

# ANNUAL REPORT 2003





# C O N T E N T S

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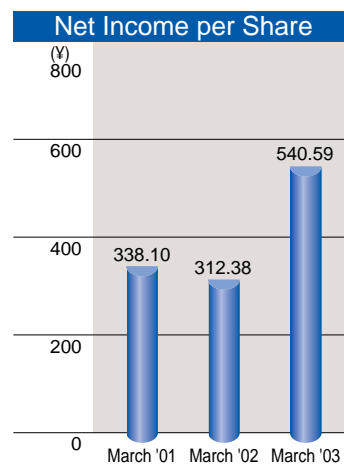
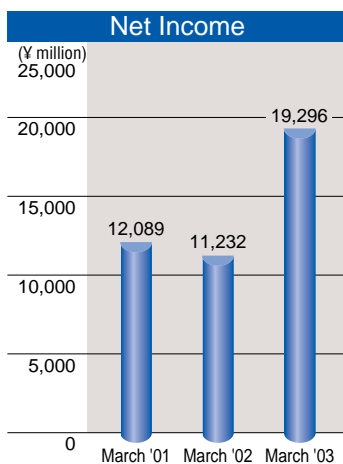
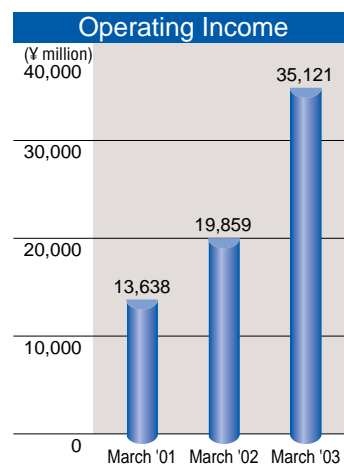
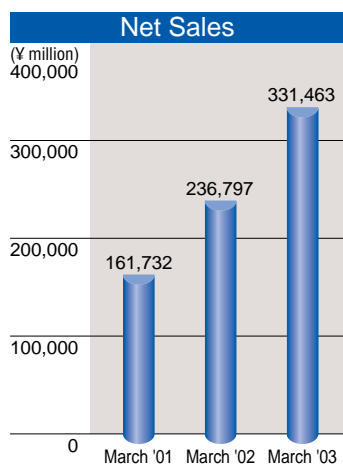
## Financial Highlights

Years ended March 31, 2003 and 2002

	(Millions of yen)		(Thousands of U.S. dollars)
	2003	2002	2003
<b>Financial Year :</b>			
Net Sales	¥331,463	¥236,797	\$2,757,595
Operating Income	35,121	19,859	292,188
Net Income	19,296	11,232	160,533
<b>Per Share (yen and U.S. dollars) :</b>			
Net Income	¥540.59	¥311.00	\$4.50
Cash Dividends	20.00	10.00	0.17
<b>End of Financial Year :</b>			
Shareholders' Equity	¥128,648	¥124,474	\$1,070,283
Total Assets	196,866	190,248	1,637,820
Number of Employees	3,572	2,914	—

Note-1 : The exchange rate of ¥120.20=U.S.\$1.00 (as of March 31, 2003 in the Tokyo foreign exchange market) is used for the above calculations.

Note-2 : Number of Employees excludes employees of outsourced companies.



\* On June 16, 2000 Funai Electric Co., Ltd. changed its year-end from June 15 to March 31; the consolidated financial statements ended March 31, 2001 are presented for nine and a half months.



President **Tetsuro Funai**

A handwritten signature in black ink, which appears to read "T. Funai". The signature is written in a cursive style and is positioned below the printed name.

Looking at the state of the world economy this term in overview, one notes that although there was an increasing sense of uncertainty in general due to factors such as the strains between the United States and Europe over the situation in Iraq, the business climate in several countries began to experience a recovery, with expansion continuing in China and throughout Asia. The economic situation in Japan, however, remained unfavorable under the continuing deflationary environment.

In addition, we in the electronics industry faced difficult times due to the declining business environment and poor sales of personal computers.

Faced with such an economic climate, the Funai Group worked to strengthen its operations through a basic strategy emphasizing the Funai Production System, which aims to achieve continuous improvements in productivity. As part of our efforts to promote the digital sector, which we see as the next big growth area, we worked to reinforce our business partnerships throughout the global market and to further develop and expand our line of digital products. In particular, our efforts to deliver high-quality and economically priced DVD players and related products paid off in terms of increased market competitiveness and a substantial growth in sales. As a result, the Funai Group posted a solid growth in earnings in our consolidated business results for the current term in spite of the generally stagnant economic situation worldwide.

The digital revolution continues throughout the world, and in the years ahead we will continue to promote the digital sector and work to attain a secure position for the Funai Group in the global marketplace. The Funai Group will continue to work together to maximize corporate value. We earnestly seek the support and understanding of our shareholders in this ongoing effort.

## In what way did digital products contribute to this term's big increase in earnings?

Several years ago the Funai Group began a shift in emphasis from analog to digital products in response to changes in the market climate. The key management theme for fiscal year ended March 2002 was making the switchover from analog to digital, and that for the fiscal year ended March 2003 establishing a new profit structure for the digital sector. As our favorable business performance during these two years attests, our efforts to establish ourselves in the digital sector have gone extremely well and are yielding excellent results.

In the fiscal year ended March 2003 the share of our total sales accounted for by digital products grew to 42%. Of this, earnings from DVD players and related products made a particularly large contribution. We made important strides in strengthening our business system, including a shift to in-house production for key components such as optical pickups, designs aimed at reducing the number of parts per product, and improved productivity through the application of the Funai Production System. As a result, the share of our total earnings accounted for by DVD-related products nearly reached the target figure we had set.

## In 2002 the future prospects for the worldwide market were unclear, yet Funai managed to achieve strong earnings. How was this accomplished?

I think the primary direct factor was our engagement in the field of digital products, as mentioned above, which provided a solid and rapid boost to our profitability. However, this was backed by Funai's overall business system and our basic management strategy, which involves a commitment to maintaining and strengthening five key areas. These are (1) superior mechatronics technology, (2) a lean and efficient corporate structure, (3) the use of our Funai Production System to boost productivity, (4) a product development system based on project teams, and (5) a global production system.

In particular, our lean and efficient corporate structure and the Funai Production System have enabled us consistently to maintain an excellent level of price competitiveness in the international market. In the fiscal year ended March 2003 we finished putting into place a business infrastructure that will allow us to be extremely competitive in the area of digital products as well. It is no exaggeration to say that the substantial increase in earnings was the result of this.



# Interview with the President

## Do you expect further development in the field of digital products in the years to come?

**I** most certainly do. I think that our next central management theme will be full-scale promotion of digital products. Specifically, we will try to boost the share of our total sales accounted for by digital products to around 70% in the short term. At present we are enjoying the residual profitability provided by analog products such as VCRs, combination TV/VCRs, and TV sets as competing manufacturers cease production and we are able to appeal to customers by offering high quality at low prices, especially in the North American market. There is no doubt, however, that the market for such products will continue to shrink further in the years ahead. In response, we plan to further strengthen our efforts to develop and market digital products, for which demand is growing faster than demand for analog products is shrinking, and thereby secure their position in the marketplace. In other words, our business strategy for the future is to use the growth in digital products as the driving force behind the continued growth of our company. This is the basis of the growth scenario we have in mind.


If the contraction of the market for analog products proceeds more rapidly than we anticipated, our company may not grow quite as quickly as we had planned. However, from a medium-term perspective this would only represent a temporary setback. Through full-scale promotion of digital products we expect to raise our business operations to a new, higher stage.

## In what ways will Funai's commitment to the digital sector be reflected in the development of new products?

**W**ith regard to product development, I think first of all that achieving a stronger business infrastructure centered on digital products is important. As one step in improving our in-house development system we have established a new technical laboratory at our headquarters facility. Also, we plan to boost our digital engineering capabilities through measures such as technical collaboration with other companies and mergers and acquisitions. In particular, we are taking steps to enhance our software development functions by constructing a development and design system and hiring more software engineers. This is an extremely important element in our all-out promotion of digital products. For example, in the area of our DVD-related products, at the same time we started manufacturing optical pickups in-house we moved the development of the software used to control their operation in-house as well. By handling both the hardware and software aspects in-house we are able to ensure that our products are of the highest quality while also speeding up the development process. This has also played an important role in increasing our profitability.

As for specific examples of the sorts of new products we will be focusing on, we are expecting a steady progression from DVD players to DVD recorders, from digital set-top boxes to digital TVs, and from CRT TVs to thin-screen TVs employing LCD displays and the like. To be ready for this transition we are putting in place a system with a particular emphasis on the technologies associated with disk data storage, high-precision displays, digital receivers, and data networks.





## How will Funai go about building up and strengthening its global production system in the years ahead?

**W**e will continue to strengthen our global production system using a basic approach involving development at our Japan headquarters combined with production overseas. This approach is designed to allow us to manufacture digital products in quantity by making use of our mass production expertise while maintaining or increasing our price competitiveness globally.

As for our production system, in 2002 we expanded our production facilities for DVD-related products at the Dongguan Plant in China. In addition, we established a new plant in Thailand to serve principally as a production base for electric motors. This plant began operations in May of 2002. Thus, our production system now spans three countries: China, Malaysia, and Thailand. Finally, a new plant is scheduled to open in Huangjiang, China in August 2003. It will increase our production capacity for the next generation of digital products, such as projectors and LCD TVs.

