

ANNUAL REPORT 2009

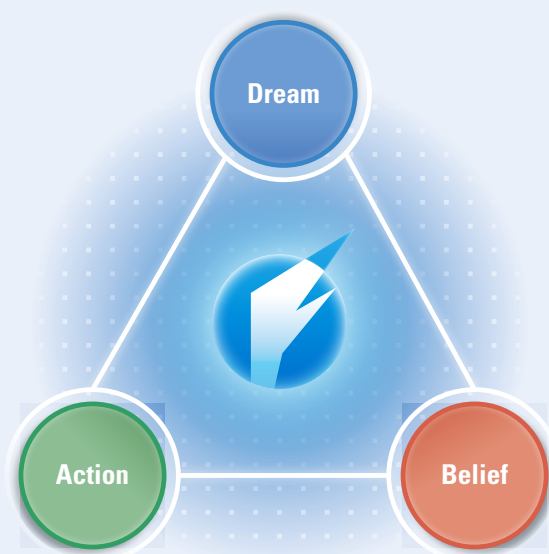


Corporate Philosophy

**Better
Products**

**Greater
Trust**

**Co-Existence
and
Co-Prosperity**



Since its establishment, Funai Electric has built considerable trust in the consumer electronics field by providing superior electronic goods with a focus on functionality and by promoting Funai product cost-performance.

Our unique production system, the “FPS (Funai Production System)”, our technical strength in mechatronics and our optimized global production/sales system, in addition to a slim corporate profile and speedy management, are vital management resources that have been nurtured throughout the company’s history. Funai believes that these resources will become our greatest assets as we battle for survival in an increasingly competitive industry and during the increasing promulgation of digital/IT technologies.

Funai Electric’s desire is to bring the entire Group together, improve quality, delivery and cost even further, and provide the world with products that meet the demands of the times.

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Financial Highlights

Years ended March 31, 2009 and 2008

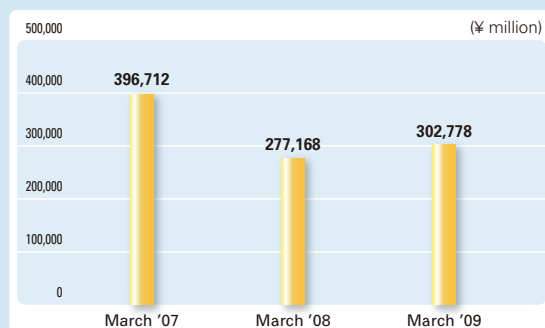
FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

	(Millions of yen)		(Thousands of U.S.dollars)
	2009/3	2008/3	2009/3
Financial Year :			
Net sales	¥ 302,778	¥ 277,168	\$ 3,082,337
Operating income (loss)	1,410	(2,406)	14,354
Net loss	(17,365)	(5,377)	(176,779)
Per Share (yen and U.S.dollars) :			
Net loss	¥ (509.33)	¥ (157.71)	\$ (5.19)
Cash dividends	40.00	50.00	0.41
End of Financial Year :			
Total equity	¥ 135,596	¥ 158,356	\$ 1,380,393
Total assets	199,883	224,415	2,034,847
Number of employees	2,590	2,628	—

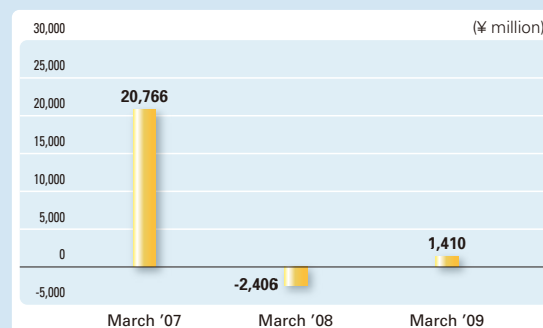
Note-1 : The exchange rate of ¥98.23=U.S.\$1.00 (as of March 31, 2009 in the Tokyo foreign exchange market) is used for the above calculations.

Note-2 : The figure for total number of employees does not include those employees of outsourced production facilities located in China.

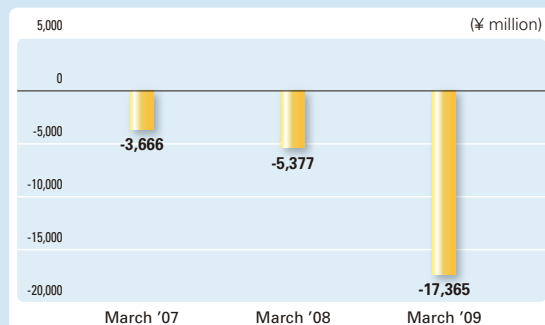
Net sales



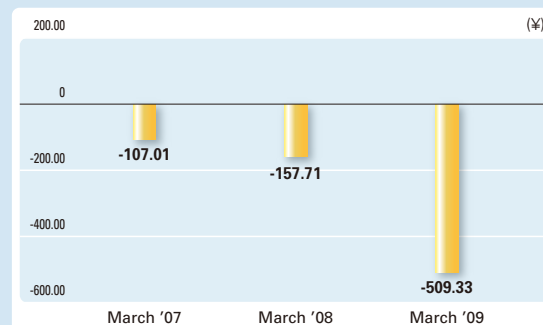
Operating income (loss)



Net loss



Net loss per share



To Our Shareholders



President and CEO

Tomonori Hayashi

The consumer electronics industry in which Funai participates has continued to experience a rapid decline in product prices as a result of shortened product life cycles and intensive price competition among global firms, and accelerating the pace of product development has become increasingly important. Added to this has been the emergence of conditions in which changes in consumer lifestyles and advances in digital and information technology have stimulated new consumer needs for digital-related products.

The business environment during the current period (fiscal year ended March 2009) was also challenging. Funai managed its business under extremely severe conditions, as the financial crisis that began in the subprime loan problem in the United States spread to the real economy and sparked an extremely serious global recession.

As its top priority for the current year, Funai pursued efforts designed to “realize a return to profitability” in its core TV business, and during the first half net sales and earnings exceeded Funai’s initial plan. Although operating results for the full year unfortunately did not reach the targets in our plan from the beginning of the year because of the abrupt change in the business environment during the second half, we were able to achieve higher net sales compared with the previous period, and reported positive operating income, a welcome change from the operating loss in the previous consolidated fiscal year. For the current period, net sales increased 9.2% year-on-year to 302,778 million yen, and operating income was 1,410 million yen, compared with an operating loss in the previous period of 2,406 million yen.

The measures Funai has taken in the past began to steadily demonstrate results during the current period. Our tasks now are to steer a course that will put Funai on the path to greater growth in the years ahead, strengthen our ability to generate earnings, and address new challenges with the capabilities of the entire Funai Group.

We look forward to continuing to receive your understanding and support for Funai’s efforts in the future.

July 2009

A handwritten signature in black ink, appearing to read 'Tomonori Hayashi', written in a cursive style.

President and CEO
Tomonori Hayashi

Interview with the President

Key Results for the Consolidated Fiscal Year Ended March 2009

During the current year Funai was able to lay the strategic groundwork for growth in the years ahead.

In the previous year, Funai reported the first operating deficit since it began releasing its consolidated operating results. The main reason was that the TV business centered on LCD televisions, a field in which Funai is focusing management resources as a key sector for the future, failed to achieve its sales objective and incurred a loss because of a decline in profitability.

The Funai Group declared “a rapid return to profitability in the TV business” during the current year to be its top priority, and consequently pushed ahead with the reorganization of its business structure to concentrate on the TV business. While we must still describe this effort as “a work in progress” at the present time, the results of this approach were evident in the operating results for the current year, and we were able to achieve positive consolidated operating income.

To carry out the reorganization of Funai’s business structure, we sought to establish our “branding strategy” and “strengthen cost competitiveness.”

As a “branding strategy” we strove to expand earnings opportunities by diversifying the Company’s brands. To the Sylvania and Emerson brands, the leading brands produced under license by the Funai Group, we were able to newly add the Philips and Magnavox names as a result of the brand licensing agreement concluded with Royal Philips Electronics in 2008 for the North America TV business. As a result, in each market position in the

core North America market Funai was able to market four brands that are trusted names, and undertake development of strategic products through a multi-brand marketing effort using these products as a base. Funai’s ownership of non-overlapping multiple brands that provide a point of direct contact with end consumers can be described as a major strength that is linked directly to our first steps for future growth.

To “strengthen cost competitiveness” Funai worked to lower selling, general and administrative expenses by implementing a series of cost measures throughout the entire product cycle, from product planning, development, materials procurement, manufacturing and sales to after-sales service, with an emphasis on speed, thorough inventory controls and additional efforts to expand net sales.

This series of measures has unquestionably strengthened the TV business-centered business structure of the Funai Group. In that sense we can say this year was the year when we laid the groundwork for a leap in growth beginning in the next consolidated fiscal year.



■ The four brands being developed by the Funai Group

PHILIPS **MAGNAVOX** **SYLVANIA**  **Emerson**

Prospects and Measures for the Consolidated Fiscal Year Ending March 2010

We believe today's period of uncertainty and rapid change is an opportunity for Funai to expand its business.

The market environment for the audio-visual equipment category is currently undergoing a period of uncertainty and rapid change.

In the television segment, CRT TVs have disappeared almost entirely while shipments of LCD televisions have risen significantly. In addition, in the DVD segment, sales are expanding rapidly for Blu-ray disc players, which have effectively become the global standard. In other words, in the audio-visual equipment category the market is racing into a new “full-scale diffusion period,” with LCD televisions and Blu-ray disc players in the leading role.

At the same time, changes in consumer buying behavior are evident as well. With many people worried about their job security and feeling uncertain about the future because of the rapid, steep recession that has swept around the world since last autumn, consumers are

seeking to cut expenses by going out less often and there has been an increase in “nesting consumption” aimed at purchasing products that can be enjoyed at home. While prices on LCD televisions are already falling because of stiff price competition, this has created conditions that will spur further price cutting in the audio-visual equipment category as sales of reasonably-priced home entertainment products climb steadily as a result of such nesting consumption.

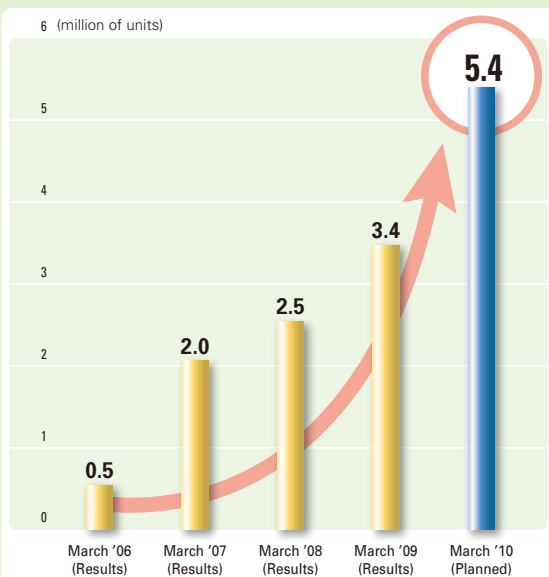
Given the combination of “diffusion period” market timing and “nesting consumption”-style purchasing, LCD television and Blu-ray disc player-related products are expected to drive rapid expansion in the size of the market in the future, particularly for products that combine high quality with low prices.

Funai believes these market circumstances represent a major opportunity for us. The source of Funai's cost competitiveness is the “FPS (Funai Production System),” a unique production system that is Funai's greatest strength, and the Company's strong business relationship with leading sales channels, including the world's largest retailers, has become a driving force that will increase product sales of the entire Funai Group.

In LCD televisions, Funai has broadened its product lineup, strengthened its brand positioning and enhanced its sales company organization. New development of Blu-ray disc player-related products is on track as well. Nearly all of the conditions that will enable Funai to significantly expand sales volume through well-timed introductions of the products the market demands are in place.

For its core LCD televisions in particular, Funai will seek to lay the foundation for a leap in future growth with the goal of achieving a 55.6% year-on-year increase in sales to 5.4 million units in the consolidated fiscal year ending March 2010.

LCD television unit sales



Medium-Term Prospects and Measures

Medium-term plan consolidated net sales objective of 500 billion yen rolled into the fiscal year ending March 2012.

