(Translation)

Securities Code: 6839
June 6, 2011

# NOTICE OF THE 59TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders:

We would like to express our appreciation for your continued good offices.

We offer our heartfelt condolences to all shareholders who have suffered from the Great Eastern Japan Earthquake.

Please take notice that the 59th Ordinary General Meeting of Shareholders of Funai Electric Co., Ltd. (the Company) will be held as described below and you are cordially invited to attend the meeting.

Since voting rights can be exercised in writing even if you are not present at the meeting, please go over the Reference Document for the General Meeting of Shareholders set forth below and send us by return mail the enclosed voting form indicating your approval or disapproval of the propositions no later than 5:00 p.m. on June 21 (Tuesday), 2011.

Yours very truly,

Tomonori Hayashi
Representative director, President and CEO

Funai Electric Co., Ltd.
7-1, Nakagaito 7-chome,
Daito City, Osaka

Description

1. Date and hour:

   June 22 (Wednesday), 2011, 10:00 a.m.

2. Place:

   5F, Multipurpose Hall, Technology Bldg. of the Company
   7-1, Nakagaito 7-chome, Daito City, Osaka

3. Matters forming the objects of the meeting:

   Matters to be reported:

   1. Report on the business report, the consolidated financial statements and the results of audit of the consolidated financial statements by the accounting auditors and the Board of Corporate Auditors for the 59th fiscal year (from April 1, 2010 to March 31, 2011)

   2. Report on the non-consolidated financial statements for the 59th fiscal year (from April 1, 2010 to March 31, 2011)

   Matters to be resolved:

   Proposition No. 1: Election of 9 Directors

   Proposition No. 2: Granting of retirement gratuities to the retiring Directors

- END -

In attending the meeting, please present the enclosed voting form to a receptionist at the place of the meeting.

In the event of the revision of any matter in the Reference Document for the General Meeting of Shareholders, the business report, the consolidated financial statements and the non-consolidated financial statements, it will be posted on our Internet website (http://www.funai.jp/).

(Attached documents)

## BUSINESS REPORT

(April 1, 2010 to March 31, 2011)

## 1. Current state of the Funai Group (the "Group")

(1) Development and results of business activities:

During the fiscal year ended March 31, 2011, the economy of the United States, which is the Group’s principal market, was characterized by a gradual overall recovery. Government support, coupled with quantitative easing, bolstered stock market performance, supporting personal consumption. On the other hand, the housing market was lackluster, unemployment remained high, and gasoline prices surged, causing uncertainty about future consumption levels.

In the consumer electronics market, sales of mainstay LCD televisions were strong in China and other emerging markets. Sales also increased in Japan, spurred by government efforts to stimulate consumption (the home electronics eco-point system). In Europe and the United States, market growth is slowing, owing to already-high product penetration. In these markets, sales failed to increase, as consumers held back on purchasing high-end new products, such as LED- backlight and 3D televisions, out of income uncertainty. These circumstances put downward pressure on prices, while raw materials costs continued to escalate, squeezing profits.

As a result of these circumstances, the Group posted a 6.0% year-on-year decrease in net sales, to ¥295,923 million.

On the profit front, operating income plunged 93.1%, to ¥772 million; ordinary income dropped 89.0%, to ¥1,290 million; and the Group recorded a net loss of ¥1,169 million, compared with net income of ¥10,328 million in the preceding fiscal year.

Sales by Product Segment were as follows:

**Audio-visual Equipment**

In the Audio-visual equipment segment, the Group was able to increase the volume of LCD television units sold but due to intense price competition in the market, sales fell. In the field of DVD related products, despite the top-line contribution of Blu-ray disc recorders that were launched onto the market during the third quarter of the previous fiscal year, sales fell significantly from the same period last year. This was mainly because of the lack of sales generated by TV STBs in the US market after the Group's decisions to halt production thereof and the marked decline in sales of DVD players and Blu-ray disc players. Consequently, net sales of this product segment fell to ¥198,606 million (a fall of 15.0% from the previous fiscal year).

Note: Television set-top boxes are devices to convert digital signals into analog signals, enabling viewers to watch terrestrial digital broadcasting on existing analog televisions. Terrestrial analog broadcasting in the United States was ended in June 2009.

**Information Equipment**

In the information equipment segment, an increase in orders for printers resulted in the Group posting net sales of ¥56,405 million (a 3.3% increase from the previous fiscal year).

**Others**

Sales of other products that are not included in the above categories increased as strong demand for antennas and related devices as a result of the transition from analogue to digital terrestrial broadcasting. Consequently, the Group posted net sales of ¥40,912 million (a 52.9% increase from the previous fiscal year).

Note: As from the fiscal year under review, sales of antennas for North America that were previously categorized under the "Audio-visual Equipment" segment has been transferred to the "Others" segment. Further, prior year sales figures for "Audio-visual Equipment" include sales of antennas for North America, which totaled ¥3,595 million for the previous fiscal year.

<Consolidated net sales by product>

| Division | Net sales (million yen) | Component rate (%) |
|---|---|---|
| Audio-visual equipment | 198,606 | 67.1 |
| Information equipment | 56,405 | 19.1 |
| Others | 40,912 | 13.8 |
| Total | 295,923 | 100.0 |

(2) Investment in plant and equipment by the Group:

Investment in plant and equipment by the Group during the fiscal year under review totaled ¥6,061 million, comprised of ¥5,472 million by its manufacturing companies and ¥589 million by its sales companies. The amount was spent principally to improve manufacturing facilities.

(3) Fund-raising by the Group:

Nothing to be reported.

(4) Issues to be tackled:

In the consumer electronics industry, as digital products have become more prevalent, product life cycles have grown shorter and prices have continued to decline rapidly. At the same time, competition has grown fiercer in line with the launch of products integrating hardware, networks and content, meeting customer needs but blurring conventional product and industry boundaries.

The Group will address the challenges presented by this stringent competition by concentrating on management speed, while striving to bolster sales and return to profitability via thoroughgoing efforts to deliver popular products. To achieve these aims, we will optimize our allocation of management resources and further cultivate the Funai Production System (FPS), one of our core competencies. At the same time, we will make better use of information technologies in an effort to enhance group-wide efficiency.

In this environment, we will endeavor to enhance the Group's corporate value by implementing the policies outlined below:

(i) Increasing net sales and returning to profitability

(Product strategy)

In Audio-visual equipment, with regard to LCD televisions during the fiscal year under review, a decline in consumer purchasing propensity in our mainstay U.S. market put sharp downward pressure on prices, causing category sales to fall year on year and resulting in losses. To address this situation, we are working to make our products more competitive pricewise through redesigns and by restructuring our component sourcing system. We also recognize the need to strengthen and stabilize our revenue and profit base through more stringent purchase, selling and inventory (PSI) management. We will develop a system for launching products more flexibly in response to shifts in demand for high-value-added LCD televisions, such as those with LED backlights, and 3D and Internet-enabled models. For Blu-ray disc-related products, in addition to 3D, Internet-enabled and portable players launched during the fiscal year under review, we plan to round out our product lineup with 3D recorders and other items. Through such efforts, we will work to expand sales and recover profitability.

In information equipment as well, the Group will strive to increase sales by proactively introducing high-value-added products that take advantage of the Company's base of expertise in mechatronics, as well as Internet- and telecommunications-related products.

(Market strategy)

We will endeavor to raise the Group's net sales by boosting our sales in Europe and Japan and by entering BRICs and other emerging markets. At the same time, we will strive to reduce the risk of overemphasizing the U.S. market and to smooth production and sales throughout the year, mitigating the effects of seasonality.

Although we had planned to introduce LCD televisions into the Chinese market during the fiscal year under review, excessive competition and difficult market conditions caused us to reconsider. In contrast, we have begun building a system that will enable us to develop these operations in Brazil and other Latin American markets.

(Sales channel strategy)

In addition to maintaining or expanding business with important Japanese and overseas customers, we recognize that to attract new customers, we must enhance our communications, respond more quickly and precisely to market needs and pay closer attention to customer requirements.

In October 2010, we acquired from Royal Philips Electronics their hospitality business, which involves the provision of LCD televisions to hotels and hospitals in North America. We expect this new business channel to be highly profitable.

For the steady implementation of the above-mentioned strategies, we plan to minimize the time lags between product planning, development, material procurement, production and sales, enabling us to provide products in a timely manner that meet market needs precisely.

(ii) Reinforcing manufacturing and development systems

The Group's manufacturing structure is highly dependent on China, and we recognize this as a risk that must be mitigated. To diversify production, we increased capacity at Funai (Thailand) Co., Ltd. and began studying the possibility of manufacturing in other locations during the fiscal year under review.

To increase group-wide development efficiency, as well as to reduce development costs, we are also moving forward with efforts to expand our development facilities in China and other Asian countries.

(iii) Training and appointment of human resources

The Group recognizes that improving each employee's capabilities and being able to link this to bolstering the strength of **the Group** will be critical for ensuring the Funai Group stays in the lead in the new era of global competition and implementing the Group's medium to long-term business strategy. Therefore, the Company's policy is to actively train and assign employees, without regard to whether they are younger employees or mid-career staff, by strengthening and expanding its internal or external training systems.

(5) Property and income/loss:

| Item \ Fiscal year | 56th (April 1, 2007 to March 31, 2008) | 57th (April 1, 2008 to March 31, 2009) | 58th (April 1, 2009 to March 31, 2010) | 59th (April 1, 2010 to March 31, 2011) |
|---|---|---|---|---|
| Net sales (million yen) | 277,167 | 302,777 | 314,911 | 295,923 |
| Ordinary income (loss) (million yen) | (39) | 1,226 | 11,684 | 1,290 |
| Net income (loss) (million yen) | (5,376) | (17,364) | 10,328 | (1,169) |
| Net income (loss) per share (yen) | (157.71) | (509.33) | 302.97 | (34.31) |
| Total assets (million yen) | 224,415 | 199,882 | 204,057 | 193,910 |
| Net assets (million yen) | 158,356 | 135,596 | 142,779 | 131,228 |
| Net assets per share (yen) | 4,630.58 | 3,963.72 | 4,164.86 | 3,813.57 |

(Note) Net income (loss) per share is calculated based on the average of the total number of shares issued and outstanding during the fiscal year. Net assets per share are calculated based on the total number of shares issued and outstanding as of the end of the fiscal year. Each such number of shares does not include the shares of treasury stock.

(6) Major subsidiaries:

| Trade name | Capital stock | Ratio of equity participation of the Company (%) | Main business |
|---|---|---|---|
| DX ANTENNA Co., Ltd. | ¥363 million | 91.40 | Manufacture and sale of electronic equipment related with receivers |
| FUNAI CORPORTION, INC | US$68.5 million | 100.0 | Sale of the Company's products |
| P&F USA, INC. | US$30 million | 100.0 | Sale of the Company's products |
| Funai Electric (HK) Ltd. | HK$115 million | 100.0 | Manufacture of the Company's products |

(Note) Each ratio of equity participation of the Company is obtained by calculating down to the third decimal place and thereafter rounding upward or downward to the nearest second decimal place, as the case may be.

