KENWOOD

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ANNUAL REPORT 2005 For the year ended March 2005

FINANCIAL SECTION

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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.

Consolidated Balance Sheets

Kenwood Corporation and Consolidated Subsidiaries
As of March 31, 2005 and 2004

ASSETS	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1(a)) 2005
Current Assets:			
Cash and cash equivalents	**¥ 15,876**	¥ 33,698	**$ 148,374**
Time deposits	**66**	3,689	**617**
Receivables —			
Trade notes and accounts receivable	**31,502**	30,715	**294,411**
Trade notes and accounts receivabl from unconsolidated subsidiaries and associated companies	**-**	194	**-**
Less: Allowance for doubtful receivables	**(785)**	(861)	**(7,336)**
Inventories —			
Finished goods	**15,004**	15,009	**140,224**
Work in process and raw materials	**10,253**	9,631	**95,823**
Deferred tax assets (Note 9)	**692**	867	**6,467**
Prepaid expenses and other	**5,012**	5,337	**46,841**
Total current assets	**77,620**	98,279	**725,421**
Property, Plant and Equipment, at Cost (Notes 3 and 5):			
Land (Note 4)	**10,797**	11,882	**100,906**
Buildings and structures	**18,091**	19,519	**169,075**
Machinery and equipment	**17,054**	16,549	**159,383**
Tools, furniture and fixtures	**12,781**	10,672	**119,449**
Construction in progress	**148**	7	**1,383**
	58,871	58,629	**550,196**
Less: Accumulated depreciation	**(35,316)**	(33,413)	**(330,056)**
Net property, plant and equipment	**23,555**	25,216	**220,140**
Investments and Other Assets:			
Investment securities (Notes 2 and 5)	**3,847**	3,697	**35,953**
Investments in and advances to unconsolidated subsidiaries and associated companies	**83**	97	**776**
Goodwill	**448**	198	**4,187**
Software	**7,124**	6,735	**66,580**
Deferred tax assets (Note 9)	**900**	712	**8,411**
Other	**2,643**	2,566	**24,701**
Less: Allowance for doubtful accounts	**(83)**	(1,737)	**(776)**
Total investments and other assets	**14,962**	12,268	**139,832**
Total	**¥ 116,137**	¥ 135,763	**$ 1,085,393**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY		Millions of yen 2005		Millions of yen 2004		Thousands of U.S. dollars (Note 1(a)) 2005
Current Liabilities:						
Short-term borrowings (Note 5)	¥	**29,954**	¥	50,833	$	**279,944**
Current portion of long-term debt (Note 5)		**1,134**		11,199		**10,598**
Trade notes and accounts payable		**27,047**		25,247		**252,776**
Income taxes payable (Note 9)		**452**		624		**4,224**
Accrued expenses		**6,669**		6,714		**62,327**
Deferred tax liabilities (Note 9)		**8**		39		**75**
Other		**1,471**		1,386		**13,748**
Total current liabilities		**66,735**		96,042		**623,692**
Long-term Liabilities:						
Long-term debt (Note 5)		**0**		5,241		**0**
Liability for employees' retirement benefits (Note 6)		**13,492**		11,768		**126,094**
Deferred tax liabilities (Note 9)		**2,739**		2,451		**25,598**
Other		**38**		94		**355**
Total long-term liabilities		**16,269**		19,554		**152,047**
Minority Interests		**-**		6		**-**
Commitments and Contingent Liabilities (Notes 3, 11 and 12)						
Shareholders' Equity (Notes 7 and 14):						
Common stock, authorized - 672,500,000 shares issued - 307,524,995 shares in 2005 and 210,455,995 shares in 2004		**8,697**		26,969		**81,280**
Preferred stock, authorized - 31,250,000 shares in 2005 and 62,500,000 shares in 2004 issued - 31,250,000 shares in 2005 and 62,500,000 shares in 2004		**6,250**		12,500		**58,411**
Capital Surplus		**13,374**		-		**124,991**
Retained earnings (accumulated deficit)		**13,199**		(9,778)		**123,355**
Land revaluation surplus (Note 4)		**3,167**		3,167		**29,598**
Net unrealized gain on available-for-sale securities		**619**		254		**5,785**
Foreign currency translation adjustments		**(12,109)**		(12,901)		**(113,168)**
Total		**33,197**		20,211		**310,252**
Less: Treasury stock, at cost; Common Stock, 391,729 shares in 2005 and 326,987 shares in 2004		**(64)**		(50)		**(598)**
Total shareholders' equity		**33,133**		20,161		**309,654**
Total	¥	**116,137**	¥	135,763	$	**1,085,393**

