# Consolidated Summary Report for the Former Half of Fiscal Year Ending March 2006

November 11, 2005

Company Name: Kenwood Corporation (Code No. 6765, Stock Exchange: Tokyo First Section)
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URL: http://www.kenwood.com
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Date of Board Meeting for the Approval of Consolidated Accounts: November 11, 2005
Application of US GAAP: None

**1. Consolidated Financial Performance for the former half of fiscal year ending March 2006 (April 1, 2005-September 30, 2005)**

**(1) Consolidated Operating Performance** (Amounts less than 1 million yen are discarded.)

| | Net Sales | | Operating Profit | | Ordinary Income | |
|---|---|---|---|---|---|---|
| | (millions of yen) | % | (millions of yen) | % | (millions of yen) | % |
| The former half of FYE Mar. 2006 | 90,069 | 1.9 | 3,535 | -12.2 | 1,529 | -37.0 |
| The former half of FYE Mar. 2005 | 88,375 | 0.2 | 4,024 | -32.1 | 2,427 | -38.9 |
| FYE Mar. 2005 | 181,112 | | 7,061 | | 4,696 | |

| | Net Income | | Net Income per Share | Net Income per Share after adjusting for latent shareholdings |
|---|---|---|---|---|
| | (millions of yen) | % | (Yen) | (Yen) |
| The former half of FYE Mar. 2006 | 2,897 | -2.1 | 8.58 | 6.71 |
| The former half of FYE Mar. 2005 | 2,960 | -15.5 | 11.35 | 6.21 |
| FYE Mar. 2005 | 4,836 | | 16.79 | 10.50 |

Notes:
1. Equity in Earnings (or Losses) from Affiliated Companies
   As of Sept 30, 2005: - As of Sept 30, 2004: ¥45 million As of the end of FY2004: ¥45 million
2. Average Number of Shares Outstanding
   As of Sept 30, 2005: 337,609,900 As of Sept 30, 2004: 256,370,776 As of the end of FY2004: 279,360,676
3. Changes to Accounting Principles: None
4. Percentages shown for net sales, operating income, ordinary income and net income indicate changes from the previous fiscal year

**(2) Consolidated Financial Position**

| | Total Assets | Shareholders' Equity | Shareholders' Equity Ratio | Shareholders' Equity per share |
|---|---|---|---|---|
| | (millions of yen) | (millions of yen) | % | (Yen) |
| The former half of FYE Mar. 2006 | 110,988 | 32,373 | 29.2 | 88.19 |
| The former half of FYE Mar. 2005 | 115,068 | 30,010 | 26.1 | 57.96 |
| FYE Mar. 2005 | 116,137 | 33,132 | 28.5 | 66.29 |

Notes:
1. Number of shares outstanding:
   (Common Shares) As of Sept 30, 2005: 367,084,990 As of Sept 30, 2004: 302,109,495 As of the end of FY2004: 307,133,266
   (Class B Preferred Stock) As of Sept 30, 2005: - As of Sept 30, 2004: 31,250,000 As of the end of FY2004: 31,250,000
2. Number of Treasury Stock: As of Sept 30, 2005: 440,005 As of Sept 30, 2004: 346,500 As of the end of FY2004: 391,729
3. Shareholders' equity per share as of the end of the interim period is in accordance with the "Practical Guidelines for Accounting Standards Regarding Net Income Per Share (Practical Guidelines for Corporate Accounting Standards No. 4, September 25, 2003 – Accounting Standards Board of Japan)," and is calculated based on common shareholders' equity at the end of fiscal year (excluding book value of preferred stock worth 12.5 billion for both the interim period and fiscal year ends for FY 2004) and the number of outstanding common shares at the end of fiscal year (excluding treasury stock).

**(3) Consolidated Cash Flow Conditions**

| | Cash Flows from Operating Activities | Cash Flows from Investing Activities | Cash Flows from Financing Activities | Cash and Cash Equivalents at the end |
|---|---|---|---|---|
| | (millions of yen) | (millions of yen) | (millions of yen) | (millions of yen) |
| The former half of FYE Mar. 2006 | 5,391 | -3,601 | -3,590 | 14,525 |
| The former half of FYE Mar. 2005 | 5,500 | 224 | -26,464 | 13,423 |
| FYE Mar. 2005 | 15,539 | -3,513 | -30,333 | 15,875 |

**(4) Number of Consolidated Subsidiaries and Other Affiliated Companies (Equity Method)**

Consolidated Subsidiaries: 43
Equity Method: Non-consolidated Subsidiaries 0
Affiliates 0

**(5) Changes in Number of Consolidated Subsidiaries and Other Affiliated Companies (Equity Method)**

Consolidation: (New) 0 (Excluded) 0
Equity Method: (New) 0 (Excluded) 0

**2. Forecast for FY2005 (ending March 31, 2006)**

| | Net Sales | Ordinary Profit | Net Income |
|---|---|---|---|
| | (millions of yen) | (millions of yen) | (millions of yen) |
| Full Year | 185,000 | 4,500 | 6,000 |

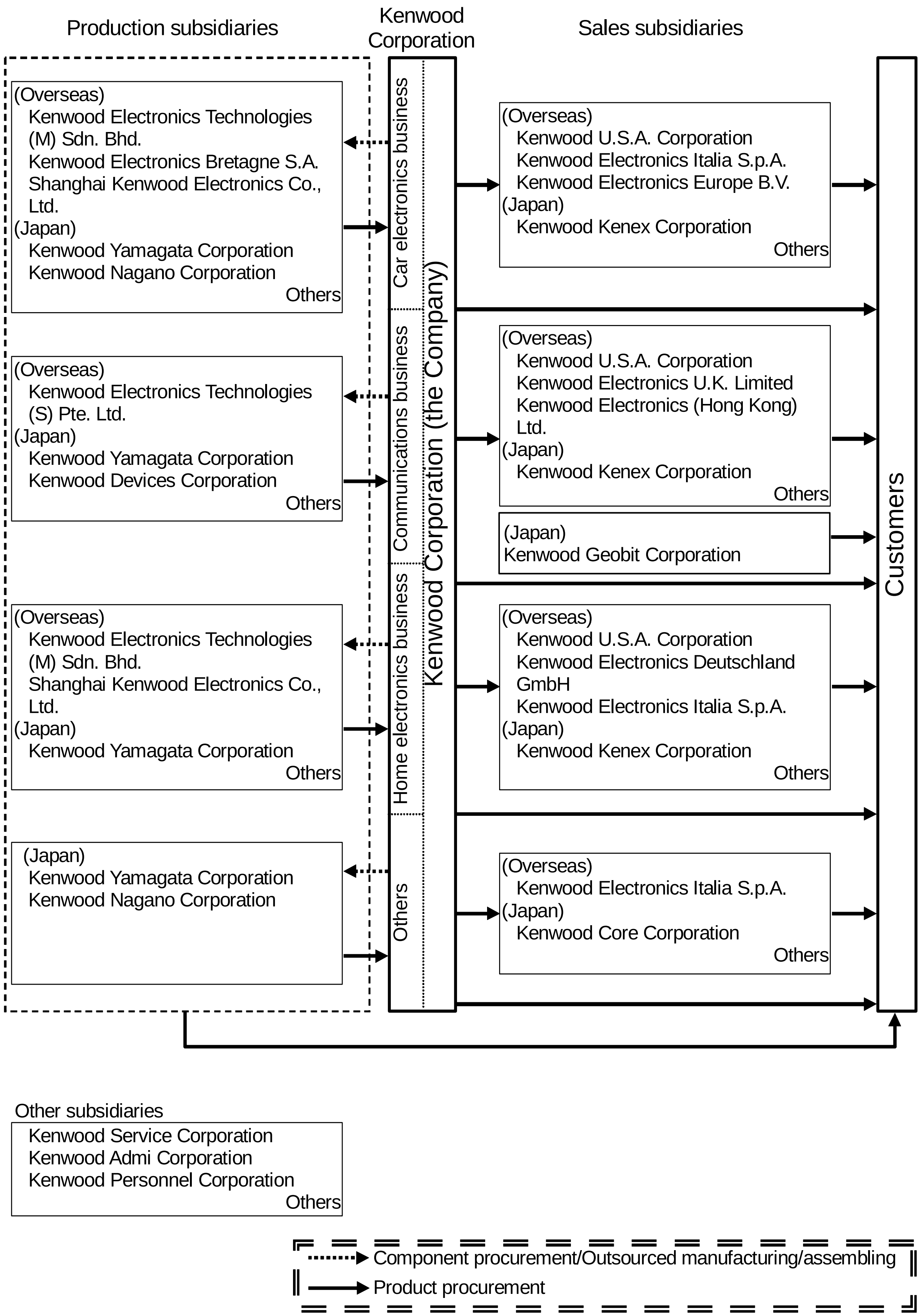
Reference: Projected net income per share (full-year): ¥16.34

Note:
This press release contains forward-looking statements that are based on information such as economic factors and corporate business policy available to the Company at the time of publishing. As such, the actual financial performance of the Company may differ from the forecast due to a variety of factors. Please refer to pp.4 - 18 for the basic premises underlying the forecast.

# Overview of the Kenwood Group

The Kenwood Group comprises Kenwood Corporation (hereinafter “the Company”) and its 46 affiliated companies (as of September 30, 2005) engaged mainly in production and marketing of car electronics, communications and home electronics equipment, as well as other related businesses.
The Group’s business sectors, major products and affiliates are as follows:

| Business classification and major products | Major affiliates |
|---|---|
| [Car electronics]<br>Car electronics-related products such as automotive audio equipment, navigation systems, etc. | (Sales companies)<br>Kenwood Corporation<br>Kenwood U.S.A. Corporation<br>Kenwood Electronics Italia S.p.A.<br>Kenwood Electronics Europe B.V.<br>Kenwood Kenex Corporation<br>(Production companies)<br>Kenwood Electronics Technologies (M) Sdn. Bhd.<br>Kenwood Electronics Bretagne S.A.<br>Shanghai Kenwood Electronics Co., Ltd.<br>Kenwood Yamagata Corporation<br>Kenwood Nagano Corporation |
| [Communications]<br>Communications-related products such as amateur and professional radio equipment, specific low-power transceivers, etc. | (Sales companies)<br>Kenwood Corporation<br>Kenwood U.S.A. Corporation<br>Kenwood Electronics U.K. Limited<br>Kenwood Electronics (Hong Kong) Ltd.<br>Kenwood Geobit Corporation<br>(Production companies)<br>Kenwood Electronics Technologies (S) Pte. Ltd.<br>Kenwood Yamagata Corporation<br>Kenwood Devices Corporation |
| [Home electronics]<br>Home electronics-related products such as stereos (system-components and separate-component stereos), home theater systems, DVD players, portable audio equipment, etc. | (Sales companies)<br>Kenwood Corporation<br>Kenwood U.S.A. Corporation<br>Kenwood Electronics Deutschland GmbH<br>Kenwood Electronics Italia S.p.A.<br>Kenwood Kenex Corporation<br>(Production companies)<br>Kenwood Electronics Technologies (M) Sdn. Bhd.<br>Shanghai Kenwood Electronics Co., Ltd.<br>Kenwood Yamagata Corporation |
| [Others]<br>Electric devices such as non-contact mobile identification systems, meteorological-satellite data receiving systems, etc. | (Sales companies)<br>Kenwood Electronics Italia S.p.A.<br>Kenwood Core Corporation<br>(Production companies)<br>Kenwood Yamagata Corporation<br>Kenwood Nagano Corporation |


