KENWOOD

ANNUAL REPORT 2002

For the year ended March 31, 2002

Profile

Half a century ago, Kenwood started its business with the production of components for communications equipment. Today, its business field has expanded to include wireless radio equipment, telephones, and high-grade audio products for homes and automobiles. Its operation stretches throughout the world to include not only Japan, the US, and Europe, but also Asia, Africa, and Latin America. In recent years, however, the Company has struggled to offset the losses suffered in the home audio and cellular phone businesses amidst prolonged economic slumps in Japan and Asia, coupled with the difficulty in dealing with the unstable currencies exchange market. This predicament led to the announcement of Kenwood Revitalization Action Plan, with which the Company undertakes the challenge of renewing itself, through a drastic reform of its business and cost structures.

Furthermore, Kenwood has formulated a new corporate vision — "Creating Excitement through Impressive Surprise" and redefined its brand image as "Innovative & Intelligent". With these guidelines, we are working hard to bring forward more value-added products to yield profits in our car electronics, home electronics, and wireless radio businesses. We are going forward to reach our goal of becoming the most prominent company in the world in the field of Mobile & Home Multimedia Systems, utilizing our collective strength in audio and communications technologies.

Contents

Notes on business outlook

Kenwood's business plans, strategies, beliefs, etc. expressed in this annual report also contain some business outlooks for the future that are not part of the historical truth. Although Kenwood's management wish to present an accurate view based on all information available today, it is inevitable that business forecasts contain risks and uncertainties. Actual business performance depends on various factors and may contradict with what has been predicted. Critical factors that may affect the business outcome include, but are not limited to, the followings. •Economic surroundings and consumer spending in Japan and other major countries •Demand for Kenwood's products and price reduction pressure arising from competition •Rapid technological development in a highly competitive market and availability of unique and innovative products that appeal to consumers •Currency exchange rates (especially Japanese yen vs. US dollar and other currencies with which Kenwood carries out a large portion of its business transactions)

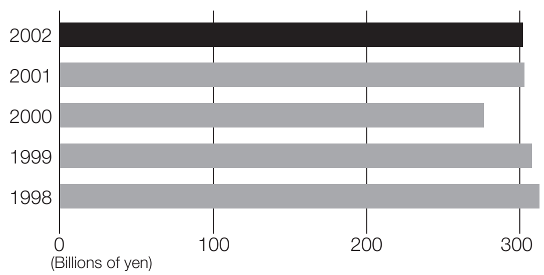
Financial Highlights

Kenwood Corporation and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

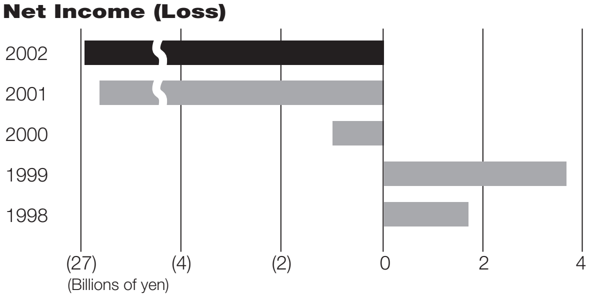
	Millions of yen		Thousands of U.S. dollars*
	2002	2001	2002
For the year:			
Net sales	¥ 302,604	¥ 303,356	$ 2,275,218
Net income (loss)	(26,658)	(21,843)	(200,436)
Per share data (in yen and U.S. dollars)**:**			
Net income (loss)	¥ (160.02)	¥ (148.26)	$ (1.20)
Cash dividends applicable to the year	—	—	—
At year-end:			
Total assets	¥ 182,918	¥ 208,415	$ 1,375,323
Total shareholders' equity	(17,002)	1,485	(127,835)

*The U.S. dollar amounts in this report are provided for convenience only and have been converted at the rate of ¥133 to $1, the approximate rate of exchange in effect at March 31, 2002.

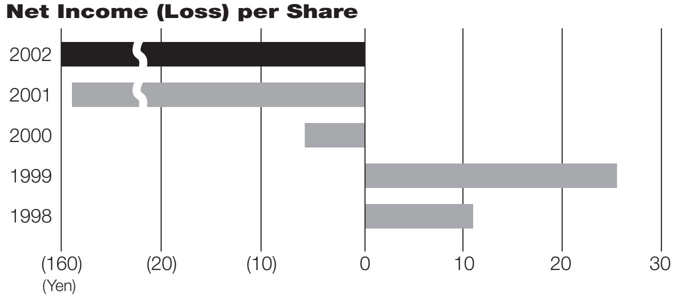
Net Sales



Net Income (Loss)



Net Income (Loss) per Share



To Shareholders

The business environment for Kenwood continues to be sluggish as the US economy, which has been the driving force in the world economy, shows signs of regression along with the prolonged slump in the domestic and Asian economies. In the meantime, the Company has worked diligently to strengthen itself through improved profitability and cash flow management practices consistent with the mid-term reconstruction plan formulated in March 2001.

As a result, the Company successfully recorded an operating income of 6.1 billion yen, compared to zero profit in the previous year, while consolidated sales remained almost level with that of the previous year, at 302.6 billion yen. Looking at performance in terms of each business segment; the core businesses of car electronics and wireless radio reported steady earnings. The home electronics business continued to lose money, while low profit margins in the cellular phone business meant that, for all intents and purposes, money was also lost in this business sector. In other areas, losses have been trimmed as a result of the withdrawal from non-profitable business areas such as GSM and CD-ROM.

Net cash from operating activities was 15.2 billion yen, while net cash used in investing activities held at 8.0 billion yen. This resulted in a positive 7.2 billion yen free cash flow — a dramatic turnaround from the previous year's negative cash flow of 12.2 billion yen. Included in this cash flow computation is 13.7 billion yen used to repay the Company's borrowings and 12.7 billion yen invested in dies and software development that are vital to our current and future business.

Kenwood's current operating income and free cash flow point to the Company's growing strength.

However, under the new accounting rule, the Company was forced to report an extraordinary loss of 27.9 billion yen from the devaluation of investment securities, loss on sale of investment securities, and disposition of inventories and fixed assets. As a result, the Company had fallen into a capital deficit of 17.0 billion yen as of March 2002, which was taken very seriously. In June 2002, the entire executive management team was replaced by a new management board. On July 11, 2002 the new management team formulated the Kenwood Revitalization Action Plan that focuses on the reform of the Company's business structure, and on sweeping measures to augment the cost structure. A public announcement of the plan was made and its implementation has become the top priority. Historic in nature, this plan includes: reconstruction of the home electronics business to insure stand-alone profitability, termination of the cellular phone business, liquidation of other non-profitable businesses, decisive measures to close and consolidate production facilities in and out of Japan, laying off as many as one-third of the global employee workforce, realignment of affiliated companies, and urgent measures to cut down on materials cost and expenses.

The measures in the action plan are being enforced ahead of the original timetable and those concerning Kenwood Corporation specifically, including downsizing, were completed at the end of September. Through the process, The Asahi Bank, Ltd., who has been a true believer in the Company in an effort to rebuild the manufacturing industry, has vowed to undertake a debt-for-equity swap amounting to 25 billion yen before the end of 2002. At the same time, we were able to receive further support from our investors and creditors in finalizing special arrangements for a three-year repayment. Also noteworthy was the fact that a third party allotment totaling 2.1 billion yen were accepted by our top shareholder, SPARX Asset Management Co., Ltd. who has shown continuing interest in Kenwood's potential, and Merrill Lynch Investment Managers Co., Ltd. who is going to be a new shareholder. As a result of this unprecedented simultaneous debt-for-equity swap and capital increase, the Company's capital will expand by 27 billion yen. This puts us in a position to erase the negative net worth, which amounted to 17 billion yen in the consolidated statement of March 2002, by the end of this year. Taking this opportunity, we would like to express our heartfelt gratitude for all concerned. On behalf of everybody at Kenwood. We will make our best effort to produce positive results and earn the confidence of all shareholders at the earliest possible time.

In the process, Kenwood will strive to regain its "intelligent & independent" brand image and rebuild its presence as the world's leader in the Mobile & Home Multimedia Systems — the most promising business segment in the 21st century. Taking this opportunity, we sincerely ask for your continued support to the Company.

H. Kawahara

Haruo Kawahara, President & CEO

Message from the President
— Rebuilding Kenwood New Management Policies

Kenwood Revitalization Action Plan

Enhanced Corporate Governance

As the first step towards revitalization, Kenwood's Board of Directors introduced on June 27, 2002 a new management team comprised of executive officers. The new management structure is designed to increase transparency, efficiency, and compliance to global management standards and promote confidence and understanding among shareholders, creditors, and bankers. To be more specific, the Company will invite community and business leaders, with diverse values, to serve as outside board members and make business decisions in open board meetings. On the other hand, executive officers will focus on the management of respective business units, giving higher priorities to stringent inventory control and cash flow management. In order to support the sweeping changes for our bold reforms, we have established the new Restructure Initiative Office. I will head up this office with Mr. Ueda, one of the directors of the board, working as the deputy. Under our new management structure's leadership, we are determined to take on the challenge of rebuilding the Company promptly and effectively.

From Quantity to Quality — Reform of Business Structure for Higher Profitability

Allow me to explain the details of the Restructure and

Revitalization Action Plan. At its core, the plan consists of:

(1) The reform of business structure; and
(2) Augmentation of the cost structure.

The most critical issue in reforming business structure is the reconstruction of the home electronics business to secure its profitability and independence. In recent years, low-priced products have dominated the global home audio industry and a "commoditization" of audio products has ensued. These trends had driven Kenwood to shift its product policy toward low end products and expand its production. This strategy turned out to be the major contributor to the Company's unprofitable position.

Therefore, the turnaround plan will focus on a shift to a value-added product portfolio consistent with the longstanding quality brand image associated with Kenwood, and on drastic measures to reduce costs and reorganize the business in a shift "from quantity to quality." In the domestic market, Kenwood will withdraw from the low-end market and introduce home-theater systems, which have already gained popularity in America. Overseas, we will withdraw from the Asian market and the mini-component systems market, while initiating an all-out effort to promote high-end products, such as home-theater systems, in America and Europe.

