**(Translation)**

# Report for 79th Business Term

(From April 1, 2007 to March 31, 2008)

## BUSINESS REPORT

Consolidated Balance Sheets
Consolidated Statement of Income
Consolidated Statement of Changes in Shareholders' Equity

The Audit Report of the Independent Accounting Auditors on the Consolidated Financial Statements
The Audit Report of the Board of Statutory Auditors on the Consolidated Financial Statements

Non-consolidated Balance Sheets
Non-consolidated Statement of Income
Non-consolidated Statement of Changes in Shareholders' Equity

The Audit Report of the Independent Accounting Auditors on the Non-consolidated Financial Statements
The Audit Report of the Board of Statutory Auditors on the Non-consolidated Financial Statements

**(Translation)**

(Document Provided Based on Article 437, Article 444 of the Corporate Act)

# BUSINESS REPORT

(From April 1, 2007 to March 31, 2008)

## 1. Matters Concerning the Current Situation of the Group

### [1] Course of Business and the Results

Concerning the world economy during the fiscal year under review, the U.S. economy has seen a slowdown due to the consequences of the Subprime home mortgage crisis, and European and Asian economies have also showed indications of recession.

Japanese economy has seen a recovery due to favorable business results in the first half, along with stable capital investments. However, price rise in crude oil and materials and yen appreciation for the end of fiscal year has also shown indications of recession.

For the Group's business results under such circumstances, going into the fourth quarter, the rapid rise of the yen against the dollar had a large effect on net sales, which decreased by 2.3% year-on-year, while on a local currency basis, excluding the effects of currency fluctuations, net sales increased by 4.1% year-on-year.

Furthermore, earnings from our Car Electronics and Home Electronics businesses were significantly improved compared to the previous year, halving the loss, and as a result, operating profit, ordinary income and net income, on which the impact of currency fluctuations is minor, thanks to the effects of forward exchange, outperformed the previous years' results, by 11.4%, 65.7% and 100.5%, respectively.

*** Net Sales**

Since the Group has adopted the accounting method of converting aggregated foreign currency denominated overseas sales from the beginning of the year into yen currency using the year-end exchange rate, the abrupt yen rise in the fourth quarter impacted the performance for the entire year, including the nine months up to the third quarter of the fiscal year.

As the impact of this yen rise factored in the decline by about JPY10.8 billion compared to the year-beginning plan, consolidated net sales decreased by approximately JPY3.9 billion (or 2.3%) from the previous fiscal year to JPY165.262 billion.

For reference, on a local currency base, sales of the Car Electronics Consumer business expanded and supplemented the decrease in sales in the OEM business, and in addition, due to the effects of the addition of net sales of Zetron, Inc., ("Zetron") a U.S. systems-based communications company that was converted to a subsidiary on May 10, 2007, in the Communications Equipment business, net sales increased by 4.1% year-on-year.

*** Operating Profit**

Although earnings in the Car Electronics OEM business deteriorated under the impact of the decline in sales, the Car Electronics Consumer business was significantly improved thanks to the effects of the expansion of sales, aiding overall earnings for the Car Electronics business in improving. In addition, earnings in our Home Electronics business also improved substantially due to the effects of the change of strategy, and as a result, consolidated operating profit for the current fiscal year increased by approximately JPY600 million (or 11.4%) from the previous fiscal year to JPY6,259 million.

The impact of currency fluctuations on earnings is minor, thanks to the effects of forward exchange.

*** Ordinary Income**

In addition to the increase in consolidated operating profit, there was non-operating profit relevant to intellectual property rights that was not predicted at the beginning of the year and that improved non-operating profit and the expense balance, and as a result, consolidated ordinary income increased approximately JPY1.5 billion (or 65.7%) from the previous fiscal year to JPY3,876 million.

*** Net Income**

In addition to the effects of the increase in ordinary income, since retirement benefits paid to directors, which were posted as extraordinary loss in the previous fiscal year, did not accrue in the current fiscal year, the extraordinary profit and expense balance was improved, and as a result consolidated net income increased by approximately JPY1.6 billion (or 100.5%) from the previous fiscal year to JPY3,181 million.

Consolidated net sales and earnings in each business segment were as follows:

*** Car Electronics Business**

Although on a local currency base net sales were almost the same as those of the previous year, since the Consumer business, which accounts for a high percentage of overall sales, was greatly affected by the strong yen trend, and since OEM business sales remained sluggish due to the stagnation of automobile sales and sluggishness in the installation rate of genuine products for automobile manufacturers, net sales underperformed those of the previous year.

For reference, on a local currency base, sales of new-concept car navigation systems through collaboration with PND* giant Garmin Ltd. ("Garmin") have been strong, centering on overseas markets, and introduction of new audio products lines has been going well, and therefore the results were about the same as those for the previous year.

Although earnings in the OEM business deteriorated under the impact of the reduction in sales, earnings for the overall Car Electronics business were substantially improved compared to those of the previous year, with a halving of the loss, thanks to the significant improvement in Consumer business profits due to the effects of the increase in sales, and, in addition, because of the effects of forward exchange.

* PND Portable/Personal Navigation Device

*** Communications Equipment Business**

In the aspect of sales, our wireless radio equipments business, a large percentage of which is made up of overseas sales, was greatly affected by the yen rise; however, due to the effects from May 10th of the consolidation of sales of Zetron, which was converted to a subsidiary, net sales outperformed the previous year's results.

For reference, on a local currency base, in addition to the increased sales of wireless radio equipments business compared to those of the previous year's results and newly consolidated sales of Zetron, as a result of the increase in net sales for the Personal Digital Cellular (PDC) phone business, due to aggressive sales promotion measures by PDC carriers and a change of strategy by the Group, net sales substantially outperformed the previous year's results.

In earnings, in addition to the effects of currency fluctuations as a factor in the decline, due to the effects of the posting of non-permanent expenses pertaining to the conversion of Zetron to a subsidiary, and depreciation cost of intangible fixed assets, earnings for the entire Communications Equipment business undershot those of the previous fiscal year.

*** Home Electronics Business**

Since sales of new products groups did not exhibit strong growth due to the effects of market trends in the third quarter of the current fiscal year, which is the biggest selling season during the year, we were unable to absorb the impact of the previous year's strategy change by squeezing out some conventional audio products, and net sales were below the previous year's results.

However, in earnings, we attempted to enhance our lineups through the injection of high value-added products, and meanwhile promoted conversion to a high value-added type business structure by extending premium long tail strategies, and as a result, a profit was successfully posted in the second half of the fiscal year, and loss throughout the fiscal year was reduced by half, compared to the previous fiscal year.

## [2] Issues

### Basic Management Policy

The Group will see the results of investments in strategic development promoted in FY2006, and will promote efforts toward the restructuring and growth of our existing Car Electronics, Communications Equipment and Home Electronics businesses, and meanwhile, in order to overcome our limitations in realizing growth in a mature business with stiff competition, and to create new corporate value, we will strive for a medium-to-long term growth strategy through M&A and business alliances, keeping in our sights the reorganization of industry.

### Management Strategy for Medium-to-long Term

**(1) Formulation of a New Medium-term Business Plan**

The Group promoted various measures including strategic development, sale expansion, and recovery of profits, etc. in accordance with our medium-term business plan "Value Creation Plan," starting in FY2005, and has succeeded in growing profits through the results of the partial actualization of these in FY2007.

We have now formulated a new medium-term business plan, aiming at promoting steady growth of our existing businesses and expansion of corporate value, through actualization of the results of measures to the maximum extent for FY2008 and thereafter.

Specifically, we will focus our efforts as presented in "(3) Issues that the Group Must Address" below, setting goals for net sales of JPY200 billion and for operating profit of JPY9 billion for FY2010.

**(2) Structural Reform toward Improvement of Earnings**

The Group has been striving for the following structural reform with an aim at improving earnings for our unprofitable Car Electronics OEM business and Home Electronics business.

In addition, we will make efforts to reinforce our business competitiveness for further improvements of results in our strong Car Electronics Consumer and Communications Equipment businesses.

**1) Car Electronics OEM Business**

Sales in the Car Electronics OEM business for FY2007 were sluggish due, in addition to the stagnation of automobile sales, to the significantly-shorter-than-expected installation rate of genuine products for automobile manufacturers. As it is projected that such conditions will continue in the medium-term, we will strive for improved earnings while maintaining and even expanding net sales through structural cost reforms of the genuine products business and structural business reform via an expansion of the Dealer Option business oriented to automobile dealers and the Device business, which is not strongly affected by automobile sales market trends, aiming at making the business profitable at an early stage.

**2) Home Electronics Business**

We finished up our focus on non-profitable models and sales areas in FY2006, and in FY2007 promoted conversion to a high value-added type business structure through the injection of high value-added products, and as a result, the earnings structure was greatly improved and a profit was successfully posted in the second half of the fiscal year.

Toward even further reforms of the profit structure for FY2008, the Company reorganized the existing business department system as of April 1, 2008 aiming at turning a profit for the full year, and meanwhile consigned a portion of development resources to new business fields where future growth is expected, and also through activation of the results of joint development with JVC, we will explore new fields for growth.

**(3) Reinforcement of Competitiveness in Business toward Improvement of Results**

**1) Car Electronics Consumer Business**

In the Car Audio business where the market environment is tough, we will strive to reinforce its cost competitiveness through exploration of new emerging markets and alliance with JVC as of July 24, 2007, and meanwhile in the Car Multimedia business we will make efforts for business expansion and profit improvement in Japanese and overseas markets.

**2) Communications Equipment Business**

In the Land Mobile Radio business, the Group's largest fundamental business, where it boasts the second largest global market share, based on stable sales of analog land mobile radio equipment, it will strive to expand sales of digital land equipment, where take-up has been growing, centered on Zetron of U.S., which was converted into a subsidiary in May 2007.

**(4) Effort toward Reorganization of Specialized Manufacturers of Japan —On the Management Integration with JVC**

The Group executed a capital alliance agreement with JVC on July 24, 2007, aiming at management integration, in order to survive in a competitive environment that has, along with advance of digitalization, become even tougher through reorganization of Japanese AV specialized manufacturers, and in order to attempt to expand and create corporate value.

The Group has positioned this capital alliance as a first step in Japanese AV specialized manufacturer reorganization and accepted third-party allocation for the capital increase carried out by JVC on August 10, 2007, in support of the structural reform of JVC, and meanwhile began full-scale alliance with JVC with regard to the Car Electronics business and Home/Portable Audio business, working to reinforce its business competitiveness.

Furthermore, in parallel with such actions, the Group has advanced its inquiry and preparations with JVC toward a second step of management integration.

And now, since (i) JVC has completed a major structural reform through the reform of the Display business and Home Electronics business, through which its management foundation will be stabilized, and (ii) a business plan for posting profits from and revitalizing the consumer equipment business, which accounts for approximately 60% (FY2007, result) of the sales of the Group was formulated through the integration of the management resources of both companies, and because of this, a vision for a growth strategy has become clear, JVC and the Company mutually agreed on management integration targeting October 1, 2008.

For details, see “Management Integration of JVC and the Company through the Establishment of a Joint Holding Company (Share Transfer)” announced at the same time.

### [3] State of Capital Investments

The total amount of capital investments implemented in this consolidated fiscal year is JPY5,961 million, and its breakdown by business segment is: Car Electronics business JPY3,997 million; Communications business JPY1,596 million, Home Electronics business JPY363 million, and Others JPY4 million. The main subjects of the investments are for the expansion/improvement and upgrade of production facilities, including tools and equipment.

### [4] State of Financing

Not applicable.

### [5] State of Transfer of Business, Merger & Division, or New Establishment & Division

Not applicable.

### [6] State of Transfer of Business from Other Companies

Not applicable.

### [7] State of Succession of Rights and Obligations Regarding Other Corporations in Relation to the Merger & Acquisition or Merger & Division

Not applicable.

### [8] State of Ownership of Other Company Shares or Acquisition/Disposal of Share Options

The Company has acquired all shares of Zetron, Inc., an American radio communication systems business company, as of May 10, 2007, from Zetron Holdings, the 100% shareholder of Zetron, Inc., making Zetron, Inc. a 100% shareholding subsidiary of the Company.

