Overview of Fiscal Year Ended March 2005

In the fiscal year 2005, the U.S. 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 because of 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 business, an area that was made organizationally independent and improved because of its status as a growing area, saw higher than anticipated growth during the fiscal year under review. The communications equipment business also showed robust growth in line with the growth strategy. Unfortunately, other areas such as the car electronics consumer business and the home electronics business did not fare as well because of a rapid market transition and a higher than expected competition level in the industry.

Sales and Income

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 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 interim settlement. This was mainly due to the fact that significant growth in the car electronics OEM and communications equipment businesses as a result of the execution of growth strategies overcame the weak performance of consumer business segments such as the car electronics consumer and home electronics businesses. 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 profit 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 the interim settlement. The fall was attributed to several factors, including the significant decrease in profitability of the overall car electronics business and the home electronics business. In the former business, higher than anticipated sales growth in the car electronics OEM business, an area where development of new technologies and reform of cost structure are enhanced, and the severe profitability conditions in the car electronics consumer business 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 business 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 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 profit by approximately JPY1.7 billion from the previous fiscal year because of a decreased interest burden as a result of the "New Financial Strategy." This increase in non-operating profit compensated for the drop in operating profit.

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 JPY1billion increase in extraordinary income from the previous fiscal year, the sale of marketable securities worth JPY0.5 billion 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 previous fiscal year.

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 business 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 consumer business fell significantly from year prior because of the shrinking audio market and intensified competition specifically in the European and U.S. markets. Nevertheless, sales in the OEM business was able to cover for this fall and as such, net sales in the overall car electronics busuness increased by 4.0% (or approximately JPY4 billion) from the previous fiscal year to JPY104.772 billion.

On the earnings side, profitability of the consumer multimedia area worsened due to the lack of profitability of the "THEATER-NAVI" system introduced in the previous fiscal year as prices for car navigation systems fell rapidly in the marketplace. On the consumer 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. In the OEM business, an area where sales are showing strong growth, profitability improvements were pursued through the vertical integration of the Nagano and Shanghai plants. In the multimedia (consumer) business, the Company pushed forward the transition to the own-developed navi-core, 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 audio (consumer) business 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 the fiscal year 2006, and consequently, profitability of the car electronics business as a whole for the fiscal year under review fell significantly. After taking into account strategic investments, operating profit fell 68.5% (or JPY4.8 billion) from the previous fiscal year to JPY2.214 billion.

Communications Equipment 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 U.S. and sales increased in emerging markets, in particular China. In addition, the acquisition of wireless business of Toyo Communication Equipment Co., Ltd. in June, 2004 showed positive results in the Japanese 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 profit as a result of currency exchange impacts and costs to develop digital technologies. Consequently, operating profit 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 Made in Japan" 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 business 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 profit in this area dropped approximately JPY0.7 billion from the previous fiscal year to JPY1.923 billion.

(Millions of Yen)

Segments		Mar. 2005	Mar. 2004	Year-on-Year Change
Car Electronics	Sales	104,772	100,783	3,989
	Operating profit	2,214	7,019	△4,805
Communications Equipment	Sales	55,064	50,373	4,691
	Operating profit	6,833	6,876	Å¢43
Home Electronics	Sales	18,867	23,987	△5,120
	Operating profit	△1,923	△1,217	△706
Other	Sales	2,409	3,588	△1,179
	Operating profit	△63	△68	5
Total	Sales	181,112	178,731	2,381
	Operating profit	7,061	12,640	△5,549
	Ordinary income	4,696	8,541	△3,845
	Net income	4,836	7,318	△2,482

Consolidated Financial Position

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

Interest-bearing debt 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 share offerings, capital reduction without and with compensation. In addition, the Company apportioned a significant amount of cash and deposits towards reducing interest-bearing debt. 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 debt 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 "Zero Net Debt" goal established in the first med-termbusiness 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 share 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 capital reduction without compensation cleared out the approximately JPY9.8 billion cumulative loss 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.

(Millions of Yen)

	Mar. 2005	Mar. 2004	Year-on-Year Change
Total Assets	116,137	135,763	△19,626
Interest-Bearing Debt	31,088	67,272	△36,184
Net Debt	15,147	29,885	△14,738
Shareholders' Equity	33,132	20,161	+12,971
Shareholders' Equity Ratio	28.5%	14.9%	+13.6%
Retained Earnings	13,199	△9,777	+22,976
Interest Coverage Ratio	13.64	12.61	+1.03

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 share offering in line with the "New Financial Strategy," JPY16.1 billion and approximately JPY37 billion was expended to eliminate the first tranche class-A preferred stock and to repay loans, respectively.

(Millions of Yen)

	Mar. 2005	Mar. 2004	Year-on-Year Change
Cash Flow from Operating Activities	15,539	27,502	△11,963
Cash Flow from Investing Activities	△3,513	△7,674	+4,161
Cash Flow from Financial Activities	△30,333	△12,783	△17,550
Effect of Exchange Rate Changes on Cash and Cash Equivalents	406	△409	+815
Net Increase (Decrease) of Cash and Cash Equivalents	△17,901	6,634	+24,535
Cash and Cash Equivalents at Beginning of the Fiscal Year	33,698	27,064	+6,634
Net Increase (Decrease) in Cash and Cash Equivalents in Accordance with the Change of Consolidated Subsidiaries	78	△0	+78
Cash and Cash Equivalents at the End of the Fiscal Year	15,875	33,698	△17,823

Forecast for Fiscal Year Ending March 2006

Forecast for fiscal year ending March 2006

For the fiscal year 2006, the final year of the three-year mid-term business plan, the Company will pursue a growth strategy to make new leep 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 2005 at ¥180.0 billion. Although net sales in the car multimedia (consumer) 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 growth strategy, and sales in the car electronics consumer (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 car electronics consumer (audio) business and communications equipment business as a stable earnings base, and work to reform the earnings structure of the car multimedia (consumer) business and home electronics business.

Together with full-scale development of car navigation systems in the car multimedia (consumer) business based on own-developed navi-core, 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 profit is expected to increase approximately 40% compared with the previous fiscal year to ¥10.0 billion. The Company will continue investments begun in the fiscal year 2005, by making strategic investments totaling roughly ¥2.0 billion.

Consolidated ordinary profit and net income are both expected to increase compared with the results for the fiscal year 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.

(Millions of Yen)

	Forecast for Mar. 2006	Results for Mar. 2005	Year-on-Year Change
Net sales	180,000	181,112	△1,112
Ordinary income	5,000	4,696	+304
Net income	6,000	4,836	+1,164

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

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, Labor 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.

Following receipt of the waiver, the Company was permitted to return the entrusted portion on July 1, 2005, and, 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), will cancel the retirement benefit obligation and recognize a gain or loss. The Company projects it will recognize an extraordinary gain of about ¥4.8 billion in the fiscal year 2006 as a result of this change.

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.