KENWOOD

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ANNUAL REPORT 2007 For the year ended March 2007

FINANCIAL SECTION

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Overview of Fiscal Year Ended March 2007

Although some factors touching off a deflationary spiral were observed, the world economy during the fiscal year under review remained generally strong. The U.S. economy did slow down due to a slackened demand for housing demand, but the economies in Asia, notably China, continued to expand. The European economies generally remained on their recovery track.

In Japan, while consumer spending remained somewhat weak, the economy remained on a mild recovery path as private-sector capital investments expanded in step with improvements in corporate earnings.

The competition within the consumer electronics market became increasingly fierce. In the audio market, the business scale of both home-use and automobile-mounted products, except digital audio players, reduced in size. In the car electronics market, the visual/navigation field continued to expand on the rising popularity of terrestrial digital TV tuners and portable navigation systems. However, the audio field suffered price drops more than expected, owing to market contraction caused by the shift of customer focus to visual/navigation systems and stiffened competition.

Kenwood Group's business results in terms of both net sales and earnings for the fiscal year under review fell far below those of the previous fiscal year as its car electronics business was affected severely by these market conditions and the trends in automobile sales.

Sales and Income

Consolidated Operating Results

Net sales –Decreased 7.9% year-on-year, due to deteriorating market conditions, and influences of trends in automobile sales and strategy change

While net sales from the Communications Equipment business expanded as they had in the previous fiscal year, net sales from the Car Electronics business fell far below those of the previous fiscal year due to the deteriorating market conditions and effects of the trends in automobile sales, and net sales from the Home Electronics business, albeit as initially planned, dropped substantially below those of the previous fiscal year due to the influences of the strategy change. As a result, consolidated net sales decreased approximately JPY14.4 billion (or 7.9%) from the previous fiscal year to JPY169,194 million.

Operating profit – Decreased 35.3% year-on-year, due to a temporary increase in investment burdens resulting from strategic and up-front developments and price declines

Although investment burdens increased temporarily as a result of the strategic development which was among Kenwood's priority initiatives for the fiscal year under review, earnings from the Communications Equipment business exceeded those of the previous year as a result of expanded sales and, in the Home Electronics business, smaller losses than those of the previous year were incurred despite reduced sales thanks to the effects of the strategy change.

In the Car Electronics business, however, earnings fell substantially from the previous year, affected by: investments in strategic development in the Consumer (Multimedia) business; greater than expected price declines due to heightened competition in the Consumer (Audio) business; and booking in the fiscal year under review of up-front development costs of approximately JPY1.1 billion in the OEM business, for new products slated to be sold in and after the fiscal year ending March 2008.

As a result, consolidated operating profit decreased approximately JPY3.1 billion (or 35.3%) from the previous fiscal year to JPY5,617 million.

Ordinary income – Decreased 52.1% year-on-year, due to the decline in operating profit

Significant improvement of non-operating earnings following the loss reduction that resulted from structural reform of assets carried out in the previous period, but consolidated ordinary income decreased approximately JPY2.5 billion (or 52.1%) from the previous fiscal year to JPY2,339 million due to the decline in consolidated operating profit.

Net income – Decreased 74.0% year-on-year, due to the decline in ordinary income and the sharp decline in extraordinary income

Although extraordinary losses declined substantially as a result of the structural reform of assets which was implemented during the previous fiscal year, consolidated net income decreased approximately JPY4.5 billion (or 74.0%) from the previous fiscal year to JPY1,586 million not only due to the reduced ordinary income but also due to the fact that extraordinary gains of transient nature which had amounted to approximately JPY6.7 billion (comprised of about JPY4.9 billion in gains from the repayment of certain past service pension assets to the Japanese government and about JPY1.8 billion in gains from sale of investment securities) in the previous fiscal year stood at only approximately JPY0.6 billion in gains from sales of investment securities for the fiscal year under review.

Net Sales and Earnings by Segment

Car Electronics Business   Consumer (Audio) Business

Net Sales

Net sales fell far below those of the previous year as sales termination of older products was delayed throughout the entire markets until the midpoint of the fiscal year under review and sales from the third quarter onward were affected by the greater than expected deterioration of market conditions.

Earnings

Earnings fell far below those of the previous year as higher costs than usual were incurred in the third quarter, the usual season for sale termination of older products, in the wake of deteriorating market conditions, and new models, notably the low-priced models bound for the European and North American markets, were challenged by greater than expected price declines in the fourth quarter, the usual season for introduction of new products.