The Funai Group has been working with the goal of achieving consolidated net sales of 500 billion yen in the consolidated fiscal year ending March 2011 as a medium-term objective. Net sales in the second half of the current year were substantially below plan because of the influence of global recession since last autumn, however, and as a result, net sales for the full year increased only 9.2% from the previous period.

Because it forecasts the severe management environment will continue for the immediate future, the Company has decided to roll its medium-term objective forward and will seek to achieve net sales of 500 billion yen in the fiscal year ending March 2012. The Company will also restore its operating income margin for this phase to 5%, and seek to maintain profitability even under the current severe global competitive environment.

To achieve this new objective, Funai will pursue the following five strategies based on a management policy that will “focus on promotion of viable products bolstered by speedy management.”

These are (1) fostering of human resources and appointments to responsible positions, (2) sales of 10 million LCD TV units, (3) expansion of the Blu-ray and related products line-up, (4) enlargement of mechatronics-related businesses such as printers and (5) creation of new business and entrance into emerging markets.

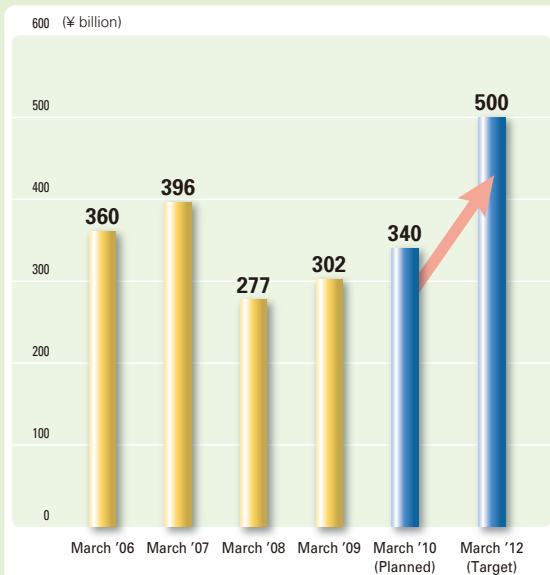
The most important of these on the product side are the strategies for Funai’s core LCD televisions and the burgeoning market for products related to Blu-ray disc players.

In LCD televisions, Funai has set a sales objective of 5.4 million units in the fiscal year ending March 2010 as indicated earlier, and we believe we can achieve worldwide sales of 10 million units, including the four North America brands PHILIPS, MAGNAVOX, SYLVANIA and Emerson, after two years in the fiscal year ending March 2012 by moving forward strategically with the development of these four brand in the North America market.

In products related to Blu-ray disc players, Funai began its full-scale introduction of players in April 2008, and achieved a rapid increase in sales from 400 million yen in the fiscal year ended March 2008 to 12.2 billion yen in the fiscal year ended March 2009. In the future, Funai will seek to cultivate Blu-ray as a second pillar after LCD televisions, by moving rapidly to expand the lineup to products such as recorders, home theater systems and portable players.

We look forward to continuing to receive your understanding and support for Funai’s efforts in the future.

Medium-term sales objective



Topics

Funai awarded “Supplier of the Year 2008 (Consumer Electronics Category)” by U.S. retailing giant Walmart Stores

Funai Corporation, Funai’s U.S. sales subsidiary, was awarded “Supplier of the Year 2008” by the U.S. retailer Walmart Stores in March 2009. This was the third time Funai received the award, following its selection in 2002 and 2004. Walmart bestows the annual award on those suppliers that make a significant contribution to the growth of Walmart’s business and customer relationships by supplying high quality, attractive products. For 2008, LCD-TVs, Blu-ray disc players and TV digital converter boxes provided by the Funai Group were recognized as significant contributors to Walmart meeting its consumer electronics goals.

In addition to these awards, Funai received an “International Supplier of the Year in 2001” award as an outstanding supplier, and a “BILLION DOLLAR SUPPLIER” award in 2007 for supplying over one billion dollars of merchandise within a single fiscal year, from the international division of Wal-Mart Stores, Inc. Over the past ten years, Funai has also received nine “Supplier Awards of Excellence for the Quarter” under Walmart’s quarterly supplier award system.



U.S. subsidiary established for Funai’s Philips brand business

Funai announced its brand licensing agreement with Royal Philips Electronics for the sourcing, delivery, marketing and sales activities for Philips brand consumer televisions in the United States and Canada in April 2008. Following the agreement, Funai established P&F USA, Inc., a subsidiary to manage this business, on June 13, 2008 (100% wholly-owned/Paid-in capital: US\$30 million dollars). Funai will undertake the full-scale start-up and expansion of the Philips brand business in the future.



Funai's information security system further enhanced

Funai's Information Systems Department and the Personnel and Administration Department Remuneration Group had previously obtained third-party certification in accordance with the ISO/IEC 27001:2005 and JIS Q 27001:2006 standards for information security management systems. The Company recently passed an expanded scope of application examination for these same certifications, and in November 2008 obtained these certifications for the Information Systems Department and the entire Personnel and Administration Department.



Funai Electric to support "Japanese-American Youth Baseball Exchange Program" sponsored by the Red Sox Foundation

This year's program was organized to foster friendship and exchange between citizens of Japan and the United States by sponsoring 12 young people selected from youth baseball teams in Kyoto and Chiba, who visited Boston for 11 days from July 25, 2008, where they were stayed with local families and were treated to baseball clinics at Harvard University and played in friendly game with local teams. The participants also met with pitcher Daisuke Matsuzaka at the home stadium of the Red Sox baseball team, which is supported by Funai, and learned baseball tips from Red Sox pitcher Hideki Okajima. Through this and similar programs, Funai Electric supports youth development and international cultural exchange through sports.



Red Sox Foundation

The Boston Red Sox Foundation is a philanthropic organization established in 2002 and managed by the Boston Red Sox baseball team.

The foundation conducts activities with the goal of promoting the health, education, recreation, and social service needs of children and families across New England.

Research and Development



Execute timely development and commercialization of high-quality products offering excellent cost performance, while looking at new future markets combining the AV and IT markets.

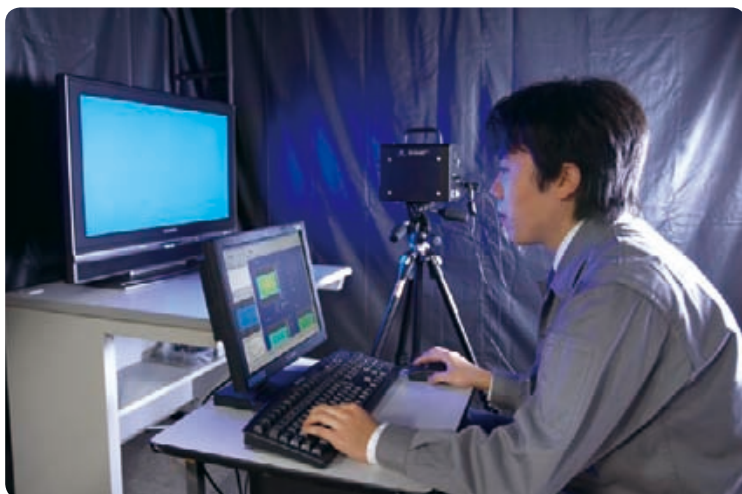
With digitalization advancing rapidly on a global scale, there are ample signs that a new market is being formed in the consumer electronics industry through a merging of the AV market and IT market. Market needs are becoming more diversified as well.

In addition to further demonstrating its strength in introducing well-timed, high-quality products offering excellent cost performance to the market in response to market's needs, the Funai Group is pursuing research and development aimed at staying ahead of the trend in product networking and increasing Funai's competitiveness.

In the development of optical disk-related technologies, digital image technologies and ultra-high-density display technologies for which market needs are expected to grow in the future, Funai continued to enhance its internal development capabilities during the current year and actively sought technical tie-ups with other companies, and aggressively devoted its efforts to commercialize products using these technologies.

Research and development are being conducted by Funai's R&D Engineering Department and the technology departments in each of the Company's operating divisions. For the current year, total research and development expense was 13,057 million yen.

The Funai Group is engaged in the manufacture and sale of consumer electronics products. Our main research and development activities during the current year are summarized below (not classified by business segment).



Audio-visual Equipment-related Technology

In optical disk-related products, Funai is pursuing development of multifunction audio visual equipment and the development of key components in conjunction with the transition to the next generation of Blu-ray Disc players. Funai is also developing next generation standard Profile2.0 (BD Live) products, as well as recorders.

In television-related products, the Company is working on development of double speed image display technology and support technologies for full HD as ultra-high-density display technologies for LCD televisions. For

the United States, Funai is moving to the next generation of LCD televisions and upgrading performance to support terrestrial digital broadcasting high performance. Funai is also pushing ahead with the market introduction of LCD televisions for terrestrial digital broadcasting in the U.S. and enhancing product performance. In Europe, Funai is pursuing technologies related to LCD televisions in response to signs pointing to the spread of terrestrial digital broadcasting.

Network-related Technologies

To meet the future arrival of the network system era, Funai is pursuing the development of TV set top boxes (STB) for interactive digital cable television (Tru2way) in the United States, as well as IP TV STB for the United States.

Funai has also developed products with WHDI installed as a cable transmission technology, in order to achieve

cable and wireless high-speed, high-volume digital data transmissions that will support the connection of future household electronic devices to home network systems. Funai also is continuing development to further improve performance.

New Products

As wireless network systems, Funai is working on the development of wireless device network systems using both the Wi-Fi format and the Wi-Max format, and is taking steps to prepare for market entry such as delivery

of peripheral devices through public demonstration tests. Funai also developed a portable navigation device and has entered the market to supply OEM.

Research Institute

The Funai Group manages the FUNAI ELECTRIC ADVANCED APPLIED TECHNOLOGY RESEARCH INSTITUTE INC. as a laboratory focused on support for nanotechnology. The institute provides a base for development of elemental technologies and the development of devices for products

that mesh with the future vision of the Funai Group. Intellectual property derived from the results obtained during through the research process and results such as adaptation of findings to public projects have been demonstrated as well.

Intellectual Property Strategy

In the digital television sector, the Funai Group is seeking to differentiate itself from other companies by utilizing exclusive rights to specific patents obtained through an alliance with the Thomson Group and Funai's

proprietary patents. Funai is also working to strengthen and effectively use its intellectual property based on aggressive patent applications and alliances with other companies.

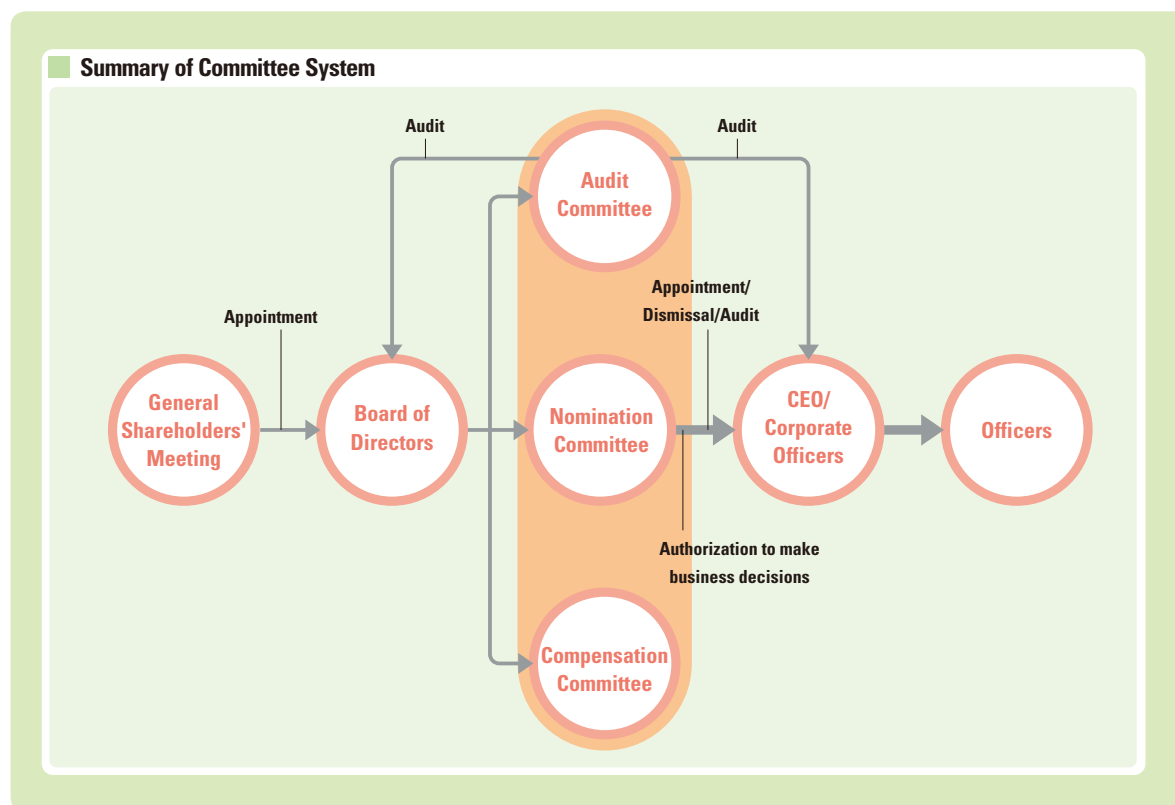
Corporate Governance and CSR

The Funai Group operates with the utmost awareness of its corporate social responsibilities. Taking this to heart, the Company promotes a management approach that always keeps in mind its responsibility towards all stakeholders, internal and external, ranging from shareholders and customers to vendors, neighboring communities and employees.

