Annual Report 2011

FUNAI ELECTRIC CO., LTD.

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Disclaimer regarding Forward-looking Statements

This report contains forward-looking statements regarding business indices, strategies and performance representing the expectations and judgments of the management, based on information available to the Company and publishable at the time this report was prepared. When reading this report, please understand that forward-looking statements involve potential risks and uncertainties; actual future business performance and forecasts may therefore differ materially from those contained in these statements, given the possible emergence of new factors or changes in economic circumstances and/or the business environment.

Corporate Profile

Business Areas

Since its establishment, Funai Electric has earned considerable trust in the digital consumer electronics industry as a result of our dedication to providing superior products focused on high-quality and cost-performance.

At present, we develop business in three areas, Audiovisual Equipment, which handles LCD TVs and DVD and Blu-ray Disc-related products, Information Equipment, which handles printers and the Others Business, including DX ANTENNA CO., LTD., which handles receiver-related products.

Audiovisual Equipment, our main business, provides the market with six brands of compact to large LCD TVs sold in Japan and overseas, and has a full line of Blu-ray Disc-related and other products. The reasonable price and high quality of these brands has been well-received domestically and overseas.

Audiovisual Equipment

- LCD TVs
- DVD/Blu-ray Disc-related products

Information Equipment

- Printers

Others

- Receiver-related products

Funai's Strengths

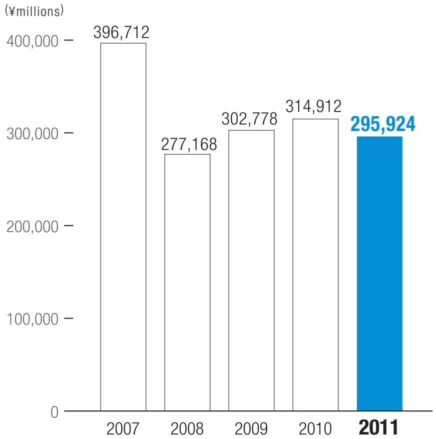
Financial Highlights

(Years ended March 31)

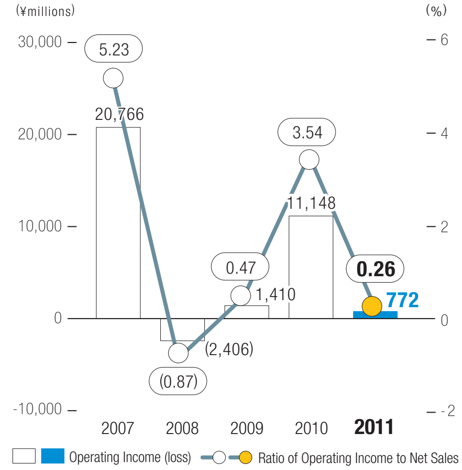
	Millions of yen			
	2002	2003	2004	2005
Net Sales	236,797	331,463	342,133	383,034
Operating Income (Loss)	19,859	35,121	36,534	33,348
Net Income (Loss)	11,232	19,296	26,280	25,723
Comprehensive Income (Loss)	–	–	–	–
Depreciation Expense	6,251	7,367	5,626	6,676
Capital Investment	8,101	6,375	7,577	15,227
Total Equity	124,474	128,648	149,748	174,044
Total Assets	190,248	196,866	223,191	255,326
Shareholders' Equity	124,474	128,648	149,748	174,044
Shareholders' Equity per Share (¥)	3,460.44	3,644.70	4,244.78	4,919.43
Net Income (Loss) per Share (¥)	312.38	540.59	744.13	719.61
Diluted Net Income per Share (¥)	312.12	538.65	741.52	716.95
Ratio of Operating Income to Net Sales	8.39%	10.60%	10.68%	8.71%
Shareholders' Equity Ratio	65.43%	65.35%	67.09%	68.17%
Return on Equity	9.56%	15.25%	18.88%	15.89%
Price Earnings Ratio (times)	43.54	23.97	20.29	18.37
Net Cash Provided by (Used in) Operating Activities	26,183	37,946	36,538	22,019
Net Cash Provided by (Used in) Investing Activities	8,352	(10,531)	(9,497)	(32,508)
Net Cash Provided by (Used in) Financing Activities	(6,988)	(14,234)	1,727	(420)
Cash and Cash Equivalents, End of Year	83,468	91,998	113,606	101,156
Number of Total Employees	2,914	3,572	3,899	3,882

Note 1: The exchange rate of ¥83.15=U.S.$1.00 (as of March 31, 2011 in the Tokyo foreign exchange market) is used for the above calculations.
Note 2: The figure for number of total employees does not include those employees of consignment production plant located in China.