Based on the capital alliance agreement entered into as of July 24, 2007, the Company has subscribed to the third-party allotment that JVC conducted for its capital increase, and acquired 61,539,000 shares (Shareholding ratio: 17.0%) as of August 10, 2007.

**(Translation)**

## [9] Transition of Assets and Profit & Loss (Corporate group)

### (1) State of Assets and Profit & Loss

(Millions of yen)

| Items | 76th Term (March 2005) | 77th Term (March 2006) | 78th Term (March 2007) | 79th Term (current) (March 2008) |
|---|---|---|---|---|
| Net sales | 181,112 | 183,616 | 169,194 | 165,262 |
| Operating profit | 7,061 | 8,686 | 5,617 | 6,259 |
| Ordinary income | 4,696 | 4,886 | 2,339 | 3,876 |
| Net income | 4,836 | 6,104 | 1,586 | 3,181 |
| Net income per share (yen) | 16.79 | 17.16 | 4.32 | 8.67 |
| Total assets | 116,137 | 109,554 | 111,220 | 126,088 |
| Net assets | 33,132 | 37,486 | 39,066 | 29,925 |
| Net assets per share (yen) | 66.29 | 101.97 | 106.46 | 81.57 |

(Notes)
1. The “Accounting Standard for Description in the Net Assets Section of the Balance Sheets” (Corporate Accounting Standard No. 5, December 9, 2005) and the “Application Guide for the Accounting Standard for Description in the Net Assets Section of the Balance Sheets” (Corporate Accounting Standard Application Guide No. 8, December 9, 2005) are applied from 78th term.
2. Net assets per share in 76th term is calculated by subtracting the year-end outstanding common shares (excluding treasury stock) from the amount of year-end net asset (JPY20,359 million) for common shares, which excludes issued price of preferred stock (JPY12,500 million), cumulative accrued dividend of preferred stock (JPY126 million), preferred dividend of preferred stock (JPY100 million) and compensation paid to directors (JPY46 million).
3. On July 1, 2004, the Company increased capital by approx. JPY220 million through public offering (issued price per share: JPY239.375). On August 6, 2004, the Company implemented a capital reduction without compensation of JPY200 million, and class-A redemption of preferred stock with compensation of JPY161 million. On March 18, 2005, the Company had a capital increase of JPY10 million through third-party allotment capital contribution (issued price per share: JPY211).
4. On June 30, 2005, the Company had a capital increase of approx. JPY111 million through public offering (issued price per share: JPY185.20), and implemented the class-B redemption of preferred stock with compensation of JPY150 million on August 8, 2005.

### (2) State of Assets and Profit & Loss (the Company)

(Millions of yen)

| Items | 76th Term (March 2005) | 77th Term (March 2006) | 78th Term (March 2007) | 79th Term (current) (March 2008) |
|---|---|---|---|---|
| Net sales | 130,412 | 133,918 | 120,061 | 119,604 |
| Operating profit | 3,090 | 3,502 | 696 | 217 |
| Ordinary income | 3,768 | 2,547 | 574 | 363 |
| Net income | 4,708 | 6,319 | 2,034 | 1,299 |
| Net income per share (yen) | 16.33 | 17.77 | 5.54 | 3.54 |
| Total assets | 105,342 | 94,155 | 93,131 | 111,357 |
| Net assets | 36,750 | 39,237 | 39,737 | 31,802 |
| Net assets per share (yen) | 78.07 | 106.74 | 108.29 | 86.69 |

(Notes)
1. The “Accounting Standard for Description in the Net Assets Section of the Balance Sheets” (Corporate Accounting Standard No. 5, December 9, 2005) and the “Application Guide for the Accounting Standard for Description in the Net Assets Section of the Balance Sheets” (Corporate Accounting Standard Application Guide No. 8, December 9, 2005) are applied from 78th term.
2. Net assets per share in 76th term is calculated by subtracting the year-end outstanding common shares (excluding treasury stock) from the amount of year-end net asset (JPY23,977 million) for common shares, which excludes issued price of preferred stock (JPY12,500 million), cumulative accrued dividend of preferred stock (JPY126 million), preferred dividend of preferred stock

(JPY100 million) and compensation paid to directors (JPY46 million).

3. On July 1, 2004, the Company increased capital by approx. JPY220 million through public offering (issued price per share: JPY239.375). On August 6, 2004, the Company implemented a capital reduction without compensation of JPY200 million, and class-A redemption of preferred stock with compensation of JPY161 million. On March 18, 2005, the Company had a capital increase of JPY10 million through third-party allotment capital contribution (issued price per share: JPY211).
4. On June 30, 2005, the Company had a capital increase of approx. JPY111 million through public offering (issued price per share: JPY185.20), and implemented the class-B redemption of preferred stock with compensation of JPY150 million on August 8, 2005.

**[10] Major Businesses (As of March 31, 2008)**

| Business Segment | Key Products |
|---|---|
| Car Electronics business | Car electronics products, including car audio and car navigation system |
| Communications business | Amateur radios, Land mobile radio (LMR), Communication devices (e.g. specially-designated low power transceivers), Sales of PDC lines |
| Home Electronics business | Stereo (system component, separate component), Home theater system, DVD player, Home electronics (e.g. portable audio) |
| Other | Non-contact mobile identification system, Meteorological-satellite data receiving system, Other electronics |

**[11] Main Offices and Factories (As of March 31, 2008)**

| Name | Location |
|---|---|
| Head Office | Hachioji (Tokyo) |
| Office | Hachioji (Tokyo), Yokohama (Kanagawa) |
| Branch | 19 business sites nationwide, including Tokyo, Osaka, Nagoya |
| Kenwood Yamagata Corporation | Tsuruoka (Yamagata) |
| Kenwood Nagano Corporation | Ina (Nagano) |
| Kenwood U.S.A. Corporation | California, U.S.A. |
| Kenwood Electronics Europe B.V. | Uithoorn (Netherlands) |
| Kenwood Electronics Singapore Pte. Ltd | Singapore |
| Kenwood Electronics Technologies (S) Pte. Ltd | Singapore |
| Kenwood Electronics Technologies (M) Sdn. Bhd. | Johore Bahru (Malaysia) |
| Shanghai Kenwood Electronics Co. Ltd. | Shanghai (China) |

**(Translation)**

## [12] State of Important Parent Companies and Subsidiaries, etc

### (1) State of Parent Companies

Not applicable.

### (2) State of Important Subsidiaries

| Name | Capital | Ratio of the Company's Capital Contribution | Major Businesses |
|---|---|---|---|
| Kenwood Yamagata Corporation | 350 Million JPY | 100.0 % | Production of car electronics, communications, and home electronics equipment |
| Kenwood Nagano Corporation | 490 Million JPY | 100.0 % | Production of car electronics equipment |
| Kenwood U.S.A. Corporation | 94,600 Thousand USD | 100.0 % | Management of affiliates in U.S. states; Sales of car electronics, communications, and home electronics equipment |
| Kenwood Electronics Europe B.V. | 6,099 Thousand EUR | 100.0 % | Management of affiliates in Europe; Sales of car electronics and home electronics equipment |
| Kenwood Electronics Singapore Pte. Ltd. | 5,600 Thousand SGD | 100.0 % | Management of affiliates in Asia Pacific region; Sales of car electronics, communications, and home electronics equipment |
| Kenwood Electronics Technologies (S) Pte. Ltd. | 54,000 Thousand SGD | 100.0 % | Production of communications equipment |
| Kenwood Electronics Technologies (M) Sdn. Bhd. | 67,639 Thousand MYR | 100.0 % | Production of car electronics and home electronics equipment |
| Shanghai Kenwood Electronics Co. Ltd. | 114,435 Thousand RMB | 100.0 % | Production and sales of car electronics and home electronics equipment |

## [13] State of Employees (As of March 31, 2008)

### (1) State of Employees at the Group

| Number of employees | Number of increase/decrease in comparison with end of previous consolidated fiscal year |
|---|---|
| 4,691 | Increase of 208 persons |

(Note) The number of employees excludes employees transferred from a Kenwood Group Company to a non-Kenwood Group company, but includes employees transferred from a non-Kenwood Group Company to a Kenwood Group company.

### (2) State of Employees at the Company

| Number of Employees | Number of Increase/decrease in Comparison with End of Previous Fiscal Year | Average Age | Average Years of Service |
|---|---|---|---|
| 1,622 | Increase of 34 persons | 39.8 | 14.1 |

(Note) The number of employees excludes employees transferred from Kenwood to an outside company, but includes employees transferred from an outside company to Kenwood.

(Translation)

### [14] State of Major Borrowing Companies (As of March 31, 2008)

(Millions of yen)

| Borrowing Companies | Debt Balance |
|---|---|
| Resona Bank, Ltd. | 10,047 |
| Mitsubishi UFJ Trust and Banking Corporation | 6,275 |
| The Chuo Mitsui Trust and Banking Company, Limited. | 3,222 |
| Sumitomo Mitsui Banking Corporation | 2,797 |
| The Hachijuni Bank, Ltd. | 2,011 |
| The Sumitomo Trust & Banking Co., Ltd. | 1,707 |
| The Shizuoka Bank, Ltd. | 1,686 |
| Shinsei Bank, Limited | 1,686 |
| The Norinchukin Bank | 1,686 |
| Mizuho Trust & Banking Co., Ltd. | 1,686 |
| The San-in Godo Bank, Ltd. | 1,500 |

## 2. Matters Regarding the Current State of the Company

### [1] Matters Regarding the Company's Shares (As of March 31, 2008)

**(1) Total number of authorized shares 672,500,000**

**(2) Total number of outstanding shares 367,524,995**
**(Treasury stock 651,742)**

**(3) Number of shareholders 45,690**

**(4) Major shareholders (Top 10) (As of March 31, 2008)**

| Name of Shareholder | State of Capital Contribution | |
|---|---|---|
| | Number of Shareholding | Ratio of Capital Contribution |
| HSBC Fund Services SPARX Asset Management Corporated | 38,277,000 | 10.43% |
| HSBC Fund Services SPARX Asset Management Limited US Client | 28,115,000 | 7.66% |
| Resona Bank, Ltd. | 13,724,559 | 3.74% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 7,803,000 | 2.13% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 6,229,000 | 1.70% |
| Icom Inc. | 5,069,000 | 1.38% |
| The Dai-ichi Mutual Life Insurance Company | 4,123,000 | 1.12% |
| Nichiren Houonji Religious Corporation | 3,756,000 | 1.02% |
| Japan Trustee Services Bank, Ltd. (Trust Account 4) | 3,277,000 | 0.89% |
| Mitsubishi UFJ Trust and Banking Corporation (Trust Account) | 2,905,000 | 0.79% |

(Note) Ratio of Capital Contribution is calculated deducting the treasury stock (651,742).

### [2] Matters Regarding the Company's Share Options

Not applicable.

**(Translation)**

### [3] Matters Regarding Company Officers

#### (1) State of Directors and Auditors (As of March 31, 2008)

| Name | Position and Responsibilities | State of Representation of Other Corporations |
|---|---|---|
| Haruo Kawahara | Chairman | |
| Kazuo Shiohata | President and CEO; Chairman of Kenwood Environment Council | |
| Hiroshi Komatsuzaki | Director of the Board, Senior Vice President & Executive Officer; Assistant to CEO (Communications Strategy); Project Leader of the Collaborative Business Promotion Project | |
| Hiroyuki Taki | Director of the Board, Executive Vice President & Executive Officer; CFO; Manager of Finances and Accounting Management Division; Business Accounting Manager of the Finances and Accounting Management Division | |
| Shuntaro Tanaka | Director of the Board, Senior Vice President & Executive Officer; Assistant to CEO (e-Business Management); Manager of the Communication System Division; Chief Engineer of the Communication System Division; Chief Engineer of the Strategic Technologies Development Center; Vice Project Leader of the Collaborative Business Promotion Project | |
| Akira Seida | Director of the Board, Senior Vice President & Executive Officer; Manager of the Car Electronics OEM Division | |
| Nobuo Seo | Director (part-time) | |
| Takenori Kawafune | Director (part-time) | |
| Takeo Nagatomo | Director (part-time) | Tomo Consulting Corporation, President |
| Hideaki Kato | Standing statutory auditor | |
| Osamu Hamada | Standing statutory auditor | |
| Koichi Kurosaki | Statutory auditor | |
| Shojiro Asai | Statutory auditor | |
| Akihiko Washida | Statutory auditor | |

(Note)
1. Directors Mr. Nobuo Seo, Mr. Takenori Kawafune, and Mr. Takeo Nagatomo are outside directors stipulated in Article 2-15 of the Corporate Act.
2. Auditors Mr. Koichi Kurosaki, Mr. Shojiro Asai, Mr. Akihiko Washida are outside auditors stipulated in Article 2-16 of the Corporate Act.
3. Auditor Mr. Hideaki Kato has been responsible of accounting operations at the Company for 26 years and has sufficient knowledge concerning finances and accounting.

