KENWOOD

Listen to the Future

ANNUAL REPORT 2006 For the year ended March 2006

FINANCIAL SECTION

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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."

Consolidated Balance Sheets

Kenwood Corporation and Consolidated Subsidiaries
As of March 31, 2006 and 2005

ASSETS	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1(a)) 2006
Current Assets:			
Cash and cash equivalents	¥ **14,009**	¥ 15,876	$ **119,735**
Time deposits	**39**	66	**333**
Receivables —			
Trade notes and accounts receivable	**29,231**	31,502	**249,838**
Less: Allowance for doubtful receivables	**(733)**	(785)	**(6,265)**
Inventories —			
Finished goods	**17,736**	15,004	**151,590**
Work in process and raw materials	**8,151**	10,253	**69,667**
Deferred tax assets (Note 10)	**690**	692	**5,897**
Prepaid expenses and other	**4,152**	5,012	**35,487**
Total current assets	**73,275**	77,620	**626,282**
Property, Plant and Equipment, at Cost (Notes 3, 5 and 6):			
Land (Note 4)	**9,216**	10,797	**78,769**
Buildings and structures	**17,310**	18,091	**147,949**
Machinery and equipment	**19,039**	17,054	**162,727**
Tools, furniture and fixtures	**13,602**	12,781	**116,256**
Construction in progress	**-**	148	**-**
	59,167	58,871	**505,701**
Less: Accumulated depreciation	**(37,252)**	(35,316)	**(318,393)**
Net property, plant and equipment	**21,915**	23,555	**187,308**
Investments and Other Assets:			
Investment securities (Note 2)	**5,640**	3,847	**48,205**
Investments in and advances to unconsolidated subsidiaries and associated companies	**19**	83	**162**
Software	**5,525**	7,124	**47,222**
Deferred tax assets (Note 10)	**744**	900	**6,359**
Other	**2,522**	3,091	**21,556**
Less: Allowance for doubtful accounts	**(86)**	(83)	**(735)**
Total investments and other assets	**14,364**	14,962	**122,769**
Total	¥ **109,554**	¥ 116,137	$ **936,359**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1(a)) 2006
Current Liabilities:			
Short-term borrowings (Note 6)	¥ **26,263**	¥ 29,954	$ **224,470**
Current portion of long-term debt (Note 6)	**0**	1,134	**0**
Trade notes and accounts payable	**24,092**	27,047	**205,915**
Income taxes payable (Note 10)	**536**	452	**4,581**
Accrued expenses	**6,982**	6,669	**59,675**
Deferred tax liabilities (Note 10)	**15**	8	**128**
Other	**1,131**	1,471	**9,667**
Total current liabilities	**59,019**	66,735	**504,436**
Long-term Liabilities:			
Long-term debt (Note 6)	**-**	0	**-**
Liability for employees' retirement benefits (Note 7)	**9,364**	13,492	**80,034**
Deferred tax liabilities (Note 10)	**3,482**	2,739	**29,761**
Other	**202**	38	**1,726**
Total long-term liabilities	**13,048**	16,269	**111,521**
Commitments and Contingent Liabilities (Notes 3, 12 and 13)			
Shareholders' Equity (Note 8):			
Common stock, authorized - 672,500,000 shares issued - 367,524,995 shares in 2006 and 307,524,995 shares in 2005	**11,059**	8,697	**94,521**
Preferred stock, authorized - 0 shares in 2006 and 31,250,000 shares in 2005 issued - 0 shares in 2006 and 31,250,000 shares in 2005	**-**	6,250	**-**
Capital Surplus	**13,374**	13,374	**114,308**
Retained earnings	**18,317**	13,199	**156,556**
Land revaluation surplus (Note 4)	**2,954**	3,167	**25,248**
Net unrealized gain on available-for-sale securities	**1,890**	619	**16,154**
Foreign currency translation adjustments	**(10,021)**	(12,109)	**(85,650)**
Total	**37,573**	33,197	**321,137**
Less: Treasury stock, at cost; Common Stock, 487,127 shares in 2006 and 391,729 shares in 2005	**(86)**	(64)	**(735)**
Total shareholders' equity	**37,487**	33,133	**320,402**
Total	¥ **109,554**	¥ 116,137	$ **936,359**