Production subsidiaries
Kenwood Corporation
Sales subsidiaries
(Overseas)
Kenwood Electronics Technologies (M) Sdn. Bhd.
Kenwood Electronics Bretagne S.A.
Shanghai Kenwood Electronics Co., Ltd.
(Japan)
Kenwood Yamagata Corporation
Kenwood Nagano Corporation
Others
(Overseas)
Kenwood Electronics Technologies (S) Pte. Ltd.
(Japan)
Kenwood Yamagata Corporation
Kenwood Devices Corporation
Others
(Overseas)
Kenwood Electronics Technologies (M) Sdn. Bhd.
Shanghai Kenwood Electronics Co., Ltd.
(Japan)
Kenwood Yamagata Corporation
Others
(Japan)
Kenwood Yamagata Corporation
Kenwood Nagano Corporation
Car electronics business
Communications business
Home electronics business
Others
Kenwood Corporation (the Company)
(Overseas)
Kenwood U.S.A. Corporation
Kenwood Electronics Italia S.p.A.
Kenwood Electronics Europe B.V.
(Japan)
Kenwood Kenex Corporation
Others
(Overseas)
Kenwood U.S.A. Corporation
Kenwood Electronics U.K. Limited
Kenwood Electronics (Hong Kong) Ltd.
(Japan)
Kenwood Kenex Corporation
Others
(Japan)
Kenwood Geobit Corporation
(Overseas)
Kenwood U.S.A. Corporation
Kenwood Electronics Deutschland GmbH
Kenwood Electronics Italia S.p.A.
(Japan)
Kenwood Kenex Corporation
Others
(Overseas)
Kenwood Electronics Italia S.p.A.
(Japan)
Kenwood Core Corporation
Others
Customers
Other subsidiaries
Kenwood Service Corporation
Kenwood Admi Corporation
Kenwood Personnel Corporation
Others
Component procurement/Outsourced manufacturing/assembling
Product procurement

# Management Policy

## 1. BASIC MANAGEMENT POLICY

Kenwood Corporation announced the Value Creation Plan, the Company's second mid-term business plan in May of this year and completed its reforms on the financial base and capital structure by the end of former half of this fiscal year. The Company has now begun implementing new strategies to expand corporate value through the restructuring of its revenue base.

The new strategy consists of the following processes. First, the Company plans to enhance stable revenue bases in core businesses such as Car Electronics Consumer (Audio) and wireless radio equipments. At the same time, the profit structure of growth businesses such as Car Electronics OEM and Car Electronics Consumer (Multimedia) will be restructured and overlapped on top of these core businesses. Finally, the Home Electronics business will be used to open up new frontiers in "Sound Entertainment," a concept that takes advantage of the business opportunities generated by the digitization of music media content. These strategies that will expand corporate value, realize great growth and achieve industry-leading profitability are aimed at reaching the goal of becoming a member of the Billion Dollar Club in the earliest possible timeframe.

## 2. MAIN MANAGEMENT STRATEGIES FOR THE CURRENT INTERIM PERIOD

### (1) Restructuring the Revenue Base

The following measures were taken to reform the profit structure in the Car Electronics Consumer (Multimedia), Car Electronics OEM and Home Electronics businesses. By doing so, the Company was able to achieve the results it forecasted at the beginning of the fiscal year.

**a) Profit Structure Reforms in the Car Electronics Consumer (Multimedia) Business**

In April, the Car Multimedia Division was made independent of the Car Electronics Consumer Division. However, since last fiscal year, a strategy change was implemented to switch from joint development to in-house development of car navigation systems. This switch was completed in the beginning of the year and the first car navigation model that was fully developed in-house was introduced on to the market in March of this year. This marked the first step towards full market development of this strategic area. At the same time, the Company stepped up its efforts to strengthen its multimedia products, including visual devices, that are currently showing strong global growth and digital broadcast devices, which are anticipated to become more and more popular in the future. By carrying out these drastic reform measures on the profit structure of this business, the Company was able to realize the starts that were projected at the beginning of the fiscal year.

**b) Profit Structure Reforms in the Car Electronics OEM Business**

Since becoming an independently owned firm in August 2003, the Shanghai Plant (Shanghai Kenwood Electronics) has strengthened its ties to China businesses and improved all manufacturing functions of the plant from procurement to production and quality as one of the core manufacturing plants of the Kenwood Group. In July of this year, an 11,000$m^2$ auxiliary building expansion was completed. This move approximately doubled the total square footage of the Shanghai Plant, allowing the Company to also double its manufacturing capacity to one million car electronics units, primarily DVD mechanisms, annually.

In addition, the Company's OEM customers completed the plant certification process in September and delivery is anticipated to begin from the latter half of this fiscal year. These efforts and vertical integration with the Nagano Plant (Kenwood Nagano) are set to achieve further cost reductions.

**c) Restructuring of the Home Electronics Business**

In the portable audio field, the Kenwood Group took advantage of business opportunities generated by the rising popularity of new digital media content to expand its lineup of flash memory audio players. In addition, the Company introduced the industry's first HDD audio player with a built in digital amplifier in June of this year. By using its expertise in the field of high quality sound technologies, the Company was able to improve its presence in the market for high quality digital audio devices. In the field of pure audio, the Company strengthened its line-up of products in the domestic market by introducing the "Sound Quality Meister Edition" of Hi-Fi audio systems that achieve best-in-class sound quality and a portable digital audio player that seamlessly connects to future changes in digital media content formats.

On the other hand, the Company also focused on the development of high quality products in the home theater field, similar to the strategy implemented for pure audio and portable audio products. This move was made in order to combat the intense price competition found in overseas markets. At the same time, the Company reviewed its sales strategy for these products. As a result of this and also fixed cost reducing efforts that were completed at the end of the last fiscal year, profitability of the business improved significantly.

**d) Structural Reforms of the US Sales System**

In the US, the Company shut down those firms affiliated with outlet sales operations because they were determined to be non-viable as business reforms continued. In addition, a debt-for-equity swap were carried out in order to clean out the negative legacy left from prior years.

Furthermore, the Kenwood Americas Headquarters Preparatory Office in the United States, which was formed in November 2004, was re-established as the Kenwood Americas Headquarters to act as the Americas sales operations for Kenwood in June of this year. In the first couple of months, the new operation has strengthened its US and Canadian businesses and has begun full-fledged implementation of strategies focused on expanding sales in emerging markets such as Mexico and other Central and South American countries.

As the result of these efforts, the profitability of the Americas unit has increased significantly.

**(2) Completing Reforms on Financial Base and Capital Structure**

The effects of becoming Japan’s first company to fully redeem preferred stocks through a debt-for-equity swap contributed to the financial results for the interim period. Compared to the previous interim period, financial results were significantly improved, signaling an end to reform measures on the financial base and capital structure. Specifically, consolidated shareholders’ equity for the interim period finished at JPY32.4 billion, shareholders’ equity ratio settled at approximately 29.2%, consolidated retained earnings totaled JPY15.1 billion, and net debt leveled out at JPY18.5 billion.

Additionally, the Company received permission from the Minister of Health, Labor and Welfare to return to the national government certain past service pension assets that it has been managing within its employees' pension fund. As a result, the amount of retirement benefit liabilities fell by approximately half from JPY38.3 billion at the end of the previous fiscal year to JPY18.6 billion at the end of the interim period under review. Moreover, future liabilities are also projected to be reduced significantly due to these measures.

**a) Redemption of all preferred stocks**

On October 8th of this year, the Company completed the redemption of its remaining Class B Preferred Stock by returning JPY15 billion to the preferred shareholder (Resona Bank). In order to do this, approximately JPY11.1 billion was raised through a public offering and combined with approximately JPY3.9 billion of cash on hand. By doing so, the Company was able to return more than the book value of the stock (JPY12.5 billion) to its Class B Preferred Shareholder, similar to payments made to Class A Preferred Shareholder in the previous fiscal year. Moreover, all of the preferred stocks issued as a result of a debt-for-equity swap carried out in December 2002 were redeemed, allowing the company to reduce the dilution impact to shareholder value by 40% as compared to the condition if all of the preferred stocks was to be converted to common stock.

Moreover, the Company booked consolidated retained earnings for the first time in ten years at the end of the previous fiscal year as a result of implementing the “New Financial Strategy,” and in June of this year, we resumed dividends for the first time in six fiscal years.

As shown above, the Company succeeded in finishing up all measures to strengthen its financial base and capital structure and cleaned out all negative legacies left behind from prior years. At this time, we would like to again thank all shareholders and creditors, with a special thank you to financial institutions, for their support and patience through this transitional time.

**b) Returning to the national government certain past service pension assets**

Following on from the approval to be released from paying future portions of certain past service pension assets managed by the Kenwood Employees’ Pension Fund on April 1, 2004, the Company received permission to return to the national government certain past service pension assets. As expected, the Company generated an extraordinary profit of approximately JPY4.8 billion during the interim period under review as a result of this move. In addition, the amount of retirement benefits liabilities was reduced by half as compared to the end of the previous fiscal year and future related liabilities were also reduced significantly.

**c) Completed reforms on financial and capital structures at subsidiary firms**
Following on from the completion of financial base and capital structure reforms at sales subsidiaries in France and Germany in the previous fiscal year, the Company carried out similar drastic reforms on its US sales subsidiary during the interim period under review. Specifically, a debt-for-equity swap was carried out for the approximately JPY5.3 billion loaned to the subsidiary by the parent company, boosting the capital base of the subsidiary. In addition, resolutions on measures to boost capital were passed for sales subsidiaries in Belgium and the Netherlands. As a result, we were able to start down the path of eliminating negative legacies from prior years on a consolidated basis.

### (3) Promotion of Environmentally Sustainable Measures

By the end of October, the Company is planning to complete the introduction of lead-free solders in all businesses as a way to make further inroads into green product development. Further, since RoHS instructions* will be applied to products that will be sold in the European Union starting from July 1, 2006, we are preparing for complete compliance to these rules by responding to all guidelines regarding environmental substances in all of our production processes, starting with the procurement of parts and components. We are also improving our infrastructure to respond to the recycling regulations that are being promoted in Europe.

* RoHS instruction: This is an abbreviation of the Restrictions on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, which is being implemented by the European Union. This law regulates the use of harmful and toxic substances in electrical and electronics equipment products. The use of six substance groups consisting of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated biphenyl ether (PBDE) will be regulated for products to be sold in the 15 member nations of the European Union starting on July 1, 2006.