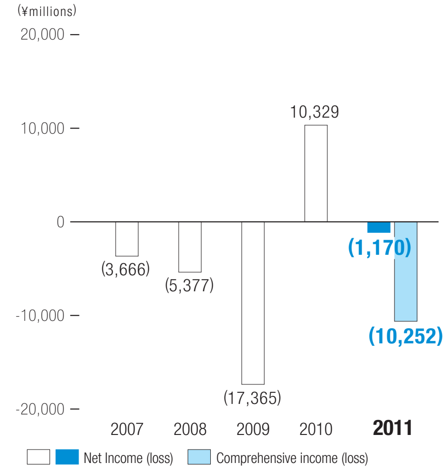
Net Sales



Operating Income (Loss)
Ratio of Operating Income to Net Sales



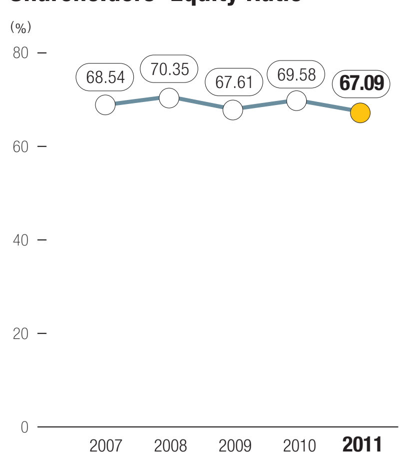
Net Income (Loss)
Comprehensive Income (Loss)



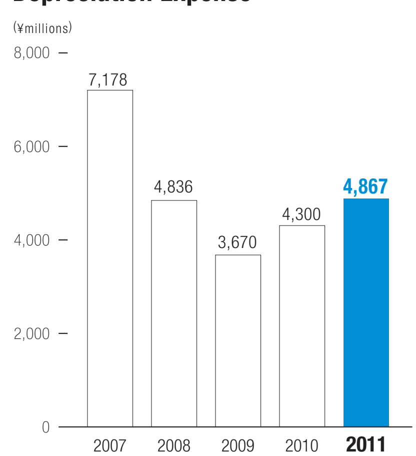
(Years ended March 31)

	Millions of yen						Thousands of U.S. dollars
	2006	2007	2008	2009	2010	**2011**	***2011***
	360,885	396,712	277,168	302,778	314,912	**295,924**	***3,558,918***
	23,305	20,766	(2,406)	1,410	11,148	**772**	***9,284***
	21,596	(3,666)	(5,377)	(17,365)	10,329	**(1,170)**	***(14,071)***
	–	–	–	–	–	**(10,252)**	***(123,295)***
	7,097	7,178	4,836	3,670	4,300	**4,867**	***58,533***
	3,758	5,485	4,980	5,013	4,310	**6,062**	***72,892***
	197,871	187,362	158,356	135,596	142,780	**131,229**	***1,578,220***
	288,524	272,811	224,415	199,883	204,058	**193,910**	***2,332,051***
	197,871	186,981	157,871	135,135	141,992	**130,088**	***1,564,498***
	5,752.92	5,484.38	4,630.58	3,963.72	4,164.86	**3,813.57**	***45.86***
	620.02	(107.01)	(157.71)	(509.33)	302.97	**(34.31)**	***(0.41)***
	619.08	–	–	–	300.77	**–**	***–***
	6.46%	5.23%	(0.87%)	0.47%	3.54%	**0.26%**	***–***
	68.58%	68.54%	70.35%	67.61%	69.58%	**67.09%**	***–***
	11.61%	(1.90%)	(3.11%)	(11.85%)	7.45%	**(0.86%)**	***–***
	18.77	–	–	–	13.00	**–**	***–***
	(14,195)	46,508	(13,714)	(729)	3,640	**(5,166)**	***(62,129)***
	(47,611)	3,039	(9,476)	(10,795)	(2,714)	**4,071**	***48,960***
	9,204	(26,564)	(8,142)	(2,563)	(7,871)	**2,466**	***29,657***
	58,588	83,321	57,100	40,180	34,063	**33,745**	***405,833***
	4,025	3,319	2,628	2,590	2,553	**2,861**	***–***