Consolidated Statements of Income

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2005	2004	**2005**
Net Sales	**¥ 181,112**	¥ 178,731	**$ 1,692,636**
Cost of Sales (Notes 1(r) and 8)	**137,664**	126,440	**1,286,580**
Gross profit	**43,448**	52,291	**406,056**
Selling, General and Administrative Expenses (Notes 1(r) and 8)	**36,387**	39,681	**340,065**
Operating income	**7,061**	12,610	**65,991**
Other Income (Expenses):			
Interest expense, net	**(1,143)**	(2,092)	**(10,682)**
Cash discount	**(317)**	(686)	**(2,963)**
Equity in earnings (losses) of unconsolidated subsidiaries and associated companies	**45**	(36)	**421**
Gain (loss) on sales of investment securities, net	**599**	(8)	**5,598**
Loss on impairment of investment securities	**(13)**	(23)	**(122)**
Loss on disposal of inventories	**(1,102)**	(1,631)	**(10,299)**
Loss on impairment of inventories	**(204)**	(42)	**(1,906)**
Loss on sales of property, plant and equipment, net	**(17)**	(182)	**(159)**
Gain (loss) on liquidation of consolidated subsidiaries, net	**(155)**	104	**(1,448)**
Retirement allowances paid to directors and corporate auditors	**(13)**	(25)	**(122)**
Gain on prior years patent fee	**313**	-	**2,925**
Other, net,	**209**	119	**1,953**
Total	**(1,798)**	(4,502)	**(16,804)**
Income before Income Taxes and Minority Interests	**5,263**	8,108	**49,187**
Income Taxes (Note 9):			
Current	**404**	870	**3,776**
Deferred	**23**	(82)	**215**
Total income taxes	**427**	788	**3,991**
Minority Interests in Net Income	**-**	2	**-**
Net Income	**¥ 4,836**	¥ 7,318	**$ 45,196**

	Yen		U.S. dollars (Note 1(a))
Per Share of Common Stock (Note 10):			
Basic net income	**¥ 16.79**	¥ 33.99	**$ 0.16**
Diluted net income	**10.50**	15.73	**0.10**
Cash dividends applicable to the year	**3.00**	-	**0.03**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2005	2004	**2005**
Common Stock (Note7) :			
Beginning balance	¥ **26,969**	¥ 26,969	$ **252,047**
Capital increase upon issuance of 92,000,000 shares of common stock on July 1, 2004	**11,040**	-	**103,177**
Capital reduction of common stock without compensation on August 6, 2004	**(20,000)**	-	**(186,916)**
Capital reduction of 31,250,000 shares of preferred stock on August 6, 2004	**(9,850)**	-	**(92,056)**
Capital increase upon issuance of 5,069,000 shares of common stock on March 18, 2005	**538**	-	**5,028**
Ending balance	¥ **8,697**	¥ 26,969	$ **81,280**
Preferred Stock (Note7) :			
Beginning balance	¥ **12,500**	¥ 12,500	$ **116,822**
Capital reduction of 31,250,000 shares of preferred stock on August 6, 2004	**(6,250)**	-	**(58,411)**
Ending balance	¥ **6,250**	¥ 12,500	$ **58,411**
Capital Surplus (Note7) :			
Beginning balance	¥ **-**	¥ 17,087	$ **-**
Transfer to accumulated deficit	**-**	(17,087)	**-**
Capital increase upon issuance of 92,000,000 shares of common stock on July 1, 2004	**10,983**	-	**102,645**
Capital reduction of common stock without compensation on August 6, 2004	**1,859**	-	**17,374**
Capital increase upon issuance of 5,069,000 shares of common stock on March 18, 2005	**532**	-	**4,972**
Ending balance	¥ **13,374**	¥ -	$ **124,991**
Retained earnings (Accumulated Deficit) (Note7) :			
Beginning balance	¥ **(9,778)**	¥ (34,238)	$ **(91,383)**
Net income	**4,836**	7,318	**45,196**
Transfer from capital surplus	**-**	17,087	**-**
Capital reduction of common stock without compensation on August 6, 2004	**18,141**	-	**169,542**
Reversal of land revaluation surplus due to sale of land	**-**	57	**-**
Adjustment to retained earnings fo dismiss of consolidated subsidiaries	**-**	(2)	**-**
Ending balance	¥ **13,199**	¥ (9,778)	$ **123,355**
Land Revaluation Surplus (Note 4):			
Beginning balance	¥ **3,167**	¥ 3,235	$ **29,598**
Change of enterprise tax rate	**-**	(11)	**-**
Reversal of land revaluation due to sale of land	**-**	(57)	**-**
Ending balance	¥ **3,167**	¥ 3,167	$ **29,598**
Net Unrealized Gain (Loss) on Available-for-sale Securities:			
Beginning balance	¥ **254**	¥ (269)	$ **2,374**
Net increase of unrealized gain of available-for-sale securities	**365**	523	**3,411**
Ending balance	¥ **619**	¥ 254	$ **5,785**
Foreign Currency Translation Adjustments:			
Beginning balance	¥ **(12,901)**	¥ (11,548)	$ **(120,570)**
Net increase (decrease) of foreign currency translation adjustments	**792**	(1,353)	**7,402**
Ending balance	¥ **(12,109)**	¥ (12,901)	$ **(113,168)**
Treasury Stock, at cost, Common Stock:			
Beginning balance	¥ **(50)**	¥ (32)	$ **(467)**
Repurchase of treasury stock	**(14)**	(18)	**(131)**
Ending balance	¥ **(64)**	¥ (50)	$ **(598)**
Total Shareholders' Equity	¥ **33,133**	¥ 20,161	$ **309,654**

	Thousands of shares	
Number of Outstanding Shares		
Beginning balance	**272,629**	272,688
Issuance of common stock	**97,069**	-
Reduction of preferred stock	**(31,250)**	-
Repurchase of treasury stock	**(65)**	(59)
Ending balance	**338,383**	272,629

