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Notice regarding New Financial Strategy

Kenwood Corporation (President and CEO: Haruo Kawahara, Head Office: Hachioji, Tokyo) announces its "New Financial Strategy" designed to lead the Company to a further growth, and will herein describe the details of the New Financial Strategy.

As part of the execution of the New Financial Strategy, Kenwood announces that the Board of Directors on May 21, 2004 passed a resolution to undertake the New Share Issuance through public offering and resolutions to submit agendas concerning a reduction in Kenwood's stated capital without payment to shareholders (the "Unpaid Capital Reduction") and a reduction in Kenwood's stated capital through the cancellation of the Class A Convertible Preferred Stock (the "Class A CPS") (the "Paid Capital Reduction") for approval at the ordinary general shareholders meeting of Kenwood's Common Stock (the "Ordinary GSM") and the Paid Capital Reduction for approval at the general shareholders meeting of the Class A CPS (the "Class A CPS GSM"), each to be held on June 29, 2004 (collectively, the "Shareholders' Meetings").

The Company will be the first in the nation to perform the voluntary retirement of the preferred shares issued in connection with a debt-to-equity swap.

1. Background to the Formulation of the New Financial Strategy

In the prior fiscal year ended March 31, 2003, the Company had conducted the "Kenwood Revitalization Action Plan," which involved a radical action plan focusing on 4 areas of business, namely, operations, cost, management and finance. Through the execution of the plan, the Company managed to eliminate the negative net worth on both a stand-alone and consolidated basis, posted a historical high for earnings and effected a turnaround of the Company.

In fiscal year ended March 31, 2004, successful structural reform has contributed to full-year earnings, and the Company formulated a mid-term management plan "Excellent Kenwood Plan" covering the next 3 years of operations, which has been duly announced. In the first year of the plan, the Company effected significant improvements in cost and cash flow through Production Innovation, and utilized the reduction in costs to reinvest in new products, new technology, branding and human resources as a means to drive future performance. The new corporate model in 2004 got off to a good start and the Company posted a historical high for net income for two years in a row.

On the financial front, cash flow has increased due to reduced inventory resulting from Production Innovation, and interest-bearing debt has been steadily paid down. Net debt was reduced to under the target range of ¥30 billion, but the cumulative loss was not fully eliminated. Several issues remain to be addressed, namely the continued suspension of dividends, the possibility of future dilution from the conversion of preferred stock issued in connection with 2002 debt-to-equity swap, and a special arrangement for a 3-year repayment period executed with financial institutions.

We have been exploring various measures out of all possible options to resolve the remaining financial challenges as quickly as possible. As a result, thanks to the wholehearted support and assistance of Resona Bank Limited ("Resona") and the other financial institutions involved, and thanks to the financial advisory services rendered by Lehman Brothers Japan Inc., we have devised a pioneering program referred to as the New Financial Strategy. This involves the simultaneous execution of four measures – (i) elimination of the cumulative loss, (ii) capital increase through public offering, (iii) retirement of preferred stock, (iv) debt refinancing by setting up a syndicated loan, and termination of the repayment agreement. Through the execution of this strategy, the Company expects to eliminate cumulative loss and be well positioned to pursue financial independence as well as the possibility of resuming dividends, without waiting for the final year Excellent Kenwood Plan in 2 years' time.

We believe that the financial issues are on the way to being resolved and that the issue regarding the dilution (dilution caused by the conversion of preferred stock into common stock) will be addressed by retiring half of the outstanding preferred stock, resulting in a substantially enhanced shareholders value in the future.

We ask our shareholders and the financial institutions to kindly recognize the intent behind the New Financial Strategy. We truly appreciate your support.

2. Overview of the New Financial Strategy

The New Financial Strategy is viewed as a program to address key financial challenges facing the Company and to rebuild a sound financial base.

(1) Rebuilding a sound financial base
By eliminating the cumulative loss, the Company hopes to break with the remaining negative financial factors and achieve financial independence and thus alleviate the concerns of shareholders and financial institutions

(2) Removing the risk of equity value dilution in the event of future preferred shares conversion
By issuing a significantly smaller number of new shares of common stock relative to the number of shares that may come into existence as a result of preferred stock conversion, and by retiring half of the preferred stock using the net proceeds from the offering, the Company plans to reduce the impact of potential future dilution. Its holder, Resona has agreed that the Company may repurchase the remaining half of the preferred stock at the time we request such repurchase

(3) Refinancing through setting up a syndicated loan and termination of special repayment arrangement
Repay existing debt through refinancing, reduce the amount re-borrowed, close out previous debt agreement and achieve financial independence

Further details of the fourfold strategy are as follows:

<Measures for the New Financial Strategy>

	Measure	Amount	Implementation outline and expected result	
(1)	Elimination of cumulative loss	¥20.0 billion (unpaid capital reduction without payment to shareholders)	Outline	Reduce capital on the book to cover cumulative loss
			Result	Cumulative loss can be wiped out without any impact on net assets (shareholders' equity) or number of shares outstanding
(2)	New share issuance through public offering (maximum of about 95 million new common shares)	¥23.0 billion (maximum capital increase)	Outline	Public offering of up to ¥23.0 billion, and use the net proceeds to cancel Class A Convertible Preferred Stock and pay down interest-bearing debts
			Result	Limit the increase in the number of shares outstanding to 2/3 – 3/4 of the total issued shares that would be issued through the conversion of Class A Preferred Stock (about 127 million shares) at the initial conversion price of ¥98 per share
(3)	Retiring of Class A Preferred Stock (31,250 thousand Class A CPS)	¥16.1 billion (paid capital reduction)	Outline	The net proceeds from (2) will be used to cancel the Class A Preferred Stock
			Result	Minimize the dilution impact caused by the conversion that can be effective in Dec. 2005, and also lighten the future dividend payment burden
(4)	Refinancing by setting up new syndicated loan and termination of existing loan agreement with financial institutions	¥40.0 billion (loan amount)	Outline	By repaying existing debt using the remaining amount after (3), new loan and cash, the Company plans to close out existing loan agreement with financial institutions
			Result	Debt will be reduced to ¥40-45 billion from ¥67.2 billion as of March 2004. This will contribute to more flexible financing and improved use of cash flow, and lead to financial independence

The Company will submit items (1) and (3) above for approval at the ordinary general shareholders meeting of the Common Stock, and (3) for approval to the general shareholders meeting of the Class A CPS, each to be held on June 29, 2004.

Brief explanations of each measure are as follows:

(1) Unpaid Capital Reduction without decreasing the total shares outstanding

(i) Purpose of the Capital Reduction

By eliminating cumulative loss, the Company will be in a position to resume dividend payments, achieve independence in executing management strategy, and enhance credibility towards shareholders and financial institutions

* Furthermore, this elimination of cumulative loss is a reduction of the capital on the book to cover accumulated deficit, there will have no impact on the number of outstanding shares and thus net asset per common share

(ii) The procedure for the Capital Reduction

In accordance with the Section 375 Article 1-3 of the Commercial Code, following approval of the loss appropriation at the 75th Annual General Shareholders Meeting due to be convened on June 29, 2004, paid-in capital of ¥39,469,876,771 will be reduced by ¥20,000,000,000 to cover the capital deficit of ¥18,140,871,296, leaving the final figure for the paid-in capital at ¥19,469,876,771. The number of shares outstanding will remain unchanged.

For further details on the capital reduction, please refer to the "Notice regarding Reorganization of Shareholders' Equity (New Share Issuance and Capital Reduction)" issued today.

* As at the ordinary general shareholders meeting (June 29, 2004), the paid-in capital is anticipated to be ¥39.4 billion. Amount of capital will be increased by about ¥10.0 billion combined with the public offering explained in (2) below that will come into effect in early July. Accordingly, the Company expects paid-in capital to be around ¥13.3 billion as detailed in the chart in later section after this Unpaid Capital Reduction and the Paid Capital Reduction detailed in (3).

(2) Public Offering

(i) Purpose of the Offering

By directly raising from the equity markets the fund necessary to finance the New Financial Strategy and by using the proceeds to cancel Class A Preferred Stock (as well as a portion allocated to the reduction of interest-bearing debt through repayment to financial institutions), the Company will be able to significantly improve its financial base

(ii) The procedure and timing for the Offering

Approximately 95,000 thousand new shares will be issued to raise ¥23 billion.

For further details on the public offering of new shares, please refer to the “Notice regarding Reorganization of Shareholders’ Equity (New Share Issuance and Capital Reduction)” issued today.

Main use of net proceeds from the Offering is to fund for the Paid Capital Reduction through the cancellation of Class A CPS as set forth in (3) below. Accordingly, the Offering may be cancelled in case that the Paid Capital Reduction is not resolved at the Ordinary GSM as well as the Class A CPS GSM, each scheduled to be held on June 29, 2004.