(7) Major businesses of the Group:

| Division | Principal products |
|---|---|
| Audio-visual equipment | LCD TVs, DVD players, DVD recorders, Blu-ray disc players, Blu-ray disc recorders |
| Information equipment | Printers |
| Others | Electronic equipment related to receivers |

(8) Major business sites of the Group:

| Category | | Name | Location |
|---|---|---|---|
| Funai Electric Co., Ltd. | | Head Office | Daito City, Osaka |
| | | Tokyo Branch | Chiyoda-ku, Tokyo |
| Japan | Production and sales subsidiary | DX ANTENNA Co., Ltd. | Hyogo-ku, Kobe City |
| Overseas | Sales subsidiaries | FUNAI CORPORTION, INC. | U.S.A. |
| | | P&F USA, INC. | U.S.A. |
| | Production subsidiary | Funai Electric (HK) Ltd. | Hong Kong |
| | Production and sales subsidiary | FUNAI ELECTRIC EUROPE Sp.z o.o. | Poland |

(Note) FUNAI ELECTRIC EUROPE Sp.z o.o (incorporated in October 2006), which acquired business from FUNAI EUROPE GmbH in April 2010, is stated herein in place of FUNAI EUROPE GmbH as from the fiscal year under review.

(9) Employees of the Group:

| Number of employees | As compared with the end of the previous fiscal year (+ or -) (persons) |
|---|---|
| 2,861 | + 308 |

(Notes) 1. The above number of employees represents those actually at work.

2. The number of employees increased due principally to an increase in the employees of Funai (Thailand) Co., Ltd.
3. The number of employees of the consignment manufacturing factories for the fiscal year under review was 11,910, which is not included in the above number of employees.

(10) Major lenders

Nothing to be reported.

(11) Other important matters concerning the current state of the Group:

Nothing to be reported.

## 2. Matters concerning the shares of the Company

(1) Total number of issuable shares: 80,000,000 shares

(2) Total number of issued shares: 36,123,596 shares (including 2,011,607 shares of treasury stock)

(3) Number of shareholders: 10,715 persons

(4) Principal shareholders (top ten):

| Name | Number of shares held (thousand shares) | Shareholding ratio (%) |
|---|---|---|
| Tetsuro Funai | 12,709 | 37.26 |
| Tetsuo Funai | 1,739 | 5.10 |
| Funai Information Science Promotion Foundation | 1,540 | 4.51 |
| The Master Trust Bank of Japan, Ltd. (Trust account) | 1,512 | 4.43 |
| Japan Trustee Services Bank, Ltd. (Trust account) | 1,350 | 3.96 |
| Trust & Custody Services Bank, Ltd. (Securities investment trust account) | 1,256 | 3.68 |
| Japan Trustee Services Bank, Ltd. (Trust account 9) | 882 | 2.59 |
| THE BANK OF NEW YORK TREATY JASDEC ACCOUNT | 671 | 1.97 |
| NOMURA ASSET MANAGEMENT U.K. LIMITED SUB A/C EVERGREEN NOMINEES LTD. | 542 | 1.59 |
| GOLDMAN SACHS & CO. REG | 475 | 1.40 |

(Notes) 1. The Company, which holds 2,011 thousand shares of treasury stock, is not included in the above-listed principal shareholders.

2. Each shareholding ratio is obtained by deducting 2,011 thousand shares of treasury stock of the Company and calculating down to the third decimal place and thereafter rounding upward or downward to the nearest second decimal place, as the case may be.

(5) Other important matters concerning shares:

Nothing to be reported.

## 3. Matters concerning stock acquisition rights:

(1) Stock acquisition rights issued and outstanding at the end of the fiscal year under review:

- Number of stock acquisition rights: 14,058 rights

(Note) The number of stock acquisition rights is shown by reducing from the number of stock acquisition rights granted, the number of stock acquisition rights exercised and the number of stock acquisition rights that the persons entitled thereto ceased to have due to retirement or other terms of exercise of the rights.

- Class and number of shares to be issued or transferred upon exercise of the stock acquisition rights: 1,405,800 shares of common stock (100 shares per stock acquisition right)

- Stock acquisition rights held by Directors and Corporate Auditors by category:

| Issue | Category | Number of rights | Holder | Exercise price | Exercise period |
|---|---|---|---|---|---|
| The first stock acquisition rights for the year ended March 31, 2003 | Director | 164 | 8 | ¥15,150 | August 1, 2004 to July 31, 2011 |
| | Outside Director | 28 | 1 | | |
| | Corporate Auditor | 48 | 1 | | |
| The first stock acquisition rights for the year ended March 31, 2004 | Director | 154 | 7 | ¥13,646 | August 1, 2005 to July 31, 2012 |
| | Outside Director | 28 | 1 | | |
| | Corporate Auditor | 14 | 1 | | |
| The first stock acquisition rights for the year ended March 31, 2005 | Director | 192 | 7 | ¥16,167 | August 1, 2006 to July 31, 2013 |
| The first stock acquisition rights for the year ended March 31, 2006 | Director | 217 | 7 | ¥12,369 | August 1, 2007 to July 31, 2014 |
| | Corporate Auditor | 24 | 1 | | |
| The first stock acquisition rights for the year ended March 31, 2009 | Director | 337 | 9 | ¥1,609 | August 1, 2010 to July 31, 2017 |

(2) Stock acquisition rights delivered during the fiscal year under review:

Nothing to be reported.

(3) Other important matters concerning stock acquisition rights, etc.:

Nothing to be reported.

## 4. Matters concerning officers of the Company:

(1) Directors and Corporate Auditors (as of March 31, 2011)

| Title | Name | Business in charge and important concurrent office |
|---|---|---|
| Director; Officer; Chairman | Tetsuro Funai | Member (Chairman) of the Nomination Committee; Member of the Compensation Committee;<br>Chairman of Funai Information Science Promotion Foundation;<br>Chairman of Funai Scholarship Foundation |
| Representative Director; President and CEO | Tomonori Hayashi | Chairman of the Board of Directors; Member of the Nomination Committee, Member (Chairman) of the Compensation Committee |
| Director; Senior Executive Officer | Takashi Kiyomoto | General Manager of Production Headquarters |
| Director; Senior Executive Officer | Hideo Nakai | General Manager of Development & Technology Headquarters |
| Director; Executive Officer | Shinji Seki | General Manager of AV Headquarters |
| Director; Executive Officer | Toshio Ohtaku | General Manager of New Business Div. |
| Director; Officer | Yoshikazu Uemura | General Manager of TV Business Div.;<br>Member of the Nomination Committee; Member of the Compensation Committee;<br>Chairman and Representative Director of FUNAI CORPORATION, INC.;<br>President and Representative Director of P&F USA, INC. |
| Director; Officer | Joji Okada | Deputy General Manager of Development & Technology Headquarters;<br>Member of the Nomination Committee; Member of the Compensation Committee |
| Director; Officer | Hideaki Funakoshi | General Manager of DVD Business Div.;<br>Member of the Nomination Committee; Member of the Compensation Committee |
| Director; Officer | Shigeki Saji | Deputy General Manager of TV Business Div.;<br>Member of the Nomination Committee; Member of the Compensation Committee |
| Outside Director | Mitsuo Yonemoto | Member of the Compensation Committee;<br>Vice President and Director of T.P.S. Laboratory Co., Ltd.;<br>Outside Director of THE SAILOR PEN CO., LTD. |
| Outside Director | Yasuhisa Katsuta | |

| Title | Name | Business in charge and important concurrent office |
|---|---|---|
| | | Outside Corporate Auditor of Otsuka Pharmaceutical Co., Ltd.;<br>Chairman of Osaka University of Economics |
| Full-time Corporate Auditor | Akitaka Inoue | |
| Outside Corporate Auditor | Shinichi Komeda | |
| Outside Corporate Auditor | Masahide Morimoto | |

(Notes) 1. The Company, at the 58th Ordinary General Meeting of Shareholders held on June 22, 2010, shifted from a company with committees to a company with the board of corporate auditors.

2. Full-time Corporate Auditor Akitaka Inoue, who is qualified as a certified public accountant, has considerable knowledge of financing and accounting.

3. The Company has designated Outside Director Mitsuo Yonemoto and Outside Corporate Auditor Shinichi Komeda as independent officers in accordance with the rules of the Tokyo Stock Exchange and the Osaka Securities Exchange and registered them with such exchanges.

4. The Company established a Nomination Committee and a Compensation Committee (both of which are voluntary committees) in August 2010.

(For reference)

The Company has adopted a system of officers and the Officers as of March 31, 2011 who did not concurrently hold the offices of Directors were as follows:

| | |
|---|---|
| Officer | Masahiko Naito |
| Officer | Fumiaki Kidera |
| Officer | Nobuhisa Uchikawa |
| Officer | Susumu Nojii |
| Officer | Kazuo Uga |
| Officer | Takeshi Ito |
| Officer | Hisao Tatsumi |
| Officer | Katsumi Hino |

(2) Total amount of remuneration, etc. of Directors, Corporate Auditors and Corporate Officers

(i) Total amount of remuneration, etc. for the fiscal year under review:

The Company, at the 58th Ordinary General Meeting of Shareholders held on June 22, 2010, shifted from a company with committees to a company with the board of corporate auditors. Hence, information will be given separately on the company with committees and the company with the board of corporate auditors below:

• Company with committees (April 1, 2010 to June 22, 2010):

| Category | Number of recipients | Amount of payments (thousand yen) |
|---|---|---|
| Director<br>(Outside Director) | 5<br>(5) | 8,125<br>(8,125) |
| Corporate Officer | 2 | 25,119 |
| Total<br>(Outside Director) | 7<br>(5) | 33,244<br>(8,125) |

(Notes) 1. No remuneration of Directors was paid to two Directors concurrently serving as Corporate Officers. Hence, they are not included in the number of Directors receiving remuneration of Directors.

2. The above-listed amount of payments includes the following amount as an allowance for officers' retirement gratuities for officers deducted as expenses for the fiscal year under review:
   - ¥625 thousand for five Directors (including ¥625 thousand for five outside Directors)
   - ¥4,000 thousand for two Corporate Officers

3. The above-listed amount of payments includes the following amount of remuneration in stock options deducted as expenses for the fiscal year under review:
   - ¥119 thousand for one Corporate Officer

4. The above-listed amount of payments includes those for three Outside Directors who retired from office at the close of the 58th Ordinary General Meeting of Shareholders held on June 22, 2010.

