Overview of Fiscal Year Ended March 2006

In the current fiscal year, the world economy was strong on the back of solid domestic demand in the U.S. and China despite decelerating factors such as soaring crude oil prices. The European and Asian economies were also strong in general, supported by the said solid demand.

The Japanese economy showed signs of gentle recovery that can be attributed to improving corporate profits, increased capital investment and higher levels of personal consumption.

The consumer electronics market continued to be a very competitive in the current fiscal year. More specifically, the size of the audio market prolonged its shrinking trend as intensified competition put downward pressure on prices and as part of the market switched to digital media sectors. However, sales of car navigation systems remained strong in the car electronics market and the popularity of portable digital audio players rose in the home electronics market.

Amid these conditions, the Kenwood Group was able to achieve higher revenue for two consecutive years. This was mainly driven by the Car Electronics OEM business and the Communications Equipment business which continued to expand in line with the growth strategy. Operating profit increased 20% and more year-on-year due to effects of increased revenue resulting from increased sales of the Communications Equipment business, and the reforms on the revenue structure of the Car Electronics Consumer (Multimedia) and Home Electronics businesses.

Sales and Income

Consolidated Operating Results

Net sales — Increased 1.4% year-on-year, resulting in increased sales for two consecutive years

Net sales generated by the Car Electronics OEM business increased significantly for three consecutive years in line with the growth strategy. In addition, the Communications Equipment business surpassed the results posted in the previous fiscal year because of increased sales of wireless radio equipment, a main product, due to favorable economic conditions in the US market.

Sales of the Car Electronics Consumer (Audio) business was below our expectations due to effects of the closing of former products in the entire consumer market that was delayed until the company introduced new products, although such closing of the Company's former products went smoothly for the third quarter and the Company prepared to introduce new products in the fourth quarter. However, the performance of this business improved compared with the previous fiscal year amid the continuous shrinkage of the market due to the strategy for high value-added products and the introduction of global strategy models.

Sales of the Car Electronics Consumer (Multimedia) and Home Electronics businesses tentatively decreased due to the strategy change made in prior fiscal year for the purpose of responding to technological innovation and rapid market changes. Consolidated sales of the entire Group increased 1.4% (or an approximately JPY2.5 billion increase) from the previous fiscal year, as anticipated, to JPY 183,616 million, the second consecutive increase, because such the fall in provisional sales was offset by increased sales of the Car Electronics OEM, Communications Equipment and Car Electronics Consumer (Audio) businesses.

Operating Profit - Increased 23.0% year-on-year, a significant increase

Operating profit of the Communications Equipment business significantly increased from the previous fiscal year due to higher sales of wireless radio equipment and exchange rate influence, while losses of the Car Electronics Consumer (Multimedia) and Home Electronics businesses significantly decreased due to the strategy change made in prior years.

Operating profit of the Car Electronics OEM business decreased from the previous fiscal year due to an increase in up-front investments for future business expansion and increased sales of unprofitable product types.

In addition, operating profit of the Car Electronics Consumer (Audio) business decreased from the previous fiscal year because sales did not grow as expected in the fourth quarter, particularly in March, the time when the Company is usually at its most profitable as described before.

These factors for a tentative decrease in profit were offset by increased sales of the Communications Equipment business, based on the growth strategy, and of the Car Electronics Consumer (Multimedia) and Home Electronics business, based on the strategy change. The consolidated operating profit of the entire Group was up 23.0% (or an approximately JPY1.6 billion) from the previous fiscal year, standing at JPY8,686 million, although it was less than we had expected. Nevertheless, we considered this to be a significant increase in profit.

Ordinary income - Increased 4.0% year-on-year amid the structural reforms of assets

Consolidated ordinary income increased 4.0% (or approximately JPY0.2 billion) from the previous fiscal year to JPY4,886 million. This figure was mainly because overseas inventories decreased more than our expectations as a result of sales activities, and tentative non-operating losses were not as large as we anticipated although the Company actively made the structural reforms of its assets during the current year such as the review of inventories in relation to the strategy change of the Home Electronics business and for the purpose of minimizing future risk factors.

Net income — Increased 26.2% year-on-year, the second highest level increase ever

The Company posted extraordinary income associated with the repayment of certain past service pension assets to the national government and gain on sales of investment securities. The Company also posted losses on former software as a result of the strategy change in car navigation systems, and impairment of fixed assets. As a result, consolidated net income increased 26.2% (or approximately JPY1.3 billion) from the previous fiscal year to JPY6,104 million, the second best increase ever, after the fiscal year ended March 31, 2004.