Corporate Governance

Funai believes that the most important management theme is to continuously increase corporate value by increasing the soundness and efficiency of its management, enable rapid decision making to respond to changes in the marketplace and maintain a highly transparent management.

In response to rapidly changing social trends, the Company adopted a Committee System in June 2005 to ensure that the Group manages its business in a dynamic and flexible manner that allows rapid decision making. As of the end of July 2009, the Funai Group has 7 directors, of whom 5 are outside directors. Furthermore, the Company continues to implement an officer system that has been in place since 2002 with the aim of establishing a system in which management decisions and immediate action can be taken in a flexible and timely manner. As of the end of July 2009, there are 9 officers in the Funai Group.



Environmental Activities

The Funai Group acknowledges the issue of the global environment as an important management topic and has established an Office of Environmental Affairs within the head office in order to take action in response to environmental issues. At the same time, we are working towards the acquisition of ISO14001 certification (an international standard for an environmental management system), and many of the Company's facilities in and

outside of Japan are being certified.

In addition, the Company carries out activities that aim to protect the global environment as outlined in the Environmental Charter. As part of these activities, we are seeking to increase the percentage of materials recycled to comply with the Home Appliance Recycling Law. Other actions include promoting "Green Procurement" that gives priority to eco-friendly parts, materials and products in cooperation with

suppliers, pursuing reduced power consumption and zero emissions of industrial waste in Company offices, achieving greater energy efficiency in all of Funai's products and voluntarily eliminating the use of hazardous substances. In June 2005 we participated in "Team Minus 6%," a national project to curb greenhouse gas emissions, and we are aggressively undertaking measures to control global warming.

Funai Electric's "Environmental Charter"

Basic Philosophy

Under the Company Motto, which is "to make better products, build greater trust, and establish a more meaningful coexistence with society," we at the Funai Group promise to implement business activities that consider environmental consequences with the understanding that every single employee is responsible for protecting the global environment. Funai is working to realize

coexistence between nature and society by providing simple, high-quality products to customers, effectively using resources, eliminating waste and reducing its environmental burden.

Environmental Policies

1. Ensure management compliance (statute compliance).
2. Voluntarily remove dangerous materials and provide environment-friendly products.

3. Establish design targets that keep the environment in mind and provide earth-friendly products.
4. Promote improvement activities to achieve zero emissions.
5. Establish necessary environmental targets and conduct on-going improvements with regular reviews.
6. Educate all employees about the environment and work to improve the environment.

Information Security Activities

Funai has become aware of the increasing dependence on information systems for business transactions. After determining that it is the Company's duty to stakeholders to ensure information security, Funai worked to create an information security management system.

On November 15, 2005, Funai's Information Systems Department received both Britain's information security management system

certification "BS7799-Part 2:2002" and Japan's certification, the "Conformity Assessment Scheme for Information Security Management Systems (Ver.2.0)."

Additionally, to further improve its information security management systems, in November 2006 Funai's Information Systems Department also received both the international information security management system standard "ISO/IEC 27001:2005" and the domestic

standard, "JISQ 27001:2006." Funai passed the examinations to expand the scope of application of both standards in November 2008, and obtained certification for its entire Information Systems Department and all of the Personnel and Administration Department.

These divisions will continue to make further improvements in their standards in the future.

Management Discussion and Analysis

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

Basic Management Policy

Based on the Company's policy of "better products," "greater trust" and "co-existence and co-prosperity," our basic management policy aims to achieve mutual prosperity with our stakeholders by building a firm relationship of trust through a more efficient development, production and sales system and the stable supply of high-quality products at affordable prices.

Basic Policy Concerning Profit Distribution

Funai Electronic acknowledges that providing returns to shareholders in connection with the distribution of profits is one of its most important management issues, and has established a basic policy on the distribution of dividends at a stable level to shareholders while planning the strengthening of its management. The basic measure of a 1.0% Consolidated Dividend on Equity Ratio is used as a concrete criteria, and the results of operations and the business environment are taken into consideration in order to further implement an aggressive dividend policy.

Based upon the policy described above, the term-end dividend for the fiscal year ended March 2009 was set at 40 yen per share (annual dividend of 40 yen).

Regarding retained earnings, we will further strengthen the constitution of management by appropriating Company financial resources to maintain future stable shareholders profits and develop Funai's medium to long-term business strategies.

Medium-Term Management Strategy and Issues to be Addressed

As the severe economic environment resulting from the global recession continues the consumer electronics industry is being asked to create new consumer needs for digital-related products. At the same time, product life cycles are being shortened and prices of manufactured goods continue to fall rapidly because of the intensive competition among firms, and the acceleration of product development is

becoming ever more important.

Given such an environment, the Funai Group's management policies are as follows.

Expand net sales and improve profit margins

Above all else, the key issue for the Funai Group is to improve profit margins. To achieve this, Funai has positioned growth in sales and ensuring earnings over the medium to long-term as its most important strategy. Funai will focus on manufacturing the products it can sell with an emphasis on speed and greater cost competitiveness by making additional improvements to the FPS (Funai Production System), the Company's unique production improvement system, strengthening its parts procurement capabilities and thoroughly reviewing fixed costs and variable costs including selling, general and administrative expenses.

In the audio-visual equipment category, Funai was able to expand its product lineup and establish its brand positioning of products related to LCD televisions and Blu-ray disc players by concluding a brand licensing agreement in April 2008 with Royal Philips Electronics for the "Philips" and "Magnavox" brands in North America. This has enabled Funai to lay a foundation that will enable it to execute a medium to long-term strategy aimed at expanding its share of the North America market. In addition, Funai will pursue development of products that make good use of network technology that will soon be available.

In the information equipment category, Funai will work to increase sales and boost profit margins by expanding OEM sales of products that make the best use of Funai's base in mechatronics, which is Funai's specialty, in addition to boosting sales of traditional products. Funai will also contemplate the acquisition of effective patents that look to the future, and business and capital tie-ups, with an eye to achieving further growth.

Timely supply of products based on an accurate response to market needs

To make products that will sell, companies must further



speed up the series of cycles from product planning to development, materials procurement, manufacturing and sales by means such as applications of IT and minimization of the time lags in each operating division. This demands the optimum allocation of management resources (materials, people and capital). Taking such measures will enable Funai to supply products that accurately meet market needs on a timely basis.

Fostering of human resources and appointments to responsible positions

The Funai Group recognizes that measures to improve employees' skills are critical for pursuing its medium to long-term business strategy. Consequently Funai will aggressively foster its human resources and appoint individuals to responsible positions, particularly its young employees, by strengthening and broadening programs such as its internal training system.

Business Performance

Business environment

In the current year, the global economy exhibited a decelerating trend as a whole during the first quarter, as regions other than the United States and newly developing countries slipped into negative growth. In the second quarter the business climate deteriorated swiftly, not only in the major industrialized countries but in newly developing countries as well, particularly after the failure of a major U.S. investment bank in September 2008, and the financial crisis that began in the subprime loan problem in the United States spread from the stock markets and foreign exchange markets to the real economy, plunging the world into a serious global recession. One result was a severe environment in consumer electronics industry as well, as evidenced by a rapid fall in personal consumption, and an ongoing decline in prices for key products including LCD televisions, against the backdrop of the worldwide economic slowdown.

Net sales

Efforts to revamp Funai's television business began to demonstrate results, and sales of LCD TVs rose steadily. TV digital converter boxes and Blu-ray disc players also benefitted from broad increases in sales. As a result, net sales for the current year were 9.2% higher compared with the previous period and ended at 302,778 million yen.

Operating income

Together with efforts to shrink selling, general and administrative expenses in order to strengthen competitiveness, Funai sought to lower its costs by exercising thorough inventory control. In addition, Funai concentrated on improving earnings on LCD televisions, which produced a loss in the previous period. Along with these efforts to boost earnings capacity, the increase in sales of TV digital converter boxes with their assured profitability also contributed to current period earnings. As a result, operating income for the current year totaled 1,410 million yen, compared with an operating loss of 2,406 million yen in the previous period.

Net income (loss)

Although Funai returned to profitability on an operating income basis, the net loss for the current year was 17,365 million yen compared with a net loss of 5,377 million yen in the previous period, reflecting in part the recognition of 16,838 million yen as "income taxes for prior periods" in conjunction with accounting treatment based on application of the "Anti-Tax Haven Law."

Performance by Product Category

Audio-visual equipment category

Main product lineup

Funai produces and sells mainly digital devices including LCD TVs and DVD-related products. In DVD-related products, Funai added to its DVD player and recorder-related products by beginning full-scale production of Blu-ray disc players in

Management Discussion and Analysis

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

2008. In LCD televisions Funai has developed a broad lineup, ranging from 19-inch to 52-inch models, and is responding to a wide range of consumer needs by also introducing combination model products equipped with DVD players.

Performance results for the current term

In the audio-visual equipment category, sales of VCRs, CRT TVs and DVD-related products continued to shrink as the market contracted. Nevertheless, Funai increased its sales of LCD televisions, particularly through the expansion of its product lineup based on the brand licensing agreement with Royal Philips Electronics. Strong sales of TV digital converter boxes for the United States, and the full-scale introduction of Blu-ray disc players, which are expected to enjoy robust growth in the future, also contributed to net sales. As a result, net sales of these products totaled 230,600 million yen, a 25.2% increase compared with the previous period.

Information equipment

Main product lineup

In the information equipment category, Funai manufactures printer products such as inkjet printers and laser beam printers, and produces OEM-based digital still cameras. In printers, Funai began transactions with its second OEM partner from 2008.

Performance results for the current term

Digital still camera sales exceeded the previous period because of a recovery in orders from OEM partners, but sales of printers tumbled, suffering significantly from the effect of merchandise strategy reviews by OEM partners. As a result, net sales of these products totaled 45,006 million yen, a 30.7% decrease compared with the previous period.

Other products

Other net sales totaled 27,172 million yen, a 3.0% decrease compared with the previous period.

Performance by Region

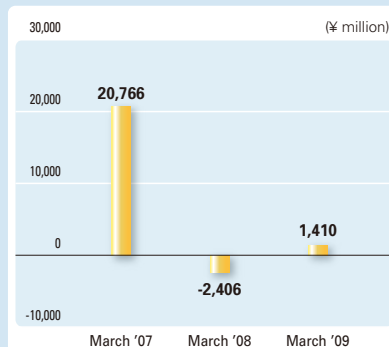
Progress by region

By region, Funai was able to broaden its lineup of LCD television and Blu-ray disc player-related products and establish its brand positioning by concluding a brand licensing agreement with Royal Philips Electronics in April 2008, to sell the Philips and Magnavox brands in its core North American market as a new brand policy. In Europe as well, Funai proceeded to build on its new business relationships with powerful retailers such as Carrefour (France), Europe's largest retail chain, and Metro AG of Germany. Additionally, the foundation for expanding sales was created with the establishment of a production

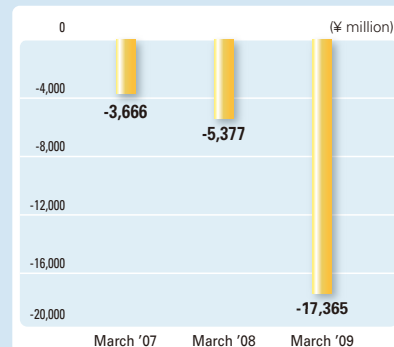
Net sales



Operating income (loss)



Net loss



subsidiary in Poland where products for the European market are produced.