• Company with the board of corporate auditors (June 22, 2010 to March 31, 2011):

| Category | Number of recipients | Amount of payments (thousand yen) |
|---|---|---|
| Director<br>(Outside Director) | 12<br>(2) | 245,516<br>(9,650) |
| Corporate Auditor<br>(Outside Corporate Auditor) | 3<br>(2) | 17,450<br>(7,800) |
| Total<br>(Outside Officer) | 15<br>(4) | 262,966<br>(17,450) |

(Notes) 1. The above-listed amount of payments includes the following amount as an allowance for officers' retirement gratuities for officers deducted as expenses for the fiscal year under review:
   - ¥25,200 thousand for 12 Directors (including ¥750 thousand for two outside Directors)
   - ¥1,350 thousand for three Corporate Auditors (including ¥600 thousand for two outside Corporate Auditors)

2. The above-listed amount of payments includes the following amount of remuneration in stock options deducted as expenses for the fiscal year under review:
   - ¥3,276 thousand for nine Directors

3. The above-listed amount of payments includes the following amount of officers' bonuses for the fiscal year under review:
   - ¥1,700 thousand for one Director

(ii) Officers' retirement gratuities paid for the fiscal year under review:

The amount of officers' retirement gratuities paid to the officers who retired as at the close of the 58th Ordinary General Meeting of Shareholders held on June 22, 2010 is as follows:

- ¥7,500 thousand for three outside Directors

(The above-listed amount includes ¥6,000 thousand deducted as expenses as an allowance for officers' retirement gratuities included in "(i) Total amount of remuneration, etc. for the fiscal year under review" and the total amount of remuneration, etc. of officers in the business reports for the previous fiscal years.)

(3) Other important matters concerning officers:

Nothing to be reported.

(4) Matters concerning outside officers:

(i) Concurrent holding of important offices of executive officers of other corporations and their relationships with the Company:

- Director Mitsuo Yonemoto is Vice President and Director of T.P.S. Laboratory Co., Ltd. The Company has no special relationship with T.P.S. Laboratory Co., Ltd.

- Director Yasuhisa Katsuta is Chairman of Osaka University of Economics. The Company has no special relationship with Osaka University of Economics.

(ii) Concurrent holding of important offices of outside officers of other corporations and their relationships with the Company:

- Director Mitsuo Yonemoto is outside Director of The Sailor Pen Co., Ltd. The Company has no special relationship with The Sailor Pen Co., Ltd.

- Director Yasuhisa Katsuta is outside Corporate Auditor of Otsuka Pharmaceutical Co., Ltd. The Company has no special relationship with Otsuka Pharmaceutical Co., Ltd.

(iii) Kinship among executive officers of the Company and its specified related enterprises:

Nothing to be reported.

(iv) Major activities during the fiscal year under review:

- Attendance at the meetings of the Board of Directors and the Board of Corporate Auditors:

| Name | | Board of Directors | | Board of Corporate Auditors | |
|---|---|---|---|---|---|
| | | Number of meetings | Number attended | Number of meetings | Number attended |
| Director | Mitsuo Yonemoto | 9 | 9 | - | - |
| Director | Yasuhisa Katsuta | 9 | 7 | - | - |
| Corporate Auditor | Shinichi Komeda | 7 | 7 | 12 | 12 |
| Corporate Auditor | Masahide Morimoto | 7 | 7 | 12 | 12 |

(Notes)
1. The Company, at the 58th Ordinary General Meeting of Shareholders held on June 22, 2010, shifted from a company with committees to a company with the board of corporate auditors. In addition to the above, two meetings of the Audit Committee (April 1, 2010 to June 22, 2010) were held and Director Yasuhisa Katsuta attended both meetings.
2. As to Shinichi Komeda and Masahide Morimoto, the above represents the state of their attendance at the meetings of the Board of Directors and the Board of Corporate Auditors since they assumed the office of Corporate Auditors as of June 22, 2010.

- Speeches at meetings of the Board of Directors, the Audit Committee and the Board of Corporate Auditors:

| Name | | Speeches |
|---|---|---|
| Director | Mitsuo Yonemoto | He attended meetings of the Board of Directors and expressed opinions principally from the standpoint of a management consultant. |
| Director | Yasuhisa Katsuta | He attended meetings of the Board of Directors and the Audit Committee and expressed opinions principally from the standpoint of a veteran top executive, as well as the standpoint of finance and treasury. |
| Corporate Auditor | Shinichi Komeda | He attended meetings of the Board of Directors and the Board of Corporate Auditors and expressed opinions principally from the standpoint of a veteran top executive. |
| Corporate Auditor | Masahide Morimoto | He attended meetings of the Board of Directors and the Board of Corporate Auditors and expressed opinions principally from the standpoint of a veteran top executive, as well as the standpoint of finance and securities. |

(v) Outline of liability limitation agreements:

In accordance with Article 427, paragraph 1 of the Corporation Law of Japan, the Company has entered into an agreement with each of the two outside Directors and two outside Corporate Auditors to limit the liability for any damage as provided for in Article 423, paragraph 1 of said law within the aggregate of the amounts listed in the items of Article 425, paragraph 1 of said law.

## 5. Matters concerning accounting auditors:

(1) Names of the accounting auditors:

Deloitte Touche Tohmatsu LLC

(2) Amount of remuneration, etc. of the accounting auditors for the fiscal year under review:

(i) Remuneration, etc. of the accounting auditors for the fiscal year under review: ¥50 million

(ii) Total amount of cash and other proprietary benefits payable to the accounting auditors by the Company and its subsidiaries: ¥86 million

(Notes) 1. The amount of remuneration, etc. for audits under the Corporation Law of Japan and the amount of remuneration, etc. for audits under the Financial Instruments and Exchange Law of Japan are not separated in the audit agreement between the Company and the accounting auditors and cannot actually be separated. Hence, the amount in item (i) above includes both amounts.

2. Among the major subsidiaries of the Company, FUNAI CORPORATION, INC. and two other companies are subject to audits by audit firms (including persons

having qualifications in foreign countries equivalent to those of the accounting auditors of the Company) other than the accounting auditors of the Company.

(3) Content of non-auditing services:

Nothing to be reported.

(4) Policy on the determination of dismissal and non-reappointment of the accounting auditors:

In the event that the accounting auditors are found to fall under any event of dismissal under the items of Article 340, paragraph 1 of the Corporation Law, the Company shall, upon unanimous consent of the Corporate Auditors, dismiss the accounting auditors. In addition, in the event that there arises any problem with the performance by the accounting auditors of their duties or otherwise considered necessary, the Company shall, upon consent of the Board of Corporate Auditors or upon request from the Board of Corporate Auditors, prepare a proposition for the dismissal or non-reappointment of the accounting auditors as an agenda item of a General Meeting of Shareholders.

(5) Outline of liability limitation agreements:

Nothing to be reported.

**6. Systems and policies of the Company**

(1) Systems to secure the properness of business activities:

(i) Systems to secure the execution by the Directors of their duties to comply with laws, ordinances and the Articles of Incorporation

In the "Funai Group Charter of Conduct" and the "regulations of officers' compliance", the Company shall specify the acts to be taken by the Directors to comply with laws and ordinances and secure the execution by the Directors of their duties to comply with laws, ordinances and the Articles of Incorporation.

(ii) Systems concerning storage and management of information on the execution by the Directors of their duties

With regard to the storage and management of information on the execution by the Directors of their duties, minutes of meetings of the Board of Directors and other important meetings, circular decision documents and other documents and information necessary to secure the properness of business activities shall be stored and managed pursuant to laws, ordinances and the "document management regulations".

(iii) Regulations concerning management of exposure to the risk of loss and other systems

The Company shall institute "risk management regulations" with regard to the management of exposure to the risk of loss. Each division or department shall manage risks involving its operations and also control such risks systematically.

(iv) Systems to secure efficient execution by the Directors of their duties

To ensure swift and efficient managerial decision-making, the Company shall introduce a "system of officers", and shall have Officers under the auspices of the Executive Directors to ensure that the operations determined by the Executive Directors are performed swiftly. In addition, to enhance the transparency of the Board of Directors and strengthen its supervisory functions, the Company shall have outside Directors.

(v) Systems to secure the execution by employees of their duties to comply with laws, ordinances and the Articles of Incorporation

In the "Funai Group Charter of Conduct" and the "compliance regulations", the Company shall specify the acts to be taken by the employees and secure the execution by the employees of their duties to comply with laws, ordinances and the Articles of Incorporation.

In addition, the Company shall establish a whistleblowing system independent of its regular reporting channels and strengthen its compliance system.

(vi) Systems to secure the properness of business activities of the corporate group comprised of the Company, its parent company and its subsidiaries

The "Funai Group Charter of Conduct" shall be the rule of conduct of the officers and employees of the Group.

In addition, in the "affiliated companies management regulations", the Company shall clearly define authorities and responsibilities of its group companies while giving regard to their autonomy and independence, and secure the properness of business activities of the whole Group.

(vii) Matters concerning the employees to assist the Corporate Auditors to execute their duties when the Corporate Auditors request the assignment thereof

When the Corporate Auditors request the assignment of employees to assist them to execute their duties, the Board of Directors of the Company shall, upon consultation with the Board of Corporate Auditors, establish a secretariat to the Board of Corporate Auditors and assign its employees to assist the Corporate Auditors.

(viii) Matters concerning the independence of the employees set forth in (vii) above from the Directors

When employee hired upon the request of a Company Auditor to assist the auditor's duties as set forth in item (vii) above are transferred to and/or from the secretariat to the Board of Corporate Auditors, the Company shall respect the opinions of the Board of Corporate Auditors with regard to such transfer and personnel evaluations thereof and ensure his/her independence from the Directors.

(ix) System for reports by the Directors and employees to the Corporate Auditors and other systems for reporting to the Corporate Auditors

The Corporate Auditors shall attend meetings of the Board of Directors and other important meetings, hear from the Directors, etc. the state of execution of their duties and inspect related materials.

In addition, the Corporate Auditors shall, in accordance with the "regulations concerning reporting to the Board of Corporate Auditors", request the Directors, Officers and employees to report facts that may inflict material damage on the Company and other matters considered necessary for them to execute their duties.

(x) Other systems to ensure effective audits by the Corporate Auditors

To ensure effective audits by the Corporate Auditors, the Corporate Auditors shall closely cooperate with the accounting auditors, and regularly meet the Representative Director to confirm the management policy and exchange opinions on the risks and issues involving the Company.

(2) Policies on the determination of remuneration, etc. of officers, etc.

Remuneration of Directors and Corporate Auditors shall be determined within the scope of their respective maximum total amounts of remuneration determined by resolution of the General Meeting of Shareholders.

The amount of monthly remuneration of Directors shall be determined on a specific basis of the Company set up by the Compensation Committee upon authorization by the Board of Directors. The amount of monthly remuneration of Corporate Auditors shall be determined upon consultation among the Corporate Auditors.

Bonuses of Directors shall be determined on a specific basis of the Company set up by the Compensation Committee upon authorization by the Board of Directors. Bonuses of Corporate Auditors shall be determined upon consultation among the Corporate Auditors.

Officers' retirement gratuities to Directors and Corporate Auditors shall, upon approval of the granting thereof to Directors and Corporate Auditors by resolution of the General Meeting of Shareholders, be determined by the Compensation Committee upon authorization by the Board of Directors with regard to those to Directors, and upon consultation among the Corporate Auditors with regard to those to Corporate Auditors.