## 3. MEDIUM TO LONG TERM MANAGEMENT STRATEGY

As mentioned previously, the Company announced its second mid-term business plan, the “Value Creation Plan,” in May of this year. The plan is set to be implemented from FY2005 through FY2007 and will focus on the restructuring of its current revenue base and aim to expand corporate value.

## 4. ISSUES THAT THE COMPANY MUST ADDRESS

As raised in the management policy at the beginning of the fiscal year, the Kenwood Group continued to focus on restructuring its revenue base with the overall goal to expand corporate value. Specifically, the following measures were implemented:

### (1) Improving Competitiveness in the Car Electronics Business

**a) Improving competitiveness of the new line-Up of audio products for 2006**
Of new car audio products to be introduced on to the global market at the beginning of 2006, the Company united procurement and engineering functions in order to reduce overall costs. The aim is to follow up on the strong sales of the 2005 line-up of products with increased share acquisition in 2006. At the same time, the Company plans to cultivate new emerging markets, with an emphasis on the BRICs markets, and strengthen its sales system. In order to achieve this, the direct procurement system and infrastructure of both the Nagano and Yamagata plants (Kenwood Yamagata) will be improved. Moreover, the procurement functions (IPO) of the Shanghai and Singapore locations will be improved in order to increase overseas parts procurement and reduce costs even further.

**b) Improve product line Up of car Multimedia devices for the consumer market**
The second in-house developed car navigation system, the [Smá:t] Navi Update, was introduced to the market in October of this year as a way to strengthen the Company’s presence in the car navigation systems market and to drastically change the revenue base of the Car Electronics Consumer (Multimedia) business. At the end of the current fiscal year, the Company plans to introduce another fully in-house developed product onto the market: an AV integrated navigation system realizing high quality sound. Through these measures, we have restored the product line up that had been temporarily stalled due to strategy changes. In the future, the Company plans to accelerate growth strategies by increasing sales and carrying out reform measures in this business area.

**c) Improving profits in the OEM and multimedia businesses through production increases in the Shanghai Plant**

As previously mentioned, the expansion of the Shanghai Plant has allowed increased production of car electronics components, specifically DVD mechanisms, and multimedia devices. As a result, the Car Electronics OEM business and the Car Electronics Consumer (Multimedia) business have both been able to increase productivity while significantly reducing processing costs. As a result, the two businesses can engage in the implementation of growth strategies with a renewed level of competitiveness.

As a first step, the Company began the production of multimedia devices for the consumer market, which is expected to contribute towards the increased profitability of the Car Electronics Consumer (Multimedia) business.

Simultaneously, the Company's OEM customers completed their certification of the plant during the interim period under review and as a result, the full-fledged production of OEM components will begin during the latter half of this fiscal year. This is expected to contribute towards the increased profitability of the Car Electronics OEM business.

**d) Enhancing the capabilities design and development of the Car Electronics OEM business**

As the Car Electronics OEM business grows at a greater-than-expected pace, the amount of upfront investments into development and trial production will increase. With this in mind, the engineering groups of the Car Electronics OEM and Car Electronics Consumer Divisions were moved from the Hachioji Business Center to the Nagano Plant, the main production plant for the Car Electronics business. This move is designed to link together design and development (i.e. product making) innovations so that the Group's competitiveness can be improved significantly.

At the same time, the construction of the test course at the Nagano Plant was completed in October of this year. This will allow the Company to test the quality of its car electronics devices against real-life adverse road conditions such as impacts and vibrations, situations that are specific to car electronics. By doing so, quality control can be enhanced, overall product quality can be improved, and test data can be fed back to the design team in an expedited manner. The latter, of course, will result in shorter lead times for product development.

**(2) Improving Competitiveness in the Home Electronics Business**

Ahead of the year-end sales battle, the portable audio business plans to introduce superior products that utilize Kenwood's own high quality sound technologies to the existing lineup of strong selling HDD audio players. In the pure audio field, new step-up models of its existing Hi-Fi audio systems as well as new products that combine best in class sound recreation technologies with DVD entertainment functions will be introduced on to the market one after another. Also, the line-up of "Sound Quality Meister Edition" devices that are designed by the Chief Sound Quality Officer will be augmented. By implementing these strategies, the Company plans to increase its presence and competitiveness in the domestic market, the core market for the Home Electronics business.

**(3) Strengthening Brand Presence and Business Promotions Through a Sales Campaign Based around the Company's 60th Anniversary**

The Kenwood Group will be celebrating its 60th anniversary in December of next year and as such, a one-year sales campaign based around the anniversary concept will be launched in December of this year. The campaign consisting of various business promotions will focus on expanding the Company's brand strategy to various parts of the globe.

## 5. BASIC POLICY REGARDING PROFIT SHARING

At Kenwood, we believe that the appropriation of earnings should be carefully considered alongside profitability and financial conditions. At the same time, we feel that providing stable dividends is one of the most important topics facing management.

Under this basic policy, the Company was able to achieve one of the key objectives of the first mid-term business plan, the "Excellent Kenwood Plan," one year in advance. This objective, the resumption of dividends, was made possible because the Company generated its first retained earnings in ten fiscal years during fiscal year ended in March. 2005. In addition, it marked the first time the Company distributed dividends in six fiscal terms.

During this fiscal year, the Company plans to supplement its strategic reinvestment funds by using cash on hand in order to achieve growth in the future. However, the Company's dividend policy remains unchanged from the previously announced JPY2 annual dividend (Interim dividend: JPY0, Full year dividend: JPY2). Accordingly, no interim dividend shall be distributed at the end of the interim period under review.

## 6. BASIC CORPORATE GIVERNANCE PHILOSOPHIES AND STATUS OF IMPLEMENTATION

### (1) Basic corporate governance philosophies

We consider the enhancement of corporate governance in our corporate group to be a means to increase transparency and raise efficiency in the management's decision-making process. Therefore, we consider it one of the most crucial management issues relating to the improvement of corporate value. The entire group of companies is striving to substantiate and enhance corporate governance and is involved in the promotion of activities intended for the enhancement of compliance, while efforts are made to improve the management organization, operational execution organization, as well as the auditing and supervising organization for the entire consolidated business entity.

### (2) Status of implementation for corporate governance

The Board of Directors is a decision-making organization for management, while it is also positioned as the supervisory organization for the execution of operations. The Board meets once a month for scheduled meetings, with extraordinary meetings held as needed, to deliberate and resolve basic policies of management and important matters, as well as to monitor and supervise the status of operational executions. In order to clarify the responsibilities of directors, and in order to make the management organization dynamic enough to respond in a speedy manner to the changing management environment, the term of office for directors was designated as one year in June 2000. As of the end of June 2005, eight directors, including three external directors, are fulfilling their roles as directors of the Board.

A new management organization involving the executive officer system at the core was implemented in June 2002 as part of the management structure reform based on the "Revitalization Action Plan." Intellectuals with various values were invited to join the Board as external directors. Clarifications were made to distinguish between the responsibilities of management and the responsibilities of operational executions, while aiming for a high degree of transparency in decision-making and operational executions that are speedy and accurate.

Auditors participate in the meetings of the Board of Directors, hold meetings of Board of Corporate Auditors, supervise the execution of duties by Directors, and execute operations at the company and affiliates both inside and outside Japan. Five auditors, including two external auditors, are performing these duties as of the end of June 2005.

In March 2003 we established a Management Supervision Department that is responsible for conducting internal audits on the overall execution of operations in the entire Kenwood Group and reporting to the Board of Directors.

There are two certified accountants who performed duties regarding the certification of an audit for the Kenwood Group, Hiroshi Kawamura and Yasunari Kunii. They are both representative partners (continuous auditing for two years) of Deloitte Touche Tohmatsu and employees thereof (five years). The auxiliary members for auditing duties include certified accountants, assistant accountants and other assistants, who number 12 in total.

Further, we will be promoting activities to enhance governance and compliance, by optimizing the use of our group resources, mainly with our core business operations, as well as establishing a consolidated management organization intended to conduct efficient management of business operations. We established the "Kenwood Compliance Guidelines," intended to serve as activity guidelines to be shared by all personnel throughout the Kenwood Group, for the purpose of forming an enterprise organization that is trusted by and evolves with society. We are also working to ensure that these guidelines are thoroughly implemented. Furthermore, we are aggressively promoting activities that emphasize the social responsibility of the corporation, or Corporate Social Responsibility (CSR). To this end, we established the "Kenwood Environmental Committee," chaired by the CEO, in order to enhance the countermeasures for risks relating to product sales and environmental measures. The "Environmental Protection Promotion Committee" and "Green Product Promotion Committee" have both been created within the committee, and the "Company-wide PL Committee" was established for the purpose of enhancing our undertakings relating to product liability. Additionally, in order to further cultivate consolidated management and strengthen corporate governance at affiliated companies, the General Consolidated Management Department was established on October 1st of this year by expanding and enhancing the General Consolidated Management Office of the General Management Strategy Department.

We submitted an affidavit declaring that we will be performing our duties in seriously regarding the provision of corporate information in a timely and appropriate manner at the time the regulations for the listing of securities were amended in January 2005. We have also started submission of the “Confirmation Regarding the Appropriateness of the Financial Report” to the Tokyo Stock Exchange, to indicate that there is no falsified information in our financial report or semi-annual report. We formulated our regulation regarding the timely disclosure of corporate information in response to these developments and are working to ensure that the entire Kenwood Group understands these regulations. We established the “Information Disclosure Committee,” which is chaired by the CFO, while auditing is conducted by our auditors and the Management Supervision Department to improve our organization and ensure that the disclosure of information is timely and appropriate.

# OPERATING RESULTS AND FINANCIAL POSITION

## 1. OVERVIEW OF INTERIM PERIOD UNDER REVIEW

In the interim period under review, the United States economy maintained its trend of expansion in overall terms as capital spending increased and real estate investment and personal consumption remained steady. This was despite decelerating factors such as soaring crude oil prices and hurricane impacts. The European economy, on the other hand, grew at a low rate as tightening capital spending budgets and lower employment rates resulted in stagnant domestic demand and a slowdown in personal consumption. In China, although growth rates fell off record figures due to the rise of the Chinese Yuan, the economy continued to remain strong as a result of increased domestic demand.

Domestically, the Japanese economy showed signs of gentle recovery despite the tough employment conditions that continued to exist. The recovery can be attributed to improving corporate profits, increased private capital spending and higher levels of personal consumption.

The very competitive environment found in the consumer electronics market continued to exist in the interim period under review. More specifically, the size of the audio market prolonged its shrinking trend as intensified competition put downward pressure on prices and as parts of the market transitioned to the multimedia and digital media sectors. Positive news was also seen in other markets. For example, sales of car navigation systems and visual devices remained strong in the car electronics market and the popularity of portable digital audio players rose in the home electronics market.