Performance results for the current term

In the North America market, sales of CRT TV and DVD-related products decreased. Sales of LCD televisions, TV digital converter boxes for the United States and Blu-ray disc players, on the other, were higher, and as a result, net sales in the North American market were 216,150 million yen, a 19.3% increase compared with the previous period. Net sales rose in the Asian and other markets as well, with net sales in the Asian market totaling 6,880 million yen, an 11.3% increase compared with previous period, and net sales in other markets reaching 6,312 million yen, a 112.1% increase compared with the previous period. On the other hand, in the European market sales of core LCD televisions stagnated, and net sales in the European market totaled 36,372 million yen, a 20.2% decrease compared with the previous period. Net sales in the Japanese market were 37,064 million yen, a decrease of 10.3%.

Financial Condition

Assets

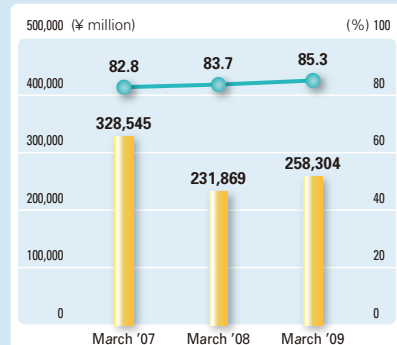
Current assets totaled 163,709 million yen, a 16,587 million yen increase compared with the end of the previous period.

This reflected a 45,349 million yen increase in short-term investments compared with the end of previous period to 56,323 million yen in conjunction with the collection of funds from borrowers. As a result of steps to shrink merchandise and product inventories, Funai was able to reduce inventories by 4,407 million yen compared with the end of previous period. Property, plant and equipment totaled 16,026 million yen, a decrease of 747 million yen compared with the end of previous period. The main cause of this decrease was a 1,709 million yen decrease in buildings and structures, offset by a 643 million increase in machinery and equipment compared with the end of previous period. Investments and other assets totaled 20,148 million yen, a decrease of 40,372 million yen compared with the end of previous period. The main cause of this decrease were a 2,374 million yen decrease in investment securities, and a 1,335 million yen decrease in investments in and advances to unconsolidated subsidiaries and associated companies, compared with the end of the previous period. As a result of these factors, total assets decreased by 24,532 million yen compared with the end of the previous period to 199,883 million yen.

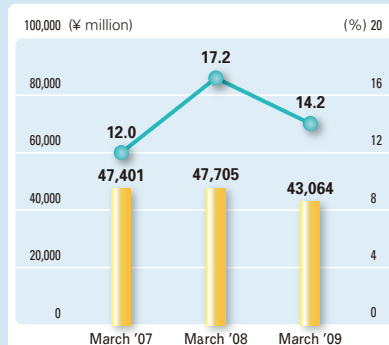
Liabilities

Current liabilities totaled 60,383 million yen, a 116 million yen decrease compared with end of the previous period. This decrease was due to a 1,813 million yen increase in short-

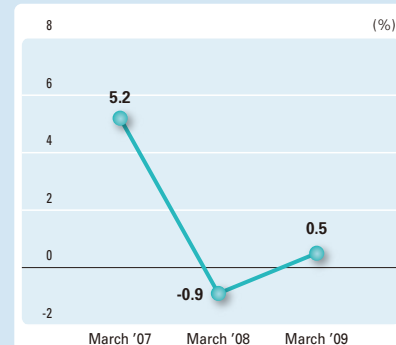
Cost of sales / Cost of sales to net sales



SGA expenses / SGA expenses to net sales



Operating income (loss) to net sales



Management Discussion and Analysis

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

term bank loans and a 3,079 million yen in trade accounts payable and other payable that accompanied the recovery in net sales, offset by a 1,995 million yen decrease in current portion of long-term debt and a 3,019 million yen decrease in income taxes payable. Long-term liabilities totaled 3,904 million yen, a decrease of 1,656 million yen compared with the end of the previous period. This reflected decreases in long-term debt, liability for retirement benefits and deferred tax liabilities of 141 million yen, 141 million yen and 591 million yen, respectively. As a result of these factors, total liabilities decreased 1,772 million yen compared with the end of the previous period to 64,287 million yen.

Equity

Total equity decreased 22,760 million yen compared with end of the previous period to 135,596 million yen. This mainly was the result of a decrease in retained earnings of 19,765 million yen, and a decrease of 2,935 million yen in foreign currency translation adjustments, compared with end of the previous period.

Cash Flow

Net cash used in operating activities totaled 729 million yen. Depreciation and amortization expense was 4,929 million yen, the increase in trade accounts payable was 6,182 million yen and the loss before income taxes and minority interests

totaled 3,263 million yen, while the increase in trade accounts receivable was 3,892 million yen. Net cash used in investing activities totaled 10,795 million yen, and included proceeds from collection of loans receivable of 40,151 million yen, offset by payments into time deposits totaling 80,481 million yen. In financing activities, repayments of long-term loans payable totaled 1,419 million yen, and cash dividends paid totaled 1,705 million yen, which together with other uses brought the net cash used in financing activities to 2,563 million yen. As a result of these factors, the balance of cash and cash equivalents at end of the period decreased by 16,920 million yen compared with the previous period to 40,180 million yen.

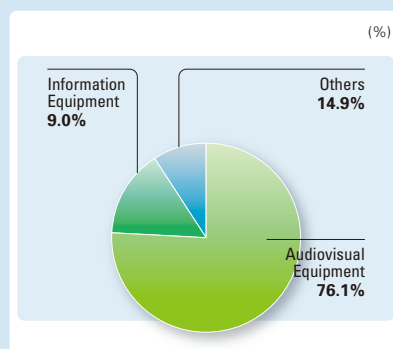
Capital Investment

Capital investment by the Funai Group in the current period totaled 5,013 million yen, a 33 million yen increase compared with the previous period. Capital investments by manufacturing companies totaled 3,977 million yen, while sales companies invested 1,035 million yen. This capital investment was mainly for the expansion of production facilities. During the current year Funai did not dispose of or sell any important facilities.

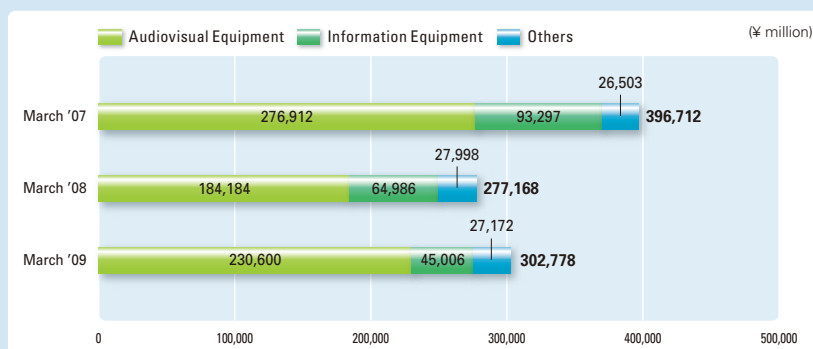
Business Risk

Risks that may have a significant impact on the Group's

■ Sales composition by product category (March '09)



■ Sales by product category





financial situation and operating results are outlined below. Forward-looking statements in this text are based on decisions made by the Group as of June 19, 2009.

The Funai Group's management policy

The Group has adopted a policy of providing high-quality, low-cost products to consumers based upon optimized production and sales systems on a global scale. We manufacture and sell our principal products, such as audiovisual equipment (DVD-related products, LCD TVs, etc.) and information equipment (printers, digital still cameras), in addition to other products (receiver-related electronic equipment).

Price competition in these product areas is intense. Additionally, the lifecycle of digital products is short and the competition to develop new technologies and functions is also intensifying. Accordingly, these factors may affect the Group's financial situation and operating results.

Product cost and market prices

The Group's primary target is customers of mass merchandisers such as Wal-Mart and therefore we must deliver low prices. Consequently the Group is working to cut costs through measures such as establishing production systems in optimal locations, pursuing further application of FPS (Funai Production System), the unique productivity improvement system developed by Funai, and utilizing internal production of parts and centralized purchasing.

However, competition in the home electronic appliance industry is intense and when the cost of parts and raw materials rise, cost pressures may affect the Group's financial situation and operating results regardless of the fact that we have implemented these measures.

Product supply through OEM (producing partner brands)

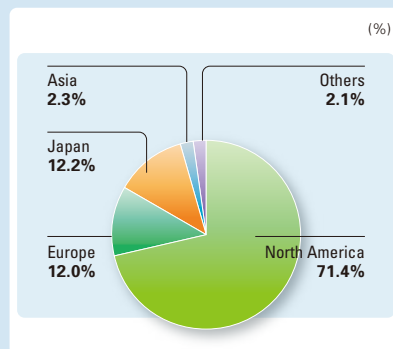
As part of the effort to create collaborations with distributors and electronic appliance manufacturers, particularly overseas, OEMs accounted for 32.0% of the Group's production supply in the current consolidated fiscal year.

While our OEM strategy is to efficiently increase our market share and improve productivity through mass-production, entrusting the sales strategy to our partners may also result in unforeseen changes. Additionally, individual OEM contracts are relatively short in duration and Funai must be able to accurately respond to the needs of our partners. We must strengthen our OEM strategy and, at the same time, strengthen marketing in order to complement that strategy from a long-term perspective, and create a proposal-based sales strategy through the establishment of the Funai brand. However, the progress of these measures may affect the Group's financial situation and operating results.

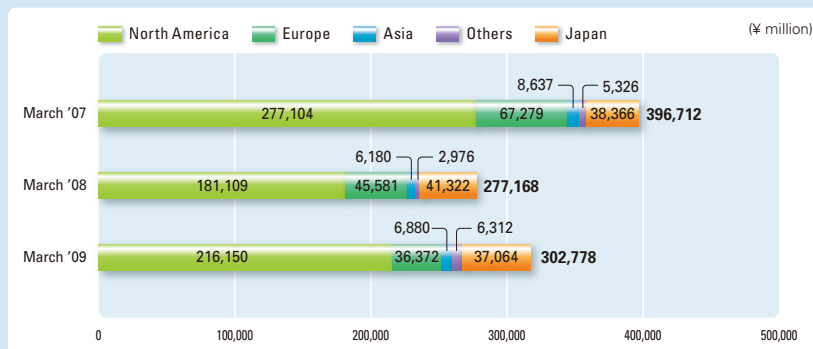
New technologies

As the number of digital products in the home electronic appliance industry increases and the needs of the market become more diverse, Funai must improve the quality,

■ Sales composition by region (March '09)



■ Sales by region



Management Discussion and Analysis

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

volume and speed of its new product development.

The Group must be able to respond to such issues and we will improve our technical capabilities, primarily in the digital product area, by collaborating with other companies, industry and academia, and through personnel training. We also will consider mergers and acquisitions among our options. However, a diversification of market needs or technological innovation beyond our expectations may affect the Group's financial situation and operating results.

The effects of overseas market trends

Dependence on the North American market

A large portion of the Group's net sales originates in overseas markets. The North American market in particular accounted for 71.4% of net sales in the current consolidated fiscal year.

Should the North American economy rapidly enter a recession, this may affect the Group's financial situation and operating results.

Dependence on Chinese production

The Group is working to improve the cost competitiveness of its products by concentrating production in positive cost-benefit regions and purchasing parts in bulk. In the current consolidated fiscal year 99.0% of our products were produced overseas, with 95.1% produced under consignment fabrication in China. Changes in the Chinese government, the outbreak of conflict or natural disasters or other unforeseen

circumstances may affect the Group's financial situation and operating results.

Foreign currency risk

The Funai Group selects production sites for its principal products after giving consideration to optimal production sites and sales systems.