Consolidated Statements of Income

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2006	2005	**2006**
Net Sales	**¥ 183,616**	¥ 181,112	**$ 1,569,368**
Cost of Sales (Note 9)	**139,441**	137,664	**1,191,804**
Gross profit	**44,175**	43,448	**377,564**
Selling, General and Administrative Expenses (Note 9)	**35,488**	36,387	**303,316**
Operating income	**8,687**	7,061	**74,248**
Other Income (Expenses):			
Interest expense, net	**(459)**	(1,143)	**(3,923)**
Cash discount	**(850)**	(317)	**(7,265)**
Equity in earnings of unconsolidated subsidiaries and associated companies	**-**	45	**-**
Gain on sales of investment securities	**1,830**	599	**15,641**
Loss on impairment of investment securities	**(250)**	(13)	**(2,137)**
Loss on disposal of inventories	**(2,140)**	(1,102)	**(18,291)**
Loss on impairment of inventories	**(242)**	(204)	**(2,068)**
Loss on sales and disposals of property, plant and equipment, net	**(2,662)**	(17)	**(22,752)**
Loss on impairment of long-lived assets (Note 5)	**(988)**	-	**(8,444)**
Loss on liquidation of consolidated subsidiaries, net	**-**	(155)	**-**
Retirement allowances paid to directors and corporate auditors	**(8)**	(13)	**(68)**
Gain on prior years patent fee	**-**	313	**-**
Gain on transfer of the substitutional portion of the governmental pension program (Note 7)	**4,850**	-	**41,453**
Other, net,	**(714)**	209	**(6,103)**
Total	**(1,633)**	(1,798)	**(13,957)**
Income before Income Taxes	**7,054**	5,263	**60,291**
Income Taxes (Note 10):			
Current	**741**	404	**6,334**
Prior year adjustment	**130**	-	**1,111**
Deferred	**79**	23	**675**
Total income taxes	**950**	427	**8,120**
Net Income	**¥ 6,104**	¥ 4,836	**$ 52,171**