Amid these conditions, the Company was able to achieve higher than anticipated sales growth. This was mainly driven by the Car Electronics OEM business and the Communications Equipment business which showed stronger than anticipated expansion in line with the Company’s growth strategy. Despite this fact, prior investments necessary for growing revenues at a rapid pace in the Car Electronics OEM business increased the overall burden.

## 2. REVENUES AND INCOME

### (1) Consolidated Operating Results

► ***Net Sales***

Net Sales generated by the Car Electronics OEM business increased by 25% from the previous interim period mainly because of higher than anticipated growth. In addition, the Communications Equipment business also exceeded results posted in the previous interim period because of stronger than anticipated growth of wireless radio equipments in the US market and the weaker yen.

On the other hand, net sales decreased temporarily in consumer driven businesses such as the Car Electronics Consumer (Multimedia) and Home Electronics businesses mainly because of the effects of a strategy change introduced during the previous fiscal year. This decrease however was counteracted by the aforementioned increase in sales of the Car Electronics OEM and Communications Equipment businesses. Consequently, on a consolidated basis, net sales increased by 1.9% from the previous interim period (or an approximate JPY1.7 billion increase) to JPY90,069 million. This figure is in line with the numbers announced on October 14th of this year and is 12.6% higher than forecasted at the beginning of the current fiscal year.

► ***Operating Profit***

The increase in sales of wireless radio equipments led to higher than anticipated earnings levels in the Communications Equipment business. In fact, earnings of the business surpassed those of the previous period while covering the costs of research and development, a negative factor for profitability. In the Car Electronics Consumer business, the significantly improved profitability of the multimedia business as a result of a strategy change offset a drop in earnings in the audio business as a result of the effects of intensified competition. In overall terms, the Car Electronics Consumer business fell short of earnings posted in the previous interim period, which is in line with projections made at the beginning of the fiscal year. Similarly in the Home Electronics business, although we were not able to attain the projections made at the beginning of the fiscal year, the effects of a strategy change became evident as losses were cut in half from the previous interim period.

Next, aggressive prior investments into development and testing of devices were made in the rapidly growing Car Electronics OEM business as the Company prepared for the anticipated increase in product deliveries from next

fiscal year onwards. As a result, earnings were lower than anticipated and lower than those posted in the previous fiscal year.
Despite slight differences at the individual business level, in overall terms, consolidated operating profit decreased by 12.2% (or a JPY0.5 billion decrease) from the previous interim period to JPY3,535 million, in line with projections made at the beginning of the year.

► ***Ordinary Income***
Consolidated ordinary income fell 37.0% (or a JPY0.9 billion decrease) from the previous interim period to JPY1,529 million. This figure, which is 14.4% lower than projected at the beginning of the year, was mainly a result of a higher than anticipated extraordinary loss that was accounted for during this interim period under review. Specifically, the charge was associated with a review of inventory systems and a radical overhaul of products and components inventory in overseas locations for the Home Electronics and Car Electronics businesses. It is important to note that this is a one-time non-recurring charge.

► ***Interim Net Income***
As projected at the beginning of the fiscal year, extraordinary income associated with the repayment of certain past service pension assets to the national government totaled approximately JPY4.8 billion. On the other hand, an approximately JPY3.1 billion extraordinary charge was booked during the interim period under review. This charge is associated with the disposal of software used in the now retired products of the Car Electronics Consumer (Multimedia) business as a result of a strategy change and the depreciation of approximately JPY0.8 billion on fixed assets. As a result, consolidated interim net income decreased by 2.1% (or a JPY0.1 billion decrease) to JPY2,897 million, in line with projections made at the beginning of the fiscal year.

**<Net Sales and Earnings by Business Segment>**
Consolidated sales and earnings conditions in each business segment are as follows:

(JPY in million)

| Segment | | Previous Interim Period | Current Interim Period | Increase or Decrease | |
|---|---|---|---|---|---|
| Car Electronics | Net Sales | 52,805 | 54,196 | +1,391 | +2.6% |
| | Operating Profit | 2,219 | 793 | -1,426 | -64.3% |
| Communications Equipment | Net Sales | 26,934 | 27,857 | +923 | +3.4% |
| | Operating Profit | 3,393 | 3,604 | +211 | +6.2% |
| Home Electronics | Net Sales | 7,539 | 6,988 | -551 | -7.3% |
| | Operating Profit | -1,540 | -891 | +649 | - |
| Others | Net Sales | 1,097 | 1,028 | -69 | -6.3% |
| | Operating Profit | -48 | 29 | +77 | - |
| Total | Net Sales | 88,375 | 90,069 | +1,694 | +1.9% |
| | Operating Profit | 4,024 | 3,535 | -489 | -12.2% |
| | Ordinary Income | 2,427 | 1,529 | -898 | -37.0% |
| | Interim Net Income | 2,960 | 2,897 | -63 | -2.1% |

► ***Car Electronics Business***
**(Net Sales)**
The Car Electronics OEM business, which has been actively implementing a growth strategy, continued to enjoy strong performance in the interim period under review. In fact, revenues grew at a higher than anticipated rate of approximately 25% more than the previous interim period. The Car Electronics Consumer (Audio) business also achieved higher than anticipated sales despite the fact that the market is shrinking for the products. This was mainly due to strong sales of the high value added, 2005 line-up of car audio products. As a result, the business was able to capture more market share and exceed sales levels of the previous interim period.

On the other hand sales generated by the Car Electronics Consumer (Multimedia) business fell mainly because of the temporary decrease in the number of products available on the marketplace. This setback can be attributed to the fact that the Company changed its strategy to develop car navigation systems from a joint development system to an in-house only system during the previous interim period. However, two positive factors (i.e. the strong sales generated by the Car Electronics OEM business and the weaker yen) were able to counteract the aforementioned negative factors and as a result, net sales in the overall Car Electronics business exceeded initial projections to finish at JPY54,196 million, a 2.6% increase (or an approximate JPY1.4 billion) from the previous interim period.

***(Earnings)***

As projected at the beginning of the fiscal year, earnings fell from levels in the previous interim period. This was due to several factors. First, the effects of the Niigata-Chuetsu Earthquake and the associated cost increases in the Car Electronics Consumer business lingered through the first quarter of the fiscal year. Next, the market for devices from the Car Electronics Consumer business worsened during the interim period under review. There was also positive news. Profitability of the multimedia products group increased significantly as strategy changes led to improved competitiveness. This offset decreased earnings as a result of intensified competition in the audio group.

On the other hand, greater than anticipated levels of prior investments into development, design and testing were necessary in the Car Electronics OEM business as preparations for the greater number of orders as a result of rapid growth was projected.
Consequently, operating profit of the overall Car Electronics business dropped significantly (64.3% or approximately JPY1.4 billion lower than the previous interim period) from initial forecasts to finish at JPY793 million.

► ***Communications Equipment Business***
**(Net Sales)**
The main wireless radio equipments business posted higher than expected sales performance under the backdrop of strong conditions in the US market and steady growth in new emerging markets such as Europe and China. On the other hand, sales in the mobile phone line sales business fell as a result of a negative business climate in the mobile phone industry, the main source for handsets. Fortunately, the aforementioned sales increases in the wireless radio equipments business offset these drops and the weaker yen also contributed to improved results in the overall Communications Equipment business. Specifically, the business posted higher than anticipated sales (3.4% or approximately JPY0.9 billion higher than the previous interim period) totaling JPY27,857 million.

**(*Earnings*)**
The overall Communications Equipment business posted operating profit of JPY3,604 million for the interim period under review, 6.2% (or approximately JPY0.2 billion) higher than the previous interim period. This figure was also significantly higher than the forecasted earnings decreases announced at the beginning of the fiscal year. This positive result was achieved mainly as a result of the wireless radio equipments business generating stronger sales and thus significantly improved earnings. More importantly, such earnings were able to offset negative factors such as the decrease in sales of the mobile phone line sales business and the increase in R&D investments into digital wireless equipments.

► ***Home Electronics Business***
**(Net Sales)**
The overall Home Electronics business posted net sales of JPY6,988 million, or slightly higher than forecasts made at the beginning of the fiscal year. This figure is 7.3% (or approximately JPY0.6 billion) lower than the previous interim period. Several trends factored into this overall result. First, the decision in the previous fiscal year to shrink our presence in overseas markets for home theater products because of the growth of makers in emerging countries and the resultant high level of competition and price drops continued to have an effect into the interim period under review. On the other hand, the pure audio business and portable audio business aimed at the domestic market showed steady growth as product strategies that take advantage of the Company's high quality sound technologies and the popularity of digital media content took hold. This was important because these businesses have been positioned by the Company to be major profit units in the future.

**(*Earnings*)**
The decision to shrink our presence in overseas markets for home theater products introduced in the previous fiscal year and associated processing costs lingered into the current interim period under review. However, as expected, the effects of lower fixed costs also became evident. Furthermore, the planned launch of new products from the pure audio and portable audio businesses contributed to earnings. In overall terms, the Home Electronics business fell slightly short of forecasts made at the beginning of the year but succeeded in cutting operating losses by half from the previous fiscal year to finish at JPY891 million. Continued price drops in the market and the impact of a weaker yen had a negative effect on overall earnings.

**(2) Non-Consolidated Operating Results**
► ***Net Sales***
Similar to the reasons mentioned for consolidated results, net sales on a non-consolidated basis exceeded forecasts made at the beginning of the fiscal year by 11.4% to finish at JPY66,860 million, a 0.7% increase (or approximately JPY0.5 billion) from the previous interim period.

► ***Ordinary and Net Income***

Similar to the reasons mentioned for consolidated results, operating profit was generally in line with initial forecasts to finish at JPY1,480 million, a 52.8% decrease (or approximately JPY1.6 billion) from the previous interim period. Ordinary income fell by 71.3% (or approximately JPY2.5 billion) from the previous fiscal year to finish at JPY1,012 million. Finally, net income for the interim period exceeded initial forecasts but decreased by 11.0% (approximately JPY0.4 billion) from the previous fiscal year to finish at JPY3,524 million. This was mainly as a result of the generation of a reversal of allowances for investment losses from affiliated companies, the posting of an extraordinary income associated with the repayment of certain past service pension assets to the national government, and the partial recovery of business performance at overseas subsidiaries.

## 3. FINANCIAL POSITION

### (1) Assets, Liabilities and Shareholders' Equity at the End of the Interim Period under Review

As mentioned previously, the Company succeeded in redeeming preferred stocks through a public stock offering and implemented a capital reduction with compensation. In addition, retained earnings as a result of strong business performance during the interim period under review were also booked. As a result, total assets at the end of the interim period under review fell by JPY4.1 billion from the end of the previous interim period to JPY110,988 million.

In addition, interest-bearing liabilities fell by approximately JPY2.9 billion from the end of the previous interim period to finish at JPY33,058 million. This was despite the fact that approximately JPY3.9 billion of funds on hand were appropriated towards the disposal of preferred stock with compensation. Net debt also fell by approximately JPY3.8 billion to JPY18,497 million.