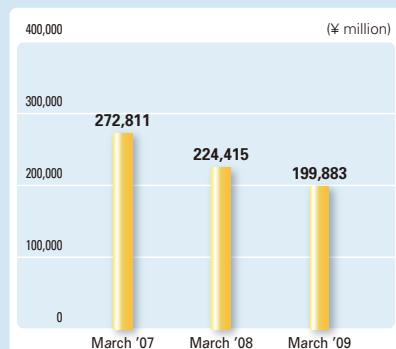
DVD-related products, LCD TVs, printers and digital still cameras are produced at Funai Electric (Hong Kong) Ltd., LCD TVs and DVD-related products are produced at Funai Electric (Polska) Sp.z o.o., and CRT TVs and LCD TVs are produced at Funai (Thailand) Co., Ltd.

Funai purchases products from these production subsidiaries and sells them in overseas markets, particularly North America, either through Funai's overseas sales subsidiaries or through direct sales to OEM supply partners. Domestic sales are also conducted through direct sales and sales subsidiaries.

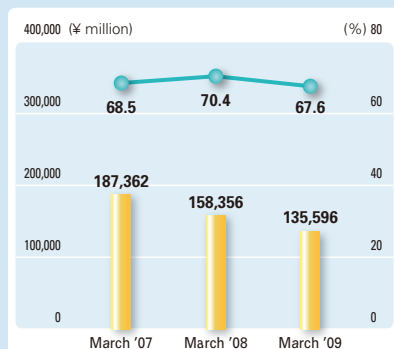
Purchases from these three overseas production subsidiaries accounted for 89.9% of gross purchases during the current consolidated fiscal year. Likewise, overseas net sales accounted for 87.8% of net sales. The majority of our purchasing and sales are conducted in US dollars. We believe this reduces the risks that accompany currency fluctuations.

However, it is impossible to completely eliminate foreign currency risk, and large currency fluctuations may affect the Group's financial situation and operating results.

Total assets



Total Equity / Shareholders' equity ratio



Cash and cash equivalents at the end of year



Tax assessment based upon the anti-tax haven system

Information concerning the supplementary tax assessment based on application of the anti-tax haven system for the current period is provided below. There is a possibility this assessment will affect the Group's financial situation and operating results if the assertions made by Funai are not recognized as a result of legal procedures.

1. Funai received a rectification notice from the Osaka Regional Taxation Bureau on June 28, 2005. The Bureau determined that Funai's Hong Kong subsidiary does not meet the requirements for exclusion under the anti-tax haven system and the Hong Kong subsidiary's income for the three fiscal years from March 2002 through March 2004 will be considered, and taxed as, Funai's income. Funai objected to this supplementary tax assessment, and filed a petition seeking a review of the decision with the Osaka Regional Tax Tribunal on July 25, 2006, and filed a suit in the Osaka District Court on November 16, 2006 to overturn the supplementary tax assessment order.

On July 3, 2008, Funai received the written ruling of the Osaka Regional Tax Tribunal stating it will dismiss the Company's assertion. Funai believes this judgment is indeed regrettable and is not a ruling to which it can agree, and will continue to assert the validity of its arguments in the future.

The additional tax of 16,651 million yen (19,184 million yen including incidental taxes) includes corporate, enterprise and residence taxes. Because the "Accounting Practices, Disclosure and Audit Treatment for Various Taxes" (Japanese Institute of Certified Public Accountants, Auditing and Assurance Practice Committee, Audit Committee Report No. 63) was revised on March 8, 2007 and the accounting treatment for supplementary tax assessments was clarified in writing, Funai charged the tax assessment to income as "prior year's taxes" in the fiscal year ended March 31, 2007.

2. Funai received a rectification notice from the Osaka Regional Taxation Bureau on June 16, 2008. The Bureau determined that Funai's Hong Kong subsidiary does not

meet the requirements for exclusion under the anti-tax haven system and the Hong Kong subsidiary's income for the three fiscal years from March 2005 through March 2007 will be considered, and taxed as, Funai's income. In light of the continuing legal proceedings in the Osaka District Court related to the previous notice received for a similar issue on June 28, 2005, Funai regarded the submission of another claim to be highly regrettable and unacceptable, and submitted an appeals application to the Osaka Regional Taxation Bureau's Board of Tax Appeals on August 6, 2008.

Although the review proceedings based on the Company's petition were pending in the National Tax Tribunal, Funai was legally able to seek a judicial remedy after three months had passed since it filed its petition, and on November 14, 2008 Funai filed a complaint with the Osaka District Court for the rescission of the supplementary tax assessment order. The examination of this complaint is currently being considered by the court, together with the previous lawsuit.

The additional tax of 15,038 million yen (16,838 million yen including incidental taxes) includes corporate, enterprise and residence taxes. Funai charged the tax assessment to income as "prior year's taxes" in the current consolidated accounting fiscal year.

Under this tax system, taxes are judged based on the current conditions at the end of each business period of the foreign corporation that is subject to the law. For reference purposes, the effect from taxation of Funai's Hong Kong subsidiary income for the two-year period covering the consolidated fiscal year ended March 2008, the consolidated fiscal year following the year subject to investigation, and the consolidated fiscal year ended March 2009, is estimated at approximately 700 million yen including corporate, enterprise and residence taxes, when calculated by deducting from the subject income the amount of dividends Funai received from the Hong Kong subsidiary in the fiscal year ended March 2008. For the reason described above, Funai has not accounted for this taxation amount at the present time.

Global Network / Directory



1 Funai Europe GmbH (Germany)



2 FUNAI ELECTRIC (POLSKA) Sp.z o.o.



3 Dong Guan Plant 1



4 Dong Guan Plant 2



5 Dong Guan Plant 3



6 Huang Jiang Plant



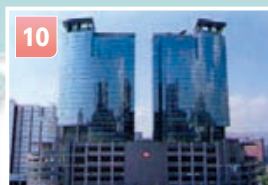
7 Zhong Shan Plant 1



8 Zhong Shan Plant 2



9 Funai (Thailand) Co., Ltd. (Thailand)



10 Funai Electric (H.K.) Ltd. (Hong Kong)

Consignment Manufacturing Plants (China)

Product Development Strategy

■ Places of Business, Research Center

TOKYO BRANCH (JAPAN)
 FUNAI TOKYO TECHNOLOGY CENTER (JAPAN)
 FUNAI ELECTRIC ADVANCED APPLIED TECHNOLOGY RESEARCH INSTITUTE INC.

■ Manufacturing Subsidiaries

CHUGOKU FUNAI ELECTRIC CO., LTD. (JAPAN)
 FUNAI ELECTRIC (H.K.) LTD. (HONG KONG)
 Consignment manufacturing plants
 DONG GUAN PLANT1,2,3 (CHINA)
 HUANG JIANG PLANT (CHINA)
 ZHONG SHAN PLANT 1 (CHINA)
 ZHONG SHAN PLANT 2 (CHINA)
 H.F.T. INDUSTRIAL LTD. (HONG KONG)
 FUNAI (THAILAND) CO., LTD. (THAILAND)
 FUNAI ELECTRIC (POLSKA) Sp.z o.o.

■ Sales Subsidiaries

DX ANTENNA CO., LTD. (JAPAN)
 FUNAI CORPORATION, INC. (U.S.A)
 P&F USA, Inc. (U.S.A)
 FUNAI EUROPE GmbH (GERMANY)

■ Development Subsidiary

FUNAI ELECTRIC ADVANCED APPLIED
 TECHNOLOGY RESEARCH INSTITUTE INC. (JAPAN)

■ Affiliated Subsidiary

FUNAI SERVICE CO., LTD. (JAPAN)
 FUNAI SERVICE CORPORATION (U.S.A)



14 FUNAI SERVICE CORPORATION (U.S.A)



15 P&F USA, Inc. (U.S.A)



16 Funai Corporation, Inc. (U.S.A)

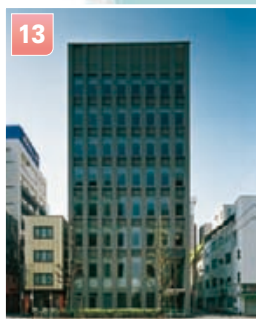
11 12 13



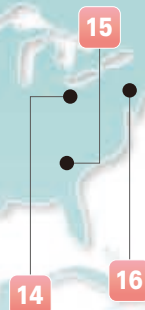
11 Funai Electric Co., Ltd. Head Office (Japan)



12 Chugoku Funai Electric Co., Ltd. (Japan)



13 Funai Electric Co., Ltd. Tokyo Branch (Japan)



A total of three companies in Japan and ten overseas are included in the Funai Group's consolidated business results for March 2009 period. In addition, the Group has one overseas affiliate that is accounted for by the equity method. Funai Electric Co., Ltd. is mainly responsible for the intangible aspects of the Group's operations (development, design, etc) while the subsidiaries undertake the tangible aspects (production, sales, etc).

Funai's manufacturing operations are characterized by global procurement and a global production system. The company currently operates manufacturing facilities in three countries: China, Thailand and Poland. In China, production of our leading digital devices is shared among the Dong Guan, Huang Jiang and Zhong Shan plants. Production CRT TVs and LCD TVs in Thailand is handled by Funai (Thailand) Co., Ltd., which was established in July 2003. To provide a base to

achieve sales growth in Europe, which is the world's largest LCD television market, we established Funai Electric (Polska) Sp.z o.o. in Poland in October 2006, and began operations at the Poland plant in June 2007. Overall, the Group employs 2,590 individuals (as of March 31, 2009).

Funai's well-established global sales system consists of the overseas subsidiaries Funai Corporation Inc. (USA), P&F USA, Inc., Funai Europe GmbH (Germany) and DX Antenna Co., Ltd. (Japan). Additionally, FUNAI SERVICE CORPORATION was established as a service company in October 2007 in order to strengthen the sales system within the US and is under the direct control of Funai Electric Co., Ltd. Domestic sales system has been integrated into DX Antenna since the transfer of business from Funai Sales Co., Ltd. to the company.

Members of the Board and Officers

as of June 19, 2009

Members of the Board

Tetsuro Funai	Chairman of Nomination and Member of Compensation Committee
Tomonori Hayashi	Chairman of the Board, Compensation and Member of Nomination Committee
Mitsuo Yonemoto	Member of Nomination and Compensation Committee
Akira Miyazaki	Member of Nomination, Audit and Compensation Committee
Shigemichi Asakura ...	Chairman of Audit Committee
Yasuhisa Katsuta	Member of Nomination, Audit and Compensation Committee
Hidetoshi Nishimura ..	Member of Nomination, Audit and Compensation Committee

Corporate Officers

Tetsuro Funai	Chairman
Tomonori Hayashi	President and CEO

Officers

Takashi Kiyomoto	Senior Executive Officer
Hideo Nakai	Senior Executive Officer
Shinji Seki	Executive Officer
Toshio Otaku	Executive Officer
Masahiko Naito	Officer
Fumiaki Kidera	Officer
Nobuhisa Uchikawa	Officer
Kenji Sakata	Officer
Susumu Nojii	Officer

Financial Statements

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries



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Consolidated Balance Sheets

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	March 31,		March 31,
	2009	2008	2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 40,180	¥ 57,100	\$ 409,040
Short-term investments	56,323	10,974	573,379
Receivables:			
Trade	28,845	26,841	293,648
Other	2,409	1,794	24,524
Inventories (Note 3)	30,678	35,085	312,308
Deferred tax assets (Note 9)	2,763	3,605	28,128
Prepaid expenses and other current assets	2,784	12,010	28,341
Allowance for doubtful receivables	(273)	(287)	(2,779)
Total current assets	163,709	147,122	1,666,589
PROPERTY, PLANT AND EQUIPMENT:			
Land	5,194	5,238	52,876
Buildings and structures	13,370	15,079	136,109
Machinery, equipment and other	55,249	54,606	562,446
Lease assets	295		3,003
Construction in progress	484	20	4,927
Total	74,592	74,943	759,361
Accumulated depreciation	(58,566)	(58,170)	(596,213)
Net property, plant and equipment	16,026	16,773	163,148
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	3,424	5,798	34,857
Investments in and advances to unconsolidated subsidiaries and associated companies	2,610	3,945	26,570
Patents	4,328	5,375	44,060
Long-term loans	218	40,118	2,219
Deferred tax assets (Note 9)	4,329	3	44,070
Other assets	5,239	5,281	53,334
Total investments and other assets	20,148	60,520	205,110
TOTAL	¥ 199,883	¥ 224,415	\$ 2,034,847

See notes to consolidated financial statements.