4. The Company adopts the Executive Officer System.
   There are a total of 10 executive officers including the aforementioned Directors Mr. Kazuo Shiohata, Mr. Hiroshi Komatsuzaki, Mr. Hiroyuki Taki, Mr. Shuntaro Tanaka, and Mr. Akira Seida.

| Name | Position and Responsibilities |
|---|---|
| Shoichiro Eguchi | Assistant to CEO (Car Electronics Overseas Sales Strategy); Representative, Kenwood U.S.A. Headquarters; President of Kenwood U.S.A. |
| Makoto Inukai | Manager of the Car Electronics Consumer Division; Product Management Manager of the Car Electronics Consumer Division |
| Masachika Komiyama | Assistant to CEO (Corporate Technologies & Strategic Products Development); Manager of the Home Electronics Business; Chief of the Strategic Technologies Development Center; Chief Engineer of the Home Electronics Business |
| Kazuhiro Aigami | Manager of the Communications Business Division; Overseas Marketing Promotion Manager of the Communications Business Division; Chief of the Yokohama Office |
| Tomohiko Yoshimura | Assistant to CEO (Corporate Production & Quality); Manager of the Procurement Division; Global Procurement Manager of the Procurement Division; Representative, Kenwood Asia Headquarters |

### (2) Amount of Compensations of Directors and Statutory Auditors

| Title | Number of Relevant Personnel | Amount of Compensation (Millions of yen) |
|---|---|---|
| Director<br>(Outside Director) | 9<br>(3) | 353<br>(54) |
| Statutory Auditor<br>(Outside Auditor) | 5<br>(3) | 68<br>(26) |
| Total | 14 | 421 |

(Note)
1. The amount of compensation for the Directors does not include Employee compensation for ‘Director and Employee.’
2. The resolution at the 77th ordinary general meeting of shareholders held on June 29, 2006 decided that the limit of Director’s compensation should be JPY52 million (excluding Employee compensation) per month, and that the limit of Statutory Auditor’s compensation should be JPY9 million per month.
3. The Company abolished the retirement benefits of Directors and Statutory Auditors as of the conclusion of the 77th ordinary general meeting of shareholders held on June 29, 2006. With the abolishment of the above retirement benefits, payments of the above retirement benefits after the time of conclusion of the 77th ordinary general meeting of shareholders has been closed out. However, with regard to the payment of the above retirement benefits up to the time of abolishment has been decided in the 77th ordinary general meeting of shareholders as a total of JPY203 million for seven (7) Directors who continued their tenure, and a total of JPY33 million for four (4) Statutory Auditors. The total sum of these retirement benefits was JPY236 million and is included in the “Other” of fixed debts.

### (3) Matters Regarding Outside Officers

#### 1) State of Important Concurrency of Outside Officers

| Position | Name | Company of Concurrent Office | Responsibilities of Concurrent Office | Relationship |
|---|---|---|---|---|
| Outside Director | Nobuo Seo | Tokyo Hatchobori Law Office | Lawyer | No significant business relationship with Kenwood |
| | Takenori Kawafune | N/A | N/A | N/A |
| | Takeo Nagatomo | Tomo Consulting Corporation | President | No significant business relationship with Kenwood |
| Outside Auditor | Koichi Kurosaki | Takarajima Wondernet Inc. | Standing Statutory Auditor | No significant business relationship with Kenwood |
| | Shojiro Asai | Rigaku Corporation | Director and Vice-President | No significant business relationship with Kenwood |
| | Akihiko Washida | Cool.revo. Inc. | Statutory Auditor | No significant business relationship with Kenwood |

(Translation)

**2) Major Activities of Outside Officers**

| Position | Name | Major Activities |
|---|---|---|
| Outside Director | Nobuo Seo | Attendance for the meeting of the Board of Directors in the current fiscal year: 27 (Attendance rate: 100%)<br>Appropriately providing advices and proposals to ensure the validity and fairness of the decision making of the Board of Directors, primarily from the legal aspect of management, with the professional perspective of a lawyer with rich experience and expertise. |
| | Takenori Kawafune | Attendance for the meeting of the Board of Directors in the current fiscal year: 27 (Attendance rate: 100%)<br>Appropriately providing advice and proposals to ensure the validity and fairness of the decision making of the Board of Directors, primarily from the technical aspect of management, based on rich experience and expertise in the technical field, particularly wireless communication. |
| | Takeo Nagatomo | Attendance for the meeting of the Board of Directors in the current fiscal year: 23 (Attendance rate: 85%)<br>Appropriately providing advice and proposals to ensure the validity and fairness of the decision making of the Board of Directors, primarily from the production aspect of management, based on rich experience and expertise concerning production. |
| Outside Auditor | Koichi Kurosaki | Attendance for the meeting of the Board of Directors in the current fiscal year: 27 (Attendance rate: 100%)<br>Attendance for the meeting of the Board of Statutory Auditors in the current fiscal year:<br>9 (Attendance rate: 100%)<br>Appropriately making statements regarding the bills and deliberations of the Board of Directors and the Board of Statutory Auditors, primarily from the financial aspect, with his rich experience and expertise from his previous career in a financial institution. |
| | Shojiro Asai | Attendance for the meeting of the Board of Directors in the current fiscal year: 22 (Attendance rate: 82%)<br>Attendance for the meeting of the Board of Statutory Auditors in the current fiscal year:<br>8 (Attendance rate: 89%)<br>Appropriately making statements regarding the bills and deliberations of the Board of Directors and the Board of Statutory Auditors, primarily from the technical aspect, with his rich experience and expertise in the technical field. |
| | Akihiko Washida | Attendance for the meeting of the Board of Directors in the current fiscal year: 27 (Attendance rate: 100%)<br>Attendance for the meeting of the Board of Statutory Auditors in the current fiscal year:<br>8 (Attendance rate: 89%)<br>Appropriately making statements regarding the bills and deliberations of the Board of Directors and the Board of Statutory Auditors, primarily from the corporate planning aspect, with his rich experience and expertise in the corporate planning field as well as experience in the management auditing division. |

(Note) During the current fiscal year, there were 27 meetings of the Board of Directors and there were 9 meetings of the Board of Statutory Auditors.

**3) Matters Regarding the Liability Limitation Agreement (Overview of the Liability Limitation Agreement of Outside Directors and Outside Auditors)**

The Company established the provision on the Outside Director's Liability Limitation Agreement through modifying the Articles of Incorporation at the 74th ordinary general meeting of shareholders held on June 27, 2003. The Company also established the provision on the Outside Auditor's Liability Limitation Agreement through modifying the Articles of Incorporation at the 77th ordinary general meeting of shareholders held on June 29, 2006

The following is an overview of the content of the Liability Limitation Agreement that was entered into between the Company and all Outside Directors and Outside Auditors based on the Articles of Incorporation.

In the Agreement, with regard to Article 423 Clause 1 of the Corporate Act, in case there was no gross negligence in the line of duty of the Outside Director or Outside Auditor conducted in good faith, the limit of the amount liable for damages shall be JPY1 million or the minimum statutory amount, whichever is higher.

**4) Amount of Compensation Received as Executive Officer for Current Fiscal Year from Parent Company or Subsidiary of Parent Company**

Not applicable.

**5) Opinions from Outside Officers in Relation to the Description**

Not applicable.

## [4] State of Accounting Auditor

### (1) Name of Accounting Auditor

Deloitte Touche Tohmatsu

### (2) Overview of Liability Limitation Agreement

Not applicable.

### (3) Amount of Compensation for Accounting Auditor for Current Fiscal Year

(Millions of yen)

| | |
|---|---|
| Amount of compensation for accounting auditor for current fiscal year | 60 |
| Total amount of money and other financial benefits to be paid by the Company and the Company's subsidiaries | 30 |

(Note)
1. The Company pays to the accounting auditor, in consideration of the consulting service concerning internal control upon financial reporting, which is a service other than those stipulated in Article 2 Clause 1 of the Certified Public Accountants Law.
2. In the audit agreement between the Company and the accounting auditor, the amounts of compensations for the audit based on the Corporate Act and the audit based on the Financial Instruments Exchange Law is not distinguished, and also substantively undistinguished. Therefore the total amount of these compensations is stated as the amount of compensation for accounting auditor for current fiscal year.

### (4) Policy for Dismissal and Non-reappointment Decisions

At the Company, if the accounting auditor falls under the items stipulated in Article 340-1 of the Corporate Act, the Board of Statutory Auditors shall dismiss the accounting auditor based on the unanimous consent of the Board of Statutory Auditors. Also, in principle, in case the accounting auditor falls into a condition that is seriously detrimental to performing the auditing service, such as receiving an audit business suspension order from a regulatory authority, the Board of Statutory Auditors shall propose to the general meeting of shareholders, a bill concerning the dismissal or non-reappointment of the accounting auditor.

(Translation)

## [5] Framework and Policies of the Company

### (1) Framework to Ensure the Conformity of the Directors' Exercise of Function with the Laws and Regulations and the Articles of Incorporation/Framework to Ensure Propriety of Other Operations

The matters which the Company set forth at the Board of Directors as "an establishment of framework necessary to ensure propriety of the operations of a stock corporation" stipulated in Article 362-4-6 of the Corporate Act and in Article 100-1 and 100-3 of the Ordinance for Enforcement of the Corporate Act are as follows:

**1) Framework to Ensure the Conformity of the Directors' and the Employees' Exercise of Function with the Laws and Regulations and the Articles of Incorporation**

A framework for the compliance of the Directors' exercise of function with the laws and regulations and the Articles of Incorporation is ensured by conforming to the company regulations, including the "Board of Directors Provision" established by the Board of Directors.

Furthermore, the Board of Directors ensures the conformity of the exercises of functions of all officers and employees in the Group with the laws and regulations and the Articles of Incorporation by establishing company regulations including the "Criteria for Decision-Making and Authority."

In addition, the Board of Directors has established the "Kenwood Compliance Guideline" as a conduct guideline to be shared by all officers and employees of the Group. The guideline has been distributed to all the officers and employees of the Group with the aim to inform and promote thorough compliance. Alongside, the Company performs constant monitoring of guideline application as well as conduct compliance education and guidance as necessary.

**2) Framework for the Storage and Management of Information in Relation to the Directors' Exercise of Function**

Based on the company regulations such as the "Regulation for Document Management," information in relation to the Directors' exercise of function such as the "Minutes for the Meeting of the Board of Directors" shall be recorded in documents and stored as to allow Directors and Auditors to view these documents at all times.

**3) Framework for Regulations and Such Concerning the Management of Risk of Loss**

The Board of Directors predicts diverse risks that the Group may incur, prevents accidents, and responds promptly to the occurrence of accidents. In order to minimize the damage the Group may incur, the Board of Directors has established and is implementing the company regulations of "Risk Management Regulation," "Regulation on Actions against Disasters, etc," and "Insider Information Management Regulation."

Furthermore, in order to strengthen the efforts against risks associated with product sales and toward environmental measures, the "Company Wide PL Council" was established, and the improvements in product quality and towards the prevention of product accidents were performed. Also, the "Kenwood Environment Council" was launched, with the "Environment Protection Promotion Council" and the "Green Products Promotion Council" under its control, which are held as needed.

In addition, the Company takes out business contingency expense insurance, covering the risk of operational interruptions by receiving compensation in the event of factories incurring damage from contingencies such as natural disasters.

**4) Framework to Ensure the Efficient Exercise of Function of the Directors**

The Board of Directors is a regulatory body for business operations as well as a decision-making body for management. The Board of Directors holds ordinary meetings once per month and as necessary, extraordinary meetings, based on the company regulations of "Regulation for the Board of Directors" and the "Criteria for Decision-Making and Authority." The Board of Directors aims to perform clear decision-making and swift, highly precise operational exercises as well as strive to clarify management responsibility and duty execution responsibility through the introduction of the Executive Officer System based on the "Executive Officers Regulation" and by accepting Outside Directors for their diverse values.