Costs will be cut by halving selling expenses and by reducing production costs. Selling expense reduction will come from the consolidation of the seven European sales companies into three, the streamlining of American sales offices, the reduction of domestic sales offices by half, and the introduction of the sales representative system. Savings in production are planned through more effective production controls and a 50% workforce reduction at the three current manufacturing plants, as production shifts to the Malaysian plant.

Through these activities, the home electronics business will yield profits and regain its autonomy, even though its sales amount is expected to shrink by half, by year-end March 2004.

The Personal Digital Cellular phone business, on the other hand, is becoming increasingly risky as the product life cycle is getting shorter and the software development cost is increasing. Kenwood's business relationship with only one telecommunication company led the Company to lose its entire business for the latter half of fiscal 2003, when its new model proposal was turned down. Under these circumstances, we have decided to terminate the cellular phone business as of November 2002 and relocate engineers to more promising business fields.

In other non-profitable business areas, the PHS (Personal Handyphone System) business has been terminated in March 2002, and the production of home telephones ended in August 2002. In addition, two affiliated companies — Kenwood Precision and Kenwood ID, that have been manufacturing optical devices and wireless ID cards respectively, have been liquidated. In a similar move, Kenwood TMI, which has been marketing measuring instruments, was sold to Nipponkeori Kaisha, LTD in May 2002.

Solidifying the Cost Structure for Increased Profitability

Next, I would like to explain our cost containment initiatives — another point in the action plan.

First, we will lower production costs by reorganizing our manufacturing network. Currently, production takes place at nine different locations in and out of Japan. Our plan calls for consolidating manufacturing to six locations after closing three plants in Mexico, Hungary, and Huizhou City, China. At the same time, plants in Yamagata, France, and Singapore will be streamlined to enable a total manpower reduction of 1,900 employees (42%) engaged in manufacturing activities throughout the world.

With this measure, Kenwood's car electronics production, which currently takes place in Nagano, Mexico, Hungary, and Malaysia, will be consolidated to three plants in Nagano, Shanghai, and Malaysia. Likewise, the home electronics production, which is taking place in Huizhou, Shanghai, and Malaysia, will be consolidated to one plant in Malaysia. Wireless radio products, currently produced in Yamagata and Singapore, will move production to Yamagata and Bintang Island, Indonesia.

We will also rationalize our sales network to capture significant savings in marketing expenses. Kenwood will shift its overseas sales activities to the car electronics and wireless radio products, while the sale of home electronics products will be limited to America and three major markets in Europe. Domestically, the number of sales offices for home electronics will be also reduced by half, with a

As part of the Restructure and Revitalization Plan, the head office was moved to Hachioji in May 2002. A considerable reduction in fixed costs is expected by the move.

Home theater products are gaining popularity in the European and American markets. Our sights are now set on the Japanese market.

Malaysia will be the future production center for car and home electronics products.

reduction in manpower to one third. Furthermore, the overall sales organization, including affiliated sales companies, will be scrutinized to establish a new marketing organization geared to the car electronics and wireless radio products.

In addition to the reorganization and closure of manufacturing facilities and sales offices, the head office and domestic affiliates will also be reorganized and trimmed to enable a manpower reduction of 3,000 employees.

The reduction amounts to approximately 35% of total manpower (8,820 at the end of fiscal 2002) on a consolidated basis. For Kenwood Japan alone, 642 employees, approximately 27% of current manpower, were reduced by the end of September 2002, by taking various measures including a voluntary retirement program.

As for our seventeen affiliated companies that had 1,028 employees as of March 2002, we plan to trim their number and size to eleven companies with 648 total employees. As described earlier, Kenwood Precision and Kenwood ID have been liquidated and Kenwood TMI has been sold. Further reorganizations will take place, including the planned integration of Kenwood Business and Kenwood Laboratory into Kenwood Administration.

Also in progress are critical cost containment initiatives that began in July 2002 to reduce materials cost and business expenses throughout Kenwood's global operations. This action is aimed at reducing raw materials and component costs at all overseas plants by 10%, expenses at the head office and domestic affiliates by 20%, and sales costs at all overseas sales companies by10%.

One Time Loss and Expected Results

The Company expects to report a one time loss of 12.8 billion yen for the term ending in March 2003, due to various measures prescribed in the action plan, among which is the termination of the cellular phone business, the reorganization of overseas plants, and the manpower reduction in Japan. All of these contribute to a one time major financial impact. However, 10.0 billion yen of the said loss has already been reserved as a loss on buisiness restructuring in the financial statements for the fiscal year-end March 2002, and the net loss for the new term will be 2.8 billion yen. Since the one time loss for the year was originally estimated at 11.6 billion yen, of which 10.0 billion yen was reserved in March 2002, the actual loss will be in line with the original plan. The expected effects of the action plan include an annual savings of 21.4 billion yen on fixed expenses, or approximately one quarter of the 87.0 billion yen in fixed expenses spent the previous year. In addition, the Company will avoid at least 5.0 billion yen or more in losses by March 2003 over the previous year by having divested the cellular phone business. When a 9.0 billion yen profit and loss improvement from the home electronics business reform is added, the projected improvement in operating income for March 2003 will reach 14.0 billion yen.

Every measure in the action plan will be completed by December 2002, three months earlier than originally planned. Since the plan's announcement in July 2002, the entire company has been focused on implementing the necessary reforms.

Erasure of Negative Net Worth by the End of December 2002 to Prepare for Rebuilding
... Simultaneous Debt-for-equity Swap and Allocation of New Stock to Third Parties, Unprecedented in Japan

During the process of making the Kenwood Revitalization Action Plan, the goal was set to complete the rebuilding process and erase the negative net worth by year-end March 2004. However, The Asahi Bank, Ltd., our long-time lender and a supporter of our rebuilding effort, has agreed on a debt-for-equity swap through an issuing of preference stocks within this year. Furthermore, the bank has committed new loans with a credit line of 20.0 billion yen. Thanks to these arrangements, the negative net worth of 17.0 billion yen is expected to disappear within 2002. Other bankers, with whom Kenwood has accounts, were also generous enough to agree on a special arrangement to repay debts in three years. In addition, a new capital fund amounting to 2.1 billion yen was provided by an allocation of new stock to SPARX Asset Management, our largest shareholder and a group that has exhibited an extensive understanding and support for our business, and Merrill Lynch Investment Managers, who will be our new shareholder. The fund will be used to enhance the Company's R&D activities, manufacturing facilities, and infrastructure for effective consolidated management, and to lay the foundation for future success. This unprecedented simultaneous debt-for-

-equity swap and capital increase will signal the take-off towards rebuilding our business.

From a cash flow point of view, the balance of interest-bearing liabilities is expected to drop, even though some cash expenditures should be associated with the restructuring efforts in the coming year. For fiscal 2004 and onward, no restructuring expenses are planned and the Company is expected to regain its strength early.

Kenwood's NEW VISION and Future Prospect

I believe the above statement removes any doubt about Kenwood's business integrity and the company's commitment to a healthy financial position without negative net worth. From this point on, I would like to explain the company's medium and long-term strategy.

Offering Fresh Surprises and Excitement

In the process of establishing our new management policies, we held honest and open discussions with individuals from within and outside the company that resulted in our new corporate vision — Kenwood should "Creating Excitement through Impressive Surprise" Consistent with this vision, we believe the company's success depends on the creation of new products and services that pluck at people's heartstrings.

We have also commissioned a special task force to conduct studies and facilitate discussions aimed at redefining Kenwood's brand image; "Creative and Intellectual" are the words. This idea is consistent with the image held by many of the customers I have met since my appointment.

Furthermore, "Mobile & Home Multimedia Systems" has been targeted as the primary business opportunity, since we believe this area holds the most promise early in the 21st century. The use of the word "Systems" reflects our philosophy that audio components and car navigation systems would increase in value if they could be used as integral parts of larger systems. I would like to remind everyone of Kenwood's technological leadership in radio communications technology much needed for establishing connections between mobile and home electronics products. This core competency separates Kenwood from general audio manufacturers. By utilizing such expertise, the company hopes to establish its presence in the global market.

The following sections describe the latest industry trends and our strategy for each business segment.

Car Electronics

Focus on Mobile Multimedia and Expand the OEM Business

The car electronics business, the staple for Kenwood, consists of two separate markets: the consumer market, which must be approached through automotive accessories shops and electronics retail chains; and the OEM market, in which products are supplied to automobile companies and parts manufacturers for pre-installation. The size of the consumer market is currently estimated at a little less than one trillion yen. The market forecast is that it will remain strong, although further growth is not expected. In this market, car audio is showing signs of a decline, while the demand for visual products — TVs, DVDs, and navigation systems — is expanding. It is expected that further new media will be introduced in the market. On the other hand, the OEM market is expanding due to increased use of modular components and the introduction of IT devices. As a result, this market is expected to grow to 1.2 trillion yen by 2006, from a current market size of slightly over one trillion yen.

Among the 122.8 billion yen sales in Kenwood's car electronics business, reported in fiscal 2002, nearly 90% comes from the consumer market. To achieve more balanced growth, the company aggressively expanded its OEM business in recent years, by initiating systems sales to major luxury car manufacturers throughout the world, through collaborations with Tier 1 suppliers, and by also turning itself into a Tier 1 supplier to domestic automobile builders. We are targeting to have a 25% share of the OEM business by fiscal year 2006.

Our future strategy in the car electronics field is to focus on mobile multimedia. From its roots as a traditional pure audio manufacturer, Kenwood has evolved into a supplier of AVN (Audio / Visual / Navigation) products. These include both DVD and hard disk drive navigation systems. We view this segment as a source for steady future income.