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2005	2004	**2005**
Operating Activities:			
Income before income taxes and minority interests	**¥ 5,263**	¥ 8,108	**$ 49,187**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Income taxes-paid	**(593)**	(728)	**(5,542)**
Depreciation and amortization	**7,822**	6,687	**73,103**
Provision for doubtful receivables	**(267)**	(199)	**(2,495)**
Loss on disposal of property, plant and equipment	**211**	213	**1,972**
Gain on sales of property, plant and equipment, net	**(194)**	(30)	**(1,813)**
(Gain) Loss on sales of investment securities, net	**(599)**	8	**(5,598)**
Loss on impairment of investment securities	**13**	23	**122**
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	**424**	1,646	**3,963**
Decrease in inventories	**1**	6,109	**9**
Increase in trade notes and accounts payable	**982**	2,360	**9,177**
Increase in retirement benefits	**1,694**	2,547	**15,831**
Other, net	**782**	758	**7,308**
Net cash provided by operating activities	**15,539**	27,502	**145,224**
Investing Activities:			
Decrease in time deposits, net	**3,625**	8	**33,878**
Proceeds from sales of property, plant and equipment	**2,209**	738	**20,645**
Proceeds from sales of investment securities	**625**	35	**5,841**
Purchases of property, plant and equipment	**(4,217)**	(3,582)	**(39,411)**
Purchases of investment securities	**(1,122)**	(156)	**(10,486)**
Purchases of software	**(4,700)**	(4,105)	**(43,925)**
Other, net	**67**	(613)	**626**
Net cash used in investing activities	**(3,513)**	(7,675)	**(32,832)**
Financing Activities:			
Decrease in short-term bank borrowings, net	**(22,404)**	(5,828)	**(209,383)**
Proceeds from issuance of common stock	**22,941**	-	**214,402**
Repayments of Bonds	**-**	(5,000)	**-**
Repayments of long-term debt	**(14,688)**	(1,724)	**(137,271)**
Reduction of preferred stock	**(16,100)**	-	**(150,467)**
Other, net	**(83)**	(231)	**(776)**
Net cash used in financing activities	**(30,334)**	(12,783)	**(283,495)**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**407**	(410)	**3,804**
Net (Decrease) Increase in Cash and Cash Equivalents	**(17,901)**	6,634	**(167,299)**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year	**79**	-	**738**
Cash and Cash Equivalents at Beginning of Year	**33,698**	27,064	**314,935**
Cash and Cash Equivalents at End of Year	**¥ 15,876**	¥ 33,698	**$ 148,374**
Non-Cash Financing Activity:			
Reduction in shareholders' stated capital without a reduction in the number of shares outstanding (Note 7)	**¥ 20,000**	¥ -	**$ 186,916**

See notes to consolidated financial statements.

1. Significant Accounting Policies

The following is a summary of the significant accounting policies adopted by Kenwood Corporation (the "Company") and its consolidated subsidiaries in the preparation of the accompanying consolidated financial statements.

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the consolidated financial statements filed with the Financial Service Agency as required by the Securities and Exchange Law of Japan, which are prepared in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information. Certain reclassifications have been made to the 2004 consolidated financial statements to conform to the 2005 presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and have been made at the rate of ¥107 to $1, the approximate rate of exchange at March 31, 2005. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant 43 (47 in 2004) subsidiaries (together, the "Group").

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

Kenwood Electronics (Thailand) Co., Ltd., was newly consolidated because the company has become material to the consolidated financial statements of the Company.

Kenwood Electronics Technologies (Mexico), S.A. de C.V, Kenwood Electronics (Mexico), S.A. de C.V. ,Kenwood Electronics Technologies (HK), and Kenwood Technologies (USA) Inc. were excluded from scope of consolidation because those companies had been liquidated during the fiscal year 2005.

On October 1, 2004, Kenwood U.S.A. Corporation merged with Kenwood Americas Manufacturing Corporation.

Investments in an unconsolidated subsidiary are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary is being amortized over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material intercompany profit included in assets resulting from transactions within the Group is eliminated.

(c) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, and commercial paper, all of which mature or become due within three months of the date of acquisition.

(d) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

(e) Foreign Currency Financial Statements

In translating the financial statements of foreign subsidiaries and associated companies into Japanese yen, all assets and liabilities and revenues and expenses are translated at the current exchange rates in effect at balance sheet date, except for shareholders' equity which is translated at the historical exchange rates in effect at the time of the transactions. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

(f) Inventories

Inventories maintained by the Company and its domestic subsidiaries are principally stated at average cost. Inventories maintained by foreign subsidiaries are principally stated at the lower of cost, determined by the first-in, first-out method, or market.

(g) Depreciation

Depreciation of property, plant and equipment is principally computed on the declining-balance method for the Company and its domestic subsidiaries and on the straight-line method for foreign subsidiaries over their estimated useful lives.

The estimated useful lives are as follows:

Buildings and structures	2 to 60 years
Machinery and equipment	2 to 16 years
Tools, furniture and fixtures	2 to 20 years

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

Software for company use is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over their estimated useful lives (five years). Software installed in products is carried at cost less accumulated amortization, which is calculated by the proportion of the actual sales volume of the products during the current year to the estimated total sales volume over the estimated salable years of the products or by the straight-line method over the estimated salable years of the products (one to five years), considering the nature of the products.

(h) Marketable and Investment Securities

The Company has classified all debt and equity securities as available-for-sale securities based on management's intention. Available-for-sale securities other than non-marketable are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(i) Goodwill

Goodwill on purchases of specific businesses and consolidation goodwill are carried at cost less accumulated amortization, which is calculated by the straight-line method over five years.

(j) Stock Issue Costs

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

(k) Liability for Employees' Retirement Benefits

The Company has a funded defined benefit pension plan covering substantially all employees.