**5) Framework to Ensure Propriety of Business Operation for the Corporate Group Consisting of the Company and Its Subsidiaries**

The Board of Directors establishes and operates the "Affiliated Companies Management Regulation" and the "Regulation for Decision-Making and Authority." Meanwhile, the Board of Directors promotes the enhancement of Company group-wide governance, in ways such as the General Manager of the Consolidated Management becoming an auditor for affiliated companies.

Furthermore, internal auditing is implemented throughout the whole operation of the Group, placing a management audit division that reports to the Board of Directors who supervises the internal auditing.

In addition, should there be a violation of laws and regulations, Articles of Incorporation, or any company regulations on the part of the officers and employees of the Group, or should there be reasonable risk of such an act, in principle, it shall be reported to the supervisor in the operational line. In case of a group company president, the chief of the relevant lead office shall receive the report. However, in cases where such reporting is impossible, it shall be reported to the “Hot-line” provided by the management audit division. The “Hot-line” shall receive the report and remedy the violation as well as protect the informant, according to the “Procedures to Remedy Guideline Deviation and Regulations on the Protection of the Informant” with the advice of outside experts such as corporate lawyers.

**6) Matters regarding Employees who Assist Auditors in the Auditors’ Exercise of Function (In Case Such Assisting Employees Exist Due to the Request of An Auditor)**

The Auditor himself performs the duties related to the operation of the Board of Auditors, and there are no permanent operational assistants. Auditors may request auditing operation assistance from the Corporate Staff Division (division in head office) as the situation necessitates, and the Corporate Staff Division (division in head office) responds on the occurrence of such a request.

**7) Matters regarding the Independence of Assistants to Auditors from Directors**

The Board of Directors and the Human Resource Officer shall hear the opinions of Auditors on the evaluation and transfer of the assisting employee for audit operation as mentioned above.

**8) Framework for the Reporting of Directors and Assistants to Auditors/Framework for Other Reporting to Auditors**

The officers and employees of the Group may report to the Auditors, matters that have a significant impact on the Group, in addition to the statutory matters. Also, Auditors audit the Directors’ execution of duties and the business operation of the whole Company, through audits based on the annual auditing plan, as well as participate in the meeting of the Board of Directors and the Board of Executive Officers, respectively. Furthermore, Auditors shall hold meetings of the Board of Statutory Auditors and receive, deliberate, and resolve the important matters related to audits.

**9) Framework to Ensure Effective Auditing of Auditors**

The details on the authorities and obligations of Auditors are stipulated in the “Regulation for the Board of Statutory Auditors.” The meetings for the Board of Statutory Auditors are, in principle, held regularly once a month and extraordinary meetings are held when necessitated.

Furthermore, Auditors attend the meeting for the Board of Directors and receive reports of internal auditing conducted by the management audit division on the whole Company group throughout all business operations.

**10) Framework for the Elimination of Antisocial Forces**

In the “Kenwood Compliance Guideline,” the Group stipulates that it will have no business or contact with antisocial forces and perform sound company management. The Company promotes efforts aimed at the enhancement of Company group-wide compliance, with mutual confirmation of all officers and employees.

Furthermore, the Group will participate in seminars of external professional institutions and establish a close collaborative relationship with external professional institutions through information exchanges and such, in collaboration with individual internal divisions centering on the Manager of the Business Operation Management. Simultaneously, the Group will promote the establishment of a corporate framework that counters antisocial forces through developing manuals against antisocial forces, and prevent all business transactions, including the provision of funds, with antisocial forces that lead to unreasonable demands.

Meanwhile, in the case an act of unreasonable demand or such to the Group is observed, the General Affairs Division will be the point of contact, and ensure the safety of the officers and/or employees who made contact with the antisocial forces as well as promptly report to the CEO upon factual investigation. Subsequently, appropriate actions shall be taken in cooperation with external professional institutions, such as consultation with corporate lawyers, and reporting to and requesting support from the Organized Crime Division of relevant police headquarters, while measures are taken by the Company organization as a whole under the CEO to eliminate the antisocial forces. On such occasions, every and all civil and criminal legal countermeasures are taken against the antisocial force, as well as the prevention of further spread of damages from unreasonable demands in case damage is already done, by seeking relevant procedures available through laws and regulations.

**11) Other**

The Company declares its sincere attitude towards timely and appropriate disclosure of information. In harmony with this, the “Information Disclosure Council” in which Auditors and the management audit division audits, is established to practice timely and appropriate disclosure.

The “Timely Disclosure Regulation” is also established and developed to inform and promote thorough application of such practices throughout the Group.

**(2) Basic Policy Regarding the Control of a Stock Company**

In a case where share acquisition by a specific individual or group may risk damaging the corporate value or the common interests of shareholders, it is considered necessary to take appropriate measures to ensure the corporate value and the common interests of shareholders to the extent that can be tolerated by laws and regulations and the Articles of Incorporation. The Company also acknowledges the importance of ensuring the corporate value and the common interests of shareholders, and are carefully continuing reviews on the matter, but at this point no introduction of any concrete defense measures have been implemented.

**(3) Policy Concerning the Decision on the Appropriation of Surplus**

At the Company, providing a stable profit return to our shareholders is considered one of the crucial tasks of management, and thus will decide disbursements and other appropriation of surplus in the light of the overall profitability and financial state.

Based on this policy, surplus shall be appropriated for strategic investment towards future growth, and in regard to the dividend for 79th term, from the perspective of stable, sustainable implementation, the profit dividend of an annual JPY2 per share, the same as the previous term, is planned.

## 3. Important Matters Concerning the State of a Stock Company

Not applicable.

END

**(Translation)**

## Consolidated Balance Sheets

(As of March 31, 2008)

(Millions of yen)

| Accounting Items | Amount | Accounting Items | Amount |
|---|---|---|---|
| (Assets) | | (Liabilities) | |
| Current assets | 75,818 | Current liabilities | 63,831 |
| Cash and cash equivalents | 14,988 | Trade notes and accounts payable | 15,675 |
| Trade notes and accounts receivable | 28,467 | Short term bank borrowings | 31,420 |
| Inventories | 27,119 | Accounts payable (not trade) | 6,899 |
| Prepaid expenses | 810 | Income taxes payable | 569 |
| Deferred tax assets | 529 | Accrued expenses | 7,655 |
| Other | 4,486 | Other | 1,611 |
| Allowance for doubtful receivables | (583) | Long term liabilities | 32,331 |
| Fixed assets | 50,269 | Long term debt | 20,000 |
| Tangible fixed assets | 19,908 | Deferred tax liabilities as a result of land revaluation | 2,027 |
| Buildings and structures | 16,753 | Deferred tax liabilities | 364 |
| Machinery and equipment | 19,525 | Liability for employee's retirement benefits | 9,622 |
| Tools, furniture and fixtures | 13,738 | Other | 316 |
| Land | 9,414 | Total Liabilities | 96,162 |
| Accumulated depreciation | (39,522) | (Net Assets) | |
| Intangible fixed assets | 12,963 | Shareholders' equity | 45,848 |
| Goodwill | 6,009 | Paid-in capital | 11,059 |
| Software | 5,654 | Capital surplus | 13,373 |
| Other | 1,299 | Retained earnings | 21,534 |
| Investments and other assets | 17,397 | Treasury stock | (118) |
| Investment securities | 15,947 | Valuation and translation adjustment | (15,923) |
| Deferred tax assets | 379 | Unrealized gain and loss on available-for-sale securities | (7,319) |
| Other | 1,129 | Land revaluation surplus | 2,954 |
| Allowance for doubtful receivables | (59) | Foreign currency translation adjustment | (11,558) |
| Deferred assets | 0 | | |
| Stock issuing expenses | 0 | Total Net Assets | 29,925 |
| Total Assets | 126,088 | Total Liabilities and Net Assets | 126,088 |

**(Translation)**

## Consolidated Statement of Income

(From April 1, 2007 to March 31, 2008)

(Millions of yen)

| Accounting Items | Amount | |
|---|---|---|
| Net sales | | 165,262 |
| Cost of sales | | 122,634 |
| Gross profit | | 42,628 |
| Selling, general and administrative expenses | | 36,368 |
| Operating profit | | 6,259 |
| Non-operating profit | | |
| Interest and dividends income | 292 | |
| Other | 823 | 1,116 |
| Non-operating expense | | |
| Interest expense | 800 | |
| Loss on disposal of inventories | 700 | |
| Other | 1,998 | 3,498 |
| Ordinary income | | 3,876 |
| Extraordinary profit | | |
| Gain on sales of fixed assets | 53 | |
| Reversal of allowance for doubtful receivables | 33 | |
| Gain on sales of investment securities | 472 | 560 |
| Extraordinary loss | | |
| Loss on devaluation of investment securities | 46 | |
| Loss on sales of fixed assets | 7 | |
| Loss on disposal of fixed assets | 310 | 363 |
| Income before income taxes | | 4,072 |
| Corporate tax, corporate inhabitant tax and corporate enterprise tax | 806 | |
| Corporate tax and other adjustment | 84 | 891 |
| Net income | | 3,181 |

(Translation)

## Consolidated Statement of Changes in Shareholders' Equity

(From April 1, 2007 to March 31, 2008)

(Million of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Paid-in capital | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of March 31, 2007 | 11,059 | 13,373 | 19,096 | (105) | 43,424 |
| Changes during the consolidated fiscal year | | | | | |
| Payment of dividends | | | (733) | | (733) |
| Net income | | | 3,181 | | 3,181 |
| Acquisition of treasury stocks | | | | (13) | (13) |
| Establishment of an employee welfare and fellowship fund | | | (9) | | (9) |
| Changes (net amount) of items other than shareholders' equity during the fiscal year | | | | | |
| Total changes during the fiscal year | — | — | 2,437 | (13) | 2,424 |
| Balance as of March 31, 2008 | 11,059 | 13,373 | 21,534 | (118) | 45,848 |

| | Valuation and translation adjustments | | | | | Total net assets |
|---|---|---|---|---|---|---|
| | Unrealized gain and loss on available-for-sale securities | Deferred hedge gain and loss | Land revaluation surplus | Foreign currency translation adjustments | Total valuation and translation adjustment | |
| Balance as of March 31, 2007 | 1,096 | 71 | 2,954 | (8,480) | (4,358) | 39,066 |
| Changes during the consolidated fiscal year | | | | | | |
| Payment of dividends | | | | | | (733) |
| Net income | | | | | | 3,181 |
| Acquisition of treasury stocks | | | | | | (13) |
| Establishment of an employee welfare and fellowship fund | | | | | | (9) |
| Changes (net amount) of items other than shareholders' equity during the fiscal year | (8,416) | (71) | — | (3,077) | (11,565) | (11,565) |
| Total changes during the fiscal year | (8,416) | (71) | — | (3,077) | (11,565) | (9,140) |
| Balance as of March 31, 2008 | (7,319) | — | 2,954 | (11,558) | (15,923) | 29,925 |

(Translation)

## Notes

### 1. Basis for Creating a Consolidated Financial Statements

**(1) Scope of consolidation**

**1) Number of consolidated subsidiaries and their corporate names**

- Number of consolidated subsidiaries: 42 corporations
- Names of major consolidated subsidiaries: Kenwood U.S.A. Corporation
  Kenwood Electronics Italia S.p.A.
  Kenwood Electronics Europe B.V.
  Kenwood Electronics Technologies (M) Sdn. Bhd.
  Kenwood Electronics Technologies (S) Pte. Ltd.
  Kenwood Geobit Corporation
  Kenwood Nagano Corporation

**2) Names of non-consolidated subsidiaries**

- Name of major non-consolidated subsidiaries:
  Kenwood International Investment B.V.
- Reason for exclusion from the scope of consolidation:
  Kenwood International Investment B.V. is a small-scale corporation whose total assets, net sales, earnings (proportional to equity) and retained earnings (proportional to equity) have not had a significant impact on the consolidated financial statements.