(3) Policy on the determination of distribution of retained earnings, etc. by the Board of Directors:

The Company recognizes the paying out of earnings to its shareholders as one of the most important missions of management and attaches basic importance to strengthening its operating base and maintaining a constant payment of dividends.

In concrete terms, the Company will implement its dividend policy, based on the dividend rate of 1.0% for net assets on a consolidated basis, while taking into consideration business conditions and other factors.

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(Note) In this business report, amounts and the number of shares are indicated by discarding any fraction of the indicated unit, and rates are indicated by rounding fractions of a half or more of the indicated unit upward and the rest downward unless otherwise indicated. Net income per share, net loss per share and net assets per share are indicated by rounding upward five-thousandths of one yen or more to the nearest one-hundredth of one yen.

## CONSOLIDATED BALANCE SHEET

(As of March 31, 2011)

(million yen)

ASSETS:

| | |
|---|---|
| **Current assets:** | **158,820** |
| Cash and deposits | 70,076 |
| Notes and accounts receivable-trade | 36,367 |
| Merchandise and finished goods | 23,565 |
| Work in process | 1,795 |
| Raw materials and supplies | 18,477 |
| Deferred tax assets | 3,721 |
| Other | 4,956 |
| Allowance for doubtful receivables | (139) |
| **Fixed assets:** | **35,089** |
| **Tangible fixed assets:** | **16,290** |
| Buildings and structures | 5,700 |
| Machinery, equipment and motor vehicles | 2,824 |
| Tools, furniture and fixtures | 2,228 |
| Land | 5,136 |
| Lease assets | 391 |
| Other | 7 |
| **Intangible assets** | **3,720** |
| Patents | 2,786 |
| Other | 933 |
| **Investment and other assets:** | **15,079** |
| Investment securities | 6,268 |
| Deferred tax assets | 4,239 |
| Other | 4,924 |
| Allowance for doubtful receivables | (352) |
| **TOTAL ASSETS** | **193,910** |

(million yen)

| | |
|---|---|
| LIABILITIES: | |
| **Current liabilities:** | **58,926** |
| Notes and accounts payable-trade | 28,938 |
| Short-term bank loans | 10,096 |
| Current portion of long-term lease obligations | 205 |
| Accounts payable-other | 12,555 |
| Income taxes payable. | 2,071 |
| Deferred tax liabilities | 1 |
| Accrued bonuses | 484 |
| Reserve for product warranty | 1,225 |
| Other | 3,347 |
| **Long-term liabilities:** | **3,755** |
| Long-term debt | 33 |
| Long-term lease obligations | 368 |
| Deferred tax liabilities | 63 |
| Deferred tax liabilities on revaluation of land | 274 |
| Liabilities for retirement benefits | 1,354 |
| Liabilities for directors' retirement benefits | 1,038 |
| Other | 623 |
| **TOTAL LIABILITIES** | **62,681** |
| NET ASSETS: | |
| **Shareholders' equity:** | **156,962** |
| Common stock | 31,300 |
| Capital surplus | 33,265 |
| Retained earnings | 116,738 |
| Treasury stock | (24,341) |
| **Accumulated other comprehensive loss** | **(26,874)** |
| Unrealized gain on available-for-sale securities | 612 |
| Foreign currency translation adjustments | (27,486) |
| **Stock acquisition right** | **87** |
| **Minority interests:** | **1,052** |
| **TOTAL NET ASSETS** | **131,228** |
| **TOTAL LIABILITIES AND NET ASSETS** | **193,910** |

## CONSOLIDATED STATEMENT OF OPERATIONS

(from April 1, 2010 to March 31, 2011)

(million yen)

| | | |
|---|---|---|
| Net sales | | 295,923 |
| Cost of sales | | 255,614 |
| Gross profit | | 40,308 |
| Selling, general and administrative expenses | | 39,536 |
| **Operating income** | | **772** |
| **Non-operating income:** | | |
| Interest and dividend income | 398 | |
| Foreign exchange gain | 196 | |
| Other | 302 | 897 |
| **Non-operating expenses:** | | |
| Interest expense | 132 | |
| Loss on investments in partnership | 41 | |
| Other | 205 | 379 |
| **Ordinary income** | | **1,290** |
| **Special gain** | | |
| Gain on sales of investment securities | 282 | |
| Other | 45 | 328 |
| **Special loss:** | | |
| Loss on disposal of fixed assets | 31 | |
| Liquidation loss on affiliated company | 88 | |
| Other | 45 | 166 |
| **Income before income taxes and minority interests** | | **1,453** |
| Income taxes – current | 1,642 | |
| Income taxes –deferred | 633 | 2,276 |
| **Net loss before minority interests** | | **823** |
| Minority interests in net income | | 346 |
| **Net loss** | | **1,169** |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(from April 1, 2010 to March 31, 2011)

(million yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of March 31, 2010 | 31,280 | 33,245 | 119,272 | (24,340) | 159,457 |
| Changes of items during the fiscal year | | | | | |
| Issuance of new stock | 19 | 19 | | | 39 |
| Cash dividends | | | (1,363) | | (1,363) |
| Net loss | | | (1,169) | | (1,169) |
| Purchase of treasury stock | | | | (0) | (0) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the fiscal year | 19 | 19 | (2,533) | (0) | (2,494) |
| Balance as of March 31, 2011 | 31,300 | 33,265 | 116,738 | (24,341) | 156,962 |

| | Accumulated other comprehensive loss | | | Stock acquisition rights | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | Unrealized gain on available-for-sale securities | Foreign currency translation adjustments | Total accumulated other comprehensive income | | | |
| Balance as of March 31, 2010 | 470 | (17,936) | (17,465) | 62 | 726 | 142,779 |
| Changes of items during the fiscal year | | | | | | |
| New issue of stock | | | | | | 39 |
| Dividends from surplus | | | | | | (1,363) |
| Net loss | | | | | | (1,169) |
| Purchase of treasury stock | | | | | | (0) |
| Net changes of items other than shareholders' equity | 141 | (9,549) | (9,408) | 25 | 326 | (9,057) |
| Total changes of items during the fiscal year | 141 | (9,549) | (9,408) | 25 | 326 | (11,551) |
| Balance as of March 31, 2011 | 612 | (27,486) | (26,874) | 87 | 1,052 | 131,228 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Notes on Matters Forming the Basis of Presentation of Consolidated Financial Statements**

1. Matters concerning the scope of consolidation

(1) Number of consolidated subsidiaries: 14

(2) Names of major consolidated subsidiaries:

DX ANTENNA Co., Ltd., FUNAI CORPORATION, INC. and Funai Electric (HK) Ltd.

Zhong Yue FUNAI Electron co. a subsidiary incorporated during the fiscal year under review, is newly included in consolidation.

FUNAI ASIA PTE LTD. is excluded from the scope of consolidation as from the fiscal year under review as its liquidation has been completed.

(3) Names of major non-consolidated subsidiary:

FGS Co., Ltd.

(Reason for exclusion from consolidation)
The non-consolidated subsidiary is a small company and its aggregate amount of total assets, net sales, net income (based on the Company's equity interest) and retained earnings (based on the Company's equity interest) are not material to the consolidated financial statements.

2. Matters concerning the application of equity method

(1) Number of non-consolidated subsidiaries to which the equity method is applicable: 1

(2) Names of non-consolidated subsidiaries to which the equity method is applicable: Highsonic Industrial Ltd.

(3) Number of affiliates to which the equity method is applicable: 0
PT. DISPLAY DEVICES INDONESIA is excluded from the scope of application of the equity method as from the fiscal year under review as its liquidation has been completed.

(4) Names of major non-consolidated subsidiaries and affiliates to which the equity method is not applicable:

| | |
|---|---|
| Non-consolidated subsidiary: | FGS Co., Ltd. |
| Affiliate: | Digitec Industrial Ltd. |

(Reason for exclusion from the equity method)
The non-consolidated subsidiary and affiliate have no material impact on net income (based on the Company's equity interest) and retained earnings (based on the Company's equity interest) and generally, they are not material.

(5) As the fiscal year-end of Highsonic Industrial Ltd., a non-consolidated subsidiary to which the equity method is applicable, differs from the consolidated fiscal year-end, its financial statements for its fiscal year are used.

(Change in accounting policies)

As from the fiscal year under review, the "Accounting Standard for Equity Method of Accounting for Investments" (Accounting Standards Board of Japan (ASBJ) Corporate Accounting Standard No.16, issued on March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (Practical Issues Task Force (PITF) No.24, March 10, 2008) are applied.

The change has no effect on ordinary income and income before income taxes.

(6) Fiscal years of consolidated subsidiaries

The consolidated subsidiaries whose fiscal year-ends differ from the end of the consolidated fiscal year-end are as follows:

| Name | Fiscal year-end |
|---|---|
| DX ANTENNA Co., Ltd. | February 28 |
| FUNAI ELECTRIC (MALAYSIA) SDN. BHD. | December 31 |
| P&F MEXICANA, S.A. DE C.V. | December 31 |
| Zhong Yue FUNAI Electron co. | December 31 |

For DX ANTENNA Co., Ltd., FUNAI ELECTRIC (MALAYSIA) SDN. BHD. and P&F MEXICANA, S.A. DE C.V. listed above, their financial statements compiled as of their respective fiscal year-ends are used to tabulate consolidated results.

However, significant transactions that occur between that time and the fiscal year-end are reflected in the consolidated financial statements as so required.

For Zhong Yue FUNAI Electron co., its financial statements compiled based on the provisional settlement of account made as of its group’s consolidated fiscal year end are used to tabulate consolidated results.

3. Matters concerning accounting policies

(1) Valuation basis and methods for major assets

(i) Securities:

Available-for- sale securities:

Marketable securities:

Stated at fair value on the balance sheet date of the fiscal year (Unrealized gain or loss and net of applicable taxes reported in a seperate component of equity. Costs of securities sold are determined by the moving average method.)

Non-marketable securities:

Stated at cost determined by the moving average method

(ii) Inventories:

As to the Company and its Japanese consolidated subsidiaries, merchandise and finished goods and work in process are stated principally at cost under the average method (Book value is written down to net realizable value if not profitable). Raw materials are stated principally at cost by the first-in, first-out method (Book value is written down to net realizable value if not profitable).
As to the overseas consolidated subsidiaries, merchandise and finished goods, work in process and raw materials are stated principally at the lower of cost or market determined by the first-in, first-out method.

(2) Method of depreciation of major fixed assets:

(i) Tangible fixed assets (excluding lease assets):

The declining-balance method is adopted by the Company and its Japanese consolidated subsidiaries (however, with regard to the buildings (excluding appurtenances thereto) acquired on or after April 1, 1998, the straight-line method has been adopted). The straight-line method is adopted by the overseas consolidated subsidiaries.

