Interim Annual Summary Report (Consolidated)
for fiscal 2004 1st half (April 1 – Sep. 30, 2004)

November 12, 2004

Corporate Name:	Kenwood Corporation	Stock exchange: Tokyo, Osaka	
Code No.:	6765	Head office: Tokyo	
URL	http://www.kenwood.com		
Chief representative:	Haruo Kawahara, President & CEO		
Inquiries:	Masanobu Waku, Manager of Equity Affairs Office	Tel: +81-426-46-6724	
Date of board meeting for approval of consolidated accounts:	November 12, 2004		
Application of US GAAP:	None		

1. Consolidated Annual Performance in fiscal year 2004:1st half (April 1 – September 30, 2004)

(1) Operations (Amounts less than 1 million yen were discarded.)

	Net Sales		Operating Profit		Ordinary Profit	
	(millions of yen)	%	(millions of yen)	%	(millions of yen)	%
Sep., 2004	88,375	0.2	4,024	-32.1	2,427	-38.9
Sep., 2003	88,195	25.3	5,925	28.1	3,970	72.5
Year ended March 31, 2004	178,731		12,610		8,541	

	Net Income		Net Income per share	Net Income per share after adjustment for latent shareholdings
	(millions of yen)	%	(yen)	(yen)
Sep., 2004	2,960	-15.5	11.35	6.21
Sep., 2003	3,504	306.0	16.26	7.53
Year ended March 31, 2004	7,318		33.99	15.73

Notes: 1. Equity in Earnings (Losses) of associated companies: Sep., 2004: ¥45 million Sep., 2003: -¥10 million Fiscal 2003: -¥35million
2. Average number of shares outstanding: Sep., 2004: 256,370,776 Sep., 2003: 210,174,647 Fiscal 2003: 210,159,089
3. Change of Accounting Principles: Applicable
4. Percentages indicate the change over the semi-annual amount of the previous fiscal year.

(2) Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per share
	(millions of yen)	(millions of yen)	%	(yen)
Sep., 2004	115,068	30,010	26.1	57.96
Sep., 2003	128,599	16,380	12.7	(41.01)
Year ended March 31, 2004	135,763	20,161	14.9	(23.03)

Notes: 1. Number of shares outstanding:

(Common share)	As of Sep. 30, 2004: 302,109,495	As of Sep. 30, 2003: 210,156,663	As of March 31, 2004: 210,129,008
(Class A preferred stock)	As of Sep. 30, 2004: 0	As of Sep. 30, 2003: 31,250,000	As of March 31, 2004: 31,250,000
(Class B preferred stock)	As of Sep. 30, 2004: 31,250,000	As of Sep. 30, 2003: 31,250,000	As of March 31, 2004: 31,250,000

2. Number of treasury shares: As of Sep. 30, 2004: 346,500 As of Sep. 30, 2003: 299,332 As of March 31, 2004: 326,987
3. Shareholders' equity per share as of Sep., 30, 2004 and for fiscal 2003 (ended March, 2004), are in accordance with the "Practical guidelines for accounting standards regarding net income per share" (Practical Guidelines for Corporate Accounting Standards No. 4, September 25, 2003, Accounting Standards Board of Japan), and are calculated based on common shareholders' equity at the end of fiscal year (shareholders' equity excluding book value of preferred stock of ¥25 billion for fiscal year ended March, 2004, and ¥12.5 billion for first half term of year ended. March 31, 2005) and number of outstanding common shares at the end of fiscal year (excluding treasury stock).

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at the end
	(millions of yen)	(millions of yen)	(millions of yen)	(millions of yen)
Sep., 2004	5,500	224	(26,464)	13,423
Sep., 2003	13,049	(4,383)	(11,318)	23,958
FY2003 ended March 31, 2004	27,502	(7,674)	(12,783)	33,698

(4) Number of consolidated subsidiaries and other associated companies (equity method)

Consolidated Subsidiaries: 44
Equity Method: Non-consolidated Subsidiaries 1
Affiliates 0

(5) Changes in number of consolidated subsidiaries and other associated companies (equity method)

Consolidation: (New) 0 (Exclusion) 3
Equity Method: (New) 0 (Exclusion) 0

2. Forecast for entire fiscal year 2004 (ending March 31, 2005)

	Net Sales	Ordinary Profit	Net Income
	(millions of yen)	(millions of yen)	(millions of yen)
FY2004 (ending March 31, 2005)	180,000	6,000	5,500

Reference: Forecast of Net Income per share: ¥17.87

Note: As the above is based on certain conditions such as economic factors and corporate business policy, the actual performance may be different from these forecast due to the various factor. Please refer to pp.4 - 12 for the basic premises underlying the performance forecast.