**(2) Application of equity method**

**1) Number of non-consolidated equity subsidiaries and affiliates, and their corporate names**

- Number of equity subsidiaries: 1 corporation
- Name of equity subsidiary: J&K Technologies, Inc.

**2) Names of non-consolidated non-equity subsidiaries and affiliates**

- Names of major corporations: Kenwood International Investment B.V.
  Einblick Corporation, etc.
- Reason for exclusion from the application of equity method:
  In consideration of earnings (proportional to equity) and retained earnings (proportional to equity), the impact of the relevant corporations to the consolidated financial statements is insignificant and also unimportant as a whole, so thus they were excluded from the scope of application of equity method.

**(3) Changes on the scope of consolidation and the scope of equity method**

- Kenwood Komagane Corporation was excluded from consolidation, due to the finalization of its liquidation during the current consolidated fiscal year.
- Zetron, Inc., Zetron UK, Ltd., Zetron Australasia Pty Ltd., and Zetron Air Systems Pty Ltd. have become consolidated subsidiaries from the current fiscal year due to their share acquisition on May 10, 2007.
- J&K Technologies, Inc. has become an equity affiliate due to its establishment during the current fiscal year.

**(4) Accounting standard**

**1) Valuation standard and method for assets**

**a) Securities**

**Other marketable securities**

- Securities with fair market value are stated at fair market value based on the average market value of one month before the current fiscal year end. (The related valuation differences are directly charged or credited to the shareholder equity and cost of securities sold is computed by the moving average method.)
- Securities without fair market value are stated at cost being determined by the moving average method.

**b) Derivatives**

In principal, stated at fair market value.

**c) Inventories**

Principally, stated at cost being determined by the gross average method. However, for foreign-based consolidated subsidiaries, in principle, it is stated at cost being determined by the first-in first-out method.

**2) Method of depreciation for fixed assets**

**a) Tangible fixed assets** The Company and Japanese consolidated subsidiaries use the declining balance method. However, foreign-based consolidated subsidiaries use the straight-line method. Furthermore, the range of useful life for major tangible fixed assets is as follows:

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

**(Changes in accounting policies)**

Due to the amendment of the corporation tax law, the Company and its Japan-based consolidated subsidiaries have changed to the depreciation method based on the amended corporation tax law from the current consolidated fiscal year, with regard to the tangible fixed assets acquired on and after April 1, 2007.

This has reduced the operating profit, ordinary income, and income before income taxes by JPY142 million, respectively, compared to the previous method.

**(Additional information)**

Due to the amendment of the corporate tax law, the Company and its Japan-based consolidated subsidiaries have stated the assets acquired before March 31, 2007 by applying the depreciation method before the amendment of the corporate tax law. From the consolidated fiscal year following the consolidated fiscal year that reached 5% of the acquisition cost, the difference between the amount equivalent to 5% of the acquisition cost and the memorandum price is equally depreciated over 5 years, and is included in depreciation. This has reduced the operating profit by JPY83 million, and the ordinary income and income before income taxes by JPY88 million respectively, compared to the previous method.

**b) Intangible fixed assets**

- Software for internal use is amortized by straight-line method over the usable period (5 years) with regard to use within the Company.
- Product-integrated software is stated differently according to the properties of the product, employing a method either based on the expected sales volume or expected sales period (1 to 5 years).
- Other intangible fixed assets:
  In principle, goodwill is stated using the straight-line method over 5 to 15 years.

**3) Method of accounting deferred assets**

- Share issuing expenses is depreciated by the straight-line method over 3 years.

**4) Accounting for allowance**

**a) Allowance for doubtful receivables**

To reserve for loss on trade receivables as of the latest consolidated fiscal year, the Company and its consolidated subsidiaries recorded general allowances using a rate determined by past bad debts experience, and for certain doubtful accounts, the probability of collectability is considered for each such account and the estimated amounts considered to be uncollectible are stated. Furthermore, for foreign-based consolidated subsidiaries, the estimated amounts of accounts receivables considered to be uncollectible were recorded.

**b) Liability for employees' retirement benefits**

To provide for employee retirement benefits, the Company and its consolidated subsidiaries have recorded the amount of liability for employees' retirement benefits to be present in the current consolidated fiscal year end, based on the projected liabilities for retirement benefits and related pension assets as of the current consolidated fiscal year end. Past service cost is to be charged pro rata to expenses from the consolidated fiscal year that it incurred, using a straight-line method based on determined years (5 years) within average remaining service years of the employees at the point when the cost incurred.

Actuarial differences are to be charged pro rata to expenses from the respective following consolidated fiscal year using a straight-line method based on determined years (10 years) within average remaining service years of the employees when incurred.

Furthermore, the difference from accounting change is charged pro rata over 15 years.

**5) Important currency translation of assets and liabilities in foreign currencies to Japanese currency**

Receivables and payables in foreign currencies (excluding exchange contracts to which designation was applied) are translated to Japanese currency using the spot exchange rate of the consolidated closing date, with the unrealized profit or loss recorded as profit or loss.

**6) Accounting for significant lease transactions**

The Company and its consolidated subsidiaries have recorded the finances lease transactions other than cases where the ownership of the leased property is considered to have transferred it to the borrower, based on the method of accounting employed for general lease transactions. The foreign-based consolidated subsidiaries have, in principle, accounted by the method of accounting employed for general lease transactions.

**7) Method of major hedge accounting**

**(1) Method of hedge accounting**

Deferral hedge accounting is employed as the method of hedge accounting. Designation is applied when exchange contracts meet the requirements of designation. If the interest rate swaps quality for the requirements of the exceptional accounting, then in such cases exceptional accounting is employed.

**(2) Means and object of hedging**

Means and object of hedging subject to hedge accounting for the current consolidated fiscal year are as follows:

a. Means of hedging: exchange contract
Object of hedging: receivables and payables in foreign currency; expected foreign currency transactions

b. Means of hedging: interest rate swap
Object of hedging: borrowings

**(3) Policy of Hedging**

a. Risk of exchange-rate fluctuations are hedged by engaging in forward exchange contracts for the purpose of ensuring appropriate profit management, minimizing the risk incurred from receivables and payables in foreign currencies and future foreign currency transactions, which derives from import-export transactions. Transactions are performed within the range of designated amount of receivables and payables in foreign currency, and in cases of same-currency import-export transaction, the difference shall be subject to contract.

b. Hedging is also performed in order to avoid the risk of interest-rate fluctuations concerning borrowings.

**(4) Hedging effectiveness valuation method**

With regard to exchange contracts, the valuation of hedge effectiveness is omitted due to the assumption that market and cash flow fluctuations are to be completely off-set at the point of hedging and will continue to be off-set, due to the influential conditions of the means and the object of hedging being the same. Furthermore, the valuation of hedge effectiveness for interest rate swaps that are subject to exceptional accounting are also omitted.

**8) Other important matters for the creation of the consolidated financial statements**

a. Accounting standards employed at foreign-based consolidated subsidiaries
The accounting standards employed at foreign-based consolidated subsidiaries are subject to the accounting standards generally accepted in the relevant jurisdiction.

b. Accounting of consumption tax, etc.
Tax excluded method is used.

c. Application of consolidated taxation system
Consolidated taxation system is applied.

**(5) Matters regarding the valuation of the assets and liabilities of consolidated subsidiaries**

All valuations are based on the market value method.

**(6) Matters regarding the amortization of goodwill and negative goodwill**

In principle, a straight-line method based on 5 to 20 years is used.

## 2. Notes to Consolidated Balance Sheet

**(1) Revaluation of land**

Land revaluation surplus, JPY3,159 million (current JPY2,954 million at current fiscal year end), and that the amount of revaluation-related deferred tax liability, JPY2,287 million (current JPY2,027 million at current fiscal year end) have been recorded, based on the revaluation of business-use land in accordance with the “Law Concerning Revaluation of Land” (Law No. 34 enacted on March 31, 1998).

- Date of revaluation: March 31, 2000
- Book value before revaluation of the business-use land: JPY3,983 million
- Book value after revaluation of the business-use land: JPY8,965 million

Method of revaluation stipulated in Article 3-3 of the “Law Concerning Revaluation of Land”:

The method of revaluation is based on the “method that revalues upon reasonable adjustment to the declared land value declared in accordance with the provision in Article 6 of the Law Concerning Declaration of Land Value Adjacent to Business-use Land, with regard to the standard ground stipulated in the provision in Article 6 of the above law" stipulated in Article 2-1 of the "Enforcement Regulations of the Law Concerning Revaluations of Land" (Ordinance No. 119 enacted on March 31, 1998).

Difference between the total market value on the current fiscal year end after revaluation of land based on Article 10 of the "Law Concerning Revaluation of Land" and total book value after revaluation, with regard to the business-use land: JPY(2,373) million

**(2) Contingent liabilities**

Kenwood Electronics Technologies (M) Sdn. Bhd., a Kenwood group company, is under investigation on transfer price taxation by the Tax Office of Malaysia, concerning transactions with the Company during the 6 fiscal years from the fiscal year ended March 2000 to the fiscal year ended March 2005. The investigation has not been finalized yet. At this point of time, it is difficult to reasonably estimate the financial impact that may be incurred from the investigation. Therefore, the impact from the above incident is not reflected on this consolidated financial statements.

**(3) Financial covenants**

Financial covenants are attached to agreements with financial institutions on major loans for the current consolidated fiscal year. The content is as follows, and in case any of the provisions are violated, the relevant borrowings shall be subject to lump sum repayment and remaining unexecuted borrowings may become unavailable.

(All agreements are similar in content, however, in case there is a difference, the more stringent stipulation is stated.)

(1) The amount of net assets in the consolidated and non-consolidated balance sheets as of fiscal year end or interim end of each fiscal year shall be maintained at 75% or more of the amount of net assets in the consolidated or non-consolidated balance sheets as of fiscal year end or interim end of the respective previous fiscal years. However, for the computed amount on the consolidated balance sheets as of fiscal year ended March 2006 and for interim ended September 2005, amount of equity shall include the sum of "share options," "minority interest," and "deferred hedge gain and loss," and the non-consolidated balance sheets as of fiscal year ended March 2006 and for interim ended September 2005, the amount of equity shall include the sum of "share options" and "deferred hedge profits and losses."

(2) The amounts of consolidated interest-bearing debts (long term debt, short term bank borrowings, corporate debentures and discount on notes) at fiscal year end or interim end of each fiscal year shall be maintained at or under JPY80 billion, respectively.

(3) The operating profit recorded in the consolidated statement of income shall not be minus for all accounting years.

**3. Notes to Statement of Changes in Shareholders' Equity**

**(1) Type and number of treasury stock for current consolidated fiscal year end:**

Common stock 367,524,995 shares

**(2) Dividend**

**a) Dividend payment amount**

| (Resolution) | Type of Share | Total Dividend Amount | Dividend per Share | Record Date | Effective Date |
|---|---|---|---|---|---|
| Board of Directors Meeting on May 15, 2007 | Common stock | JPY733 million | JPY2.0 | March 31, 2007 | June 5, 2007 |

**b) Out of dividends of which record date is during the current consolidated fiscal year, the dividends that have the effective date in the following consolidated fiscal year**

| (Resolution) | Type of Share | Total Dividend Amount | Source of Dividend | Dividend per Share | Record Date | Effective Date |
|---|---|---|---|---|---|---|
| Board of Directors Meeting on May 12, 2008 | Common stock | JPY733 million | Retained earnings | JPY2.0 | March 31, 2008 | June 3, 2008 |

**4. Notes to Share Information**

**(1) Net asset amount per share:** JPY81.57

**(2) Net income amount per share:** JPY8.67

(Translation)

**5. Notes to Business Combination**

**(Application of purchase method)**

**1. Name of the acquired corporation, business content, main reason of business combination, date of business combination, statutory form of business combination, name of corporation after the combination, and the ratio of the acquired voting rights**

**(1) Name of acquired corporation and its business content:**

Zetron, Inc.; Development, production and sales of mobile radio command & control systems and wireless network systems for public sectors and for general business use

**(2) Main reason of business combination:**

To increase orders of the turnkey system* as the total radio communication system in the industrial radio communication field, increasing presence in the world market and expanding the scope of business from radio terminals to system solutions.

* Turnkey system: a comprehensive total radio communication system including the base station placement to terminals that are pre-setup so that customers can use immediately after delivery

**(3) Date of business combination:**

May 10, 2007

**(4) Statutory form of business combination:**

Acquisition of shares

**(5) Name of corporation after the combination:**

Zetron, Inc.