Net Sales and Earnings by Business Segment

Car Electronics Business

Net Sales

Sales of the entire Car Electronics business rose 2.8% (or approximately JPY3 billion) from the previous fiscal year to JPY107,723 million because a temporary fall in sales of the Car Electronics Consumer (Multimedia) business caused by the strategy change was covered by an increase in sales of the Car Electronics OEM business based on the growth strategy.

The Car Electronics OEM business, which has been actively implementing a growth strategy, continued to enjoy strong performance as anticipated in the current fiscal year, and posted a significant sales increase for the third consecutive year.

In the Car Electronics Consumer (Audio) business, the Company smoothly discontinued some products in the third quarter, and prepared to introduce new products in the fourth quarter. Sales, however, did not grow as expected due to a delay in the discontinuance of these products throughout the entire market, and the Company waited to introduce new products. However, sales was greater than the previous fiscal year's results while the market size continued to shrink due to the strategy for high value-added product lineups for 2005, global strategic models introduced in the third quarter, and exchange rate influence.

Sales of the Car Electronics Consumer (Multimedia) business was lower than the previous fiscal year results because the number of product lineups tentatively decreased after the strategy change to develop car navigation systems from a joint development system to a self only system in prior years to strengthen competitiveness, and the sales increase slowed for visual products such as TV/DVD receivers after the third quarter due to the rising popularity of portable navigation systems. This drop in sales, however, was compensated for by increased sales of the Car Electronics Consumer (Audio) business, and overall sales of the Car Electronics Consumer business was slightly less than the previous fiscal year.

Earnings

Operating profit of the entire Car Electronics business was down 17.5% (or approximately JPY0.4 billion) from the previous fiscal year and stood at JPY1,827 million, which was below expectations, due to increased losses of the Car Electronics OEM business that was not covered because some effects of introducing new consumer products are expected to persist until the fiscal year ending March 31, 2007, due to effects of the market trends and sales of the Car Electronics Consumer business did not increase as we had expected.

Operating profit of the Car Electronics Consumer (Audio) business decreased from the previous fiscal year because sales did not grow as expected during the fourth quarter, as described above, although annual sales plans normally estimate the highest sales in the year to occur during this quarter. Operating profit of the Car Electronics Consumer (Multimedia) business improved significantly due to higher cost competitiveness resulting from the strategy change, and covered the decreased profit of the Car Electronics Consumer (Audio) business. As a result, sales of this business was higher than the previous fiscal year while those of the entire Car Electronics Consumer business fell slightly.

Losses of the Car Electronics OEM business expanded due to the effects of increased up-front investments for business expansion, and sales of unprofitable product types, for which the Company strategically received advance orders in anticipation of improved profit.

Communications Equipment Business

Net Sales

Sales of the entire Communications Equipment business was better than our expectations, and rose 6.5% (or approximately JPY3.6 billion) from the previous fiscal year to JPY58,639 million because sales of wireless radio equipment, a main product, was strong on the back of favorable economic conditions in the US market, and significantly increased from the previous fiscal year due to increased sales in Europe and emerging countries including China, although sales of mobile phone decreased due to the movements of mobile phone companies.

Earnings

Operating profit of the entire Communications Equipment business was significantly higher than we had predicted and increased 22.0% (or approximately JPY1.5 billion) from the previous fiscal year to JPY8,336 million because increased sales of wireless radio equipment compensated for decreased sales of mobile phone and factors for decreased sales including investments in development of digital wireless radio equipment.

Home Electronics Business

Net Sales

Sales of high-class pure audio products, portable HDD players, and other main products for the domestic market were strong in line with the new product strategy utilizing the Company's high quality sound technologies and the rising popularity of digital media products.

On the other hand, sales of the entire Home Electronics business was lower than our expectations, and decreased 21.0% (or approximately JPY4 billion) from the previous fiscal year to JPY14,897 million because in prior years the Company had made a strategic change to reduce the size of the home theater business mainly for the overseas market, and the size of the conventional-type audio market represented by portable MD players and compact stereos of the mass-merchandise type significantly decreased due to rapid changes in the market, as a result of increasingly fierce competition and decreasing prices in the home theater market, a market in which manufacturers of emerging countries are gaining ground.

Earnings

The effects of reducing fixed costs after the reduction of the size of the unprofitable home theater business in the previous fiscal year have become clear, and the Company was able to improve profitability as initially planned.

On the other hand, sales of conventional-type models fell after the rapid changes in the conventional-type audio market due to the rising popularity of digital media content and lower prices, and the decrease of these sales has offset strong sales of high-class pure audio products and portable HDD players. As a result, profitability of the portable audio and pure audio businesses worsened.