(3) Paid Capital Reduction

(i) Purpose

Preferred shares have priority claim for dividends and can be converted into common shares, potentially increasing the total number of shares outstanding and triggering significant dilution. Therefore, by retiring in advance these preferred shares, the Company can alleviate the concerns of common shareholders and achieve enhanced shareholder value. Furthermore, in the event that the Class A CPS is converted at the upper conversion price of ¥98, the total number of issued and outstanding common shares is expected to increase by 127,551,020 shares. The amount due to increase through the Offering as detailed in (1) represent approximately 2/3 to 3/4 of such diluted shares, which will significantly reduce the magnitude of dilution of the Common Stock. The retirement of the Class A CPS will not result in a loss to its holder, Resona Bank.

(ii) The procedure and timing

The Paid Capital Reduction will be conducted by retiring 31,250,000 shares of Class A CPS in full by paying ¥16.1 billion to the holder and by reducing paid-in capital by the equivalent amount.

For further details on the capital reduction, please refer to the “Notice regarding Reorganization of Shareholders’ Equity (New Share Issuance and Capital Reduction)” issued today.

* Further, the preferred shares are planned to be cancelled using the proceeds from the public offering as outlined in (2) above. Accordingly, the approval for the cancellation of the preferred shares at the annual general meeting will become effective subject to the completion of the public offering outlined in (1).

(4) Closing out the debt agreement with existing financial institutions by setting up a syndicated loan

(i) Purpose

Once the financial structure has been overhauled through capital increases/decreases, it will be possible to set up a new syndicated loan program (commitment line with a few financial institutions). With this, the Company's total debt can be refinanced, as well as with cash and with the net proceeds remaining from the Offering after retiring the preferred shares. The Company will be released from the debt covenants with the current financial institutions and will be on track to pursue trading as normal, and will gain autonomy over its funding allocations and financial strategy.

(ii) Details of the syndicated loan agreement (under discussion)

Arranger: Resona Bank and Mitsubishi Trust and Banking
Date of agreement: August 2004 (renewed annually)
Loan amount: ¥40 billion

(iii) Debt after refinancing

Debt will be reduced to ¥40-45 billion after refinancing from ¥67.2 billion as of March 31, 2004

3. Merits to Stakeholders

We believe the strategies laid out in 1-4 above will be greatly beneficial, not just to all the stakeholders in the Company, but to the Company itself.

<Merits to stakeholders and to the Company>

Existing shareholders	- By eliminating cumulative loss through the Unpaid Capital Reduction without changing the total outstanding shares, the Company will be in a position to resume dividend payments, and the shareholders value may be enhanced in the future - Minimize the dilution effect caused by the conversion of the Class A CPS, which can be converted into the Common Stock from December 2005, by canceling with the net proceeds from the Offering
New investors	- Reduced risk of dilution through conversion of preferred shares - By eliminating cumulative loss through the Unpaid Capital Reduction without changing the total outstanding shares, the Company will be in a position to resume dividend payments, and the shareholders value may be enhanced in the future
Financial institutions	- Early repayment of debt becomes possible through the new syndicated loan and equity financing, easing concerns over the existing debt agreement, and institutions are in a position to establish a fresh relationship with the Company (Additionally for Resona, Class A CPS can be redeemed at greater value than par)
Company	- After eliminating the cumulative loss, the Company will be back on track for resuming dividends, and will have reduced interest-bearing debt by ¥22-24 billion - By being released from debt agreement with existing financial institutions, the Company will achieve independence from a financial strategy perspective and will be able to invest for future growth