	Yen		U.S. dollars (Note 1(a))
Per Share of Common Stock (Note 11):			
Basic net income	**¥ 17.16**	¥ 16.79	**$ 0.15**
Diluted net income	**15.13**	10.50	**0.13**
Cash dividends applicable to the year	**2.00**	3.00	**0.02**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2006	2005	**2006**
Common Stock (Note 8) :			
Beginning balance	¥ **8,697**	¥ 26,969	$ **74,333**
Capital increase upon issuance of 92,000,000 shares of common stock on July 1, 2004	**-**	11,040	**-**
Capital increase upon issuance of 60,000,000 shares of common stock on June 30, 2005	**11,112**	-	**94,974**
Capital reduction of common stock without compensation on August 6,2004	**-**	(20,000)	**-**
Capital reduction of 31,250,000 shares of preferred stock on August 6, 2004	**-**	(9,850)	**-**
Capital reduction of 31,250,000 shares of preferred stock on August 8, 2005	**(8,750)**	-	**(74,786)**
Capital increase upon issuance of 5,069,000 shares of common stock on March 18, 2005	**-**	538	**-**
Ending balance	¥ **11,059**	¥ 8,697	$ **94,521**
Preferred Stock (Note 8) :			
Beginning balance	¥ **6,250**	¥ 12,500	$ **53,419**
Capital reduction of 31,250,000 shares of preferred stock on August 6, 2004	**-**	(6,250)	**-**
Capital reduction of 31,250,000 shares of preferred stock on August 8, 2005	**(6,250)**	-	**(53,419)**
Ending balance	¥ **-**	¥ 6,250	$ **-**
Capital Surplus (Note 8) :			
Beginning balance	¥ **13,374**	¥ -	$ **114,308**
Capital increase upon issuance of 92,000,000 shares of common stock on July 1, 2004	**-**	10,983	**-**
Capital reduction of common stock without compensation on August 6, 2004	**-**	1,859	**-**
Capital increase upon issuance of 5,069,000 shares of common stock on March 18, 2005	**-**	532	**-**
Ending balance	¥ **13,374**	¥ 13,374	$ **114,308**
Retained earnings (Accumulated Deficit) (Note 8) :			
Beginning balance	¥ **13,199**	¥ (9,778)	$ **112,812**
Net income	**6,104**	4,836	**52,171**
Capital reduction of common stock without compensation on August 6, 2004	**-**	18,141	**-**
Cash dividends paid	**(1,148)**	-	**(9,812)**
Transfer to employee welfare fund	**(5)**	-	**(43)**
Bonuses paid to directors and corporate auditors	**(46)**	-	**(393)**
Reversal of land revaluation surplus due to sale of land	**168**	-	**1,436**
Reversal of land revaluation surplus due to impairment of land	**45**	-	**385**
Ending balance	¥ **18,317**	¥ 13,199	$ **156,556**
Land Revaluation Surplus (Note 4):			
Beginning balance	¥ **3,167**	¥ 3,167	$ **27,069**
Reversal of land revaluation due to sale of land	**(168)**	-	**(1,436)**
Reversal of land revaluation due to impairment of land	**(45)**	-	**(385)**
Ending balance	¥ **2,954**	¥ 3,167	$ **25,248**
Net Unrealized Gain on Available-for-sale Securities:			
Beginning balance	¥ **619**	¥ 254	$ **5,291**
Net increase of unrealized gain of available-for-sale securities	**1,271**	365	**10,863**
Ending balance	¥ **1,890**	¥ 619	$ **16,154**
Foreign Currency Translation Adjustments:			
Beginning balance	¥ **(12,109)**	¥ (12,901)	$ **(103,496)**
Net increase of foreign currency translation adjustments	**2,088**	792	**17,846**
Ending balance	¥ **(10,021)**	¥ (12,109)	$ **(85,650)**
Treasury Stock, at cost, Common Stock:			
Beginning balance	¥ **(64)**	¥ (50)	$ **(547)**
Repurchase of treasury stock	**(22)**	(14)	**(188)**
Ending balance	¥ **(86)**	¥ (64)	$ **(735)**
Total Shareholders' Equity	¥ **37,487**	¥ 33,133	$ **320,402**
	Thousands of shares		
Number of Outstanding Shares:			
Beginning balance	**338,383**	272,629	
Issuance of common stock	**60,000**	97,069	
Reduction of preferred stock	**(31,250)**	(31,250)	
Repurchase of treasury stock	**(95)**	(65)	
Ending balance	**367,038**	338,383	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2006	2005	**2006**
Operating Activities:			
Income before income taxes	**¥ 7,054**	¥ 5,263	**$ 60,291**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Income taxes-paid	**(670)**	(593)	**(5,726)**
Depreciation and amortization	**7,403**	7,822	**63,274**
Provision for doubtful receivables	**(102)**	(267)	**(872)**
Loss on impairment of long-lived assets	**988**	-	**8,444**
Loss on disposal of property, plant and equipment	**2,773**	211	**23,701**
Gain on sales of property, plant and equipment, net	**(192)**	(194)	**(1,641)**
Gain on sales of investment securities	**(1,830)**	(599)	**(15,641)**
Loss on impairment of investment securities	**250**	13	**2,137**
Changes in assets and liabilities :			
Decrease in trade notes and accounts receivable	**4,380**	424	**37,436**
Decrease in inventories	**670**	1	**5,726**
Increase (Decrease) in trade notes and accounts payable	**(4,988)**	982	**(42,632)**
Increase (Decrease) in retirement benefits	**(4,142)**	1,694	**(35,402)**
Other, net	**1,070**	782	**9,144**
Net cash provided by operating activities	**12,664**	15,539	**108,239**
Investing Activities:			
Decrease in time deposits, net	**28**	3,625	**239**
Proceeds from sales of property, plant and equipment	**1,536**	2,209	**13,128**
Proceeds from sales of investment securities	**2,018**	625	**17,248**
Purchases of property, plant and equipment	**(3,571)**	(4,217)	**(30,521)**
Purchases of investment securities	**(24)**	(1,122)	**(205)**
Purchases of software and other intangibles	**(4,306)**	(4,700)	**(36,803)**
Other, net	**(1)**	67	**(9)**
Net cash used in investing activities	**(4,320)**	(3,513)	**(36,923)**
Financing Activities:			
Decrease in short-term borrowings, net	**(4,277)**	(22,404)	**(36,556)**
Proceeds from issuance of common stock	**11,005**	22,941	**94,060**
Repayments of long-term debt	**(1,154)**	(14,688)	**(9,863)**
Reduction of preferred stock	**(15,000)**	(16,100)	**(128,205)**
Cash dividends paid	**(1,148)**	-	**(9,812)**
Other, net	**(99)**	(83)	**(846)**
Net cash used in financing activities	**(10,673)**	(30,334)	**(91,222)**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**462**	407	**3,949**
Net Decrease in Cash and Cash Equivalents	**(1,867)**	(17,901)	**(15,957)**
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year	**-**	79	**-**
Cash and Cash Equivalents at Beginning of Year	**15,876**	33,698	**135,692**
Cash and Cash Equivalents at End of Year	**¥ 14,009**	¥ 15,876	**$ 119,735**
Non-Cash Financing Activity:			
Reduction in shareholders' stated capital without a reduction in the number of shares outstanding	**¥ -**	¥ 20,000	**$ -**