In the years ahead we plan to expand our production system into more countries, beyond the three I have just mentioned, in order to reduce the risks associated with concentrating our operations in China. At the same time, such an expansion will strengthen our global production system and provide additional stability.

## How do you plan to develop your future sales strategy, especially in North America?

**A**s you know, our biggest market is the world's largest source of consumption, North America. Funai is held in very high regard by two of America's biggest distributors, Wal-Mart and Sears Roebuck, and has been publicly acknowledged as their top supplier of electric home appliances. In the years ahead we will work to forge strong ties with more leading retailers in the North American market and to foster increased recognition of the Funai brand among consumers.

As part of this effort we have entered into a three-year agreement with the Walt Disney Company of the United States to be the title sponsor of the Funai Classic at the Walt Disney World® Resort. We hope to deepen our relationships with our business partners, and to form new relationships, by providing invitations to the tournament to them and their guests.

In markets outside North America, such as Europe and Japan, we will work to open up new opportunities more rapidly than in the past, with the globalization of the market in mind. We are deepening our collaborative ties with Philips in Europe and are working to strengthen our cooperation with distributors in Japan in a focused manner. In this way we hope to build strong sales networks in both of these areas that are second only to our network in North America.

Based on a clear vision of the sort I have outlined above, the Funai Group will work together as a team as we strive to reach the next stage of growth, and I look forward to the continuing support of our shareholders.

## Full-scale Promotion of Digital Products as Part of Efforts to Reach ¥500 Billion Consolidated Sales Target in The Fiscal Year Ended March 2006

1

Share Accounted for by Digital Products Grows from 8.7% to 42.0% in Five Years.

In the fiscal year ended June 1998 Funai's only digital product was inkjet printers (in the information and communications equipment product category), and sales of digital products accounted for only 8.7% of total sales.

Since then Funai has extended its digital offerings with the development of laser beam printers. In the audio and video equipment category the company has begun manufacturing DVD players under a collaborative arrangement with Mitsubishi Electric. Plans call for the eventual release of an entire line of digital products in the audio and video equipment category.

In the fiscal year ended March 2003 digital products accounted for 42.9% of total sales.

2

Establishing a Digital Business Segment by Adding Digital Technology to Funai's Mechatronics Technology

Funai's specialty is mechatronics technology. In addition, the company has been working over the past several years to build up its expertise in technologies related to digital products. As a result, Funai now has the technical capability to produce digital products of sufficient quality to meet market demands.

Through mergers and acquisitions and also alliances made over the past few years, Funai has obtained new technology in the fields of disk data storage, digital receivers, and high-precision displays.

Technology such as this will enable Funai to establish a business system capable of developing a full range of digital products.

3

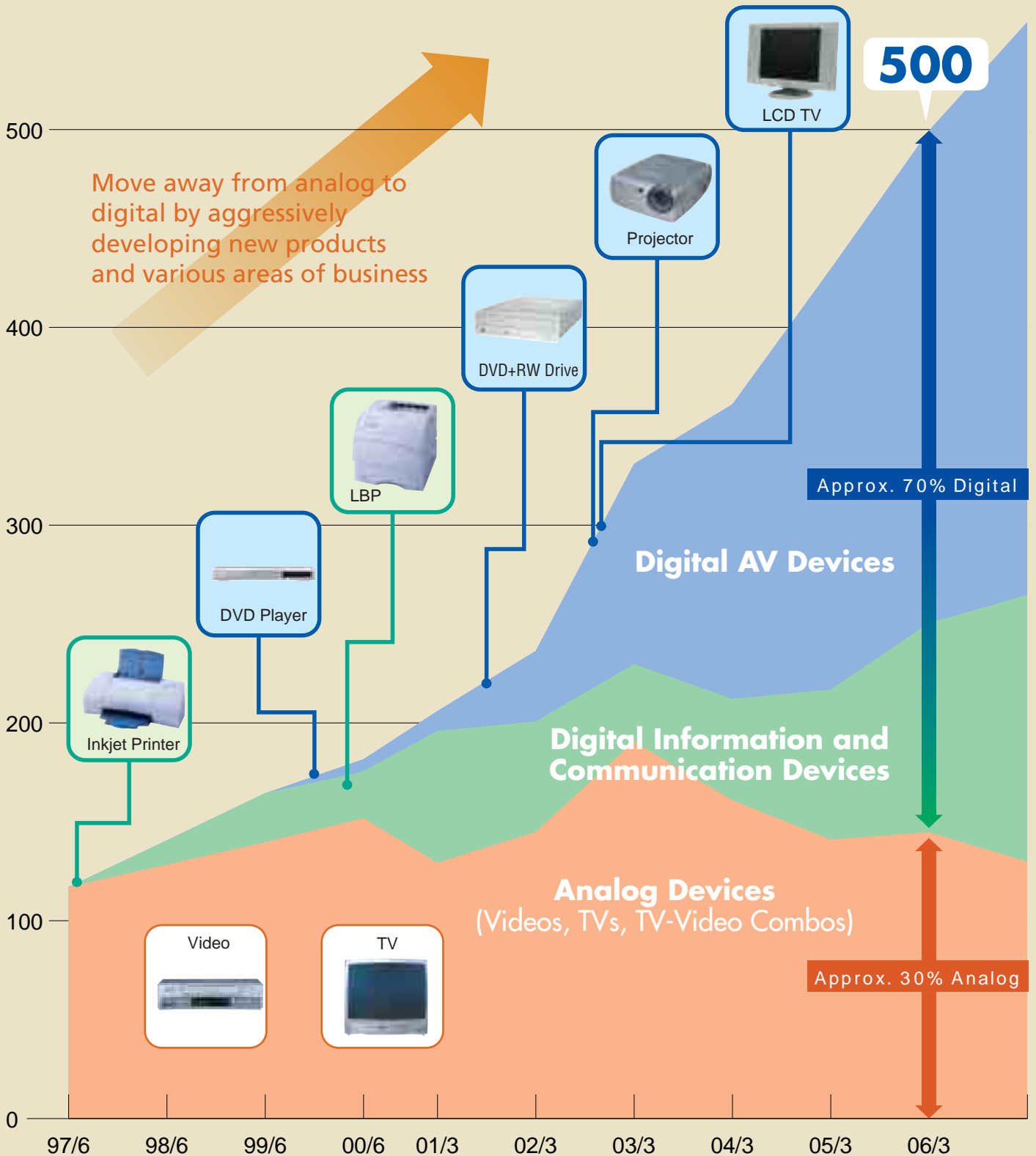
Aiming to Become a General Manufacturer of Digital Home Appliances by Steadily Developing New Products

In the years ahead the company plans to promote the transition to digital technology, especially in the audio and video equipment product category, while working actively to develop new products. Last year Funai launched several new products, such as projectors and LCD TVs, which are poised to become important new sources of earnings.

In addition, plans call for the release of a DVD recorder product sometime next year. Work on the development of new products continues apace.

In addition, an expansion in demand is anticipated for digital products in the information and communications equipment category once the worldwide IT slump begins to ease. Through its efforts in areas such as the above Funai hopes to develop into a general manufacturer of digital home appliances of all sorts.

( ¥ billion )



(Converted into 12 months)  
\*See note on page 1.

\*All photographs are of the latest models.

## Extending Our Line of Digital Products With New Additions Such as LCD TVs and Projectors

Funai's two strongest product categories are audio and video equipment and information and communications equipment. Current efforts to switch to digital technology are mainly focused on the former category, and the current fiscal year saw substantial growth in sales of DVD-related products. Earnings for the audio and video equipment product category were almost up to the target level thanks to mass production on an expanded scale. Manufactured based on the Funai Production System, the company's products combine excellent quality and low price. This has earned them strong support in the marketplace.

### Audio and Video Equipment

Analog products in this category developed and manufactured by Funai include VCRs, TVs, and combination TV/VCRs. Since these products have become common enough for every member of the family to own one, the development focus is on diversity of design and features, on the one hand, and on keeping the price as low as possible, on the other. In addition, Funai is working to meet the needs of consumers in the process of switching from analog to digital. To differentiate itself in the marketplace and come up with new hit items, Funai is developing composite products such as combination DVD/TVs and combination DVD/VHS decks.

At present Funai's top digital products are DVD-related items such as DVD players. They are marketed as popularly priced models combining a high level of functionality with a low price and have received an enthusiastic response from consumers, especially in North America. As a result, sales have grown substantially. In particular, Funai introduced its third-generation of DVD players during the fiscal year ended March 2003. These new models provide even better functionality and design, but they are being produced at lower cost thanks to efforts to switch to in-house production of components as well as reductions in the total number of parts per finished product. In addition, the fiscal year ended March 2003 saw the development of new projector and LCD TV products, sales of which have already begun. Thus, Funai's lineup of products in the audio and video equipment category continues to grow.

### Audiovisual Equipment



#### ▲ DVD Player

Slim, stylish design, only 5.5 mm thick. In addition to DVD and music CD playback, you can also play MP3, CD-R/RW, DVD-R/RW (video mode) discs. Goes beyond basic features with versatile playback (forward and reverse slow motion) and marker jump function.



#### ▲ DVD/VHS Combination Deck

All-in-one DVD hi-fi video with liquid crystal G-Code transfer remote controller. Various disc playback functions and easy VHS recording are presented in this single unit.