Shareholders' equity increased approximately JPY2.4 billion from the end of the previous interim period to JPY32,373 million, mainly as a result of the issuance of new shares worth JPY11.1 billion and the addition of net income during the interim period under review. This increase also factors in a reduction of capital with compensation worth JPY15 billion as a result of the disposal of Class B Preferred Stock. Consequently, the shareholders' equity ratio improved 3.1% from the end of the previous interim period to finish at 29.2%. Moreover, retained earnings increased by approximately JPY3.7 billion from the end of the previous interim period to JPY15,065 million.

(JPY in million)

| | End of Previous Interim Period | End of Interim Period under Review | Increase or Decrease | (Reference) End of Previous Fiscal Year |
|---|---|---|---|---|
| Total Assets | 115,068 | 110,988 | -4,080 | 116,137 |
| Interest-Bearing Liabilities | 35,922 | 33,058 | -2,864 | 31,088 |
| Net Debt | 22,278 | 18,497 | -3,781 | 15,147 |
| Shareholders' Equity | 30,010 | 32,373 | +2,363 | 33,132 |
| Shareholders' Equity Ratio | 26.1% | 29.2% | +3.1% | 28.5% |
| Retained Earnings | 11,323 | 15,065 | +3,742 | 13,199 |
| Interest Coverage Ratio | - | 15.22 | - | 13.64 |

Note: Interest coverage ratio is calculated by dividing the cash flow from operating activities by interest payments.

### (2) Cash Flow Conditions in the Interim Period Under Review

Cash flow from operating activities saw a net spending of approximately JPY5,391 million or a decrease of JPY0.1 billion as compared to the previous interim period. Positive factors to cash flow for the interim period under review included the increase in the decline of accounts receivable and the decrease in the increased level of inventory as compared to the previous interim period. Negative factors to cash flow included the increase in the decline of purchase liabilities from the prior interim period.

Cash flow from investing activities saw a net spending of JPY3,601 million, or JPY3.8 billion less than the previous interim period. This was mainly because of a significant decline in the revenues associated with the payback of fixed deposits and the sale of investment grade securities.

Cash flow from financing activities saw a net spending of JPY3,590 million, or JPY22.9 billion less than the previous interim period, mainly because of the fact that a large cash outflow associated with the repayment of loans carried out in the previous interim period was not required during the interim period under review. Cash inflow of JPY11 billion did occur as a result of the issuance of new shares to dispose of Class B Preferred Stock. Conversely, JPY15 billion of cash was utilized to dispose of preferred stock with compensation.

(JPY in million)

| | Previous Interim Period | Current Interim Period under Review | Increase or Decrease |
|---|---|---|---|
| Cash Flow from Operating Activities | 5,500 | 5,391 | -109 |
| Cash Flow from Investing Activities | 224 | -3,601 | -3,825 |
| Cash Flow from Financing Activities | -26,464 | -3,590 | +22,874 |
| Effects of Exchange Rate Changes on Cash and Cash Equivalents | 463 | 449 | -14 |
| Net Increase (or Decrease) of Cash and Cash Equivalents | -20,275 | -1,350 | +18,925 |
| Cash and Cash Equivalent at the Beginning of the Interim Period | 33,698 | 15,875 | -17,823 |
| Net Increase (Decrease) in Cash and Cash Equivalents in Accordance with the Change of Consolidated Subsidiaries | - | - | - |
| Cash and Cash Equivalents at the End of the Interim Period under Review | 13,423 | 14,525 | +1,102 |

## 4. EARNINGS OUTLOOK FOR FISCAL YEAR ENDING MARCH 2006

### (1) Consolidated Outlook

► ***Net Sales***

The Car Electronics OEM business is anticipated to continue on down the path of positive growth and exceed initial forecasts. However, market conditions and seasonal factors in other businesses are expected to put downward pressure on the consolidated results. In overall terms, however, the Company feels that an upward revision of JPY 5 billion for net sales from JPY180 billion to JPY185 billion is appropriate for the remainder of the fiscal year under review.

**(Car Electronics Business)**

The Car Electronics OEM business is projected to continue on its growth course and exceed initial forecasts by a significant margin. Similarly, the Car Electronics Consumer (Multimedia) business is also anticipated to show sales growth from the latter half of the fiscal year. This is because sales for visual devices in the market has shown steady growth and because the Company anticipates enhancing its existing product lineup by adding a high sound quality, AV integrated car navigation system onto the market during the 4th quarter. This device is a product of the transition the Company made towards full in-house development.

The business climate in Car Electronics Consumer (Audio) business is expected to remain severe for the remainder of the fiscal year. Nevertheless, the global launch of a new product lineup for 2006 in the 4th quarter (as planned) as well as sales growth during the interim period under review is anticipated to result in slightly higher than forecasted sales figures for the full year.
Consequently, the overall Car Electronics business is anticipated to slightly exceed initial forecasts.

**(Communications Equipment Business)**

In the communications area, the wireless radio equipments business is expected to continue growing while growth in sales by the mobile phone line sales business is in question because of existing market conditions. As a result, net sales are anticipated to be lower than forecasted for the latter half of the fiscal year but in overall terms, net sales are expected to exceed the forecasts made at the beginning of the fiscal year.

**(Home Electronics Business)**

The Home Electronics business plans to introduce a new group of pure audio and portable audio devices one by one ahead of the year-end sales battle. Nevertheless, net sales are anticipated to be lower than forecasted for the latter half of the fiscal year and slightly lower than the forecasts made at the beginning of the year. This is mainly because all signs point to continued contraction of the market for such products.

► ***Operating Profit***

Full year operating profit of the Car Electronics OEM business is anticipated to fall short of initial forecasts mainly because of the higher than anticipated prior investments made into development, design and capital investments in this area. These investments were necessary to expand and enhance the business in anticipation of stronger projections for growth from next fiscal year onwards. On the other hand, the Car Electronics Consumer and Home Electronics businesses are forecasted to finish the fiscal year strong despite worsening market conditions and the Communications Equipment business is forecasted to continue posting strong results as it did during the interim period under review. As a result, full year operating profit projections for the entire company remains unchanged at JPY10 billion.

**(Car Electronics Business)**
In response to rapid growth in the Car Electronics OEM business, the Company is expected to continue increasing prior investments into design and testing as a way to expand and enhance the business for next fiscal year onwards. This will temporarily worsen income conditions and as a result, the business will fall short of the initial forecast.

On the other hand, the Car Electronics Consumer business is forecasted to meet initial forecasts for the full year. We feel confident because improved profitability as a result of strategy changes made in the multimedia business is expected to continue having a positive effect in the latter half of the fiscal year as it did in the interim period under review. The Audio business is also forecasted to meet initial projections for the full year as the introduction of new products into the market in the 4th quarter is expected to push up profits. However, due to worsening conditions in the market environment, the overall consumer business is expected to fall short of full-year forecasts made at the beginning of the fiscal year.

For the above reasons, the overall Car Electronics business is anticipated to fall short of its initial operating profit forecasts for the full year.

**(Communications Equipment Business)**
The Communications Equipment business is expected to continue on its current form and post higher than forecasted operating profit for the full year. This is despite the presence of potentially negative issues such as variable factors in the mobile phone line sales business as a result of the changing climate in handset deliveries and seasonal factors in the US market for wireless radio equipments.

**(Home Electronics Business)**
In the Home Electronics business, the retirement of former products was completed in the interim period under review and the launch of a new lineup of pure audio and portable audio products is expected to result in strong earnings during the latter half of the fiscal year. Unfortunately, this is not expected to offset the shortfall announced for the interim period under review and as such, the business is projected to finish slightly lower than initial forecasts. One positive factor is that profitability is anticipated to greatly improve from the previous fiscal year.

► ***Ordinary Income***
The Company expects to continue reviewing its current inventory system and implementing drastic overhauls to its overseas products and components inventory system in order to minimize future risk factors. As a result, one-time extraordinary charges associated with inventory reserves and inventory write-downs are anticipated to be higher than initial forecasts. Consequently, the forecast for full year ordinary income has been revised downwards by JPY0.5 billion and the new forecast is JPY4.5 billion.

► ***Net Income***
As mentioned above, ordinary income is projected to fall short of initial forecasts. However, the Company expects to meet its initial forecasts for net income of JPY6 billion for the current fiscal year as a result of a higher than anticipated levels of extraordinary income generated during the fiscal year.

**<Consolidated Earnings Outlook>**

(JPY in million)

| | Previous Announced Forecasts | Revised Forecasts | Increase or Decrease | % Increase or Decrease | Actual Performance in Previous Fiscal Year |
|---|---|---|---|---|---|
| Net Sales | 180,000 | 185,000 | +5,000 | +2.8% | 181,112 |
| Operating Profit (Note) | 10,000 | 10,000 | - | - | 7,061 |
| Ordinary Income | 5,000 | 4,500 | -500 | -10.0% | 4,696 |
| Net Income | 6,000 | 6,000 | - | - | 4,836 |

Note: Operating profit which is not a figure that is announced has been included for reference purposes.

**(2) Non-Consolidated Outlook**

► ***Net Sales***

For reasons similar to those provided in consolidated outlook section, full-year net sales forecast on a non-consolidated basis has been revised upwards by JPY5 billion from JPY130 billion to JPY135 billion.

► ***Ordinary and Net Income***

The forecasts made at the beginning of the fiscal year for full year operating profit and ordinary income remains unchanged. However, due to a reversal of an allowance for investment losses at affiliated companies generated during the interim period under review, the forecast for full-year net income has been revised upwards by JPY0.5 billion from JPY4 billion to JPY4.5 billion.

**<Non-Consolidated Earnings Outlook>**

(JPY in million)

| | Previous Announced Forecasts | Revised Forecasts | Increase or Decrease | % Increase or Decrease | Actual Performance in Previous Fiscal Year |
|---|---|---|---|---|---|
| Net Sales | 130,000 | 135,000 | +5,000 | +3.8% | 130,413 |
| Ordinary Income | 2,500 | 2,500 | - | - | 3,768 |
| Net Income | 4,000 | 4,500 | +500 | +12.5% | 4,708 |

**[Note on Earnings Outlook]**

The earnings outlook discussed above for the consolidated fiscal year ending March 2006 is a future estimate based on judgments of the Kenwood Group obtained from currently available information. Actual results may differ materially from these earnings outlooks due to a variety of factors. Accordingly, the Company recommends that investment decisions not be made solely on the basis of these perspective outlooks.

In the electronics industry, which is the core businesses of the Kenwood Group, operating results are prone to sharp fluctuations due to changes in technologies, demand, prices, competition, economic environment, foreign exchange rates, and numerous other factors. For information on the risks and uncertainties concerning the Company's operating results and other conditions (including matters considered to be important for investment decisions), please refer to Section 5. "Business and Other Risks" included in this document.

## 5. BUSINESS AND OTHER RISKS

The risks inherent in matters relating to the operating results, stock price and financial position of the Kenwood Group that may exert a material affect on investors' decisions are discussed below.