Kenwood has already introduced a system called the Kenwood Music Keg in the USA. This is a music server system with a removable hard disk cartridge that connects to home PC systems. It enables the user to edit and store music from CDs and the Internet, and to enjoy music in various situations by connecting it to a PC, or a car audio system. Further enhancements to this system are planned — including, among other innovations, a wireless connection between home and car.

We also expect that current navigation systems will provide the platform for new mobile multimedia services, such as telematics. A typical example is the ITCS (Intelligent Traffic Control System) that provides detailed, real-time traffic information to the driver based on the information provided by the GPS and local base stations. Currently, Kenwood is working hard to strengthen its ties with various automobile manufacturers who are serious about introducing the ITCS.

Home Electronics

A Shift Towards Home Multimedia (Home Theaters and Networked Audio)

Turning our attention to prospects and strategies for home electronics, we can categorize current home audio equipment into four classes: 1) traditional Hi-Fi component systems, 2) all-in-one radio cassette players and mini-component systems, 3) home theaters; and 4) networked audio devices. While Kenwood offers products in all four categories, the Company's recent strategy to pursue a high market share in the low-priced, all-in-one audio market (in addition to the component systems market that had been Kenwood's traditional stronghold) has undermined the company's profitability.

For this reason, we will shift our business into more promising and more profitable areas, such as home theaters and networked audio devices. The Company will focus on the home theater systems market, which is expanding at a remarkable rate due to increased availability of DVD titles. Building on its experiences and expertise from the US market, the company will develop new, competitive products targeted for the European and Japanese markets.

Meanwhile, we will not overlook the traditional component systems market where demand remains steady. Kenwood is planning to revive consumer interest for this product category by releasing a new model that adds a classic wood texture finish to the popular Avino series.

The keyword for the future home electronics business is, as you might have guessed, "home multimedia."
It symbolizes a new entertainment environment in which audio, video, text, the Internet, and other media are all integrated

The Music KEG, a forerunner in the field of Mobile & Home Multimedia Systems, is now on sale in the US market.

The “Entre” is a music server for a home-theater system. A true home multimedia system is now available in the US.

The wireless radio business is a stable source of income for Kenwood. The commercial radio products, holding a significant share of the world’s market, spearhead the Company’s revitalization efforts.

into a single system. Needless to say, home theaters and networked audio devices are examples of such systems. In 2001, Kenwood became the first supplier in the industry to offer a full lineup of MP3 networked audio devices from "Avino" and "Avenue" component audio systems, to portable devices such as NetMD and CD players with MP3 decoder.

Although the market for networked audio devices is still in its infancy, Kenwood is planning to develop mobile & home multimedia products of the future, eyeing possible integration with car electronics and communications technology as evidenced in the development of the Kenwood Music Keg described earlier.

Wireless Radio

Kenwood Brand allows expansion of the LMR Business

Finally, let me explain the future of the wireless radio business — another strong performer for Kenwood.

The strongest product supporting this business segment is a commercial radio communication system called LMR (Land Mobile Radio).

LMR is most commonly used for public safety, by fire and police departments and emergency medics, throughout the world. Its popularity is also expanding in the general area of business and industry. At the moment, Motorola and Kenwood are the only suppliers of commercial radio systems of this kind. For this reason, steady demand in the commercial market guarantees stable sales for the company even though drastic market expansion is not likely. We will further solidify the LMR business through aggressive introduction to businesses and industries, expansion of market share in the public sector by introducing digital signal processing, and expansion of system components for building data terminals and communicating with the GPS.

In order to establish a positive global brand image, Kenwood has been supplying radio communications systems to the McLaren Formula One racing team since 1993. Kenwood's radio systems have been proven to offer stable performance under the severe conditions of the ultimate motor racing and have earned an unshakable faith from the team. Following McLaren's lead, many Formula One racing teams have recently adopted our radio systems. This demonstrates Kenwood's premier status in the world of radio communications.

Paving the Road to Reform

I have introduced Kenwood's strategy and future prospects in each of car electronics, home electronics, and wireless radio businesses. I am truly happy that we will be free from the financial constraints brought on by the negative net worth before the end of 2002, and be able to focus attention on making our vision a reality.

In closing my message, I would like to share with you something I learned in my professional career. I spent forty years at Toshiba Corporation dealing with computers and making corporate strategies. After that, I worked as a senior advisor to Ripplewood Japan, an investment bank owned by an American firm, for the past two years. Through my service at Ripplewood, I was involved in reorganization of the audio industry: the purchase of Nippon Columbia from Hitachi, Ltd.; the spin-off of an audio manufacturer named Denon, Ltd., from Nippon Columbia; and the consolidation of Denon and Marantz Japan, which is a company listed in the Second Section of the Tokyo Stock Exchange Market.

Through these experiences, I gained the belief that in a mature industry like the audio industry, once a company has survived the industry restructuring, that company will enjoy a very attractive market position. The fact that the market in a mature industry will show only modest growth will serve as a disincentive to potential newcomers. As such, business can be very stable and rewarding for the surviving companies following the industry rebuilding process. In this regard, Kenwood has a strategic advantage for it has core technologies in the audio and communications industry and a brand image as being a trendsetter.

I sincerely hope that everybody believes in Kenwood's reform and future potential, and extends their continued support.

Financial Review 2002

The Japanese economy during the term ended March 2002 went from bad to worse with falling stock prices, inactive consumer spending, restrained growth in private investment, and low exports. Overseas, although the U.S. economy is showing some signs of recovery, the overall outlook is not bright as Europe and Asia remain stagnant. Under these circumstances, the electronics industry continued to suffer from yet intensified price competition.

Consolidated Performance

Sales

During the year ended March 2002, domestic sales for home audio and car audio products dropped, due mainly to falling unit prices and the stagnant economy. The termination of some export models in home audio also led to reduced sales overseas. On the other hand, strong performances were delivered by Personal Digital Cellular phones in the Japanese market and by car audio products overseas. As a result, Kenwood as a group saw only a 0.2% reduction in sales, which overall amounted to 302.6 billion yen.

Looking at sales by region, 127.4 billion yen (a decrease of 3.4% from the previous year) was earned in Japan, while overseas sales amounted to 175.2 billion yen (an increase of 2.2%). 42.1% (43.5% the previous year) of total sales came from the domestic market and 57.9% (56.5% the previous year) from overseas.

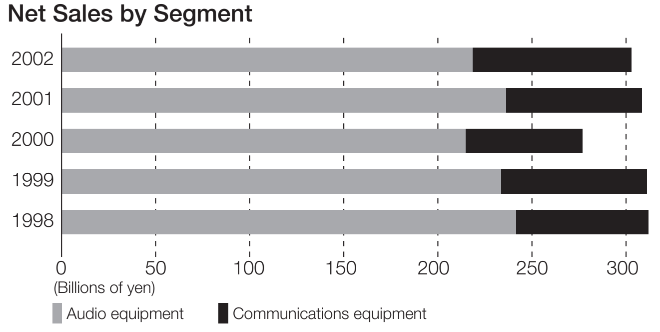
Looking at the performance by business segment, the audio business suffered a decrease of 5.8% from the previous year, to 218.4 billion yen. Despite strong export sales for car audio products, home audio struggled both in and out of Japan and there was reduced domestic demand for car audio. Meanwhile, the communications business increased its sales by 17.6% to 84.2 billion yen, thanks to expanded sales for PDC phones in the Japanese market and commercial radio elsewhere.

Expenses and Earnings

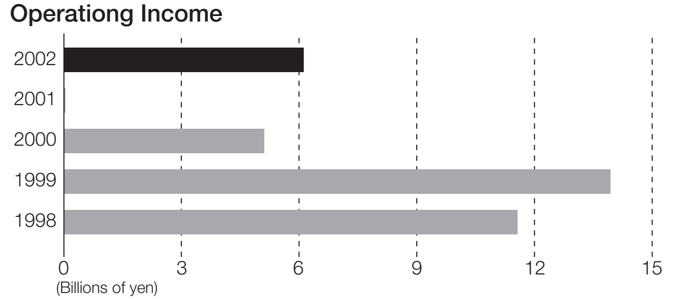
The cost to sales ratio has been improved from the previous year's 77.8% mark to 76.5% as a result of continued efforts throughout the Company for cutting down on expenses and reducing production costs. Cost of sales was down to 231.5 billion yen (235.9 billion yen for the previous year), gross profit increased to 71.1 billion yen (67.4 billion yen the previous year), selling, general and administrative expenses dropped 3.6% to 65.0 billion yen, and operating income improved significantly to 6.1 billion yen (zero income for the previous year).

However, as much as 30.6 billion yen can be found in the statement for "other expenses", as compared to 18.0 billion yen the previous year. This includes devaluation of investment securities due to low stock prices, a significant revaluation of inventories in an effort to get ready for an unstable economy, and a provision for loss on business restructuring of 10.0 billion yen, set aside for implementation of the Kenwood New Restructuring Plan. Consequently, the Company reported a

Net Sales by Segment



Operationg Income



loss of 24.5 billion yen (a loss of 18.0 billion yen the previous year) before tax, which translates to a loss of 26.7 billion yen (a loss of 21.8 billion yen the previous year) after tax. Loss per share was 160.02 yen (a loss of 148.26 yen per share for the previous year).

Performance by Business Segment

Audio Equipment

Sales of audio equipment in the year ended March 2002 dropped by 5.8% from the previous year to 218.4 billion yen as the economy continued to be stagnant and market prices continued to fall. In the home electronics business, it is getting more and more difficult to turn a profit since the price competition for micro-component systems and radio-cassette players is still intense. For this reason, Kenwood is making a dramatic change in its product line, focusing on more premium, value-added products. In the car electronics business, improved performance was posted, thanks to rapid introduction of value-added products such as DVD recorder/players and MP3 audio products, including Hard Drive-based products.