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	March 31,		March 31,
	2009	2008	2009
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 11,519	¥ 9,706	\$ 117,266
Current portion of long-term debt (Note 5)	1,512	3,507	15,392
Payables:			
Trade	28,157	25,811	286,644
Other	12,132	11,399	123,506
Income taxes payable.....	1,624	4,643	16,533
Other current liabilities	5,439	5,433	55,370
Total current liabilities.....	60,383	60,499	614,711
LONG-TERM LIABILITIES:			
Long-term debt (Note 5).....	945	1,086	9,620
Liability for retirement benefits (Note 6)	2,343	2,484	23,852
Deferred tax liabilities (Note 9).....	27	618	275
Other	589	1,372	5,996
Total long-term liabilities.....	3,904	5,560	39,743
COMMITMENTS AND			
CONTINGENT LIABILITIES (Notes 9, 11 and 13)			
EQUITY (Notes 7, 8 and 13):			
Common stock, authorized, 80,000,000 shares; issued, 36,104,196 shares in 2009 and 2008	31,280	31,280	318,436
Capital surplus	33,245	33,245	338,440
Stock acquisition rights	18		183
Retained earnings.....	110,048	129,813	1,120,310
Unrealized loss on available-for-sale securities.....	(99)	(64)	(1,008)
Foreign currency translation adjustments	(14,999)	(12,064)	(152,692)
Treasury stock – at cost 2,011,321 shares in 2009 and 2,011,003 shares in 2008.....	(24,340)	(24,339)	(247,786)
Total	135,153	157,871	1,375,883
Minority interests	443	485	4,510
Total equity.....	135,596	158,356	1,380,393
TOTAL.....	¥ 199,883	¥ 224,415	\$ 2,034,847

See notes to consolidated financial statements.

Consolidated Statements of Operations

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	Years Ended March 31,		Years Ended March 31,
	2009	2008	2009
NET SALES.....	¥ 302,778	¥ 277,168	\$ 3,082,337
COST OF SALES	258,304	231,869	2,629,583
Gross profit.....	44,474	45,299	452,754
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10).....	43,064	47,705	438,400
Operating income (loss)	1,410	(2,406)	14,354
OTHER INCOME (EXPENSES):			
Interest and dividend income	3,439	5,324	35,010
Interest expense	(351)	(593)	(3,573)
Foreign exchange gain (loss), net.....	(2,893)	(2,026)	(29,451)
Provision for doubtful receivables	(94)	(83)	(957)
Loss on impairment of investment securities	(3,087)	(47)	(31,426)
Loss on liquidation of an associated company	(644)	(1,311)	(6,556)
Gain on sales of investment securities, net	26	5,622	265
Other – net	(1,069)	(1,970)	(10,884)
Other income (expenses) – net	(4,673)	4,916	(47,572)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS.....	(3,263)	2,510	(33,218)
INCOME TAXES (Note 9):			
Current	614	6,208	6,251
Prior years	16,838		171,414
Deferred	(3,560)	1,645	(36,242)
Total income taxes	13,892	7,853	141,423
MINORITY INTERESTS IN NET INCOME	(210)	(34)	(2,138)
NET LOSS.....	¥ (17,365)	¥ (5,377)	\$ (176,779)
	(Yen)		(U.S. Dollars)
PER SHARE OF COMMON STOCK (Notes 2,p and 12):			
Basic net loss	¥ (509.33)	¥ (157.71)	\$ (5.19)
Cash dividends applicable to the year	¥ 40.00	¥ 50.00	\$ 0.41

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries

	(Thousands)			(Millions of yen)							
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain(loss) on Available for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2007	34,093	¥ 31,279	¥ 33,244		¥ 139,468	¥ 4,039	¥ 3,288	¥ (24,337)	¥ 186,981	¥ 381	¥ 187,362
Adjustment due to change of the fiscal year-end of foreign subsidiaries.....					(2,403)				(2,403)		(2,403)
Net loss					(5,377)				(5,377)		(5,377)
Cash dividends, ¥55.00 per share					(1,875)				(1,875)		(1,875)
Purchase of treasury stock	(0)							(2)	(2)		(2)
Exercise of stock options	0	1	1						2		2
Net change in the year						(4,103)	(15,352)		(19,455)	104	(19,351)
BALANCE, MARCH 31, 2008	34,093	31,280	33,245		129,813	(64)	(12,064)	(24,339)	157,871	485	158,356
Adjustment of retained earnings due to an adoption of PITF No. 18 (Note 2 b)					(695)		122		(573)		(573)
Net loss					(17,365)				(17,365)		(17,365)
Cash dividends, ¥50.00 per share.....					(1,705)				(1,705)		(1,705)
Purchase of treasury stock	(0)							(1)	(1)		(1)
Net change in the year				18		(35)	(3,057)		(3,074)	(42)	(3,116)
BALANCE, MARCH 31, 2009	34,093	¥ 31,280	¥ 33,245	¥ 18	¥ 110,048	¥ (99)	¥ (14,999)	¥ (24,340)	¥ 135,153	¥ 443	¥ 135,596

(Thousands of U.S. Dollars) (Note. 1)

	Common Stock		Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized loss on Available for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
	BALANCE, MARCH 31, 2008	\$ 318,436	\$ 338,440			\$1,321,522	\$ (652)	\$ (122,813)	\$ (247,776)	\$1,607,157	\$ 4,937
Adjustment of retained earnings due to an adoption of PITF No. 18 (Note 2 b)					(7,076)		1,242		(5,834)		(5,834)
Net loss					(176,779)				(176,779)		(176,779)
Cash dividends, \$0.51 per share					(17,357)				(17,357)		(17,357)
Purchase of treasury stock.....								(10)	(10)		(10)
Net change in the year				183		(356)	(31,121)		(31,294)	(427)	(31,721)
BALANCE, MARCH 31, 2009	\$ 318,436	\$ 338,440	\$	183	\$1,120,310	\$ (1,008)	\$ (152,692)	\$ (247,786)	\$1,375,883	\$ 4,510	\$1,380,393

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	Years Ended March 31,		Years Ended March 31,
	2009	2008	2009
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ (3,263)	¥ 2,510	\$ (33,218)
Adjustments for:			
Income taxes – paid	(5,053)	(5,385)	(51,440)
Prior year's income taxes – paid.....	(16,838)		(171,414)
Depreciation and amortization.....	4,929	6,003	50,178
Gain on sale or disposal of property, plant and equipment	(5)	(230)	(51)
Equity in losses of associated companies	171	39	1,741
Gain on sales of investment securities, net.....	(26)	(5,622)	(265)
Changes in assets and liabilities, net of effects			
(Increase) decrease in trade accounts receivable	(3,892)	6,979	(39,621)
Decrease in inventories.....	2,820	3,313	28,708
Increase (decrease) in trade accounts payable	6,182	(15,472)	62,934
Decrease in liability for employees' retirement benefits.....	(148)	(234)	(1,507)
Other – net	14,394	(5,615)	146,534
Total adjustments.....	2,534	(16,224)	25,797
Net cash used in operating activities	(729)	(13,714)	(7,421)
INVESTING ACTIVITIES:			
Payments for time deposits	(80,481)	(12,444)	(819,312)
Proceeds from time deposits.....	33,992		346,045
Proceeds from sale of property, plant and equipment	721	543	7,340
Purchases of property, plant and equipment	(4,752)	(4,826)	(48,376)
Purchases of intangible assets.....	(758)	(1,556)	(7,717)
Proceeds from sales of investment securities	1,147	9,746	11,677
Purchases of investment securities	(750)	(546)	(7,635)
Payments for loans receivable	(106)	(280)	(1,079)
Proceeds from collection of loans receivable.....	40,151	28	408,745
Other – net	41	(141)	417
Net cash used in investing activities	(10,795)	(9,476)	(109,895)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans – net.....	(171)	(5,648)	(1,741)
Repayments of long-term debt	(1,419)	(724)	(14,446)
Repurchase of treasury stock.....	(1)	(3)	(10)
Dividends paid	(1,705)	(1,875)	(17,357)
Other – net	733	108	7,462
Net cash used in financing activities	(2,563)	(8,142)	(26,092)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	(2,833)	(2,173)	(28,841)
NET DECREASE IN CASH AND CASH EQUIVALENTS.....			
	(16,920)	(33,505)	(172,249)
ADJUSTMENT DUE TO CHANGE OF THE FISCAL YEAR-END OF FOREIGN SUBSIDIARIES			
		7,284	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	57,100	83,321	581,289
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 40,180	¥ 57,100	\$ 409,040

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, (“Japanese GAAP”) which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2008 consolidated financial statements to conform to the classifications used in 2009.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which FUNAI ELECTRIC Co., Ltd. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥ 98.23 to \$1, the approximate rate of exchange at March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Consolidation**—The consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 13 significant (12 in 2008) subsidiaries (together, the “Group”).

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

Investments in 2 associated companies are accounted for by the equity method.

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

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (PITF) No.18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements”. PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No.18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. The effect of this change on the consolidated statements of operations is immaterial.

(c) **Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

(d) Inventories—Prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries were stated at cost, determined by the average method for finished products and work in process, and by the first-in first-out method. In July 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories", which was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

The Company applied the new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change on consolidated statements of operations is immaterial.

Inventories of consolidated foreign subsidiaries are stated at the lower of cost or market substantially determined by the first-in first-out method.

(e) Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the estimated useful lives of the assets. Depreciation of property, plant and equipment of consolidated foreign subsidiaries is principally computed by the straight-line method at rates based on the estimated useful lives assets. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 1 to 20 years for machinery and equipment.

(Changes in useful life of property, plant and equipment)

The useful life of property, plant and equipment with respect to Domestic Group was changed as a result of the review of useful life of these assets in conjunction with the revision of the corporate tax act Machinery and equipment were changed to 7 years from 11 years.

The effect of this change on the consolidated statements of operations is immaterial.

(f) Investment Securities—Investment securities are classified and accounted for, depending on management's intent. All securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(g) Patents— Patents are carried at cost less accumulated amortization, which is computed by the straight-line method over the estimated useful lives.

(h) Long-lived assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(i) Retirement and Pension Plans—The Company and certain consolidated subsidiaries have non-contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain consolidated foreign subsidiaries also have defined pension plans.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The total transitional obligation determined as of April 1, 2000, was charged to income when adopted, except that of a certain domestic subsidiary which is amortized over 15 years.

Actuarial gains or losses are amortized by the straight line method over a period within the average remaining years of service of the employee (10 years) starting from the following period. Prior service cost is amortized by the straight line method over a period within the average remaining years of service of the employee (10 years).

Retirement allowances for directors and executive officers are recorded to state the liability at the amount that would be required if all directors and executive officers retired at each balance sheet date.

- (j) **Stock Options**—The ASBJ statement No.8, "Accounting Standard for Stock Options" and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The company has applied the accounting standard for stock options to those granted on and after May 1, 2006.

- (k) **Research and Development Costs**—Research and development costs are charged to income as incurred.

- (l) **Leases**— In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. There is no effect of this change on consolidated statements of operations.

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

- (n) **Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.

- (o) **Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

- (p) **Per Share Information**—Basic net loss per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if stock options were exercised into common stock. Diluted net income per share of common stock assumes full conversion of full exercise of outstanding warrants. Diluted net income per share is not disclosed because of the Company's net loss position.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

- (q) **New Accounting Pronouncements**

Construction Contracts—Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion

method is permitted to account for construction contracts. In December 2007, the ASBJ issued a new accounting standard for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Finished products	¥ 20,926	¥ 21,124	\$ 213,030
Work in process	1,635	1,293	16,645
Raw materials and supplies.....	8,117	12,668	82,633
Total	¥ 30,678	¥ 35,085	\$ 312,308

4. INVESTMENT SECURITIES

The carrying amounts and aggregate fair values of investment securities at March 31, 2009 and 2008 were as follows:

	(Millions of yen)			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2009				
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥ 2,262	¥ 174	¥ (170)	¥ 2,266
March 31, 2008				
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥ 4,166	¥ 735	¥ (635)	¥ 4,266
				(Thousands of U.S. dollars)
March 31, 2009				
Securities classified as:				
Available-for-sale:				
Equity securities.....	\$ 23,028	\$ 1,771	\$ (1,731)	\$ 23,068

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying amount		
	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Available-for-sale:			
Equity securities	¥ 591	¥ 739	\$ 6,017
Investments in limited partners	567	793	5,772
Total	¥ 1,158	¥ 1,532	\$ 11,789

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were ¥ 26 million (\$ 265 thousand) and ¥ 8,887 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥ 26 million (\$ 265 thousand) and ¥ 0 million (\$ 0 thousand), respectively, for the year ended March 31, 2009 and ¥ 5,626 million and ¥ 4 million, respectively, for the year ended March 31, 2008.