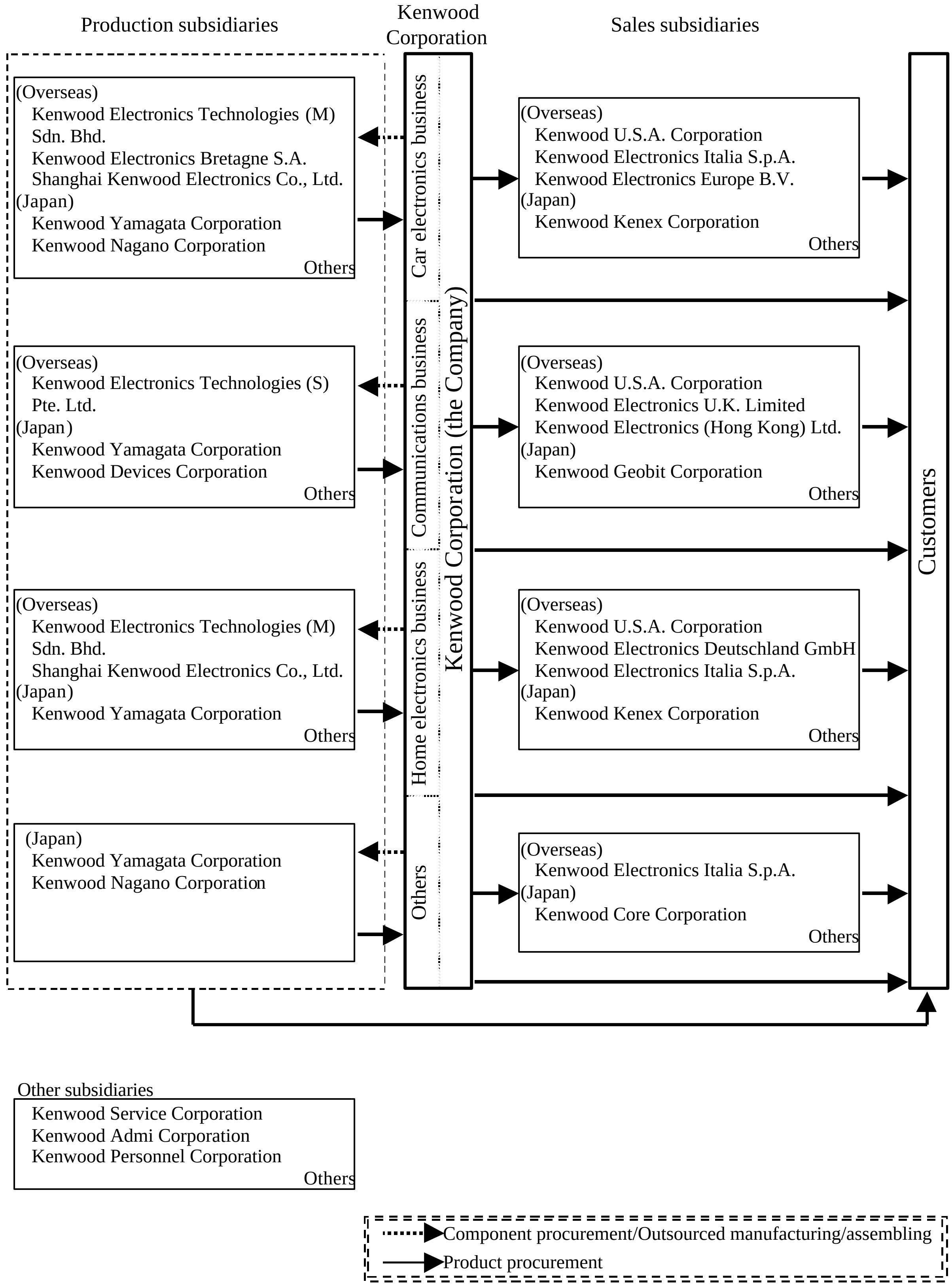
TRANSLATION – FOR REFERENCE ONLY –

Overview of the Kenwood Group

The Kenwood Group comprises Kenwood Corporation (hereinafter "the Company") and its 51 affiliated companies engaged mainly in production and marketing of car electronics, communications and home electronics equipment, as well as other related businesses.

The Group's business sectors, major products and affiliates are as follows:

Business classification and major products	Major affiliates
[Car electronics] Car electronics-related products such as automotive audio equipment, navigation systems, etc.	(Sales companies) Kenwood Corporation Kenwood U.S.A. Corporation Kenwood Electronics Italia S.p.A. Kenwood Electronics Europe B.V. Kenwood Kenex Corporation (Production companies) Kenwood Electronics Technologies (M) Sdn. Bhd. Kenwood Electronics Bretagne S.A. Shanghai Kenwood Electronics Co., Ltd. Kenwood Yamagata Corporation Kenwood Nagano Corporation
[Communications] Communications-related products such as amateur and professional radio equipment, specific low-power transceivers, etc.	(Sales companies) Kenwood Corporation Kenwood U.S.A. Corporation Kenwood Electronics U.K. Limited Kenwood Electronics (Hong Kong) Ltd. Kenwood Geobit Corporation (Production companies) Kenwood Electronics Technologies (S) Pte. Ltd. Kenwood Yamagata Corporation Kenwood Devices Corporation
[Home electronics] Home electronics-related products such as stereos (system-components and separate-component stereos), home theater systems, DVD players, portable audio equipment, etc.	(Sales companies) Kenwood Corporation Kenwood U.S.A. Corporation Kenwood Electronics Deutschland GmbH Kenwood Electronics Italia S.p.A. Kenwood Kenex Corporation (Production companies) Kenwood Electronics Technologies (M) Sdn. Bhd. Shanghai Kenwood Electronics Co., Ltd. Kenwood Yamagata Corporation
[Others] (IRDs: receivers for digital satellite broadcasting), non-contact mobile identification systems, meteorological-satellite data receiving systems, etc.	(Sales companies) Kenwood Electronics Italia S.p.A. Kenwood Core Corporation (Production companies) Kenwood Yamagata Corporation Kenwood Nagano Corporation


Production subsidiaries
Kenwood Corporation
Sales subsidiaries
(Overseas)
Kenwood Electronics Technologies (M) Sdn. Bhd.
Kenwood Electronics Bretagne S.A.
Shanghai Kenwood Electronics Co., Ltd.
(Japan)
Kenwood Yamagata Corporation
Kenwood Nagano Corporation
Others
(Overseas)
Kenwood Electronics Technologies (S) Pte. Ltd.
(Japan)
Kenwood Yamagata Corporation
Kenwood Devices Corporation
Others
(Overseas)
Kenwood Electronics Technologies (M) Sdn. Bhd.
Shanghai Kenwood Electronics Co., Ltd.
(Japan)
Kenwood Yamagata Corporation
Others
(Japan)
Kenwood Yamagata Corporation
Kenwood Nagano Corporation
Car electronics business
Communications business
Home electronics business
Others
Kenwood Corporation (the Company)
(Overseas)
Kenwood U.S.A. Corporation
Kenwood Electronics Italia S.p.A.
Kenwood Electronics Europe B.V.
(Japan)
Kenwood Kenex Corporation
Others
(Overseas)
Kenwood U.S.A. Corporation
Kenwood Electronics U.K. Limited
Kenwood Electronics (Hong Kong) Ltd.
(Japan)
Kenwood Geobit Corporation
Others
(Overseas)
Kenwood U.S.A. Corporation
Kenwood Electronics Deutschland GmbH
Kenwood Electronics Italia S.p.A.
(Japan)
Kenwood Kenex Corporation
Others
(Overseas)
Kenwood Electronics Italia S.p.A.
(Japan)
Kenwood Core Corporation
Others
Customers
Other subsidiaries
Kenwood Service Corporation
Kenwood Admi Corporation
Kenwood Personnel Corporation
Others
Component procurement/Outsourced manufacturing/assembling
Product procurement

Management Policy

1. Basic Management Policy – Completely Eliminating the Negative Legacies of the Past and Implement Strategies for Full Scale Growth

Kenwood achieved a V-shaped recovery in business performance through its drastic restructuring and shifted its management priorities to a new leap forward for growth in the previous fiscal year (ending March 2004). In May 2003, we established the mid-term management plan, named the "Excellent Kenwood Plan", and announced our objective of becoming a "World's Truly Excellent Company" in the business domain of Mobile & Home Multimedia Systems, which is one of the most promising market segments in the 21st century.

In fiscal 2003 (ending March 2004), the first year under the new corporate management plan, we achieved a record-high net income for the second consecutive year and realized the highest profitability of our entire 58 years of corporate history, due to the lingering impact throughout the year of our extensive restructuring implemented in the previous fiscal year, as well as our newly started production innovation. We have taken the first step towards becoming a truly excellent company.

In fiscal 2004 (ending March 2005), the second year under the new management plan, we have been striving to completely eliminate the negative legacies of the past and drastically rebuild the financial and capital base by implementation of our "New Financial Strategy" as well as enhance the competitiveness in the business and promote strategies for growth; for instance, through proactive strategic investments to generate the momentum for a new leap forward to growth.

2. Major Corporate Measures in the First Half of the Fiscal Year

(1) "New Financial Strategy"

－To drastically improve the financial and capital base through the complete elimination of the accumulated losses, and the redemption of preferred stocks as well as completion of refinancing ?

Having established a New Financial Strategy in May 2004, Kenwood (with the understanding and support of Resona Bank as well as other financial institutions, the investors and the shareholders), could successfully complete its unprecedented (for Japan) schemes including the complete elimination of accumulated losses, the redemption of preferred stocks by capital increase through public offering of newly issued shares and termination of the existing financial agreement with various financial institutions. This resulted in a considerable reduction of interest-bearing debts, through refinancing by the end of August 2004, so that Kenwood's financial and capital base was dramatically improved and the Company could make a large leap forward towards the realization of three of four goals (stated in the "Excellent Kenwood Plan" for mid-term corporate management), namely: "achieve a 20% return on equity (ROE)," "resume dividend payments" and "implement zero net-debt business management".

