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 Services Agency as required by the Securities and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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 Japanese GAAP but is presented herein as additional information.

Certain reclassifications have been made to the 2006 consolidated financial statements to conform to the 2007 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 ¥118 to $1, the approximate rate of exchange at March 31, 2007. 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 39 (40 in 2006) 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.
KNT LLC was excluded from scope of consolidation because the company had been liquidated during the current fiscal year.

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 difference between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary ("goodwill" or "negative goodwill") 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 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 equity.

(f) Inventories

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

(g) Depreciation

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

The estimated useful lives are as follows:

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

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

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

(h) Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is higher of the discounted cash flows from the continued use and eventual disposition of the asset or net selling price at disposition.

(i) Marketable and Investment Securities

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

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

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

(j) Income Taxes

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

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the Company and its wholly-owned domestic subsidiaries.

(k) Leases

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

(l) Derivative Financial Instruments

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

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

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

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

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

(m) Goodwill

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

(n) Stock Issuance Costs

Stock issuance costs, which are capitalized and included in other assets, net of accumulated amortization, are amortized using the straight-line method over three years.

(o) Liability for Retirement Benefits

The Company has a funded defined benefit pension plan covering substantially all employees.

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

Prior service costs are amortized using the straight-line method over five years, which is less than the average remaining years of service of the employees.

Actuarial gains or losses are recognized in expenses mainly using the straight-line method over ten years, which are less than the average remaining years of service of the employees, commencing with the succeeding period.

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

(p) Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(q) Appropriations of Retained Earnings

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

(r) 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 is not disclosed because it is anti-dilutive.

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

(s) New Accounting Pronouncements

Measurement of Inventories

Under generally accepted accounting principles in Japan, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable.

On May 17, 2006 the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements".

The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

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, 2007 and 2006 were as follows:

	2007							
	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	**¥ 2,064**	**¥ 1,750**	**¥ (13)**	**¥ 3,801**	**$ 17,494**	**$ 14,831**	**$ (112)**	**$ 32,213**
Total	**¥ 2,064**	**¥ 1,750**	**¥ (13)**	**¥ 3,801**	**$ 17,494**	**$ 14,831**	**$ (112)**	**$ 32,213**

	2006			
	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities	¥ 2,268	¥ 3,187	¥ (0)	¥ 5,455
Total	¥ 2,268	¥ 3,187	¥ (0)	¥ 5,455

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥809 million ($6,856 thousand) and ¥2,018 million, respectively. Gross realized gains on these sales for the years ended March 31, 2007 and 2006 computed on the moving average cost basis, were ¥588 million ($4,983 thousand) and ¥1,830 million.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 are as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Equity securities	**¥ 130**	¥ 185	**$ 1,102**
Total	**¥ 130**	¥ 185	**$ 1,102**

3. Goodwill

Goodwill at March 31, 2007 and 2006 consisted of following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Consolidated goodwill	**¥ 67**	¥ 125	**$ 570**
Purchased goodwill	**134**	201	**1,134**
Total	**¥ 201**	¥ 326	**$ 1,704**

4. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were ¥231 million ($1,958 thousand) and ¥432 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			**2007**		
	Acquisition Cost	Accumulated Depreciation	Net leased Property	Acquisition Cost	Accumulated Depreciation	Net leased Property	Acquisition Cost	Accumulated Depreciation	Net leased Property
Machinery and equipment	**¥ 314**	**¥ 291**	**¥ 23**	¥ 1,269	¥ 1,105	¥ 164	**$ 2,663**	**$ 2,467**	**$ 196**
Tools, furniture and fixtures	**151**	**124**	**27**	182	115	67	**1,279**	**1,052**	**227**
Others	**22**	**20**	**2**	56	48	8	**183**	**166**	**17**
Total	**¥ 487**	**¥ 435**	**¥ 52**	¥ 1,507	¥ 1,268	¥ 239	**$ 4,125**	**$ 3,685**	**$ 440**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥ 51**	¥ 199	**$ 436**
Due after one year	**4**	51	**33**
Total	**¥ 55**	¥ 250	**$ 469**

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
	2007	2006	**2007**
Depreciation expense	**¥ 216**	¥ 405	**$ 1,831**
Interest expense	**¥ 5**	¥ 13	**$ 41**

5. 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 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:	¥ 4,192
Land after revaluation:	¥ 9,174
Land revaluation surplus, net of income taxes of ¥2,028 million:	¥ 2,954

As of March 31, 2007, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥2,325 million ($19,705 thousand).