The main useful lives are as follows:

| | |
|---|---|
| Buildings and structures: | 3–50 years |
| Machinery, equipment and motor vehicles: | 3–7 years |
| Tools, furniture and fixtures: | 1–20 years |

(ii) Intangible assets (excluding lease assets):

Stated by the straight-line method by the Company and its consolidated subsidiaries. However, depreciation of goodwill is made equally for five years;

depreciation of patent rights is made by the straight-line method based on the estimated economically usable period; and depreciation of software for internal use is made by the straight-line method based on the internal usable years (five years).

(iii) Lease assets:

Lease assets related to finance lease transactions that do not transfer ownership are depreciated by the straight-line method, based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

Any finance lease transaction that does not transfer ownership, which became effective prior to the fiscal year during which the "Accounting Standard for Lease Transactions" (Accounting Standards Board of Japan ("ASBJ") Statement No. 13) first became applicable, is treated similarly to the manner in which ordinary lease transactions are treated.

(3) Standards for providing important allowances

(i) Allowance for doubtful receivables:

To meet losses from loan default, the Company sets aside an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of possible non-performing credits and other specific claims.

(ii) Accrued bonuses:

To meet the payment of bonuses to employees, some consolidated subsidiaries set aside the portion for each fiscal year of an estimated amount of bonuses to be paid in the future.

(iii) Reserve for products warranty:

To meet expenses of after-sales services with regard to the products sold, the Company sets aside an estimated amount based on the past sales record.

(iv) Liabilities for retirement benefits:

To meet the payment of retirement benefits to employees, the Company provides an amount, based on estimated retirement benefit obligations and plan assets as of the end of the fiscal year.

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

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).

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.

(v) Liabilities for directors' retirement benefits:

To provide for the payment of retirement gratuities to officers, an amount payable at the end of the fiscal year under the Company's internal rules is reserved.

(4) Standards for recognizing important revenue and costs

Standards for recognizing of revenue and costs:

(i) Construction work the outcome of which is deemed certain during the course of activity by the end of the fiscal year:

By the percentage-of-completion method (The percentage of completion at the end of the fiscal year shall be estimated by the method of comparison of incurred costs to date with estimated total contract costs).

(ii) Other construction work:

By the completed-contract method

(5) Method and period of amortization of goodwill

Goodwill is amortized by the straight-line method over a period of five years, except for insignificant goodwill.

(6) Other significant accounting policies forming the basis of preparation of consolidated financial statements

Accounting for consumption taxes consumption taxes, etc.: By the tax-exclusive method

## 4. Changes in Important Matters Forming the Basis of Presentation of Consolidated Financial Statements

(Application of the Accounting Standard for Asset Retirement Obligations)

As from the fiscal year under review, the "Accounting Standard for Asset Retirement Obligations" (ASBJ Corporate Accounting Standard No.18, March 31, 2008) and the "Implementation Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Implementation Guidance No. 21, March 31, 2008) are applied.

The change has no effect on operating income and ordinary income and has no significant effect on income before income taxes.

(Change in Applicable Rates to Foreign Currency Exchange Conversions)

In the past, the Group applied TTS or TTB rates when carrying out foreign currency exchange conversions. However, as from the fiscal year under review, the Group has decided to use TTM rates instead.

This change to apply TTM rates across all exchange conversions was made in order to better reflect periodic income and loss as a result of reviewing the circumstances where transactions in the Group's major operations were settled in foreign currencies and revenues obtained were kept in foreign currencies for the purpose of settlement of trade accounts, on the occasion when foreign exchange rates were fluctuating significantly.

As a result, net sales increased by ¥902 million and operating income increased by ¥1,112 million. Ordinary income and income before income taxes increased by ¥241 million, respectively.

**Notes to Consolidated Balance Sheet:**

1. Accumulated depreciation of assets

Accumulated depreciation of tangible fixed assets: ¥53,455 million

2. Accumulated loss on impairment of assets

Accumulated depreciation of assets includes accumulated loss on impairment of assets.

3. In accordance with the Law of Land Revaluation (Law No. 34, promulgated on March 31, 1998) of Japan, one of the consolidated subsidiaries revaluated its land used for business. The applicable taxes of the revaluation difference was ¥274 million as revalued deferred tax liabilities. Also the revaluation difference is eliminated in consolidation, and so it is not presented in net assets.

4. Disposition of supplementary tax assessment based on the application of tax system for dealing with tax havens

On June 28, 2005 and June 16, 2008, the Company received notices of supplementary tax assessment from the Osaka Regional Taxation Bureau of aggregate taxation on the profits of its subsidiary in Hong Kong for the three fiscal years ended from March 31, 2002 to March 31, 2004 and the three fiscal years ended from March 31, 2005 to March 31, 2007, respectively, as the subsidiary in Hong Kong did not satisfy the conditions for exclusion from the application of the tax system for dealing with tax havens. The Company disagreed with the assessment and considered it to be unacceptable. The Company has contested the validity in court.

The additional tax payment amounts were ¥16,651 million (¥19,184 million including incidental taxes) and ¥15,038 million (¥16,838 million including incidental taxes), respectively, including corporate income taxes, inhabitant taxes and enterprise taxes. They were respectively recognized as "income taxes for prior periods" for the fiscal year ended March 31, 2007 and the fiscal year ended March 31, 2009 in accordance with the "Treatment of Accounting and Presentation of Taxes for the Purpose of Audits" (JICPA Audit and Assurance Practice Committee Report No. 63).

The taxation is judged based on the status of any relevant foreign company at the end of each fiscal year thereof. Hence, for your reference, the effects of the taxation on the income of the subsidiary in Hong Kong for the fiscal year ended March 31, 2008, which was immediately after the fiscal year during which the investigation by the Bureau was last made, and thereafter are estimated at approximately ¥3,000 million in total in corporate, inhabitant and enterprise taxes for the fiscal year ended March 31, 2008 and the fiscal year ended March 31, 2009. The Company has not accounted for the effects due to the aforementioned reasons.

**Notes to Consolidated Statement of Changes in Shareholders' Equity**

1. Matters concerning the classes and total number of issued shares and the classes and number of shares of treasury stocks

(thousand shares)

| | Number of shares as of March 31, 2010 | Increase in the number of shares during the year | Decrease in the number of shares during the year | Number of shares as of March 31, 2011 |
|---|---|---|---|---|
| Issued shares | | | | |
| Shares of common stock (Note 1) | 36,104 | 19 | - | 36,123 |
| Total | 36,104 | 19 | - | 36,123 |
| Shares of treasury stock | | | | |
| Shares of common stock (Note 2) | 2,011 | 0 | - | 2,011 |
| Total | 2,011 | 0 | - | 2,011 |

(Notes) 1. The number (19 thousand) of shares of common stock issued by the Company increased as a result of the exercise of stock acquisition rights (stock options).

2. The number (0 thousand) of shares of common stock held by the Company increased as a result of the purchase of less-than-one-unit shares.

2. Matters concerning dividends from surplus

(1) Amount of dividends paid:

| Resolution | Class of shares | Total amount of dividends (million yen) | Amount of dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Meeting of the Board of Directors held on May 31, 2010 | Shares of common stock | 1,363 | 40 | March 31, 2010 | June 11, 2010 |

(2) Dividends for which the record date falls during the fiscal year under review but the effective date falls during the next fiscal year:

| Resolution | Class of shares | Total amount of dividends (million yen) | Source of dividends | Amount of dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Meeting of the Board of Directors held on May 23, 2011 | Shares of common stock | 1,364 | Retained earnings | 40 | March 31, 2011 | June 14, 2011 |

3. Matters concerning stock acquisition rights

| Description of stock option | Class of shares to be issued or transferred upon exercise of stock option | Number of shares for stock option (share) |
|---|---|---|
| | | As of March 31, 2011 |
| The first stock option for the year ended March 31, 2003 | Shares of common stock | 399,600 |
| The first stock option for the year ended March 31, 2004 | Shares of common stock | 378,500 |
| The first stock option for the year ended March 31, 2005 | Shares of common stock | 359,900 |
| The first stock option for the year ended March 31, 2005 | Shares of common stock | 25,600 |
| The second stock option for the year ended March 31, 2006 | Shares of common stock | 346,400 |
| The first stock option for the year ended March 31, 2009 | Shares of common stock | 386,200 |
| Total | - | 1,896,200 |

**Notes to financial instruments**

1. Matters relating to the status of financial instruments

The Group raises funds by bank loans and invests funds by short-term deposits. In principle, the Group has a policy of not using derivatives.

With regard to customers' credit risks relating to notes and accounts receivable-trade, the Group has stipulated its sales management rules to manage trading terms and credit lines by client.

Investment securities are exposed to market risks. With regard to such risks, the market values and the financial positions of the issuers are reviewed periodically and reported to the Investment and Loan Committee, an internal organ.

Notes and accounts payable-trade shall all become due and payable within one year.

Both short-term loans payable and long-term loans payable are funds procured in relation to business transactions. The Group has a policy of not using derivatives. However, as floating-rate loans are exposed to interest rate risk, the Group may utilize derivatives (interest rate swap agreements) as hedging instruments according to individual loan contracts. To trade in derivatives, such derivatives are executed and managed in accordance with the internal rules. To avert credit risk, the Group enters into transactions solely with financial institutions receiving high ratings.

2. Matters concerning fair values, etc. of financial instruments

The following chart shows amounts for items recorded in the consolidated balance sheet as of March 31, 2011, along with their fair values and the variances:

(million yen)

| | Balance sheet amount* | Fair value* | Variance |
|---|---|---|---|
| (1) Cash and deposits | 70,076 | 70,076 | - |
| (2) Notes and accounts receivable-trade | 36,367 | 36,367 | - |
| (3) Investment securities: | | | |
| Available-for- sale securities | 3,124 | 3,124 | - |
| (4) Notes and accounts payable-trade | (28,938) | (28,938) | - |
| (5) Short-term loans payable | (10,096) | (10,096) | - |
| (6) Long-term loans payable | (33) | (33) | - |
| (7) Derivatives | - | - | - |

* The items recognized as liabilities are shown in the parentheses.

(Notes) 1. Matters concerning the calculation method of the fair values of financial instruments, as well as marketable securities and derivatives:

(1) Cash and deposits and (2) Notes and accounts receivable-trade:

The book value is used for these items, as the fair value is nearly equal to the book value as a result of their short settlement periods.

(3) Investment securities:

The fair value of stocks is determined by the prices of the stocks traded on an exchange.

(4) Notes and accounts payable-trade and (5) Short-term loans payable:

The book value is used for these items, as the fair value is nearly equal to the book value as a result of their short settlement periods.

(6) Long-term loans payable:

The fair value of these items is calculated from the present value of the total principal and interest discounted at a rate which is supposed for a newly conducted similar borrowing.

(7) Derivatives:

The Group does not utilize any derivatives. Hence, this item is not applicable.

2. Unlisted shares (¥3,144 million on the balance sheet) have no market price and it is impossible to estimate their future cash flow. As determining the market value is recognized as being extremely difficult, hey are not included in "(3) Investment in securities – Available-for- sale securities".