**(6) Ratio of acquired voting rights:**

100%

**2. Period of operation of acquired corporation included in the consolidated financial statements:**

May 10, 2007 to March 31, 2008

**3. Cost of acquisition and its breakdown:**

| | (Millions of yen) |
|---|---|
| Value of acquisition | |
| Cash | 8,144 |
| Expense directly necessary for the acquisition | 130 |
| Cost of acquisition | 8,274 |

**4. Amount, cause, amortization method, and amortization period of the goodwill and negative goodwill:**

**(1) Amount of goodwill:** JPY6,077 million

**(2) Cause of goodwill:**

The relevant goodwill emerged in relation to future profitability expected from future business expansion.

**(3) Method and period of amortization:**

Equal depreciation over 20 years

**5. Amount of assets and liabilities accepted on the date of business combination and their breakdown:**

| | (Millions of yen) |
|---|---|
| Current assets | 1,648 |
| Fixed assets | 1,457 |
| Goodwill | 6,077 |
| Current liabilities | (883) |
| Fixed liabilities | (25) |
| Total | 8,274 |

**6. Amount other than goodwill allocated as intangible fixed assets and its breakdown by major types, and weighted average depreciation period by major types and overall**

| Breakdown by major type | | Weighted average depreciation period |
|---|---|---|
| Trademark-related | JPY1,219 million | 15 years |

**(Translation)**

**The Audit Report of the Independent Accounting Auditors on the Consolidated Financial Statements**

**Audit Report of the Independent Auditor**

May 9, 2008

Kenwood Corporation
To: Board of Directors

Deloitte Touche Tohmatsu

| | | | |
|---|---|---|---|
| Designated Partner, Executive Partner | Certified Public Accountant | Hiroshi Kawamura | (Seal) |
| Designated Partner, Executive Partner | Certified Public Accountant | Yasunari Kunii | (Seal) |
| Designated Partner, Executive Partner | Certified Public Accountant | Hideo Shirota | (Seal) |

Deloitte Touche Tohmatsu has, based on Article 444 Clause 4 of the Corporate Act, conducted audits on the consolidated financial statements of Kenwood Corporation for April 1, 2007 to March 31, 2008, i.e., consolidated balance sheets, consolidated statement of income, and consolidated statement of changes in shareholders' equity. The responsibility to create these consolidated financial statements is on the business administrator, and it is the responsibility of Deloitte Touche Tohmatsu to express opinions on the consolidated financial statements from the standpoint of an independent body.

Deloitte Touche Tohmatsu conducted the audits in accordance with generally-accepted auditing standards in Japan. The standard of audits asks for a reasonable guarantee from the accounting auditor (Deloitte Touche Tohmatsu) that there is no material misstatement in the consolidated financial statements. The audits are conducted on the basis of an audit test, which includes review of the statements in the consolidated financial reports as a whole, including the accounting policy employed by the business administrator and the evaluation of estimates performed by the business administrator. Deloitte Touche Tohmatsu concludes that a reasonable basis for giving an opinion has been provided as result of audit.

Deloitte Touche Tohmatsu approves that, in accordance with generally-accepted auditing standards in Japan, the consolidated financial statements noted above appropriately state the condition of assets and profit and loss of the period relevant to the consolidated financial statements of the corporate group consisting of Kenwood Corporation and consolidated subsidiaries, in all their crucial sense.

No material relationship to be stated based on the provision of the Certified Public Accountants Law exists between the Company and Deloitte Touche Tohmatsu or the Executive Partner.

END

**(Translation)**

**The Audit Report of the Board of Statutory Auditors on the Consolidated Financial Statements**

**Audit Report on the Consolidated Financial Statements**

The Board of Statutory Auditors has, with regard to the consolidated financial statements (consolidated balance sheets, consolidated statement of income, and consolidated statement of changes in shareholders' equity ) for the 79th fiscal year from April 1, 2007 to March 31, 2008, created this audit report based on the individual audit reports created by the respective Auditors, and herein report as follows:

1. Method and Content of Audit by the Auditors and the Board of Statutory Auditors

The Board of Statutory Auditors has set the policy for audits and the roles of duty. In addition to receiving reports on the state of auditing and the results from each Auditor, the Board of Statutory Auditors received reports on the execution of the duties from the Directors of the Board and the accounting auditor and requested explanation as necessary.

Each Auditor received reports from the Directors of the Board and employees and requested explanations as necessary, in accordance with the policy for audit and the roles of duty established by the Board of Statutory Auditors. Furthermore, the Auditors received reports on the execution of the duty from the accounting auditors and requested explanations as necessary, as well as monitored and verified that the accounting auditor had retained its independence and conducted fair audits. Also, Auditors received notification from the accounting auditor that the “Framework to Ensure Fair Exercise of Function” (Article 159 of Corporate Calculation Regulation) is under development based on the “Quality Management Standard Concerning Audit” (October 28, 2005: Business Accounting Council), for which the Auditors requested explanation upon necessity. From the above method, the consolidated financial statements for 79th fiscal year has been reviewed.

2. Result of Audit

The Board of Statutory Auditors hereby approves that the method and result of audit by the accounting auditor, Deloitte Touche Tohmatsu is appropriate.

END

May 10, 2008

Kenwood Corporation, Board of Statutory Auditors

| | | |
|---|---|---|
| Standing Statutory Auditor | Hideaki Kato | (Seal) |
| Standing Statutory Auditor | Osamu Hamada | (Seal) |
| Outside Auditor | Koichi Kurosaki | (Seal) |
| Outside Auditor | Shojiro Asai | (Seal) |
| Outside Auditor | Akihiko Washida | (Seal) |

**(Translation)**

## Non-consolidated Balance Sheets

(As of March 31, 2008)

(Millions of yen)

| Accounting Items | Amount | Accounting Items | Amount |
|---|---|---|---|
| (Assets) | | (Liabilities) | |
| Current assets | 31,665 | Current liabilities | 48,932 |
| Cash and cash equivalents | 3,922 | Accounts payable | 9,680 |
| Trade notes | 159 | Short term bank borrowings | 32,578 |
| Accounts receivable | 13,649 | Accounts payable (not trade) | 4,681 |
| Products | 7,455 | Income taxes payable | 105 |
| Raw materials | 959 | Accrued expenses | 1,513 |
| Work in process | 59 | Advanced received | 99 |
| Inventory | 130 | Temporary deposit | 256 |
| Advances account | 3 | Other | 19 |
| Prepaid expenses | 232 | Long term liabilities | 30,621 |
| Short term loans to affiliated companies | 700 | Long term debt | 20,000 |
| Accrued revenue | 4,032 | Deferred tax liabilities as a result of land revaluations | 2,027 |
| Other | 372 | Deferred tax liabilities | 217 |
| Allowance for doubtful receivables | (12) | Liability for employee's retirement benefits | 8,139 |
| Fixed assets | 79,691 | Other | 236 |
| Tangible fixed assets | 14,244 | | |
| Buildings | 3,549 | | |
| Structures | 95 | | |
| Machinery | 478 | | |
| Vehicle equipment | 5 | Total Liabilities | 79,554 |
| Tools, furniture and fixtures | 942 | (Net Assets) | |
| Land | 9,173 | Shareholders' equity | 36,167 |
| Intangible fixed assets | 5,766 | Paid-in capital | 11,059 |
| Software | 5,536 | Capital surplus | 13,373 |
| Other | 230 | Capital reserve | 11,514 |
| Investments and other assets | 59,680 | Other capital surplus | 1,859 |
| Investment securities | 15,634 | Retained earnings | 11,852 |
| Affiliated company shares | 41,407 | Other retained earnings | 11,852 |
| Investments | 1 | Cumulative retained earnings | 11,852 |
| Investments in affiliated companies | 4,054 | Treasury stock | (118) |
| Long term loans receivable | 52 | Valuation and translation adjustments | (4,364) |
| Long term prepaid expenses | 367 | Unrealized gain and loss on available-for-sale securities | (7,319) |
| Security deposits | 424 | Land revaluation surplus | 2,954 |
| Other | 118 | | |
| Allowance for doubtful receivables | (59) | | |
| Allowance for losses arising from investment in affiliated companies | (2,322) | Total Net Assets | 31,802 |
| Total Assets | 111,357 | Total Liabilities and Net Assets | 111,357 |

**(Translation)**

## Non-consolidated Statement of Income

(From April 1, 2007 to March 31, 2008)

(Millions of yen)

| Accounting Items | Amount | |
|---|---|---|
| Net sales | | 119,604 |
| Cost of sales | | 105,659 |
| Gross profit | | 13,944 |
| Selling, general and administrative expenses | | 13,727 |
| Operating profit | | 217 |
| Non-operating profit | | |
| Interest income | 106 | |
| Dividend income | 1,035 | |
| Received rent fee | 216 | |
| License fee including production know-how | 133 | |
| Received insurance bonus | 99 | |
| Patent fee income | 268 | |
| Miscellaneous income | 228 | 2,089 |
| Non-operating expense | | |
| Interest expense | 688 | |
| Lend-lease asset depreciation | 97 | |
| Sales discount | 100 | |
| Loss on disposal of inventories | 475 | |
| Paid life insurance premium | 117 | |
| Service expense | 275 | |
| Syndicate loan service fee | 112 | |
| Miscellaneous income | 75 | 1,943 |
| Ordinary profit | | 363 |
| Extraordinary profit | | |
| Reversal of allowance for doubtful receivables | 6 | |
| Reversal of allowance for investment losses with affiliated companies | 491 | |
| Gain on sales of investment securities | 472 | |
| Gain on sales of affiliated company shares | 136 | |
| Gain on sales of fixed assets | 0 | |
| Profit from liquidation of affiliated companies | 1 | 1,108 |
| Extraordinary loss | | |
| Loss on devaluation of investment securities | 46 | |
| Loss on disposal of fixed assets | 203 | 348 |
| Income before income taxes | | 1,123 |
| Corporate tax, corporate inhabitant tax and corporate enterprise tax | (176) | (176) |
| Net income | | 1,299 |

**(Translation)**

## Non-consolidated Statement of Changes in Shareholders' Equity

(From April 1, 2007 to March 31, 2008)

(Unit: million yen)

| | Shareholders' equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | | |
| | Paid-in capital | Capital reserve | Other capital surplus | Total capital surplus | Other retained earnings<br>Cumulative retained earnings | Total retained earnings | Treasury stock | Total share-holders' equity |
| Balance as of March 31, 2007 | 11,059 | 11,514 | 1,859 | 13,373 | 11,287 | 11,287 | (105) | 35,614 |
| Changes during the fiscal year | | | | | | | | |
| Payment of dividends | | | | | (733) | (733) | | (733) |
| Net income | | | | | 1,391 | 1,391 | | 1,299 |
| Acquisition of treasury stocks | | | | | 1,299 | 1,299 | (13) | (13) |
| Changes (net amount) of items other than shareholders' equity during the fiscal year | | | | | | | | |
| Total changes during the fiscal year | — | — | — | — | 565 | 565 | (13) | 552 |
| Balance as of March 31, 2008 | 11,059 | 11,514 | 1,859 | 13,373 | 11,852 | 11,852 | (118) | 36,167 |

| | Valuation and translation adjustments | | | | |
|---|---|---|---|---|---|
| | Unrealized gain and loss on available-for-sale securities | Deferred hedge gain and loss | Land revaluation surplus | Valuation and translation adjustments | Total net assets |
| Balance as of March 31, 2007 | 1,096 | 71 | 2,954 | 4,122 | 39,737 |
| Changes during the fiscal year | | | | | |
| Payment of dividends | | | | | (733) |
| Net income | | | | | 1,299 |
| Acquisition of treasury stocks | | | | | (13) |
| Changes (net amount) of items other than shareholders' equity during the fiscal year | (8,415) | (71) | | (8,487) | (8,487) |
| Total changes during the fiscal year | (8,415) | (71) | — | (8,487) | (7,934) |
| Balance as of March 31, 2008 | (7,319) | — | 2,954 | (4,364) | 31,802 |

(Translation)

## Notes

### Significant Accounting Policies

**(1) Valuation standard and method for marketable securities**

For subsidiary company shares and affiliated company shares are stated at cost determined by the moving average method. Other marketable securities with fair market value are stated using the market value method based on the average market value one month before the fiscal year end (unrealized gains and losses are reported as a component of shareholders' equity and the cost of securities sold is computed by the moving average method). Other securities without fair market value are stated at cost determined by the moving average method.