Operating loss of the entire Home Electronics business decreased 26.2% (or approximately JPY0.5 billion) from the previous fiscal year to JPY1,420 million due to the effects of improved profit after the strategy change although the performance was not profitable.

(JPY in Million)

Segment		Mar. 2006	Mar. 2005	Year-on-Year Change	
Car Electronics Business	Net Sales	107,723	104,772	+2,951	+2.8%
	Operating Profit	1,827	2,214	△387	△17.5%
Communications Equipment Business	Net Sales	58,639	55,064	+3,575	+6.5%
	Operating Profit	8,336	6,833	+1,503	+22.0%
Home Electronics Business	Net Sales	14,897	18,867	△3,970	△21.0%
	Operating Profit	△1,420	△1,923	+503	-
Others	Net Sales	2,357	2,409	△52	△2.2%
	Operating Profit	△57	△63	+6	-
Total	Net Sales	183,616	181,112	+2,504	+1.4%
	Operating Profit	8,686	7,061	+1,625	+23.0%
	Ordinary Income	4,886	4,696	+190	+4.0%
	Net Income	6,104	4,836	+1,268	+26.2%

Consolidated Financial Position

Assets, Liabilities and Shareholders Equity at the End of the Current Fiscal Year

Total assets at year end fell by JPY 6.6 billion from the previous fiscal year end to JPY109,554 million although the Company booked retained earnings as a result of strong business performance during the current fiscal year, because we succeeded in redemption of the preferred stocks through a public offering and a capital reduction with compensation, as mentioned previously.

In addition, interest-bearing liabilities fell by approximately JPY4.8 billion from the end of the previous fiscal year to finish at JPY26,263 million. This was despite the fact that approximately JPY4.0 billion of funds on hand were appropriated towards the disposal of preferred stock with compensation. Net debt also fell by approximately JPY2.9 billion to JPY12,215 million.

Shareholders' equity increased approximately JPY4.4 billion from the end of the previous fiscal year to JPY37,486 million, mainly as a result of the issuance of new shares worth JPY11.1 billion and the addition of net income during the current fiscal year. This increase also factors in a capital reduction with compensation worth JPY15 billion as a result of the disposal of the First Tranche Class B Preferred Stock. Consequently, the shareholders' equity ratio improved 5.7 percentage points from the end of the previous fiscal year to finish at 34.2%.

Moreover, retained earnings increased by approximately JPY5.1 billion from the end of the previous fiscal year to JPY18,316 million as a result of strong business performance during the current fiscal year.

(JPY in Million)

	Mar. 2006	Mar. 2005	Year-on-Year Change
Total Assets	109,554	116,137	△6,583
Interest-Bearing Liabilities	26,263	31,088	△4,825
Net Debt	12,215	15,147	△2,932
Shareholders Equity	37,486	33,132	+4,354
Shareholders Equity Ratio	34.2%	28.5%	+5.7%
Retained Earnings	18,316	13,199	+5,117
Interest Coverage Ratio(Note)	19.88	13.64	+6.24

Note: Interest coverage ratio is calculated by dividing the cash flow from operating activities by interest payments.

Cash Flow Conditions in the Current Fiscal Year

Cash flow from operating activities saw a net spending of approximately JPY12,664 million or a decrease of approximately JPY2.9 billion compared with the previous fiscal year because accounts payable decreased more than the decrease of accounts receivable compared with the previous fiscal year.

Cash flow from investing activities saw a net spending of approximately JPY4,320 million or approximately JPY0.8 billion more than the previous fiscal year. This was mainly because of a significant decline in the revenues associated with the payback of fixed deposits despite an increase in income from sales of investment securities and reduced spending for the acquisition of investment securities and tangible and intangible fixed assets.

Cash flow from financing activities saw a net spending of JPY10,673 million or approximately JPY19.7 billion less than the previous fiscal year, mainly because there was no significant cash outflow in the current fiscal year associated with the repayment of loans carried out in the previous fiscal year, although the cash inflow from the issuance of new shares to dispose of Class B Preferred Stock with compensation decreased from the previous fiscal year.