*** Complete elimination of accumulated losses by means of capital reduction without monetary compensation to shareholders:**

Nominal capital reduction of ¥20 billion yen on the books without compensation was made as of 6th August 2004, and the matter of carryover losses was completely settled on both a non-consolidated and consolidated basis without decreasing the net asset worth or the aggregate outstanding number of issued shares. As a result, the Company was able to pave the way for resumption of dividend disbursement and a sound capital structure was established in the short period of two years.

*** Retirement of preferred stock through public share offering:**

The capital increase through public offering of newly issued shares was completed on 1st July 2004, by which a fund of ¥22 billion was procured thanks to the support of overseas and domestic investors. On 6th August, we reimbursed ¥16.1 billion out of the procured funds to Resona Bank, which possesses the First Tranche of Class-A Preferred Stock, and implemented the paid capital reduction by above-par redemption of the preferred stocks. Thus, we realized the equity retirement of the First Tranche of Class-A Preferred Stock, representing almost half of all the Preferred Stock the Company issued, and significantly reduced the impact of any dilution of future shareholder value.

*** Significant reduction of interest-bearing debts by means of refinance:**

As the accumulated losses, which had heretofore posted a major challenge to the Company, were completely eliminated and one half of the preferred stocks issued by the Company was amortized by capital increase through a public offering of newly issued shares on 1st July 2004, and subsequent capital reductions (both with and without compensation) on 6th August it became possible to organize a new syndicated loan (with lines of credit extended by a number of financial institutions), for ¥40 billion on 23rd August co-arranged by both the Resona Bank and the Mitsubishi Trust and Banking Corp., approximately ¥30 billion of which was procured on 31st August.

With the funds made available from this new syndicated loan and the utilization of its own funds, Kenwood was able to pay back its previous bank borrowings by 31st August, to once again take control of the reins of its financial strategy by terminating the existing financial accord with various financial institutions in a constructive manner one year ahead of schedule, to significantly reduce its interest-bearing debts to a net debt level of ¥20 billion, a major step towards realizing "Zero Net Debt Management" as targeted under the mid-term "Excellent Kenwood Plan", and thus completing a series of "New Financial Strategy."

(2) Proactive "Strategic Investments" towards New Growth and Leap Forward

In order to promote the full-fledged growth strategy, we made "Strategic Investments" as the basic policy in fiscal 2004 (ending March 2005) and are striving for the development of competitive new products and technologies, reinforcement of the brand image to strengthen the global presence, as well as reinvesting in the employees to enhance the business promotion power.

(i) Development of new product lines

In order to reinforce the competitiveness in the business and to promote the growth strategy towards further growth and leap forward, we are making strategic investments to develop competitive new products in the fields of car electronics business, communications business and home electronics business sectors, respectively.

In the car electronics business, in order to further reinforce the consumer market oriented multi-media segment which is growing driven by sales of "Theater Navi", an AV integrated HDD car navigation system made of the Company's audio technology and multi-media technology, DVD theater system, digital tuner, etc., the effort is being concentrated to the product commercialization of new concept car navigation system and car multi-media system developed by our unique technology.

In the communications business, the Company has focused on development of digital radio communication terminals as well as radio communication systems in response to the digitalization of radio communication equipment. Moreover, by leveraging the resources of the wireless business acquired from Toyo Communication Equipment Co., Ltd., we could enhance our lineup of professional-use wireless communications equipment for the Japanese domestic market.

In the home electronics business sector, the effort is being concentrated to the development of high audio quality digital amplifiers and network technology in pursuit of the product development of the high quality audio equipment fully utilizing the Company's high audio quality technology and the next generation network audio equipment incorporating the network technology.

(ii) Brand enhancement

Based on the brand management project, which was newly established in January 2004, "New Brand Image Strategy" is being promoted in order to enhance the presence of Kenwood brand and to provide new value.

As a part of the strategy, the "Brand Logo" was reviewed to re-define the promotion method and a new "Brand Statement" was created. Concurrently, the "Corporate Vision" was further elaborated with the release of "Business Activities Policy" and five "Core Values". From next January, the flagship model products, which meet "New Brand Image Strategy" will be commercialized in each business segment to spread the message of the reborn Kenwood to the world.

In addition, the Company will be present at FIA Formula One World Championship (where the most advanced technology from various industries is gathered from around the world) as the official supplier of the West McLaren Mercedes Team in order to roll out the promotion of Kenwood brand together with the concept of highly technology and reliability and to widespread the presence of newly born Kenwood brand.

KENWOOD
Listen to the Future

New Brand Strategy

[Vision]

Reaching out to discover, inspire and enhance the enjoyment of life

[Brand/Logo]

As indicated in the upper right corner – the Logo shall be standardized in conventional bold type with some adjustments.

[Brand Statement]

Listen to the Future – The manner of presentation shall be as shown in the upper righthand corner.

[Principle]

Cultivate original thinking and execute with pride, passion and precision

The heritage, strength and future aspiration of the Kenwood brand are reflected in the values we share.

We must ensure that every aspect of our corporate activity, from product development through customer relations, is consistent with the following core values to realize our vision.

[Core Values]

A Step Ahead	To drive dynamic evolution through progressive thinking and a willingness to embrace change
The Right Fit	To create products and services that have an intuitive appeal because they fit customer needs and lifestyles
Fresh Experience	To foster the spirit of discovery at work and refreshing surprise in daily life
Quality and Performance	To insist on uncompromising quality and performance in our products, our people and our business practices
Confidence and Trust	To build confidence in the brand and lasting goodwill through relationships based on trust

(iii) Reinvestment in the personnel to enhance the momentum for business promotion

We have been implementing the reinvestment in the employees to heighten the momentum for business promotion. For example, we started to recruit newly graduates first time in 3 years and lifted the partial cutoff of salary, which had been applied since October 2002, for the revitalization of employees.

(3) Adding the finishing touches to our production innovation

Under the themes of "Revival of domestic plants which supersede or out do Asian peers" and "Re-enhancement of overseas plants' competitiveness", the Company launched activities for production innovation in March 2003, concentrating the synergies of the manufacturing, sales and technology departments in pursuit of the improvement of profitability and cash flow through the implementation of "Kenwood Quarter QCD (Quality, Cost and Delivery) Revolution."

In fiscal 2003 (ending March 2004), the first year of these production innovation, we could realize remarkable achievements in improvement of cash flow by reducing of inventory assets, the curtailment of indirect fixed costs and direct production costs as well as overall cost reductions through quality improvement, which contributed significantly to the business performance of all divisions.

In fiscal 2004 (ending March 2005) the second year of the production innovation, to conclude these production innovation, we reinforced the links between all divisions and production affiliates, designated three production affiliates (Yamagata Factory, Nagano Factory and Singapore Factory), where production innovation are more advanced than elsewhere, as the production innovation headquarters for the and dispatched leaders who acquired the best practice established so far to every production points for the development of the best practice.

In addition, we have promoted the optimization of supply chain by the elimination of intermediate inventory, improvement of production system by vertical integration of domestic and overseas plants, innovation of procurement and the quality renovation in order to reinforce the competitiveness and profitability of the business.