4. Future outlook: Progress towards "Excellent Company" through the New Financial Strategy

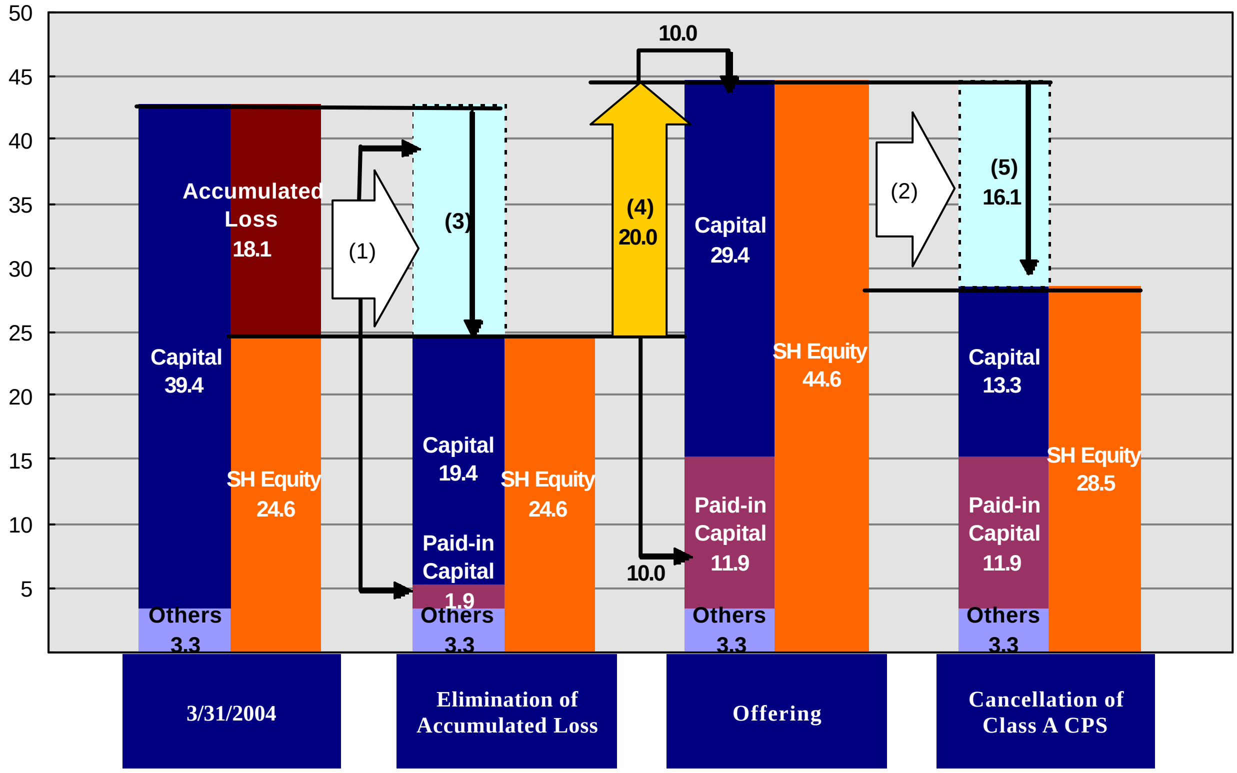
Upon execution of the New Financial Strategy, total number of issued and outstanding shares and paid-in capital is expected to change as follows:

	TSO (including Treasury Stock)			Capital	Shareholders' Equity
	Total	Common Stock	Preferred Stock		
March 31, 2004 (with conversion of preferred stock)	272,955,995 (465,558,035)	210,455,995	62,500,000 (255,102,040)	¥39,469,876,771	¥24,698 million
Elimination of Accumulated Loss	No change	No change	No change	¥19,469,876,771	No change
New Share Issuance (1)	352,955,995 (545,558,035)	290,455,995	No change	¥29,469,876,771	¥44,698 million
Cancellation of Class A CPS (with conversion)	321,705,995 (418,007,015)	No change	31,250,000 (127,551,020)	¥13,369,876,771	¥28,598 million

1. Total shares outstanding with the conversion of Class A and B CPS is the sum of the current total shares outstanding of the Common Stock and the number of new shares of the Common Stock in case all of CPS are converted into the Common Stock. The number of new shares of the Common Stock is computed in accordance with the condition as set forth in the issuance date, December 27, 2002 (issue price of the CPS (¥400 per share) / initial conversion price (¥98 per share))
2. Number of shares to be issued in and increase amount of capital by the Offering are based on current estimate (the number of new shares to be issued: 80,000 thousand shares, Offering size: ¥20 billion)

<Standalone Capital and Shareholders' Equity after the Execution of New Financial Strategy>

(¥20 billion Unpaid Capital Reduction, ¥20 billion Offering (¥10 billion in Stated Capital and ¥10 billion in Reserve), ¥16.1 billion Cancellation of Class A CPS)



(1) Unpaid Capital Reduction
(2) Paid Capital Reduction
(3) Elimination of accumulated loss
(4) Offering
(5) Cancellation of Class A CPS

After wiping out the cumulative loss as part of the New Financial Strategy, the standalone shareholders' equity is expected to increase to approximately ¥28 billion, the consolidated shareholders' equity ratio will increase from 14.9% as of March 31, 2004 to 20% plus, the net debt to equity ratio on a consolidated basis will improve from 3.6x as of March 31, 2003 and 1.5x as of March 31, 2004 to 1.1x. As a result, in only 2 years since the state of negative net worth as of March 31, 2002, the Company's shareholders' equity and financial base will have improved to a level comparable to other healthy companies, representing steady progress towards "Excellent Company".

Further, the timing of the cumulative loss elimination as expected in "Excellent Kenwood Plan" was brought forward by a year, leading to the possibility of resuming dividends.

Once again, we would like to thank Resona Bank and the other financial institutions involved for their wholehearted support and assistance. We would also like to thank Lehman Brothers Japan Inc. for their financial advisory services in walking us through the execution of the New Financial Strategy. Finally, we request the support and agreement of our shareholders for the execution of the New Financial Strategy.