Car Electronics Business   Consumer (Multimedia) Business

Net Sales

Net sales from this business increased sharply from the previous year. Sales of new-concept car navigation systems launched in overseas markets, which combine the core of portable navigation devices with AV systems, remained robust. An increase in product line-up through commercialization for the Japanese market of terrestrial digital TV tuners and car navigation systems integrated with AV such tuners built in also contributed to increasing sales in this business.

Earnings

Losses in this business remained unchanged from the previous year, due to sluggish sales growth of existing models for the Japanese market, further price drops and large investments in strategic development.

Car Electronics Business   OEM Business

Net Sales

Net sales fell far below those of the previous fiscal year as sales of mainstay line-fitted products were affected by the trends in automobile sales and sales termination of certain automobile types using such models, sales of dealer-option models remaining sluggish both in Japan and overseas, and orders for components, such as DVD-/CD-drive mechanisms, decreasing temporarily in their drop-off period.

Earnings

Earnings in this business decreased substantially from the previous fiscal year. Although cost competitiveness strengthened through vertical integration of Japanese and overseas plants, Kenwood saw sales drop and also booked in the fiscal year under review advanced development expenses worth about JPY1.1 billion for new products scheduled to be sold in and after the fiscal year ending March 2008.

As a result, both consolidated net sales and consolidated operating profit for the entire car electronics business both fell far below the initially planned levels, with net sales decreasing approximately JPY12.8 billion (or 11.9%) from the previous fiscal year to JPY94,939 million and operating profit decreasing approximately JPY3.8 billion (or 208.1%) from the previous fiscal year to a negative JPY1,975 million.

Communications Equipment Business

Net Sales

In the mainstay business of Land Mobile Radio equipments, net sales continued to expand as the U.S. market as the business's main market remained robust and sales expanded in Europe and emerging markets such as Russia and China.

Full-term net sales of Personal Digital Cellular (PDC) phones business grew sharply as PDC carriers began implementing aggressive sales promotion measures from October 2006 onward.

As a result, consolidated net sales for the entire Communications Equipment business surpassed the initially planned level, increasing approximately JPY2.5 billion (or 4.2%) from the previous fiscal year to JPY61,096 million.

Earnings

Despite the burden of investments in strategic development for the Land Mobile Radio equipment business, increased sales caused consolidated operating profit for the entire Communications Equipment business to exceed the initially planned level and reach JPY8,670 million, up approximately JPY0.3 billion (or 4.0 %) from the previous fiscal year.

Home Electronics Business

Net Sales

While sales remained favorable for high-class pure audio products, which are high-quality sound digital audio players meant as flagship products for the Japanese market, overall net sales in this segment, albeit virtually on a par with the initially planned level, stood at JPY10,584 million, representing the previous fiscal year decrease of approximately JPY4.3 billion (or 29.0%). This decline was caused by the negative impacts of retrenching of the overseas market-bound home theater business, by the squeezing out some of the conventional audio products such as portable MD players and mass-market compact stereo systems whose markets are contracting remarkably quickly, and by a temporary suspension of purchases of set stereo systems bound for overseas markets.

Earnings

Despite the burden of investments in strategic development aimed at shifting Kenwood's strategic focus to pure audio and portable audio businesses for the purpose of establishing a "Seamless Entertainment World", and despite reduced net sales, consolidated operating losses were cut down as initially planned, by approximately JPY0.3 billion from the previous fiscal year, to stand at JPY1,125 million thanks to the favorable impact of retrenching of the overseas market-bound home theater business, the squeezing of some of the conventional audio products, and positive contributions of enhanced line-up of new premium products to earnings.

(JPY in Million)

Segment		Previous Fiscal Year	Current Fiscal Year	Increase or Decrease	
Car Electronics	Net Sales	107,723	94,939	△12,784	△11.9%
	Operating Profit	1,827	△1,975	△3,802	△208.1%
Communications Equipment	Net Sales	58,639	61,096	+2,457	+4.2%
	Operating Profit	8,336	8,670	+334	+4.0%
Home Electronics	Net Sales	14,897	10,584	△4,313	△29.0%
	Operating Profit	△1,420	△1,125	+295	—
Others	Net Sales	2,357	2,575	+218	+9.2%
	Operating Profit	△57	47	+104	—
Total	Net Sales	183,616	169,194	△14,421	△7.9%
	Operating Profit	8,686	5,617	△3,069	△35.3%
	Ordinary Income	4,886	2,339	△2,547	△52.1%
	Net Income	6,104	1,586	△4,518	△74.0%