#### ▲ DVD+RW Drive

Using rewritable media, this DVD+RW drive provides large capacity optical storage for computers.



#### ▲ Projector

Formed a business partnership with US-based InFocus Corporation (a globally-recognized leader) to develop, manufacture and supply projectors to global markets.

### Information and Communication Equipment



#### ◀ Ink Jet Printer

This printer affordably provides both high resolution and speedy printing. Printed with water-resistant black ink that does not bleed, characters are very crisp. Energy-saving functions turn power on automatically when a job is sent to the printer; when the computer is powered off, the printer automatically switches off, too.

## Information and Communications Equipment



### ▲ Liquid Crystal TV

Taking advantage of liquid crystal, this TV is thin. The screen is bright, provides excellent motion reproduction, and has a wide viewing angle.



### ▲ DVD Combo

This personal theater system integrates TV and DVD. There is no need to deal with troublesome connections and control is simple.



### ▲ Broadcast Satellite (BS) / 110-Degree Commercial Satellite (CS 110) Digital HDTV Tuner

Latest model tuner for receiving satellite broadcasts. Single unit provides clear reception of both digital Broadcast Satellite (BS) and digital 110-Degree Commercial Satellite (CS 110) broadcasts. Compatible with a wide range of video equipment, including analog HDTV televisions and AV monitors.



### ▲ ATSC / NTSC Set-Top Box

The ATSC/NTSC Set-Top Box receives and decodes an ATSC compliant terrestrial DTV signal for display on standard NTSC analog television sets for the United States market. The User friendly On-Screen Display is available.

Funai's strongest products in the information and communications equipment category are inkjet printers and laser beam printers. Printers employ many elements related to mechatronics, an area in which Funai has traditionally excelled. By designing products to use the minimum number of parts possible and producing component parts in-house wherever possible, the company is able to maintain excellent quality while keeping costs low. In particular, inkjet printers are a product type that Funai originally became involved in through the development of popularly priced models. Market demand is shifting upward, however, and the company now plans to develop and market higher grade models in the years ahead as a way to achieve renewed growth.

Other products currently under development or in production include terrestrial digital TV broadcast receivers. The development concept for these products is "supplying functionality for the transition period of analog to digital." In future Funai will put the technology used in these products to use in the development of new digital products such as digital TVs.

### ▶ Laser Beam Printer

The powerful processor fitted in the printer enables printing at speeds of 25 ppm. High expandability is ensured with an optionally available unit that enables copying, faxing, and scanning multifunctionality.



# Global Network

Dongguan Plant 1 (China)



Dongguan Plant 2 (China)



Dongguan Plant 3 (China)



Zhong Shan Plant 1 (China)



Zhong Shan Plant 2 (China)



Funai Electric Trading (Europe)  
GmbH (Germany)



Daisho Electronics (Thailand)  
Co., Ltd. (Thailand)



Funai Electric (Malaysia) Sdn.  
Bhd. (Malaysia)



Funai Asia Pte Ltd (Singapore)



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

## Directory

### Plants and Places of Business

NAKAGAWA PLANT (JAPAN)  
TSUYAMA PLANT (JAPAN)  
TOKYO BRANCH (JAPAN)

### Manufacturing Subsidiaries

CHUGOKU FUNAI ELECTRIC CO., LTD. (JAPAN)  
FUNAI ELECTRIC (H.K.) LTD. (HONG KONG)  
ZHONG YUE FUNAI ELECTRON COMPANY  
(ZHONG SHAN PLANT 1) (CHINA)  
ZHONG SHAN FUNAI ELECTRON COMPANY (ZHONG  
SHAN PLANT 2) (CHINA)  
DONGGUAN FUNAI ELECTRONIC FACTORY  
(DONGGUAN PLANTS1,2,3) (CHINA)  
CHANG PING FUNAI ELECTRIC COMPANY  
(CHANG PING PLANT) (CHINA)  
H.F.T. INDUSTRIAL LTD. (HONG KONG)  
FUNAI ELECTRIC (MALAYSIA) SDN. BHD. (MALAYSIA)  
DAISHO ELECTRONICS (THAILAND) CO., LTD.  
(THAILAND)

Chang Ping Plant (China)



Chugoku Funai Electric Co., Ltd. (Japan)



Tsuyama Plant (Japan)



Nakagawa Plant (Japan)



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



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



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

### Sales Subsidiaries

FUNAI SALES CO., LTD. (JAPAN)

FUNAI CORPORATION, INC. (U.S.A.)

FUNAI ELECTRIC TRADING (EUROPE) GmbH (GERMANY)

FUNAI ASIA PTE LTD (SINGAPORE)

DAISHO ELECTRONICS CO., LTD. (JAPAN)

### Affiliated Subsidiaries

DX ANTENNA CO., LTD. (JAPAN)

FUNAI SERVICE CO., LTD. (JAPAN)

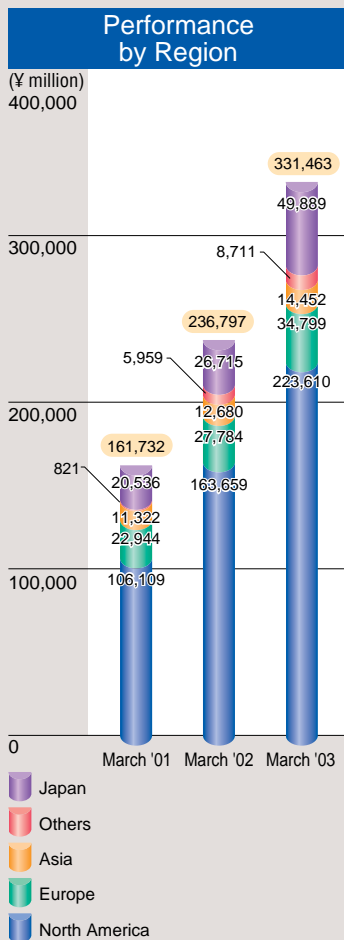
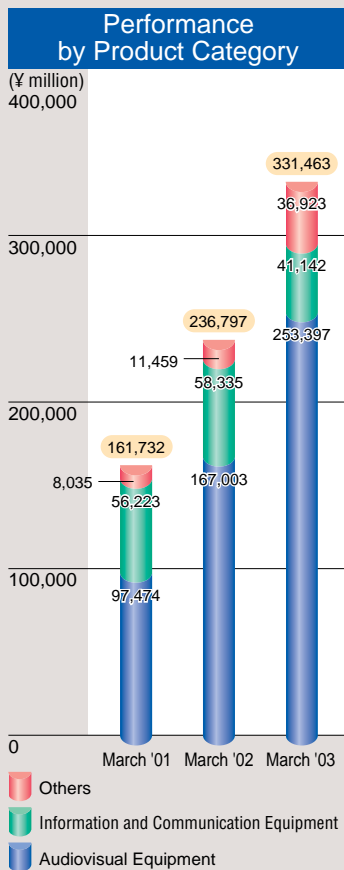
F.G.S. CO., LTD. (JAPAN)

A total of five companies in Japan and seven overseas are included in the Funai Group's consolidated business results for fiscal year ended March 2003. Funai Electric Co., Ltd. is responsible mainly 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 presently operates manufacturing facilities in three countries: China, Malaysia, and since May 2002, Thailand. Plant capacity was expanded during fiscal year ended March 2003, mainly in order to increase production capability for digital products. A new plant was opened in Dongguan, China with the aim of expanding production of DVD-related digital products and it will operate under the umbrella of Funai Electric (H.K.) Ltd. (Hong Kong). The new plant in Thailand, which will operate under the local subsidiary Daisho Electronics (Thailand) Co., Ltd. mainly produces electric motors. These plants, together with the Malaysian subsidiary (Funai Electric (Malaysia) Sdn. Bhd.), employ a total of 18,815 persons (as of March 31, 2003). In addition, the new Huangjiang Plant in the city of Dongguan, China is scheduled to open in August 2003. This facility will manufacture new products recently added to the Funai lineup, such as projectors and LCD TVs.

Funai's global sales system consists of the overseas subsidiaries Funai Corporation Inc. (U.S.A.), Funai Electric Trading (Europe) GmbH (Germany), and Funai Asia Pte Ltd (Singapore).

# Operating Review



## Market Environment

The world economy in the fiscal year ended March 2003 was marked by a moderate improvement in the business climate in the United States, but the stock market declined in the wake of disclosures of corporate accounting irregularities and the failure of one of America's leading telecommunications companies. Growth in individual consumption was sluggish and the employment situation worsened. In addition, the sense of uncertainty regarding future developments was heightened by the situation in Iraq. In Europe, Germany, France and other countries in the Euro zone experienced a chill in consumer attitudes and a business slowdown due to factors such as the strain brought on by the Iraq situation. A jump in crude oil prices caused general price levels to rise in Britain, casting a cloud over individual consumption prospects, which had previously been considered favorable. Throughout Asia the business climate brightened, led by continuing export-led expansion in China.

On the other hand, in Japan the manufacturing industry saw a recovery in corporate earnings thanks to cost reductions and other factors, but increasingly high unemployment combined with inflation to create a very unfavorable climate overall.

Funai and the rest of the electronics industry enjoyed a recovery in earnings due to a round of inventory adjustments worldwide, the consolidation and reorganization of group companies at some corporations, and efforts at business restructuring such as the reinforcement of offshore production systems. Nevertheless, the effects of the bursting of the information technology bubble continued in the form of poor sales of personal computers and related equipment, thus contributing to a generally adverse state of affairs.