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 2005 consolidated financial statements to conform to the 2006 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 ¥117 to $1, the approximate rate of exchange at March 31, 2006. 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 40 (43 in 2005) 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.

K&S LLC, Kenvon LLC, and Kenteal LLC were excluded from scope of consolidation because those companies had been liquidated during the fiscal year 2006.

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) Long-lived assets

In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance #6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements were 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 group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate 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 higher of the discounted cash flows from the continued use and eventual disposition of the asset or net selling price at disposition.

The effect of the adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes for the year ended March 31, 2006 by ¥784 million ($6,701 thousand). Impairment loss in the Consolidated Statement of Income includes the foreign subsidiaries portion of ¥204 million ($1,744 thousand) for the year ended March 31, 2006.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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 five 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 ten years, which is less than the average remaining years of service of the employees, and the amortization will be started in the following year in which the gain or loss is recognized.

The transitional obligation as of April 1, 2000, is being amortized over 15 years.

(p) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the accompanying consolidated financial statements for the following year upon shareholders' approval.

(q) 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.

(r) New Accounting Pronouncements

Business Combination and Business Separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations", and on December 27, 2005 the ASBJ issued Accounting Standard for Business Separations and ASBJ Guidance #10, "Guidance for Accounting Standard for Business Combinations and Business Separations". These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) #13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors", which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

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, 2006 and 2005 were as follows:

	2006							
	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	**¥ 2,268**	**¥ 3,187**	**¥ (0)**	**¥ 5,455**	**$ 19,385**	**$ 27,239**	**$ (0)**	**$ 46,624**
Total	**¥ 2,268**	**¥ 3,187**	**¥ (0)**	**¥ 5,455**	**$ 19,385**	**$ 27,239**	**$ (0)**	**$ 46,624**

	2005			
	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 2,428	¥ 1,057	¥ (14)	¥ 3,471
Total	¥ 2,428	¥ 1,057	¥ (14)	¥ 3,471

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥2,018 million ($17,248 thousand) and ¥625 million, respectively. Gross realized gains on these sales for the years ended March 31, 2006 and 2005 computed on the moving average cost basis, were ¥1,830 million ($15,641 thousand) and ¥599 million.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 are as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Equity securities	**¥ 185**	¥ 376	**$ 1,581**
Total	**¥ 185**	¥ 376	**$ 1,581**

3. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were ¥432 million ($3,692 thousand) and ¥806 million for the years ended March 31, 2006 and 2005, 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 years ended March 31, 2006 and 2005 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			**2006**		
	Acquisition Cost	Accumulated Depreciation	Net leased Property	Acquisition Cost	Accumulated Depreciation	Net leased Property	Acquisition Cost	Accumulated Depreciation	Net leased Property
Machinery and equipment	**¥ 1,269**	**¥ 1,105**	**¥ 164**	¥ 1,713	¥ 1,306	¥ 407	**$ 10,846**	**$ 9,444**	**$ 1,402**
Tools, furniture and fixtures	**182**	**115**	**67**	820	552	268	**1,556**	**983**	**573**
Others	**56**	**48**	**8**	72	48	24	**479**	**410**	**69**
Total	**¥ 1,507**	**¥ 1,268**	**¥ 239**	¥ 2,605	¥ 1,906	¥ 699	**$ 12,881**	**$ 10,837**	**$ 2,044**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 199**	¥ 440	**$ 1,701**
Due after one year	**51**	289	**436**
Total	**¥ 250**	¥ 729	**$ 2,137**

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
	2006	2005	**2006**
Depreciation expense	**¥ 405**	¥ 761	**$ 3,462**
Interest expense	**¥ 13**	¥ 28	**$ 111**

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:	¥ 3,984
Land after revaluation:	¥ 8,966
Land revaluation surplus, net of income taxes of ¥2,028 million:	¥ 2,954

As of March 31, 2006, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥2,599 million ($22,214 thousand).

5. Long-lived assets

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and as a result, recognized an impairment loss of ¥988 million ($8,444 thousand) of which buildings and structures for ¥541 million ($4,624 thousand) and land for ¥447 million ($3,821 thousand) as other expense for idle assets with no future utilization plan due to affected by large decrease in fair market value was written down to the recoverable amount.

The recoverable amount of that idle assets was measured at their net selling price.

6. 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 1.51455% to 6.57875% and 2.15417% to 6.86% as of March 31, 2006 and 2005, respectively.

Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Banks, 1.97%-3.64688%, due through 2006	**¥ -**	¥ 1,134	**$ -**
Japanese government-sponsored agencies, 6.00%, due through 2006	**0**	0	**0**
Total	**0**	1,134	**0**
Less: Current portion	**(0)**	(1,134)	**(0)**
Long-term debt, less current portion	**¥ -**	¥ 0	**$ -**

The aggregate annual maturities of long-term debt as of March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 0	$ 0
Total	¥ 0	$ 0

As of March 31, 2006, the carrying amounts of assets pledged as collateral for short-term borrowings of ¥24,704 million ($211,145 thousand) were as follows:

	Millions of yen	**Thousands of U.S. dollars**
Buildings and structures, net	**¥ 3,982**	**$ 34,035**
Land	**8,966**	**76,632**
Total	**¥ 12,948**	**$ 110,667**

Outstanding bank revolving loans contracted, but not provided for as of March 31, 2006 were as follows:

	2006	
	Millions of yen	**Thousands of U.S. dollars**
Credit facilities	**¥ 37,000**	**$ 316,239**
Used	**(21,705)**	**(185,513)**
Unused	**¥ 15,295**	**$ 130,726**

7. 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, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ 20,344**	¥ 40,027	**$ 173,880**
Fair value of plan assets	**(5,862)**	(14,027)	**(50,103)**
Unrecognized actuarial gain	**(1,092)**	(5,492)	**(9,333)**
Unrecognized prior service cost	**67**	413	**573**
Prepaid pension cost	**19**	31	**162**
Unrecognized transitional obligation	**(4,112)**	(7,460)	**(35,145)**
Net liability	**¥ 9,364**	¥ 13,492	**$ 80,034**

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥ 800**	¥ 765	**$ 6,838**
Interest cost	**576**	749	**4,923**
Expected return on plan assets	**(235)**	(260)	**(2,009)**
Amortization of prior service cost	**(66)**	(207)	**(564)**
Recognized actuarial loss	**466**	735	**3,983**
Amortization of transitional obligations	**529**	746	**4,521**
Net periodic retirement benefit costs	**¥ 2,070**	¥ 2,528	**$ 17,692**

Assumptions used for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.0%**	2.0%
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 Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labor and Welfare on July 1, 2005. The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on December 22, 2005 and recognized ¥ 4,850 million ($ 41,453 thousand) as income for the difference between the balance of the retirement benefit liabilities brought forward and the amount actually transferred for the year ended March 31, 2006.