The Company and domestic consolidated subsidiaries account for the liability for retirement benefits based on projected benefit obligations and fair value of plan assets at the balance sheet date.

Prior service costs are amortized using the straight-line method over

5 years, which is less than the average remaining years of service of the employees.
Actuarial gain or loss is amortized mainly using the straight-line method over 10 years, which is less than the average remaining years of service of the employees, and the amortization will be started in the year in which the gain or loss is recognized.
The transitional obligation as of April 1, 2000, is being amortized over 15 years.

(l) Income Taxes
The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2003, which allows companies to base tax payments on the combined profits or losses of the Company and its wholly owned domestic subsidiaries. Under the consolidated-tax system, a surcharge tax of 2% of taxable income is levied in addition to the national corporate income tax rate up to the fiscal year ended March 31, 2004, but such surcharge tax is no longer levied for the fiscal year ended March 31, 2005.

(m) Leases
All leases of the Company and domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(n) Derivative Financial Instruments
The Group uses foreign currency forward contracts and interest rate swaps as a means of hedging exposure to foreign currencies and interest risks. The Group does not enter into derivatives for trading or speculative purposes.
Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.
The foreign currency forward contracts are utilized to hedge foreign currency exposures for export sales and procurement of raw materials from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.
Forward contracts applied for forecasted transactions are also measured at fair value and the unrealized gains / losses are deferred until the underlying transactions are completed.
Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. Swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until the maturity of the transactions.

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

(p) Per Share Information
Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.
Diluted net income per share reflects the potential dilution that could occur if diluted securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding preference shares at the beginning of the year.
Cash dividends per share presented in the accompanying consolidated statements of income are dividends to be paid after the end of the year, if any.

(q) New Accounting Pronouncements
In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.
The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
The group expects to adopt these pronouncements as of the April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

(r) Accounting Change
Effective April 1, 2004, the Company presented a royalty expense on the use of a patent as cost of sales, which, previously, had been presented as selling, general and administrative expenses.
a) Reason for the change
Since the fiscal year ended March 31, 2005, Product management operation departments have been set up in each business division in order to produce high quality products promptly, which would satisfy end users well, with limited cost. The new departments administrate comprehensively each element of developments for new products, including marketing, product planning, design, and technical system design. The new departments have made it possible to exercise more accurate cost control than the previous fiscal year. As a result, it turned out that the royalty expense on the use of a patent should be counted as a part of manufacturing cost together with other product design costs, because those costs could be included based upon substantially the same criteria as a technical design cost for products.
b) Effects of the change
The effects of the change were to increase cost of sales by ¥ 2,559 million ($23,916 thousand) and to decrease selling, general and administrative expenses by ¥ 2,559 million ($23,916 thousand). There was no effect on the operating income, income before income taxes and minority interest, or net income for the year ended March 31, 2005.

2. Investment Securities

All the debt and equity securities, classified as available-for-sale securities, are included in non-current investment securities.
The carrying amounts and aggregate fair values of the available-for-sale securities as of March 31, 2005 and 2004, were as follows:

	2005							
	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	**¥ 2,428**	**¥ 1,057**	**¥ (14)**	**¥ 3,471**	**$ 22,691**	**$ 9,879**	**$ (131)**	**$ 32,439**
Total	**¥ 2,428**	**¥ 1,057**	**¥ (14)**	**¥ 3,471**	**$ 22,691**	**$ 9,879**	**$ (131)**	**$ 32,439**

	2004			
	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 1,356	¥ 449	¥ (22)	¥ 1,783
Total	¥ 1,356	¥ 449	¥ (22)	¥ 1,783

Proceeds from sales of available-for-sale securities for the year ended March 31, 2005 and 2004, were ¥625 million ($5,841 thousand) and ¥35 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥599 million ($5,598 thousand) for the year ended March 31, 2005, and gross realized losses computed on the moving average cost basis, for the year ended March 31, 2004 were ¥8 million.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005, and 2004 are as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Equity securities	**¥ 376**	¥ 414	**$ 3,514**
Debt securities	**-**	1,500	**-**
Total	**¥ 376**	¥ 1,914	**$ 3,514**

3. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were ¥806 million ($7,533 thousand) and ¥1,270 million for the years ended March 31, 2005 and 2004, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended March 31, 2005 and 2004 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			**2005**		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	**¥ 1,713**	**¥ 1,306**	**¥ 407**	¥ 2,078	¥ 1,336	¥ 742	**$ 16,009**	**$ 12,206**	**$ 3,803**
Tools, furniture and fixtures	**820**	**552**	**268**	1,758	1,135	623	**7,664**	**5,159**	**2,505**
Others	**72**	**48**	**24**	213	121	92	**673**	**449**	**224**
Total	**¥ 2,605**	**¥ 1,906**	**¥ 699**	¥ 4,049	¥ 2,592	¥ 1,457	**$ 24,346**	**$ 17,814**	**$ 6,532**

Obligations under finance leases:	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Due within one year	**¥ 440**	¥ 779	**$ 4,112**
Due after one year	**289**	730	**2,701**
Total	**¥ 729**	¥ 1,509	**$ 6,813**

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Depreciation expense	**¥ 761**	¥ 1,200	**$ 7,112**
Interest expense	**¥ 28**	¥ 48	**$ 262**

4. Land Revaluation Surplus

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

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

As of March 31, 2005, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥2,680 million ($25,047 thousand).