The Business and other risks the Company acknowledges during this interim period have not changed from the beginning of the period.

**(1) Affect of economic conditions**

For the Company and affiliates of the Company (referred to below as "the Company group"), the majority of the home electronics products, car electronics products and communications products that are core products ("the Company group's products") assume the main purchaser segment will be individual consumers. The Company group's products also include many products supplied to the market in the form of OEM products; that is, categories such as car stereo products that are sold through customer firms (OEM customer firms) and target individual customers as the main assumed final purchaser segment. For the individual customers who are end users of the Company group's products, in many cases purchasing the Company group's products cannot be considered necessary or indispensable. Accordingly, the sales trends for the Company group's products have a propensity to fluctuate substantially because of economic conditions, business trends, personal consumption trends and other factors in the sales region, and the Company group's operating results or financial position might be affected adversely if these various factors do not work to the advantage of the Company group.

In addition, the majority of the Company group's products are characterized by the fact the sales volume in markets where the products are offered can be affected easily depending upon preferences and trends among the individual customers who are the products' end users. Accordingly, the Company group's operating results or financial position might be affected adversely if the Company group cannot develop and manufacture on a timely basis Company group products aligned with individual customer's preferences and trends or in response to these trends, or if the Company group cannot supply the Company group's products to the market at the appropriate time.

Moreover, although comparatively few in number, the Company group's products also include categories whose main buyers are public entities and corporate customers, such as radio equipment products used in government and municipal offices and private-sector companies in various countries and regions of the world. The sales volume of these Company group products also will vary according to the economic conditions, business trends, and political and fiscal policy trends in the countries and regions where the end users are located, and the Company group's operating results or financial position might be affected adversely by these factors.

**(2) Response to technological innovation**

As its main business, the Company group is engaged in the manufacture and sale of products that require rapidly evolving advanced technology. Because the pace of technological innovation in the markets for the Company group's products is extremely fast, however, there is a danger some of the Company group's products will lag the latest technological innovations and suffer from product obsolescence in the marketplace. The sales volume of such products may decline precipitously, and the Company group's operating results or financial position might be affected adversely as a result.

Because the speed of technological innovation in the markets for the Company group's products is remarkably fast, the traditional competitive framework among similar products can change within a short time period, and the competitive position of the Company group in the market for the products in question might be endangered depending upon the Company group's response to technological innovation trends. The Company group's operating results or financial position might be affected adversely as a result.

Furthermore, in the radio equipment products sector of communications products in particular, with regard to the direction and pace of the recent trend in digitalization, there is no guarantee the activities of the Company group to develop products that support digitalization will proceed appropriately to a position of competitive dominance in a form that will lead future digitalization trends.

**(3) Product quality competition and price competition in the market**

In markets for the Company group's products, aggressive competition to develop new products is growing. For the Company group's products such as car audio products and home audio products in particular, although the Company group seeks mainly to develop new, high-quality products that deliver superior sound quality, some domestic and foreign competitors also have adopted policies identical to the new product development policy of the Company group. There is a danger that demand for the Company group's products will fall, and the value of the Company group's brand name decline, if the Company group cannot prevail against these competitors, and the Company group's operating results or financial position might be affected adversely as a result.

On the other hand, although the Company group also had aimed at manufacturing and selling products such as car audio products and home audio products for the low-price bracket targeting young individuals in particular, for these kinds of products the price competition with even lower-priced same-category products being manufactured and sold mainly by China and Southeast Asian countries in particular has intensified, and currently the Company group has reduced its manufacturing and sales activities for these kinds of low-price bracket products. Although the Company group has determined that devoting its capital and resources to markets for high-quality products will be more profitable for the Company group than maintaining the size of its presence in the market for low-price bracket products, this judgment does not guarantee that the operating results or financial position of the Company group will develop steadily in the future. Conversely, if the market for low-price bracket products expands remarkably in the future, the Company group will be forced to accept an inferior competitive position relative to its competitors in this market, and the Company group's operating results or financial position might be affected adversely as a result.

**(4) Affect of foreign exchange market fluctuations**

Overseas sales account for more than 50% of the Company group's consolidated net sales. Because items denominated in local currencies, including the net sales, expenses and assets in each country and region are converted into yen to prepare the consolidated financial statements, their value after being converted into yen will be affected by exchange rates at the time of conversion. In general, appreciation of the yen against other currencies (particularly when the yen appreciates against the U.S. dollar and the euro, which account for a high percentage of the items denominated in local currencies) reduces the consolidated net sales of the Company group, and has the opposite effect of increasing consolidated net sales when the yen weakens.

An increase in the value of the currencies of countries and regions where the Company group conducts its manufacturing and sales activities may push up the costs of manufacturing and procurement in those countries and regions. An increase in costs may lower the consolidated profit margins and price competitiveness of the Company group, and this may have an adverse affect on operating results and financial position. Although the Company group employs currency hedge transactions using forward exchange contracts to keep the adverse effects caused by short-term fluctuations in the exchange rates between the yen and leading currencies such as the U.S. dollar and the euro to a minimum, in some situations the Company group cannot steadily implement its planned procurement, manufacturing, logistics and sales activities because of medium to long-term exchange rate fluctuations. Thus fluctuations in exchange rates may have an adverse affect on the Company group's operating results or financial position (particularly consolidated net sales).

**(5) Defects in the Company group's products**

Trust in the brand names of the Company group's products and the Company group may decline remarkably or be lost if defects occur the Company group's products after sale to the end users.

In addition to this reputation risk, depending upon the circumstances end users may pursue product liability actions or similar alternatives against the Company group. Although the Company group has taken measures such as purchasing product liability insurance to prepare for such contingencies, there is no guarantee the full amount of compensation or other payments for which the Company group would be responsible will in fact be covered by such insurance.

In the event an unforeseen defect has occurred in the Company group's products and caused the risks such as damaged reputation and lawsuits described above to be realized in this manner, the Company group's operating results or financial position might be affected seriously as a result.

**(6) Probability of achieving the mid-term management plan**

The Company group has publicly released a summary of "Value Creation Plan," the group's new second mid-term management plan, and begun efforts to achieve the plan objectives. Nevertheless, in the event the Company group is unable to proceed according to the initial objectives outlined in this plan, for example, or if it becomes clear actual conditions and results differ from those initially assumed in the plan, the Company group might be unable to achieve the results for operating results or financial position initially set in the business plan.

**(7) Research and development activities**

In order to bring products that are aligned with the preferences and trends of its main purchaser segments to the market in a timely manner, the Company group must continually invest capital and resources in new technological research and new product development. Nevertheless, there is no guarantee the Company group will be able to stably invest sufficient capital and resources in the future for research and development activities, and there also is no guarantee the sales volume of the Company group's products will always increase as a result of investing such capital and resources. Moreover, because the Company group is pressed by the need to look ahead and discern end user preferences and trends when pursuing its research and development activities, and because there are also times when its activities will suffer setbacks at the research and development stage prior to the manufacture and sale of a specific product, the research and development activities by the Company group also do not necessarily ensure the development and sale of products that are aligned with end user preferences and trends. Accordingly, the Company group's research and development activities may represent unproductive expenses and the Company group's operating results or financial position might be affected adversely as a result.

Moreover, if the capable, skilled engineers who support these research and development activities leave the Company group for some reason (including, but not limited to, being hired by competitors, a relative decline in the wage level and/or benefits offered by the Company group, and deterioration of the Company group's R&D environment), this may have a negative affect on the future research and development activities of the Company group and the Company group's operating results or financial position might be affected adversely.

**(8) Outsourcing of key device and software development, products, etc.**

The Company group's product development and manufacturing activities depend to a certain extent on outsourcing of purchasing, production and other activities to device suppliers, product development and product manufacturing firms, software developers, and parts developers and manufacturers that are outside of the Company group, or on joint development with such vendors. In the event of circumstances such as the deterioration of relationships with these outside vendors, or delays in the development and supply or termination of supply of goods including key devices, software, parts and products by these outside vendors, or a business slump at these outside vendors, the Company group's product development and manufacturing activities might be hindered and the Company group's operating results or financial position affected seriously as a result.

Moreover, some goods including key devices, software, parts and products on which the Company group's products depend are being developed and manufactured by only a limited number of vendors. If a situation arises in which these outside vendors become subsidiaries of competitors or conclude a monopoly or exclusive licensing agreement, continuous supply agreement or other contract with a competitor, the Company group will be pressed by the need to search for other suppliers of these goods including key devices, software, parts and products and make important changes to the development and manufacturing processes for the Company group's products. The Company group's operating results or financial position might be seriously and continually adversely affected as a result.

**(9) Intellectual property rights**

The Company group itself does not necessarily own and has not necessarily registered all of the intellectual property rights necessary to develop and manufacture the Company group's products. Rather, under current conditions the Company group uses the majority of these rights by paying licensing fees as value to the third-party owners, based on licensing or other agreements concluded with the third parties that own and have registered the intellectual property rights. Therefore, in some cases the Company group must always continue paying licensing fees to these third parties even when, for example, the Company group is unable to use the intellectual property rights received under license from the third parties to efficiently develop and produce new products. Moreover, there is no guarantee the Company group will be able to continuously use the intellectual property rights received under license from the third parties without change in the future or at the present licensing fee level. If a licensing agreement or other agreement between the Company group and a third party is terminated for some reason in the future and the Company group becomes unable to use the intellectual property right subject to said agreement, the Company group will be pressed by the need to develop alternative intellectual property rights itself, or search for another third party to supply this right, or make important changes to the development and manufacturing processes for the Company group's products. The Company group's operating results or financial position might be seriously and continually adversely affected as a result.

The Company group may not always be aware of all the intellectual property rights third parties own or have registered, and the Company group cannot assert there is no probability it is not unknowingly violating the intellectual property rights owned or registered by a third party by using such rights without permission, for example, or that such circumstances will not occur in the future. In the event such circumstances have arisen, the Company group might be requested by the third party to pay a licensing fee as value for the use of that intellectual property right, or face a lawsuit or legal action such as payment of compensation for damages or termination of use by the Company group based on the intellectual property right in question. As a result, the value of the Company group's brand name may fall, or the Company group may face a contingent liability for the equivalent value, and the Company group's operating results or financial position might be affected adversely.

With regard to intellectual property rights owned or registered by the Company group, the Company group might be unable to effectively prevent or eliminate violations such as unauthorized use or imitation by third parties. Among the Company group's products, problems have occurred frequently with radio equipment products for the Chinese market in particular, including manufacturers of similar products or other firms in China imitating the brand names of the Company group's products and selling inferior-quality, low-priced products. The value of the Company group's brand name may decline and the Company group's operating results or financial position might be adversely affected as a result.

**(10) Industry trends and reorganization**

Currently the manufacturing and sales industries for the Company group's products are obscuring the potential for new market development and growth as a result of the merger of product segments based on the creation of networks that cross the boundaries between industries and the proliferation of broadband. Nevertheless, these internal industry trends may redefine the structure of competition in the manufacturing and sales industries for the Company group's products within a short period of time. There is no guarantee the Company group will be able to maintain its current position in the industry following such change in the competitive structure. If the Company group cannot maintain its present position in the industry, the Company group's operating results or financial position might be affected adversely.