Consolidated Financial Position

Analysis of Assets, Liabilities and Net Assets

Total assets as of the end of the fiscal year under review stood at JPY111,220 million, representing a increased approximately JPY1.7 billion from the previous fiscal year end, reflecting that fact that, while investments and other assets decreased approximately JPY1.8 billion from the previous fiscal year end, due to a partial sale of investment securities and a decrease in unrealized capital gains, the balance of cash and deposits increased approximately JPY2.9 billion from the previous fiscal year end, by virtue of the fact that the fiscal closing date fell on a holiday and the relevant settlement was carried forward to the next fiscal year.

Net assets increased approximately JPY1.6 billion from the previous fiscal year end to JPY39,066 million as a result of the increase in earned surplus and the increase in the foreign currency translation adjustment account attributable to exchange fluctuations, the shareholders' equity ratio improved 0.9 percentage points from the end of the previous fiscal year end to finish at 35.1%.

Short- and long-term interest-bearing debts decreased approximately JPY2.5 billion from the previous fiscal year to JPY23,754 million, and net debts decreased approximately 5.4 billion from the previous fiscal year to JPY6,782 billion, as Kenwood continued to repay its borrowings from financial institutions.

Cash Flow Analysis

Cash flow from operating activities under review stood at JPY11,456 million, down approximately JPY1.2 billion from the previous fiscal year. This was primarily attributable to the decrease in net income although trade payables did decrease modestly.

Cash flow from investing activities increased approximately JPY0.9 billion from the previous fiscal year to JPY5,218 million. This was primarily attributable to the reduced revenues from sale of tangible fixed assets and investment securities.

Cash flow from financing activities decreased approximately JPY0.7 billion from the previous fiscal year to JPY3,717 million. This was primarily attributable to the fact that Kenwood increased capital by public offering and redeemed preferred stocks with compensation during the previous fiscal year when the amount of expenditure with the redemption of preferred stocks with compensation exceeded that of revenue from issuance of new shares, whereas these events did not occur during the fiscal year under review.

(Ref.) Changes in Cash Flow-Related Indices

(JPY in Million)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total Assets (JPY in Million)	142,124	135,763	116,137	109,554	111,220
Interest-Bearing Debts (JPY in Million)	80,851	67,272	31,088	26,263	23,754
Net Debts (JPY in Million)	50,083	29,885	15,147	12,215	6,782
Net Assets (JPY in Million)	13,704	20,161	33,132	37,486	39,066
Shareholders' Equity Ratio (%)	9.6	14.9	28.5	34.2	35.1
Shareholders' Equity Ratio at Market Value (%)	28.1	52.2	60.6	91.5	59.1
Net Assets per Share (JPY)	△53.74	△23.03	66.29	101.97	106.46
Retained Earnings (JPY in Million)	△34,238	△9,777	13,199	18,316	19,096
Ratio of Cash Flow to Interest-Bearing Debts (%)	780.6	244.6	200.1	207.4	207.3
Interest Coverage Ratio (times)	3.1	12.6	13.6	19.9	22.4

(Calculation Method)
- Net debts = Interest-bearing debts – Cash and cash equivalents
- Shareholders' Equity Ratio = Net assets / Total assets
- Shareholders' Equity Ratio at market value = Market capitalization / Total assets
- Net assets per share = Net assets as of the end of the fiscal year under review available to common stocks / Number of outstanding shares as of the end of the fiscal year under review (after deducting the number of treasury shares)
- Ratio of interest-bearing debts to cash flows = Interest-bearing debts / Operating cash flows
- Interest coverage ratio = Operating cash flows / Interest payment

Notes
- Each index is calculated based on consolidated financial figures.
- Market capitalization is calculated by multiplying closing stock price at the end of the fiscal year under review by the number of outstanding shares at the end of the fiscal year under review (after deducting the number of treasury shares).
- Interest-bearing debts include all debts whose interests are paid in the consolidated balance sheet. As for cash and cash equivalents, "Cash and cash equivalents" in the consolidated balance sheet is used.
- As for operating cash flow and interest payment figures, "Cash flows from operating activities" and "Interest paid" of the Consolidated Statements of Cash Flows are used.