5. Short-term Borrowings and Long-Term Debt

Short-term borrowings, which generally consist of notes to banks and bank overdrafts, are due within one year. The interest rates on these borrowings ranged from 2.15417% to 6.86% and 1.375% to 8.3% as of March 31, 2005 and 2004, respectively.

Long-term debt as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Banks, 1.97%-3.64688%, due through 2006	**¥ 1,134**	¥ 11,811	**$ 10,598**
Japanese government-sponsored agencies, 6.00%, due through 2006	**0**	4	**0**
Insurance companies	**-**	4,481	**-**
Mortgage loans	**-**	144	**-**
Total	**1,134**	16,440	**10,598**
Less: Current portion	**(1,134)**	(11,199)	**(10,598)**
Long-term debt, less current portion	**¥ 0**	¥ 5,241	**$ 0**

The aggregate annual maturities of long-term debt as of March 31, 2005, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 1,134	$ 10,598
2007	0	0
2008 and thereafter	-	-
Total	¥ 1,134	$ 10,598

As of March 31, 2005, the carrying amounts of assets pledged as collateral for short-term borrowings of ¥26,479 million ($247,467 thousand) were as follows:

	Millions of yen	**Thousands of U.S. dollars**
Buildings and structures, net	**¥ 4,685**	**$ 43,785**
Investment securities	**2,109**	**19,710**
Land	**10,569**	**98,776**
Total	**¥ 17,363**	**$ 162,271**

Outstanding bank revolving loans contracted, but not provided for as of March 31, 2005 were as follows:

	2005	
	Millions of yen	**Thousands of U.S. dollars**
Credit facilities	**¥ 34,000**	**$ 317,757**
Used	**(20,479)**	**(191,393)**
Unused	**¥ 13,521**	**$ 126,364**

6. Liability for Employees' Retirement Benefits

The Company has a funded defined benefit pension plan, which covers all employees of the Company. Under the plan, employees terminating their employment after more than 10 years of participation or upon reaching the age of 60 are entitled to pension benefits.

Certain consolidated subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

Employees are entitled to larger payments in the case of voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥ 40,027	¥ 37,914	$ 374,084
Fair value of plan assets	(14,027)	(13,065)	(131,093)
Unrecognized actuarial gain	(5,492)	(5,529)	(51,327)
Unrecognized prior service cost	413	620	3,860
Prepaid pension cost	31	34	290
Unrecognized transitional obligation	(7,460)	(8,206)	(69,720)
Net liability	¥ 13,492	¥ 11,768	$ 126,094

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 765	¥ 1,381	$ 7,150
Interest cost	749	853	7,000
Expected return on plan assets	(260)	(182)	(2,430)
Amortization of prior service cost	(207)	(207)	(1,935)
Recognized actuarial loss	735	649	6,869
Amortization of transitional obligations	746	758	6,972
Net periodic retirement benefit costs	¥ 2,528	¥ 3,252	$ 23,626

Assumptions used for the years ended March 31, 2005 and 2004 are set forth as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	1.5%
Amortization period of prior service cost	5years	5years
Recognition period of actuarial gain / loss	10years	10years
Amortization period of transitional obligation	15years	15years

The Company and certain domestic subsidiaries have two types of pension plans for employees: a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labor and Welfare on April 1, 2004. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥ 9,671million ($ 90,383 thousand) as at March 31, 2005. If such substitutional portion of the plan assets would be transferred to the government on March 31, 2005, income before income taxes and minority interests would have increased by approximately ¥ 4,762million ($ 44,505 thousand).

7. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issued price of new shares is required to be recorded as stated capital of common stock or preferred stock, and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally dose not give rise to changes within the shareholders' accounts.

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

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders' meeting.

In addition to the provision that requires an appropriation for legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥6,502 million ($60,766 thousand), as of March 31, 2005, based on the amount recorded in the parent company's general books of accounts.

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

i) New share issuance

On July 1, 2004, by the resolution of the Board of Directors, the Company issued 92,000 thousand shares of its common stock at ¥239.375 per each share newly issued. The Company received total proceeds of ¥22,023 million ($205,822 thousand), ¥11,040 million ($103,177 thousand) of which was recorded in common stock and the remaining ¥10,983 million ($102,645 thousand) was recorded in capital surplus.

On March 18, 2005, by the resolution of the Board of Directors, the Company issued 5,069 thousand shares of its common stock at ¥211 per each share newly issued, through a third-party allotment of shares. The Company received total proceeds of ¥1,070 million ($10,000 thousand), ¥538 million ($5,028 thousand) of which was recorded in common stock and the remaining ¥532 million ($4,972 thousand) was recorded in capital surplus.

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

On August 6, 2004, by the resolution of the annual general shareholders' meeting, the Company reduced shareholders' stated capital of common stock without a reduction in the number of shares outstanding. Further, no shares have actually been repurchased by the Company from shareholders. Therefore, since this is only a reorganization of the capital structure, no transfers of shares have taken place, and no payments for the modification of the capital structure have been made to the shareholders of the Company. The purpose of the capital reduction is to make up for the accumulated deficits and to possibly resume dividends. The reduced amount of stated capital is transferred to accumulated deficits and capital surplus. The total amount of capital reduction was ¥20,000 million ($186,916 thousand).