Although no mergers and acquisitions of conspicuous scale or content, technology or capital tie-ups, joint venture promotions or M&A activities can be noted in the manufacturing and sales industries for the Company group's products at the present time, such mergers and acquisitions may occur often in the future. Should such mergers and acquisitions actually occur frequently, the Company group might be unable to skillfully take advantage of this trend and will be unable to maintain its present position in the industry, and the Company group's operating results or financial position might be affected adversely as a result.

Moreover, if the Company group decides to pursue mergers and acquisitions and technology or capital tie-ups, and promote joint venture and OEM businesses and other M&A activities in the industry independently in the future, there is no guarantee the Company group will be able to skillfully bring such transactions to a successful conclusion. Depending on the consequences of such transactions, the Company group might be unable to maintain its present position in the industry, and the Company group's operating results or financial position might be affected adversely.

**(11) Tax loss carry-forward amount**

The Company group currently does not pay corporation taxes in Japan because it has a substantial tax loss carry-forward amount, and as a result of the loss carry-forward the amount of its loss during each business fiscal year exceeds earnings. If the carry-forward of the loss amount held by the Company group is no longer permitted in the future for reasons such as tax system reform, and the amount of earnings exceeds the amount of losses including the loss amount carry-forward for the earnings calculation during the business fiscal year, the Company group will have to begin payment of corporation taxes within Japan as well. This may affect the Company group's earnings and cash flow.

**(12) Retirement pension benefit obligation**

The Company group's employee retirement benefit expense and obligation are calculated based on assumptions such as the discount rate that are set for mathematical principle calculations, and the expected rate of return of pension assets. Because the affects are cumulative when actual results differ from the assumptions or when the assumptions have been changed, and these affects will be recognized regularly during future years, normally they will affect the expense recognized in future periods and the obligation recognized for accounting purposes. Reductions in the discount rate or deterioration of the investment yield may have an adverse affect on the Company group's operating results or financial position.

**(13) Security**

With the digitalization and rapid development of social data in recent years, the threat of various problems and crimes based on illegal access or lack of proper control of various data that firms possess has gradually increased and emerged as a major social concern. The Company group also must respond to these social and technological trends appropriately and on a timely basis, and is pursuing measures such as preparing and strengthening its controls for personal data. It must be noted, however, that constructing a perfect defense plan to prevent network crimes and foil criminal conduct by individuals and groups with malicious intent, which are becoming more sophisticated and escalating with each passing day, is extremely difficult, and the Company's brand or social evaluation might be affected adversely by an incident, such as a circumstance under which various types of data in the Company's possession is divulged outside the group.

**(14) Affect of large-scale disasters, political unrest, etc.**

The normal operations and work of the Company group's facilities and employees or those of various vendors, customers and logistics firms might be hampered by the occurrence of various disasters including large-scale disasters such as earthquakes and tsunami, the outbreak of an epidemic such as SARS, political unrest, terrorist activities, fires, flood damage and the disruption of community lifelines such as electricity. Technically and economically, it is difficult to respond to every type of conceivable disaster by preparing appropriate disaster recovery measures or equipment. Accordingly, the Company group's activities might be affected temporarily or for a certain period of time if a disaster such as those mentioned above occurs.

**(15) Public laws and regulations**

The Company group's businesses are conducted from the worldwide offices that develop each business and are subject to application of the laws and various regulations in each country. For example, the Company group's businesses are subject to application of commercial regulations, regulations prohibiting monopolies, import restrictions to protect national security, tax systems, consumer protection regulations, environmental protection regulations, business and investment permits and licenses, and other regulations. In addition, the obligation to ensure safe management for the protection of personal data of customers and other parties has been imposed on firms. Although the Company group endeavors to comply with all laws and regulations, if the Company group is unable to observe such laws and regulations for unanticipated reasons the Company group's business activities might be restricted, and this might lead to higher costs. These regulations might have an adverse affect on the Company group's operating results or financial position.

**(16) Environmental protection**

To respond appropriately to environmental protection regulations on firms' business activities and products and services, which are being strengthened around the world, the Company group recognizes the social responsibility imposed on firms to address environmental problems and is working positively and continuously to protect the global environment and resources and supply environmentally-friendly products. Nevertheless, it is impossible to guarantee the Company group will completely prevent or mitigate discharges into the environment of restricted materials that exceed environmental standards because of an accident or other incident. Moreover, the Company group also cannot completely eliminate the possibility of being held responsible for removal and clean-up costs if restricted materials remain in the soil at factory sites or other locations in excess of legal standards, or the possibility this will negatively affect site sales prices, and the Company group's operating results or financial position might be affected adversely by these costs.

**(17) Matters related to changes in financial position, etc.**

**i) Valuation of investment securities**

The Company group owns the stock and other instruments of other firms, including its transaction financial institutions, and other negotiable securities with a market price (acquisition cost of ¥2.4 billion and balance sheet value of ¥4.4 billion at the end of the interim period under review). Because the Company group values these other negotiable securities with a market price using the market price valuation method based on average market prices for the one month period prior to the end of the consolidated interim period, there is a possibility the amount shown on the balance sheet might change depending on average stock prices for that one month period. Moreover, such assets will be impaired when the market price falls markedly compared with the purchase price. The Company group's operating results or financial position might be affected adversely by these factors.

**ii) Latent losses on land**

For land revalued based on the Law Concerning Revaluation of Land, the difference between the revaluation amount of land at market prices at the end of the interim period and the book value was -¥2.4 billion, which created a latent loss on land. This latent loss will be realized if the land is sold or otherwise disposed of, and this might adversely affect the Company group's operating results or financial position.

**iii) Asset impairment accounting for fixed assets**

There is a possibility that the fixed assets including tangible fixed assets, intangible fixed assets, investment and other assets held by the Company group might become subject to asset impairment accounting. In such a case, the Company group's operating results or financial position might be affected adversely.

## Interim Consolidated Balance Sheet
(As of September 30th, 2005)

(Unit: Millions of Yen)

| Item | | End of Previous Interim Period (4/1/04 ~ 9/30/04) | | End of Current Interim Period (4/1/05 ~ 9/30/05) | | End of Previous Fiscal Year (4/1/04 ~ 3/31/05) | |
|---|---|---|---|---|---|---|---|
| | | Amount | % | Amount | % | Amount | % |
| (Assets) | | | | | | | |
| I | Current Assets | 77,193 | 67.1 | 74,277 | 66.9 | 77,619 | 66.8 |
| | Cash and cash equivalents | 13,644 | | 14,561 | | 15,941 | |
| | Trade notes and accounts receivable | 29,961 | | 28,439 | | 31,501 | |
| | Inventories | 27,546 | | 27,048 | | 25,257 | |
| | Prepaid expenses | 649 | | 834 | | 597 | |
| | Deferred tax assets | 909 | | 726 | | 692 | |
| | Other current assets | 5,387 | | 3,474 | | 4,414 | |
| | Allowance for doubtful receivables | (904) | | (808) | | (785) | |
| II | Fixed Assets | 37,723 | 32.8 | 36,545 | 33.0 | 38,400 | 33.1 |
| (1) | Tangible fixed assets | 25,232 | 21.9 | 23,152 | 20.9 | 23,555 | 20.3 |
| | Building and other structures | 19,564 | | 18,350 | | 18,090 | |
| | Plant, machinery and equipment | 17,143 | | 17,936 | | 17,054 | |
| | Tools, furniture and fixtures | 11,774 | | 13,484 | | 12,780 | |
| | Land | 11,933 | | 10,360 | | 10,796 | |
| | Construction in progress | 30 | | 10 | | 148 | |
| | Total | 60,446 | | 60,142 | | 58,871 | |
| | Accumulated depreciation | (35,213) | | (36,989) | | (35,315) | |
| (2) | Intangible fixed assets | 8,162 | 7.1 | 6,638 | 6.0 | 8,335 | 7.2 |
| (3) | Investments and other assets | 4,327 | 3.8 | 6,754 | 6.1 | 8,335 | 7.2 |
| | Marketable investment securities | 2,269 | | 4,618 | | 3,913 | |
| | Deferred tax assets | 722 | | 847 | | 899 | |
| | Other investments | 1,573 | | 1,376 | | 1,778 | |
| | Allowance for doubtful receivables | (238) | | (87) | | (83) | |
| III | Deferred Assets | 150 | 0.1 | 165 | 0.1 | 117 | 0.1 |
| | New stock issuing expenses | 150 | | 165 | | 117 | |
| | Total Assets | 115,068 | 100.0 | 110,988 | 100.0 | 116,137 | 100.0 |

(Unit: Millions of yen)

| Item | End of Previous Interim Period (4/1/04 ~ 9/30/04) | | End of Current Interim Period (4/1/05 ~ 9/30/05) | | End of Previous Fiscal Year (4/1/04 ~ 3/31/05) | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| (Liabilities) | | | | | | |
| I Current Liabilities | 69,480 | 60.4 | 66,262 | 59.7 | 66,735 | 57.5 |
| Trade notes and accounts payable | 16,968 | | 17,412 | | 18,461 | |
| Short term bank borrowings | 35,526 | | 33,058 | | 31,088 | |
| Accounts payable (non trade) | 7,745 | | 6,815 | | 8,586 | |
| Income taxes payable | 310 | | 489 | | 451 | |
| Accrued expenses | 7,294 | | 7,127 | | 6,668 | |
| Deferred tax liabilities | 40 | | 8 | | 7 | |
| Other current liabilities | 1,593 | | 1,350 | | 1,470 | |
| II Long Term Liabilities | 15,577 | 13.5 | 12,352 | 11.1 | 16,269 | 14.0 |
| Long term debt | 396 | | - | | 0 | |
| Accrued retirement benefit for employees | 12,672 | | 9,100 | | 13,492 | |
| Deferred tax liabilities as a result of land revaluations | 2,173 | | 2,058 | | 2,173 | |
| Deferred tax liabilities | 298 | | 980 | | 565 | |
| Other long term liabilities | 35 | | 212 | | 37 | |
| Total Liabilities | 85,057 | 73.9 | 78,614 | 70.8 | 83,004 | 71.5 |
| Minority Interests | - | - | - | - | - | - |
| (Shareholders' Equity) | | | | | | |
| I Paid-in capital | 14,409 | 12.5 | 11,059 | 10.0 | 14,947 | 12.9 |
| II Capital surplus | 12,481 | 11.2 | 13,373 | 12.0 | 13,373 | 11.5 |
| III Retained earnings | 11,323 | 9.8 | 15,065 | 13.6 | 13,199 | 11.4 |
| IV Land revaluation surplus | 3,167 | 2.8 | 2,999 | 2.7 | 3,167 | 2.7 |
| V Unrealized gain or loss on marketable securities | 238 | 0.2 | 1,183 | 1.1 | 619 | 0.5 |
| VI Translation adjustments | (11,914) | -10.4 | (11,232) | -10.1 | (12,109) | -10.4 |
| VII Treasury stock | (55) | -0.0 | (74) | -0.1 | (64) | -0.1 |
| Total Shareholders' Equity | 30,010 | 26.1 | 32,373 | 29.2 | 33,132 | 28.5 |
| Total Liabilities, Minority Interests and Shareholders' Equity | 115,068 | 100.0 | 110,988 | 100.0 | 116,137 | 100.0 |