6. Long-lived Assets

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

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

No impairment loss was recognized in 2007.

7. Short-term Borrowings and Long-Term Debt

Short-term borrowings, which generally consist of notes to banks and bank overdrafts, are due within one year. The interest rates on these borrowings ranged from 1.25727% to 6.02000% and 1.51455% to 6.57875% as of March 31, 2007 and 2006, respectively.

Long-term debt as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Japanese government-sponsored agencies, 6.00%, due through 2006	**¥ -**	¥ 0	**$ -**
Banks, 1.50000%, due through 2009	**20,000**	-	**169,492**
Total	**20,000**	0	**169,492**
Less: Current portion	**-**	(0)	**-**
Long-term debt, less current portion	**¥ 20,000**	¥ -	**$ 169,492**

The aggregate annual maturities of long-term debt as of March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ -	$ -
2009	20,000	169,492
Total	¥ 20,000	$ 169,492

As of March 31, 2007, no assets were pledged as collateral for short-term borrowings and long-term debt.

Outstanding bank revolving loans contracted, but not provided for as of March 31, 2007 were as follows:

	2007 Millions of yen	2007 Thousands of U.S. dollars
Credit facilities	**¥ 20,000**	**$ 169,492**
Used	**(2,472)**	**(20,951)**
Unused	**¥ 17,528**	**$ 148,541**

Outstanding bank commitment lines contracted, but not provided for as of March 31, 2007 were as follows:

	2007 Millions of yen	2007 Thousands of U.S. dollars
Credit facilities	**¥ 30,000**	**$ 254,237**
Used	**-**	**-**
Unused	**¥ 30,000**	**$ 254,237**

8. Effect of Bank Holiday on March 31, 2007

March 31, 2007, the last date of current fiscal year coincided with a bank holiday, and the following notes that matured at the date were included in the balance sheet as of the date.

	2007 Millions of yen	2007 Thousands of U.S. dollars
Notes receivable	**¥ 508**	**$ 4,306**
Notes payable	**¥ 178**	**$ 1,508**

9. Liability for 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 ten 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 retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥ 21,220**	¥ 20,344	**$ 179,827**
Fair value of plan assets	**(6,979)**	(5,862)	**(59,146)**
Unrecognized actuarial gain	**(1,040)**	(1,092)	**(8,809)**
Unrecognized prior service cost	**48**	67	**408**
Prepaid pension cost	**-**	19	**-**
Unrecognized transitional obligation	**(3,640)**	(4,112)	**(30,846)**
Net liability	**¥ 9,609**	¥ 9,364	**$ 81,434**

Note: Some consolidated subsidiaries use simple method for calculation.

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥ 830**	¥ 800	**$ 7,040**
Interest cost	**385**	576	**3,262**
Expected return on plan assets	**(230)**	(235)	**(1,951)**
Amortization of prior service cost	**(18)**	(66)	**(156)**
Recognized actuarial loss	**255**	466	**2,160**
Amortization of transitional obligations	**455**	529	**3,856**
Net periodic retirement benefit costs	**¥ 1,677**	¥ 2,070	**$ 14,211**

Note: The periodic retirement benefits cost on the consolidated subsidiaries using simple method for calculation is included in service cost.