8. Shareholders' Equity

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (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 does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations if retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of 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 after transferring such excess in accordance with the Code. 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 purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥11,819 million ($101,017 thousand), as of March 31, 2006 based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of 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.

On May 1, 2006, a new corporate law (the “Corporate Law”) became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends.

The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold.

The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of' the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders’ equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders’ equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders’ equity.

Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders’ equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

i) New share issuance

On June 30, 2005, by the resolution of the Board of Directors, the Company issued 60,000 thousand shares of its common stock at ¥185.2 per each share newly issued. The Company received total proceeds of ¥11,112 million ($94,974 thousand), all of which were recorded in common stock.

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

On August 8, 2005, by the resolution of the annual general shareholders' meeting and the Class B preferred stock shareholders' meeting, the Company reduced stated capital of common stock and preferred stock 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 was ¥15,000 million ($128,205 thousand).

9. Research and Development Costs

Research and development costs charged to income were ¥1,020 million ($8,718 thousand) and ¥1,332 million for the years ended March 31, 2006 and 2005, respectively.

10. Income Taxes

Under the consolidated corporate tax system, the normal effective statutory tax rate of the Company was approximately 40.7% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and tax loss carry-forwards which resulted in deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred Tax Assets:			
Impairment of investment securities	**¥ 1,061**	¥ 1,612	**$ 9,068**
Tax loss carryforwards	**8,335**	11,332	**71,240**
Liability for employees' retirement benefits	**3,604**	5,188	**30,803**
Other	**2,388**	2,676	**20,410**
Less: valuation allowance	**(13,954)**	(19,216)	**(119,265)**
Total	**¥ 1,434**	¥ 1,592	**$ 12,256**

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred Tax Liabilities:			
Investment securities	**¥ 1,296**	¥ 425	**$ 11,077**
Investments	**158**	140	**1,350**
Land revaluation	**2,028**	2,174	**17,334**
Other	**15**	8	**128**
Total	**3,497**	2,747	**29,889**
Deferred Tax Liabilities, Net:	**¥ (2,063)**	¥ (1,155)	**$ (17,633)**

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, 2006 and 2005 are as follows:

	2006	2005
Normal effective statutory tax rate	**40.7%**	40.7%
Expenses not deductible for income tax purposes	**0.3%**	0.1%
Income not counted for income tax purposes	**(1.9%)**	(7.2%)
Reduction of taxation income on temporary enterprise tax	**-**	(0.5%)
Tax benefits not recognized on operating losses of subsidiaries	**4.2%**	(26.1%)
Tax benefits not recognized on temporary differences	**(36.6%)**	0.6%
Difference of normal effective statutory tax rate among countries other than Japan	**(5.9%)**	(3.3%)
Decrease of valuation allowance	**(6.7%)**	-
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	**14.7%**	10.8%
Effect of tax rate reduction on consolidated taxation system	**(2.9%)**	(2.8%)
Reversal of allowance for income tax	**-**	(1.7%)
Per capita inhabitant tax	**0.5%**	0.7%
Foreign withholding taxes not recognized on losses	**0.5%**	0.9%
Temporary enterprise tax	**-**	0.3%
Income taxes for past fiscal years	**1.8%**	-
Other, net	**4.8%**	(4.4%)
Actual effective tax rate	**13.5%**	8.1%