**Notes on the information per share**

| | |
|---|---|
| Net assets per share: | ¥3,813.57 |
| Net loss per share: | 34.31 |

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(Note) All figures in the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements are shown by disregarding any fractions of the relevant units, respectively. Net assets per share and net loss per share are shown by rounding off to two decimal places.

Copy of Accounting Auditors' Audit Report on Consolidated Financial Statements
(TRANSLATION)

**INDEPENDENT AUDITORS' REPORT**

May 20, 2011

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Fumihiko Kimura

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Hiroshi Shirai

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Masaki Mizoguchi

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2011 of Funai Electric Co.,Ltd. (the "Company"), and the related consolidated statements of income and changes in net assets, and the related notes for the 59th fiscal year from April 1, 2010 to March 31, 2011. 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 audit.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries as of March 31, 2011, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Additional Information

As described in the notes to consolidated balance sheet, disposition of a supplementary tax assessment based upon the application of the tax system for dealing with tax havens is disclosed.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

- END –

## NON-CONSOLIDATED BALANCE SHEET
(As of March 31, 2011)

| ASSETS | (million yen) |
|---|---|
| **Current assets:** | **55,474** |
| Cash and deposits | 12,368 |
| Notes receivable-trade | 944 |
| Accounts receivable-trade | 32,378 |
| Merchandise and finished goods | 549 |
| Raw materials and supplies | 4,233 |
| Prepaid expenses | 1,360 |
| Deferred tax assets | 2,261 |
| Other | 1,409 |
| Allowance for doubtful receivables | (32) |
| **Fixed assets:** | **54,088** |
| **Tangible fixed assets:** | **8,189** |
| Buildings | 3,286 |
| Structures | 71 |
| Machinery and equipment | 30 |
| Motor vehicles | 0 |
| Tools, furniture and fixtures | 462 |
| Land | 4,086 |
| Lease assets | 252 |
| **Intangible assets:** | **3,488** |
| Patent | 2,786 |
| Software | 641 |
| Lease assets | 47 |
| Other | 12 |
| **Investments and other assets:** | **42,411** |
| Investment securities | 3,713 |
| Investment in subsidiaries and associated companies | 28,526 |
| Long-term loans receivable | 12,300 |
| Long-term prepaid expenses | 2,395 |
| Deferred tax assets | 3,373 |
| Other | 1,666 |
| Allowance for doubtful receivables | (9,563) |
| **TOTAL ASSETS** | **109,563** |

| LIABILITIES | (million yen) |
|---|---|
| **Current liabilities:** | **29,870** |
| Accounts payable-trade | 19,816 |
| Current portion of long-term lease obligations | 143 |

| | |
|---|---|
| Accounts payable-other | 7,382 |
| Accrued expenses | 1,769 |
| Deposit received | 447 |
| Reserve for product warranty | 311 |
| | |
| **Long-term liabilities:** | **2,840** |
| Long-term lease obligations | 227 |
| Liabilities for retirement benefits | 277 |
| Liabilities for directors' retirement benefits | 1,038 |
| Allowance for liquidation loss on affiliated company | 828 |
| Other | 469 |
| | |
| **TOTAL LIABILITIES** | **32,711** |

NET ASSETS

| | |
|---|---|
| **Shareholders' Equity** | **76,197** |
| **Common stock** | **31,300** |
| **Capital surplus:** | **33,265** |
| Capital reserve | 32,826 |
| Other capital surplus | 438 |
| | |
| **Retained earnings:** | **35,973** |
| Legal reserve | 209 |
| Other retained earnings | 35,763 |
| Reserve for advanced depreciation of fixed assets | 490 |
| General reserve | 23,400 |
| Retained earnings carried forward | 11,872 |
| | |
| **Treasury stock** | **(24,341)** |
| | |
| **Valuation and translation adjustments:** | **566** |
| **Unrealized gain on available-for-sale securities** | **566** |
| **Stock acquisition rights** | **87** |
| | |
| **TOTAL NET ASSETS** | **76,851** |
| | |
| **TOTAL LIABILITIES AND NET ASSETS** | **109,563** |

NON-CONSOLIDATED STATEMENT OF INCOME

(from April 1, 2010 to March 31, 2011)

(million yen)

| | | |
|---|---|---|
| **Net sales** | | **248,286** |
| **Cost of sales** | | **227,265** |
| **Gross profit** | | **21,021** |
| **Selling, general and administrative expenses** | | **21,255** |
| **Operating loss** | | **233** |
| **Non-operating income:** | | |
| Interest and dividend income | 6,200 | |
| Other | 103 | 6,304 |
| **Non-operating expenses:** | | |
| Interest expenses | 2 | |
| Foreign exchange loss | 32 | |
| Loss on investments in partnership | 41 | |
| Commission to syndicate loan | 47 | |
| Other | 3 | 126 |
| **Ordinary income** | | **5,943** |
| **Special gain:** | | |
| Gain on sales of investment securities | 282 | |
| Other | 3 | 286 |
| **Special loss:** | | |
| Provision for allowance for doubtful accounts of associated companies | 24 | |
| Provision for allowance for liquidation loss on affiliated company | 44 | |
| Other | 2 | 70 |
| **Income before income taxes** | | **6,160** |
| Income taxes - current | (97) | |
| Income tax - deferred | (9) | (107) |
| **Net income** | | **6,267** |

# NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(from April 1, 2010 to March 31, 2011)

(million yen)

| | Shareholders' equity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | | | | | |
| | | | | | | Other retained earnings | | | | | |
| | Common stock | Capital reserve | Other capital surplus | Total capital surplus | Legal reserve | Reserve for advanced depreciation of fixed assets | General reserve | Retained earnings carried forward | Total retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of March 31, 2010 | 31,280 | 32,806 | 438 | 33,245 | 209 | 502 | 23,400 | 6,958 | 31,069 | (24,340) | 71,253 |
| Changes of items during the fiscal year | | | | | | | | | | | |
| Issuance of new stock | 19 | 19 | | 19 | | | | | | | 39 |
| Reversal of reserve for deferred income tax on fixed assets | | | | | | (11) | | 11 | - | | - |
| Cash dividends | | | | | | | | (1,363) | (1,363) | | (1,363) |
| Net income | | | | | | | | 6,267 | 6,267 | | 6,267 |
| Purchase of treasury stock | | | | | | | | | | (0) | (0) |
| Net changes of items other than shareholders' equity | | | | | | | | | | | |
| Total changes of items during the fiscal year | 19 | 19 | - | 19 | - | (11) | - | 4,914 | 4,903 | (0) | 4,943 |
| Balance as of March 31, 2011 | 31,300 | 32,826 | 438 | 33,265 | 209 | 490 | 23,400 | 11,872 | 35,973 | (24,341) | 76,197 |

(million yen)

| | Valuation and translation adjustments | | Stock acquisition rights | Total net assets |
|---|---|---|---|---|
| | Unrealized gain on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance as of March 31, 2010 | 442 | 442 | 62 | 71,759 |
| Changes of items during the fiscal year | | | | |
| New issue of stock | | | | 39 |
| Reversal of reserve for deferred income tax on fixed assets | | | | - |
| Dividends from surplus | | | | (1,363) |
| Net income | | | | 6,267 |
| Purchase of treasury stock | | | | (0) |
| Net changes of items other than shareholders' equity | 124 | 124 | 25 | 149 |
| Total changes of items during the fiscal year | 124 | 124 | 25 | 5,092 |
| Balance as of March 31, 2011 | 566 | 566 | 87 | 76,851 |

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

**Matters concerning major accounting policies:**

1. Valuation basis and methods for assets

   (1) Valuation basis and methods for securities:

   Investment in subsidiaries and associated companies :

   At cost, determined by the moving average method.

   Available-for- sale securities:

   Marketable securities

   Stated at fair value on the balance sheet date of the fiscal year (Unrealized gain or loss and net of applicable taxes reported in a separate component of equity. Selling costs are determined by the moving average method).

   Non-marketable securities:

   Stated at cost determined by the moving average method.

   (2) Valuation basis and methods for inventories:

| | |
|---|---|
| Finished goods: | Stated at cost, determined by the average method (Book value is written down to net realizable value if not profitable). |
| Raw materials: | Stated at cost, determined by the first-in, first-out method (Book value is written down to net realizable value if not profitable). |

2. Method of depreciation of major fixed assets:

   (1) Tangible fixed assets (excluding lease assets):

   Stated by the declining-balance method.

   However, with regard to the buildings (excluding appurtenances thereto) acquired on or after April 1, 1998, the straight-line method has been adopted.

   (2) Intangible assets (excluding lease assets):

   Stated by the straight-line method.

   However, depreciation of goodwill is made equally for five years; depreciation of patent rights is made by the straight-line method based on the estimated economically usable period; and depreciation of software for internal use is made by the straight-line method based on the internal usable years (five years).

(3) Lease assets:

Lease assets related to finance lease transactions that do not transfer ownership are depreciated by the straight-line method, based on the assumption that the useful life equals to the lease term and the residual value equals to zero.

Any finance lease transaction that does not transfer ownership, which became effective prior to the fiscal year during which the "Accounting Standard for Lease Transactions"(Accounting Standards Board of Japan ("ASBJ") Statement No. 13) first became applicable, is treated similarly to the manner in which ordinary lease transactions are treated.

3. Standards for providing allowances:

(1) Allowance for doubtful receivables:

To meet losses from loan default, the Company sets aside an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of possible non-performing credits and other specific claims.

(2) Reserve for product warranty:

To meet expenses of after-sales services with regard to the products sold, the Company sets aside an estimated amount based on the past sales record.

(3) Liabilities for retirement benefits:

To meet the payment of retirement benefits to employees, the Company provides an amount, based on estimated retirement benefit obligations and plan assets as of the balance sheet date.

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).

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.

(4) Liabilities for directors' retirement benefits:

To provide for the payment of retirement gratuities to officers, an amount payable at the end of the fiscal year under the Company's internal rules is reserved.

(5) Allowance for liquidation loss on affiliated company:

To provide for a loss on liquidation of any affiliated company, the Company sets aside the estimated amount of such loss.

4. Other significant accounting policies for preparation of financial statements

Accounting for consumption taxes, etc.: By the tax-exclusive method

5. Change in important accounting policies

(Application of the Accounting Standard for Asset Retirement Obligations)

As from the fiscal year under review, the "Accounting Standard for Asset Retirement Obligations" (Accounting Standards Board of Japan (ASBJ) Corporate Accounting Standard No.18, March 31, 2008) and the "Implementation Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Implementation Guidance No. 21, March 31, 2008) are applied.

The change has no effect on operating loss, ordinary income and income before income taxes.

(Change in Applicable Rates to Foreign Currency Exchange Conversions)

In the past, the Company applied TTS or TTB rates when carrying out foreign currency exchange conversions. However, as from the fiscal year under review, the Company has decided to use TTM rates instead.

