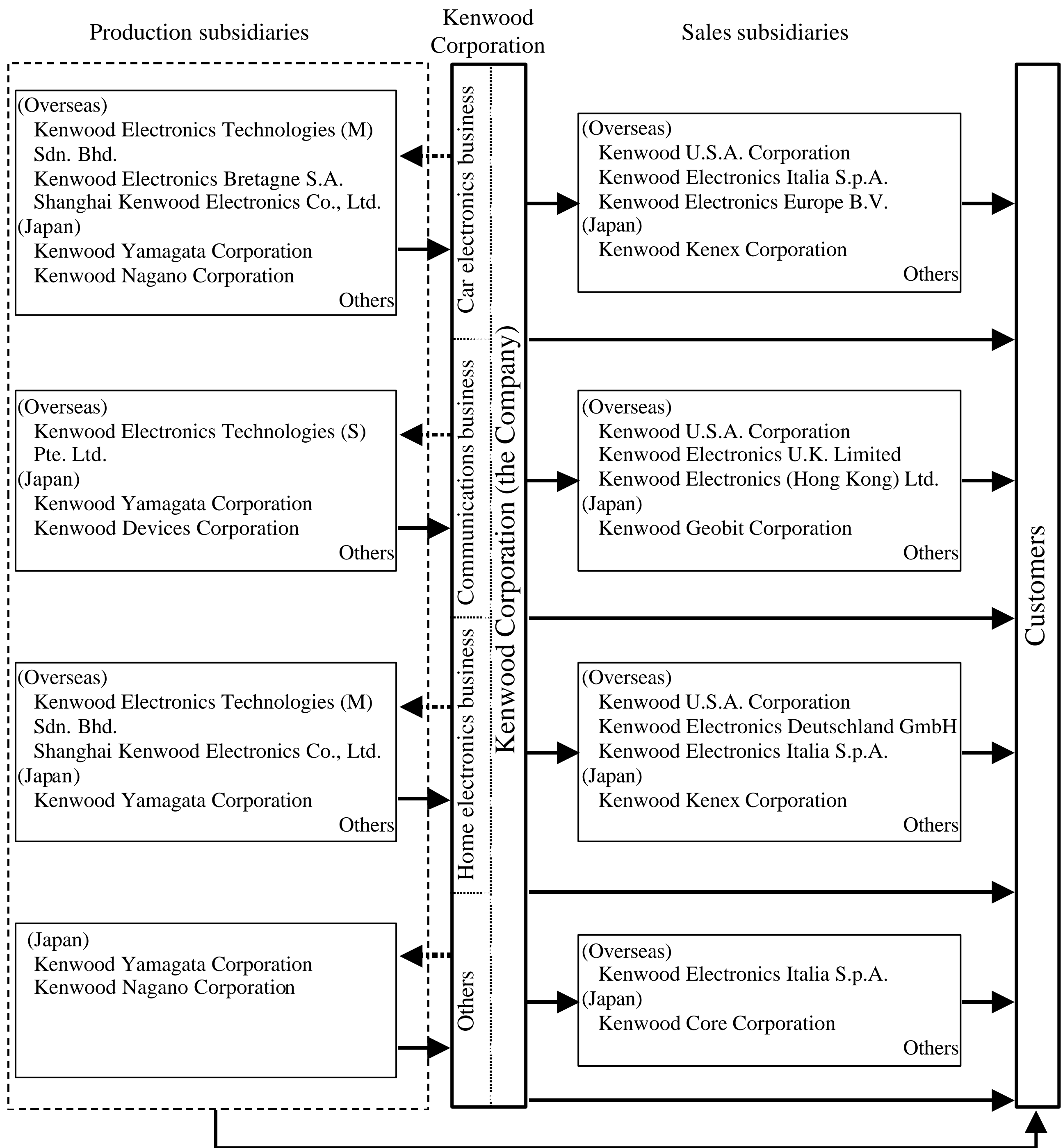
Reference: Projected net income per share (full-year): ¥19.21
(Note) The value for projected net income per share (full-year) does not reflect certain post-balance sheet events that may occur (i.e. elimination of First Tranche Class B Convertible Preferred Stock)

Note:
This press release contains forward-looking statements that are based on information such as economic factors and corporate business policy available to the Company at the publishing. As such, the actual financial performance of the Company may differ from the forecast due to a variety of factors. Please refer to pp.4 - 19 for the basic premises underlying the forecast.

Overview of the Kenwood Group

The Kenwood Group comprises Kenwood Corporation (hereinafter "the Company") and its 48 affiliated companies engaged mainly in production and marketing of car electronics, communications and home electronics equipment, as well as other related businesses.
The Group's business sectors, major products and affiliates are as follows:

Business classification and major products	Major affiliates
[Car electronics] Car electronics-related products such as automotive audio equipment, navigation systems, etc.	(Sales companies) Kenwood Corporation Kenwood U.S.A. Corporation Kenwood Electronics Italia S.p.A. Kenwood Electronics Europe B.V. Kenwood Kenex Corporation (Production companies) Kenwood Electronics Technologies (M) Sdn. Bhd. Kenwood Electronics Bretagne S.A. Shanghai Kenwood Electronics Co., Ltd. Kenwood Yamagata Corporation Kenwood Nagano Corporation
[Communications] Communications-related products such as amateur and professional radio equipment, specific low-power transceivers, etc.	(Sales companies) Kenwood Corporation Kenwood U.S.A. Corporation Kenwood Electronics U.K. Limited Kenwood Electronics (Hong Kong) Ltd. Kenwood Geobit Corporation (Production companies) Kenwood Electronics Technologies (S) Pte. Ltd. Kenwood Yamagata Corporation Kenwood Devices Corporation
[Home electronics] Home electronics-related products such as stereos (system-components and separate-component stereos), home theater systems, DVD players, portable audio equipment, etc.	(Sales companies) Kenwood Corporation Kenwood U.S.A. Corporation Kenwood Electronics Deutschland GmbH Kenwood Electronics Italia S.p.A. Kenwood Kenex Corporation (Production companies) Kenwood Electronics Technologies (M) Sdn. Bhd. Shanghai Kenwood Electronics Co., Ltd. Kenwood Yamagata Corporation
[Others] (IRDs: receivers for digital satellite broadcasting), non-contact mobile identification systems, meteorological-satellite data receiving systems, etc.	(Sales companies) Kenwood Electronics Italia S.p.A. Kenwood Core Corporation (Production companies) Kenwood Yamagata Corporation Kenwood Nagano Corporation



Other subsidiaries

Kenwood Service Corporation
Kenwood Admi Corporation
Kenwood Personnel Corporation
Others

Component procurement/Outsourced manufacturing/assembling
Product procurement

Management Policy

1. Major Accomplishments of Consolidated Accounts for this Fiscal Year: Completely Elimination the "Negative Legacy" of thePast to Resume Distribution of Dividends and Implement Strategies for Full Scale Growth

During the recent past term ending March 2005, which marks the second year of the First Medium-Term Business Plan, the "Excellent Kenwood Plan", we sought to enhance our competitiveness of business operations and promote the growth strategy. This was done by eliminating the "negative legacy" of the past, getting the company back on track after six terms to resume dividends by drastically reforming the financial base and capital structure, implementing "Production Innovation" as well as M&A, to achieve dramatic growth in the car electronics OEM business operations and communications business operations, with "Strategic Investments" for the purpose of new growth making a significant leap into the future.

(1) Successful completion of the "New Financial Strategy" with a resumption of dividends through carrying out the Medium-term Business Plan one year ahead of schedule: Dramatic improvement of the financial base and capital structure through the elimination of the accumulated losses, and redemption of preferred stocks and completion of refinancing.

The "New Financial Strategy" was formulated in May 2004, in order to drastically reform the financial base and capital structure. We obtained an understanding as well as the support from the Resona Bank and other financial institutions we deal with, along with investors and stockholders to complete a scheme that has never been seen before in Japan, "Elimination of the accumulated losses, the erasure of preferred stocks (halved), termination of financial agreements and dramatic reduction of interest-bearing debts".

i) Elimination of the accumulated losses by reducing capital without compensation: Back on track with the "Resumption of Dividends"

A reduction of capital without compensation amounting to JY20 billion through a procedure involving merely a formality on the books resulted in the elimination of the accumulated losses both for consolidated and individual accounts without changing the amount of net assets or total number of issued stocks. This made it possible to redirect the company back on the path with the "Resumption of Dividends" and changed our capital structure into a sound one.

ii) Retirement of half of preferred stocks through increased public share offering: A dramatic reduction of impact on stockholders from diluted stockholder values

Funds were procured through an increased amount of capital gained through public offering and the issuance of new stocks for JY23 billion. A capital reduction with compensation was also carried out by paying back JY16.1 billion to our Primary Class A Preferred Stockholder (Resona Bank). This resulted in the erasure of half of preferred stocks issued by us, dramatically reducing the impact from a dilution of stockholder values in the future.

iii) Termination of financial agreement and dramatic reduction of interest-bearing debts by means of refinance: Independence gained in terms of financial affairs

We procured approximately JY30 billion through a new syndicated loan that became available due to the elimination of losses carried forward and by halving the preferred stocks. These funds together with funds on hand were used to complete repayments for existing debts. Independence was gained in terms of financial affairs by terminating the financial agreement with the financial institution we deal with one year ahead of schedule. We also made a dramatic reduction in the interest-bearing liabilities, making a giant leap toward the realization of "Management with No Substantial Debts (Zero Net Debt)".

Aside from the above strategies, as reported in our "Management Performance", we attained a consolidated stockholder's equity of JY33.1 billion, a stockholder's equity ratio of 28.5%, consolidated retained earnings of JY13.2 billion and a net debt of JY15.1 billion, which is half when compared with the previous term. As a result, we decided

to propose a resolution at the general meeting of our stockholders to be held on June 29 this year, to resume distribution of dividends for the first time in six years.

(2) Progress made by car electronics OEM business operations and growth of communications business operations

The Car Electronics Division was divided into the Car Electronics Sales Division and Car Electronics OEM Division as of April 1, 2004. These newly-formed divisions, combined with the Home Electronics Division and Communications Division, constituted our transition into an "organization consisting of four profit centers", thereby enhancing our business competitiveness and promoting a growth strategy.