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

On August 6, 2004, by the resolution of the annual general shareholders' meeting and the Class A preferred stock shareholders' meeting, the Company reduced stated capital of common stock and preferred stock through the redemption of the Class A preferred stock. The purpose of the capital reduction is to minimize potential dilution on the shareholders of common stock caused by the conversion of Class A preferred stock into common stock and to reduce future dividend payments. The total amount of capital reduction was ¥16,100 million ($150,467 thousand).

As of March 31, 2005, the preferred stock outstanding was as follows:

		Class B	
Number of shares issued		31,250	thousand
Issue price	¥	400	per share
Total issue price	¥	12,500	million
Stated capital per share	¥	200	per share
Total stated capital	¥	6,250	million

Preferred dividends	For the fiscal years ended March 31, 2003, 2004, 2005, 2006, and 2007, maximum ¥7.5 per share cumulative and non-participating. For the fiscal years ended March 31, 2008 and thereafter, maximum ¥28 per share non-cumulative and non-participating.
Voting rights	None except for a case as follows: -the appropriation of preferred dividends will not be resolved at any annual general shareholders' meeting held after March 1, 2007.
Shareholder's option of conversion to common stock	At ¥94.2 (to be adjusted) from December 1, 2007 to November 30, 2022.
Mandatory conversion to common stock	At the end of December 1, 2022, the outstanding Class B preferred stock shall be mandatorily converted to common stock at the prescribed average market price, provided that all the conditions of the Code shall be satisfied.
Distribution of assets	At ¥400 per share and accrued accumulated dividends, preferred distributions to shareholders of common stock.
Redemption	Redeemable by Board Resolution

8. Research and Development Costs

Research and development costs charged to income were ¥1,332 million ($12,444 thousand) and ¥1,461 million for the year ended March 31, 2005 and 2004, respectively.

9. Income Taxes

Under the consolidated corporate tax system, the normal effective statutory tax rates of the Company were approximately 40.7% and 42.0%, for the year ended March 31, 2005 and 2004, respectively.

The tax effects of significant temporary differences and tax loss carry-forwards which resulted in deferred tax assets and liabilities as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred Tax Assets:			
Impairment of investment securities	**¥ 1,612**	¥ 1,684	**$ 15,065**
Tax loss carryforwards	**11,332**	12,765	**105,907**
Liability for employees' retirement benefits	**5,188**	4,518	**48,486**
Other	**2,676**	3,452	**25,009**
Less: valuation allowance	**(19,216)**	(20,840)	**(179,589)**
Total	**¥ 1,592**	¥ 1,579	**$ 14,878**
Deferred Tax Liabilities:			
Investment securities	**¥ 425**	¥ 173	**$ 3,972**
Investments	**140**	103	**1,308**
Land revaluation	**2,174**	2,174	**20,318**
Other	**8**	40	**75**
Total	**2,747**	2,490	**25,673**
Deferred Tax Liabilities, Net:	**¥ (1,155)**	¥ (911)	**$ (10,795)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for years ended March 31, 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rate	**40.7%**	42.0%
Expenses not deductible for income tax purposes	**0.1%**	0.2%
Income not counted for income tax purposes	**(7.2%)**	-
Reduction of taxation income on temporary enterprise tax	**(0.5%)**	-
Tax benefits not recognized on operating losses of subsidiaries	**(26.1%)**	(23.6%)
Temporary differences not recognized on operating losses of subsidiaries	**0.6%**	15.6%
Difference of normal effective statutory tax rate among countries other than Japan	**(3.3%)**	-
Decrease of valuation allowance	**-**	(24.5%)
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	**10.8%**	0.4%
Effect of tax rate reduction on consolidated taxation system	**(2.8%)**	(7.5%)
Reversal of allowance for income tax	**(1.7%)**	-
Per capita inhabitant tax	**0.7%**	0.6%
Foreign withholding taxes not recognized on losses	**0.9%**	1.2%
Temporary enterprise tax	**0.3%**	0.4%
Other, net	**(4.4%)**	4.9%
Actual effective tax rate	**8.1%**	9.7%

As of March 31, 2005, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately ¥28,383 million ($265,262 thousand), which are available to apply against future taxable income.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 6,661	$ 62,252
2007	-	-
2008	-	-
2009	11,207	104,738
2010	6,940	64,860
thereafter	3,575	33,411
Total	¥ 28,383	$ 265,262

10. Net Income Per Share of Common Stock

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

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

Reconciliation of the differences between basic and diluted EPS for the year ended March 31, 2005 and 2004 are as follows:

For the year ended March 31, 2005:

	Millions of yen	**Thousands of shares**	**Yen**	**Dollars**
	Net income	**Weighted average shares**	**EPS**	
Basic EPS				
Net income available to common shareholders	**¥ 4,690**	**$ 279,361**	**¥ 16.79**	**$ 0.16**
Effect of Diluted Securities				
Preferred Stock	**100**	**176,665**		
Diluted EPS				
Net income for computation	**¥ 4,790**	**$ 456,026**	**¥ 10.50**	**$ 0.10**

For the year ended March 31, 2004:

	Millions of yen	Thousands of shares	Yen
	Net income	Weighted average shares	EPS
Basic EPS			
Net income available to common shareholders	¥ 7,144	$ 210,159	¥ 33.99
Effect of Diluted Securities			
Preferred Stock	174	255,102	
Diluted EPS			
Net income for computation	¥ 7,318	$ 465,261	¥ 15.73

11. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for borrowings of employees aggregating¥0 million ($2 thousand) and ¥0 million as of March 31, 2005 and 2004, respectively.

