Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The estimated useful lives are as follows:

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

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

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

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

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

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

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

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

(k) Liability for Employees' Retirement Benefits
The Company has a funded defined benefit pension plan covering substantially all employees.

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

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

5 years, which is less than the average remaining years of service of the employees.

Actuarial gain or loss is amortized mainly using the straight-line method over 10 years, which is less than the average remaining years of service of the employees, and the amortization will be started in the year in which the gain or loss is recognized.

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

(l) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2003, which allows companies to base tax payments on the combined profits or losses of the Company and its wholly owned domestic subsidiaries. Under the consolidated-tax system, a surcharge tax of 2% of taxable income is levied in addition to the national corporate income tax rate up to the fiscal year ended March 31, 2004, but such surcharge tax is no longer levied for the fiscal year ended March 31, 2005.

(m) Leases

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

(n) Derivative Financial Instruments

The Group uses foreign currency forward contracts and interest rate swaps as a means of hedging exposure to foreign currencies and interest risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures for export sales and procurement of raw materials from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Forward contracts applied for forecasted transactions are also measured at fair value and the unrealized gains / losses are deferred until the underlying transactions are completed.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. Swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until the maturity of the transactions.

(o) Appropriations of Retained Earnings

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

(p) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if diluted securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding preference shares at the beginning of the year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends to be paid after the end of the year, if any.

(q) New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The group expects to adopt these pronouncements as of the April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

(r) Accounting Change

Effective April 1, 2004, the Company presented a royalty expense on the use of a patent as cost of sales, which, previously, had been presented as selling, general and administrative expenses.

a) Reason for the change

Since the fiscal year ended March 31, 2005, Product management operation departments have been set up in each business division in order to produce high quality products promptly, which would satisfy end users well, with limited cost. The new departments administrate comprehensively each element of developments for new products, including marketing, product planning, design, and technical system design. The new departments have made it possible to exercise more accurate cost control than the previous fiscal year. As a result, it turned out that the royalty expense on the use of a patent should be counted as a part of manufacturing cost together with other product design costs, because those costs could be included based upon substantially the same criteria as a technical design cost for products.

b) Effects of the change

The effects of the change were to increase cost of sales by ¥ 2,559 million ($23,916 thousand) and to decrease selling, general and administrative expenses by ¥ 2,559 million ($23,916 thousand). There was no effect on the operating income, income before income taxes and minority interest, or net income for the year ended March 31, 2005.

2. Investment Securities

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

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

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

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

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

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

3. Leases

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

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

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

Obligations under finance leases:

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

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

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

4. Land Revaluation Surplus

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

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

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

5. Short-term Borrowings and Long-Term Debt

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

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

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

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

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

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

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

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

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

6. Liability for Employees' Retirement Benefits

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

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

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

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

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

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

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

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

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

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

7. Shareholders' Equity

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

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

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

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

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

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

i) New share issuance

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

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

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

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

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

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

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

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

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

8. Research and Development Costs

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

9. Income Taxes

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

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

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

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

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

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

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

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

10. Net Income Per Share of Common Stock

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

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

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

For the year ended March 31, 2005:	**Millions of yen**	**Thousands of shares**	**Yen**	**Dollars**
	Net income	**Weighted average shares**	**EPS**	
Basic EPS				
Net income available to common shareholders	**¥ 4,690**	**$ 279,361**	**¥ 16.79**	**$ 0.16**
Effect of Diluted Securities				
Preferred Stock	**100**	**176,665**		
Diluted EPS				
Net income for computation	**¥ 4,790**	**$ 456,026**	**¥ 10.50**	**$ 0.10**

For the year ended March 31, 2004:	Millions of yen	Thousands of shares	Yen
	Net income	Weighted average shares	EPS
Basic EPS			
Net income available to common shareholders	¥ 7,144	$ 210,159	¥ 33.99
Effect of Diluted Securities			
Preferred Stock	174	255,102	
Diluted EPS			
Net income for computation	¥ 7,318	$ 465,261	¥ 15.73

11. Commitments and Contingent Liabilities

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

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

12. Derivatives

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

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

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

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

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

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

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

13. Segment Information

The Company defines its business segments as follows:

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

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

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

Others:
Other electrical equipment and parts.

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

Operations by business segment:

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

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

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

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

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

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

Operations by geographic area:

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

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

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

America….U.S., Canada and Panama

Europe….. Germany, France and the United Kingdom

Asia…… China, Singapore and U.A.E.

Other……Australia

Overseas sales:

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

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

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

14. Subsequent Event

i) Appropriation of retained earnings
The annual general shareholders' meeting, held on June 29, 2005 resolved as an appropriation of retained earnings as follows:
a) Cash dividends of accumulative payable to the shareholder of Class B preferred stock: ¥126 million ($1,178 thousand)
b) Cash dividends to the shareholder of Class B preferred stock: ¥101 million ($944 thousand)
c) Cash dividends to the shareholder of common stock: ¥921 million ($8,607 thousand)
d) Payments of bonuses to directors and corporate auditors: ¥46 million ($430 thousand)

ii) New share issuance
The Company's board of directors meetings held on June 6, 2005 and June 20, 2005, resolved a new share issuance with a payment due date of June 30, 2005.
The proceeds from the issuance of new shares are to be appropriated to the redemption of Class B preferred stock.
1) Number of new shares issued: 60 million shares of common stock
2) Offering price per share: ¥190 ($1.78)
3) Total offering price: ¥11,400 million ($106,542 thousand)
4) Issue price per share: ¥185.20 ($1.73)
5) Total Issue price: ¥11,112 million ($103,850 thousand)
6) Stated capital per share: ¥185.20 ($1.73)
7) Total stated capital: ¥11,112 million ($103,850 thousand)
8) Initial date of dividend recognition: April 1, 2005

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

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