As of March 31, 2006, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately ¥19,715 million ($168,504 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
2007	¥ -	$ -
2008	-	-
2009	11,207	95,786
2010	6,940	59,316
2011	-	-
thereafter	1,568	13,402
Total	¥ 19,715	$ 168,504

11. 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 years ended March 31, 2006 and 2005 are as follows:

For the year ended March 31, 2006:		Millions of yen	Thousands of Shares		Yen		Dollars
		Net Income	Weighted average Shares		EPS		
Basic EPS							
Net income available to common shareholders	¥	**6,045**	**352,294**	¥	17.16	$	**0.15**
Effect of Diluted Securities							
Preferred Stock		**-**	**47,261**				
Diluted EPS							
Net income for computation	¥	**6,045**	**399,555**	¥	15.13	$	**0.13**

For the year ended March 31, 2005:		Millions of yen	Thousands of Shares		Yen
		Net Income	Weighted average Shares		EPS
Basic EPS					
Net income available to common shareholders	¥	4,690	279,361	¥	16.79
Effect of Diluted Securities					
Preferred Stock		100	176,665		
Diluted EPS					
Net income for computation	¥	4,790	456,026	¥	10.50

12. Commitments and Contingent Liabilities

The Company was contingently liable as a guarantor for borrowings of employees aggregating ¥0 million ($0 thousand) and ¥0 million as of March 31, 2006 and 2005, respectively.

At March 31, 2006, the Company had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense was ¥1,864 million ($15,932 thousand) and ¥2,336 million for the years ended March 31, 2006 and 2005.

13. 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, 2006 and 2005:

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			**2006**		
	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)	$ **-**	$ **-**	$ **-**
Foreign Exchange Contracts: (Euro, selling)	¥ **314**	¥ **315**	¥ **(1)**	¥ 561	¥ 570	¥ (9)	$ **2,684**	$ **2,692**	$ **(8)**

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.

14. 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, land mobile radios, and PDC (personal digital cellular phone) sales business

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

Others:
Other electrical equipment and parts

Operations by business segment and by geographic area for the years ended March 31, 2006 and 2005 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**
2006							
Net sales:							
Sales to customers	¥ 107,723	¥ 58,639	¥ 14,897	¥ 2,357	¥ 183,616	¥ -	¥ 183,616
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	¥ 107,723	¥ 58,639	¥ 14,897	¥ 2,357	¥ 183,616	¥ -	¥ 183,616
Operating income (loss)	¥ 1,827	¥ 8,337	¥ (1,420)	¥ (57)	¥ 8,687	¥ -	¥ 8,687
Identifiable assets	¥ 65,501	¥ 25,878	¥ 9,098	¥ 1,377	¥ 101,854	¥ 7,700	¥ 109,554
Depreciation	¥ 5,353	¥ 1,436	¥ 574	¥ 40	¥ 7,403	¥ -	¥ 7,403
Impairment loss	¥ 468	¥ 212	¥ 52	¥ 256	¥ 988	¥ -	¥ 988
Capital expenditures	¥ 6,109	¥ 1,417	¥ 575	¥ 19	¥ 8,120	¥ -	¥ 8,120

Corporate assets as of March 31, 2006 amounted to ¥7,700 million ($65,812 thousand) and consisted primarily of the Company's cash, time deposits and investment securities.

Millions of yen

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.

	Thousands of U.S. dollars						
	Car Electronics Business	**Communications Business**	**Home Electronics Business**	**Others**	**Total**	**Corporate Assets and Eliminations**	**Consolidated**
2006							
Net sales:							
Sales to customers	$ 920,710	$ 501,188	$ 127,325	$ 20,145	$ 1,569,368	$ -	$ 1,569,368
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	$ 920,710	$ 501,188	$ 127,325	$ 20,145	$ 1,569,368	$ -	$ 1,569,368
Operating income (loss)	$ 15,615	$ 71,257	$ (12,137)	$ (487)	$ 74,248	$ -	$ 74,248
Identifiable assets	$ 559,838	$ 221,179	$ 77,761	$ 11,769	$ 870,547	$ 65,812	$ 936,359
Depreciation	$ 45,752	$ 12,274	$ 4,906	$ 342	$ 63,274	$ -	$ 63,274
Impairment loss	$ 4,000	$ 1,812	$ 444	$ 2,188	$ 8,444	$ -	$ 8,444
Capital expenditures	$ 52,214	$ 12,111	$ 4,915	$ 162	$ 69,402	$ -	$ 69,402