This change to utilize TTM rates across all exchange conversions was made in order to better recognize periodic income and loss as a result of reviewing the circumstances where transactions in the Company's major operations were settled in foreign currencies and revenues obtained were kept in foreign currencies for the purpose of settlement of trade accounts, on the occasion when foreign exchange rates were changing sharply.

As a result, net sales increased by ¥1,990 million and operating income increased by ¥827 million. Ordinary income and income before income taxes increased by ¥761 million, respectively.

**Notes to Non-Consolidated Balance Sheet:**

1. Accumulated depreciation of assets:

| | |
|---|---|
| Accumulated depreciation of tangible fixed assets: | ¥11,114 million |

2. Monetary debts due from and to subsidiaries and associated companies:

| | |
|---|---|
| Short-term monetary debts due from associated companies: | ¥26,769 million |
| Long-term money debts due from associated companies: | ¥12,096 million |
| Short-term money liabilities due to associated companies: | ¥21,422 million |

3. Disposition of supplementary tax assessment based on the application of tax system for dealing with tax havens

On June 28, 2005 and June 16, 2008, the Company received notices of supplementary tax assessment from the Osaka Regional Taxation Bureau of aggregate taxation on the profits of its subsidiary in Hong Kong for the three fiscal years ended from March 31, 2002 to March 31, 2004 and the three fiscal years ended from March 31, 2005 to March 31, 2007, respectively, as the subsidiary in Hong Kong did not satisfy the conditions for exclusion from the application of the tax system for dealing with tax havens. The Company disagreed with the assessment and considered it to be unacceptable. The Company has contested for the validity in court.

The additional tax payment amounts were ¥16,651 million (¥19,184 million including incidental taxes) and ¥15,038 million (¥16,838 million including incidental taxes), respectively, including corporate income taxes, inhabitant taxes and enterprise taxes. They were respectively recognized as "income taxes for prior periods" for the fiscal year ended March 31, 2007 and the fiscal year ended March 31, 2009 in accordance with the "Treatment of Accounting and Presentation of Taxes for the Purpose of Audits" (JICPA Audit and Assurance Practice Committee Report No. 63).

The taxation is judged based on the status of any relevant foreign company at the end of each fiscal year thereof. Hence, for your reference, the effects of the taxation on the income of the subsidiary in Hong Kong for the fiscal year ended March 31, 2008, which was immediately after the fiscal year during which the investigation by the Bureau was made, and thereafter are estimated at approximately ¥3,000 million in total in corporate, inhabitant and enterprise taxes for the fiscal year ended March 31, 2008 and the fiscal year ended March 31, 2009. The Company has not accounted for the effects due to the aforementioned reasons.

**Notes to Non-Consolidated Statement of Income:**

Amount of transactions with subsidiaries and associated companies

Trading transaction:

| | |
|---|---|
| Sales: | ¥142,196 million |
| Purchase: | ¥207,088 million |
| Other operating expenses: | ¥1,354 million |
| Transactions other than trading: | ¥6,087 million |

**Notes to Non-Consolidated Statement of Changes in Shareholders' Equity**

Matters concerning the number of shares of treasury stock:

(thousand shares)

| | Number of shares at March 31, 2010 | Increase in shares during the year | Decrease in shares during the year | Number of shares at March 31, 2011 |
|---|---|---|---|---|
| Common stock (Note) | 2,011 | 0 | - | 2,011 |

(Note) The number (0 thousand) of shares of common stock held by the Company increased as a result of the purchase of less-than-one-unit shares.

**Notes on Accounting for Deferred Tax**

Principal components of deferred tax assets and deferred tax liabilities

| | (million yen) |
|---|---|
| Deferred tax assets | |
| Liabilities for retirement benefits | 113 |
| Liabilities for directors' retirement benefits | 422 |
| Accounts payable-other | 1,211 |
| Allowance for doubtful receivables | 3,842 |
| Accrued expenses (bonuses) | 440 |
| Impairment loss on investment securities | 264 |
| Impairment loss on investment in subsidiaries and associated companies | 1,135 |
| Tax loss carryforwards | 4,856 |
| Other | 949 |
| Subtotal | 13,235 |
| Valuation allowance | (6,377) |
| Total | 6,858 |
| Deferred tax liabilities | |
| Unrealized loss on available-for-sale securities | (385) |
| Prepaid pension expense | (501) |
| Reserve for advanced depreciation of fixed assets | (336) |
| Subtotal | (1,223) |
| Deferred tax assets, net | 5,635 |

**Notes on the Fixed Assets Used by Lease**

Finance lease agreements that do not transfer ownership, which became effective on or before March 31, 2008, are treated similarly to the manner in which ordinary lease transactions are treated.

1. Amounts equivalent to the acquisition prices, accumulated depreciation and balance at the end of the year:

(million yen)

| | Amount equivalent to the acquisition costs | Amount equivalent to accumulated depreciation | Amount equivalent to balance at the end of the year |
|---|---|---|---|
| Tools, furniture and fixtures | 439 | 396 | 42 |
| Total: | 439 | 396 | 42 |

2. Future lease payable at the end of the year

Balance of future lease payable at the end of the year

| | |
|---|---|
| Due within one year: | ¥41 million |
| Due after one year: | ¥2 million |
| Total: | ¥44 million |

## Transactions with Related Parties

Subsidiaries, etc.

(million yen)

| Type | Name | Voting Rights Held by Company (or held by others) | Relationship | Transaction | Amount | Account | Balance as of March 31, 2011 |
|---|---|---|---|---|---|---|---|
| Subsidiary | DX ANTENNA Co., Ltd. | Direct, 91.40% | Sale of products of the Company | Sale of electronic products | 15,115 | Accounts receivable-trade | 5,889 |
| Subsidiary | Funai Electric (HK) Ltd. | Direct, 100% | Production of products of the Company; interlocking directorate | Purchase of electronic products | 185,639 | Accounts payable -trade | 17,074 |
| Subsidiary | FUNAI CORPORATIO N INC. | Direct, 100% | Sale of products of the Company; interlocking directorate | Sale of electronic products | 81,527 | Accounts receivable-trade | 8,327 |
| | | | | Payment for discounts, etc. | 8,016 | Account payable-other | 1,212 |
| Subsidiary | P&F USA, INC. | Direct, 100% | Sale of products of the Company; interlocking directorate | Sale of electronic products | 36,007 | Accounts receivable-trade | 9,688 |
| Subsidiary | FUNAI ELECTRIC EUROPE Sp. z. o. o. | Direct, 100% | Sale of products of the Company; interlocking directorate | Sale of electronic products | 5,799 | Accounts receivable-trade | 805 |
| | | | | Loan of funds | - | Long-term loans receivable | 2,233 |
| Subsidiary | FUNAI EUROPE GmbH | Direct, 100% | Sale of products of the Company; interlocking directorate | Loan of funds | - | Long-term loans receivable | 9,585 |

(Note) Transaction terms and policies on the determination of transaction terms, etc.:

Like the terms of ordinary transactions, transaction terms are determined in consideration of market prices and other factors.

Note on the Information per Share

Net assets per share: ¥2,250.35
Net income per share: ¥183.79

==================================================================

- All figures in the non-consolidated balance sheet, non-consolidate statement of income, non-consolidated statement of changes in shareholders' equity and notes to non-consolidated financial statements are shown by disregarding any fractions of the relevant units, respectively. Net assets per share and net income per share are shown by rounding off to two decimal places.

Copy of Accounting Auditors' Audit Report
(TRANSLATION)

**INDEPENDENT AUDITORS' REPORT**

May 20, 2011

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Fumihiko Kimura

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Hiroshi Shirai

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Masaki Mizoguchi

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2011 of Funai Electric Co.,Ltd. (the "Company"), and the related statements of income and changes in net assets, and the related notes for the 59th fiscal year from April 1, 2010 to March 31, 2011, and the accompanying supplemental schedules . These financial statements and the accompanying supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit.

We conducted our audit 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 and the accompanying supplemental schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the accompanying supplemental schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and the accompanying supplemental schedules presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Additional Information

As described in the notes to non-consolidated balance sheet, disposition of a supplementary tax assessment based upon the application of the tax system for dealing with tax havens is disclosed.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

- END -

Copy of Audit Report of the Board of Corporate Auditors

## AUDIT REPORT

We, the Board of Corporate Auditors of the Company, after deliberation based upon the audit report prepared by each Corporate Auditor on the execution by Directors and Corporate Officers of their duties during the 59th fiscal year from April 1, 2010 through March 31, 2011, have prepared this audit and hereby report as follows.

The state for the period from April 1, 2010 through June 22, 2010 (at the close of the 58th Ordinary General Meeting of Shareholders) are based on the reports transferred from the former Audit Committee.

1. Method of audit by the Corporate Auditors and the Board of Corporate Auditors and the particulars thereof:

The Board of Corporate Auditors determined the audit policy, audit plans, etc., received from each Corporate Auditor reports on the state of his performance of audits and the results thereof, and also received from the Directors, etc. and the accounting auditors reports on the state of execution of their duties and demanded their explanations whenever necessary.

Each Corporate Auditor, in accordance with the auditing standards for the Corporate Auditors determined by the Board of Corporate Auditors and pursuant to the audit policy, audit plans, etc., maintained constant communication with the Directors, the internal audit division and other employees, etc. in an effort to collect information and improve the environment for auditing, attended meetings of the Board of Directors and other important meetings, received from the Directors and employees, etc. reports on the state of execution of their duties, demanded their explanations whenever necessary, inspected important decision documents, etc., and made investigations into the state of activities and property at the head office and principal business offices of the Company. With regard to the details of the resolutions of the Board of Directors for establishing systems to secure that the execution by the Directors of their duties will comply with laws or ordinances and the Articles of Incorporation and such other systems provided for in Article 100, paragraphs 1 and 3 of the Regulations to Enforce the Corporation Law of Japan as necessary to secure the adequacy of business of joint-stock corporations, as well as the status of the systems (internal control systems) established pursuant to such resolutions, which are described in the business report, we periodically received from the Directors and employees, etc. reports, demanded their explanations and expressed our opinions whenever necessary, on the state of formulation and operation thereof. With regard to its subsidiaries, we maintained constant communication and exchanged information with the directors, corporate auditors, etc. thereof and required the subsidiaries to render reports on their business operations whenever necessary. In accordance with such methods, we investigated the business report and its accompanying detailed statements for the fiscal year under review.

We also monitored and verified whether the accounting auditors had maintained an independent position and conducted adequate audits, and received from the accounting auditors reports on the state of execution of their duties and demanded their explanations whenever necessary. In addition, we received from the accounting auditors a notice that the "systems to secure adequate execution of duties" (as listed in the items of Article 131 of the Regulations on Corporate Accounts) had been established in accordance with the "Standard for Quality Control Concerning Audits" (the Accounting Standards Board of Japan, October 28, 2005) and demanded their explanations whenever necessary.

