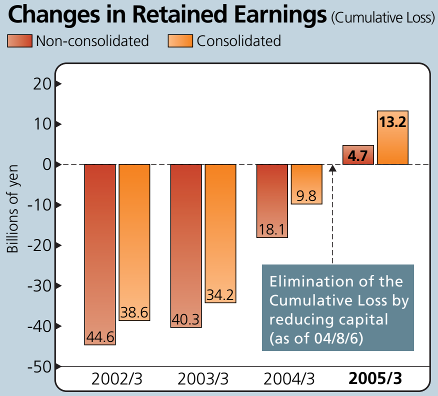
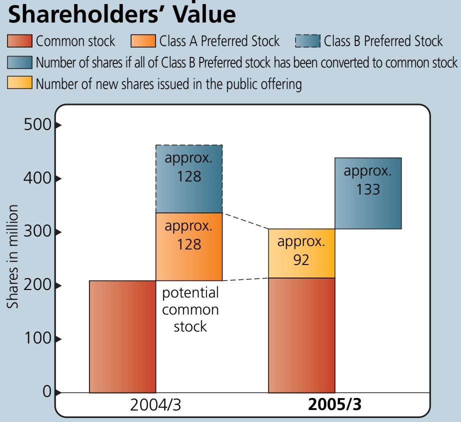
2005.3

Major Accomplishments of Consolidated Accounts ——Complete Elimination the "Negative Legacy" of the Past to Resume Distribution of Dividends and Implement Strategies for Full Scale Growth

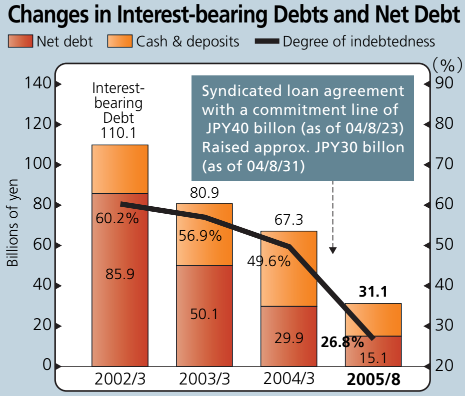
Changes in Retained Earnings (Cumulative Loss)



Reduction of Impact from Dilution in Shareholders' Value



Changes in Interest-bearing Debts and Net Debt



During the last term ended March 2005, which marks the second year of the first mid-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, achieving a resumption of dividends after six terms 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 and communications equipment business, with "Strategic Investments" for the purpose of new growth making a significant leap into the future.

Successful completion of the "New Financial Strategy" with a resumption of dividends through carrying out the mid-term business plan one year ahead of schedule ——Dramatic improvement of the financial base and capital structure through the elimination of the cumulative loss, 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 shareholders to complete a scheme that has never been seen before in Japan, "elimination of the cumulative loss, the redemption of preferred stocks (halved), termination of financial agreements and dramatic reduction of interest-bearing debts."

❶Elimination of the cumulative loss by capital reduction without compensation ——Back on track with the "Resumption of Dividends"

A capital reduction without compensation amounting to JY20 billion through a procedure involving merely a formality on the books resulted in the elimination of the cumulative loss both for consolidated and non-consolidated accounts without changing the amount of net assets or total number of outstanding shares. 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.

❷Redemption of half of preferred stocks through public share offering ——A dramatic reduction of impact on shareholders from diluted shareholder values

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

❸Termination 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 cumulative loss 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 institutions 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 for the term ended in March 2005 we attained a consolidated shareholders' equity of JY33.1 billion, a shareholders' 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 resumed the distribution of dividends for the first time in six years.

Progress made by car electronics OEM business and growth of communications equipment business

The Car Electronics Division was divided into the Car Electronics Consumer Division and Car Electronics OEM Division as of April 1, 2004. These newly-formed divisions, combined with the Home Electronics Division and Communications Equipment 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 through the enhancement of a production organization made possible by the new organization, "Production Innovation" 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 car electronics consumer business. Our sales amount for the term ended 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 radio business, which are the main operations in the communications equipment 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 radio 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 segments used for account settlements (car electronics business, communications equipment business and home electronics business).

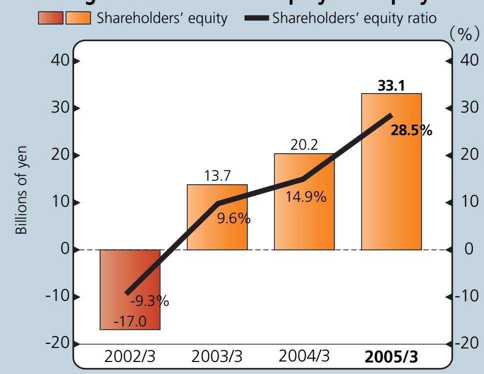
Normalization of activities following completion of "Production Innovation"
—Complete profit reforms and cash flow reforms through implementation of "Kenwood Quarter QCD Revolution"