At March 31,2005, the Company had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense was ¥2,336million ($21,832 thousand) and ¥3,074 million for the years ended March 31, 2005 and 2004.

12. Derivatives

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets liabilities and future transactions denominated in foreign currencies. The Group also enters into interest rate swap agreements as a means of managing their interest rate exposures. Interest rate swaps effectively convert some floating rate debts to a fixed basis.

Because the counterparties to those derivatives are limited to major financial institutions, the Group does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the CEO of the Company and execution and control of derivatives are controlled by the Company's Finance Department.

A current status of the derivatives is reported to the Corporate Executive Officers and the Board of Directors of the Company.

The Group had the following derivatives contracts outstanding at March 31, 2005 and 2004:

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			**2005**		
	Contract or Notional Amount	Fair Value	Unrealized Gain/(Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain/(Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain/(Loss)
Interest Rate Swaps: (floating rate receipt, fixed rate payment)	**¥ 2,000**	**¥ (14)**	**¥ (14)**	¥ 3,000	¥ (54)	¥ (54)	**$ 18,692**	**$ (131)**	**$ (131)**
Foreign Exchange Contracts: (Euro, selling)	**¥ 561**	**¥ 570**	**¥ (9)**	¥ -	¥ -	¥ -	**$ 5,243**	**$ 5,327**	**$ (84)**

The contract or notional amounts of derivatives do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

13. Segment Information

The Company defines its business segments as follows:

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

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

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

Others:
Other electrical equipment and parts.

Operations by business segment and by geographic area for the year ended March 31, 2005 and 2004 were summarized as follows:

Operations by business segment:

	Millions of yen						
	Car Electronics Business	**Communications Business**	**Home Electronics Business**	**Others**	**Total**	**Corporate assets and eliminations**	**Consolidated**
2005							
Net sales:							
Sales to customers	¥ 104,772	¥ 55,064	¥ 18,867	¥ 2,409	¥ 181,112	¥ -	¥ 181,112
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	¥ 104,772	¥ 55,064	¥ 18,867	¥ 2,409	¥ 181,112	¥ -	¥ 181,112
Operating income (loss)	¥ 2,214	¥ 6,833	¥ (1,923)	¥ (63)	¥ 7,061	¥ -	¥ 7,061
Identifiable assets	¥ 67,618	¥ 24,669	¥ 12,550	¥ 2,388	¥ 107,225	¥ 8,912	¥ 116,137
Depreciation	¥ 5,765	¥ 1,284	¥ 725	¥ 48	¥ 7,822	¥ -	¥ 7,822
Capital expenditures	¥ 6,565	¥ 1,801	¥ 506	¥ 40	¥ 8,912	¥ -	¥ 8,912

Corporate assets as of March 31, 2005, amounted to ¥8,912 million ($83,290 thousand) and consisted primarily of the Company's cash, time deposits and investment securities.

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

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

	Thousands of U.S. dollars						
	Car Electronics Business	**Communications Business**	**Home Electronics Business**	**Others**	**Total**	**Corporate assets and eliminations**	**Consolidated**
2005							
Net sales:							
Sales to customers	$ 979,178	$ 514,617	$ 176,327	$ 22,514	$ 1,692,636	$ -	$ 1,692,636
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	$ 979,178	$ 514,617	$ 176,327	$ 22,514	$ 1,692,636	$ -	$ 1,692,636
Operating income (loss)	$ 20,692	$ 63,860	$ (17,972)	$ (589)	$ 65,991	$ -	$ 65,991
Identifiable assets	$ 631,944	$ 230,551	$ 117,290	$ 22,318	$ 1,002,103	$ 83,290	$ 1,085,393
Depreciation	$ 53,879	$ 12,000	$ 6,776	$ 449	$ 73,104	$ -	$ 73,104
Capital expenditures	$ 61,355	$ 16,832	$ 4,729	$ 374	$ 83,290	$ -	$ 83,290

Operations by geographic area for the years ended March 31, 2005 and 2004 were summarized as follows:

Operations by geographic area:

	Millions of yen							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2005								
Net sales:								
Sales to customers	**¥ 75,264**	**¥ 46,839**	**¥ 37,460**	**¥ 19,145**	**¥ 2,404**	**¥ 181,112**	**¥ -**	**¥ 181,112**
Intersegment sales	**77,487**	**103**	**2,298**	**45,078**	**5**	**124,971**	**(124,971)**	**-**
Total	**¥ 152,751**	**¥ 46,942**	**¥ 39,758**	**¥ 64,223**	**¥ 2,409**	**¥ 306,083**	**¥ (124,971)**	**¥ 181,112**
Operating income (loss)	**¥ 4,128**	**¥ 1,235**	**¥ (118)**	**¥ 1,541**	**¥ 49**	**¥ 6,835**	**¥ 226**	**¥ 7,061**
Identifiable assets	**¥ 107,182**	**¥ 17,109**	**¥ 14,783**	**¥ 22,250**	**¥ 1,401**	**¥ 162,725**	**¥ (46,588)**	**¥ 116,137**
2004								
Net sales:								
Sales to customers	¥ 78,367	¥ 44,237	¥ 40,254	¥ 13,648	¥ 2,225	¥ 178,731	¥ -	¥ 178,731
Intersegment sales	70,153	382	1,875	42,748	1	115,159	(115,159)	-
Total	¥ 148,520	¥ 44,619	¥ 42,129	¥ 56,396	¥ 2,226	¥ 293,890	¥ (115,159)	¥ 178,731
Operating income	¥ 8,012	¥ 1,217	¥ 647	¥ 916	¥ 27	¥ 10,819	¥ 1,791	¥ 12,610
Identifiable assets	¥ 101,090	¥ 16,483	¥ 17,061	¥ 17,854	¥ 1,430	¥ 153,918	¥ (18,155)	¥ 135,763