Operations by geographic area for the years ended March 31, 2006 and 2005 were summarized as follows:

Operations by geographic area:

	Millions of yen							
	Japan	America	Europe	Asia	Other	Total	Corporate Assets and Eliminations	Consolidated
2006								
Net sales:								
Sales to customers	**¥ 72,584**	**¥ 54,347**	**¥ 36,046**	**¥ 17,883**	**¥ 2,756**	**¥ 183,616**	**¥ -**	**¥ 183,616**
Intersegment sales	**83,557**	**74**	**3,086**	**57,356**	**12**	**144,085**	**(144,085)**	**-**
Total	**¥ 156,141**	**¥ 54,421**	**¥ 39,132**	**¥ 75,239**	**¥ 2,768**	**¥ 327,701**	**¥ (144,085)**	**¥ 183,616**
Operating income (loss)	**¥ 4,276**	**¥ 2,450**	**¥ 849**	**¥ 1,959**	**¥ 28**	**¥ 9,562**	**¥ (875)**	**¥ 8,687**
Identifiable assets	**¥ 99,244**	**¥ 18,414**	**¥ 13,506**	**¥ 22,084**	**¥ 1,550**	**¥ 154,798**	**¥ (45,244)**	**¥ 109,554**
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

	Thousands of U.S. dollars							
	Japan	America	Europe	Asia	Other	Total	Corporate Assets and Eliminations	Consolidated
2006								
Net sales:								
Sales to customers	**$ 620,376**	**$ 464,505**	**$ 308,085**	**$ 152,846**	**$ 23,556**	**$ 1,569,368**	**$ -**	**$ 1,569,368**
Intersegment sales	**714,162**	**632**	**26,377**	**490,222**	**102**	**1,231,495**	**(1,231,495)**	**-**
Total	**$ 1,334,538**	**$ 465,137**	**$ 334,462**	**$ 643,068**	**$ 23,658**	**$ 2,800,863**	**$ (1,231,495)**	**$ 1,569,368**
Operating income (loss)	**$ 36,547**	**$ 20,940**	**$ 7,256**	**$ 16,744**	**$ 239**	**$ 81,726**	**$ (7,478)**	**$ 74,248**
Identifiable assets	**$ 848,239**	**$ 157,385**	**$ 115,436**	**$ 188,752**	**$ 13,248**	**$ 1,323,060**	**$ (386,701)**	**$ 936,359**

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

Overseas sales:

	Millions of yen				
	America	Europe	Asia	Other	Total
2006					
Overseas sales	**¥ 54,492**	**¥ 36,088**	**¥ 19,811**	**¥ 3,734**	**¥ 114,125**
Consolidated net sales					**¥ 183,616**
Ratios of overseas sales	**29.7 %**	**19.7 %**	**10.8 %**	**2.0 %**	**62.2 %**
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 %

	Thousands of U.S. dollars				
	America	Europe	Asia	Other	Total
2006					
Overseas sales	**$ 465,744**	**$ 308,444**	**$ 169,325**	**$ 31,914**	**$ 975,427**
Consolidated net sales					**$ 1,569,368**

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 and Africa

15. Subsequent Event

The followings appropriation of retained earnings at March 31, 2006 was approved at the annual general shareholders' meeting held on June 29, 2006 :

	Millions of yen	Thousands of U.S. dollars
Cash dividends applicable to the year, ¥2.00 ($0.02) per share	¥ 734	$ 6,273
Bonuses paid to directors and corporate auditors	60	513
	¥ 794	$ 6,786

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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 (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2006 and 2005, 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, 2006 and 2005, 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(h) to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets effective April 1, 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, 2006

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