## Consolidated Statement of Income

(Unit: Millions of Yen)

| Item | End of Previous Interim Period (4/1/04 ~ 9/30/04) | | End of Current Interim Period (4/1/05 ~ 9/30/05) | | End of Previous Fiscal Year (4/1/04 ~ 3/31/05) | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Net Sales | 88,375 | 100.0 | 90,060 | 100.0 | 181,112 | 100.0 |
| Cost of Goods Sold | 66,167 | 74.9 | 68,839 | 76.4 | 137,663 | 76.0 |
| Gross Profit | 22,208 | 25.1 | 21,229 | 23.6 | 43,448 | 24.0 |
| Selling, General and Administrative Expenses | 18,183 | 20.6 | 17,693 | 19.7 | 36,387 | 20.1 |
| Operating Profit | 4,024 | 4.5 | 3,535 | 3.9 | 7,061 | 3.9 |
| Non-Operating Profit and Loss | | | | | | |
| Interest Income and Dividends | 62 | | 96 | | 126 | |
| Other Non-operating Income | 950 | | 277 | | 1,335 | |
| Sub-Total | 1,013 | 1.2 | 373 | 0.4 | 1,461 | 0.8 |
| Non-Operating Loss | | | | | | |
| Interest Expense | 870 | | 352 | | 1,247 | |
| Other Non-Operating Losses | 1,739 | | 2,026 | | 2,578 | |
| Sub-Total | 2,610 | 3.0 | 2,379 | 2.6 | 3,826 | 2.1 |
| Ordinary Profit | 2,427 | 2.7 | 1,529 | 1.7 | 4,696 | 2.6 |
| Extraordinary Profit | | | | | | |
| Reversal of Allowance for Doubtful Receivables | 28 | | 1 | | 38 | |
| Gain on Sales of Marketable Securities | 599 | | 21 | | 599 | |
| Gain on Sale of Fixed Assets | 87 | | 40 | | 215 | |
| Reversal of Patent Fees from Previous Year | - | | - | | 149 | |
| Adjusted Amount from Affiliated Companies | - | | - | | 16 | |
| Amount of Certain Pension Assets Returned to the Government | - | | 4,763 | | - | |
| Reversal of Losses Arising from the Reorganization of Affiliated Companies | - | | 20 | | - | |
| Sub-Total | 714 | 0.8 | 4,847 | 5.4 | 1,018 | 0.5 |
| Extraordinary Loss | | | | | | |
| Loss on Devaluation and Sales of Golf Memberships | - | | 0 | | 6 | |
| Loss on Devaluation of Marketable Securities | 4 | | 247 | | 13 | |
| Retirement Allowances Paid to Directors | 12 | | - | | 12 | |
| Loss on Disposal and Sale of Fixed Assets | 71 | | 2,076 | | 232 | |
| Impairment Loss | - | | 784 | | - | |
| Lease Cancellation Losses | - | | 36 | | - | |
| Losses Arising from the Reorganization of Affiliated Companies | - | | - | | 172 | |
| Impairment Losses from Overseas Subsidiaries | - | | - | | 14 | |
| Sub-Total | 88 | 0.1 | 3,144 | 3.5 | 452 | 0.2 |
| Income before Income Tax and Minority Interests | 3,053 | 3.4 | 3,233 | 3.6 | 5,263 | 2.9 |
| Corporate Tax, Corporate Inhabitant Tax and Corporate Enterprise Tax | 56 | 0.1 | 277 | 0.3 | 404 | 0.2 |
| Deferred Corporate Tax | - | - | 127 | 0.1 | - | - |
| Corporate Tax and Other Adjustments | 37 | 0.0 | (69) | -0.0 | 22 | 0.0 |
| Net Income | 2,960 | 3.3 | 2,897 | 3.2 | 4,836 | 2.7 |

## Interim Consolidated Statements of Retained Earnings

(Unit: Millions of yen)

| Item | End of Previous Interim Period (4/1/04 ~ 9/30/04) | | End of Current Interim Period (4/1/05 ~ 9/30/05) | | End of Previous Fiscal Year (4/1/04 ~ 3/31/05) | |
|---|---|---|---|---|---|---|
| (Capital Surplus) | | | | | | |
| I Beginning balance of capital surplus | | - | | 13,373 | | - |
| II Increase in additional capital surplus | | | | | | |
| 1 Issuance of new shares through an increase in capital | 10,982 | | - | | 11,514 | |
| 2 Increase by capital reduction | 1,859 | 12,841 | - | - | 1,859 | 13,373 |
| III Decrease in additional paid-in capital | | | | | | |
| Transfer to retained earnings | | - | | - | | - |
| IV Ending balance of capital surplus | | 12,841 | | 13,373 | | 13,373 |
| (Retained Earnings) | | | | | | |
| I Beginning balance of retained earnings | | (9,777) | | 13,199 | | (9,777) |
| II Increase in retained earnings | | | | | | |
| 1 Net income during the (interim) term | 2,960 | | 2,897 | | 4,836 | |
| 2 Increase by capital reduction | 18,140 | | - | | 18,140 | |
| 3 Transfer from land revaluation surplus | - | 21,101 | 167 | 3,065 | - | 22,976 |
| III Decrease in retained earnings | | | | | | |
| 1 Dividends | - | | 1,148 | | - | |
| 2 Compensation paid to directors | - | | 46 | | - | |
| 3 Employee fellowships | - | | 5 | 1,199 | - | |
| IV Ending balance of retained earnings | | 11,323 | | 15,065 | | 13,199 |

## Interim Consolidated Statements of Cash Flows

(Unit: Millions of yen)

| Item | Previous Interim Period (4/1/04 ~ 9/30/04) Amount | Current Interim Period (4/1/05 ~ 9/30/05) Amount | Previous Fiscal Year (4/1/04 ~ 3/31/05) Amount |
|---|---|---|---|
| I Cash Flows from Operating Activities: | | | |
| 1 Net income during (interim) term before income taxes and minority interests | 3,053 | 3,233 | 5,263 |
| 2 Depreciation | 3,726 | 3,549 | 7,821 |
| 3 Impairment Loss | - | 784 | - |
| 4 Amortization | 29 | 29 | 62 |
| 5 Increase(decrease) in allowance for doubtful accounts | 6 | 6 | (267) |
| 6 Increase in allowance for employees' retirement | 878 | (4,384) | 1,693 |
| 7 Interest revenue and dividend income | (62) | (96) | (126) |
| 8 Interest expense | 870 | 352 | 1,247 |
| 9 Investment gain/loss by equity method | (45) | - | (45) |
| 10 Gain(loss) on sale of investment securities | (599) | (21) | (599) |
| 11 Loss on devaluation of investment securities | 4 | 247 | 13 |
| 12 Loss on devaluation/sales of membership | - | 0 | 6 |
| 13 Loss on disposal of fixed assets | 65 | 2,072 | 211 |
| 14 Loss on sale of fixed assets | (82) | (36) | (193) |
| 15 Impairment losses from overseas subsidiaries | - | - | 14 |
| 16 Gain on closing affiliated companies | - | - | (16) |
| 17 Loss from reorganizing affiliated companies | - | - | 172 |
| 18 Decrease in trade notes and accounts receivable | 2,128 | 3,837 | 424 |
| 19 Increase(decrease) in inventories | (2,236) | (1,278) | 0 |
| 20 Decrease in accounts payable | (1,269) | (3,570) | 982 |
| 21 Increase(decrease) in consumption tax payable | 54 | 54 | (21) |
| 22 Increase(decrease) in consumption tax refunds receivable | (309) | 83 | (69) |
| 23 Amount paid as bonuses to directors | - | (46) | - |
| 24 Others | 333 | 1,051 | 582 |
| Sub-Total | 6,548 | 5,868 | 17,156 |
| 25 Interest dividends received | 63 | 96 | 127 |
| 26 Interest paid | (725) | (354) | (1,139) |
| 27 Income taxes paid | (372) | (218) | (592) |
| 28 Disbursement to directors for retirement | (12) | - | (12) |
| Net cash provided by operating activities | 5,500 | 5,391 | 15,539 |
| II Cash Flows from Investing Activities: | | | |
| 1 Increase in (deposit to) time deposits | (407) | (2) | (407) |
| 2 Decrease in (withdrawal from) time deposits | 3,876 | 33 | 4,032 |
| 3 Capital investment (real estate, plants and equipment) | (1,686) | (1,663) | (4,216) |
| 4 Proceeds from sales of real estate, plant and equipment | 81 | 49 | 2,208 |
| 5 Purchase of intangible fixed assets | (2,279) | (2,037) | (4,700) |
| 6 Purchase of investment securities | (51) | (10) | (1,122) |
| 7 Proceeds from sales of investment securities | 625 | 31 | 625 |
| 8 Cash outflow as a result of repaying loans | (0) | (0) | (0) |
| 9 Proceeds from the collection of loan | 64 | 0 | 64 |
| 10 Execution of long-term loans receivable | - | (1) | - |
| 11 Proceeds from the collection of long-term loan | 2 | 0 | 2 |
| Net cash used in investing activities | 224 | (3,601) | (3,513) |
| III Cash Flows from Financing Activities: | | | |
| 1 Increase (decrease) in short-term bank borrowings, net | (18,058) | 2,524 | (22,404) |
| 2 Repayments of long-term debt | (14,142) | (923) | (14,688) |
| 3 Proceeds from issuance of stock | 21,879 | 11,004 | 22,941 |
| 4 Outflow as a result of the redemption (with compensation) of class-A preferred stock | (16,100) | - | (16,100) |
| 5 Outflow as a result of the redemption (with compensation) of class-B preferred stock | - | (15,000) | - |
| 6 Dividend payments | - | (1,148) | - |
| 7 Others | (43) | (48) | (82) |
| Net cash (used in) provided by financing activities | (26,464) | (3,590) | (30,333) |
| IV Effect of exchange rate fluctuations on cash and cash equivalents | 463 | 449 | 406 |
| V Net increase (decrease) in cash and cash equivalents | (20,275) | (1,350) | (17,901) |
| VI Cash and cash equivalents at beginning of the fiscal year | 33,698 | 15,875 | 33,698 |

| | | | | |
|---|---|---|---|---|
| VII | Net increase (decrease) in cash and cash equivalents in accordance with a change in the number of consolidated subsidiaries | - | - | 78 |
| VIII | Balance of cash and cash equivalents at the end of the interim period | 13,423 | 14,525 | 15,875 |