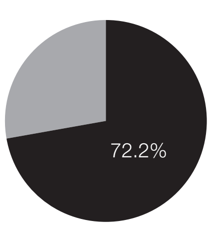
Home Electronics

Sales for home electronics products in the year ended March 2002 fell sharply by 19.0% to 82.7 billion yen, and operating income by 22.6% to negative 7.3 billion yen. Intense price competition in Japan and Asia, coupled with the fact that Kenwood relied heavily on low-end micro-component systems and radio-cassette players, contributedled to the loss. To cope with this problem, the Company has already introduced during the year a DVD recorder/player and a network audio system for the domestic market. It plans to further shift its business to high-end products by withdrawing from the low-end market and introducing more new products such as home-theater systems. In addition, DVD recorder/players and home-theater systems will be introduced in Europe and America, retreating from the Asian market, for improved profitability.

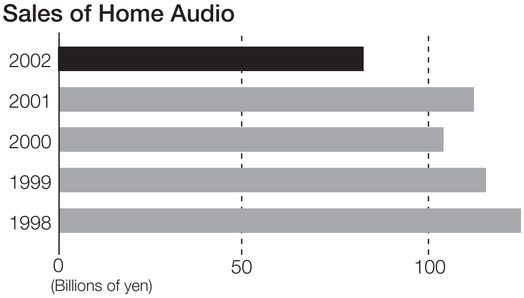
Car Electronics

While sales of car electronics products in the year ended March 2002 remained almost the same — up by 1.9% to 122.8 billion yen, operating income increased by 27.7% to 5.7 billion yen. In the domestic market, strong performances were exhibited by the DVD player built-in audio system, which was introduced at the end of the previous year (February 2001) and became the forerunner to the Mobile Multimedia era, and the CD receiver with WMA compatibility, in addition to MP3, that was introduced in January 2002. In the car navigation category, Kenwood is active in developing new HDD based navigation systems and has become the second manufacturer to introduce such a system in September 2002. Meanwhile in the European and American markets, the DVD player built-in audio system introduced in January 2001 and the DVD navigation system introduced in July 2001 are both performing well. In

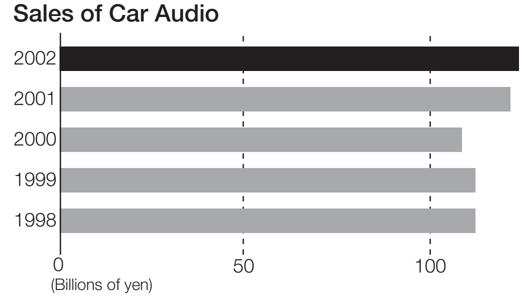
Audio Equipment Sales



Sales of Home Audio



Sales of Car Audio



addition, the Company is aggressively expanding its OEM business in and out of Japan, both in terms of the number of customers and the number of products.

Communications Equipment

Sales of communications equipment for the term under review were up by 17.6% and amounted to 84.2 billion yen. Although cellular phone and home telephone performance improved over the previous term thanks largely to three new cellular phones, these businesses will be terminated at the end of March 2003 because of dwindling profits and increasing risk in the development of new models. In the meantime, Kenwood will further augment its efforts to increase market share for wireless radio products, of which sales and profitability are both stable, by aggressively introducing new products in Europe, China, Japan and other Asian markets, in addition to land mobile radio (LMR) products that are performing well in the US.

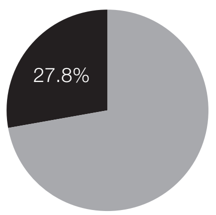
Cellular Phones and Home Telephones

Sales of cellular phones and home telephones for the year ended March 2002 increased by 29.2% to 45.3 billion yen and recorded an operating income of 0.5 billion yen, an improvement of 2.4 billion yen from the previous year. The new product development system for cellular phones, the establishment of which had been one of Kenwood's priorities the past few years, resulted in three new PDC phones during the year and this produced record sales in this product category. Also effective was the fact that one of the three models was a new concept model called a "Simple Phone," having fewer features but very easy to use. In the home telephone category, the market is currently divided between conventional cordless telephones with an answering machine, and L-mode telephones with Internet connectivity. Kenwood concentrated its power in the manufacture and sale of low-priced conventional telephones and had a good turnover. However, in consideration of the market maturity and increasing risk in product development, the Company plans to terminate the cellular phone and home telephone businesses by the fiscal year ending March 2003.

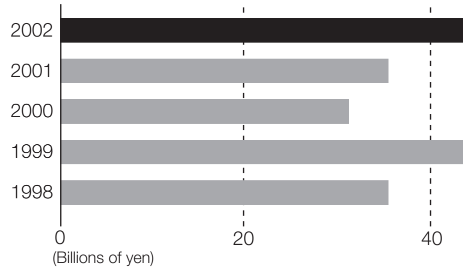
Wireless Radio

During the year ended March 2002, sales of wireless radio products increased by 6.4% from the previous year to 38.9 billion yen, and operating income by 35% to 7.6 billion yen. The major force in this product category is land mobile radio (LMR) sold in the US, Europe, and Asia (including Japan). Currently, Kenwood is putting more emphasis on systems integration, such as equipment used at base stations, building on its foothold established by the sale of mobile terminals. During this fiscal year, a new compact LMR was introduced in the European market and contributed to the increased sales. In China and other Asian countries, the Company succeeded in expanding its market by the introduction of a low-cost mobile transceiver for truck and taxi drivers. In Japan, it is successfully

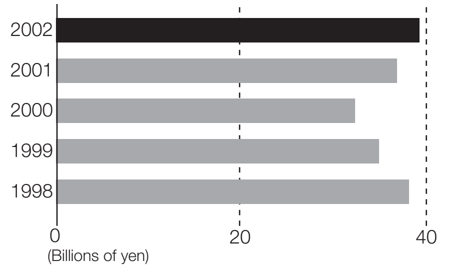
Communications Equipment Sales



Sales of Cellular Phones & Telephones



Sales of Wireless Radio



reacting to the market demand for smaller and lighter terminals with a compact mobile terminal (for vehicles) with a built-in DC converter and a lithium-ion battery operated handy terminal.

Financial Position

Assets and Liabilities

At the end of March 2002, total assets of the Kenwood Group amounted to 182.9 billion yen, down 12.2% from the previous year. Current assets decreased by 10.8% to 132.2 billion yen, mainly due to the efforts spent throughout the Company in reducing inventories. Fixed assets decreased by 3.1% to 32.7 billion yen and investments and other assets decreased 32% to 18.0 billion yen, due mainly to the selling and revaluation of investment securities.

Despite accounts payable being reduced, current liabilities were up by 3.2% and amounted to 168.9 billion yen as a result of setting off 10.0 billion yen for the provision for loss on business restructuring as explained earlier. A reduction in long-term borrowings led to a 28.5% reduction in long-term liabilities to 30.6 billion yen, while added reserve was made for employees' retirement allowances.

Cash Flows

Cash and cash equivalents outstanding at the end of the term under review were 21.7 billion yen, an increase of 0.8 billion from the previous year.

Cash flows from operating activities improved 22.6 billion yen compared to the previous year and the Company reported an income of 15.2 billion yen, thanks to reductions in accounts receivable and inventories. Cash flows from investing activities ended up in net spending of 8.0 billion yen, 3.2 billion yen more than the previous year, as proceeds from the sale of investment securities were canceled out by the purchase of tangible fixed assets and software. Meanwhile, despite money being raised by issuing new stock, the repayment of long-term borrowings resulted in net spending of 6.8 billion yen in financing activities, compared to 12.7 billion yen gained in the previous year.

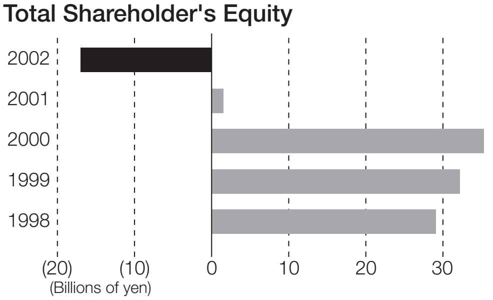
Capital Expenditure

Total capital expenditure for the term ended March 2002 decreased by 10.3% from the previous year to 12.4 billion yen. The majority was spent in purchases of tools and dies for new products.

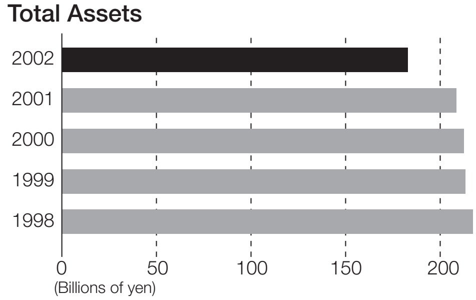
Financial Indicators

The deficit in working capital at the end of the financial year was 36.6 billion yen. The current ratio was 78.3% (90.6% for the previous year). The shareholders' equity ratio was negative 9.3% (0.7% for the previous year) and the asset turnover rate was 1.65 times (1.46 for the previous year).