We succeeded in bringing a new undertaking into fruition in the Car Electronics OEM business operations through the enhancement of a production organization made possible by the new organization, "Production Reform" and from the new activities that utilized technological, planning and developing capabilities as well as credibility and brand presence nurtured through experiences gained in the sales business. Our sales amount for the term ending March 2005 was 1.5 times the recorded amount of the previous term, which indicated that we succeeded in accomplishing our goals by exceeding our planned targets.

Development investments and sales strategies that have been implemented so far come to fruition in the wireless business operations, which are the main operations in the communications business. This, along with the fact that there have been favorable trends, primarily in the United States, promoted our successful expansion in the emerging markets. Further, the favorable impact of M&A, intended to enhance our wireless business for the domestic market, also contributed and resulted in a growth in terms of sales amount for the term that ended in March 2005, which exceeded the performance record from the previous term by 9.3%.

* Even though a "New Profit Center Organization" was established, there were no changes with the three business operation segments used for account settlements (car electronics business operations, communications business operations and home electronics business operations).

(3) Normalization of activities following completion of "Production Reform": Complete profit reforms and cash flow reforms through implementation of "Kenwood Quarter QCD Revolution".

The last term, which ended in March 2005, was the final fiscal year for activities intended to bring about "Production Reform". This term was completed with the overall finalization of the production reform that enhanced our production organization, through the implementation of the vastly progressive best practice for reforms in all manufacturing factlries including the three production factoriess (Yamagata Factory, Nagano Factory and Singapore Factory), where advance implementation of the production reform is still taking place as the headquarters for these activities by enhancing relationships among individual divisions and production companies and through the vertical integration of domestic and overseas manufacturing factories.

In addition, International Procurement Offices (IPOs) were established at our Shanghai and Singapore Factories to enhance our global procurement functions and our business competitiveness as well as our profit earning capacity by promoting logistical cost reductions through the elimination of intermediate stocks, the commencement of direct shipments from manufacturing factories to sales locations and through the utilization of outsourcing.

Through such efforts, activities intended for the "Production Reform", targeting profit reform and cash flow reform, resulted in a reduction of costs over the past two years by 23% in comparison with the term ending in March 2003. More than half of the ground gained through this result was used to respond to the needs of competitive enhancements, such as price reductions. Inventory assets were reduced by about 27% in comparison with the term ending in March 2003, which contributed to the improvement of cash flow. The "Production Reform", therefore, was completed as scheduled, in this last term that ended in March 2005.

(4) Promotion of growth strategy through strategic partnerships and M&A

i) Technical collaboration and capital alliance with Icom Inc.

Enormous changes are expected in the field of professional wireless devices with the progress of digitization. A

technical collaboration agreement was signed with Icom Inc., on February 25, 2005, to conduct joint research for the purpose of standardizing technical specifications for a broad range of digital wireless systems and to promote practical implementation of competitive digital wireless devices for professional use while accelerating the growth strategy.

Further, in order to solidify this technical collaboration and to advance the wireless business operations of both companies, we made a capital alliance with Icom Inc., by obtaining 3% of their stocks issued while increasing the capital of this company with the third party allocation of an equivalent amount (approximately JY1.07 billion) for the new stocks issued (approximately 1.5% of stocks issued by this company).

ii) Acquisition of wireless business from Toyo Communication Equipment Co., Ltd.

We established a strong presence in government and utility company sectors for the domestic professional wireless field and obtained a large number of resources and technology relating to network and wireless business operations through the transfer of a wireless business on June 1, 2004, from Toyo Communication Equipment Co., Ltd. Further, we proceeded with the fusion of the transferred resources with our existing resources, sought expansion of our product lineup for domestic professional wireless devices and contributed to the expansion of our domestic wireless business operations.

(5) Promotion of "Strategic Investments": Promote strategic developments, brand strategies and reinvestments in personnel for new growth and to leap forward

The enhancement of our business competitiveness was promoted through the development of new technologies, while our global presence and brand power were enhanced and a reinvestment was made in personnel in preparation for the full-scale implementation of the growth strategy.

i) Promotion of strategic development

We made strategic investments for the purpose of developing competitive products for the car electronics, communications and home electronics business operations respectively and accelerated our activities for the purpose of realizing a "Mobile & Home Multimedia System" business through the fusion of high sound quality, digital, and network technologies.

*** Car electronics business operations**

We reviewed the joint development organization for the sales of car navigational systems in order to enhance our multimedia field. We developed our proprietary HDD car navigational system based on a new concept and introduced the product to the market in March this year. We also made efforts in the development of multimedia products, such as digital broadcasting compatible devices which are expected to spread in use in the future.

*** Communications business operations**

We developed professional wireless devices with proprietary digital systems with the digitization of wireless systems in mind. We proceeded with our research and development of digital wireless systems through such efforts as the commercialization of a professional wireless device that supports a professional digital wireless system for public safety in the United States.

*** Home electronics business operations**

In consideration for the advent of new "digital media" for home electronics, such as hard disks and flash memory devices and to progress in network environments, we proceeded with the development of portable audio memory and portable HDD audio systems, as well as next generation network audio through the fusion of high quality sound, digital and network technologies.

ii) "New Brand Image Strategy" unfolds

We refined our "Brand Logo" and established our new "Brand Statement" as our "New Brand Image Strategy" to raise the presence of our brand and deliver new values. Our "Corporate Vision" and "Activity Guidelines", as well as our five "Core Values" were subject to these new developments. We also commercialized products in new product groups for 2005, which we believe are appropriate for the rebirth of Kenwood.

Further, we participated in Formula One world competitions (F1), where cutting-edge technologies gather from

various industries around the world, as an official supplier for the West McLaren Mercedes team and promoted our brand on a global scale with the concept of high technical capability and reliability.

iii) Reinvestment in personnel to enhance driving force behind business operations

We accepted 32 recent graduates in the last term, which ended in March 2005, recruiting new graduates for the first time in three years. Even though we proactively recruited mid-career personnel with an emphasis on their skills, we also made efforts to train our employees, primarily our executives. Further, in March 2004 we completely suspended the pay cuts for ordinary employees and in December 2004 for executive officers, which had been in effect since October 2002, thereby reinvesting in our employees in an effort to enhance the driving force behind our business operations.

2. Management Policy for Current Term Ending March 2006: Commencement of New Activities for Corporate Value Expansion Strategy

(1) Commencement of new activities for corporate value expansion strategy by overall completion of profit base restructuring and capital structure reform during the final year of the First Medium-Term Business Plan, the "Excellent Kenwood Plan".

In May 2003, our corporate group formulated the First Medium-Term Business Plan, known as the "Excellent Kenwood Plan", for the rebirth of Kenwood and raised four management targets including "Resumption of Dividends", "Management with No Substantial Debts (Zero Net Debt)", "20% ROE" and "10% Operating Earning Rate". During the term that ended in March 2004, which was the first year of the plan, the consolidated business organization was enhanced as a part of our management restructuring efforts, promoting "Production Reform" intended to drastically reform the profit and cash flow. During the term ending in March 2005, which was the second year of the plan, we added efforts for drastically reforming our financial base and capital structure on top of activities that continued from the previous year while implementing a "Strategic Investment" for new growth and to significantly leap into the future to promote the enhancement of business competitiveness and growth strategy.

Of these four targets, from the First Medium-Term Business Plan, the "Resumption of Dividends" was attained as a resolution at the general meeting of stockholders one year ahead of schedule, while the prospect of attaining the "Management with No Substantial Debts" (Net Debt Zero) and the "ROE 20%" was established. As for the "Operating Earnings 10%", however, adjustments had to be made due to the dramatic changes within the consumer electronics market environment, which were not foreseen at the time the plan was formulated, as well as a broad reorganization of the business structure and large-scale "Strategic Investments" that were implemented in order to respond to such changes, on top of the impact of the progressive appreciation of yen (with the US Dollar exchange rate rising from JY118 per US$1 to JY105).

In response to the aforementioned course of events, we formulated our Second Medium-Term Business Plan, the "Value Creation Plan", the first year of which coincides with the final year of the First Medium-Term Business Plan, the current fiscal term ending in March 2006. We started new activities for the expansion of our corporate value through overall completion of the following profit base reforms and capital structure reforms in the first year of the new plan.

(2) Profit base reforms: Achieve excellence by reforming profit structure and aim for profitable growth

We aim for profitable growth by expanding the stable profit base of the audio sales business operations and wireless business operations and to attain excellence through profit structural reforms to aid dramatic growth in the two business areas of car electronics OEM business operations and car multimedia sales business operations.

i) Independence of Car Multimedia Division: Taking action to reform profit structure

The Car Multimedia Division gained independence from the Car Electronics Sales Division as of April 1, 2005, following the OEM Car Electronics Business, which expanded business operations beyond the scope of the plan during the past term that ended in March 2005. As a result, the Car Electronics Sales Division will concentrate on

the car audio sales business operations and make an effort to maintain this stable key business to sustain and increase profits. It will do this while taking steps toward profit structure reforms by fully implementing new car navigational systems with proprietary developments and enhancing activities relating to multimedia products including visual products, which are growing on a global scale, and products that are compatible with digital broadcasting, which are expected to become popular in the future.

ii) Innovation of profit structure in the OEM Car Electronics Business: Complete additional construction of the Shanghai Factory and make improvements to increase production and promote cost reductions through vertical integration

We are proceeding with improving the foundation for enhancing market responsive capabilities and reducing costs in the **OEM Car Electronics Business** operations, which is growing at a pace vastly exceeding the plan, by promoting a vertical integration of the Nagano Factory and Shanghai Factory in order to satisfy the requirements of OEM customers in all aspects of the supply chain, including quality and cost.

Prospects exist for increasing orders in the future particularly in the field of components for car electronics, which include DVD mechanisms and others. In order to respond to such increases, we started transferring production lines from the Nagano Factory to the Shanghai Factory, while construction of a new building was completed at the Shanghai Factory in July this year. We are seeking to improve profitability by increasing production and reducing costs to proceed with our reforms on profit structure, in addition to the rapid growth of the car electronics OEM business operations.

iii) Restructuring of home electronics division operations: Restructure business operations and profit structures to reflect market changes and digital media innovations

With prices falling continuously in the home theater systems market due to a reduction in market scale and the intensifying competition, we are seeing the emergence and sustained rapid growth of "digital media" in the home electronics market, such as flash memory and hard disks, replacing CDs and MDs, due to innovations with music media.