**(2) Evaluation standard and evaluation method for derivatives, etc.**

In principle, stated using market value method.

**(3) Evaluation standard and evaluation method for inventories**

Products, works in process, and raw materials are stated at cost determined by the gross average method. Stored items are stated at cost using the last purchase price method.

**(4) Depreciation method of fixed assets**

(1) Tangible fixed assets are depreciated using the declining balance method.

The range of useful life for major items are as follows:

| | |
|---|---|
| Buildings: | 3 to 50 years |
| Machinery: | 2 to 11 years |
| Tools, furniture and fixtures: | 2 to 20 years |

**(Changes in accounting policies)**

Due to the amendment of the corporation tax law, the Company has changed to the depreciation method based on the amended corporation tax law, with regard to tangible fixed assets acquired on and after April 1, 2007 from the current fiscal year.

This has reduced the operating profit, ordinary income, and income before income taxes by JPY92 million respectively, compared to the previous method.

**(Additional information)**

Due to the amendment of the corporate tax law, the Company has stated the assets acquired before March 31, 2007 by applying the depreciation method in use before the amendment. From the fiscal year following the fiscal year that reached 5% of the acquisition cost, the balance between the amount equivalent to 5% of the acquisition cost and the memorandum price is equally depreciated over 5 years, and is included in depreciation. This has reduced the operating profit by JPY77 million, and the ordinary income and income before income taxes by JPY82 million respectively, compared to the previous method.

(2) Intangible fixed assets

Software for internal use is amortized by straight-line method over the usable period (5 years) with regard to internal use. Product-integrated software is stated differently according to the properties of the product, employing a method either based on the expected sales volume or expected sales period (1 to 5 years). Goodwill is stated by straight-line method for 5 years, and other intangible fixed assets are stated based on the straight-line method.

**(5) Accounting for allowances**

(1) Allowance for doubtful receivables

To reserve for loss on trade receivables, general allowances are provided using a rate determined by past bad debts experience. As for certain doubtful accounts, specific allowances are provided for the estimated amounts considered to be uncollectible after reviewing the individual collectability of such accounts.

(2) Liability for employees' retirement benefits

To provide for employee retirement benefits, liability for employees' retirement benefits to be existent at the current fiscal year end is recorded, based on the projected liabilities for retirement benefits and related pension assets as of the current fiscal year end.

Past service cost is to be charged pro rata to expenses from the fiscal year that it incurred, using a straight-line method based on determined years (5 years) within average remaining service years of the employees at the point when the cost incurred.

Actuarial differences are to be charged pro rata to expenses from the following fiscal year using a straight-line method based on determined years (10 years) within the average remaining service years of the employees when incurred.

Furthermore, the difference from accounting change is charged pro rata over 15 years.

(3) Allowance for losses arising from investment in affiliated companies

To reserve for the losses in investment in affiliated companies, the financial status of the affiliated companies are taken into consideration upon recording the necessary amount.

(Translation)

**(6) Currency translation of assets and liabilities in foreign currencies to Japanese currency**

Receivables and payables in foreign currencies (excluding exchange contracts to which designation was applied) are translated using the spot exchange rate of the last day of the fiscal year, with the unrealized profit or loss recorded as profit or loss.

**(7) Accounting for lease transactions**

For finance lease transactions other than cases where the ownership of the leased property is considered to have transferred to the borrower, recording is based on the method of accounting employed for general lease transactions.

**(8) Method of hedge accounting**

(1) Method of hedge accounting

Deferral hedge accounting is employed as the method of hedge accounting. Designation is applied when exchange contracts meet the requirements of designation. If the interest rate swaps quality for the requirements of the exceptional accounting, then in such cases exceptional accounting is employed.

(2) Means and object of hedging

Means and object of hedging subject to hedge accounting for the current fiscal year are as follows:

a. Means of hedging: exchange contract
Object of hedging: receivables and payables in foreign currency, expected foreign currency transactions

b. Means of hedging: interest rate swap
Object of hedging: borrowings

(3) Policy of Hedging

a. Risk of exchange-rate fluctuations are hedged by engaging in forward exchange contracts for the purpose of ensuring appropriate profit management, minimizing the risk incurred from receivables and payables in foreign currencies and future foreign currency transactions, which derives from import-export transactions. Transactions are performed within the range of designated amount of receivables and payables in foreign currencies, and in cases of same-currency import-export transaction, the difference shall be subject to contract.

b. Hedging is also performed in order to avoid the risk of interest-rate fluctuations concerning borrowings.

(4) Hedging effectiveness valuation method

With regard to exchange contracts, the valuation of hedge effectiveness is omitted due to the assumption that market and cash flow fluctuation are to be completely off-set at point of hedging and will continue to be off-set, due to the influential conditions of the means and object of hedging are the same.

Furthermore, the valuation of hedge effectiveness for interest rate swaps that is subject to exceptional accounting is also omitted.

**(9) Accounting for the consumption tax**

Consumption tax is recorded using the tax-exclusion method.

**(10) Application of consolidated tax system**

Consolidated tax system is applied.

(Translation)

**Notes to Non-consolidated Balance Sheets**

**(1) Accumulated depreciation for "Tangible fixed assets":** JPY18,916 million

**(2) Monetary receivables and payables to affiliated companies**

Short-term monetary receivables: JPY11,596 million
Short-term monetary payables: JPY9,759 million

**(3) Guarantee of liabilities**

1) Guarantee of liabilities towards borrowings

| | |
|---|---|
| (Affiliated companies) | |
| Kenwood Electronics Belgium N.V. | 75 million yen (478 thousand Euro) |
| Kenwood Yamagata Corporation | 488 |
| Kenwood Nagano Corporation | 201 |
| Kenwood Geobit Corporation | 1,797 |
| Total | 2,563 |

2) Balance of commitment to the guarantee of liabilities

| | |
|---|---|
| (Affiliated companies) | |
| Kenwood Electronics Europe B.V. | 15 million yen (95 thousand Euro) |
| Kenwood Electronics Gulf Fze | 165 (1,655 thousand USD) |
| Total | 180 |

**(4) Financial covenants**

Financial covenants are attached to agreements with financial institutions for major loans for the current fiscal year. The content is as follows, and in case any of the provisions are violated, the relevant borrowings shall be subject to lump sum repayment and remaining unexecuted borrowings may become unavailable.
(All agreements are similar in content, however, in the case of a difference, the more stringent stipulation is stated.)

1) The amount of net assets in the consolidated and non-consolidated balance sheets as of account end or interim end of each fiscal year shall be maintained at 75% or more of the amount of net assets in the consolidated or non-consolidated balance sheets as of account end or interim end of the respective previous fiscal years. However, for the computed amount on the consolidated and non-consolidated balance sheets as of fiscal year ended March 2006 and for interim ended September 2005, amount of equity shall include the sum of "share options" and "deferred hedge gain and loss."
2) The amounts of consolidated interest-bearing debts (long term debt, short term bank borrowings, corporate debentures and discount on notes) at fiscal year end or interim end of each fiscal year shall be maintained at or under JPY80 billion, respectively.
3) The operating profit recorded on the consolidated statement of income of each fiscal year should not be losses.

**(5) Revaluation of land**

Land revaluation surplus, JPY3,159 million (JPY2,954 million at the current fiscal year end), and that the amount of revaluation-related deferred tax liability, JPY2,287 million (current JPY2,027 million at current fiscal year end) have been recorded, based on the revaluation of business-use land in accordance with the "Law Concerning Revaluation of Land" (Law No. 34 enacted on March 31, 1998).

- Date of revaluation: March 31, 2000
- Book value before revaluation of the business-use land: JPY3,983 million
- Book value after revaluation of the business-use land: JPY8,965 million

Method of revaluation stipulated in Article 3-3 of the "Law Concerning Revaluation of Land":
The method of revaluation is based on the "method that revalues upon reasonable adjustment to the declared land value in accordance with the provision in Article 6 of the Law Concerning Declaration of Land Value Adjacent to Business-use Land, with regard to the standard ground stipulated in the provision in Article 6 of the above law" stipulated in Article 2-1 of the "Enforcement Regulations of the Law Concerning Revaluations of Land" (Ordinance No. 119 enacted on March 31, 1998).

Difference between the total market value on the current fiscal year end after revaluation of land based on Article 10 of the "Law Concerning Revaluation of Land" and total book value after revaluation, with regard to the business-use land: JPY(2,373) million

(Translation)

**Notes to Non-consolidated Statement of Income**
**(1) Trading volume with affiliated companies**

| | (Millions of yen) |
|---|---|
| (1) Net sales | 84,110 |
| (2) Net purchase | 78,829 |
| (3) Amount paid, including subcontract processing cost | 5,678 |
| (4) Trading volume other than business transaction | 1,701 |

**Notes to Non-consolidated Statement of Changes in Shareholders' Equity**

(1) Type and number of treasury stock for current fiscal year end:
Common stock 651,742 shares

**Notes to tax effect**
**(1) Breakdown of major causes of deferred tax assets and liabilities**

| | (Millions of yen) |
|---|---|
| Deferred tax assets | |
| Loss on devaluation of affiliated company shares | 3,190 |
| Loss on devaluation of securities | 842 |
| Allowance for investment losses with affiliated companies | 945 |
| Carry-forward deficit | 6,544 |
| Liability for employees' retirement benefits | 3,312 |
| Other | 1,733 |
| Deferred tax assets (sub total) | 16,568 |
| Valuation-related allowances | (16,568) |
| Deferred tax assets (total) | — |
| Deferred tax liabilities | |
| Loss on devaluation of investment in affiliate's shares | (30) |
| Unrealized holding gain on securities | (187) |
| Deferred tax liabilities (total) | (217) |
| Net deferred tax liabilities | (217) |

**(2) Breakdown of major causes of the significant difference between the effective tax rate and the actual rate of taxation after application of deferred tax accounting**

As shown above, all valuation-related allowance is included as a deferred tax asset, and therefore the description on the causes of difference between the effective tax rate and the actual rate of taxation after application of deferred tax accounting is omitted.

(Translation)

## Notes to retirement benefits

### (1) Overview of retirement benefits system

The Company employs the Defined Benefit Pension Schemes System and the Retirement Lump Sum Grants System. Furthermore, in some cases, premium retirement benefits are paid upon the retirement of employees.

### (2) Notes to liabilities for retirement benefits (as of March 31, 2008)

| | (Millions of yen) |
|---|---|
| 1) Liability for retirement benefits | 20,773 |
| 2) Pension assets | (6,913) |
| 3) Liability for retirement benefits without reserve (1 + 2) | 13,859 |
| 4) Difference from accounting change | (3,046) |
| 5) Liability for unrecognized past service | 33 |
| 6) Actuarial difference in unrecognized items | (2,706) |
| 7) Liability for employees' retirement benefits | 8,139 |

### (3) Notes to expenses for retirement benefits (from April 1, 2007 to March 31, 2008)

| | (Millions of yen) |
|---|---|
| 1) Expense for service | 701 |
| 2) Expense for interests | 385 |
| 3) Expected return | (205) |
| 4) Paid difference from accounting change | 435 |
| 5) Paid expense for past service | (14) |
| 6) Paid actuarial difference | 264 |
| 7) Expense for retirement benefits | 1,566 |

### (4) Notes to calculation of liabilities for retirement benefits, etc.

| | |
|---|---|
| 1) Periodical allocation of expected retirement benefits: | Periodical fixed standard |
| 2) Discount rate | 2.0% |
| 3) Expected return | 3.0% |
| 4) Years relevant to the liability for retirement benefits:<br>Liability for past service is stated pro rata to expenses from the fiscal year that it incurred, using a straight-line method based on determined years (5 years) within average remaining service years of the employees at the point when the cost incurred. | 5 years |
| 5) Years relevant to actuarial difference:<br>Actuarial differences are to be charged pro rata to expenses from the following fiscal year using a straight-line method based on determined years (10 years) within average remaining service years of the employees when incurred. | 10 years |
| 6) Years relevant to difference from accounting change: | 15 years |

**Leased fixed assets**
There are no significant leased fixed assets. All fixed assets are as stated in the balance sheets.