(JPY in Million)

	Mar. 2006	Mar. 2005	Year-on-Year Change
Cash Flow from Operating Activities	12,664	15,539	△2,875
Cash Flow from Investing Activities	△4,320	△3,513	△807
Cash Flow from Financial Activities	△10,673	△30,333	+19,660
Effect of Exchange Rate Changes on Cash and Cash Equivalents	462	406	+56
Net Increase (Decrease) of Cash and Cash Equivalents	△1,866	△17,901	16,035
Cash and Cash Equivalents at Beginning of the Fiscal Year	15,875	33,698	△17,823
Net Increase (Decrease) in Cash and Cash Equivalents in Accordance with the Change of Consolidated Subsidiaries	–	78	△78
Cash and Cash Equivalents at the End of the Fiscal Year	14,008	15,875	△1,867

Earnings Outlook for Fiscal Year Ending March 2007

Net Sales

We anticipate sales of the Car Electronics OEM business to steadily increase as a result of up-front investments, and the Car Electronics Consumer (Multimedia) business is expected to expand because we have completed our strategy change . This sales increase and the business conditions offset the effects of structural reforms of the Home Electronics business, which aim to improve profitability through converting products to high value-added models, and we forecast consolidated sales of JPY185 billion.

Operating Profit

The Company plans to focus on strategic development of new technologies and new products and make investments in strategic development amounting to JPY4 billion during the current fiscal year. The Company conducts these activities, in addition to yearly research and development, so that it can quickly respond to rapidly changing management environments that are caused by technological innovations such as the rising popularity and progress of digital media content. The Company develops new product strategies for the next generation by regarding these management environments as business opportunities.

The majority of these investments in strategic development made to achieve the goals of the mid-term business plan will be factors causing income to fall for the fiscal year ending March 31, 2007, but recovered revenues of the Car Electronics business and improved revenues of the Home Electronics business will be able to cover such reduced revenue, and overall we forecast a consolidated operating profit of JPY9 billion, which is higher than the current fiscal year’s performance, although this forecast is only a reference figure based on such investments in strategic development.

Ordinary Income

We forecast non-operating income for the fiscal year ending March 31, 2007 to improve and consolidated ordinary income to increase to JPY6 billion from the current fiscal year, because we completed the structural reforms of assets, such as reviews of inventories in relation to our strategic change and the minimization of future risks, in the fiscal year ended March 31, 2006.

Net Income

The Company posted extraordinary income associated with the repayment of certain past service pension assets to the national government and gain on sales of investment securities for the fiscal year ended March 31, 2006, but because the increase of this extraordinary income is only provisional and such income is normalized in the fiscal year ending March 31, 2007, we expect consolidated net income to fall to JPY5 billion from the current fiscal year.

Consolidated Earnings Outlook

(JPY in Million)

	Outlook for fiscal year ending March 2007	Results for fiscal year ended March 2006	Increase or Decrease
Net Sales	185,000	183,616	+1,384
Ordinary Income	6,000	4,886	+1,114
Net Income	5,000	6,104	-1,104

Note: For reference purposes, we anticipate consolidated operating profit to increase 3.6% (or approximately JPY 0.3 billion) from the current fiscal year to JPY9 billion.

Outlook for Sales and Profit and Losses by Segment

Car Electronics Business

We expect sales of the Car Electronics OEM business to continuously increase as a result of up-front investments based on the growth strategy, and we also anticipate sales of the Car Electronics Consumer (Multimedia) business to increase as a result of the completion of our change in strategy. The Company expects the market for the Car Electronics Consumer (Audio) business to continuously shrink, but there may be sales increases through fully-fledged operations for new product lineups for 2006, introduction of global strategy models, and sales expansion in emerging countries, mainly BRICs. As a result, we predict sales of the entire Car Electronics business will increase.

As for profit and losses, the Company forecasts a recovery of profitability as a result of sales increases of the Car Electronics Consumer (Audio) business, improved profitability as a result of the strategy change of the Car Electronics Consumer (Multimedia) business, and the completion of up-front investments and model changes of unprofitable product types of the Car Electronics OEM business. As a result, we expect profit of the entire Car Electronics business to increase amid the progress of investments in strategic development mainly for car multimedia products.

Communications Equipment Business

The Company expects sales of the entire Communications Equipment business to remain at the same level because we expect the management environment of mobile phone companies to become favorable as a result of the conversion of management systems and the introduction of number portability in the mobile phone business, although there will probably be effects from the completion of the demand cycle in the U.S. mainly for the main wireless radio equipment business.

The Company expects profit to slightly decrease because the Company plans to make fully-fledged investments in strategic development related to digital wireless communication and network systems for the wireless radio equipment business.

Home Electronics Business

We expect sales of the Home Electronics business to fall due to the effects of promoting structural reforms based on the rising popularity of digital media content and the conversion to high value-added models utilizing high quality sound technologies, in anticipation of the rapid shrinkage of the conventional-type audio market on a continuous basis.

The Company foresees a reduction in losses due to improved profitability resulting from structural reforms while the Company makes investments in strategic development to establish the “Seamless Entertainment World.”