At the Kenwood Group, we see such a popularization of new media as a big business opportunity. Our MD player has been evaluated positively as a "Domestic Production Recursion" model, which was then followed by the introduction of our flash memory player. Continuing with such efforts to capture business opportunities, we intend to start the sale of our HDD player in the near future, which has been undergoing commercialization.

On the other hand, we will be concentrating on a highly value-added strategy in the existing home theater field, while in the visual audio field, we will be preparing a lineup of highly cost-competitive products by utilizing a high quality sound technology. We will seek to reform our profit structure through the aforementioned efforts, as well as through the promotion of product developments by taking preemptive action for the innovation of digital media.

In the future, we intend to pioneer into new realms of "Entertainment of Sound" that is appropriate for the digital and network era as the only manufacturer dedicated to sound that is involved in the three business areas of home electronics, car electronics and communications.

(3) Overall completion of capital structure reforms: Working towards becoming the first company in Japan that completely eradicates preferred stocks through the issuance of new stocks and funds on hand

In terms of finances, we had a few critical issues that we needed to take care of, such as the possibility of diluting stockholder value in the future because of the preferred stocks issued due to the conversion of liabilities into stocks (debt equity swap), which took place in December 2002, a financial agreement with a term of three years that was formed with a correspondent financial institution, and the existence of losses carried forward. As mentioned above, we formulated our "New Financial Strategy" in May 2004 and completed the "Elimination of losses carried forward, erasure of preferred stocks (Primary Class A), termination of financial agreements and dramatic reduction of interest-bearing liabilities".

This time we decided to apply for registration to issue new stocks so that it would become possible for us to dynamically issue new stocks. This was based on the assumption that funds of up to a maximum of JY13 billion would be procured through the issuance of new ordinary stocks to provide for funds to eliminate the Primary Class B

Preferred Stocks, which had been a remaining issue, aside from the funds we have available on hand.

Implementation of this scheme would enable us to completely eliminate all preferred stocks issued by our company, which would be a first in Japan. We believe that this will lead to a sounder financial base and capital structure, as well as a further increase in the stockholder values.

Please refer to the "Notice regarding reduction of capital for complete elimination of preferred stocks and registration for issuing new stocks", which was issued separately.

(4) Establishment of production organization that provides consistency through planning to design, production and quality control: Establish a "fabricating" organization that offers superior cost competitiveness and speedy commercialization of high quality products.

"Production Innovation" activities completed in the past term that ended in March 2005 have evolved further through the implementation of sustained enhancement of production innovation by the "Production Administration Department", which was newly established as of April 1, 2005. Business process reengineering (BPR) of the new supply chain management system under the "Production and Sales System Reformation Project" and IT system developments, along with the following activities were used to build an organization that performs concurrent technology developments and product commercialization from consistent planning to designing in production through to quality control, to establish a "Fabricating" organization that can commercialize products with a superior cost competitiveness and high quality in a speedy manner.

i) Construction of new building at Shanghai Factory

In order to increase the available production space at the Shanghai Factory, which will become an asset as an independent entity in August 2008, a new building with approximately 11,000 square meters of floor space will be completed in July this year. The quality level of the added production lines rival those at Yamagata Kenwood, which is our Best Practice with regards to activities relating to production innovation. The Shanghai Factory will undergo a restructuring of the production organization through vertical integration with Nagano Factory.

ii) New installation of a test course at Nagano Factory

In order to meet the needs for quality innovation for the car electronics OEM business operations and overall sales business operations, a test course, which plays a vital role in establishing the quality of car electronics products, will be built at Nagano Factory, which is the major manufacturing factory of the car electronics business operations.

This will not only enhance the quality certification tests, under adverse conditions that are characteristic for car electronic products, but will also improve the organization for providing feedback from vehicle-mounted tests to the design stage in a speedy manner, thereby shortening the lead time for the development of products.

iii) Acceleration of quality innovation

Activities for the innovation of quality for all products ranging from hardware to software will undergo an increased level of acceleration. The Quality Innovation Promotion Department, which was newly established as of June 1 2004, will play a central role in doing this, by enhancing quality control functions that cover the entire range of processes from the certification of parts and components to design and production of car electronics products required to have high quality standards, particularly against vibration, temperature and dust.

iv) Promotion of environmental steps

It has been sometime since we started undertaking activities for manufacturing environmentally friendly products. We are planning to complete the implementation of lead-free solders in all business divisions by the end of October this year. Further, since RoHS instructions will be applied to products that will be sold in nations of the European Union starting from July 1, 2006, we are in the process of preparing for complete compliance to these instructions by responding to regulations regarding environmental substances in all of our production processes, starting with the procurement of parts and components. We are also improving our infrastructure to respond to the recycling regulations that are being promoted in Europe.

* RoHS instruction: This is an abbreviation for the Restriction of the Use of Certain Hazardous Substances in

Electrical and Electronic Equipment, which is implemented by the European Union and regulates harmful and toxic substances in electrical and electronics equipment products. The use of six substance groups of lead, mercury, cadmium, sexivalent chrome, polybrominated biphenyl (PBB) and PBDE will be regulated for products to be sold in the 15 member nations of the European Union from July 1, 2006.

(5) Structural reforms of our sales company in the United States: Eliminate past "Negative Legacy" on consolidated base as well

In order to make the financial base and capital structure of our subsidiaries more sound, we have completed financial structure reforms with our sales companies in Germany and France during the past term that ended in March 2005. Continuing with these efforts, we have converted liabilities into stocks (debt equity swap) amounting to approximately JY4.8 billion, loaned from the parent company here in Japan to our sales company in the United States. Capital is enhanced and financial as well as capital structures will be drastically reformed.

Together with the aforementioned activities, we will also be closing a company that is related to selling products to outlets in the United States, which became financially non-viable as business structure reforms continue. Through such efforts, we will be eliminating the "negative legacy" of the past.

Due to these developments, the Office for Preparations to Establish General Administration Organizations for the United States was established as of November 15, 2004, and was re-established as the General Administration Organization for the United States that will gain overall control of Kenwood USA as of June 1 this year. Enhancement of business operations in the United States and Canada, as well as emerging markets in Mexico and Central and South America will be made.

3. Medium-Term Basic Policy: Formulate Second Medium-Term Business Plan, "Value Creation Plan": Aim to Join Million Dollar Club at an Early Date through Dramatic Growth, as well as Top Level Earning Capacity in Industry and Implement Corporate Value Expansion Strategy

As mentioned above, the Kenwood Group has formulated the Second Medium-Term Business Plan, known as the "Value Creation Plan", which spans three years starting from the current term ending in March 2006, which is also the final year of the First Medium-Term Business Plan, the "Excellent Kenwood Plan", to the term ending in March 2008.

This is intended to take our key business operations of car audio business operations and wireless business operations, which dominate more than half of the sales of our entire group of companies, and stabilize the profit base by enhancing the organizations to cope with the growing markets through such means as BRICs, further enhanced by M&A. Excellence will then be attained through the reform of profit structures of growing businesses, such as car electronics OEM business operations and car multimedia business operations, while the "Digitization of Media" for music media is considered to be a new business opportunity. This will then lead us to the pioneering of a new realm in the "Entertainment of Sound" that integrates car electronics business operations with home electronics business operations. All these will result in dramatic growth and a top level earning power in the industry, and we shall undertake activities relating to the Corporate Va lue Expansion Strategy to expand our corporate value to enter the Billion Dollar Club at an early date.

For details please refer to the "Notice Regarding Formulation of the 'Value Creation Plan" as our Second Medium-Term Business Plan", which was issued separately.

4. Commencement of Long-term Strategic Development with Consideration for Events Following Completion of Medium-term Plan: Activities have begun for Long-term Strategic Development over Three Years, Capturing Digital Media Conversions

Exhibiting strengths of the only specialized manufacturer that contains three core businesses of car electronics business operations, home electronics business operations and communications business operations by enhancing a

responsive ability for consumer businesses, in which there are rapid changes and by capturing business opportunities from the developments of digital, network, wireless and multimedia technologies.

As a part of such efforts, we are aiming to proceed with activities to develop businesses that can contribute new added value to markets in three years, which are appropriate for the business of "Mobile & Home Multimedia System", implemented with Value Creation Division (VCD), an organization that was newly established as of April 1, 2005, as the central element. Such efforts will involve the fusion of audio-visual technologies nurtured over many years and cutting-edge digital and network technologies to realize a seamless connection between car electronics, home audio and portable audio as well as promote networking with personal computers and the Internet.

5. Basic Policy for Distribution of Profits: Resume Dividends After Six Terms

Since the term that ended in March 2000, we have had the unfortunate task of suspending dividend payments. As described previously, through the "New Financial Strategy" that was formulated in May 2004, we were able to resolve the loss carried forward in August of 2004 and during the past term that ended in March 2005, we were also able to record surplus earnings.

In order to respond to the support provided to us by our stockholders, we decided to propose a resolution to start distributing dividends (resumption of dividends) at the 76th scheduled general meeting of stockholders that is scheduled to be held on June 29, 2005, as described below.

Once this proposal is approved and resolved at the meeting, the resumption of dividends, which was listed as one of the targets in the Medium-Term Business Plan, the "Excellent Kenwood Plan", will take place a year ahead of schedule after six terms of suspension.

Further, we plan to strategically reinvest funds on hand for even greater growth in the future. Therefore, we would like to offer an annual distribution of profits at JY2 for each stock of ordinary stockholders, combined with a commemorative dividend of JY1 for the resumption of dividends after six terms, to make a total of JY3 per stock.

Furthermore, prior to distributing profits to our ordinary stockholders, we are obliged to make payments for the accumulated unpaid dividends for Primary Class B Preferred Stocks, outstanding since the issuance of the Primary Class B Preferred Stocks (JY126,357,786) and the dividends for the Primary Class B Preferred Stocks (JY3.216 per stock) to the holders of our Primary Class B Preferred Stocks.

For details please refer to the "Notice Regarding Distribution of Dividends (Resumption of Dividends) at the End of Term Ending in March 2005".