Earnings Outlook for Fiscal Year Ending March 2008

In the current fiscal year, Kenwood is expected to achieve significant results from strategic development worked on under the mid-term business plan "Value Creation Plan," as well as from the implementation of growth strategy through business alliances and M&A. Given this, consolidated earnings are considered to have bottomed out in the fiscal year under review, and both sales and profits will likely take an upward turn.

Consolidated Net Sales

In the Car Electronics business, the market environment of the Consumer (Audio) business is assumed to continue to be severe in the current fiscal year. However, sales from this business are projected to remain strong throughout the current fiscal year, thanks to higher sales of: medium- and high-class models featuring seamless integration with digital media equipment; new systems enabling expansion of functions for cars with line-fitted AV products; and proposal-oriented product line-up, which has aroused new demand among consumers since their introduction in the fourth quarter of the fiscal year under review. In addition, results of the exploration of emerging markets, through a further extension of partnership with Visteon Corp. of Brazil and enhancement of sales structure in Russia, are expected to become apparent.

In the Consumer (Multimedia) business, the market share for car navigation systems commercialized by investments in strategic development, which were introduced in Japanese and overseas markets during the fourth quarter, increased substantially. These systems have been sold well. Hence, enhanced product line-up of these systems and expanded sales districts will likely contribute to increasing sales in this field throughout the current fiscal year.

In the OEM business, new line-fitted and dealer-option products for new automobile types to be launched in the current fiscal year should contribute to sales and earnings, and orders for components such as DVD-/CD-drive mechanisms should recover by the end of the current fiscal year.

In the Communications Equipment business, both the wireless radio equipment and PDC phones sales are expected to continue posting favorable results. At the same time, Kenwood expects to put into the marketplace a greater volume of Digital Land Mobile Radio equipments that it advanced during the fiscal year under review through investments in strategic development, as well as to expand sales by converting Zetron, Inc. into its subsidiary, as informed in its "Announcement of Completion of Acquisition of the U.S. Systems-Based Communications Company (Conversion to Subsidiary)" dated May 10, 2007.

With respect to the Home Electronics business, Kenwood completed revitalization of business and products in the fiscal year under review, and strengthened the line-up of premium products created by investments in strategic development. This is likely to contribute to boosting sales of this business.

As described above, the results of various measures, which have been promoted, are forecast to become explicit from the current fiscal year, the final fiscal year of the present mid-term business plan. Consequently, Kenwood believes that sales hit their bottom in the fiscal year under review, and will turn upward in the current fiscal year, posting JPY183 billion on a group-wide basis.

Consolidated Earnings

In the Car Electronics business, the above-mentioned new proposal-oriented products are expected to contribute to sales and earnings in the Consumer (Audio) business as core business. In addition, positive results of development of emerging markets and cost reduction that Kenwood has already begun working on would become explicit, thereby driving Kenwood further along its path toward earnings recovery.

In the Consumer (Multimedia) business, which is a growing business for Kenwood, positive results of enhancement of car navigation systems both in Japan and abroad and of efforts to expand sales territories in the overseas markets are expected to contribute to sales and earnings on a full-year basis. Meanwhile, Kenwood expects to see its earnings position improved as its investments in strategic development will run their course.

In the OEM business that Kenwood has focused its resources on as a similarly growing business, earnings should be boosted by improved profit resulting from expanded sales of its new line-fitted and dealer-option products, by a reduced burden of up-front development cost for new products required for the current fiscal year by virtue of the fact that it was partially deployed ahead of schedule during the fiscal year under review, and by Shanghai Plant's shipments which should go into full swing in step with the anticipated recovery in orders placed for components such as DVD-/CD-drive mechanisms.

In the Communications Equipment business, the Kenwood's largest fundamental business, the above-mentioned placement of a larger volume of Digital Land Mobile Radio equipments in the marketplace and anticipated sales expansion by means of conversion of Zetron, Inc. into a subsidiary would help boost earnings. In addition, the PDC phones sakes should also continue to perform favorably.

In the Home Electronics business, positive results of selective squeeze-out of conventional models and initiatives to enhance line-up of premium products should contribute to earnings on a full-year basis.

As described above, in each business segment, earnings should either expand or improve from the bottom recorded during the fiscal year under review, and consolidated operating profit for Kenwood is expected to reach JPY8,300 million.

Given the fact that structural reform of assets was completed in the previous fiscal year, and in the absence of anticipated major non-operating or extraordinary gains or losses, Kenwood expects to post consolidated ordinary income and net income of JPY5 billion and JPY4 billion, respectively.