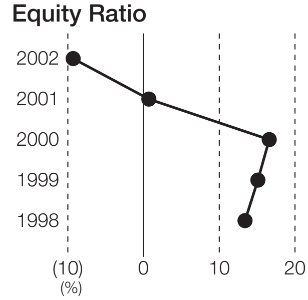
Total Shareholder's Equity



Total Assets



Equity Ratio



Consolidated Balance Sheets

Kenwood Corporation and Consolidated Subsidiaries
As of March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2002**	2001	**2002**
Current Assets:			
Cash and cash equivalents	¥ **21,687**	¥ 20,854	$ **163,060**
Time deposits	**2,550**	649	**19,173**
Trade notes and accounts receivable	**57,603**	61,891	**433,105**
Less: Allowance for doubtful receivables	**(1,424)**	(1,610)	**(10,706)**
Inventories—			
Finished goods	**27,227**	33,041	**204,714**
Work in process and raw materials	**16,062**	24,664	**120,767**
Deferred tax assets (Note 10)	**451**	1,543	**3,391**
Prepaid expenses and other	**8,063**	7,175	**60,624**
Total current assets	**132,219**	148,207	**994,128**
Property, Plant and Equipment, at Cost (Notes 3, 5 and 6):			
Land (Note 4)	**13,016**	13,230	**97,865**
Buildings and structures	**23,512**	23,674	**176,782**
Machinery and equipment	**20,951**	20,910	**157,527**
Tools, furniture and fixtures	**14,224**	13,187	**106,947**
Construction in progress	**280**	210	**2,105**
	71,983	71,211	**541,226**
Less: Accumulated depreciation	**(39,306)**	(37,486)	**(295,534)**
Net property, plant and equipment	**32,677**	33,725	**245,692**
Investments and Other Assets:			
Investment securities (Note 2)	**3,117**	15,772	**23,436**
Investments in and advances to unconsolidated subsidiaries and associated companies	**808**	546	**6,075**
Software	**8,559**	5,792	**64,353**
Deferred tax assets (Note 10)	**1,351**	1,063	**10,158**
Lease deposits and other	**4,187**	3,310	**31,481**
Total investments and other assets	**18,022**	26,483	**135,503**
Total	¥ **182,918**	¥ 208,415	$ **1,375,323**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2002
Current Liabilities:			
Short-term bank borrowings (Note 5)	¥ **75,400**	¥ 71,641	$ **566,917**
Current portion of long-term debt (Note 6)	**12,950**	14,628	**97,368**
Trade notes and accounts payable	**57,018**	63,754	**428,707**
Income taxes payable (Note 10)	**732**	836	**5,504**
Accrued expenses	**9,144**	10,203	**68,752**
Deferred tax liabilities (Note 10)	**19**	36	**143**
Provision for loss on business restructuring	**10,000**	-	**75,188**
Other	**3,605**	2,562	**27,105**
Total current liabilities	**168,868**	163,660	**1,269,684**
Long-term Liabilities:			
Bonds (Note 6)	**5,000**	5,000	**37,594**
Long-term debt (Note 6)	**16,793**	31,170	**126,263**
Liability for employees' retirement benefits (Note 7)	**5,713**	3,633	**42,955**
Deferred tax liabilities (Note 10)	**2,286**	2,312	**17,188**
Other	**775**	641	**5,827**
Total long-term liabilities	**30,567**	42,756	**229,827**
Minority Interests	**485**	514	**3,647**
Commitments and Contingent Liabilities (Note 3 and 12)			
Shareholders' Equity (Capital Deficiency) (Note 8):			
Common stock, authorized — 500,000,000 shares issued and outstanding - 183,983,995 shares in 2002 and 147,333,995 in 2001	**25,937**	22,382	**195,015**
Additional paid-in capital	**3,555**	18,144	**26,729**
Revaluation surplus (Note 4)	**3,154**	3,160	**23,714**
Accumulated deficit	**(38,581)**	(30,066)	**(290,083)**
Unrealized loss on available-for-sale securities	**(108)**	-	**(812)**
Financial statement translation adjustments	**(10,954)**	(12,134)	**(82,361)**
Total	**(16,997)**	1,486	**(127,798)**
Less: Treasury stock, at cost; 43,649 shares in 2002 and 1,754 shares in 2001	**(5)**	(1)	**(37)**
Total shareholders' equity (capital deficiency)	**(17,002)**	1,485	**(127,835)**
Total	¥ **182,918**	¥ 208,415	$ **1,375,323**

Consolidated Statements of Operations

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2002, 2001, and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
Net Sales	¥ **302,604**	¥ 303,356	¥ 274,517	$ **2,275,218**
Cost of Sales (Note 9)	**231,539**	235,949	204,506	**1,740,895**
Gross profit	**71,065**	67,407	70,011	**534,323**
Selling, General and Administrative Expenses (Note 9)	**64,964**	67,407	64,867	**488,451**
Operating income	**6,101**	0	5,144	**45,872**
Other Income (Expenses):				
Interest expense, net	**(3,583)**	(3,700)	(3,028)	**(26,940)**
Cash Discount	**(1,200)**	(823)	(655)	**(9,023)**
Equity in earnings of unconsolidated subsidiaries and associated companies	**181**	190	70	**1,361**
Gain on sales of investment securities, net	**(17)**	352	3,494	**(128)**
Gain on early extinguishment of loan payable	**791**	-	-	**5,947**
Loss on impairment of investment securities	**(6,470)**	(2,775)	(3,141)	**(48,647)**
Loss on disposal of inventories	**(6,558)**	(1,445)	(2,921)	**(49,308)**
Loss on sales of property, plant and equipment, net	**(1,258)**	(1,199)	(303)	**(9,459)**
Additional retirement allowances paid to employees	**(351)**	(1,004)	(90)	**(2,639)**
Retirement allowances paid to directors and corporate auditors	**(112)**	(495)	(467)	**(842)**
Loss on closing of business	**-**	(6,263)	-	**-**
Provision for doubtful receivables	**-**	(1,649)	-	**-**
Loss on prior years patent fee	**(1,055)**	-	-	**(7,932)**
Provision for loss on business restructuring	**(10,000)**	-	-	**(75,188)**
Other, net,	**(979)**	825	707	**(7,360)**
Total	**(30,611)**	(17,986)	(6,334)	**(230,158)**
Loss before Income Taxes and Minority Interests	**(24,510)**	(17,986)	(1,190)	**(184,286)**
Income Taxes (Note 10):				
Current	**1,286**	1,220	1,187	**9,669**
Deferred	**841**	2,570	(1,441)	**6,323**
Total income taxes	**2,127**	3,790	(254)	**15,992**
Minority Interests in Net Income	**21**	67	81	**158**
Net Loss	¥ **(26,658)**	¥ (21,843)	¥ (1,017)	$ **(200,436)**

	Yen			U.S. dollars (Note 1)
Per Share Data (Note 11):				
Net Loss	¥ **(160.02)**	¥ (148.26)	¥ (6.91)	$ **(1.20)**
Cash dividends applicable to the year	**-**	-	-	**-**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity (Capital Deficiency)

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2002, 2001, and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	**2002**
Common Stock:				
Beginning balance	¥ **22,382**	¥ 22,382	¥ 22,382	$ **168,286**
Capital increase upon issuance of 36,650,000 shares on September 21, 2001	**3,555**	-	-	**26,729**
Ending balance	¥ **25,937**	¥ 22,382	¥ 22,382	$ **195,015**
Additional Paid-in Capital:				
Beginning balance	¥ **18,144**	¥ 18,144	¥ 18,144	$ **136,421**
Transfer to accumulated deficit	**(18,144)**	-	-	**(136,421)**
Capital increase upon issuance of 36,650,000 shares on September 21, 2001	**3,555**	-	-	**26,729**
Ending balance	¥ **3,555**	¥ 18,144	¥ 18,144	$ **26,729**
Revaluation Surplus (Note 4):				
Beginning balance	¥ **3,160**	¥ 3,160	¥ -	$ **23,759**
Land revaluation	**-**	-	3,160	**-**
Reversal of land revaluation	**(6)**	-	-	**(45)**
Ending balance	¥ **3,154**	¥ 3,160	¥ 3,160	$ **23,714**
Accumulated Deficit:				
Beginning balance	¥ **(30,066)**	¥ (8,398)	¥ (8,276)	$ **(226,060)**
Adjustment to retained earnings for the adoption of deferred tax accounting method	**-**	-	1,467	**-**
Net loss	**(26,658)**	(21,843)	(1,017)	**(200,436)**
Transfer from additional paid-in capital	**18,144**	-	-	**136,421**
Cash dividends paid	**-**	-	(442)	**-**
Transfer to employee welfare fund	**(9)**	-	(12)	**(68)**
Bonuses paid to directors and corporate auditors		(3)	(118)	**-**
Reversal of revaluation surplus	**6**	-	-	**45**
Adjustment to retained earnings for consolidation of additional subsidiaries	**2**	178	-	**15**
Ending balance	¥ **(38,581)**	¥ (30,066)	¥ (8,398)	$ **(290,083)**
Unrealized Loss on Available-for-sale Securities:				
Beginning balance	¥ **-**	-	-	$ **-**
Net increase of unrealized loss of available-for-sale securities	**(108)**	-	-	**(812)**
Ending balance	¥ **(108)**	¥ -	¥ -	$ **(812)**
Financial Statement Translation Adjustments:				
Beginning balance	¥ **(12,134)**	-	-	$ **(91,233)**
Net increase of financial statement translation adjustments	**1,180**	(12,134)	-	**8,872**
Ending balance	¥ **(10,954)**	¥ (12,134)	¥ -	$ **(82,361)**
Treasury Stock, at cost:				
Beginning balance	¥ **(1)**	(1)	-	$ **(7)**
Net increase of treasury stock	**(4)**	-	(1)	**(30)**
Ending balance	¥ **(5)**	¥ (1)	¥ (1)	$ **(37)**
Total Shareholders' Equity (Capital Deficiency)	¥ **(17,002)**	1,485	35,287	$ **(127,835)**

	Thousands of shares		
Number of Shares:			
Beginning balance	**147,334**	147,334	147,334
Issuance of common stock	**36,650**	-	-
Ending balance	**183,984**	147,334	147,334