6. Basic Corporate Governance Philosophies and Status of Implementation

(1) Basic corporate governance philosophies

We consider the enhancement of corporate governance in our corporate group to be a means to increase transparency and raise efficiency in the decision-making of the management. Therefore, we consider it one of the most crucial management issues relating to the improvement of corporate value. The entire group of companies is striving to substantiate and enhance corporate governance and is involved in the promotion of activities intended for the enhancement of compliance, while efforts are made to improve the management organization, operational execution organization, as well as the auditing and supervising organization for the entire consolidated business entity.

(2) Status of implementation for corporate governance

The Board of Directors is a decision-making organization for management, while it is also positioned as the supervisory organization for the execution of operations. The Board meets once a month for scheduled meetings, while extraordinary meetings are held as needed, to deliberate and resolve basic policies of management and important matters, as well as to monitor and supervise the status of operational executions. In order to clarify the responsibilities of directors, and in order to make the management organization dynamic enough to respond in a

speedy manner to the changing management environment, the term of office for directors was designated as one year in June 2000. As of the end of the term ending in March 2005, seven directors, including three external directors, are fulfilling their roles as directors of the Board. A new management organization involving the executive officer system at the core was implemented in June 2002 as part of the management structure reform based on the "Drastic Rebuilding Plan". Intellectuals with various values were invited to join the Board as external directors. Clarifications were made to distinguish between the responsibilities of management and the responsibilities of operational executions, while aiming for a high degree of transparency in decision-making and operational executions that are speedy and accurate.

Auditors participate in the meetings of the Board of Directors, hold meetings of Board of Corporate Auditors, supervise the execution of duties by Directors, and execute operations at the company and affiliates both inside and outside Japan. Four auditors, including one external auditor, are performing these duties as of the end of March 2005. In March 2003 we established a Management Supervision Department that is responsible for conducting internal audits on the overall execution of operations in the entire Kenwood Group and reporting to the Board of Directors. Further, we will be appointing an additional external auditor at the general meeting of stockholders scheduled to be held on June 29 this year.

There are two certified accountants who performed duties regarding the certification of an audit for the Kenwood Group, Hiroshi Kawamura and Yasunari Kunii. They are both representative partners (continuous auditing for one year) of Deloitte Touche Tohmatsu and employees thereof (four years). The auxiliary members for auditing duties include certified accountants, assistant accountants and other assistants, who number 11 in total. Further, we will be promoting activities to enhance governance and compliance, by optimizing the use of resources of our group, mainly with our core business operations, as well as establishing a consolidated management organization intended to conduct efficient management of business operations. We established the "Kenwood Compliance Guidelines", intended to serve as activity guidelines to be shared by all personnel throughout the Kenwood Group, for the purpose of forming an enterprise organization that is trusted by and evolves with society. We are also working to ensure that these guidelines are thoroughly implemented.

Furthermore, we are aggressively promoting activities that emphasize the social responsibility of the corporation, or Corporate Social Responsibility (CSR). To this end, we established the "Kenwood Environmental Committee", chaired by the CEO, in order to enhance the countermeasures for risks relating to product sales and environmental measures. The "Environmental Protection Promotion Committee" and "Green Product Promotion Committee" have both been created within the committee, and the "Company-wide PL Committee" was established for the purpose of enhancing our undertakings relating to product liability.

We submitted an affidavit declaring that we will be performing our duties in seriously regarding the provision of corporate information in a timely and appropriate manner at the time the regulations for the listing of securities were amended in January 2005. We also completed our preparation for submission of the "Confirmation Regarding the Appropriateness of the Financial Report" to the Tokyo Stock Exchange, to indicate that there is no falsified information in our financial report or semi-annual report. We formulated our regulation regarding the timely disclosure of corporate information in response to these developments and are working to ensure that the entire Kenwood Group understands these regulations. We established the "Information Disclosure Committee", which is chaired by the CFO, while auditing is conducted by our auditors and the Management Supervision Department to improve our organization and ensure that the disclosure of information is timely and appropriate.

Operating Results and Financial Position

1. Overview of Fiscal Year Ended March 2005

In the fiscal year ended March 2005, the United States economy displayed steady growth while a slight recovery trend was seen in the European economy. In addition, economic expansion continued to occur in the Asia/China markets, and as such, the global economy transitioned in a steady, positive fashion. The Japanese economy also saw an increase in private capital investment amid strong export figures and a recovery in personal consumption. However, the future of the economy remained unclear due to lingering concerns over such issues as the worsening of the global economy due to soaring crude oil and raw steel prices and the potential for measures to be implemented to restrain the overextension of the Chinese economy.

In the consumer electronics market, demand for the so-called "three crown jewels of the digital era" and room air conditioners was strong as a result of the Summer Olympics held in Athens, Greece and the unseasonably warm summer. On the other hand, the audio market shrunk because of the effect of this demand cycle.

Under these circumstances, the Car Electronics OEM Division, an area that was made organizationally independent and improved because of its status as a growth area, saw higher than anticipated growth during the fiscal year under review. The Communications Division also showed robust growth in line with the Group's growth strategy. Unfortunately, other areas such as the Retail Car Electronics Division and the Home Electronics Division (both consumer driven businesses) did not fare as well because of a rapid market transition and a higher than expected competition level in the industry.

2. Sales and Income

(1) Consolidated Operating Results

Net sales increased by 1.3% from the previous fiscal year while net income fell 34% from the previous fiscal year; or 90% of forecast. Nevertheless, net income levels are the second highest they have ever been after hitting record highs in the previous fiscal year.

Consolidated net sales figures for the fiscal year ended March 2005 totaled JPY181.112 billion, a 1.3% increase (or JPY2.4 billion) from the previous fiscal year and a number higher than announced at the mid-term financial presentation. This was mainly due to the fact that significant growth in the Car Electronics OEM and Communications Divisions (150% growth over prior and 9.3% growth over prior respectively) as a result of the execution of growth strategies overcame the weak performance of consumer-driven business segments such as the Retail Car Electronics and Home Electronics Divisions. The weakness in these areas was a factor of rapid change in the marketplace and the higher than anticipated level of competition in the industry.

Meanwhile on the earnings side, consolidated operating income fell 44.0% (or approximately JPY5.5 billion) from the previous fiscal year to finish at JPY7.061 billion, which is 80% of the forecasted number announced at the mid-term financial presentation. The fall was attributed to several factors, including the significant decrease in profitability of the overall Car Electronics Division and the Home Electronics Division. In the former division, higher than anticipated sales growth in the Car Electronics OEM Division, an area that funds were being injected into to develop advanced technologies and restructure costs, and the severe profitability conditions in the Retail Car Electronics Division mainly as a result of drastic price reductions for car navigation and multimedia systems, as well as the shrinking of the overall audio market, decreased profitability levels. The latter division also saw profitability levels worsen because of a shrinking market and severe price competition from overseas companies. In addition to these factors, the Company made a JPY4 billion strategic investment towards the implementation of a plan at the beginning of the period to develop new technologies and products as well as eliminate the cutting of employee salaries. Moreover, the currency exchange environment, especially the Dollar-Yen market, put downward pressure on overall

profitability.

Consolidated ordinary income also fell 45% (or JPY3.8 billion) from the previous fiscal year to JPY4.696 billion for the fiscal year under review. This was mainly due to an increase in non-operating income by approximately JPY1.7 billion from the previous fiscal year because of a decreased interest burden as a result of implementing the Company's "New Financial Strategy." This increase in non-operating income compensated for the drop in operating income.

Finally, net income for the fiscal year under review fell 33.9% (or JPY2.5 billion) from the previous fiscal year to JPY4.836 billion. This was mainly due to the JPY1 billion increase in extraordinary income from the fiscal year ended March 2004, the sale of marketable securities worth JPY500 million and the reduction in disposal losses as a result of quality reforms. Although the number fell short of the forecast by 10%, it was the second highest level of net income announced by the Company in its 60 year history after the fiscal year ended March 2004.

Consolidated sales and earnings conditions by business segments are as follows:

(Units: Millions of Yen)

Segments		Previous Fiscal Year	Fiscal Year Under Review	Growth over Prior	
Car Electronics	Sales	100,783	104,772	3,989	4.0%
	Operating Income	7,019	2,214	△4,805	△68.5%
Communications	Sales	50,373	55,064	4,691	9.3%
	Operating Income	6,876	6,833	△43	△0.6%
Home Electronics	Sales	23,987	18,867	△5,120	△21.3%
	Operating Income	△1,217	△1,923	△706	-
Other	Sales	3,588	2,409	△1,179	△32.9%
	Operating Income	△68	△63	5	-
Total	Sales	178,731	181,112	2,381	1.3%
	Operating Income	12,640	7,061	△5,549	△44.0%
	Ordinary Income	8,541	4,696	△3,845	△45.0%
	Net Income	7,318	4,836	△2,482	△33.9%

*** Car Electronics Business**

The car electronics market rapidly shifted from retail to OEM and from audio to multimedia. Amid this operating climate, various strategies executed in the OEM Division of the Company came to fruition during the growth stage of fiscal year 2005, and sales grew 150% from year prior; a number that was greater than anticipated. On the other hand, sales in the Retail Division fell significantly from year prior because of the shrinking audio market and intensified competition specifically in the European and US markets. Nevertheless, sales in the OEM Division was able to cover for this fall and as such, net sales in the overall Car Electronics Division increased by 4.0% (or approximately JPY4 billion) from the previous fiscal year to JPY104.772 billion.

On the earnings side, profitability of the retail multimedia area worsened due to the lack of profitability of the "Theater Navi" system introduced in the previous fiscal period as prices for car navigation systems fell rapidly in the marketplace. On the retail audio side, earnings conditions also worsened for a variety of factors including the supply stoppage of core semiconductor components because of the Niigata-Chuetsu earthquake. Although a source for replacement components was found, overall costs increased as a result of the stoppage. In addition, profitability declined in the third quarter of the fiscal year (the closing period for previous year's models) because of a shrinking market and intensified competition. Moreover, the impact of the aforementioned semiconductor supply conditions decreased profitability in the fourth quarter despite the fact that the new group of products introduced to the worldwide market during the period displayed strong sales.

In order to counter these effects, various strategies were implemented by the Company. In the OEM Division, an area where sales are showing strong growth, profitability improvements were pursued through the vertical integration of the Nagano and Shanghai plants. In the Retail Multimedia Division, the Company pushed forward the transition to the NaviCore system, a system two years in the working. By doing so, the Company was able to go through with its plan to improve profitability through the introduction of the HDD [Smá:t] Navi system in the March of this year. In addition, profitability improvements were pursued in the Retail Audio Division by expanding into the BRICs market and reducing procurement costs. However, the effects of these strategies are not expected to show full-fledged results until later, and consequently, profitability of the Car Electronics Division as a whole for the fiscal year under review fell significantly. After taking into account strategic investments, operating income fell 68.5% (or JPY4.8 billion) from the previous fiscal year to JPY2.214 billion.