Consolidated earnings outlook

(JPY in Million)

	Results for FY2006	Outlook for FY 2007	Increase or Decrease	
Net Sales	169,194	183,000	+13,806	+8.2%
Operating Profit	5,617	8,300	+2,683	+47.8%
Ordinary Income	2,339	5,000	+2,661	+113.8%
Net Income	1,586	4,000	+2,414	+152.2%

		Millions of yen			Thousands of U.S. dollars (Note 1(a))
ASSETS		**2007**		2006	**2007**
Current Assets:					
Cash and cash equivalents	¥	**16,934**	¥	14,009	$ **143,511**
Time deposits		**38**		39	**320**
Receivables —					
Trade notes and accounts receivable (Note 8)		**29,892**		29,231	**253,318**
Less: Allowance for doubtful receivables		**(752)**		(733)	**(6,372)**
Inventories —					
Finished goods		**19,109**		17,736	**161,939**
Work in process, raw materials and supplies		**7,295**		8,151	**61,826**
Deferred tax assets (Note 13)		**453**		690	**3,836**
Prepaid expenses and other		**4,595**		4,152	**38,943**
Total current assets		**77,564**		73,275	**657,321**
Property, Plant and Equipment, at Cost (Notes 4 and 6):					
Land (Note 5)		**9,443**		9,216	**80,027**
Buildings and structures		**17,042**		17,310	**144,422**
Machinery and equipment		**20,284**		19,039	**171,901**
Tools, furniture and fixtures		**14,228**		13,602	**120,576**
Construction in progress		**4**		-	**31**
		61,001		59,167	**516,957**
Less: Accumulated depreciation		**(39,931)**		(37,252)	**(338,398)**
Net property, plant and equipment		**21,070**		21,915	**178,559**
Investments and Other Assets:					
Investment securities (Note 2)		**3,931**		5,640	**33,315**
Investments in and advances to unconsolidated subsidiaries and associated companies		**20**		19	**171**
Goodwill (Note 3)		**201**		326	**1,704**
Software		**5,943**		5,525	**50,362**
Deferred tax assets (Note 13)		**675**		744	**5,724**
Other		**1,902**		2,196	**16,115**
Less: Allowance for doubtful accounts		**(85)**		(86)	**(724)**
Total investments and other assets		**12,587**		14,364	**106,667**
Total	¥	**111,221**	¥	109,554	$ **942,547**

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1(a)) 2007
Current Liabilities:			
Short-term borrowings (Note 7)	¥ **3,755**	¥ 26,263	$ **31,822**
Current portion of long-term debt	**-**	0	**-**
Trade notes and accounts payable (Note 8)	**26,736**	24,092	**226,577**
Income taxes payable	**529**	536	**4,484**
Accrued expenses	**7,106**	6,982	**60,222**
Deferred tax liabilities (Note 13)	**2**	15	**19**
Other	**1,206**	1,131	**10,217**
Total current liabilities	**39,334**	59,019	**333,341**
Long-term Liabilities:			
Long-term debt (Note 7)	**20,000**	-	**169,492**
Liability for retirement benefits (Note 9)	**9,609**	9,364	**81,434**
Deferred tax liabilities (Note 13)	**2,882**	3,482	**24,420**
Other (Note 11)	**330**	202	**2,794**
Total long-term liabilities	**32,821**	13,048	**278,140**
Commitments and Contingent Liabilities (Notes 4, 15 and 16)			
Equity (Note 10):			
Common stock, authorized - 672,500,000 shares issued - 367,524,995 shares in 2007 and 2006	**11,059**	11,059	**93,722**
Capital Surplus	**13,374**	13,374	**113,338**
Retained earnings	**19,096**	18,317	**161,832**
Net unrealized gain on available-for-sale securities	**1,097**	1,890	**9,294**
Deferred gain on derivatives under hedge accounting	**71**	-	**603**
Land revaluation surplus (Note 5)	**2,954**	2,954	**25,037**
Foreign currency translation adjustments	**(8,480)**	(10,021)	**(71,868)**
Total	**39,171**	37,573	**331,958**
Less: Treasury stock, at cost; Common Stock, 576,494 shares in 2007 and 487,127 shares in 2006	**(105)**	(86)	**(892)**
Total equity	**39,066**	37,487	**331,066**
Total	¥ **111,221**	¥ 109,554	$ **942,547**