In accordance with such methods, we investigated the non-consolidated financial statements (the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in shareholders' equity and the notes to non-consolidated financial statements) and their accompanying detailed statements, as well as the consolidated financial statements (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in shareholders' equity and the notes to consolidated financial statements), for the fiscal year under review.

2. Results of audit:

(1) Results of audit of the business report, etc.:

We are of the opinion:

(i) That the business report and its accompanying detailed statements present fairly the state of the Company in accordance with laws and ordinances and the Articles of Incorporation;

(ii) That in connection with the execution by the Directors of their duties, no dishonest act or material fact of violation of laws or ordinances or the Articles of Incorporation exists; and

(iii) That the details of the resolutions of the Board of Directors on internal control systems are proper and that the descriptions in the business report and the execution by the Directors and corporate officers of their duties concerning such internal control systems contain nothing to be pointed out.

(2) Results of audit of the non-consolidated financial statements and their accompanying detailed statements:

We are of the opinion that the method and results of the audit made by the accounting auditors, Deloitte Touche Tohmatsu LLC, are proper.

(3) Results of audit of the consolidated financial statements:

We are of the opinion that the method and results of the audit made by the accounting auditors, Deloitte Touche Tohmatsu LLC, are proper.

May 23, 2011

Funai Electric Co., Ltd.
The Board of Corporate Auditors

Akitaka Inoue (seal)
Full-time Corporate Auditor

Shinichi Komeda (seal)
Outside Corporate Auditor

Masahide Morimoto (seal)
Outside Corporate Auditor

- END -

## Reference Document for the General Meeting of Shareholders

### Propositions and reference information

Proposition No. 1: Election of 9 Directors

The term of office of all the (12) Directors currently in office will expire at the close of this Ordinary General Meeting of Shareholders. Hence, to enhance the transparency of the Board of Directors, it is hereby proposed that nine (9) Directors, including two (2) outside Directors, be elected.

The candidates for Directors are as follows:

| Cand i-date No. | Name (Date of birth) | Brief history, post in the Company and business in charge (and important concurrent office) | | Number of shares of the Company held by Candidate |
|---|---|---|---|---|
| 1. | Tetsuro Funai (January 24, 1927) | April 1951 | Established Funai Sewing Machine Company | 12,709,288 shares |
| | | December 1952 | Representative Director of Funai Sewing Machine Co., Ltd. | |
| | | August 1961 | Founding President and Representative Director of Funai Electric Co., Ltd. (the "Company") | |
| | | June 2005 | Director of the Company; President and CEO of the Company | |
| | | June 2008 | Director of the Company (To date); Chairman and Corporate Officer of the Company | |
| | | June 2010 | Chairman and Officer of the Company (To date) | |
| | | (Chairman of Funai Information Science Promotion Foundation)<br>(Chairman of Funai Scholarship Foundation) | | |

| Candi-date No. | Name (Date of birth) | Brief history, post in the Company and business in charge (and important concurrent office) | | Number of shares of the Company held by Candidate |
|---|---|---|---|---|
| 2. | Tomonori Hayashi<br>(March 13, 1947) | April 1969 | Joined the Company | 12,900 shares |
| | | October 2002 | Officer of the Company | |
| | | June 2005 | Executive Officer of the Company | |
| | | March 2006 | CEO of FUNAI CORPORATION INC. | |
| | | June 2007 | Senior Executive Officer of the Company | |
| | | March 2008 | General Manager of AV Headquarters of the Company | |
| | | June 2008 | Director of the Company; President and CEO of the Company | |
| | | June 2010 | Representative Director of the Company (To date);<br>President and CEO of the Company (To date) | |
| 3. | Mitsuo Yonemoto<br>(March 18, 1939) | July 1995 | Vice President and Director of T.P.S. Laboratory Co., Ltd. (To date) | 100 shares |
| | | September 1998 | Outside Director of the Company (To date) | |
| | | March 2009 | Outside Director of The Sailor Pen Co., Ltd. (To date) | |
| | | (Vice President and Director of T.P.S. Laboratory Co., Ltd.)<br>(Outside Director of The Sailor Pen Co., Ltd.) | | |

| Cand i-date No. | Name (Date of birth) | Brief history, post in the Company and business in charge (and important concurrent office) | | Number of shares of the Company held by Candidate |
|---|---|---|---|---|
| 4. | Yasuhisa Katsuta (February 20, 1942) | April 1965 | Joined The Daiwa Bank, Limited (now Resona Bank, Limited) | - |
| | | June 2001 | President of The Daiwa Bank, Limited | |
| | | December 2001 | President and Representative Director of Daiwa Gin Holdings, Inc. (Now Resona Holdings, Inc.); Director of Daiwa Gin Trust Bank Co., Ltd. (Now, Resona Bank, Limited) | |
| | | July 2004 | Advisor of the Company | |
| | | June 2005 | Outside Director of the Company (To date) | |
| | | June 2006 | Outside Corporate Auditor of Otsuka Pharmaceutical Co., Ltd. (To date) | |
| | | July 2008 | Chairman of Osaka University of Economics (To date) | |
| | | (Outside Corporate Auditor of Otsuka Pharmaceutical Co., Ltd.) (Chairman of Osaka University of Economics) | | |
| 5. | Toshio Ohtaku (July 11, 1948) | April 1967 | Joined the Company | 700 shares |
| | | June 2007 | Officer and General Manager of New Business Div. of the Company | |
| | | June 2008 | Executive Officer and General Manager of New Business Div. of the Company (To date) | |
| | | June 2010 | Director of the Company (To date) | |

| Cand i-date No. | Name (Date of birth) | Brief history, post in the Company and business in charge (and important concurrent office) | | Number of shares of the Company held by Candidate |
|---|---|---|---|---|
| 6. | Yoshikazu Uemura (June 27, 1958) | January 1992 | Joined the Company | 700 shares |
| | | July 2004 | General Manager of DVD Marketing Dept. of the Company | |
| | | April 2007 | COO of FUNAI CORPORATION, INC. (To date) | |
| | | October 2009 | Officer and General Manager of TV Business Div. of the Company (To date) | |
| | | June 2010 | Director of the Company (To date) | |
| | | September 2010 | Chairman and Representative Director of FUNAI CORPORATION, INC. (To date) | |
| | | December 2010 | President and Representative Director of P&F USA, INC. (To date) | |
| | | April 2011 | Officer and General Manager of AV Headquarters of the Company (To date) | |
| | | (Chairman and Representative Director of FUNAI CORPORATION, INC.) | | |
| | | (Chairman and Representative Director of P&F USA, INC.) | | |
| 7. | Joji Okada (August 27, 1954) | April 1977 | Joined Hitachi, Ltd. | 500 shares |
| | | April 1990 | Chief Engineer, Hitachi, Ltd. | |
| | | April 1999 | General Manager of Development Office, System LSI Business Dept., Semiconductor Group of Hitachi, Ltd. | |
| | | April 2003 | General Manager of Global Marketing Dept. of Renesas Technology Corp. | |
| | | February 2004 | Representative Director of Applause Technologies Co., Ltd. | |
| | | December 2005 | Joined the Company | |
| | | April 2007 | Executive Manager of Development & Technology Headquarters of the Company | |
| | | October 2009 | Officer and Deputy General Manager of Development & Technology Headquarters of the Company (To date) | |
| | | June 2010 | Director of the Company (To date) | |

| Cand i-date No. | Name (Date of birth) | Brief history, post in the Company and business in charge (and important concurrent office) | | Number of shares of the Company held by Candidate |
|---|---|---|---|---|
| 8. | Hideaki Funakoshi (September 30, 1965) | April 1984 | Joined Mitsubishi Electric Engineering Company Limited | 800 shares |
| | | January 1993 | Joined the Company | |
| | | July 2003 | Chief Engineer, AV Project of the Company | |
| | | April 2006 | General Manager, DVD Project of the Company | |
| | | February 2008 | Executive General Manager of DVD Business Div. of the Company (To date) | |
| | | June 2010 | Director of the Company (To date); Officer and General Manager of DVD Business Div. of the Company (To date) | |
| 9. | Shigeki Saji (April 13, 1972) | April 1995 | Joined the Company | 1,400 shares |
| | | July 2003 | Manager, Funai Electric (HK) Ltd. | |
| | | May 2006 | Assistant General Manager of AV Headquarters of the Company | |
| | | October 2009 | President and Representative Director of FUNAI ELECTRIC (POLSKA) Sp.z.o.o. (To date) | |
| | | June 2010 | Director of the Company (To date); Officer of the Company | |
| | | September 2010 | Officer and Deputy General Manager of TV Business Div. of the Company | |

(Notes) 1. Candidate for Director Mr. Yoshikazu Uemura is concurrently serving as Chairman and Representative Director of FUNAI CORPORATION, INC. and President and Representative Director of P&F USA, INC., both of which have dealings in electronic appliances with the Company.

2. None of the other candidates for Directors has any special interests with the Company.

3. Candidates for Directors Messrs. Mitsuo Yonemoto and Yasuhisa Katsuta are candidates for outside Directors.

4. Reasons for the selection of the candidate for outside Directors:
Management has judged that Mr. Mitsuo Yonemoto will be able to offer advice based on his broad experience as a management consultant.

Management has judged that Mr. Yasuhisa Katsuta will be able to use his experience in and capabilities in corporate management and banking and financing in the management of the Company.

5. Years of service of outside Directors of the Company:

   Mr. Mitsuo Yonemoto will have served as outside Director for 13 years at the close of this Ordinary General Meeting of Shareholders.

   Mr. Yasuhisa Katsuta will have served as outside Director for six years at the close of this Ordinary General Meeting of Shareholders.

6. Conclusion of liability limitation agreements:

   The Company has entered into an agreement with each of the outside Directors Mitsuo Yonemoto and Yasuhisa Katsuta to limit his liability for any damage as provided for in Article 423, paragraph 1 of the Corporation Law of Japan within the aggregate amount as provided for in the items of Article 425, paragraph 1 of the said law, pursuant to Article 427, paragraph 1 of the said law. If each of them is reelected, such agreement will be renewed.

7. Posts in the Company and business in charge of the candidates for Directors proposed to be reelected:

   As stated on page 11 of the business report.

Proposition No. 2: Granting of retirement gratuities to the retiring Directors

It is hereby proposed that retirement gratuities be granted to Messrs. Takashi Kiyomoto, Hideo Nakai and Shinji Seki, who will retire upon expiration of the term of office as Directors at the close of this Ordinary General Meeting of Shareholders, in appreciation of services rendered by them while in office, within the extent of a reasonable amount in accordance with the established standards of the Company and that determination of the actual amount, the time and method of presentation, etc. be left to the Compensation Committee upon authorization by the Board of Directors.

The brief histories of the retiring Directors are as follows:

| Name | Brief history |
|---|---|
| Takashi Kiyomoto | June 2010 Director of the Company (To date) |
| Hideo Nakai | June 2010 Director of the Company (To date) |
| Shinji Seki | June 2010 Director of the Company (To date) |

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