Furthermore, we have started the construction of a new 11,000 square meter building to double the production space of Shanghai Kenwood, which became our wholly-owned subsidiary in August last year. We intend to install the production lines, which are equivalent to those at Yamagata Kenwood where the best practice of production innovation is in progress, and by its vertical integration with domestic facilities we plan to reconstruct the production system for both car electronics and home electronics businesses.

(4) Reinforcement of competitiveness and promotion of growth strategy under the four-profit center system

To reinforce competitiveness and promote strategies for growth, the Company will effectively make proactive strategic investments and add the finishing touches to the production innovation, as mentioned earlier. To facilitate this strategy, the Company has reorganized its operations, centering on the consumer electronics sector, where the business climate is dramatically changing due to the progress of technical innovation and diversified needs of users.

In April 2004, the Car Electronics Division, which consisted of consumer and OEM businesses that are extremely different in characteristics, was divided into the Consumer Car Electronics Division and the OEM Car Electronics Division. The new two divisions were combined with the Home Electronics Division and the Communications Division to establish the "4 Profit Center System". The Company then combined the three divisions — Consumer Car Electronics, OEM Car Electronics, and Home Electronics — which were integrated into the Profit Center, as well as the newly established Speaker System Division and the Consumer Business Development Center, which make up the Cost Center, into the

"Consumer Business Sector" under the direct supervision of the Chief Executive Officer.

In June, we placed the wireless business department, which we acquired from Toyo Communication Equipment Co., Ltd., under the Communications Division and implemented an organizational makeover in order to further improve the product quality. Then, in July, we implemented another reorganization in order to reinforce the technical strategy function and to further promote our production system renovation.

3. Issues to Contend with

The sales of this first fiscal half-year reflected the effects of the growth strategy as shown by the 1.5-fold sales increase (YoY) in OEM business for car electronics, the continuing strong export sales to the U.S. market in radio communication equipment and the growth of sales in the domestic market due to the contribution by the acquisition the wireless business segment of Toyo Communication Equipment Co., Ltd. However, the remarkable fall of the sales in the home electronics business sector offset the gain and, as the result, the sales amount stayed with a slight increase from the previous term on a whole corporate basis.

In terms of the profit/loss performance, although the net income of the first half of the fiscal year cleared the initial plan targets for the term, ordinary profit fell short of plan by approx. 26%. And a similar tendency is foreseen for the performance for the entire fiscal year. (Please refer to the "Business Results" for details.)

Three major factors for the decrease of profit are as follows, to which we already started to take drastic measures as stated below:

(i) Deteriorated profitability of the car navigation system business for domestic market being conducted by Consumer Car Electronics Division

(ii) Rapid growth in the OEM car electronics sector, of which profitability is low

(iii) Remarkable fall of price and decease of sales in the overseas market of home electronics business sector especially due to the intensified competition

(1) Drastic Reform of Profit Structure

(i) Improvement of the profitability of car navigation system - Commercialization of the navigation system developed by the Company utilizing "Windows Automotive" OS -

In February this year, "Theater Navi", an AV integrated HDD car navigation system which we introduced to the consumer market after spending long preparation time, maintained strong sales performance due to its excellent navigation capability and highly elaborated entertainment functions, but the sales price sharply dropped due to the intensified competition later, which exceeded the cost reduction efforts, and became the major factor of deteriorated profitability in the consumer car electronics business.

The Company used to obtain the support for the core technology of car navigation system by the joint development with other companies, but has powered the strategic investments and intensively implemented the development of car navigation system by our own technology since last year and has succeeded in the commercialization of the same. This is the most advanced intelligent-type car multi-media series equipment (an integrated equipment of car navigation, audio and visual functions) that incorporates the latest hardware, software and information system technologies based on the "Windows Automotive" OS. We plan to start the sales of the first generation equipment to limited customers in the third quarter of this fiscal year and to start the sales at the general consumer market in the fourth quarter of this fiscal year. (Please refer to the press release made separately on this date.)

(ii) Innovation of profit structure in the OEM car electronics business - Vertical integration of Nagano and Shanghai Factories -

In accordance with the development of production innovation, we designated Nagano Factory

(Nagano Kenwood) as the principal factory for OEM car electronics production and proceeded on the vertical integration of the factory with Shanghai Factory (Shanghai Kenwood), which was converted into a wholly-owned subsidiary and started to double the production space in August last year in order to realize the establishment of foundation to enable the improvement of response to the market needs and the cost curtailment in OEM car electronics production. In August this year, we moved the production line of components for car electronics from Nagano Factory to Shanghai Factory, as the manufacturing costs of such components are high compared with the whole product costs and, for that reason, those are suited for the overseas production. In future, we will further proceed on the vertical integration of Nagano and Shanghai Factories in order to meet the requirements of OEM customers in every phases of supply-chain, quality and cost and will strive to revamp the profit structure in OEM car electronics.

(iii) Business reform of Home Electronics Division - Innovation of profit structure and creation of new market by novel network-oriented products -

We have been innovating the profit structure of the home electronics business by the structural reform and promoting the development/sale of new products based on the high added value strategy since the previous fiscal year. In August this year, we commercialized "Network Theater", which is a new concept network home theater system that realizes the networking with PC first time in the world and also the co-existence of high power output and high audio quality by mounting digital amplifier, and started the marketing of the product consecutively in the U.S., European and Japanese markets.

In the next place, we plan to develop and commercialize new products targeting the portable digital audio market in this fiscal year and to expand the product line-up of portable HDD players, of which market started to explode recently, in order to make it the runner-up to the portable MD players, which are showing strong sales performance as a model of "Return to domestic production".

By means of the development of these new home electronics products, Kenwood, as the only-one manufacturer specialized in all three areas of home electronics, car electronics and communications, will open up new position of the "Sound Entertainment" in new digital/network era that cannot be followed by the competitive manufacturers in Asia/China and Japan.

(2) Reinforcement of Sales Organization in Americas

We will inaugurate the Preparatory Office for Establishment of General Administrative Organization for Americas as of November 15, in order to reinforce the activities in the U.S., where the sales are declining by the effects of the stagnated market and the shifting of sales channels in association with the high added value strategy, and also to reinforce the activities in Mexico and other emerging Central and South American markets.

Mr. Mikio Uemura, who started as an engineer of General Electric and later held the executive positions with Sun Microsystems (Japan) and Veritas Software (Japan) was appointed general manager. The new organization will put Kenwood, U.S.A., Kenwood Electronics Latin America (Panama) and Kenwood Electronics Canada under its control and will reinforce the sales network in Americas.

(3) Reinforcement of Procurement Functions and Innovation of Global Logistics

As the final touch of the production innovation, we established International Procurement Office (IPO) in Shanghai Factorys and Singapore Factory in April this year to reinforce global procurement functions and started to procure printed circuit boards, remote control equipment, key parts and others.

As the next step, we intend to significantly curtail the logistics costs by means of the abolishment of intermediate warehouses, direct shipment from manufacturing plants to the sales fronts and utilization of outsourcing and will proceed on the innovation of global logistics system involving overseas manufacturing plants and warehouses at the sales fronts.

4. Mid-to-Long-term Basic Policy

Toward the fiscal year ending March 2006, which is the last year to consummate the mid-term management plan, "Excellent Kenwood Plan," we will strive to realize the objectives of the plan by actualizing the effects of various innovations stated above and will pursue further growth of three core businesses by making such strategic alliance as M&A.