Consolidated Statements of Income

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2007	2006	**2007**
Net Sales	**¥ 169,194**	¥ 183,616	**$ 1,433,850**
Cost of Sales (Note 12)	**127,797**	139,441	**1,083,024**
Gross profit	**41,397**	44,175	**350,826**
Selling, General and Administrative Expenses (Note 12)	**35,780**	35,488	**303,224**
Operating income	**5,617**	8,687	**47,602**
Other Income (Expenses):			
Interest and dividend income	**314**	204	**2,660**
Interest expense	**(526)**	(625)	**(4,459)**
Cash discount	**(988)**	(850)	**(8,377)**
Gain on sales of investment securities	**588**	1,830	**4,985**
Loss on impairment of investment securities	**(42)**	(250)	**(358)**
Loss on disposal of inventories	**(718)**	(2,140)	**(6,086)**
Loss on impairment of inventories	**(128)**	(242)	**(1,081)**
Gain on sales of property, plant and equipment, net	**84**	192	**711**
Loss on disposal of property, plant and equipment	**(98)**	(2,854)	**(833)**
Loss on impairment of long-lived assets (Note 6)	**-**	(988)	**-**
Retirement benefits for directors and corporate auditors (Note 11)	**(261)**	(8)	**(2,210)**
Gain on transfer of the substitutional portion of the governmental pension program (Note 9)	**-**	4,850	**-**
Foreign exchange loss	**(785)**	(98)	**(6,653)**
Other, net	**(540)**	(654)	**(4,574)**
Total	**(3,100)**	(1,633)	**(26,275)**
Income before Income Taxes	**2,517**	7,054	**21,327**
Income Taxes (Note 13):			
Current	**622**	741	**5,269**
Prior year adjustment	**-**	130	**-**
Deferred	**309**	79	**2,615**
Total income taxes	**931**	950	**7,884**
Net Income	**¥ 1,586**	¥ 6,104	**$ 13,443**