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

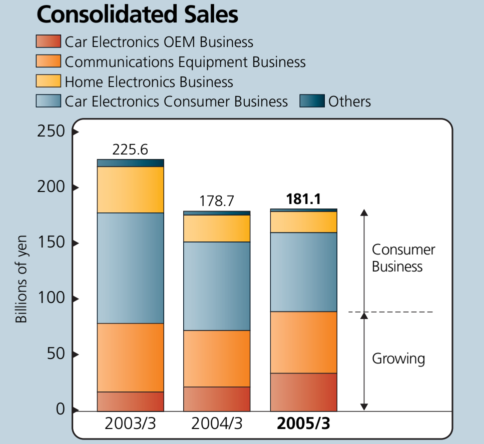
In addition, International Procurement Offices (IPOs) were established at our Shanghai and Singapore factories to enhance our global procurement functions and our business competitiveness as well as our profit earning capacity by promoting logistical cost reductions through the elimination of intermediate 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 Innovation," 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 ended 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 ended March 2003, which contributed to the improvement of cash flow. The "Production Innovation," therefore, was completed as scheduled in this last term ended March 2005.

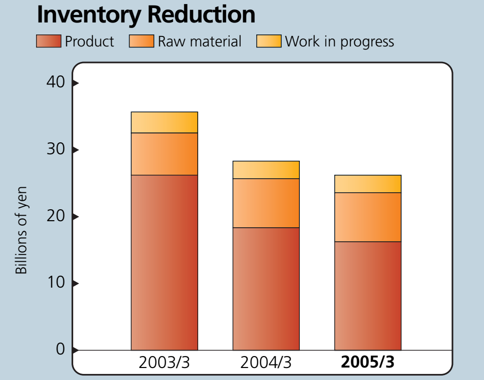
Changes in Shareholders' Equity and Equity Ratio



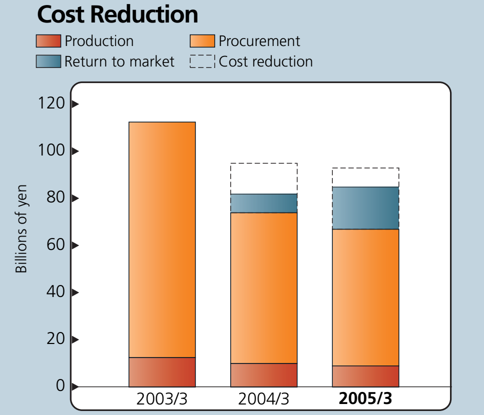
Consolidated Sales



Inventory Reduction



Cost Reduction



World's first HDD car navigation system enables to connect directly with iPod

iPod is a registered trademark of Apple Computer, Inc. in the United States and other countries.
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Promoting R&D in digital wireless radio equipment for both portable and automobile systems

Promotion of growth strategy through strategic partnerships and M&A

❶Technical collaboration and capital alliance with Icom Inc.

Enormous changes are expected in the field of commercial wireless radio 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 radio for commercial use while accelerating the growth strategy.

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

❷Acquisition of wireless radio business from Toyo Communication Equipment Co., Ltd.

We established a strong presence in government and utility company sectors for the domestic commercial wireless radio field and obtained a large number of resources and technology relating to network and wireless radio business through the transfer of a wireless radio 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 commercial wireless radio and contributed to the expansion of our domestic wireless radio business.

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.

❶Promotion of strategic development

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

Car electronics business

We reviewed the joint development organization for the consumer car navigation systems in order to enhance our car multimedia field. We developed our proprietary HDD car navigation system based on a new concept and introduced the product to the market in March 2005. 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 equipment business

We developed commercial wireless radio with proprietary digital systems with the digitalization of wireless systems in mind. We proceeded with our research and development of digital wireless systems through such efforts as the commercialization of a wireless radio that supports a digital system of the Association of Public-safety Communication Officials (APCO) in the United States.

Home electronics business

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 flash memory audio and portable HDD audio systems, as well as next generation network audio through the fusion of high quality sound, digital and network technologies.

❷Unfolding of “New Brand Image Strategy”

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 F1, where cutting-edge technologies gather from various industries around the world, as an official supplier for the Team McLaren Mercedes and promoted our brand on a global scale with the concept of high technical capability and reliability.

❸Reinvestment in personnel to enhance driving force behind business operations

We accepted 32 recent graduates in the last term ended 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 eliminated 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.

Basic policy for distribution of profits
——Resume dividends after six terms

Since the term ended 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 cumulative loss in August of 2004 and during the past term ended March 2005 we were also able to record surplus earnings.

Therefore to respond to the support provided to us by our shareholders, we implemented the resumption of dividends, which was listed as one of the targets in the mid-term business plan, the “Excellent Kenwood Plan,” one 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 paid an annual distribution of profits at JY2 per share for regular shareholders, combined with a commemorative dividend of JY1 for the resumption of dividends after six terms, to make a total of JY3 per share.

Furthermore, prior to distributing profits to our regular shareholders, we made payments for the cumulative unpaid dividends for the preferred stocks (JY126,357,786), outstanding since the issuance of the first tranche class-B preferred stock and the dividends for the first tranche class-B preferred stock (JY3.216 per stock) to the class-B preferred shareholders.

For details please refer to the press release “Notice Regarding Year-Ended Dividends (Resumption of Dividend) for Fiscal Year-ended March 2005” dated May 20, 2005.

World’s first high-quality portable HDD audio with digital amplifier

Portable flash memory audio: the first digital portable audio product for the Company

Participating in F1 as an official supplier of the Team McLaren Mercedes