Assumptions used for the years ended March 31, 2007 and 2006 are set forth as follows:

	2007	2006
Discount rate	**mainly 2.0%**	2.0%
Expected rate of return on plan assets	**mainly 4.0%**	2.0%
Amortization period of prior service cost	**5 years**	5 years
Recognition period of actuarial gain / loss	**10 years**	10 years
Amortization period of transitional obligation	**15 years**	15 years

10. Equity

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006.

The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

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

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

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate.

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

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

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

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

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors.

The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

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

11. Retirement Benefits For Directors and Corporate Auditors

The Company abolished its retirement benefit plan for directors and corporate auditors at the annual general shareholders' meeting held on June 29, 2006. For retirement benefits generated prior to abolition, the Company settles the amount upon retirement of directors and corporate auditors. The remaining amount of ¥236 million retirement benefit payable to directors and corporate auditors after the actual payment, is recorded as other long-term liability.

12. Research and Development Costs

Research and development costs charged to income were ¥1,108 million ($9,387 thousand) and ¥1,020 million for the years ended March 31, 2007 and 2006, respectively.

13. Income Taxes

Under the consolidated corporate tax system, the normal effective statutory tax rate of the Company was approximately 40.7% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carry-forwards which resulted in deferred tax assets and liabilities as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred Tax Assets:			
Impairment of investment securities	**¥ 830**	¥ 1,061	**$ 7,036**
Tax loss carryforwards	**7,760**	8,335	**65,760**
Liability for employees' retirement benefits	**3,710**	3,604	**31,440**
Other	**2,946**	2,388	**24,972**
Less: valuation allowance	**(14,118)**	(13,954)	**(119,648)**
Total	**¥ 1,128**	¥ 1,434	**$ 9,560**

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred Tax Liabilities:			
Investment securities	**¥ 640**	¥ 1,296	**$ 5,426**
Deferred gain on derivatives under hedge accounting	**49**	-	**414**
Loss on devaluation of investment in affiliate's stock	**30**	-	**255**
Investments	**129**	158	**1,097**
Land revaluation	**2,028**	2,028	**17,184**
Other	**8**	15	**63**
Total	**2,884**	3,497	**24,439**
Deferred Tax Liabilities, Net:	**¥ (1,756)**	¥ (2,063)	**$ (14,879)**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for years ended March 31, 2007 and 2006 are as follows:

	2007	2006
Normal effective statutory tax rate	**40.7%**	40.7%
Expenses not deductible for income tax purposes	**1.0%**	0.3%
Income not counted for income tax purposes	**(1.4%)**	(1.9%)
Tax benefits not recognized on operating losses of subsidiaries	**(11.8%)**	4.2%
Tax benefits not recognized on temporary differences	**(12.4%)**	(36.6%)
Difference of normal effective statutory tax rate among countries other than Japan	**(16.9%)**	(5.9%)
Decrease of valuation allowance	**-**	(6.7%)
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	**49.2%**	14.7%
Effect of tax rate reduction on consolidated taxation system	**(7.8%)**	(2.9%)
Per capita inhabitant tax	**1.5%**	0.5%
Foreign withholding taxes not recognized on losses	**-**	0.5%
Income taxes for past fiscal years	**-**	1.8%
Changes in effective statutory tax rate of foreign subsidiaries	**(4.0%)**	-
Other, net	**(1.1%)**	4.8%
Actual effective tax rate	**37.0%**	13.5%

As of March 31, 2007, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately ¥18,372 million ($155,692 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
2008	¥ -	$ -
2009	9,780	82,883
2010	6,940	58,809
2011	-	-
2012	-	-
thereafter	1,652	14,000
Total	¥ 18,372	$ 155,692

14. 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") for the years ended March 31, 2007 and 2006 are as follows:

For the year ended March 31, 2007:	Millions of yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted average Shares	EPS	
Basic EPS				
Net income available to common shareholders	¥ **1,586**	**366,996**	¥ **4.32**	$ **0.04**

Diluted net income per share is not disclosed because it is anti-dilutive.