## Business Performance

The Funai Group consists of Funai Electric Co., Ltd. and 27 related companies (23 subsidiaries and four affiliated companies). Of these, 12 consolidated subsidiaries and two equity-method subsidiaries are included in the Funai Group's consolidated business results.

Faced with the adverse market climate described above, the Funai Group worked to strengthen relationships with leading business partners worldwide while aggressively developing and expanding sales of digital products. In particular, efforts to produce DVD players and related products of high quality and at low prices resulted in increased market competitiveness and a substantial rise in sales. In addition, sales of DX Antenna Co., Ltd., a consolidated subsidiary that markets receiver related electronic equipment, will be added to the Funai Group's income statements from the term ending March 31, 2003 onward.

As a result of the above, net sales for this term on a consolidated basis totaled ¥331.463 billion (up 40.0% from the preceding term), constituting a substantial increase in earnings.

### Performance by Product Category

In the audio and video equipment category, sales of digital products such as DVD players and related products increased substantially. Sales of combination VCR/DVD units were particularly impressive. Sales of analog products such as large-screen TVs and combination TV/VCRs also grew. In addition, sales of products such as DVD+RW drives and projectors grew steadily. As a result, sales for the audio and video equipment category totaled ¥253.397 billion (up 51.7% from the preceding term). A shift in market preferences for inkjet printers from the popularly priced models Funai specializes in toward higher end models limited sales in the information and communications equipment category to ¥41.142 billion (down 29.5% from the preceding term). Sales in other product categories, including component parts and receiver related electronic equipment, totaled ¥36.923 billion (up 222.2% from the preceding term).

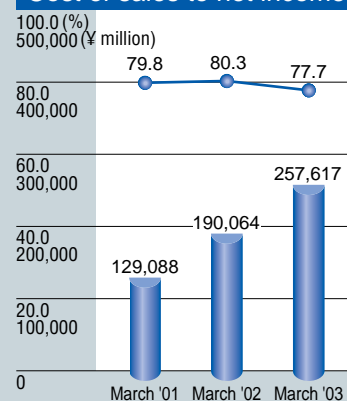
### Performance by Region

In North America Funai continued to strengthen its ties with leading retailers such as Wal-Mart and Sears Roebuck, sales of digital products such as DVD players and other DVD-related products increased substantially, and sales of analog products such as TVs and combination TV/VCRs also grew. As a result, total sales for North America increased by ¥59.952 billion over the previous term. Sales in markets outside North America also recorded steady growth. Sales in Japan increased by ¥23.174 billion over the previous term, thanks to the addition of sales from DX Antenna and other factors. In Europe, Asia, and other markets, growth in sales of digital audio and video equipment resulted in increases over the previous term of ¥7.015 billion, ¥1.773 billion, and ¥2.753 billion, respectively.

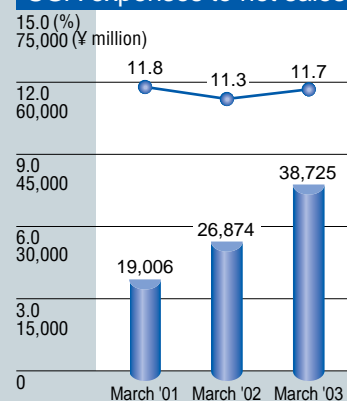
### Profits

This term saw a substantial increase in the profitability of the Funai Group. Though the increasing prominence of Chinese manufacturers in the market for audio and video equipment and other products has exerted downward pressure on prices, Funai's efforts to increase productivity, boost sales, and lower procurement costs for materials and parts resulted in an increase in operating profit of 76.9% over the preceding term, to ¥35.121 billion. A look at the company's profit performance shows that the cost-to-sales ratio improved 2.6% over the preceding term, while selling, general, and administrative expenses increased 0.4%. This resulted in a 2.2% increase in the operating profit ratio over the previous term, to 10.6%. If DX Antenna Co., Ltd. is excluded from the comparison, the figure for selling, general, and administrative expenses becomes 10.3%, which represents a 1.0% improvement over the preceding term. With the inclusion of a ¥7.544 billion loss from write-down of securities, net profit for the current term increased 71.8% to ¥19.296 billion.

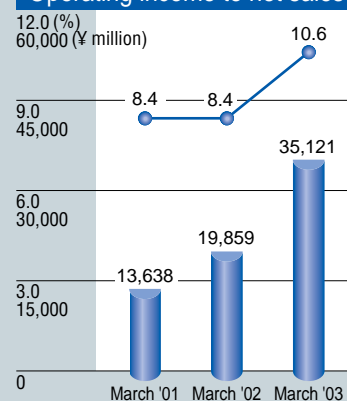
### Cost of sales/ Cost of sales to net income



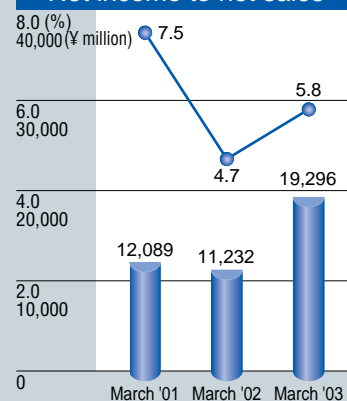
### SGA expenses/ SGA expenses to net sales



### Operating income/ Operating income to net sales



### Net income/ Net income to net sales



# Directors and Corporate Auditors

President .....	Tetsuro Funai
Executive Director .....	Motoaki Yasumura
Executive Director .....	Masao Suwa
Director .....	Akira Yokouchi
Director .....	Tetsuo Funai
Director .....	Mitsuo Yonemoto
Director .....	Junzo Kawasaki
Auditor .....	Kengo Takemori
Auditor .....	Masami Ueno
Auditor .....	Yasushi Ogino
Auditor .....	Osamu Kataoka

# Corporate Executive Officers

Corporate Executive Officer .....	Mitsunori Akada
Corporate Executive Officer .....	Tsunehiro Mizushima
Corporate Executive Officer .....	Yoshio Kinoshita
Corporate Executive Officer .....	Kosaku Yoshida
Corporate Executive Officer .....	Takashi Kiyomoto
Corporate Executive Officer .....	Masayuki Tani
Corporate Executive Officer .....	Hideo Nakai
Corporate Executive Officer .....	Tomonori Hayashi
Corporate Executive Officer .....	Akitaka Inoue
Corporate Executive Officer .....	Toshihiko Morita

# Financial Statements

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FUNAI ELECTRIC CO., LTD.  
and its Consolidated Subsidiaries

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# Consolidated Balance Sheets

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

	(Millions of yen)		<i>(Thousands of U.S. dollars)</i> (Note 4)
	March 31,		<i>March 31,</i>
	2003	2002	<i>2003</i>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 3).....	¥ 91,998	¥ 83,468	\$ 765,374
Short-term investments (Note 5).....	1,180	1,664	9,817
Notes and accounts receivables.....	34,227	30,449	284,750
Inventories (Note 6).....	20,295	21,942	168,844
Other current assets.....	8,282	5,430	68,902
Allowance for doubtful accounts.....	(1,329)	(1,457)	(11,056)
<b>Total current assets</b> .....	<b>154,653</b>	<b>141,496</b>	<b>1,286,631</b>
<b>Investments and advances:</b>			
Investments in and advances to unconsolidated subsidiaries and affiliates.....	6,116	6,481	50,882
Securities and other investments (Note 5).....	10,252	14,184	85,291
	<b>16,368</b>	<b>20,665</b>	<b>136,173</b>
<b>Property, plant and equipment, at cost:</b>			
Land.....	3,362	3,289	27,970
Buildings and structures.....	9,826	10,683	81,747
Machinery and equipment.....	47,293	51,140	393,453
Construction in progress.....	818	25	6,805
	<b>61,299</b>	<b>65,137</b>	<b>509,975</b>
Less: Accumulated depreciation.....	(47,332)	(48,195)	(393,777)
	<b>13,967</b>	<b>16,942</b>	<b>116,198</b>
<b>Deferred tax assets</b> (Note 13).....	<b>7,160</b>	<b>4,795</b>	<b>59,567</b>
<b>Other assets</b> .....	<b>4,718</b>	<b>6,350</b>	<b>39,251</b>
	<b>¥196,866</b>	<b>¥190,248</b>	<b>\$1,637,820</b>

(Thousands of  
U.S. dollars)  
(Note 4)

(Millions of yen)

	March 31,		March 31,
	2003	2002	2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 8).....	¥ 622	¥ 10,036	\$ 5,175
Current portion of long-term debt (Note 8).....	724	1,594	6,023
Accounts payable .....	43,742	40,479	363,910
Accrued income taxes .....	6,147	2,934	51,140
Accrued employees' bonuses.....	223	315	1,855
Other current liabilities .....	3,013	2,565	25,067
Total current liabilities .....	54,471	57,923	453,170
<b>Long-term debt</b> (Note 8) .....	7,566	1,766	62,945
<b>Retirement benefits to employees</b> (Note 9).....	4,270	4,125	35,524
<b>Retirement benefits to directors and statutory auditors</b> .....	943	907	7,845
<b>Other non-current liabilities</b> .....	826	878	6,872
Total liabilities .....	68,076	65,599	566,356
<b>Minority interests</b> .....	142	175	1,181
<b>Contingent liabilities</b> (Note 10)			
<b>Shareholders' equity</b> (Note 11):			
Common stock:			
Authorized: 80,000,000 shares			
Issued: 35,999,196 shares at March 31, 2003 and			
35,970,996 shares at March 31, 2002 .....			
	30,806	30,788	256,289
Additional paid-in capital.....	32,332	32,315	268,985
Retained earnings.....	74,772	55,461	622,063
Net unrealized holding gains on other securities.....	318	93	2,646
Foreign currency translation adjustments .....	(326)	5,820	(2,712)
Less: treasury stock, at cost: 701,786 shares at March 31, 2003			
and 255 shares at March 31, 2002 .....	(9,254)	(3)	(76,988)
Total shareholders' equity .....	128,648	124,474	1,070,283
	¥196,866	¥190,248	\$1,637,820