**Transactions with Affiliates**

| Attribute | Name of Organization | Ownership Ratio of Voting Rights | Relation to Affiliate | Content of Transaction | Transaction Amount (millions of yen) | Item | Balance as of Fiscal Year End |
|---|---|---|---|---|---|---|---|
| Subsidiary | Kenwood U.S.A. Corporation | Direct Ownership 100.0 | Sales; Concurrent officers | Sales of Product (Note 1) | 35,357 | Accounts receivable | 1,748 |
| Subsidiary | Kenwood Electronics Technologies (S) Pte. Ltd. | Direct Ownership 100.0 | Production; Concurrent officers | Purchase of Product (Note 2);<br>Receipt of dividend | 15,858<br>304 | Accounts payable<br>— | 299<br>— |
| Subsidiary | Kenwood Electronics Technologies (M) Sdn. Bhd. | Indirect Ownership 100.0 | Production; Concurrent officers | Purchase of Product (Note 2) | 29,964 | Accounts payable | 3,170 |
| Subsidiary | Kenwood Nagano Corporation | Direct Ownership 100.0 | Production; Concurrent officers | Purchase of Product (Note 2) | 13,666 | Accounts payable | 1,320 |

Decision-making policies concerning the terms and conditions of transactions
(Note) 1. Terms and conditions concerning price, etc. are decided by price negotiation in view of market trends.
2. Terms and conditions concerning purchase of Company Products are decided by price negotiation in view of market trends.
3. Transaction amount does not include consumption tax and such. Consumption tax is included in the balance as of fiscal year end.

**Share Information**
Net asset amount per share: JPY86.69
Net income per share: JPY3.54

**(Translation)**

**The Audit Report of the Independent Accounting Auditors on the Non-consolidated Financial Statements**

**Audit Report of the Independent Auditor**

May 9, 2008

Kenwood Corporation
To: Board of Directors

Deloitte Touche Tohmatsu

| | | | |
|---|---|---|---|
| Designated Partner, Executive Partner | Certified Public Accountant | Hiroshi Kawamura | (Seal) |
| Designated Partner, Executive Partner | Certified Public Accountant | Yasunari Kunii | (Seal) |
| Designated Partner, Executive Partner | Certified Public Accountant | Hideo Shirota | (Seal) |

Deloitte Touche Tohmatsu has, based on the provision in Article 436 Clause 2-1 of the Corporate Act, conducted audits on the financial statements of Kenwood Corporation for April 1, 2007 to March 31, 2008, i.e., non-consolidated balance sheets, non-consolidated statement of income and non-consolidated statement of changes in shareholders' equity, and their supporting schedules. The responsibility to create these financial statements and their supporting schedules is on the business administrator, and it is the responsibility of Deloitte Touche Tohmatsu to express opinions on the financial statements and their supporting schedules from the standpoint of an independent body.

Deloitte Touche Tohmatsu conducted the audits in accordance with generally-accepted auditing standards in Japan. The standard of audits asks for a reasonable guarantee from the accounting auditor (Deloitte Touche Tohmatsu) that there is no material misstatement in the financial statements and their supporting schedules. The audits are conducted on the basis of an audit test, which includes reviewing the statements in the financial reports and their supporting schedules as a whole, including the accounting policy and its application employed by the business administrator and the evaluation of estimates performed by the business administrator. Deloitte Touche Tohmatsu concludes that a reasonable basis for giving an opinion has been provided as result of the audit. Deloitte Touche Tohmatsu approves that, in accordance with generally-accepted auditing standards in Japan, the above financial statements and their supporting schedules appropriately state the condition of assets and profit and loss of the period relevant to the financial statements and their supporting schedules, in all their crucial sense.

No material relationship to be stated based on the provision of the Certified Public Accountants Law exists between the Company and Deloitte Touche Tohmatsu or the Executive Partner.

END

**(Translation)**

**The Audit Report of the Board of Statutory Auditors on the Non-consolidated Financial Statements**

## Audit Report on the Non-consolidated Financial Statements

The Board of Statutory Auditors, with regard to the exercise of function of the Directors in the 79th fiscal year from April1, 2007 to March 31, 2008, has created this audit report as the unanimous opinion of all Auditors, upon deliberation based on the individual audit reports created by the respective Auditors, and herein report as follows:

1. Method and Content of Audit by the Auditors and the Board of Statutory Auditors

The Board of Statutory Auditors:

Has set the policy for audits of the current fiscal year and the roles and duties of each Auditor, and has received reports on the state of auditing and the results from each Auditor, as well as receiving reports on the execution of the duties from the Directors of the Board and the accounting auditor and has requested explanation as necessary. Ordinary general meetings of the Auditors were, in principle, held once per one month, and the results of the audits conducted by each Auditor were communicated to the other Auditors, exchanging opinions as well as seeking a sharing of information. Furthermore, with regard to the results of investigative activities of the Auditors, the opinions were communicated to the relevant Directors, or representative of a division as necessary.

Each Auditor:

i) conformed to the Auditor's Audit Standard established at the meeting of the Board of Statutory Auditors, according to the policy for audits of the current fiscal year and their roles and duties, communicated with Directors of the Board, executive officers, management audit division (internal audit) and other employees from major divisions, strived for the collection of information and development of the audit environment, and attended the meetings of the Board of Directors and other important meetings. For the meetings of the Board of Directors, the content of the bill was investigated beforehand, and the course and result of deliberations were acknowledged with regard to the submitted bills and report. Furthermore, questions were asked and opinions were expressed as appropriate and as needed.

ii) received reports from the Directors of the Board and the executive officers concerning their state of exercise of functions, and requested explanations when necessary. At the same time, viewed important decision documents and investigated the state of business and assets at the head office and other major offices.

iii) continuously monitored and verified the content of the Board of Directors resolution concerning the establishment of the framework to ensure the conformity of Directors' exercise of function with laws and regulations and the Articles of Incorporation, and the state of development and operation of the framework established based on such resolution (internal control system).

iv) communicated and exchanged information with the Directors of the Board and Auditors of subsidiaries, as well as visit the subsidiaries when necessary to investigate the state of business and assets.

Based on the above methods, the Auditors reviewed the business report and their supporting schedules for 79th fiscal year.

With regard to the accounting audit, the "Overview of Audit Plan" has been submitted by the accounting auditor, and the Auditors held deliberations as well as received explanations of the audit plan. The result of the audit was reported by the "interim audit implementation report" at the end of the interim accounting period, and by the "audit implementation report" at the end of the current fiscal year.

Furthermore, the Auditors received reports and explanations on the state of exercise of function of the accounting auditor from the accounting auditor, as well as monitoring whether the accounting auditor was retaining its independence and conducting fair audit. When necessary, the Auditors also witnessed the visiting audits of the accounting auditor, and verified the content of the audits. Also, Auditors received notification from the accounting auditor that the "Framework to Ensure Fair Exercise of Function" (Article 159 of Corporate Calculation Regulation) is under development based on the "Quality Management Standard Concerning Audit" (October 28, 2005: Business Accounting Council), for which the Auditors requested explanation upon necessity. From the above method, the non-consolidated financial statements for 79th fiscal year has been reviewed.

Based on the above method, the Auditors reviewed the non-consolidated financial statements (non-consolidated balance sheets, non-consolidated statement of income and non-consolidated statement of changes in shareholders' equity) and their supporting schedules for 79th fiscal year.

**(Translation)**

2. Result of Audit

(1) Result of Audit for the Business Report

i) The Auditors approve that the business reports and their supporting schedules appropriately states the condition of the company, in accordance with laws and regulations and the Articles of Incorporation.

ii) The Auditors found no evidence of wrongful acts with regard to the exercise of function of the Directors or of serious breach of law and regulations or the Articles of Incorporation.

iii) The Auditors approve that the content of the resolution of the Board of Directors concerning the internal control system is appropriate. Furthermore, no issues were found with regard to the exercise of function of the Directors concerning the internal control system established and operated based on the relevant resolution of the Board of Directors.

(2) Result of Audit for the Financial Statements

The Board of Statutory Auditors approves that the method and result of audit by the accounting auditor, Deloitte Touche Tohmatsu is appropriate. Furthermore, no issues were found concerning the framework to ensure propriety of exercise of function of the accounting auditor.

END

May 10, 2008

Kenwood Corporation, Board of Statutory Auditors

| | | |
|---|---|---|
| Standing Statutory Auditor | Hideaki Kato | (Seal) |
| Standing Statutory Auditor | Osamu Hamada | (Seal) |
| Outside Auditor | Koichi Kurosaki | (Seal) |
| Outside Auditor | Shojiro Asai | (Seal) |
| Outside Auditor | Akihiko Washida | (Seal) |

(Translation)

## SHAREHOLDERS' MEMO

| | |
|---|---|
| **- Fiscal year** | April 1 to March 31 |
| **- Ordinary general meeting of shareholders** | Some time in June |
| **- Record date with respect to voting rights to be exercised at the ordinary general meeting of shareholders** | March 31 |
| **- Base dates for dividends of surplus** | September 30<br>March 31<br>Dividends of surplus may be paid on base dates other than the above base dates. |
| **- Administrator of shareholder registry** | 1-4-5 Marunouchi, Chiyoda-ku, Tokyo<br>Mitsubishi UFJ Trust and Banking Corporation |
| **Service location** | 1-4-5 Marunouchi, Chiyoda-ku, Tokyo<br>Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation |
| **Contact (Inquires/Sending address)** | 7-10-11 Higashisuna, Koutou-ku, Tokyo, 137-8081<br>Securities Agency Division, Mitsubishi UFJ Trust and Banking Corporation<br>TEL: 0120-232-711 (toll-free) |
| **Other Contacts** | All national branches of Mitsubishi UFJ Trust and Banking Corporation |
| (Note) With the resolution at the meeting of the Board of Directors held on May 12, 2008, the administrator for shareholder registry will be changed to the Sumitomo Trust & Banking Co., Ltd. as of June 28, 2008. | |
| **- Administrator of shareholder registry** | 4-5-33 Kitahama, Chuo-ku, Osaka<br>The Sumitomo Trust & Banking Co., Ltd. |
| **Service location** | 1-4-4 Marunouchi, Chiyoda-ku, Tokyo<br>Stock Transfer Agency Department, The Sumitomo Trust & Banking Co., Ltd. |
| **Contact (Inquires/Sending address)** | 1-10 Nikkoucho, Fuchu-shi, Tokyo, 183-8701<br>Stock Transfer Agency Department, The Sumitomo Trust & Banking Co., Ltd.<br>(Telephone inquires) 0120-176-417<br>(Requests for procedural forms) 0120-175-417 |
| **Other Contacts** | All national branches of the Sumitomo Trust & Banking Co., Ltd. |
| **- Method of public notice** | Public notice will be made electronically. However, in the event that electronic public notices are not available for reasons such as accidents or other contingencies, the public notice will be posted in the Nikkei (the Nihon Keizai Shimbun) published in the Tokyo area.<br>Electronic public notices will be posted on our website: (http://www.kenwood.co.jp/) |

<Contact>

Public and Investor Relations Office, Corporate Relations Division, Kenwood Corporation

Address: 2967-3 Ishikawamachi, Hachioji-shi, Tokyo, 192-8525

TEL: (042) 646-6724 (direct)

**Forward-looking Statements**
When included in this convocation notice, the words “will,” “should,” “expects,” “intends,” “anticipates,” “estimates,” and similar expressions, among others, identify forward-looking statements. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those set forth in this document. These forward-looking statements are made only as of the date of this document. JVC and KENWOOD expressly disclaim any obligations or undertaking to release any update or revision to any forward-looking statement contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based. Actual results may vary widely from forecasts due to the following factors: 1) drastic changes in economic conditions and product supply and demand in major markets (Japan, Europe, The Americas, Asia etc.), 2) changes in trade regulations and other regulatory changes in major domestic and international markets, 3) drastic changes in foreign exchange rates (yen-dollar, yen-euro etc.), 4) sharp moves in the capital markets, and 5) changes in social infrastructure caused by drastic changes in technology etc. Risks and uncertainties also include the impact of any future events with material unforeseen impacts.

END