5. SHORT-TERM BANK LOANS AND LONG TERM DEBT

Short-term bank loans bore interest at an annual average rate of 1.6% and 3.3% at March 31, 2009 and 2008, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Unsecured loans from banks and other financial institutions, due serially to 2012 with average interest rates 1.3% (2009) and 1.9% (2008):	¥ 2,086	¥ 4,593	\$ 21,236
Obligations under finance leases	371		3,776
Total	2,457	4,593	25,012
Less current portion	(1,512)	(3,507)	(15,392)
Long-term debt, less current portion	¥ 945	¥ 1,086	\$ 9,620

Annual maturities of long-term debt, excluding finance leases (see Note 11), at March 31, 2009, were as follows:

Year Ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2010	¥ 1,419	\$ 14,446
2011	333	3,390
2012	334	3,400
Total	¥ 2,086	\$ 21,236

6. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees and directors. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain consolidated subsidiaries have non-contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Certain consolidated foreign subsidiaries also have defined pension plans.

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the followings:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Projected benefit obligation.....	¥ 8,792	¥ 9,036	\$ 89,504
Fair value of plan assets.....	(6,021)	(7,871)	(61,295)
Unrecognized prior service cost.....	444	512	4,520
Unrecognized actuarial loss.....	(2,442)	(745)	(24,860)
Unrecognized transitional obligation.....	(933)	(1,058)	(9,498)
Prepaid pension cost.....	1,476	1,590	15,026
Net liability.....	¥ 1,316	¥ 1,464	\$ 13,397

The components of net periodic benefit costs for the years ended March 2009 and 2008 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Service cost.....	¥ 554	¥ 469	\$ 5,639
Interest cost.....	186	187	1,894
Expected return on plan assets.....	(176)	(199)	(1,792)
Amortization of prior service cost.....	(68)	(68)	(692)
Recognized actuarial loss.....	137	7	1,395
Amortization of transitional obligation.....	125	125	1,273
Net periodic benefit costs.....	¥ 758	¥ 521	\$ 7,717

Assumptions used for the years ended March 31, 2009 and 2008 are set forth as follows:

	2009	2008
Discount rate.....	1.4-2.5%	1.4-2.5%
Expected rate of return on plan assets.....	1.4-2.5%	1.4-2.5%
Amortization period of prior service cost.....	10 years	10 years
Recognition period of actuarial gain / loss.....	10 years	10 years

The total transitional obligation determined as of April 1, 2000 was charged to income when adopted, except that of a certain domestic subsidiary which is amortized over 15 years.

Retirement allowance for directors and executive officers at March 31, 2009 and 2008 were ¥1,027 million (\$10,455 thousand) and ¥1,020 million, respectively, which were included in liability for retirement benefits. Retirement allowance for directors and executive officers are paid subject to the approval of the Compensation Committee or shareholders' meeting.

7. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year

rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria. The Board of Directors of companies with board committees (an appointment committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Companies Act, even though such companies have an Audit Committee instead of the Board of Corporate Auditors. The Company is organized as a company with board committees.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights, are now presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8. STOCK OPTIONS

The stock options outstanding as of March 31, 2009 are as follows:

Stock Option	Person Granted	Number of Options granted	Date of Grant	Exercise Price	Exercise Period
2001 Stock Option	4 directors 284 employees	421,400 shares	2001.7.26	¥ 9,549 (\$ 97)	From January 1, 2004 to December 31, 2010
2002 Stock Option	6 directors 381 employees 18 other persons	399,700 shares	2002.7.23	¥ 15,150 (\$ 154)	From August 1, 2004 to July 31, 2011
2003 Stock Option	4 directors 313 employees 6 other persons	378,500 shares	2003.7.22	¥ 13,646 (\$ 139)	From August 1, 2005 to July 31, 2012
2004 Stock Option ①	2 directors 293 employees 5 other persons	359,900 shares	2004.7.21	¥ 16,167 (\$ 165)	From August 1, 2006 to July 31, 2013
2004 Stock Option ②	20 employees 1 other person	25,600 shares	2004.8.13	¥ 16,836 (\$ 171)	From August 1, 2006 to July 31, 2013
2005 Stock Option	2 directors 293 employees 5 other persons	346,400 shares	2005.7.12	¥ 12,369 (\$ 126)	From August 1, 2007 to July 31, 2014
2008 Stock Option	1 director 10 corporate officers 315 employees	431,700 shares	2008.11.20	¥ 1,609 (\$ 16)	From August 1, 2010 to July 31, 2017

The stock option activity is as follows:

	2001 Stock Option	2002 Stock Option	2003 Stock Option	2004 Stock Option①	2004 Stock Option②	2005 Stock Option	2008 Stock Option
	(Shares)	(Shares)	(Shares)	(Shares)	(Shares)	(Shares)	(Shares)
For the year ended March 31, 2008							
Non-vested							
March 31, 2007 – Outstanding.....						346,400	
Granted							
Canceled							
Vested						(346,400)	
March 31, 2008 – Outstanding.....							
Vested							
March 31, 2007 - Outstanding.....	311,900	399,600	378,500	359,900	25,600		
Vested						346,400	
Exercised.....	(300)						
Canceled							
March 31, 2008 – Outstanding.....	<u>311,600</u>	<u>399,600</u>	<u>378,500</u>	<u>359,900</u>	<u>25,600</u>	<u>346,400</u>	
For the year ended March 31, 2009							
Non-vested							
March 31, 2008 – Outstanding.....							
Granted							431,700
Canceled							9,800
Vested							
March 31, 2009 – Outstanding.....							421,900
Vested							
March 31, 2008 - Outstanding.....	311,600	399,600	378,500	359,900	25,600	346,400	
Vested							
Exercised.....							
Canceled							
March 31, 2009 – Outstanding.....	<u>311,600</u>	<u>399,600</u>	<u>378,500</u>	<u>359,900</u>	<u>25,600</u>	<u>346,400</u>	
Exercise price	¥ 9,549 (\$97)	¥ 15,150 (\$154)	¥ 13,646 (\$139)	¥ 16,167 (\$165)	¥ 16,836 (\$171)	¥ 12,369 (\$126)	¥ 1,609 (\$16)
Average stock price at exercise	—	—	—	—	—	—	—
Fair value price at grant date	—	—	—	—	—	—	—
a							¥ 440 (\$4)
b							¥ 447 (\$5)
c							¥ 454 (\$5)
d							¥ 458 (\$5)
e							¥ 475 (\$5)
f							¥ 487 (\$5)
g							¥ 510 (\$5)
Exercise Period							
a : From August 1, 2010 to July 31, 2017							
b : From August 1, 2011 to July 31, 2017							
c : From August 1, 2012 to July 31, 2017							
d : From August 1, 2013 to July 31, 2017							
e : From August 1, 2014 to July 31, 2017							
f : From August 1, 2015 to July 31, 2017							
g : From August 1, 2016 to July 31, 2017							

The assumptions used to measure fair value of 2008 Stock Option

Estimate method	Black-Scholes option pricing model						
	a	b	c	d	e	f	g
Volatility of stock price	49.17%	48.65%	48.30%	47.75%	48.51%	48.90%	50.26%
Estimated remaining outstanding period...	5.194years	5.695years	6.196years	6.694years	7.195years	7.693years	8.194years
Estimated dividend.....	¥ 50	¥ 50	¥ 50	¥ 50	¥ 50	¥ 50	¥ 50
	(\$0.51)	(\$0.51)	(\$0.51)	(\$0.51)	(\$0.51)	(\$0.51)	(\$0.51)
Interest rate with risk free.....	0.865%	0.895%	0.929%	0.972%	1.027%	1.095%	1.177%

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2009 and 2008.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Deferred tax assets :			
The liability for retirement benefits	¥ 954	¥ 1,012	\$ 9,712
Accounts payable	790	1,576	8,042
Allowance for doubtful receivable.....	3,650	2,364	37,158
Accrued employees' bonuses.....	470	521	4,785
Impairment loss on investment securities	331	1,664	3,370
Inventories	1,579	888	16,075
Intercompany profit.....	118	200	1,201
Tax loss carryforwards of consolidated subsidiaries	5,091	2,431	51,827
Previous taxed income of foreign subsidiaries	4,660		47,440
Other	3,872	2,927	39,417
Less valuation allowance.....	(12,990)	(9,123)	(132,241)
Total	¥ 8,525	¥ 4,460	\$ 86,786
Deferred tax liabilities:			
Tax purpose reserves in accordance with Japanese tax law	¥ 353	¥ 362	\$ 3,594
Prepaid pension cost.....	601	648	6,118
Other	506	460	5,151
Total	¥ 1,460	¥ 1,470	\$ 14,863
Net deferred tax assets.....	¥ 7,065	¥ 2,990	\$ 71,923

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2008 is as follows (2009 was not presented because of the net loss for the period):

	<u>2008</u>
Normal effective statutory tax rate.....	40.7%
Expenses not deductible for income tax purposes	20.6
Elimination of dividend earned from subsidiaries	444.6
Permanently non-taxable income	(6.5)
R&D tax credit	(32.3)
Lower income tax rates applicable to income	
in certain foreign countries.....	(111.7)
Indirect foreign tax credit	(137.3)
Valuation Allowance	170.3
Other – net	(75.5)
Actual effective tax rate	<u>312.9%</u>

On June 16, 2008, the Company received a notice of a supplementary tax assessment from the Osaka Regional Taxation Bureau (the “Bureau”) regarding the application of controlled foreign companies tax measure on the taxable income of subsidiaries in Hong Kong for the three years ended from March 31, 2005 to March 31, 2007. In the Bureau’s assessment, taxable income earned by the Hong Kong subsidiaries should be included to the Company’s taxable income as the subsidiaries in Hong Kong are deemed not to satisfy the conditions for exclusion from the application of the above tax measure for dealing with tax havens.

The additional tax payments amounted to ¥16,838 million including penalties. The Company, having been dissatisfied with the said supplementary tax assessment order, filed a petition with the National Tax Tribunal (the “Tribunal”) seeking a review of the decision made by the Bureau and filed a complaint with the Osaka District court for the cancellation of the supplementary tax assessment order, pursuant to the applicable laws and regulations.

Under this tax system, taxes are judged based on the current conditions at the end of each business period of the foreign corporation that is subject to the law. For reference purposes, the effect from taxation of Funai’s Hong Kong subsidiary income for the two-year period covering the consolidated fiscal year ended March 2008, the consolidated fiscal year following the year subject to investigation, and the consolidated fiscal year ended March 2009, is estimated at approximately 700 million yen including corporate, enterprise and residence taxes, when calculated by deducting from the subject income the amount of dividends Funai received from the Hong Kong subsidiary in the fiscal year ended March 2008. For the reason described above, Funai has not accounted for this taxation amount at the present time.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥13,057 million (\$132,923 thousand) and ¥14,789 million for the years ended March 31, 2009 and 2008, respectively.

11. LEASES

As discussed in Note 2, the Company accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense, on a “as if capitalized” basis for the years ended March 31, 2009 was as follows.

The Group leases certain machinery, computer equipment, office space and other assets.