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2002, 2001, and 2000

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	2002
Operating Activities:				
Loss before income taxes and minority interests	¥ (24,510)	¥ (17,986)	¥ (1,190)	$ (184,286)
Adjustments to reconcile loss before income taxes and minority interests to net cash provided by (used in) operating activities:				
Income taxes-paid	(1,452)	(1,033)	(1,553)	(10,917)
Depreciation and amortization	9,654	9,969	10,194	72,586
Provision for doubtful receivables	(298)	1,896	74	(2,241)
Loss on disposal of property, plant and equipment	1,081	1,374	-	8,128
Provision for loss on business restructuring	10,000	-	-	75,188
Loss on closing of business	-	6,263	-	-
Loss (gain) on sales of property, plant and equipment, net	178	(180)	303	1,338
Increase in retirement benefits	2,062	1,486	60	15,504
Loss (gain) on sales of investment securities	17	(408)	(3,494)	128
Gain on early extinguishment of loan payable	(791)	-	-	(5,947)
Loss on impairment of investment securities	6,470	2,550	3,141	48,647
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	6,632	(8,532)	1,769	49,865
Decrease (increase) in inventories	16,540	(8,713)	1,314	124,361
(Decrease) increase in trade notes and accounts payable	(8,545)	5,105	5,348	(64,248)
Other, net	(1,865)	788	826	(14,023)
Net cash provided by (used in) operating activities	15,173	(7,421)	16,792	114,083
Investing Activities:				
(Increase) decrease in time deposits, net	(1,900)	4,102	157	(14,286)
Proceeds from sales of marketable securities, net	-	-	270	-
Proceeds from sales of property, plant and equipment	758	4,165	434	5,700
Proceeds from sales of investment securities	6,930	1,399	7,740	52,105
Purchases of property, plant and equipment	(5,095)	(6,679)	(6,547)	(38,308)
Purchases of investment securities	(1,024)	(1,271)	(7,291)	(7,700)
Purchases of software	(7,609)	(6,436)	(3,927)	(57,211)
Other, net	(26)	(82)	(26)	(195)
Net cash used in investing activities	(7,966)	(4,802)	(9,190)	(59,895)
Financing Activities:				
Increase (decrease) in short-term bank borrowings, net	1,724	9,027	(3,808)	12,962
Proceeds from long-term debt	-	8,518	10,419	-
Proceeds from bonds	-	5,000	-	-
Proceeds from issuance of common stock	7,110	-	-	53,459
Repayments of long-term debt	(15,380)	(9,526)	(7,903)	(115,639)
Cash dividends paid	-	-	(442)	-
Other, net	(244)	(344)	(8)	(1,835)
Net cash (used in) provided by financing activities	(6,790)	12,675	(1,742)	(51,053)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	411	1,261	(1,076)	3,090
Net Increase in Cash and Cash Equivalents	828	1,713	4,784	6,227
Cash and Cash Equivalents of Newly Consolidated Subsidiaries, Beginning of Year	5	645	-	37
Cash and Cash Equivalents at Beginning of Year	20,854	18,496	13,712	156,797
Cash and Cash Equivalents at End of Year	¥ 21,687	¥ 20,854	¥ 18,496	$ 163,061

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2002, 2001, and 2000

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) Kenwood New Restructuring Plan

The Company incurred the liabilities in excess of assets on a consolidated basis for the six months ended September 30, 2001. Under the situation, the Company developed a plan for a drastic business restructuring, and announced as "Kenwood New Restructuring Plan" on May 24, 2002. The plan involves withdrawals from unprofitable businesses in order to implement low cost operations and to dissolve the net capital deficiency as early as possible. The Company expects that a large amount of losses would be incurred by disposal of assets and reduction of workforce in the process of executing structural reforms based on the above mentioned restructuring plan. As a result, the Company posted a ¥10,000 million ($75,188 thousand) provision for loss on business restructuring. However, the amount of actual loss incurred may change, depending on the progress of business restructuring. Moreover, as of June 28, 2002, the Company is under negotiations with financial institutions for additional financing in order to successfully implement this business restructuring plan. The Company recognizes that it is critical to execute this business restructuring based on the "Kenwood New Restructuring Plan" in a steady manner and dissolve the status of net capital deficiency as early as possible for the purpose of continuing operations. For further discussion of "Kenwood New Restructuring Plan" see Note 15.

(b) Basis of Presenting Consolidated Financial Statements

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

The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Certain reclassifications have been made to the 2001 and 2000 consolidated financial statements to conform to the 2002 presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133 to $1, the approximate rate of exchange at March 31, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant 53 (51 in 2001 and 42 in 2000) subsidiaries (together, the "Group").

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

Kenwood Electronics Trading (Shanghai) Co., Ltd. and Kenwood Logistics (HK) Ltd. were newly consolidated from 2002 because those companies have become materiality to the consolidated financial statements of the Company.

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

Investments in Showa High-Tech Rent Co., Ltd., an associated company, which had been accounted for by the equity method in 2001and 2000, were excluded from the scope of equity method from the beginning of this fiscal year because all the investments in this company were sold.

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

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary is being amortized over 5 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.

(d) 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.

(e) 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 operations.

(f) 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 each balance sheet date, except for shareholders' equity which is translated at the historical exchange rates in effect at the time of the transactions. Differences arising from such translation are shown as "Financial statement translation adjustments" in a separate component of shareholders' equity.

(g) 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 by the first-in, first-out method, or market.

(h) 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............	3 to 60 years
Machinery and equipment...........	2 to 15 years
Tools, furniture and fixtures.........	2 to 20 years

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and betterments 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 (5 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 (1 to 5 years), considering the nature of the products.

(i) Marketable and Investment Securities

The Company has classified all debt and equity securities as available-for-sale securities based on the management's intention. Prior to April 1, 2001, available-for-sale securities were stated at cost, determined principally by the moving-average method. Effective April 1, 2001, the Company adopted the new accounting standard for financial instruments related to the valuation of the available-for-sale securities. In conformity with the standard, available for-sale securities other than non-marketable are reported at faire value with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sales securities are stated at cost as determined by the moving-average method. The adoption of the standard did not have a material effect on the accompanying consolidated financial statements.

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

(j) Common Stock Issue Cost

Common stock issue cost, which is capitalized and included in other assets, net of accumulated amortization, is amortized using the straight-line method over 3 years.

(k) Liability for Employees' Retirement Benefits

The Company has a contributory funded pension plan covering substantially all of their employees.

The Company and domestic consolidated subsidiaries account for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. Actual gain or loss is amortized mainly using the straight-line method over periods (principally 5 to 10 years) which are less than the average remaining years of service of the employees, and the amortization will be started in the year following the year in which the gain or loss is recognized.

The transitional obligation of ¥14,910 million determined as of April 1, 2001, is being amortized over fifteen years.

(l) Provision for loss on business restructuring

The Company established a provision for loss on business restructuring to accrue the expected loss through the execution of "Kenwood New Restructuring Plan" announced on May 24, 2002 (see Note 1(a) and 15).

(m) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. 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.

(n) 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.

(o) Derivative financial Instruments

The Group uses a variety of derivative financial instruments, including foreign currency forward contracts and interest rate swaps as a means of hedging exposure to foreign currency and interest rate risks. The Group dose not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives be 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 operations 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 the 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. These swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are recognized in income.

(p) Appropriations of Retained Earnings

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

2. Investment Securities

All the debt and equity 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, 2002 are as follows:

	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities ……..	¥ 1,984	¥ 3	¥ (623)	¥ 1,364	$ 14,917	$ 23	$ (4,684)	$ 10,256
Total …………………………	¥ 1,984	¥ 3	¥ (623)	¥ 1,364	$ 14,917	$ 23	$ (4,684)	$ 10,256

Proceeds from sales of available-for-sale securities for the year ended March 31, 2002 and 2001, were ¥6,589 million ($49,541thousand) and ¥824 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥1,183 million ($8,895 thousand) and ¥1,397 million ($10,504 thousand), respectively, for the year ended March 31, 2002, and ¥363 million and ¥12 million, respectively, for the year ended March 31, 2001.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2002 were as follows:

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Available-for-sale:		
Equity securities …………………………………………	¥ 253	$ 1,902
Debt securities …………………………………………..	1,500	11,278
Total ………………………………………………………	¥ 1,753	$ 13,180

The carrying values at March 31, 2002 of debt securities by contractual maturities for securities classified as available-for-sale are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥ -	$ -
Due from one year to five years	-	-
Due from five years to ten years	1,500	11,278
Total	¥ 1,500	$ 11,278

The amount of fair value of the available-for-sale securities was ¥10,472 million and the unrealized losses, net of applicable taxes and minority interests were ¥3,492million as of March 31, 2001.

The carrying amounts and aggregate market values of quoted investment securities, consisting of marketable equity and debt securities were ¥14,838 million and ¥14,056 million, respectively, as of March 31, 2000.

3. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were ¥3,726 million ($28,015 thousand) and ¥2,443 million for the years ended March 31, 2002 and 2001, respectively.

Obligations under finance leases as of March 31, 2002 and 2001 are due as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Due within one year	¥ **2,827**	¥ 3,237	$ **21,255**
Due after one year	**2,224**	3,608	**16,722**
Total	¥ **5,051**	¥ 6,845	$ **37,977**

Pro forma information of leased property on an "as if capitalized" basis, such as acquisition cost, accumulated depreciation, and net lease property under finance lease as of March 31, 2002 and 2001 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			**2002**		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥ **4,617**	¥ **2,707**	¥ **1,910**	¥ 5,310	¥ 2,861	¥ 2,449	$ **34,714**	$ **20,353**	$ **14,361**
Tools, furniture and fixtures	**6,750**	**3,994**	**2,756**	6,241	2,118	4,123	**50,752**	**30,030**	**20,722**
Others	**485**	**249**	**236**	443	316	127	**3,647**	**1,872**	**1,775**
Total	¥ **11,852**	¥ **6,950**	¥ **4,902**	¥ 11,994	¥ 5,295	¥ 6,699	$ **89,113**	$ **52,255**	$ **36,858**

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

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Depreciation expense	¥ **3,518**	¥ 2,268	$ **26,451**
Interest expense	¥ **161**	¥ 157	$ **1,211**

4. Revaluation Surplus

Under the "Law of Land Revaluation", promulgated and revised on March 31, 1998, 1999 and 2001, respectively, 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 surplus represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the consolidated statement of operations. 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 surplus 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:	¥ 4,559
Land after revaluation:	¥ 9,996
Land revaluation surplus, net of income taxes of ¥2,283 million:	¥ 3,154

As of March 31, 2002, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥ 1,197 million ($9,000 thousand).

5. Short-term Bank Borrowings

Short-term bank borrowings are due within one year. The interest rates on these borrowings ranged from 1.332% to 5.18% and 0.63% to 6.66% as of March 31, 2002 and 2001, respectively.