	Yen		U.S. dollars (Note 1(a))
Per Share of Common Stock (Note 14):			
Basic net income	**¥ 4.32**	¥ 17.16	**$ 0.04**
Diluted net income	**-**	15.13	**-**
Cash dividends applicable to the year	**2.00**	2.00	**0.02**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2007	2006	**2007**
Common Stock (Note 10) :			
Beginning balance	¥ **11,059**	¥ 8,697	$ **93,722**
Capital increase upon issuance of 60,000,000 shares of common stock on June 30, 2005	**-**	11,112	**-**
Capital reduction of 31,250,000 shares of preferred stock on August 8, 2005	**-**	(8,750)	**-**
Ending balance	¥ **11,059**	¥ 11,059	$ **93,722**
Preferred Stock (Note 10) :			
Beginning balance	¥ **-**	¥ 6,250	$ **-**
Capital reduction of 31,250,000 shares of preferred stock on August 8, 2005	**-**	(6,250)	**-**
Ending balance	¥ **-**	¥ -	$ **-**
Capital Surplus (Note 10) :			
Beginning balance	¥ **13,374**	¥ 13,374	$ **113,338**
Ending balance	¥ **13,374**	¥ 13,374	$ **113,338**
Retained Earnings (Note 10) :			
Beginning balance	¥ **18,317**	¥ 13,199	$ **155,225**
Net income	**1,586**	6,104	**13,443**
Cash dividends paid	**(734)**	(1,148)	**(6,221)**
Transfer to employee welfare fund	**(13)**	(5)	**(110)**
Bonuses paid to directors and corporate auditors	**(60)**	(46)	**(505)**
Reversal of land revaluation surplus due to impairment of land	**-**	168	**-**
Reversal of land revaluation surplus due to sale of land	**-**	45	**-**
Ending balance	¥ **19,096**	¥ 18,317	$ **161,832**
Net Unrealized Gain on Available-for-sale Securities:			
Beginning balance	¥ **1,890**	¥ 619	$ **16,015**
Net increase of unrealized gain of available-for-sale securities	**(793)**	1,271	**(6,721)**
Ending balance	¥ **1,097**	¥ 1,890	$ **9,294**
Deferred gain on derivatives under hedge accounting :			
Beginning balance	¥ **-**	¥ -	$ **-**
Net increase of gain on deferred hedge	**71**	-	**603**
Ending balance	¥ **71**	¥ -	$ **603**
Land Revaluation Surplus (Note 5):			
Beginning balance	¥ **2,954**	¥ 3,167	$ **25,037**
Reversal of land revaluation due to impairment of land	**-**	(168)	**-**
Reversal of land revaluation due to sale of land	**-**	(45)	**-**
Ending balance	¥ **2,954**	¥ 2,954	$ **25,037**
Foreign Currency Translation Adjustments:			
Beginning balance	¥ **(10,021)**	¥ (12,109)	$ **(84,924)**
Net increase of foreign currency translation adjustments	**1,541**	2,088	**13,056**
Ending balance	¥ **(8,480)**	¥ (10,021)	$ **(71,868)**
Treasury Stock, at cost, Common Stock:			
Beginning balance	¥ **(86)**	¥ (64)	$ **(731)**
Repurchase of treasury stock	**(19)**	(22)	**(161)**
Ending balance	¥ **(105)**	¥ (86)	$ **(892)**
Total Equity	¥ **39,066**	¥ 37,487	$ **331,066**
	Thousands of shares		
Number of Outstanding Shares:			
Beginning balance	**367,038**	338,383	
Issuance of common stock	**-**	60,000	
Reduction of preferred stock	**-**	(31,250)	
Repurchase of treasury stock	**(89)**	(95)	
Ending balance	**366,949**	367,038	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	2007	2006	**2007**
Operating Activities:			
Income before income taxes	¥ **2,517**	¥ 7,054	$ **21,327**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Income taxes-paid	**(647)**	(670)	**(5,484)**
Depreciation and amortization	**6,950**	7,403	**58,898**
Provision for doubtful receivables	**(19)**	(102)	**(158)**
Loss on impairment of long-lived assets	**-**	988	**-**
Loss on disposal of property, plant and equipment	**98**	2,773	**833**
Gain on sales of property, plant and equipment, net	**(84)**	(192)	**(711)**
Gain on sales of investment securities	**(588)**	(1,830)	**(4,985)**
Loss on impairment of investment securities	**42**	250	**358**
Changes in assets and liabilities :			
Decrease in trade notes and accounts receivable	**827**	4,380	**7,005**
Decrease in inventories	**388**	670	**3,292**
Increase (Decrease) in trade notes and accounts payable	**1,475**	(4,988)	**12,498**
Increase (Decrease) in retirement benefits	**210**	(4,142)	**1,779**
Other, net	**288**	1,070	**2,441**
Net cash provided by operating activities	**11,457**	12,664	**97,093**
Investing Activities:			
Decrease in time deposits, net	**6**	28	**53**
Proceeds from sales of property, plant and equipment	**481**	1,536	**4,075**
Proceeds from sales of investment securities	**806**	2,018	**6,831**
Purchases of property, plant and equipment	**(2,408)**	(3,571)	**(20,410)**
Purchases of investment securities	**(1)**	(24)	**(11)**
Purchases of software and other intangibles	**(4,102)**	(4,306)	**(34,766)**
Other, net	**0**	(1)	**4**
Net cash used in investing activities	**(5,218)**	(4,320)	**(44,224)**
Financing Activities:			
Decrease in short-term borrowings, net	**(22,796)**	(4,277)	**(193,182)**
Proceeds from long-term debt	**19,925**	-	**168,856**
Proceeds from issuance of common stock	**-**	11,005	**-**
Repayments of long-term debt	**(0)**	(1,154)	**(1)**
Reduction of preferred stock	**-**	(15,000)	**-**
Cash dividends paid	**(729)**	(1,148)	**(6,181)**
Other, net	**(118)**	(99)	**(997)**
Net cash used in financing activities	**(3,718)**	(10,673)	**(31,505)**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**404**	462	**3,428**
Net Increase (Decrease) in Cash and Cash Equivalents	**2,925**	(1,867)	**24,792**
Cash and Cash Equivalents at Beginning of Year	**14,009**	15,876	**118,719**
Cash and Cash Equivalents at End of Year	¥ **16,934**	¥ 14,009	$ **143,511**

See notes to consolidated financial statements.

1. Significant Accounting Policies

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

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the consolidated financial statements filed with the Financial 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.

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

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
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
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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Kenwood Corporation:

We have audited the accompanying consolidated balance sheets of Kenwood Corporation (the "Company") and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kenwood Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 18 to the consolidated financial statements, on May 10, 2007, the Company acquired 100% of the issued and outstanding capital stock of Zetron Inc.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2007

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