5. Basic policies for distribution of profits

The Company makes it a rule to comprehensively determine the distribution of profits by taking the profitability and financial conditions into account. In fiscal 2004 (ending March 2005) , the Company is striving for the business activity by exerting the power of whole organization in order to completely eliminate the accumulated loss by the implementation of "New Financial Strategy" and to resume the dividend as soon as possible.

However, since the profit to enable dividend disbursement had not been secured as of the end of the fiscal 2003 (ended March 2004), the Company is not in a position to pay the dividend in this first fiscal half-year. The Company intends to announce its basic policy as to the dividend at the end of this fiscal year, at the opportunity of announcing the financial settlement for the whole fiscal year, by taking profitability and financial conditions into account.

6. Basic corporate governance philosophies and implementation of related measures

As a part of the corporate management restructuring program of the "Revitalization Action Plan", in June 2002, the Company introduced new management system featuring the executive officer system and invited business leaders of diverse values as external directors in order to clearly divide the managerial responsibility and operating responsibility as well as to enable the decision-making based on transparent procedure and speedy execution of operation with high accuracy.

In March 2003, the Company established "Internal Auditing Division", which is tasked with conducting internal audits covering whole range of group-wide operations and reporting the findings to the board of directors, and established the consolidated business entity built around the core operations based on new consolidated management system in pursuit of an objective to optimally utilize the group resources. Through these efforts, the Company has been striving for the reinforcement of corporate governance and compliance.

The Company also launched "Kenwood Environmental Meeting," chaired by CEO, with "Environmental Protection Promotion Conference" and "Green Products Promotion Conference" organized as the subordinate organization, in order to strengthen the measures to control the risk associated with product sales and environmental compliance and established "Company-wide PL Meeting" to enhance measures for products liability. Thus the Company is aggressively conducting the activity to promote the corporate social responsibility (CSR).

In addition, with an objective to establish a corporate group which is trusted by the society and prospers with the society, the Company adopted "Kenwood Compliance Guidelines" as the business activities policy to be shared by all employees of Kenwood group companies for conducting the corporate activities, in January 2004.

As stated above, the Company has been promoting various programs to enhance corporate governance as a consolidated business entity as well as to reinforce the compliance by such means as the strengthening of management auditing function and the establishment of employees' action guidelines and is committed to further improve its CSR activities.

Business Results

1. Overview of the First Half of FY2004

In this first fiscal half-year, the U.S. economy showed steady growth and the economy in Europe also marked slow but obvious upturn. Likewise, the economy in China and other Asian countries continued to expand helping the overall world economy's brisk pace throughout the fiscal year. In a similar fashion, the Japanese economy showed positive signs as shown by the expansion of capital investment by private sectors supported by an upwind in exports and a rebound in consumer spending. However, the sense of uncertainty, such as the concern about the deterioration of world economy due to the effect of oil price rises and containment measures which could be taken to control the unbridled expansion of the Chinese economy, could not yet be eliminated.

The consumer electronics market became active in such fields as the "digital home appliances" and air conditioners due to "the Olympic games effect" and the extremely hot summer in Japan but the audio market rather shrank.

Under these circumstances, the business performance of the Company was such that OEM Car Electronics Division, which was transformed into an independent organization to cover the growing market and was prioritized for enhancement measures, expanded its business more than expected and the Communications Division also steadily maintained a strong position in line with the growth strategy, but the home audio business was detrimentally affected by the unexpectedly fast contraction of the market and excessive competition.

2. Sales and income

Consolidated Operating Results –The sales of this first fiscal half-year stayed on the same level with the previous term and the net income of this first fiscal half-year cleared the target of initial plan for the term, but the ordinary profit fell short of the plan by approx. 26% –

As to the sales in this first fiscal half-year, OEM Car Electronics Division, which was showing rapid growth, made an expansion which exceeded the initial expectation at the beginning of the term and increased the sales by 1.5 times over the same of the previous term and Communications Division, which was favored by the market, also outperformed the initial target. However, Consumer Car Electronics Division reduced the sales by the effect of shrinking audio market and the sales of car electronics business as a whole stayed on 3% increase from the previous term and the sales of Home Electronics Division largely fell short of the initial plan, which was made based on the forecast to keep same level of performance as the previous term, due to remarkable reduction of sales in the U.S. market. As a result, the sales amount of the Company reached ¥88.375 billion, which corresponds to ¥0.2 billion (0.2%) increase compared with the same of previous term and is almost the same with the initial forecast at the beginning of the term.

As to the profit/loss in this first fiscal half-year, the sales of Home Electronics Division remarkably dropped due to the intensified competition and the profitability of the same business deteriorated. And, the profit percentage ratio of the car electronics business as a whole went down considerably due to the sharp fall of profitability in the consumer car multi-media field due to excessive competition and the unexpected shift of sales to the low profitability OEM car electronics business. Under these circumstances, the expected decrease of profit due to the strategic investments in a total amount of approx. ¥2 billion (in fiscal half-year), which was implemented in line with the initial plan made at the beginning of the term, covering the positive investment to support the development of new products/technologies and the brand strategy mainly in the multi-media sector and the reinvestment to the employees by discontinuing the salary cut for regular employees at the end of previous fiscal year, was not absorbed by the increase of profit, and the operating profit of the Company stayed as ¥4.024 billion, which is approx. ¥1.9 billion (32.1%) decrease compared with the same of previous term and below the initial forecast at the beginning of the term.

Due to the improvement of non-operating profit/loss by approx. ¥0.4, which partly offset the decrease of operating profit, the ordinary profit for this first half of the fiscal year was ¥2.427 billion, which is down by approx. ¥1.5 billion (38.9% down) from the previous term and is approx. ¥0.9 below the initial forecast at the beginning of the term (26.4% down).

The net income of this first fiscal half-year was ¥2.96 billion, which is down by approx. ¥0.5 billion (15.5% down) from the previous term and is roughly the same as the initial forecast at the beginning of the term (¥3 billion), as the amount of special profit increased by approx. ¥0.8 billion from the previous term due to the profit generated by the sale of marketable securities, which was not counted at the beginning of the term.

Consolidated sales and income by business segment are as follows:

(Unit: Millions of yen)

Segment		First half of fiscal 2003	First half of fiscal 2004	Increase/decrease YoY
Car Electronics	Sales	51,246	52,805	103.0%
	Operating profit	4,258	2,219	52.1%
Communications	Sales	24,341	26,934	110.7%
	Operating profit	3,221	3,393	105.3%
Home Electronics	Sales	10,730	7,539	70.3%
	Operating profit	(1,629)	(1,540)	-
Others	Sales	1,878	1,097	58.5%
	Operating profit	75	(48)	-
Total	Sales	88,195	88,375	100.2%
	Operating profit	5,925	4,024	67.9%
	Ordinary profit	3,970	2,427	61.2%
	Net income	3,504	2,960	84.5%

*** Car electronics business**

Although the sales in the consumer market dropped largely from the forecast due to the contraction of audio market mainly in Europe and U.S. and the associated excessive competition, the sales in the OEM business made remarkable expansion in excess of the forecast at the beginning of the term. As a result, the sales of car electronics business sector as a whole soared to ¥52.805 billion, which is an increase by approx. ¥1.6 billion (3.0% up) compared with the previous term.