As of March 31, 2002, the carrying amount of asset pledged as collateral for short-term borrowings of ¥12,789 million ($96,158 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥ 514	$ 3,865
Accounts receivable	13,456	101,173
Inventories	10,867	81,707
Buildings and structures, net	705	5,301
Machinery and equipment, net	25	188
Tools, furniture and fixtures, net	28	211
Land	1,694	12,737
Total	¥ 27,289	$ 205,182

6. Bonds and Long-Term Debt

Bonds and long-term debt as of March 31, 2002 and 2001, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Bonds - subordinated debentures with an interest rate at 2.82%, due in April 2003	¥ **5,000**	¥ 5,000	$ **37,594**
Unsecured loans—			
Banks, 1.138%-6.46%, due through 2006	¥ **24,048**	¥ 32,564	$ **180,812**
Japanese government-sponsored agencies, 2.0%-2.15%, due through 2006	**12**	17	**90**
Japanese insurance companies, 1.90%-2.90%, due through 2006	**5,530**	13,062	**41,579**
Others	**-**	2	**-**
Total unsecured loans	**29,590**	45,645	**222,481**
Mortgage loans	**153**	153	**1,150**
Total	**29,743**	45,798	**223,631**
Less: Current portion included in current liabilities	**(12,950)**	(14,628)	**(97,368)**
Long-term debt, less current portion	¥ **16,793**	¥ 31,170	$ **126,263**

The aggregate annual maturities of long-term debt as of March 31, 2002, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2003	¥ 12,950	$ 97,368
2004	10,489	78,864
2005	3,330	25,038
2006	2,838	21,338
2007 and thereafter	136	1,023
Total	¥ 29,743	$ 223,631

7. Liability for Employees' Retirement Benefits

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

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

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

The liability for employees' retirement benefits at March 31, 2002 and 2001consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Projected benefit obligation	¥ **42,790**	¥ 39,444	$ **321,729**
Fair value of plan assets	**(15,134)**	(16,451)	**(113,789)**
Unrecognized actuarial gain	**(9,037)**	(5,447)	**(67,947)**
Unrecognized transitional obligation	**(12,906)**	(13,913)	**(97,038)**
Net liability	¥ **5,713**	¥ 3,633	$ **178,849**

The components of net periodic benefit costs for the years ended March 31, 2002 and 2001, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Service cost	¥ **1,713**	¥ 1,553	$ **12,880**
Interest cost	**1,155**	1,191	**8,684**
Expected return on plan assets	**(244)**	(604)	**(1,835)**
Recognized actuarial loss	**549**	-	**4,128**
Amortization of transitional obligation	**993**	998	**7,466**
Supplemental retirement benefits	**38**	1,004	**286**
Net periodic retirement benefit costs	¥ **4,204**	¥ 4,142	$ **31,609**

Assumptions used for the years ended March 31, 2002 and 2001 are set forth as follows:

	2002	2001
Discount rate	**2.5%**	3.0%
Expected rate of return on plan assets	**1.5%**	3.5%
Recognition period of actuarial gain / loss	**5 to 10years**	10years
Amortization period of transitional obligation	**15years**	15years

8. Shareholders' Equity (Capital Deficiency)

Japanese companies are subject to the Japanese Commercial Code (the ''Code'') to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in accumulated deficit, totals ¥109million as of March 31, 2001. That legal reserve amount was zero as of March 31, 2002, because that amount of ¥109million ($820thousand) was transferred to accumulated deficit to reduce the deficit by resolution of the shareholders. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31,2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amounts of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

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

On June 28, 2001, additional paid-in capital of ¥18,114 million ($136,421thousand) was transferred to accumulated deficit to reduce the deficit by resolution of the shareholders.

On September 21, 2001, by the resolution of the Board of Directors, the Company issued 36,650 thousand shares of its common stock at ¥194 per each share newly issued, through a third-party allotment of shares. The Company received total proceeds of ¥7,110 million ($53,459thousand), ¥3,555 million ($26,729thousand) of which was recorded in "Common stock" and the remaining ¥3,555 million ($26,729thousand) was recorded in "Additional paid-in capital".

9. Research and Development Cost

Research and development costs charged to income were ¥1,108 million ($8,331 thousand) and ¥1,198 million for the year ended March 31, 2002 and 2001, respectively.

10. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income with normal tax rates aggregating 42%, for the years ended March 31, 2002 and 2001.

As of March 31,2002, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately ¥39,740 million ($298,797 thousand), which are available to apply against future taxable income.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Deferred Tax Assets:			
Impairment of investment securities	¥ **2,396**	¥ 2,597	$ **18,015**
Tax loss carryforwards	**15,025**	12,660	**112,970**
Deferred interest expense	**-**	717	**-**
Provision for loss on business restructuring	**4,200**	-	**31,579**
Liability for employees' retirement benefits	**1,179**	640	**8,865**
Other	**5,455**	2,281	**41,015**
Less: valuation allowance	**(26,453)**	(16,289)	**(198,895)**
Total	¥ **1,802**	¥ 2,606	$ **13,549**
Deferred Tax Liabilities:			
Inventories	¥ **-**	¥ 16	$ -
Land revaluation	**2,283**	2,288	-
Prepaid expenses	**3**	-	**23**
Other	**19**	44	**143**
Total	**2,305**	2,348	**166**
Deferred Tax Assets (Liabilities), Net:	¥ **(503)**	¥ 258	$ **13,383**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of operations for years ended March 31, 2002 and 2001 is as follows:

	2002	2001
Normal effective statutory tax rate	**42.0%**	42.0%
Expenses not deductible for income tax purposes	**(0.3%)**	(0.3%)
Tax benefits not recognized on operating losses of subsidiaries	**(20.1%)**	(46.8%)
Temporary differences not recognized on operating losses of subsidiaries	**(33.3%)**	-
Reversal of deferred tax assets of prior years	**(3.5%)**	(16.5%)
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	**0.3%**	3.6%
Other, net	**6.2%**	(3.1%)
Actual effective tax rate	**(8.7%)**	(21.1%)

11. Per Share Data

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

The average number of common shares used in the computation was 166,600 thousand and 147,332 thousand for the years ended Mach 31, 2002 and 2001, respectively.

Diluted net income per share is not disclosed because of the Company's net loss position.

Cash dividends per share shown in the accompanying consolidated statements of operations have been presented on the accrual basis.

12. Commitments and Contingent Liabilities

The Company was contingently liable as of March 31, 2002, as a guarantor for borrowings of employees aggregating ¥10 million ($75 thousand) and ¥14 million as of March 31, 2002 and 2001, respectively.

At March 31,2002, the Company had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense was ¥6,061million ($45,571 thousand) and ¥4,858 million for the years ended March 31, 2002 and 2001 .

One of the Company's subsidiaries, Kenwood Electronics Technologies (S) PTE LTD ("KETS") has an unresolved matter with the Inland Revenue Authority of Singapore with regard to profitability of KETS. No provision has been made in the financial statements because the likelihood of additional corporate tax and penalties is uncertain, and if any, they cannot be quantified.

13. 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 dose not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors of the Company and execution and control of derivatives are controlled by the Company's Financial & Accounting Division. Each derivative transaction is periodically reported to management, where evaluation and analysis of derivatives are made.

The Group had the following derivatives contracts outstanding at March 31, 2002 and 2001:

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			**2002**		
	Contract or Notional Amount	Fair Value	Unrealized Gain/Loss	Contract or Notional Amount	Fair Value	Unrealized Gain/Loss	Contract or Notional Amount	Fair Value	Unrealized Gain/Loss
Interest Rate Swaps: (floating rate receipt, fixed rate payment)	**¥ 3,500**	**¥ (131)**	**¥ (131)**	¥ 3,500	¥ (138)	¥ (138)	**$ 26,316**	**$ (985)**	**$ (985)**

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.

14. Segment Information

The Group manufactures and distributes audio and communications equipment. The Company defines its major segments as:

Audio equipment segment:
Home, car, and general audio products and test and measuring instruments related to audio equipment.

Communications equipment segment:
Amateur radios, UHF CB transceivers, land mobile radios, telephones and personal digital cellular telephones.

Operations by business segment and by geographic area for the years ended March 31, 2002, 2001 and 2000, were summarized as follows:

Operations by business segment:

	Millions of yen				
	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2002					
Net sales:					
Sales to customers	¥ **218,427**	¥ **84,177**	¥ **302,604**	¥ **-**	¥ **302,604**
Intersegment sales and transfers	**-**	**-**	**-**	**-**	**-**
Total	¥ **218,427**	¥ **84,177**	¥ **302,604**	¥ **-**	¥ **302,604**
Operating income (loss)	¥ **(2,030)**	¥ **8,131**	¥ **6,101**	¥ **-**	¥ **6,101**
Identifiable assets	¥ **118,524**	¥ **44,819**	¥ **163,343**	¥ **19,575**	¥ **182,918**
Depreciation	¥ **6,912**	¥ **2,740**	¥ **9,652**	¥ **-**	¥ **9,652**
Capital expenditures	¥ **8,012**	¥ **4,378**	¥ **12,390**	¥ **-**	¥ **12,390**

Corporate assets as of March 31, 2002, amounted to ¥19,575 million ($147,180 thousand) and consisted primarily of the Company's cash, time deposits and investment securities.

	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2001					
Net sales:					
Sales to customers	¥ 231,752	¥ 71,604	¥ 303,356	¥ -	¥ 303,356
Intersegment sales and transfers	-	-	-	-	-
Total	¥ 231,752	¥ 71,604	¥ 303,356	¥ -	¥ 303,356
Operating income (loss)	¥ (3,728)	¥ 3,728	¥ 0	¥ -	¥ 0
Identifiable assets	¥ 133,574	¥ 45,182	¥ 178,756	¥ 29,659	¥ 208,415
Depreciation	¥ 7,012	¥ 2,956	¥ 9,968	¥ -	¥ 9,968
Capital expenditures	¥ 8,548	¥ 5,268	¥ 13,816	¥ -	¥ 13,816

Corporate assets as of March 31, 2001, amounted to ¥29,659 million and consisted primarily of the Company's investment securities.