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

15. Commitments and Contingent Liabilities

At March 31, 2007, the Group had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense was ¥1,581 million ($13,395 thousand) and ¥1,864 million for the years ended March 31, 2007 and 2006.

16. 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, 2007 and 2006:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			**2007**		
	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)
Foreign Exchange Contracts: (Euro, selling)	¥ **-**	¥ **-**	¥ **-**	¥ 314	¥ 315	¥ (1)	$ **-**	$ **-**	$ **-**
Foreign Exchange Contracts: (Singapore$, buying)	¥ **1,221**	¥ **1,230**	¥ **9**	¥ -	¥ -	¥ -	$ **10,350**	$ **10,426**	$ **76**

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.

17. Segment Information

See attached sheets.

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18. Subsequent Event

(a) The followings appropriation of retained earnings at March 31, 2007 was approved at the Board of Directors meeting held on May 15, 2007 :

		Millions of yen		Thousands of U.S. dollars
Cash dividends applicable to the year, ¥2.00 ($0.02) per share……………………………	¥	734	$	6,219
	¥	734	$	6,219

(b) On May 10, 2007, the Company acquired 100% of the issued and outstanding capital stock of Zetron Inc. from Zetron Holdings, Inc. thereby converting Zetron Inc. into its wholly-owned subsidiary. Summary of the transactions is as follows:

1. Purpose of the stock acquisition
   In the communications equipment business, the Company is striving to expand its business scope from supplying radio terminals to offering turnkey system* solutions that address the evolving demands of the Company's customers and further enhance its presence in the global market.

   * Turnkey system: A comprehensive radio communication system that provides a complete and ready-to-use system from base station equipment to radio terminals already set up for customers.

2. Company name from which the stock was acquired
   Zetron Holdings, Inc.

3. Corporate outline of newly acquired subsidiary

   (1) Corporate name: Zetron, Inc.
   (2) Representative: John Reece (President and CEO)
   (3) Location: Redmond, Washington, U.S.A.
   (4) Year established: 1980
   (5) Main business: Development, production and sales of products and systems used in mission-critical command and control and private mobile network communications for both the governmental and commercial markets
   (6) Fiscal year ended: December 31
   (7) Number of employees: 290 (as of December 31, 2006)
   (8) Main business offices: U.S.A., U.K., Australia
   (9) Last Shareholder (%): Zetron Holdings, Inc. (100%)
   (10) Recent business results:

(Thousands of U.S. Dollars)

	Fiscal Year ended December 31, 2006	Fiscal Year ended December 31, 2005
Net Sales	44,365	43,065
Operating Profit	4,284	3,368

4. The stock was acquired on May 10, 2007.

5. Acquisition cost and ownership after stock acquisition
   ①Acquisition cost ¥ 8.3 billion
   ②ownership after stock acquisition 100%

6. Financing method
   Borrowings from financial institutions and self-financing

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17. Segment Information

The Company defines its business segments as follows:

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

Communications business:
Communications equipment, such as amateur radios, UHF CB transceivers, land mobile radios and PDC (personal digital cellular phone) sales business

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

Others:
Other electrical equipment and parts

Operations by business segment for the years ended March 31, 2007 and 2006 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**
2007							
Net sales:							
Sales to customers	**¥ 94,939**	**¥ 61,096**	**¥ 10,584**	**¥ 2,575**	**¥ 169,194**	**¥ -**	**¥ 169,194**
Intersegment sales and transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**¥ 94,939**	**¥ 61,096**	**¥ 10,584**	**¥ 2,575**	**¥ 169,194**	**¥ -**	**¥ 169,194**
Operating expenses	**¥ 96,914**	**¥ 52,425**	**¥ 11,710**	**¥ 2,528**	**¥ 163,577**	**¥ -**	**¥ 163,577**
Operating income (loss)	**¥ (1,975)**	**¥ 8,671**	**¥ (1,126)**	**¥ 47**	**¥ 5,617**	**¥ -**	**¥ 5,617**
Identifiable assets	**¥ 66,044**	**¥ 29,350**	**¥ 7,817**	**¥ 1,715**	**¥ 104,926**	**¥ 6,295**	**¥ 111,221**
Depreciation	**¥ 5,030**	**¥ 1,476**	**¥ 429**	**¥ 15**	**¥ 6,950**	**¥ -**	**¥ 6,950**
Capital expenditures	**¥ 4,553**	**¥ 1,611**	**¥ 347**	**¥ 5**	**¥ 6,516**	**¥ -**	**¥ 6,516**