Pro forma information of leased property of finance leases that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis for the years ended March 31, 2009 and 2008 are as follows:

Acquisition cost, accumulated depreciation, and net leased property:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Acquisition cost	¥ 1,262	¥ 1,626	\$ 12,847
Accumulated depreciation	916	1,020	9,325
Net leased property	¥ 346	¥ 606	\$ 3,522

Obligations under finance leases :

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Due within one year	¥ 178	¥ 259	\$ 1,812
Due after one year	175	353	1,782
Total	¥ 353	¥ 612	\$ 3,594

Depreciation expense, interest expense and other information under finance leases:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Depreciation expense	¥ 260	¥ 339	\$ 2,646
Interest expense	9	10	92
Total	¥ 269	¥ 349	\$ 2,738
Lease payments	¥ 268	¥ 348	\$ 2,728

Depreciation expense and interest expense, which are not reflected in the accompanying statements of operations, are computed by the straight line method and the interest method, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2009 and 2008 are follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
Due within one year	¥ 1,419	¥ 1,058	\$ 14,446
Due after one year	2,257	3,122	22,976
Total	¥ 3,676	¥ 4,180	\$ 37,422

12. NET LOSS PER SHARE

Reconciliation of the differences between basic and diluted net loss per share ("EPS") for the years ended March 31, 2009 and 2008 is as follows:

	(Millions of yen)	(Thousands of shares)	(Yen)	(Dollars)
	Net loss	Weighted average shares	EPS	
For the year ended March 31, 2009:				
Basic EPS				
Net loss available to common shareholders	¥ (17,365)	34,093	¥ (509.33)	(\$5.19)
For the year ended March 31, 2008:				
Basic EPS				
Net loss available to common shareholders.....	¥ (5,377)	34,093	¥ (157.71)	

Diluted net income per share in 2009 and 2008 is not disclosed due to the loss position.

13. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2009 was approved at the Company's Board of Directors held on June 1, 2009:

	(Millions of yen)	(Thousands of U.S. dollars)
Total.....	¥ 1,364	\$ 13,886

14. SEGMENT INFORMATION

(1) Industry Segments

The Company and its subsidiaries operate in a single business segment of manufacturing and sales of electrical products in Japan and overseas. Therefore, industry segment information is not disclosed.

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended March 31, 2009 and 2008 are summarized as follows:

(Millions of yen)						
2009						
	Japan	North America	Asia	Europe	Elimination	Conso- -lidated total
Sales:						
Sales to outside customers.....	¥ 103,933	¥ 182,991	¥ 769	¥ 15,085	¥	¥ 302,778
Inter-segment sales.....	120,413	39	166,481	13	(286,946)	
Total.....	224,346	183,030	167,250	15,098	(286,946)	302,778
Operating expenses	223,296	180,846	165,800	17,631	(286,205)	301,368
Operating income (loss)	¥ 1,050	¥ 2,184	¥ 1,450	¥ (2,533)	¥ (741)	¥ 1,410
Identifiable assets	¥ 108,739	¥ 40,495	¥ 92,999	¥ 11,163	¥ (53,513)	¥ 199,883

2008						
	Japan	North America	Asia	Europe	Elimination	Conso- -lidated total
Sales:						
Sales to outside customers.....	¥ 135,775	¥ 116,605	¥ 2,592	¥ 22,196	¥	¥ 277,168
Inter-segment sales.....	109,668	11	194,319	0	(303,998)	
Total.....	245,443	116,616	196,911	22,196	(303,998)	277,168
Operating expenses	248,547	121,213	192,795	22,267	(305,248)	279,574
Operating income (loss)	¥ (3,104)	¥ (4,597)	¥ 4,116	¥ (71)	¥ 1,250	¥ (2,406)
Identifiable assets	¥ 108,383	¥ 25,429	¥ 114,602	¥ 20,358	¥ (44,357)	¥ 224,415

(Thousands of U.S. dollars)						
2009						
	Japan	North America	Asia	Europe	Elimination	Conso- -lidated total
Sales:						
Sales to outside customers.....	\$ 1,058,058	\$ 1,862,882	\$ 7,829	\$ 153,568	\$	\$ 3,082,337
Inter-segment sales.....	1,225,827	398	1,694,808	132	(2,921,165)	
Total.....	2,283,885	1,863,280	1,702,637	153,700	(2,921,165)	3,082,337
Operating expenses	2,273,196	1,841,046	1,687,876	179,486	(2,913,621)	3,067,983
Operating income (loss)	\$ 10,689	\$ 22,234	\$ 14,761	\$ (25,786)	\$ (7,544)	\$ 14,354
Identifiable assets	\$ 1,106,984	\$ 412,247	\$ 946,747	\$ 113,641	\$ (544,772)	\$ 2,034,847

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2009 and 2008 are summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2009	2008	2009
North America	¥ 216,150	¥ 181,109	\$ 2,200,448
Asia.....	6,880	6,180	70,040
Europe	36,372	45,581	370,274
Other	6,312	2,976	64,257
Total	¥ 265,714	¥ 235,846	\$ 2,705,019

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Funai Electric Co., Ltd.:


We have audited the accompanying consolidated balance sheets of Funai Electric Co., Ltd. and consolidated subsidiaries (the "Company") as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Funai Electric Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 9 to the consolidated financial statements, the Company received notices of a supplementary tax assessment, due to not satisfying the conditions for exclusion from the application of the tax measure for dealing with tax heavens.

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



June 19, 2009

Member of
Deloitte Touche Tohmatsu

Company Data

Company Outline

Name	FUNAI ELECTRIC CO., LTD.
Foundation	August 1961
Address	7-7-1 Nakagaito Daito city, Osaka 574-0013, Japan
Tel	81-72-870-4303
Fax	81-72-871-1112
URL	http://www.funaiworld.com/
Capital	¥ 31,280 million
Sales	¥ 302,778 million (March 2009 / Consolidated)
Employees	2,590 (March 2009 / Consolidated)

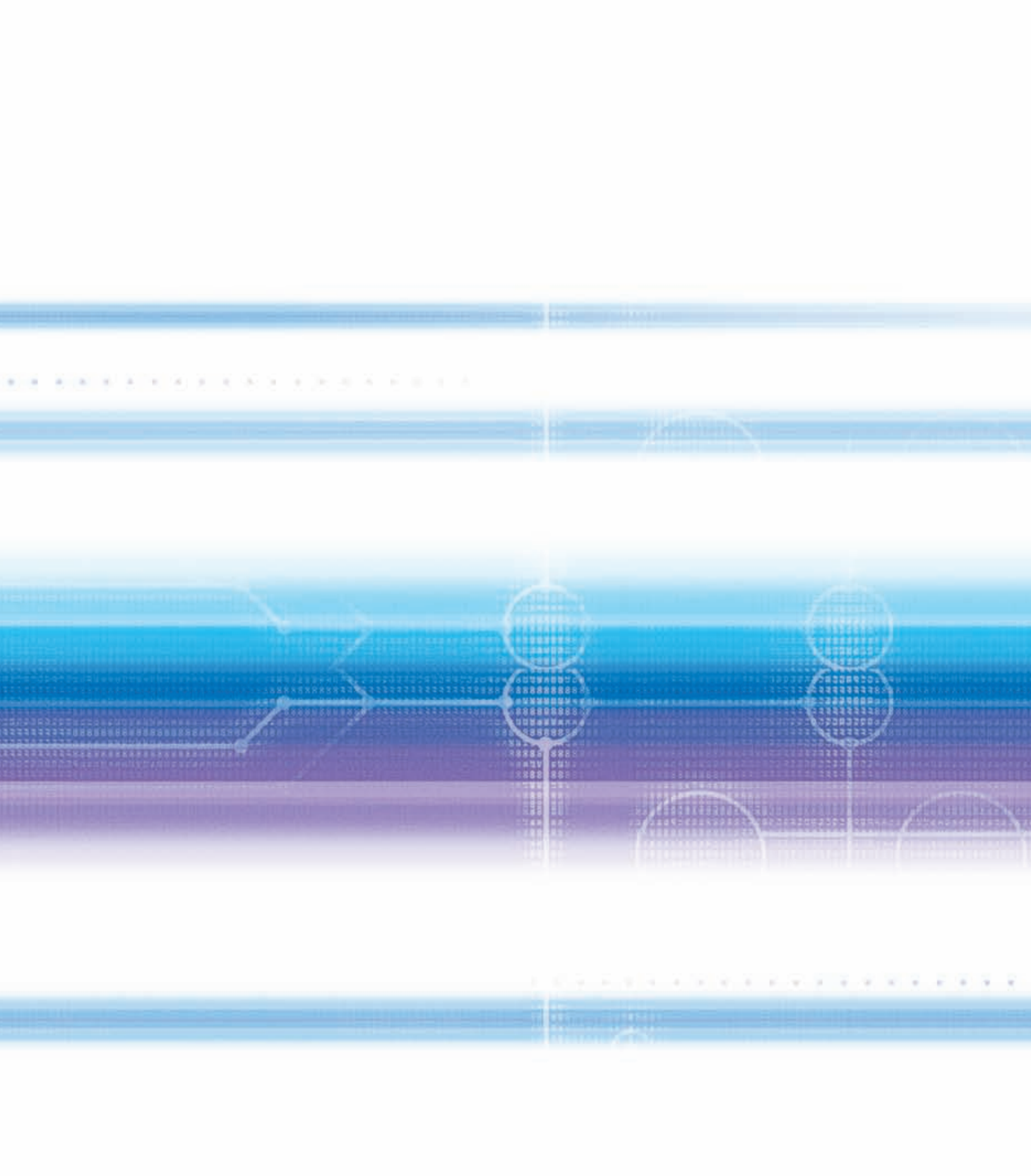
Business Operations

Audio-visual Equipment
LCD TV, DVD player, DVD recorder,
Blu-ray disc player

Information Equipment
Printer, Digital Still Camera

Company History

- Aug. 1961** Funai Electric Co., Ltd. was established in Ikuno-ku, Osaka City capitalized at ¥20 million.
- Mar. 1964** Chugoku Funai Electric Co., Ltd. was established as a manufacturing company in Fukuyasu-gun(now Fukuyama City), Hiroshima.
- Sep. 1976** The head office was relocated to Daito City, Osaka.
- Jun. 1980** Funai Electric Trading (Europe) GmbH (now Funai Europe GmbH), a sales firm, was established in Hamburg, Germany.
- May. 1991** Funai Corporation, Inc. was established as a sales firm in New Jersey, U.S.A.
- Mar. 1992** Highsonic Industrial Ltd. (now Funai Electric (H.K.) Ltd.) was established in Hong Kong as a management company of processing on commission to consignment manufacturing plants in Guang Dong province, China.
- Apr. 1992** Dong Guan Plant in Dong Guan City, Guang Dong Province started operations as a consignment manufacturing plant in China.
- Aug. 1994** Zhong Shan Plant in Zhong Shan City, Guang Dong Province started operations as a consignment manufacturing plant in China.
- Jan. 1996** Funai Service Co., Ltd. was established in Higashi-Osaka City, Osaka.
- May. 1996** Highsonic Industrial Ltd. (now Funai Electric (H.K.) Ltd.) established H.F.T Industrial Ltd. by joint investment with a Japan company.
- Feb. 1999** Funai Electric Co., Ltd. was listed on the Second Section of Osaka Securities Exchange.
- Mar. 2000** Funai Electric Co., Ltd. was listed on the First Section of Tokyo Stock Exchange and the First Section of Osaka Securities Exchange.
- Mar. 2001** Closing date for the fiscal year ending on June 15 was changed to March 31.
- Nov. 2001** Acquired the majority stocks of DX Antenna Co., Ltd. in Japan.
- Jul. 2003** Funai (Thailand) Co., Ltd. a manufacturing company, was established in Nakornratchasima, Kingdom of Thailand.
- Dec. 2003** Huang Jiang Plant in Dong Guan City, Guang Dong Province started operations as a consignment manufacturing plant in China.
- Apr. 2004** Funai Electric Advanced Applied Technology Research Institute Inc. was established in Kawasaki City, Kanagawa (moved in Tsukuba City, Ibaraki in May, 2008).
- Oct. 2006** Funai Electric (Polska) Sp.z o.o. was established as a production company in the city of Nowa Sol, Poland.
- Oct. 2007** Funai Service Corporation was established in Ohio, U.S.A.
- Jan. 2008** Funai Electric Co., Ltd. and Victor Company of Japan, Ltd. agreed to a business alliance in the audiovisual equipment market.
- Jun. 2008** P&F USA, Inc. was established in Georgia, U.S.A., as a sales subsidiary for Philips brand consumer TVs.
- Jun. 2008** Tetsuro Funai, President and CEO, assumed the post of Chairman.
Tomonori Hayashi, Senior Executive Officer, assumed the post of President and CEO.



FUNAI ELECTRIC CO., LTD.