As already mentioned, the percentage share of sales held by the car electronics business significantly and unexpectedly increased by the expansion of OEM business, taking advantage of the growth strategy, although the sales in the consumer market decreased. However, the efforts to improve the profitability being made in parallel will affect the profit of car electronics business only in the next fiscal year, while the competition in the growing consumer multi-media business became intensified and it largely eroded the profitability of the business. As a result, the profitability of car electronics business in whole remarkably declined and the operating profit of the sector dropped by approx. ¥2 billion, compared with the previous term (47.9% down), to remain at ¥2.219 billion.

*** Communications business**

The sales of communications business sector exceeded the forecast and increased by approx. ¥2.6 billion compared with the previous term (10.7% up) to mark ¥26.934 billion. This was due to the strong performance of industrial radio communication equipment business mainly in U.S. and Asia and by the effect of the acquisition of wireless business from Toyo Communications Co., Ltd.

The profit of this fiscal half-year also exceeded the forecast due to the expansion of sales and marked ¥3.392 billion, which is approx. ¥0.2 billion increase (10.7% up) compared with the previous term, after offsetting the effect of the increased strategic investments.

*** Home electronics business**

The sales of home electronics sector remarkably fell short of the forecast and remained at ¥7.539 billion, which is approx. ¥3.2 billion decrease (29.7% down) compared with the previous term, due to the stagnant overseas sales of new products because of the effect of market contraction and excessive price competition mainly in Europe and the U.S. Especially the U.S. operation was affected badly by the said situation since we were in the middle of shifting to new sales channel in line with the high added value strategy.

This business sector marked an operating loss of ¥1.540 in this fiscal half-year, which is an improvement of approx. ¥90 million from the loss counted in the previous term but is far below the forecast at the beginning of the fiscal year. This is due to the decrease of sales and the significant fall of sales price in Europe and U.S. caused by the excessive price competition, although the cost structure was improved by the result of structural reform and production innovation.

Non-consolidated operating results - Both sales and income exceeded the forecasts and the final profit figures reiterated the past record from the first fiscal half-year. -

Although the Company suffered from the effects of the market contraction and consequent intensified competition in the car electronics and home electronics businesses, the communications business showed strong sales throughout the period reflecting the effect of the acquisition of the wireless business and the repletion effort made in the OEM car electronics business resulted in remarkable growth mainly in the domestic market. As a result, the sales on the individual basis increased by approx. ¥3.4 billion compared with the previous term (5.4% up) and marked ¥66,409 billion, exceeding the initial forecast made at the beginning of the term.

Although operating profit decreased by approx. ¥0.8 billion compared with the previous term (22.1% down), the amount of operating profit reached ¥2.982 billion, which is far above the initial forecast made at the beginning of the term, since the profit increase supported by the sales expansion of the communications business segment covered the negative effect of strategic investments.

The ordinary profit improved by approx. ¥0.4 billion from the previous term due to higher than expected dividend income from subsidiaries and largely exceeded the initial forecast made at the beginning of the term to mark ¥3.521 billion, which is however approx. ¥0.4 billion decline (9.3% down) compared with the previous term.

The net income of the term also increased by approx. ¥1.2 billion compared with the previous term (45.7% up) due to the income by the sale of marketable securities, which was not planned at the beginning of the term, and marked ¥3.958 billion by largely exceeding the initial forecast made at the beginning of the term and renewing the record high of the profit in the first fiscal half-year.

3. Consolidated financial position

(1) Assets, liabilities and shareholders' equity at the end of first fiscal half-year under review -

Total assets decreased by approx. ¥20.7 billion from the fiscal year ended March 2004 to ¥115.068 billion, reflecting the capital increase through public offering, capital reduction with and without compensation, large reduction of interest-bearing debt and retained earnings by the counting of net income of this fiscal half-year.

The interest-bearing debt decreased by approx. ¥32.9 billion or almost by a half compared with the corresponding period of previous fiscal year to ¥35.922 billion, contributed by the realization of refinance, and the net debt decreased by approx. ¥17.6 to

¥22.278 billion. Thus the Company could make a big step ahead to the realization of "Zero Net Debt Management" stated in the mid-term management plan, "Excellent Kenwood Plan."

Total shareholders' equity was ¥30.010 billion, approx. ¥9.8 billion up from the same at the end of previous fiscal year, due to the increase by the capital increase through public offering, capital reduction with compensation and net income counted in this first fiscal half-year. Thus, the equity ratio improved 11.2% point from the end of previous fiscal year and became 26.1%.

The retained earnings also increased by approx. ¥21.1 billion from the end of previous fiscal year and reached ¥11.323 billion, reflecting complete elimination of accumulated loss amounted to approx. ¥9.8 at the end of previous fiscal year by means of the capital reduction without compensation and net income earned in this first fiscal half-year.

(Unit: Millions of yen)

	Previous fiscal year	Current fiscal year	Year-on-year change
Total assets	128,599	115,068	135,763
Interest-bearing debt	68,775	35,922	67,272
Net debt	39,882	22,278	29,885
Shareholders' equity	16,380	30,010	20,161
Equity ratio	12.7%	26.1%	14.9%
Retained earnings	(13,591)	11,323	(9,777)

(2) Cash flow status in the first fiscal half-year under review

The cash flow from operating activity decreased by approx. ¥7.5 billion compared with the same period of previous fiscal year due to the increase of inventory assets from the end of last fiscal year in preparation for the year-end demand and the decrease of sales account receivable and remained at ¥5.5 billion.

The cash flow from investment activity improved by approx. ¥4.6 billion in comparison with the same period of previous fiscal year by the withdrawal of term deposit to pay out the loan and became ¥0.224 billion.

The cash flow from financial activity decreased by approx. ¥15 billion compared with the same period of previous fiscal year due to the payments of ¥16.1 billion for the redemption of the First Tranche of Class-A Preferred Stock and approx. ¥32.2 billion for the payout of debt loan, although there was an increase of approx. ¥22 billion by the capital increase through public offering in accordance with "New Financial Strategy", and was minus ¥26.464 billion.

Through the activities and performance stated above, the Company has finished a series of financial base reconstruction.

(Unit: Millions of yen)

	Previous fiscal year	Current fiscal year	Year-on-year change
Cash flows from operating activities	13,049	5,500	-7,549
Cash flows from investing activities	(4,383)	224	+4,607
Cash flows from financial activities	(11,318)	(26,464)	-15,146
Effect of exchange rate changes on cash and cash equivalents	(453)	463	+916
Net increase (decrease) in cash and cash equivalents	(3,106)	(20,275)	-17,169
Cash and cash equivalents at beginning of year	27,064	33,698	+6,634
Net increase (decrease) in cash and cash equivalents in accordance with change of consolidated subsidiaries	(0)	-	0
Cash and cash equivalents at end of year	23,958	13,423	-10,535

4. Outlook for fiscal 2004 (year ending March 2005)

(1) Earnings outlook for fiscal year ending March 2005

Total sales for the fiscal year under review on a consolidated basis for the entire Company are expected to reach almost that predicted at the beginning of the term, driven by the strong sales of the communication business sector throughout the year as well as rising sales in the OEM car electronics business, which exceeded the forecasts, although the effects of market contraction and intensified competition are causing sales to decline in the consumer car audio and home electronics businesses forecast so the forecasts at the beginning of the term appear too optimistic

In addition to declining profitability of the home electronics business due to lagging sales, the profitability of the entire car electronics business is likely to deteriorate due to the unexpectedly rising share of sales of the low profit OEM car electronics business and the decline of profitability in the consumer multi-media sector. This fiscal year's profits will be affected by such unfavorable conditions and will not suffice to offset the cost of strategic investments, being made in line with the basic policy for this fiscal year. As a result, the net income of the fiscal year under review will be less than the initial forecasts by approx. 27%.