# Consolidated Statements of Income

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

	(Millions of yen)			(Thousands of U.S. dollars) (Note 4)
	For the year ended March 31,			For the year ended March 31,
	2003	2002	2001 (Note 1)	2003
<b>Net sales</b> .....	¥331,463	¥236,797	¥161,732	\$2,757,595
<b>Cost of sales</b> (Note 12) .....	257,617	190,064	129,088	2,143,236
Gross profit .....	73,846	46,733	32,644	614,359
<b>Selling, general and administrative expenses</b> (Note 12) .....	38,725	26,874	19,006	322,171
Operating income .....	35,121	19,859	13,638	292,188
<b>Other income (expenses):</b>				
Interest and dividend income .....	1,269	1,680	1,574	10,557
Interest expenses .....	(458)	(585)	(615)	(3,810)
Loss on sale or disposal of property, plant and equipment, net .....	(415)	(309)	(25)	(3,453)
Foreign exchange gain (loss), net .....	(1,342)	1,739	2,001	(11,165)
Loss on impairment of loan receivables .....	(691)	(1,053)	(20)	(5,748)
Loss on impairment of securities .....	(7,544)	(7,177)	(385)	(62,762)
Other, net .....	(738)	(728)	306	(6,140)
Income before income taxes and minority interests .....	25,202	13,426	16,474	209,667
<b>Income taxes</b> (Note 13):				
Current .....	10,134	5,050	4,794	84,310
Deferred .....	(4,210)	(2,840)	(396)	(35,025)
Minority interests .....	5,924 (18)	2,210 (16)	4,398 (13)	49,285 (150)
Net income .....	¥ 19,296	¥ 11,232	¥ 12,089	\$ 160,532
		(Yen)		(Dollars)
<b>Net income per share</b> (Note 3 and 16)				
— Basic .....	¥ 540.59	¥ 312.38	¥ 338.10	\$ 4.50
— Diluted .....	¥ 538.65	¥ 312.12	¥ 337.80	\$ 4.48
<b>Cash dividends per share</b> (Note 3) .....	¥ 20.00	¥ 10.00	¥ 10.00	\$ 0.17

# Consolidated Statements of Shareholders' Equity

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

	(Thousands)	(Millions of yen)					
	Number of shares of common stock outstanding	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at June 15, 2000</b>	11,846	¥30,565	¥32,086	¥35,873	¥ —	¥ —	¥ (2)
Net income	—	—	—	12,089	—	—	—
Cash dividends	—	—	—	(119)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(82)	—	—	—
Shares issued under stock option plan	333	211	211	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(1,436)	—
Issuance for merger	81	—	5	1,143	—	—	—
3-for-1 stock split	23,692	—	—	—	—	—	—
Net decrease in treasury stock	0	—	—	—	—	—	1
<b>Balance at March 31, 2001</b>	35,952	30,776	32,302	48,904	—	(1,436)	(1)
Net income	—	—	—	11,232	—	—	—
Cash dividends	—	—	—	(360)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(51)	—	—	—
Shares issued under stock option plan	19	12	13	—	—	—	—
Decrease in consolidated subsidiaries	—	—	—	(4,264)	—	—	—
Net unrealized holding gains on other securities	—	—	—	—	93	—	—
Foreign currency translation adjustments	—	—	—	—	—	7,256	—
Net increase in treasury stock	(0)	—	—	—	—	—	(2)
<b>Balance at March 31, 2002</b>	35,971	30,788	32,315	55,461	93	5,820	(3)
Net income	—	—	—	19,296	—	—	—
Cash dividends	—	—	—	(360)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(49)	—	—	—
Shares issued under stock option plan	28	18	17	—	—	—	—
Increase in consolidated subsidiaries	—	—	—	98	—	—	—
Merger	—	—	—	326	—	—	—
Net unrealized holding gains on other securities	—	—	—	—	225	—	—
Foreign currency translation adjustments	—	—	—	—	—	(6,146)	—
Net increase in treasury stock	(702)	—	—	—	—	—	(9,251)
<b>Balance at March 31, 2003</b>	<b>35,297</b>	<b>¥30,806</b>	<b>¥32,332</b>	<b>¥74,772</b>	<b>¥ 318</b>	<b>¥ (326)</b>	<b>¥ (9,254)</b>

(Thousands of U.S. dollars)

(Note 4)

<b>Balance at March 31, 2002</b>	\$256,140	\$268,844	\$461,406	\$ 774	\$48,419	\$ (25)
Net income	—	—	160,532	—	—	—
Cash dividends	—	—	(2,995)	—	—	—
Bonuses to directors and corporate auditors	—	—	(407)	—	—	—
Shares issued under stock option plan	149	141	—	—	—	—
Increase in consolidated subsidiaries	—	—	815	—	—	—
Merger	—	—	2,712	—	—	—
Net unrealized holding gains on other securities	—	—	—	1,872	—	—
Foreign currency translation adjustments	—	—	—	—	(51,131)	—
Net increase in treasury stock	—	—	—	—	—	(76,963)
<b>Balance at March 31, 2003</b>	<b>\$256,289</b>	<b>\$268,985</b>	<b>\$622,063</b>	<b>\$2,646</b>	<b>\$ (2,712)</b>	<b>\$ (76,988)</b>

# Consolidated Statements of Cash Flows

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

(Thousands of  
U.S. dollars)  
(Note 4)

	(Millions of yen)			(Thousands of U.S. dollars) (Note 4)
	For the year ended March 31,			For the year ended March 31,
	2003	2002	2001 (Note 1)	2003
<b>OPERATING ACTIVITIES:</b>				
Net income .....	¥19,296	¥11,232	¥12,089	\$160,532
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization .....	8,050	6,745	2,867	66,972
Allowance for doubtful accounts .....	(801)	1,098	(1,878)	(6,664)
Provision for retirement benefits to employees, net .....	153	25	(79)	1,273
Provision for retirement benefits to directors and corporate auditors, net.....	36	23	36	299
Loss on sales or disposals of property, plant and equipment, net.....	415	309	25	3,453
Changes in assets and liabilities:				
(Increase) decrease in notes and accounts receivable.....	(4,638)	3,625	2,312	(38,586)
(Increase) decrease in inventories.....	(588)	7,105	(5,454)	(4,892)
Decrease (increase) in other current assets.....	586	229	(826)	4,875
Increase (decrease) in accounts payable.....	4,016	(5,973)	(4,561)	33,411
Increase (decrease) in accrued income taxes .....	3,314	(2,632)	(1,118)	27,571
Decrease in accrued employees' bonuses .....	(92)	(781)	(296)	(765)
Increase in other current liabilities.....	3,858	535	115	32,096
Other, net.....	4,341	4,643	(953)	36,115
	18,650	14,951	(9,810)	155,158
Net cash provided by operating activities .....	37,946	26,183	2,279	315,690
<b>INVESTING ACTIVITIES:</b>				
Net increase (decrease) in time deposit .....	164	21,965	(9,563)	1,364
Purchase of marketable securities .....	—	(969)	—	—
Proceeds from sales of marketable securities .....	1,080	—	—	8,985
Payment for property, plant and equipment.....	(6,015)	(7,219)	(5,101)	(50,041)
Proceeds from sales of property and equipment .....	211	396	55	1,756
Proceeds from sales of investments in securities.....	408	540	—	3,394
Purchase of investments in securities.....	(5,076)	(6,234)	(1,868)	(42,229)
Purchase of loan receivable .....	(5,239)	(74)	(428)	(43,586)
Collection of loan receivable.....	3,173	103	54	26,398
Other, net.....	763	(156)	11	6,347
Net cash (used in) provided by investing activities .....	(10,531)	8,352	(16,840)	(87,612)
<b>FINANCING ACTIVITIES:</b>				
(Decrease) increase in short-term bank loans .....	(9,218)	(6,166)	7,930	(76,689)
Proceeds from long-term debt.....	9,000	8	—	74,875
Repayments of long-term debt.....	(4,071)	(200)	(200)	(33,869)
Purchase of treasury stock .....	(9,251)	(2)	0	(76,963)
Cash dividends .....	(360)	(360)	(119)	(2,995)
Other, net.....	(334)	(268)	229	(2,778)
Net cash (used in) provided by financing activities .....	(14,234)	(6,988)	7,840	(118,419)
Effect of exchange rate changes on cash and cash equivalents.....	(4,538)	6,254	2,906	(37,754)
Net increase (decrease) in cash and cash equivalents .....	8,643	33,801	(3,815)	71,905
Adjustments for cash and cash equivalents by merger.....	31	—	1,530	258
Adjustments for excluded subsidiary's cash and cash equivalents .....	(144)	—	—	(1,198)
Cash and cash equivalents at beginning of year.....	83,468	49,667	51,952	694,409
Cash and cash equivalents at end of year .....	¥91,998	¥83,468	¥49,667	\$765,374

# Notes to the Consolidated Financial Statements

FUNAI ELECTRIC CO., LTD. and its Consolidated Subsidiaries

## 1. Change in Fiscal Year

Effective June 16, 2000 Funai Electric Co., Ltd. (the “Company”) changed its year-end from June 15 to March 31. The consolidated statements of income, shareholders’ equity and cash flows ended March 31, 2001 are presented for nine and half months.