*** Communications Business**
Growth strategies in this field showed positive results as sales in the Company's core area of commercial wireless products showed steady growth mainly in the US and sales increased in emerging markets, in particular China. In addition, the acquisition of Toyo Communications' wireless business in June, 2004 showed positive results in the domestic marketplace, and consequently, net sales in this field increased 9.3% (or JPY4.7 billion) from the previous fiscal year to JPY55.064 billion.

Even on the earnings side, the increase in sales was able to cover for the JPY1.4 billion charge to operating income as a result of currency exchange impacts and costs to develop digital technologies. Consequently, operating income in this field remained flat from the previous fiscal year and finished at JPY6.833 billion.

*** Home Electronics Business**
On the sales side, the boom in digital home electronics invited a downturn in the audio market and the rise of makers in emerging markets put significant downward pressure on prices in both North American and European markets. This required the Company to review existing distribution channels and as a result, sales of home theater systems, an area that was the focus of the business restructuring efforts, slumped significantly.

In the area of pure audio products, the strategy to build a line-up of cost competitive products that utilize high-quality sound technologies worked and resulted in strong sales. Furthermore, in the area of portable audio products, sales of a new flash memory player introduced in February of this year in response to the rise in popularity of digital media players, showed strong sales growth. This product was designed to succeed the MD player, a product that fared well as part of the "Return to Domestic Manufacturing" model introduced by the Company.Despite this positive news, the downturn in the home theater area was too large to overcome and net sales in the Home Electronics Division fell 21.3% (or JPY5.1 billion) from the previous fiscal year to JPY18.867 billion.

On the earnings side, the Company pushed forward with restructuring and manufacturing reform in order to improve its cost structure. Nevertheless, the significant fall in sales of home theater systems in overseas markets as well as the collapse of prices as a result of the rise of makers in emerging markets significantly worsened profit conditions. Consequently, operating income in this area dropped approximately JPY700 million from the previous fiscal year to JPY1.923 billion.

(2) Non-Consolidated Operating Results

Net income figures surpassed initial forecasts but decreased 6.5% from the previous fiscal year

Net sales surpassed forecasted numbers announced at the mid-term financial presentation and cleared year prior results, finishing at JPY130.412 billion (a 3.4% increase from the previous fiscal year). The reasons for the increase are similar to the reasons for the rise in consolidated net sales.

Non-consolidated operating income fell 44.9% from the previous fiscal year to JPY3.09 billion. The reasons for the decrease are again similar to consolidated earnings and is mainly as a result of the rapid change in the consumer marketplace and higher than anticipated level of competition. The Communications business's robust growth in line with the Group's growth strategy and significant growth of the Car Electronics OEM Division, especially in the

domestic market, still were not enough to hit earnings expectations. Nevertheless, it was able to absorb at least a portion of strategic investments made during the fiscal year under review, a negative profitability factor.

Non-consolidated ordinary income decreased 20.7% from the previous fiscal year to finish at JPY3.768 billion, or 80% of forecast. The decline was not more because non-operating income increased by approximately JPY1.5 billion as a result of an increase in dividend income from subsidiary companies.

Finally, non-consolidated net income fell by 6.5% from the previous fiscal year to finish at JPY4.78 billion, a figure that exceeded initial forecasts. This was mainly due to the fact that extraordinary income increased by approximately JPY1.1 billion from the previous fiscal year as a result of the sale of marketable securities.

3. Consolidated Financial Position

(1) Assets, Liabilities and Shareholders' Equity at the End of the Fiscal Year under Review

- Interest-bearing liabilities were cut by half, retained earnings were booked for the first time in ten years, and shareholders' equity ratio doubled –

During the fiscal year under review, the Company implemented its "New Financial Strategy" and achieved financial independence through public stock offerings, reduction of capital without compensation and reduction of capital with compensation. In addition, the Company apportioned a significant amount of cash and deposits towards reducing interest-bearing liabilities. As a result, total assets at the end of the fiscal year under review fell by JPY19.6 billion to JPY116.137 billion.

In addition, refinancing of debt cut interest-bearing liabilities by approximately half (or JPY36.2 billion) to JPY31.088 billion. Net debt also decreased by approximately half its original amount (or JPY14.7 billion) to JPY15.147 billion. As a result, the Company was able to move significantly closer to its "Net Debt Zero" goal established in the "Excellent Kenwood Plan," the Company's first medium-term management plan.

Shareholders' equity increased approximately JPY12.9 billion from the end of the previous fiscal year to JPY33.132 billion, mainly as a result of public stock offerings and net income adding to capital reduction with compensation. Consequently, shareholders' equity ratio increased by 13.6% from the end of the previous fiscal year to 28.5%.

The reduction of capital without compensation cleared out the approximately JPY9.8 billion loss-carried forward from the end of the previous fiscal year. Furthermore, the addition of net income resulted in an increase of retained earnings by approximately JPY23 billion. Consequently retained earnings from the fiscal year under review finished at JPY13.199 billion.

(Units: Millions of Yen)

	Previous Fiscal Year	CurrentFiscal Year	Year-on-Year Change
Total Assets	135,763	116,137	△19,626
Interest-Bearing Liabilities	67,272	31,088	△36,184
Net Debt	29,885	15,147	△14,738
Shareholders' Equity	20,161	33,132	+12,971
Shareholders' Equity Ratio	14.9%	28.5%	+13.6%
Retained Earnings	△9,777	13,199	+22,976
Interest Coverage Ratio	12.61	13.64	+1.03

(2) Cash Flow Conditions in the Fiscal Year under Review

Cash flow from operating activities saw a net spending of JPY15.539 billion or JPY12 billion more than the previous fiscal year. This was mainly due to the fact that activities to reduce inventory and accounts receivable had gone through one round of implementation and that net income fell from the previous fiscal year.

Cash flow from investing activities saw a net spending of JPY3.512 billion or JPY4.2 billion more than the previous fiscal year. This was mainly due to the fact that fixed deposits that were used to pay off loans associated with the

conclusion of financial repayment agreements exceeded income gained from the disposal of tangible fixed assets.

Cash flow from financial activities saw a net spending of JPY30.333 billion or JPY17.6 billion more than the previous fiscal year. Although JPY22 billion worth of income was generated as a result of the public stock offering in line with the Company's "New Financial Strategy," JPY16.1 billion and approximately JPY37 billion was expended to eliminate the First Tranche of Class A Convertible Preferred Stock and to repay loans, respectively.

(Units: Millions of Yen)

	Previous Fiscal Year	CurrentFiscal Year	Year-on-Year Change
Cash Flow from Operating Activities	27,502	15,539	△11,963
Cash Flow from Investing Activities	△7,674	△3,513	4,161
Cash Flow from Financial Activities	△12,783	△30,333	△17,550
Effect of Exchange Rate Changes on Cash and Cash Equivalents	△409	406	815
Net Increase (Decrease) of Cash and Cash Equivalents	6,634	△17,901	24,535
Cash and Cash Equivalents at Beginning of the Fiscal Year	27,064	33,698	6,634
Net Increase (Decrease) in Cash and Cash Equivalents in Accordance with the Change of Consolidated Subsidiaries	△0	78	78
Cash and Cash Equivalents at the End of the Fiscal Year	33,698	15,875	△17,823

4. Earnings Outlook for Fiscal Year Ending March 2006

(1) Earnings outlook for fiscal year ending March 2006

For the fiscal year ending March 2006, the final year of the three-year mid-term business plan "Excellent Kenwood Plan," the Company will pursue a growth strategy to make new strides forward, seek to add growth businesses to its basic businesses, and work to increase its stable earnings base while maximizing the results from efforts over the past two years.

From a net sales perspective, the Company expects consolidated net sales to remain unchanged from the level of the fiscal year ended March 2005 at ¥180.0 billion. Although net sales in the car multimedia business and home electronics business are projected to decline temporarily because of a shift in strategy, this will be offset by sales in the car electronics OEM business, which continue to grow according to the Company's growth strategy, and sales in the consumer car electronics (audio) business, where the Company is working to recapture market share in Europe and the U.S. with new products launched in 2005 that are producing brisk sales, develop new markets such as BRICs and implement sales organization enhancements in Russia, India, Latin America and other markets.

With regard to earnings, on the other hand, the Company will expand its consumer car electronics (audio) business and communications business as a stable earnings base, and work to reform the earnings structure of the car multimedia business and home electronics business.

Together with full-scale development of car navigation systems in the car multimedia business based on Navi-core, which Kenwood developed in-house, the Company will place its focus in the home electronics business on portable digital audio, which remains robust thanks to the rise of digital media, and on highly cost-competitive pure audio products, and work to improve earnings through cost structure reforms and other measures. Based on the results of this earnings structure reform, together with the contribution from improved earnings in the car electronics OEM business discussed above, consolidated operating income is expected to increase approximately 40% compared with the previous consolidated fiscal year to ¥10.0 billion. The Company will continue investments begun in the consolidated fiscal year ended March 2005, by making strategic investments totaling roughly ¥2.0 billion.

Consolidated ordinary profit and consolidated net income are both expected to increase compared with the results for the consolidated fiscal year ended March 2005. Although the Company will recognize an extraordinary

gain from the return of the entrusted portion of the Employee Welfare Pension Fund, this will be offset considerably by items such as a review of asset and inventory criteria and funding of reserves intended to minimize future risk factors.

For both consolidated net sales and consolidated operating income, the estimated operating results for the consolidated fiscal year ending March 2006 will decrease substantially when compared with the objectives (consolidated net revenue of ¥233.0 billion and a 10% operating margin) initially set for the final fiscal year of "Excellent Kenwood Plan," the Company's first three-year mid-term business plan.

This decrease in consolidated net sales reflects the influence of several factors. In the consumer car electronics business, net sales declined from the affect of a market downturn and a drop in prices in the consumer car electronics business and home electronics business that greatly exceeded projections. In the home electronics business, consolidated net sales were reduced sharply in the U.S. and Europe where the decline in prices was especially large, and in the car multimedia business, the Company curtailed sales, temporarily reduced the product lineup and focused on in-house product development because of large losses on older-model car navigation system products.