As elaborated on above (under the "Management Policy"), we will steadily endeavor to drastically improve profitability in the OEM car electronics and consumer multi-media businesses, where sales are expected to expand, and proceed with innovating new products such as the network home theater system "Net Theater" and return to profitability in the home electronics business, in pursuit of the fulfillment of the objectives established by the mid-term management plan with our utmost efforts so that the Company can make a significant leap forward in the coming fiscal years.

Consolidated earnings outlook (Unit: Millions of yen)

	Outlook for FY 2004	Revised projection for FY. 2004	Year-on-year change	YoY change in %	Actual result for FY 2003	
Net sales	190,000	180,000	-10,000	-5.3%	178,731	
(Operating profit)	13,000	9,000	-4,000	-30.8%	12,610	(See note)
Ordinary profit	8,500	6,000	-2,500	-29.4%	8,541	
Net income	7,500	5,500	-2,000	-26.7%	7,318	

Non-consolidated earnings outlook

	Outlook for FY 2004	Revised projection for FY. 2004	Year-on-year change	YoY change in %	Actual result for FY 2003	
Net sales	135,000	130,000	-5,000	-3.7%	126,115	
(Operating profit)	5,500	4,500	-1,000	-18.2%	5,607	(See note)
Ordinary profit	4,500	4,500	-	-	4,748	
Net income	4,500	4,500	-	-	5,036	

Note: Outlooks for operating profit (disclosure of which is wholly discretionary) is presented for reference only.

(2) Partial return of the employees' pension fund to the government

The corporate pension fund has been granted a waiver of the obligation to handle future disbursement of pension benefits from the Minister of Health, Labor and Welfare on April 1, 2004, in association with the return to the state of the assets, which the fund has been managing as a proxy for the state, based on the Defined Benefit Corporate Pension Law.

The Company will cancel retirement pay obligation and realize profit/loss on the day when the portion for proxy disbursement is returned to the state, in accordance with the provisions of Paragraph 44-2 of the interim "Practical guidelines for the accounting of retirement benefits" (Accountants Accounting Committee Report No. 13; the Japanese Institute of Certified Public). It is forecast that such profit/loss will have little effect on the financial results for fiscal year ending March 2005.

Notes on earnings outlook:

The above-mentioned earnings outlook for the year ending March 2005 are based on currently available information and, actual results may differ materially from these prospective forecasts due to a variety of factors.

Therefore, it is recommended that investment decisions not be made solely on the basis of these prospective results.

The electronics industry, the Company's core business field, is prone to fluctuations due to changes in technologies, demand, prices, competition, economic environment, foreign exchange rates, as well as many other factors.

Consolidated Balance Sheet

for the half-years ended Sep. 30, 2003, and 2004; as well as the full-year ended Mar. 31, 2004

(Unit: Millions of yen)

Accounts		HY ended Sep. 2003		HY ended Sep. 2004		FY ended Mar. 2004	
		Amount	%	Amount	%	Amount	%
(Assets)							
I	Current Assets	91,168	70.9	77,193	67.1	98,278	72.4
	Cash and cash in bank deposit	28,893		13,644		37,387	
	Trade notes and accounts receivable	29,566		29,961		30,908	
	Inventories	28,049		27,546		24,639	
	Prepaid expenses	1,138		649		620	
	Deferred tax assets	775		909		866	
	Other current assets	3,777		5,387		4,717	
	Allowance for doubtful receivables	(1,032)		(904)		(861)	
II	Fixed Assets	37,345	29.0	37,723	32.8	37,437	27.6
(1)	Tangible fixed assets	25,818	20.0	25,232	21.9	25,215	18.6
	Building and structures	20,238		19,564		19,518	
	Machinery and equipment	16,835		17,143		16,549	
	Tools, furniture and fixtures	9,910		11,774		10,672	
	Land	11,860		11,933		11,881	
	Construction in progress	15		30		7	
	Total	58,860		60,446		58,628	
	Accumulated depreciation	(33,042)		(35,213)		(33,413)	
(2)	Intangible fixed assets	7,058	5.5	8,162	7.1	7,828	5.8
(3)	Investment and others	4,468	3.5	4,327	3.8	4,392	3.2
	Investment securities	3,373		2,269		3,779	
	Long term loans	73		69		71	
	Deferred tax assets	844		722		712	
	Other investments	1,919		1,504		1,566	
	Allowance for doubtful receivables	(1,741)		(238)		(1,736)	
III	Deferred Assets	85	0.1	150	0.1	47	0.0
	New stock issuing expenses	85		150		47	
	Total Assets	128,599	100.0	115,068	100.0	135,763	100.0

(Unit: Millions of yen)

Accounts	HY ended Sep. 2003		HY ended Sep. 2004		FY ended Mar. 2004	
	Amount	%	Amount	%	Amount	%
(Liabilities)						
I Current Liabilities	93,369	72.6	69,480	60.4	96,042	70.7
Trade notes and accounts payable	15,500		16,968		18,009	
Short term bank borrowings	62,932		35,526		62,032	
Accounts payable (non trade)	5,811		7,745		7,236	
Income taxes payable	294		310		623	
Accrued expenses	6,869		7,294		6,714	
Deferred tax liabilities	30		40		38	
Other current liabilities	1,929		1,593		1,385	
II Long Term Liabilities	18,838	14.7	15,577	13.5	19,554	14.4
Long term debt	5,843		396		5,240	
Deferred tax liabilities (Revaluation of land)	2,163		2,173		2,173	
Deferred tax liabilities	184		298		277	
Allowance for Employees' retirement	1,0396		12,672		11,768	
Other long term liabilities	250		35		93	
Total Liabilities	112,207	87.3	85,057	73.9	115,596	85.1
Minority Interests	11	0.0	-	-	6	0.0
(Shareholders' Equity)						
I Paid-in capital	39,469	30.7	14,409	12.5	39,469	29.1
II Capital surplus	-	-	12,841	11.2	-	-
III Retained earnings	(13591)	-10.6	11,323	9.8	(9,777)	-7.2
IV Land revaluation surplus	3,178	2.5	3,167	2.8	3,167	2.3
V Unrealized gain and loss on available-for-sale securities	75	0.0	238	0.2	253	0.2
VI Translation adjustments	(12,708)	-9.9	(11,914)	-10.4	(12,901)	-9.5
VII Treasury stock	(42)	-0.0	(55)	-0.0	(50)	-0.0
Total Shareholders' Equity	16,380	12.7	30,010	26.1	20,161	14.9
Total Liabilities, Minority Interests and Shareholders' Equity	128,599	100.0	115,068	100.0	135,763	100.0

Consolidated Income Statements

for the half-years ended Sep. 30, 2003, and 2004; as well as the full-year ended Mar. 31, 2004