	Thousands of U.S. dollars							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2005								
Net sales:								
Sales to customers	**$ 703,402**	**$ 437,748**	**$ 350,094**	**$ 178,925**	**$ 22,467**	**$ 1,692,636**	**$ -**	**$ 1,692,636**
Intersegment sales	**724,177**	**963**	**21,476**	**421,290**	**47**	**1,167,953**	**(1,167,953)**	**-**
Total	**$ 1,427,579**	**$ 438,711**	**$ 371,570**	**$ 600,215**	**$ 22,514**	**$ 2,860,589**	**$ (1,167,953)**	**$ 1,692,636**
Operating income (loss)	**$ 38,580**	**$ 11,542**	**$ (1,103)**	**$ 14,402**	**$ 458**	**$ 63,879**	**$ 2,112**	**$ 65,991**
Identifiable assets	**$ 1,001,701**	**$ 159,897**	**$ 138,159**	**$ 207,944**	**$ 13,094**	**$ 1,520,795**	**$ (435,402)**	**$ 1,085,393**

The geographic areas consist primarily of the following countries and regions:

America….U.S., Canada and Panama
Asia…… China, Singapore and U.A.E.
Europe….. Germany, France and the United Kingdom
Other……Australia

Overseas sales:

	Millions of yen				
	America	Europe	Asia	Other	Total
2005					
Overseas sales	**¥ 47,174**	**¥ 37,584**	**¥ 20,842**	**¥ 3,346**	**¥ 108,946**
Consolidated net sales					**¥ 181,112**
Ratios of overseas sales	**26.0 %**	**20.8 %**	**11.5 %**	**1.8 %**	**60.2 %**
2004					
Overseas sales	¥ 47,656	¥ 40,424	¥ 17,802	¥ 3,329	¥ 109,211
Consolidated net sales					¥ 178,731
Ratios of overseas sales	26.7 %	22.6 %	10.0 %	1.9 %	61 %

	Thousands of U.S. dollars				
	America	Europe	Asia	Other	Total
2005					
Overseas sales	**$ 440,879**	**$ 351,252**	**$ 194,785**	**$ 31,271**	**$ 1,018,187**
Consolidated net sales					**$ 1,692,636**

The geographic areas consist primarily of the following countries and regions:
America….U.S., Canada and Panama
Europe….. Germany, France and the United Kingdom
Asia…… China, Singapore and U.A.E.
Other……Australia

14. Subsequent Event

i) Appropriation of retained earnings

The annual general shareholders' meeting, held on June 29, 2005 resolved as an appropriation of retained earnings as follows:

a) Cash dividends of accumulative payable to the shareholder of Class B preferred stock: ¥126 million ($1,178 thousand)
b) Cash dividends to the shareholder of Class B preferred stock: ¥101 million ($944 thousand)
c) Cash dividends to the shareholder of common stock: ¥921 million ($8,607 thousand)
d) Payments of bonuses to directors and corporate auditors: ¥46 million ($430 thousand)

ii) New share issuance

The Company's board of directors meetings held on June 6, 2005 and June 20, 2005, resolved a new share issuance with a payment due date of June 30, 2005.

The proceeds from the issuance of new shares are to be appropriated to the redemption of Class B preferred stock.

1) Number of new shares issued: 60 million shares of common stock
2) Offering price per share: ¥190 ($1.78)
3) Total offering price: ¥11,400 million ($106,542 thousand)
4) Issue price per share: ¥185.20 ($1.73)
5) Total Issue price: ¥11,112 million ($103,850 thousand)
6) Stated capital per share: ¥185.20 ($1.73)
7) Total stated capital: ¥11,112 million ($103,850 thousand)
8) Initial date of dividend recognition: April 1, 2005

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

The annual general shareholders' meeting and the Class B preferred stock shareholders' meeting, held on June 29, 2005 resolved the reduction in the stated capital through the redemption of the Class B preferred stock. The purpose of the capital reduction is to minimize potential dilution on the shareholders of common stock caused by the conversion of Class B preferred stock into common stock and to reduce future dividend payments. The total amount of capital reduction is to be ¥15,000 million ($140,187 thousand).

Schedule

a) Resolution at the Board of Directors Meeting: May 20, 2005
b) Resolution at the General Shareholders' Meeting: June 29, 2005
c) Deadline for creditors to lodge protests: the first ten days of August, 2005
d) Effective date of Capital Reduction: the first ten days of August, 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Kenwood Corporation:

We have audited the accompanying consolidated balance sheets of Kenwood Corporation and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kenwood Corporation and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 1(r) to the consolidated financial statements, the Company changed its method of accounting for a royalty expense on the use of a patent, effective April 1, 2004.

And as discussed in Note 14 to the consolidated financial statements, the Company's new share issuance was approved at the board of directors meetings held on June 6, 2005 and June 20, 2005. And a reduction in the stated capital through the redemption of Class B preferred stock was approved at the annual general shareholders' meeting and the Class B preferred stock shareholders' meeting, held on June 29, 2005.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Member of
Deloitte Touche Tohmatsu

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