Consolidated operating income was lower because of the affect from various measures taken by the Company in response to a large price decline in the consumer business, which was not assumed when the Company prepared its mid-term plan, and the influence from other factors including the strong appreciation of the Japanese yen against the U.S. dollar from ¥118 to ¥105, a dramatic change in the market environment, and implementation of broad business structural reforms and major "strategic investments" in response to these changes.

The earnings outlook for full-year fiscal 2005 currently stands as follows.

Consolidated earnings outlook (Unit: Millions of yen)

	Outlook for fiscal year ending March 2006	Results for fiscal year ended March 2005	Year-on-year change
Net sales	180,000	181,112	−1,112
Ordinary profit	5,000	4,696	+304
Net income	6,000	4,836	+1,164

Note: The outlook for consolidated operating income is ¥10,000 million, approximately 40% higher than the previous consolidated fiscal year actual results (about 7.1 billion yen), and is provided as a reference.

Non-consolidated earnings outlook

	Outlook for fiscal year ending March 2006	Results for fiscal year ended March 2005	Year-on-year change
Net sales	130,000	130,412	−412
Ordinary profit	2,500	3,768	−1,268
Net income	4,000	4,708	−708

(2) Affect from return of the entrusted portion of the Employee Welfare Pension Fund – Retirement benefit obligation will be reduced by half

The Kenwood corporate pension fund in which the Company participates was granted a waiver of the obligation to administer future disbursements of pension benefits from the Minister of Health, Labour and Welfare on April 1, 2004 for the entrusted portion of the Employee Welfare Pension Fund, following the enforcement of the Defined Benefit Corporate Pension Law.

Based on receipt of the waiver, the Company currently is proceeding with preparations for return of the entrusted portion, with the goal of receiving authorization during the fiscal year ending March 2006. When the return of the entrusted portion of the pension fund is recognized, the Company plans to cancel the retirement benefit obligation and realize a gain or loss on the authorization date for the return of the entrusted portion, based on the provisions of paragraph 44-2 of the "Practical Guidelines for the Accounting of Retirement Benefits

(Interim Report)" (Accounting Committee Report No. 13, the Japanese Institute of Certified Public Accountants). The Company projects it will recognize an extraordinary gain of about ¥4.5 billion in the consolidated fiscal year ending March 2006 as a result of this change.

In addition, the Company expects its projected benefit obligation to be reduced in half, from about ¥38 billion at the end of March 2005 to approximately ¥18 billion, and its future obligation to be substantially reduced, following this change.

Note on Earnings Outlook

The earnings outlook discussed above for the consolidated fiscal year ending March 2006 is a future estimate based on judgments of the Kenwood Group obtained from currently available information. Actual results may differ materially from these earnings outlooks due to a variety of factors. Accordingly, the Company recommends that investment decisions not be made solely on the basis of these perspective outlooks.

In the electronics industry, which is the core business field of the Company's group, operating results are prone to sharp fluctuations due to changes in technologies, demand, prices, competition, economic environment, foreign exchange rates, and numerous other factors. For information on the risks and uncertainties concerning the Company's operating results and other conditions (including matters considered to be important for investment decisions), please refer to "5. Business and Other Risks" below.

5. Business and Other Risks

The risks inherent in matters relating to the operating results, stock price and financial position of the Kenwood Group that may exert a material affect on investors' decisions are discussed below.

Matters in this document concerning the future are topics the Kenwood Group judged to be material as of the end of the consolidated fiscal year under review.

(1) Affect of economic conditions

For the Company and affiliates of the Company (referred to below as "the Company group"), the majority of the home electronics products, car electronics products and communications products that are core products ("the Company group's products") assume the main purchaser segment will be individual consumers. The Company group's products also include many products supplied to the market in the form of OEM products; that is, categories such as car stereo products that are sold through customer firms (OEM customer firms) and target individual customers as the main assumed final purchaser segment. For the individual customers who are end users of the Company group's products, in many cases purchasing the Company group's products cannot be considered necessary or indispensable. Accordingly, the sales trends for the Company group's products have a propensity to fluctuate substantially because of economic conditions, business trends, personal consumption trends and other factors in the sales region, and the Company group's operating results or financial position might be affected adversely if these various factors do not work to the advantage of the Company group.

In addition, the majority of the Company group's products are characterized by the fact the sales volume in markets where the products are offered can be affected easily depending upon preferences and trends among the individual customers who are the products' end users. Accordingly, the Company group's operating results or financial position might be affected adversely if the Company group cannot develop and manufacture on a timely basis Company group products aligned with individual customer's preferences and trends or in response to these trends, or if the Company group cannot supply the Company group's products to the market at the appropriate time.

Moreover, although comparatively few in number, the Company group's products also include categories whose main buyers are public entities and corporate customers, such as radio equipment products used in government and municipal offices and private-sector companies in various countries and regions of the world. The sales volume of these Company group products also will vary according to the economic conditions, business trends, and political and fiscal policy trends in the countries and regions where the end users are located,

and the Company group's operating results or financial position might be affected adversely by these factors.

(2) Response to technological innovation

As its main business, the Company group is engaged in the manufacture and sale of products that require rapidly evolving advanced technology. Because the pace of technological innovation in the markets for the Company group's products is extremely fast, however, there is a danger some of the Company group's products will lag the latest technological innovations and suffer from product obsolescence in the marketplace. The sales volume of such products may decline precipitously, and the Company group's operating results or financial position might be affected adversely as a result.

Because the speed of technological innovation in the markets for the Company group's products is remarkably fast, the traditional competitive framework among similar products can change within a short time period, and the competitive position of the Company group in the market for the products in question might be endangered depending upon the Company group's response to technological innovation trends. The Company group's operating results or financial position might be affected adversely as a result.

Furthermore, in the radio equipment products sector of communications products in particular, with regard to the direction and pace of the recent trend in digitalization, there is no guarantee the activities of the Company group to develop products that support digitalization will proceed appropriately to a position of competitive dominance in a form that will lead future digitalization trends.

(3) Product quality competition and price competition in the market

In markets for the Company group's products, aggressive competition to develop new products is growing. For the Company group's products such as car audio products and home audio products in particular, although the Company group seeks mainly to develop new, high-quality products that deliver superior sound quality, some domestic and foreign competitors also have adopted policies identical to the new product development policy of the Company group. There is a danger that demand for the Company group's products will fall, and the value of the Company group's brand name decline, if the Company group cannot prevail against these competitors, and the Company group's operating results or financial position might be affected adversely as a result.

On the other hand, although the Company group also had aimed at manufacturing and selling products such as car audio products and home audio products for the low-price bracket targeting young individuals in particular, for these kinds of products the price competition with even lower-priced same-category products being manufactured and sold mainly by China and Southeast Asian countries in particular has intensified, and currently the Company group has reduced its manufacturing and sales activities for these kinds of low-price bracket products. Although the Company group has determined that devoting its capital and resources to markets for high-quality products will be more profitable for the Company group than maintaining the size of its presence in the market for low-price bracket products, this judgment does not guarantee that the operating results or financial position of the Company group will develop steadily in the future. Conversely, if the market for low-price bracket products expands remarkably in the future, the Company group will be forced to accept an inferior competitive position relative to its competitors in this market, and the Company group's operating results or financial position might be affected adversely as a result.

(4) Affect of foreign exchange market fluctuations

Overseas sales account for more than 50% of the Company group's consolidated net sales. Because items denominated in local currencies, including the net sales, expenses and assets in each country and region are converted into yen to prepare the consolidated financial statements, their value after being converted into yen will be affected by exchange rates at the time of conversion. In general, appreciation of the yen against other currencies (particularly when the yen appreciates against the U.S. dollar and the euro, which account for a high percentage of the items denominated in local currencies) reduces the consolidated net sales of the Company group, and has the opposite effect of increasing consolidated net sales when the yen weakens.

An increase in the value of the currencies of countries and regions where the Company group conducts its manufacturing and sales activities may push up the costs of manufacturing and procurement in those countries and regions. An increase in costs may lower the consolidated profit margins and price competitiveness of the Company group, and this may have an adverse affect on operating results and financial position. Although the Company group employs currency hedge transactions using forward exchange contracts to keep the adverse effects caused by short-term fluctuations in the exchange rates between the yen and leading currencies such as the U.S. dollar and the euro to a minimum, in some situations the Company group cannot steadily implement its planned procurement, manufacturing, logistics and sales activities because of medium to long-term exchange rate fluctuations. Thus fluctuations in exchange rates may have an adverse affect on the Company group's operating results or financial position (particularly consolidated net sales).

(5) Defects in the Company group's products

Trust in the brand names of the Company group's products and the Company group may decline remarkably or be lost if defects occur the Company group's products after sale to the end users.

In addition to this reputation risk, depending upon the circumstances end users may pursue product liability actions or similar alternatives against the Company group. Although the Company group has taken measures such as purchasing product liability insurance to prepare for such contingencies, there is no guarantee the full amount of compensation or other payments for which the Company group would be responsible will in fact be covered by such insurance.

In the event an unforeseen defect has occurred in the Company group's products and caused the risks such as reputation risk and risk of a lawsuit described above to be realized in this manner, the Company group's operating results or financial position might be affected seriously as a result.

(6) Probability of achieving the mid-term management plan

The Company group has publicly released a summary of "Value Creation Plan," the group's new second mid-term management plan, and begun efforts to achieve the plan objectives. Nevertheless, in the event the Company group is unable to proceed according to the initial objectives outlined in this plan, for example, or if it becomes clear actual conditions and results differ from those initially assumed in the plan, the Company group might be unable to achieve the results for operating results or financial position initially set in the business plan.

(7) Research and development activities

In order to bring products that are aligned with the preferences and trends of its main purchaser segments to the market in a timely manner, the Company group must continually invest capital and resources in new technological research and new product development. Nevertheless, there is no guarantee the Company group will be able to stably invest sufficient capital and resources in the future for research and development activities, and there also is no guarantee the sales volume of the Company group's products will always increase as a result of investing such capital and resources. Moreover, because the Company group is pressed by the need to look ahead and discern end user preferences and trends when pursuing its research and development activities, and because there are also times when its activities will suffer setbacks at the research and development stage prior to the manufacture and sale of a specific product, the research and development activities by the Company group also do not necessarily ensure the development and sale of products that are aligned with end user preferences and trends. Accordingly, the Company group's research and development activities may represent unproductive expenses and the Company group's operating results or financial position might be affected adversely as a result.