## 2. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by the Company and its consolidated subsidiaries. The Company and its domestic subsidiaries has maintained their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards or accounting principles generally accepted in the United States of America. Overseas consolidated subsidiaries maintain their records in conformity with accounting principles generally accepted in their respective country. In general, no adjustments to the account of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in compliance with Japanese accounting principles and practices followed by the Company.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

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

## 3. Summary of significant accounting policies

### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (“Funai” as a consolidated group), where the Company has an ability of control through its voting right or certain conditions. The excess of investment cost over net assets at the date of acquisition is amortized mainly over 5 years on a straight-line basis. All significant inter-company transactions have been eliminated.

Investments in all significant affiliated companies, where the Company has significant influences, are accounted for by the equity method and, accordingly, stated at cost adjusted for equity in undistributed earnings and losses from date of acquisition.

Funai Corporation, Inc., Funai Electric Trading (Europe) GmbH, Funai Electric (H.K.) Limited, H.F.T. Industrial Limited, Funai Electric (Malaysia) Sdn. Bhd., Funai Asia Pte Ltd and DAISHO ELECTRONICS (THAILAND) Co., Ltd use a fiscal year ending on December 31, of each year. DX ANTENA Co., Ltd uses a fiscal year ending on February 28, of each year. Material difference in intercompany transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted in consolidation.

### (b) Translation of foreign currencies

Effective June 16, 2000, the Company and its domestic consolidated subsidiaries adopted “Accounting Standards for Foreign Currency Transactions,” which was issued by the Business Accounting Deliberation Council.

All asset and liability accounts denominated in foreign currencies are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates and the resulting translation gain or loss are taken into income currently.

All asset and liability accounts denominated in foreign currencies of foreign consolidated subsidiaries and affiliates are translated into Japanese yen at the exchange rate in effect at the respective balance sheet dates. Operating accounts are translated at the average rate of exchange for the respective years. These translation adjustments, which are not included in the determination of income, are reported as foreign currency translation adjustments in the shareholders’ equity. As a result of the adoption of the new Japanese accounting standard for the year ended March 31, 2001, income before income taxes have decreased by ¥240 million, as compared with the amounts which would have been reported if the previous accounting policy had been applied.

### (c) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased with an original maturity of three months or less.

### (d) Short-term securities and investments in securities

Effective June 16, 2000, the Company adopted “Accounting Standards for Financial Instruments” which was issued by the Business Accounting Deliberation Council. In accordance with the new standards, securities are classified into trading securities, held-to-maturity debt securities, and other securities. Held-to-maturity securities are stated at amortized cost, adjusted for the amortization of premium or the accretion of discounts to maturity. Other securities with readily determinable fair value are recorded at fair value. Unrealized holding gains and losses are reported as a separate component of shareholders’ equity, net of tax. Other securities without readily determinable fair value are stated at cost.

When the market price of other securities falls below 50% of the price of the securities at the time of acquisition, a realized loss is recognized with the new cost basis being the current market price. If the market price falls 30% or more but less than 50%, a judgment is made about the likelihood of a recovery in price and decision is taken whether to write down to fair value.

As a result of the adoption of the new Japanese accounting standard for the year ended March 31, 2001, income before income taxes have decreased by ¥598 million, as compared with the amounts which would have been reported if the previous accounting policy had been applied.

(e) Inventories

Finished goods and work in process are mainly stated at cost, determined by the average method, and materials are mainly stated at cost, determined by the first-in first-out method, except that foreign consolidated subsidiaries state their inventories at the lower of cost or market, cost being determined by the first-in first-out method.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is principally computed by the declining-balance method at rates based on the estimated useful lives of the assets, except that foreign consolidated subsidiaries compute depreciation by the straight-line method.

The principal estimated useful lives used for computing depreciation are as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	1 to 20 years

The cost of maintenance, repairs and minor renewals is charged to expense in the year incurred; major renewals and betterments are capitalized.

In general, when assets are sold or otherwise disposed of, the profits or losses thereon, computed on the basis of the difference between depreciated costs and proceeds, are credited or charged to income in the year of disposal, costs and accumulated depreciation are removed from the accounts.

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the historical write-off experience from prior periods, plus an estimate of uncollectible amounts based on the analysis of certain individual receivables.

(h) Retirement benefits and pension plan

Effective June 16, 2000, the Company and its domestic consolidated subsidiaries adopted "Accounting Standards for Retirement Benefit," which was issued by the Business Accounting Deliberation Council. In accordance with the new standards, severance indemnities are accrued based on the retirement benefit obligation, considering the projected benefit obligation and fair value of plan assets at the balance sheet date. The unrecognized actuarial gain or loss and unrecognized prior service cost, it will be settled as an expense in the period when incurred or will be charged to income from the next period after its occurrence using the straight line method within specified period. As a result of the adoption of the new Japanese accounting standard for the year ended March 31, 2001, income before income taxes have decreased by ¥109 million, as compared with the amounts which would have been reported if the previous accounting policy had been applied.

The Company and certain domestic subsidiaries maintain the Funai Electric welfare pension fund plan and a qualified retirement-funded pension plan. Retirement benefits to employees under those plans are determined by reference to current basic rates of pay and length of service. Certain overseas subsidiaries maintain defined contribution plans.

The Company, with respect to directors and corporate auditors, provides for lump-sum service benefits. While the Company has no legal obligation, it is a customary practice in Japan to make lump-sum payments to a director or a corporate auditor upon retirement. An annual provision is made in the accounts for the estimated cost of this termination plan, which is not funded.

(i) Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(j) Research and development expenses

Research and development expenses are charged to results of operations as incurred.

(k) Income taxes

Deferred tax assets and liabilities are recognized based on the differences between the financial statements carrying amounts and tax bases of assets and liabilities using enacted statutory tax rates in effect at the balance sheet date. A valuation allowance is recorded to reduce deferred tax assets when uncertainty regarding their realizability exists.

(l) Net income per share

Effective from April 1, 2002, the Company adopted "Accounting Standards for Earnings per Share" and "Guideline for the Accounting Standards for Earnings per Share" issued by the Accounting Standards Board of Japan. The computation of basic net income per share is based upon the weighted average number of shares of common stock outstanding during each period. The

computation of diluted net income per share is based upon the weighted average number of shares of common stock outstanding during each period after consideration of dilutive effect of common stock equivalents which include warrants and convertible bonds.

Cash dividends per share is those declared with respect to the earnings for the respective periods for which dividends were proposed by the Board of Directors. Dividends are charged to retained earnings in the year in which they are paid.

(m) Use of estimates

The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### 4. Translation into United States dollars

The consolidated financial statements presented herein are expressed in Japanese yen and have been translated into United States dollars, solely for the convenience of the readers, at the rate of ¥120.20 = U.S.\$1, the exchange rate prevailing on March 31, 2003. Such translations should not be construed as representation that the yen amounts have been, could have been or could be converted into United States dollars at that rate or any other rate.

#### 5. Marketable securities and investments in securities

Other securities at March 31, 2003 and 2002 included in short term investments and securities and other investments are summarized as follows:

	(Millions of yen)					
	March 31,					
	2003			2002		
Cost	Unrealized gains, net	Book Value (Fair value)	Cost	Unrealized gains, net	Book Value (Fair value)	
Equity securities .....	¥ 5,928	¥ 869	¥ 6,797	¥10,028	¥ 336	¥10,364
Debt securities .....	1,874	(124)	1,750	1	1	2
	<u>¥ 7,802</u>	<u>¥ 745</u>	<u>¥ 8,547</u>	<u>¥10,029</u>	<u>¥ 337</u>	<u>¥10,366</u>
Securities for which market value not readily determinable .....			2,356			4,787
			<u>¥10,903</u>			<u>¥15,153</u>

	(Thousands of U.S. dollars)		
	March 31, 2003		
	Cost	Unrealized gains, net	Book Value (Fair value)
Equity securities .....	\$49,317	\$ 7,230	\$56,547
Debt securities .....	15,591	(1,032)	14,559
	<u>\$64,908</u>	<u>\$ 6,198</u>	<u>\$71,106</u>
Securities for which market value not readily determinable .....			19,601
			<u>\$90,707</u>

#### 6. Inventories

Inventories at March 31, 2003 and 2002 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Finished goods .....	¥13,922	¥15,402	\$115,824
Materials and supplies .....	5,309	5,744	44,168
Work in process.....	1,064	796	8,852
	<u>¥20,295</u>	<u>¥21,942</u>	<u>\$168,844</u>

## 7. Leases

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of the lease assets at March 31, 2003 and 2002, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases in Japan:

	(Millions of yen)					
	March 31,					
	2003			2002		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment.....	¥2,485	¥1,548	¥ 937	¥2,113	¥1,144	¥ 969
	<i>(Thousands of U.S. dollars)</i>					
	March 31,					
	2003					
	Acquisition costs	Accumulated depreciation	Net book value			
Machinery and equipment.....	\$20,674	\$12,879	\$7,795			

The future lease payments under the Company and its domestic subsidiaries' financing leases and non-cancelable operating leases, including amounts representing interest, at March 31, 2003 and 2002 were as follows:

	(Millions of yen)		<i>(Thousands of U.S. dollars)</i>
	March 31,		March 31,
	2003	2002	2003
Future lease payments .....	¥430	¥408	\$3,577
Due within one year.....	525	583	4,368
Due after one year.....	¥955	¥991	\$7,945

Lease payments relating to finance leases accounted for as operating lease in Japan in the accompanying consolidated financial statements amounted to ¥525million (\$4,368 thousand), ¥358 million and ¥267 million for the year ended March 31, 2003, 2002 and 2001.