(Unit: Millions of yen)

Accounts	HY ended Sep. 2003		HY ended Sep. 2004		FY ended Mar. 2004	
	Amount	%	Amount	%	Amount	%
Net Sales	88,195	100.0	88,375	100.0	178,731	100.0
Cost of Sales	62,478	70.9	66,167	74.9	126,439	70.7
Gross Profit	25,716	29.1	22,208	25.1	52,291	29.3
Selling, General and Administrative expenses	19,791	22.4	18,183	20.6	39,681	22.2
Operating Profit	5,925	6.7	4,024	4.5	12,610	7.1
Non-operating Profit and Loss						
Interest income and dividends	56		62		95	
Other non-operating Profit	995		950		1,987	
Sub-total	1,051	1.2	1,013	1.2	2,083	1.1
Non-operating Loss						
Interest expense	1,117		870		2,168	
Other non-operating Loss	1,888		1,739		3,983	
Sub-total	3,005	3.4	2,610	3.0	6,152	3.4
Ordinary profit	3,970	4.5	2,427	2.7	8,541	4.8
Extraordinary profit						
Reversal of allowance for doubtful receivables	2		28		10	
Gain on sale of investments in securities	-		599		-	
Gain on sales of fixed assets	149		87		219	
Gain on closing affiliated companies	-		-		103	
Sub-total	152	0.2	714	0.8	334	0.1
Extraordinary Loss						
Loss on devaluation and sales of membership	2		-		12	
Loss on devaluation of investment securities	6		4		23	
Loss on sales of investment securities	0		-		7	
Retirement allowance paid to directors	25		12		25	
Loss on disposal and sales of fixed assets	277		71		401	
Loss on impairment from overseas subsidiaries	-		-		295	
Sub-total	312	0.4	88	0.1	766	0.4
Income before Income tax and Minority interests	3,809	4.3	3,053	3.4	8,108	4.5
Current	311	0.3	56	0.1	870	0.5
Deferred	(3)	-0.0	37	0.0	(82)	-0.1
Minority interests	(2)	-0.0	-	-	1	0.0
Net Income	3,504	4.0	2,960	3.3	7,318	4.1

Consolidated Statements of Retained Earnings

for the half-years ended Sep. 30, 2003, and 2004; as well as the full-year ended Mar. 31, 2004

(Unit: Millions of yen)

	HY ended Sep. 2003		HY ended Sep. 2004		FY ended Mar. 2004	
(Capital Surplus)						
I Beginning balance of capital surplus		17,087		-		17,087
II Increase in additional capital surplus						
1 Issuance by capital increase through issuance of new shares	-		10,982		-	
2 Increase by capital reduction	-	-	1,859	12,841	-	-
III Decrease in additional paid-in capital Transfer to retained earnings	17,087	17,087		-	17,087	17,087
IV Ending balance of capital surplus		-		12,841		-
(Retained Earnings)						
I Beginning balance of retained earnings		(34,238)		(9,777)		(34,238)
II Increase in retained earnings						
1 Net Income of the (interim) term	3,504		2,960		7,318	
2 Increase by capital reduction	-		18,140		-	
3 Transfer from additional paid-in capital	17,087		-		17,087	
4 Transfer from land revaluation surplus	56	20,649	-	21,101	56	24,463
III Decrease in retained earnings						
1 Adjustment to retained earnings from change of basis of consolidation	2	2	-	-	2	2
IV Ending balance of retained earnings		(13,591)		11,323		(9,777)

Semi-Annual Consolidated Statements of Cash Flows

for the half-years ended Sep. 30, 2003, and 2004; as well as the full-year ended Mar. 31, 2004

(Unit: Millions of yen)

	HY ended Sep. 2003 Amount	HY ended Sep. 2004 Amount	FY ended Mar. 2004 Amount
I Cash Flows from Operating Activities:			
1 Income of the (interim) term before income taxes and minority interests	3,809	3,053	8,108
2 Depreciation	3,173	3,726	6,687
3 Amortization	25	29	50
4 Increase(decrease) in allowance for doubtful accounts	(38)	6	(199)
5 Increase in allowance for employees' retirement	1,174	878	2,546
6 Interest revenue and dividend income	(56)	(62)	(95)
7 Interest expense	1,117	870	2,168
8 Investment gain/loss by equity method	10	(45)	35
9 Gain(loss) on sale of investment securities	0	(599)	7
10 Loss on devaluation of investment securities	6	4	23
11 Loss on devaluation/sales of membership	2	-	12
12 Loss on disposal of fixed assets	111	65	212
13 Loss on sales of fixed assets	16	(82)	(30)
14 Loss on impairment from overseas subsidiaries	-	-	295
15 Gain on closing affiliated companies	-	-	(103)
16 Decrease in trade notes and accounts receivable	3,472	2,128	1,645
17 Increase(decrease) in inventories	3,070	(2,236)	6,108
18 Decrease in accounts payable	(1,992)	(1,269)	2,360
19 Increase(decrease) in consumption tax payable	93	54	(16)
20 Increase(decrease) in consumption tax refunds receivable	(28)	(309)	89
21 Others	662	333	431
Sub-Total	14,631	6,548	30,340
22 Interest dividends received	56	63	96
23 Interest paid	(1,138)	(725)	(2,180)
24 Income taxes paid	(473)	(372)	(727)
25 Disbursement to directors for retirement	(25)	(12)	(25)
Net cash provided by operating activities	13,049	5,500	27,502
II Cash Flows from Investing Activities:			
1 Increase in (deposit to) time deposits	(4,971)	(407)	(3,993)
2 Decrease in (withdrawal from) time deposits	3,734	3,876	4,001
3 Capital investment (real estate, plants and equipment)	(1,549)	(1,686)	(3,582)
4 Proceeds from sales of real estate, plant and equipment	700	81	738
5 Purchase of intangible fixed assets	(1,708)	(2,279)	(4,104)
6 Purchase of investment securities	(5)	(51)	(156)
7 Proceeds from sales of investment securities	32	625	35
8 Acquisition of subsidiaries' additional equities	(615)	-	(615)
9 Loan paid	(31)	(0)	(56)
10 Proceeds from collection of loan	29	64	59
11 Proceeds from collection of long-term loan	1	2	-
Net cash used in investing activities	(4,383)	224	(7,674)
III Cash Flows from Financing Activities:			
1 Increase(Decrease) in short-term bank borrowings, net	(4,600)	(18,058)	(5,827)
2 Repayments of long-term debt	(1,570)	(14,142)	(1,723)
3 Proceeds from issuance of stock	-	21,879	-
4 Redemption of bonds	(5,000)	-	(5,000)
5 Outflow by redemption (with compensation) of class-A preferred stock	-	(16,100)	-
6 Others	(148)	(43)	(231)
Net cash (used in) provided by financing activities	(11,318)	(26,464)	(12,783)
IV Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents	(453)	463	(409)
V Net Increase(Decrease) in Cash and Cash Equivalents	(3,106)	(20,275)	6,634
VI Cash and Cash Equivalents at beginning of year	27,064	33,698	27,064
VII Net Increase(Decrease) in Cash and Cash Equivalents in accordance with change of consolidated subsidiaries	(0)	-	(0)
VIII Cash and Cash Equivalents at end of interim account settlement period (fiscal year)	23,958	13,423	33,698