Moreover, if the capable, skilled engineers who support these research and development activities leave the Company group for some reason (including, but not limited to, being hired by competitors, a relative decline in the wage level and/or benefits offered by the Company group, and deterioration of the Company group's R&D environment), this may have a negative affect on the future research and development activities of the Company group and the Company group's operating results or financial position might be affected adversely.

(8) Outsourcing of key device and software development, products, etc.

The Company group's product development and manufacturing activities depend to a certain extent on outsourcing of purchasing, production and other activities to device suppliers, product development and product manufacturing firms, software developers, and parts developers and manufacturers that are outside of the Company group, or on joint development with such vendors. In the event of circumstances such as the deterioration of relationships with these outside vendors, or delays in the development and supply or termination of supply of goods including key devices, software, parts and products by these outside vendors, or a business slump at these outside vendors, the Company group's product development and manufacturing activities might be hindered and the Company group's operating results or financial position affected seriously as a result.

Moreover, some goods including key devices, software, parts and products on which the Company group's products depend are being developed and manufactured by only a limited number of vendors. If a situation arises in which these outside vendors become subsidiaries of competitors or conclude a monopoly or exclusive licensing agreement, continuous supply agreement or other contract with a competitor, the Company group will be pressed by the need to search for other suppliers of these goods including key devices, software, parts and products and make important changes to the development and manufacturing processes for the Company group's products. The Company group's operating results or financial position might be seriously and continually adversely affected as a result.

(9) Intellectual property rights

The Company group itself does not necessarily own and has not necessarily registered all of the intellectual property rights necessary to develop and manufacture the Company group's products. Rather, under current conditions the Company group uses the majority of these rights by paying licensing fees as value to the third-party owners, based on licensing or other agreements concluded with the third parties that own and have registered the intellectual property rights. Therefore, in some cases the Company group must always continue paying licensing fees to these third parties even when, for example, the Company group is unable to use the intellectual property rights received under license from the third parties to efficiently develop and produce new products. Moreover, there is no guarantee the Company group will be able to continuously use the intellectual property rights received under license from the third parties without change in the future or at the present licensing fee level. If a licensing agreement or other agreement between the Company group and a third party is terminated for some reason in the future and the Company group becomes unable to use the intellectual property right subject to said agreement, the Company group will be pressed by the need to develop alternative intellectual property rights itself, or search for another third party to supply this right, or make important changes to the development and manufacturing processes for the Company group's products. The Company group's operating results or financial position might be seriously and continually adversely affected as a result.

The Company group may not always be aware of all the intellectual property rights third parties own or have registered, and the Company group cannot assert there is no probability it is not unknowingly violating the intellectual property rights owned or registered by a third party by using such rights without permission, for example, or that such circumstances will not occur in the future. In the event such circumstances have arisen, the Company group might be requested by the third party to pay a licensing fee as value for the use of that intellectual property right, or face a lawsuit or legal action such as payment of compensation for damages or termination of use by the Company group based on the intellectual property right in question. As a result, the value of the Company group's brand name may fall, or the Company group may face a contingent liability for the equivalent value, and the Company group's operating results or financial position might be affected adversely.

With regard to intellectual property rights owned or registered by the Company group, the Company group might be unable to effectively prevent or eliminate violations such as unauthorized use or imitation by third parties. Among the Company group's products, problems have occurred frequently with radio equipment products for the Chinese market in particular, including manufacturers of similar products or other firms in China imitating the brand names of the Company group's products and selling inferior-quality, low-priced products. The

value of the Company group's brand name may decline and the Company group's operating results or financial position might be adversely affected as a result.

(10) Industry trends and reorganization

Currently the manufacturing and sales industries for the Company group's products are obscuring the potential for new market development and growth as a result of the merger of product segments based on the creation of networks that cross the boundaries between industries and the proliferation of broadband. Nevertheless, these internal industry trends may redefine the structure of competition in the manufacturing and sales industries for the Company group's products within a short period of time. There is no guarantee the Company group will be able to maintain its current position in the industry following such change in the competitive structure. If the Company group cannot maintain its present position in the industry, the Company group's operating results or financial position might be affected adversely.

Although no mergers and acquisitions of conspicuous scale or content, technology or capital tie-ups, joint venture promotions or M&A activities can be noted in the manufacturing and sales industries for the Company group's products at the present time, such mergers and acquisitions may occur often in the future. Should such mergers and acquisitions actually occur frequently, the Company group might be unable to skillfully take advantage of this trend and will be unable to maintain its present position in the industry, and the Company group's operating results or financial position might be affected adversely as a result.

Moreover, if the Company group decides to pursue mergers and acquisitions and technology or capital tie-ups, and promote joint venture and OEM businesses and other M&A activities in the industry independently in the future, there is no guarantee the Company group will be able to skillfully bring such transactions to a successful conclusion. Depending on the consequences of such transactions, the Company group might be unable to maintain its present position in the industry, and the Company group's operating results or financial position might be affected adversely.

(11) Tax loss carry-forward amount

The Company group currently does not pay corporation taxes in Japan because it has a substantial tax loss carry-forward amount, and as a result of the loss carry-forward the amount of its loss during each business fiscal year exceeds earnings. If the carry-forward of the loss amount held by the Company group is no longer permitted in the future for reasons such as tax system reform, and the amount of earnings exceeds the amount of losses including the loss amount carry-forward for the earnings calculation during the business fiscal year, the Company group will have to begin payment of corporation taxes within Japan as well. This may affect the Company group's earnings and cash flow.

(12) Retirement pension benefit obligation

The Company group's employee retirement benefit expense and obligation are calculated based on assumptions such as the discount rate that are set for mathematical principle calculations, and the expected rate of return of pension assets. Because the affects are cumulative when actual results differ from the assumptions or when the assumptions have been changed, and these affects will be recognized regularly during future years, normally they will affect the expense recognized in future periods and the obligation recognized for accounting purposes. Reductions in the discount rate or deterioration of the investment yield may have an adverse affect on the Company group's operating results or financial position.

(13) Security

With the digitalization and rapid development of social data in recent years, the threat of various problems and crimes based on illegal access or lack of proper control of various data that firms possess has gradually increased and emerged has a major social concern. The Company group also must respond to these social and technological trends appropriately and on a timely basis, and is pursuing measures such as preparing and strengthening its

controls for personal data. It must be noted, however, that constructing a perfect defense plan to prevent network crimes and foil criminal conduct by individuals and groups with malicious intent, which are becoming more sophisticated and escalating with each passing day, is extremely difficult, and the Company group's operating results, financial position, brand or social evaluation might be affected adversely by an incident, such as circumstances under which various types of data in the Company group's possession is divulged outside the group.

(14) Affect of large-scale disasters, political unrest, etc.

The normal operations and work of the Company group's facilities and employees or those of various vendors, customers and logistics firms might be hampered by the occurrence of various disasters including large-scale disasters such as earthquakes and tsunami, the outbreak of an epidemic such as SARS, political unrest, terrorist activities, fires, flood damage and the disruption of community lifelines such as electricity. Technically and economically, it is difficult to respond to every type of conceivable disaster by preparing appropriate disaster recovery measures or equipment. Accordingly, the Company's activities might be affected temporarily or for a certain period of time if a disaster such as those mentioned above occurs.

(15) Public laws and regulations

The Company group's businesses are conducted from the worldwide offices that develop each business and are subject to application of the laws and various regulations in each country. For example, the Company group's businesses are subject to application of commercial regulations, regulations prohibiting monopolies, import restrictions to protect national security, tax systems, consumer protection regulations, environmental protection regulations, business and investment permits and licenses, and other regulations. In addition, the obligation to ensure safe management for the protection of personal data of customers and other parties has been imposed on firms. Although the Company group endeavors to comply with all laws and regulations, if the Company group is unable to observe such laws and regulations for unanticipated reasons the Company group's business activities might be restricted, and this might lead to higher costs. These regulations might have an adverse affect on the Company group's operating results or financial position.

(16) Environmental protection

To respond appropriately to environmental protection regulations on firms' business activities and products and services, which are being strengthened around the world, the Company group recognizes the social responsibility imposed on firms to address environmental problems and is working positively and continuously to protect the global environment and resources and supply environmentally-friendly products. Nevertheless, it is impossible to guarantee the Company group will completely prevent or mitigate discharges into the environment of restricted materials that exceed environmental standards because of an accident or other incident. Moreover, the Company group also cannot completely eliminate the possibility of being held responsible for removal and clean-up costs if restricted materials remain in the soil at factory sites or other locations in excess of legal standards, or the possibility this will negatively affect site sales prices, and the Company group's operating results or financial position might be affected adversely by these costs.

(17) Matters related to changes in financial position, etc.

i) Valuation of investment securities

The Company group owns the stock and other instruments of other firms, including its transaction financial institutions, and other negotiable securities with a market price (acquisition cost of ¥2.4 billion and balance sheet value of ¥3.5 billion at the end of the consolidated fiscal year under review). Because the Company group values these other negotiable securities with a market price using the market price valuation method based on market prices on the account settlement date, there is a possibility the amount shown on the balance sheet might change depending on stock prices on the account settlement date. Moreover, such assets will be impaired when

the market price falls markedly compared with the purchase price. The Company group's operating results or financial position might be affected adversely by these factors.

ii) Latent losses on land

For land revalued based on the Law Concerning Revaluation of Land, the difference between the revaluation amount of land at market prices at the end of the current period and the book value was -¥2.7 billion, which created a latent loss on land. This latent loss will be realized if the land is sold or otherwise disposed of, and this might adversely affect the Company group's operating results or financial position.

iii) Asset impairment accounting for fixed assets

There is a possibility that the tangible fixed assets held by the Company group might become subject to asset impairment accounting. In such a case, the Company group's operating results or financial position might be affected adversely.