## 8. Short-term borrowings and long-term debt

Short-term borrowings are principally bank loans with average rate of 3.1 % and 2.1% at March 31, 2003 and 2002.

Long-term debt at March 31, 2003 and 2002 were as follows:

	(Millions of yen)		<i>(Thousands of U.S. dollars)</i>
	March 31,		March 31,
	2003	2002	2003
Long term bank loans .....	¥8,290	¥3,360	\$68,968
Less current portion .....	(724)	(1,594)	(6,023)
	7,566	1,766	62,945
Average interest rate .....	1.3%	2.5%	

The aggregate annual maturities of long-term bank loans at March 31, 2003 were as follows:

Year ending March 31,	(Millions of yen)		<i>(Thousands of U.S. dollars)</i>
2004 .....	¥ 724		\$ 6,023
2005 .....	1,090		9,068
2006 .....	1,161		9,659
2007 .....	1,161		9,659
2008 .....	4,154		34,559
2008 and thereafter .....	¥8,290		\$68,968

## 9. Retirement benefits to employees

Benefit obligation, plan assets and funded status of the Company and its domestic consolidated subsidiaries at March 31, 2003 and 2002 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Benefit obligation at end of year.....	¥(17,632)	¥(17,901)	\$(146,688)
Fair value of plan assets at end of year.....	9,677	11,218	80,507
Funded status:			
Benefit obligation in excess of plan assets .....	(7,955)	(6,683)	(66,181)
Unrecognized net transition obligation.....	1,682	1,808	13,993
Unrecognized actuarial loss .....	3,607	1,706	30,008
Unrecognized prior service cost .....	(496)	(170)	(4,126)
Net amount recognized .....	(3,162)	(3,339)	(26,306)
Prepaid pension cost.....	1,108	786	9,218
Accrued pension liability recognized in the balance sheet .....	¥ (4,270)	¥ (4,125)	\$ (35,524)

Severance and pension costs of the Company and its domestic consolidated subsidiaries were as follows:

	(Millions of yen)			(Thousands of U.S. dollars)
	March 31,			March 31,
	2003	2002	2001	2003
Service cost.....	¥ 845	¥ 299	¥ 251	\$7,030
Interest cost.....	508	355	270	4,226
Expected return on plan assets.....	(400)	(328)	(246)	(3,328)
Amortization:				
Transition obligation .....	124	—	85	1,032
Prior service cost.....	(59)	(21)	(21)	(491)
Actuarial losses .....	176	61	—	1,464
Net periodic benefit cost .....	¥1,194	¥ 366	¥ 339	\$9,933
Discount rate.....	2.5%	3.0%	3.0%	
Expected long-term rate of return on plan assets .....	3.0%~4.0%	4.0%	4.0%	

## 10. Contingent liabilities

Contingent liabilities at March 31, 2003 and 2002 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Trade notes discounted .....	¥ 260	¥1,746	\$ 2,163
Loans guaranteed (primarily of unconsolidated subsidiaries and affiliates) .....	¥1,857	¥3,763	\$15,449

## 11. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of new shares issued is required to be capitalized as stated capital, although the Company may, by resolution of its board of directors, capitalize as amount not exceeding one-half of the issue price of the new shares as additional paid-in capital. The Company may, by resolution of the board of directors, distribute additional paid-in capital or the stated capital in the form of stock splits. The Code also provides that legal reserve and additional paid-in capital reserve until 25% of the Company's stated capital. The legal reserve and additional paid-in capital may be transferred to stated capital through suitable director actions or used to reduce a deficit through suitable shareholders action. Under the Code, the Company is allowed to acquire its own shares to the extent that the aggregate cost of treasury shares does not exceed the maximum amount available for dividends.

## 12. Supplemental expense information

Research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 amounted to ¥9,211 million (\$76,631 thousand), ¥8,200 million and ¥5,896 million.

## 13. Income taxes

Income taxes applicable to the Company and its domestic subsidiaries include (1) corporation tax, (2) enterprise tax and (3) inhabitants tax which, in the aggregate, result in an effective tax rate approximately equal to 41.8% for the year ended March 31, 2003, 2002 and 2001.

Reconciliation between the Japanese statutory income tax rate and effective tax rate is as follows:

	2003	2002	2001
Japanese statutory tax rate .....	41.8%	41.8%	41.8%
Expenses not deductible for tax purposes.....	2.5	0.5	0.5
Permanently non-taxable income .....	-4.5	-3.6	-0.9
Income of foreign taxed at lower than statutory tax rates .....	-20.9	-27.0	-21.3
Taxes on undistributed earnings .....	—	2.3	3.3
Valuation allowances .....	1.2	—	—
Tax rate change .....	0.8	—	—
Others.....	2.5	2.4	-1.4
Effective income tax rate .....	<u>23.5%</u>	<u>16.4%</u>	<u>22.0%</u>

For the year ending March 31, 2005, a corporation size-based enterprise tax will be introduced and which will supersede the current enterprise tax. As a result, the statutory tax rate for the year ending March 31, 2005 will be reduced to 40.7% from 41.8%, the rate used before April 1, 2004. The newly enacted tax rates were used in calculating the future expected tax effects of temporary differences to be realized after April 1, 2004, as of March 31, 2003. Consequently, deferred tax assets (net of deferred tax liabilities) were decreased by ¥191 million (\$1,589 thousand), and income taxes – deferred and net unrealized holding gains on other securities were decreased by ¥197 million (\$1,639 thousand) and ¥5 million (\$42 thousand), respectively.

The components of the deferred tax assets and deferred tax liabilities at March 31, 2003 and 2002 were as follows:

	(Millions of yen)		<i>(Thousands of U.S. dollars)</i>
	March 31, 2003	2002	March 31, 2003
Deferred tax assets:			
Retirement benefits to employees .....	¥ 1,272	¥ 1,254	\$10,582
Retirement benefits to directors and statutory auditors.....	384	379	3,195
Accounts payable .....	1,178	617	9,800
Accrued enterprise tax .....	475	146	3,952
Allowance for doubtful accounts .....	1,006	1,310	8,369
Accrued employees' bonuses.....	338	235	2,812
Intercompany profit on inventories and property and equipment ..	491	702	4,085
Impairment loss on securities .....	5,768	2,956	47,987
Tax loss carry forward of consolidated subsidiaries .....	2,651	2,010	22,055
Other .....	1,513	1,517	12,587
Gross deferred tax assets .....	<u>15,076</u>	<u>11,126</u>	<u>125,424</u>
Less: Valuation allowance .....	3,874	3,748	32,229
Total deferred tax assets.....	<u>¥11,202</u>	<u>¥7,378</u>	<u>\$93,195</u>
Deferred tax liabilities:			
Tax purpose reserves by Japanese tax law .....	¥ 212	¥ 237	\$ 1,764
Depreciation of overseas consolidated subsidiaries.....	185	401	1,539
Net unrealized gains on securities.....	219	—	1,822
Other.....	11	97	92
Gross deferred tax liabilities .....	<u>627</u>	<u>735</u>	<u>5,217</u>
Net deferred tax assets .....	<u>¥ 10,575</u>	<u>¥ 6,643</u>	<u>\$87,978</u>

#### 14. Stock option plan

A summary of stock option plans at March 31, 2003 was as follows:

	1998 stock option plan	2001 stock option plan	2002 stock option plan
Number of options outstanding as of March 31, 2003	6,600 shares	409,900 shares	399,700 shares
Exercise price	¥1,267	¥9,549	¥15,150
Contractual life	From September 16, 2000 to September 15, 2003	From January 1, 2004 to December 31, 2010	From August 1, 2004 to June 31, 2011

The 1998 and 2001 stock option plan provided options to purchase common shares of the Company to directors and key employees of the Company and its subsidiaries.

The 2002 stock option plan provided options to purchase common shares of the Company to directors, key employees, counsel, consultant and researcher of the Company and its subsidiaries.

The 2003 stock option plan was approved by shareholders meeting of the Company on June 25, 2003. The plan provided for the granting of a maximum of 400,000 options to purchase common shares of the Company to directors, key employees, counsel, consultant and researcher of the Company and its subsidiaries. Contractual life is from August 1, 2005 to July 31, 2012. Exercise price will be the lower of (1) a price determined by 1.05 the average market price of the Company's common stock in previous month of the date of the grant or (2) a market price of the Company's common stock at the date of the grant.