	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2000					
Net sales:					
Sales to customers	¥ 211,560	¥ 62,957	¥ 274,517	¥ -	¥ 274,517
Intersegment sales and transfers	-	-	-	-	-
Total	¥ 211,560	¥ 62,957	¥ 274,517	¥ -	¥ 274,517
Operating income (loss)	¥ (16)	¥ 5,160	¥ 5,144	¥ -	¥ 5,144
Identifiable assets	¥ 122,772	¥ 41,807	¥ 164,579	¥ 47,893	¥ 212,472
Depreciation	¥ 7,159	¥ 3,115	¥ 10,274	¥ -	¥ 10,274
Capital expenditures	¥ 7,179	¥ 3,799	¥ 10,978	¥ -	¥ 10,978

Corporate assets as of March 31, 2000, amounted to ¥47,893 million and consisted primarily of the Company's investment securities and translation adjustments.

	Thousands of U.S. dollars				
	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2002					
Net sales:					
Sales to customers	$ 1,642,308	$ 632,910	$ 2,275,218	$ -	$ 2,275,218
Intersegment sales and transfers	-	-	-	-	-
Total	$ 1,642,308	$ 632,910	$ 2,275,218	$ -	$ 2,275,218
Operating income (loss)	$ (15,263)	$ 61,135	$ 45,872	$ -	$ 45,872
Identifiable assets	$ 891,158	$ 336,985	$ 1,228,143	$ 147,180	$ 1,375,323
Depreciation	$ 51,970	$ 20,602	$ 72,572	$ -	$ 72,572
Capital expenditures	$ 60,241	$ 32,917	$ 93,158	$ -	$ 93,158

Operations by geographic area:

	Millions of yen							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2002								
Net sales:								
Sales to customers	¥ 145,743	¥ 76,383	¥ 59,759	¥ 17,112	¥ 3,607	¥ 302,604	¥ -	¥ 302,604
Intersegment sales	108,568	978	12,961	104,101	3	226,611	(226,611)	-
Total	¥ 254,311	¥ 77,361	¥ 72,720	¥ 121,213	¥ 3,610	¥ 529,215	¥ (226,611)	¥ 302,604
Operating income	¥ 1,372	¥ 2,456	¥ 1,274	¥ 1,950	¥ 138	¥ 7,190	¥ (1,089)	¥ 6,101
Identifiable assets	¥ 149,644	¥ 26,246	¥ 25,208	¥ 30,261	¥ 1,383	¥ 232,742	¥ (49,824)	¥ 182,918
2001								
Net sales:								
Sales to customers	¥ 150,085	¥ 74,350	¥ 55,456	¥ 20,598	¥ 2,867	¥ 303,356	¥ -	¥ 303,356
Intersegment sales	102,820	1,216	12,177	89,220	-	205,433	(205,433)	-
Total	¥ 252,905	¥ 75,566	¥ 67,633	¥ 109,818	¥ 2,867	¥ 508,789	¥ (205,433)	¥ 303,356
Operating income (loss)	¥ (3,829)	¥ 2,618	¥ 219	¥ 165	¥ 206	¥ (621)	¥ 621	¥ 0
Identifiable assets	¥ 150,559	¥ 27,318	¥ 26,266	¥ 33,921	¥ 1,384	¥ 239,448	¥ (31,033)	¥ 208,415
2000								
Net sales:								
Sales to customers	¥ 133,937	¥ 68,565	¥ 53,324	¥ 16,059	¥ 2,632	¥ 274,517	¥ -	¥ 274,517
Intersegment sales	110,608	932	10,562	62,421	-	184,523	(184,523)	-
Total	¥ 244,545	¥ 69,497	¥ 63,886	¥ 78,480	¥ 2,632	¥ 459,040	¥ (184,523)	¥ 274,517
Operating income (loss)	¥ (464)	¥ 1,448	¥ 1,228	¥ 679	¥ 75	¥ 2,966	¥ 2,178	¥ 5,144
Identifiable assets	¥ 115,659	¥ 24,643	¥ 26,339	¥ 24,711	¥ 1,188	¥ 192,540	¥ 19,932	¥ 212,472

	Thousands of U.S. dollars							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2002								
Net sales:								
Sales to customers	$ 1,095,812	$ 574,308	$ 449,316	$ 128,662	$ 27,120	$ 2,275,218	$ -	$ 2,275,218
Intersegment sales	816,301	7,353	97,451	782,714	23	1,703,842	(1,703,842)	-
Total	$ 1,912,113	$ 581,661	$ 546,767	$ 911,376	$ 27,143	$ 3,979,060	$ (1,703,842)	$ 2,275,218
Operating income	$ 10,316	$ 18,466	$ 9,579	$ 14,662	$ 1,037	$ 54,060	$ (8,188)	$ 45,872
Identifiable assets	$ 1,125,144	$ 197,338	$ 189,534	$ 227,526	$ 10,398	$ 1,749,940	$ (374,617)	$ 1,375,323

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 Malaysia
Other...... Australia

Overseas sales:

	Millions of yen				
	America	Europe	Asia	Other	Total
2002					
Overseas sales	¥ 81,636	¥ 61,552	¥ 25,459	¥ 6,561	¥ 175,208
Consolidated net sales					¥ 302,604
Ratios of overseas sales	27.0 %	20.3 %	8.4 %	2.2 %	57.9 %

	Thousands of U.S. dollars				
	America	Europe	Asia	Other	Total
2002					
Overseas sales	$ 613,805	$ 462,797	$ 191,421	$ 49,330	$ 1,317,353
Consolidated net sales					$ 2,275,218

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 Malaysia
Other...... Australia and Africa

The amount of overseas sales and the ratios thereof to consolidated net sales for the years ended March 31, 2001 and 2000, were ¥171,454 million and ¥151,012 million and 56.5% and 55.0%, respectively. Overseas sales consist of export sales by the Company and sales by consolidated foreign subsidiaries.

15. Subsequent Event

In the board of directors' meeting held on May 24, 2002, the Company adopted the following "Kenwood New Restructuring Plan"

The Company incurred the liabilities in excess of assets of approximately ¥3,800 million on a consolidated basis for the six months ended September 30, 2001. Moreover, for the fiscal year ended March 31, 2002, the above liabilities in excess of assets increased to approximately ¥17,000 million ($127,820 thousand) and the Company itself (not consolidated) incurred liabilities in excess of assets of ¥12,000 million ($90,226 thousand), mainly due to posting nearly ¥5,600 million ($42,105 thousand) of loss on disposal of inventories for home electronics and personal cellular phone products, and ¥10,000 million ($75,188 thousand) of provision for loss on business restructuring.

Under the circumstances, based on the assumption that this harsh business environment would continue for the time being, the Company decided to implement a drastic business restructuring and developed the "Kenwood New Restructuring Plan" which would be beyond ordinary restructuring levels. The plan aims at withdrawal from unprofitable businesses, realization of low cost operations by thoroughgoing restructuring, and drastic improvements of financial position. The main points of the plan are as follows:

(1) Reform of corporate executive structure

In order to clarify the responsibilities of corporate management, the Company reformed its executive committee, including replacement of the president.

(2) Reconsideration of business portfolio

The Company selected the car electronics and the communications business as its core businesses and will concentrate its management resources on those segments. Other businesses are restructured and some of them will be sold. Especially, the home electronics business, which has been incurring losses for many years, will be scaled down drastically, and a comprehensive business collaboration of that business with other companies is being contemplated too.

(3) Restructuring of Production Base and Sales Base, and Sliming and Promoting Efficiency of Business through Annexation

The Company aims at optimizing production facilities, scaling down of sales network and reducing administration costs and propelling high efficiency in marketing through centralization.

(4) Reduction of workforce

The Group will reduce its employees by 2,700 (consolidated basis, approximately 30% of the total) through slimming of headquarters as well as reorganizing, integrating or disposing of manufacturing facilities and sales offices.

(5) Reduction of fixed costs

Until obtaining good results of the restructuring, the Company reduces its employees' salaries by 15% on average. In addition, the Company will reduce headquarters expenses 10% and business divisions expenses 5%.

Independent Auditors' Report

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Deloitte Touche Tohmatsu

To the Board of Directors and Shareholders of
Kenwood Corporation:

We have examined the consolidated balance sheets of Kenwood Corporation and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity (capital deficiency), and cash flows for each of the three years in the period ended March 31, 2002, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Kenwood Corporation and consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The accompanying consolidated financial statements have been prepared assuming that Kenwood Corporation will continue as a going concern. As discussed in Note 1(a), the status of capital deficiency, recurring losses from operations and negative working capital position raise substantial doubt about the ability for Kenwood Corporation and consolidated subsidiaries to continue as a going concern. Management's plans in regard to these matters are also described in Notes 1(a) and 15. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1, effective April 1, 2001, the consolidated financial statements have been prepared in accordance with the new accounting standards for financial instruments, in which available-for-sale securities other than non-marketable are reported at fair value.

Our examinations 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, 2002

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards, procedures and practices to audit such financial statements are those which are generally accepted and applied in Japan.

The Kenwood Group

Consolidated Subsidiaries

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December 21, 1946

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(As of March 31, 2002)

Number of Employees
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Haruo Kawahara

Director of the Board
Tsuneo Yuzawa
Akio Ueda
Nobuo Seo

Standing Statutory Auditor
Akira Koyama
Hideaki Kato

Statutory Auditor
Motoaki Hirabayashi

Corporate Executive Officers

Chief Executive Officer
Haruo Kawahara

Deputy President & Executive Officer
Tsuneo Yuzawa

Senior Executive Vice President & Executive Officer
Katsumi Sugiura

Executive Vice President & Executive Officer
Haruo Kasuya

Senior Vice President & Executive Officer
Moriyuki Tamura
Masao Kitazawa
Akio Ueda
Kazuo Shiohata
Tamio Takeda
Osamu Hamada

Vice Executive
Sadaharu Kato
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(As of October 1, 2002)

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