Consolidated Balance Sheet

(as of Mar. 31, 2005)

(Unit: Millions of yen)

Accounts	Previous period		Current period		Increase/decrease	
	Amount	%	Amount	%	Amount	%
(Assets)						
I Current Assets	98,278	72.4	77,619	66.8	(20,659)	(21.0)
Cash and cash in bank deposit	33,387		15,941		(21,445)	
Trade notes and accounts receivable	30,908		31,501		593	
Inventories	24,639		25,257		617	
Prepaid expenses	620		597		(23)	
Deferred tax assets	866		692		(174)	
Other current assets	4,717		4,414		(302)	
Allowance for doubtful receivables	(861)		(785)		76	
II Fixed Assets	37,437	27.6	38,400	33.1	963	2.6
(1) Tangible fixed assets	25,2158	18.6	23,555	20.3	(1,660)	(6.6)
Building and structures	19,518		18,090		(1,427)	
Machinery and equipment	16,549		17,054		505	
Tools, furniture and fixtures	10,672		12,780		2,108	
Land	11,881		10,796		(1,084)	
Construction in progress	7		148		141	
Total	58,628		58,871		242	
Accumulated depreciation	(33,413)		(35,315)		(1,902)	
(2) Intangible fixed assets	7,828	5.8	8,335	7.2	506	6.5
(3) Investment and others	4,392	3.2	6,509	5.6	2,116	48.2
Investment securities	3,779		3,913		134	
Long term loans	71		68		(3)	
Deferred tax assets	712		899		187	
Other investments	1,566		1,710		143	
Allowance for doubtful receivables	(1,736)		(83)		1,653	
III Deferred Assets	47	0.0	117	0.1	70	147.2
New stock issuing expenses	47		117		70	
Total Assets	135,763	100.0	116,137	100.0	(19,625)	(14.5)

(Unit: Millions of yen)

Accounts	Previous period		Current period		Increase/decrease	
	Amount	%	Amount	%	Amount	%
(Liabilities)						
I Current Liabilities	96,042	70.7	66,735	57.5	(29,306)	30.5
Trade notes and accounts payable	18,009		18,461		451	
Short term bank borrowings	62,032		31,088		(30,944)	
Accounts payable	7,236		8,586		1,349	
Income taxes payable	623		451		(171)	
Accrued expenses	6,714		6,668		(45)	
Deferred tax liabilities	38		7		(30)	
Other current liabilities	1,385		1,470		85	
II Long Term Liabilities	19,554	14.4	16,269	14.0	(3,284)	16.8
Long term debt	5,240		0		(5,240)	
Deferred tax liabilities (Revaluation of land)	2,173		2,173		-	
Deferred tax liabilities	277		565		288	
Allowance for Employees' retirement	11,768		13,492		1,723	
Other long term liabilities	93		37		(55)	
Total Liabilities	115,596	85.1	85,057	71.5	(32,591)	(28.2)
Minority Interests	6	0.0	-	-	(6)	(100.0)
(Shareholders' Equity)						
I Paid-in capital	39,469	29.1	14,947	12.9	(24,522)	(62.1)
II Capital surplus	-	-	13,373	11.5	13,373	-
III Retained earnings	(9,777)	(7.2)	13,199	11.4	22,976	-
IV Land revaluation surplus	3,167	2.3	3,167	2.7	-	0.0
V Unrealized gain and loss on available-for-sale securities	253	0.2	619	0.5	365	144.2
VI Translation adjustments	(12,901)	(9.5)	(12,109)	(10.4)	791	(6.1)
VII Treasury stock	(50)	(0.0)	(64)	(0.1)	(14)	28.6
Total Shareholders' Equity	20,161	14.9	33,132	28.5	12,971	64.3
Total Liabilities, Minority Interests and Shareholders' Equity	135,763	100.0	116,137	100.0	(19,625)	(14.5)

Consolidated Income Statements

(Unit: Millions of yen)

Accounts	Previous period (4/1/2003-3/31/2004)		Current period (4/1/2004-3/31/2005)		Increase/decrease	
	Amount	%	Amount	%	Amount	%
Net Sales	178,731	100.0	181,112	100.0	2,380	1.3
Cost of Sales	126,439	70.7	137,663	76.0	11,223	8.9
Gross Profit	52,291	29.3	43,448	24.0	(8,842)	(16.9)
Selling, General and Administrative expenses	39,681	22.2	36,387	20.1	(3,294)	(8.3)
Operating Profit	12,610	7.1	7,061	3.9	(5,548)	(44.0)
Non-operating Profit and Loss						
Interest income and dividends	95		126		30	
Other non-operating Profit	1,987		1,335		(651)	
Sub-total	2,083	1.1	1,461	0.8	(621)	(29.8)
Non-operating Loss						
Interest expense	2,168		1,247		(920)	
Other non-operating Loss	3,983		2,578		(1,405)	
Sub-total	6,152	3.4	3,826	2.1	(2,325)	(37.8)
Ordinary profit	8,541	4.8	4,696	2.6	(3,844)	(45.0)
Extraordinary profit						
Reversal of allowance for doubtful receivables	10		38		27	
Gain on sale of investments in securities	-		599		599	
Gain on sales of fixed assets	219		215		(4)	
Gain on reversal of previous year's royalties	-		149		149	
Gain on closing of affiliated companies	103		16		(87)	
Sub-total	334	0.1	1,018	0.5	684	204.8
Extraordinary Loss						
Loss on devaluation and sales of membership	12		6		(6)	
Loss on devaluation of investment securities	23		13		(9)	
Loss on sales of investment securities	7		-		(7)	
Retirement allowance paid to directors	25		12		(12)	
Loss on disposal and sales of fixed assets	401		232		(169)	
Loss on closing of affiliated companies	-		172		172	
Loss on impairment from overseas subsidiaries	295		14		(281)	
Sub-total	766	0.4	452	0.2	(314)	(41.0)
Income before Income tax and Minority interests	8,108	4.5	5,263	2.9	(2,845)	(35.1)
Current	870	0.5	404	0.2	(465)	(53.5)
Deferred	(82)	(0.1)	22	0.0	105	-
Minority interests	1	0.0	-	-	(1)	(100.0)
Net Income	7,318	4.1	4,836	2.7	(2,482)	(33.9)

Consolidated Statements of Retained Earnings

(Unit: Millions of yen)

	Previous period	(4/1/2003-3/31/2004)	Current period	(4/1/2004-3/31/2005)
(Capital Surplus)				
I Beginning balance of capital surplus		17,087		-
II Increase in additional capital surplus				
1 Issuance by capital increase through issuance of new shares	-		11,514	
2 Increase by capital reduction	-	-	1,859	13,373
III Decrease in additional paid-in capital				
Transfer to retained earnings	17,087	17,087		-
IV Ending balance of capital surplus		-		13,373
(Retained Earnings)				
I Beginning balance of retained earnings		(34,238)		(9,777)
II Increase in retained earnings				
1 Net Income of the (interim) term	7,318		4,836	
2 Increase by capital reduction	-		18,140	
3 Transfer from additional paid-in capital	17,087		-	
4 Transfer from land revaluation surplus	56	24,463	-	22,976
III Decrease in retained earnings				
1 Adjustment to retained earnings from change of basis of consolidation	2	2	-	-
IV Ending balance of retained earnings		(9,777)		13,199

Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	Previous consolidated FY (4/1/2003-3/31/2005)	Current consolidated FY (4/1/2004-3/31/2005)
	Amount	Amount
I Cash Flows from Operating Activities:		
1 Income of the (interim) term before income taxes and minority interests	8,108	5,263
2 Depreciation	6,687	7,821
3 Amortization	50	62
4 Increase(decrease) in allowance for doubtful accounts	(199)	(267)
5 Increase in allowance for employees' retirement	2,546	1,693
6 Interest revenue and dividend income	(95)	(126)
7 Interest expense	2,168	1,247
8 Investment gain/loss by equity method	35	(45)
9 Gain(loss) on sale of investment securities	7	(599)
10 Loss on devaluation of investment securities	23	13
11 Loss on devaluation/sales of membership	12	6
12 Loss on disposal of fixed assets	212	232
13 Loss on sales of fixed assets	(30)	(215)
14 Loss on impairment from overseas subsidiaries	295	14
15 Gain on closing affiliated companies	(103)	(16)
16 Loss on closing of affiliated companies	-	172
17 Increase(decrease) in trade notes and accounts receivable	1,645	424
18 Increase(decrease) in inventories	6,108	0
19 Increase(decrease) in accounts payable	2,360	982
20 Increase(decrease) in consumption tax payable	(16)	(21)
21 Increase(decrease) in consumption tax refunds receivable	89	(69)
22 Others	431	582
Sub-Total	30,340	17,156
23 Interest dividends received	96	127
24 Interest paid	(2,180)	(1,139)
25 Income taxes paid	(727)	(592)
26 Disbursement to directors for retirement	(25)	(12)
Net cash provided by operating activities	27,502	15,539
II Cash Flows from Investing Activities:		
1 Increase in (deposit to) time deposits	(3,993)	(407)
2 Decrease in (withdrawal from) time deposits	4,001	4,032
3 Capital investment (real estate, plants and equipment)	(3,582)	(4,216)
4 Proceeds from sales of real estate, plant and equipment	738	2,208
5 Purchase of intangible fixed assets	(4,104)	(4,700)
6 Purchase of investment securities	(156)	(1,122)
7 Proceeds from sales of investment securities	35	625
8 Acquisition of subsidiaries' additional equities	(615)	-
9 Loan paid	(56)	(0)
10 Proceeds from collection of loan	59	64
11 Proceeds from collection of long-term loan	-	2
Net cash used in investing activities	(7,674)	(3,513)
III Cash Flows from Financing Activities:		
1 Increase(Decrease) in short-term bank borrowings, net	(5,827)	(22,404)
2 Repayments of long-term debt	(1,723)	(14,688)
3 Proceeds from issuance of stock	-	22,941
4 Redemption of bonds	(5,000)	-
5 Outflow by redemption (with compensation) of class-A preferred stock	-	(16,100)
6 Others	(231)	(82)
Net cash (used in) provided by financing activities	(12,783)	(30,333)
IV Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents	(409)	406
V Net Increase(Decrease) in Cash and Cash Equivalents	6,634	(17,901)
VI Cash and Cash Equivalents at beginning of year	27,064	33,698
VII Net Increase(Decrease) in Cash and Cash Equivalents in accordance with change of consolidated subsidiaries	(0)	78
VIII Cash and Cash Equivalents at end of interim account settlement period (fiscal year)	33,698	15,875