#### 15. Segment Information

Funai operates single business segment of manufacturing and sales of electric products in Japan and overseas. Therefore, operating segment information is not disclosed. Information for geographic segment and overseas sales were as follows:

Segment information of the Company and its consolidated subsidiaries are as follows:

##### (1) Geographic area

	(Millions of yen)					Consolidated total
	Japan	North America	Asia	Europe	Elimination	
<b>For the year ended March 31, 2001</b>						
Sales:						
Sales to outside customers	¥104,543	¥ 49,969	¥ 1,977	¥ 5,243	¥ —	¥161,732
Inter-segment sales .....	56,015	—	107,706	—	(163,721)	—
Total .....	160,558	49,969	109,683	5,243	(163,721)	161,732
Operating expenses .....	152,168	49,493	102,802	5,460	(161,829)	148,094
Operating income .....	¥ 8,390	¥ 476	¥ 6,881	¥ (217)	¥ (1,892)	¥ 13,638
Identifiable assets .....	¥ 52,045	¥ 18,195	¥ 57,056	¥ 2,978	¥ 33,161	¥163,435
<b>For the year ended March 31, 2002</b>						
Sales:						
Sales to outside customers	¥126,304	¥101,080	¥ 4,654	¥ 4,758	¥ —	¥236,796
Inter-segment sales .....	108,789	—	184,708	—	(293,497)	—
Total .....	235,093	101,080	189,362	4,758	(293,497)	236,796
Operating expenses .....	226,326	100,656	178,293	4,926	(293,264)	216,937
Operating income .....	¥ 8,767	¥ 424	¥ 11,069	¥ (168)	¥ (233)	¥ 19,859
Identifiable assets .....	¥ 80,337	¥ 20,514	¥ 75,280	¥ 1,388	¥ 12,729	¥190,248

(Millions of yen)

	Japan	North America	Asia	Europe	Elimination	Consolidated total
<b>For the year ended March 31, 2003</b>						
Sales:						
Sales to outside customers	¥161,333	¥159,385	¥ 6,202	¥ 4,543	¥ —	¥331,463
Inter-segment sales .....	149,077	—	235,944	—	(385,021)	—
Total .....	310,410	159,385	242,146	4,543	(385,021)	331,463
Operating expenses .....	293,589	156,701	225,958	4,462	(384,368)	296,342
Operating income .....	¥ 16,821	¥ 2,684	¥ 16,188	¥ 81	¥ (653)	¥ 35,121
Identifiable assets .....	¥ 72,157	¥ 13,631	¥ 92,408	¥ 972	¥ 17,698	¥196,866

(Thousands of U.S. dollars)

	Japan	North America	Asia	Europe	Elimination	Consolidated total
<b>For the year ended March 31, 2003</b>						
Sales:						
Sales to outside customers	\$1,342,205	\$1,325,998	\$ 51,597	\$ 37,795	\$ —	\$ 2,757,595
Inter-segment sales .....	1,240,241	—	1,962,928	—	(3,203,169)	—
Total .....	2,582,446	1,325,998	2,014,525	37,795	(3,203,169)	2,757,595
Operating expenses.....	2,442,504	1,303,669	1,879,850	37,121	(3,197,737)	2,465,407
Operating income .....	\$ 139,942	\$ 22,329	\$ 134,675	\$ 674	\$ (5,432)	\$ 292,188
Identifiable assets .....	\$ 600,308	\$ 113,403	\$ 768,785	\$ 8,086	\$ 147,238	\$ 1,637,820

## (2) Overseas sales

	(Millions of yen, except percentages)			(Thousands of U.S. dollars, except percentages)
	For the year ended March 31,			For the year ended March 31,
	2003	2002	2001	2003
Overseas sales .....	¥ 281,390	¥ 210,081	¥ 141,197	\$ 2,341,015
Consolidated sales .....	331,463	236,797	161,732	2,757,595
Ratio of overseas sales to consolidated sales .....	84.9%	88.7%	87.3%	84.9%

## 16. Net income per share

The computation of net income per share for the year ended March 31, 2003 was summarized as follows:  
(Millions of yen, thousands of U.S. dollars and shares)

	(Millions of yen)	(Thousands of U.S. dollars)
Net income .....	¥19,296	\$160,532
Bonuses to directors and corporate auditors .....	63	524
Adjusted net income .....	¥19,233	\$160,008
Basic weighted average number of shares outstanding .....	35,577	
Dilutive effect of stock options .....	129	
Diluted weighted average number of shares outstanding .....	35,705	
Basic net income per share (Yen and Dollars) .....	¥540.59	\$ 4.50
Diluted net income per share (Yen and Dollars) .....	¥538.65	\$ 4.48

As described in Note 3, the Company adopted new accounting standards for the computation of net income per share. If the new standards had been applied in 2002, basic and diluted net income per share would have been ¥311.00 and 310.74, respectively.

## 17. Reclassifications

Certain reclassifications of previously reported amounts have been made to the consolidated balance sheets at March 31, 2002, the consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2002 and 2001 to conform to the current year presentation. Such reclassifications have no effect on net assets, net income and cash flows.

## 18. Subsequent events

The general shareholders' meeting of the Company held on June 25, 2003 approved the following appropriations of retained earnings in the year ended March 31, 2003.

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥20=U.S.\$0.17 per share) .....	¥706	\$5,874
Bonuses to directors and statutory auditors .....	63	524
	¥769	\$6,398

# Report of Independent Accountants

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

We have audited the accompanying consolidated balance sheets of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the year 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. The consolidated financial statements of Funai Electric Co., Ltd. and its consolidated subsidiaries as of March 31, 2002 and 2001 and for the years then ended were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated June 26, 2002. Their report contained an explanatory paragraph that described the adoption of new accounting standards discussed in Note 3 to the consolidated financial statements.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 its consolidated subsidiaries as of March 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 2).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

*ChuoAoyama Audit Corporation*

Osaka, Japan  
June 25, 2003

# Report of Independent Certified Public Accountants on The Consolidated Financial Statements

*The following is a copy of the audit report previously issued by Mizuho Audit Corporation in connection with Funai Electric Co., Ltd.'s Annual Report for the year ended March 31, 2002. This audit report has not been reissued by Mizuho Audit Corporation.*

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

We have audited the consolidated balance sheets of Funai Electric Co.,Ltd. and its consolidated subsidiaries as of March 31, 2001 and March 31, 2002, and the related consolidated statement income ,shareholders' equity and cash flows for each of the three fiscal years in the period ended March 31, 2002, all expressed in Japanese yen .

Our audits were made in accordance with generally accepted auditing standards in Japan and accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Funai Electric Co.,Ltd. and its consolidated subsidiaries as of March 31, 2001 and March 31, 2002, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended March 31, 2002, in conformity with generally accepted accounting principles in Japan, which have been applied on a consistent basis, except for the change, with which we concur in the method of accounting for retirement benefits to employee as described in Note 4.

As described in Note 3, effective June 16, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for Retirement Benefit, Financial Instruments and Translating foreign currencies.

We have reviewed the translation into U.S. dollars of financial statements referred to above and, in our opinion, the translation amounts have been computed on the basis described in Note 5.

*Mizuho Audit Corporation*

Kobe, Japan  
June 26, 2002

# Company Data

## Company Outline

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**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.funai.co.jp/>

**Capital** ¥ 30,806 million  
**Sales** ¥ 280,435 million (March 2003)  
**Employees** 1,057 (March 2003)

## Business Operations

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**Audio-visual Equipment**  
VCR, Combination TV/VCR, Television, DVD player and related products  
**Information and Communication Equipment**  
Printer, Facsimile machine, Internet set top box

## Company History

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- 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 Fukayasu-gun(now Fukuyama City), Hiroshima.  
May. 1968 Nakagawa Electronics Co., Ltd.(now Nakagawa Plant) was established as a manufacturing firm in Naka-gun, Tokushima.  
Mar. 1969 Okayama Funai Electric Co., Ltd. (now Tsuyama Plant) was established a manufacturing company in Tsuyama City, Okayama.  
Sep. 1976 The head office was relocated to Daito City, Osaka.  
Jun. 1980 Funai Electric Trading (Europe) GmbH, a sales firm, was established in Hamburg, Germany.  
Oct. 1980 Funai Electric Research Institute Co., Ltd. was established.  
Jul. 1984 Tokyo Funai Co., Ltd.(now Funai Sales Co., Ltd.) was established as a domestic sales company in Chiyoda-ku, Tokyo.  
Apr. 1989 Funai Electric (Malaysia) SDN.BHD., a manufacturing company, was established in Johor Darul Takzim, West Malaysia.  
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 oversee factories 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.  
Dec. 1992 Chang Ping Plant in Dong Guan City 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.  
May. 1996 Highsonic Industrial Ltd. (now Funai Electric (H.K.) Ltd.) established H.F.T Industrial Ltd. by joint investment with the Japan company.  
Feb. 1999 Funai Electric Co., Ltd. was listed on the Second Section of Osaka Stock Exchange.  
Mar. 2000 Funai Electric Co., Ltd. was listed on the First Section of Tokyo Stock Exchange and the First Section of Osaka Stock Exchange.  
Jun. 2000 Funai Asia Pte Ltd was established as a sales firm in Singapore.  
Mar. 2001 Closing date for the fiscal year ending June 15 was changed to March 31.  
Jun. 2001 Daisho Electronics Co., Ltd. was established in chiyoda-ku, Tokyo as s company of development and sales of small electric motors.  
Dec. 2001 Got the stocks of DX Antenna Co., Ltd.





FUNAI ELECTRIC CO., LTD.