Corporate assets as of March 31, 2007 amounted to ¥6,294 million ($53,339 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
2006							
Net sales:							
Sales to customers	¥ 107,723	¥ 58,639	¥ 14,897	¥ 2,357	¥ 183,616	¥ -	¥ 183,616
Intersegment sales and transfers	-	-	-	-	-	-	-
Total	¥ 107,723	¥ 58,639	¥ 14,897	¥ 2,357	¥ 183,616	¥ -	¥ 183,616
Operating expenses	¥ 105,896	¥ 50,302	¥ 16,317	¥ 2,414	¥ 174,929	¥ -	¥ 174,929
Operating income (loss)	¥ 1,827	¥ 8,337	¥ (1,420)	¥ (57)	¥ 8,687	¥ -	¥ 8,687
Identifiable assets	¥ 65,501	¥ 25,878	¥ 9,098	¥ 1,377	¥ 101,854	¥ 7,700	¥ 109,554
Depreciation	¥ 5,353	¥ 1,436	¥ 574	¥ 40	¥ 7,403	¥ -	¥ 7,403
Impairment loss	¥ 468	¥ 212	¥ 52	¥ 256	¥ 988	¥ -	¥ 988
Capital expenditures	¥ 6,109	¥ 1,417	¥ 575	¥ 19	¥ 8,120	¥ -	¥ 8,120

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

	Thousands of U.S. dollars						
	Car Electronics Business	**Communications Business**	**Home Electronics Business**	**Others**	**Total**	**Corporate Assets and Eliminations**	**Consolidated**
2007							
Net sales:							
Sales to customers	**$ 804,568**	**$ 517,764**	**$ 89,696**	**$ 21,822**	**$ 1,433,850**	**$ -**	**$ 1,433,850**
Intersegment sales and transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 804,568**	**$ 517,764**	**$ 89,696**	**$ 21,822**	**$ 1,433,850**	**$ -**	**$ 1,433,850**
Operating expenses	**$ 821,301**	**$ 444,283**	**$ 99,237**	**$ 21,427**	**$ 1,386,248**	**$ -**	**$ 1,386,248**
Operating income (loss)	**$ (16,733)**	**$ 73,481**	**$ (9,541)**	**$ 395**	**$ 47,602**	**$ -**	**$ 47,602**
Identifiable assets	**$ 559,697**	**$ 248,725**	**$ 66,250**	**$ 14,530**	**$ 889,202**	**$ 53,345**	**$ 942,547**
Depreciation	**$ 42,623**	**$ 12,513**	**$ 3,632**	**$ 130**	**$ 58,898**	**$ -**	**$ 58,898**
Capital expenditures	**$ 38,588**	**$ 13,652**	**$ 2,939**	**$ 45**	**$ 55,224**	**$ -**	**$ 55,224**

Operations by geographic area for the years ended March 31, 2007 and 2006 were summarized as follows:

Operations by geographic area:

	Millions of yen							
	Japan	**America**	**Europe**	**Asia**	**Other**	**Total**	**Corporate Assets and Eliminations**	**Consolidated**
2007								
Net sales:								
Sales to customers	¥ 62,428	¥ 49,694	¥ 36,642	¥ 17,034	¥ 3,396	¥ 169,194	¥ -	¥ 169,194
Intersegment sales	82,601	22	2,629	58,520	30	143,802	(143,802)	-
Total	¥ 145,029	¥ 49,716	¥ 39,271	¥ 75,554	¥ 3,426	¥ 312,996	¥ (143,802)	¥ 169,194
Operating expenses	¥ 143,335	¥ 48,044	¥ 38,233	¥ 73,233	¥ 3,448	¥ 306,293	¥ (142,716)	¥ 163,577
Operating income (loss)	¥ 1,694	¥ 1,672	¥ 1,038	¥ 2,321	¥ (22)	¥ 6,703	¥ (1,086)	¥ 5,617
Identifiable assets	¥ 99,231	¥ 18,698	¥ 15,020	¥ 22,751	¥ 1,596	¥ 157,296	¥ (46,075)	¥ 111,221

	Millions of yen							
	Japan	America	Europe	Asia	Other	Total	Corporate Assets and Eliminations	Consolidated
2006								
Net sales:								
Sales to customers	¥ 72,584	¥ 54,347	¥ 36,046	¥ 17,883	¥ 2,756	¥ 183,616	¥ -	¥ 183,616
Intersegment sales	83,557	74	3,086	57,356	12	144,085	(144,085)	-
Total	¥ 156,141	¥ 54,421	¥ 39,132	¥ 75,239	¥ 2,768	¥ 327,701	¥ (144,085)	¥ 183,616
Operating expenses	¥ 151,865	¥ 51,971	¥ 38,283	¥ 73,281	¥ 2,739	¥ 318,139	¥ (143,209)	¥ 174,930
Operating income (loss)	¥ 4,276	¥ 2,450	¥ 849	¥ 1,959	¥ 28	¥ 9,562	¥ (875)	¥ 8,687
Identifiable assets	¥ 99,244	¥ 18,414	¥ 13,506	¥ 22,084	¥ 1,550	¥ 154,798	¥ (45,244)	¥ 109,554

	Thousands of U.S. dollars							
	Japan	**America**	**Europe**	**Asia**	**Other**	**Total**	**Corporate Assets and Eliminations**	**Consolidated**
2007								
Net sales:								
Sales to customers	$ 529,052	$ 421,141	$ 310,524	$ 144,353	$ 28,780	$ 1,433,850	$ -	$ 1,433,850
Intersegment sales	700,006	181	22,284	495,935	251	1,218,657	(1,218,657)	-
Total	$ 1,229,058	$ 421,322	$ 332,808	$ 640,288	$ 29,031	$ 2,652,507	$ (1,218,657)	$ 1,433,850
Operating expenses	$ 1,214,699	$ 407,157	$ 324,008	$ 620,617	$ 29,220	$ 2,595,701	$ (1,209,453)	$ 1,386,248
Operating income (loss)	$ 14,359	$ 14,165	$ 8,800	$ 19,671	$ (189)	$ 56,806	$ (9,204)	$ 47,602
Identifiable assets	$ 840,944	$ 158,456	$ 127,283	$ 192,801	$ 13,526	$ 1,333,010	$ (390,463)	$ 942,547

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

America… U.S., Canada and Panama
Asia………..China, Singapore and U.A.E.
Europe….. Germany, France and the United Kingdom
Other……… Australia

Overseas sales:

	Millions of yen				
	America	Europe	Asia	Other	Total
2007					
Overseas sales	**¥ 49,788**	**¥ 36,721**	**¥ 18,074**	**¥ 4,409**	**¥ 108,992**
Consolidated net sales					**¥ 169,194**
Ratios of overseas sales	**29.4 %**	**21.7 %**	**10.7 %**	**2.6 %**	**64.4 %**

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

	Thousands of U.S. dollars				
	America	Europe	Asia	Other	Total
2007					
Overseas sales	**$ 421,929**	**$ 311,206**	**$ 153,167**	**$ 37,361**	**$ 923,663**
Consolidated net sales					**$ 1,433,850**

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

America.....U.S., Canada and Panama
Europe.......Germany, France and the United Kingdom
Asia ....China, Singapore and U.A.E.
Other................Australia and Africa