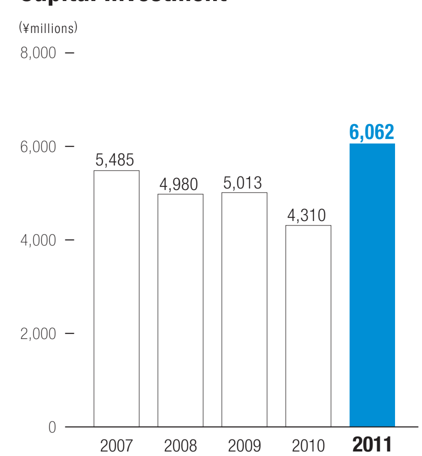
Shareholders' Equity Ratio



Depreciation Expense



Capital Investment



(Years ended March 31)

Special Feature

Acquisition of hospitality TV business expected to contribute to stable earnings

On October 1, 2010, we acquired a hospitality TV business that Philips had been cultivating in the North American market. This business develops, produces and sells televisions for hotels and hospitals.

Although the scale of this market is small compared to the TV business for standard consumers, demand and price are both stable.

Entering a new market on 30 years of past achievements with no major investment

For more than 20 years, Funai Electric has been involved as an OEM of VTR and DVD-related products for Philips with whom we have established a close relationship. In September 2008, we acquired exclusive usage rights to their PHILIPS and MAGNAVOX brand TVs for standard consumers in the U.S. and Canadian markets.

There are two main reasons why we acquired their hospitality business. The first is the expected synergy with our standard consumer TV business. The second is the inheriting of an existing business that was built on Philips' 30 years of past achievements. Because of these two reasons, no special new investment was required. And, unlike the standard consumer TV market where price competition is intense, both prices and demand in the industrial TV market are stable, making it a very attractive proposition.

The industrial TV market in the United States, Canada and Mexico is an oligopoly, occupied by Philips, Samsung and LG. Philips has a 20% share in the U.S. market, the largest, with most of its products there going to large luxury hotel chains.

Anticipating a shift in demand from CRT to LCD TVs

It is estimated that more than 50% of the TVs in the hotel/hospital TV market are still CRT TVs. That is scheduled to change, starting in fall 2011 and continuing through 2013. For example, in the hotel industry, several hotel groups are said to have established a deadline, such as the end of 2011or 2012, for switching over to LCD TVs.

We see this as an excellent opportunity to increase share using our strengths of high quality and cost performance.

With this goal in December 2010, we established a hospitality TV development facility in Singapore, where development of new products began in February 2011. Going forward, we will continue to improve cost competitiveness through in-house development.

We will enhance our cost competitiveness across the board to return the TV business to profitability as quickly as possible

Tomonori Hayashi
President and CEO

First, I would like to offer my sincere and heartfelt condolences to the victims of the Great East Japan Earthquake and their families. All of us here at Funai Electric hope for a quick recovery in all the regions affected by the disaster. We are fortunate to report that there were no injuries or damage to our Group employees or facilities, and that our business was faced with no major problems as a result of the disaster.

Performance in the Fiscal Year Ended March 31, 2011

Operating income significantly lower on poorly performing TV business

In the LCD TV market, representing our Group's core product, demand, particularly in China and other developing countries, began to surge and growth was evident in Japan in large part due to government efforts to stimulate consumption. In Europe and the United States, market growth is slowing, owing to already-high product penetration. In these markets, sales of high-priced new products such as LED and 3D TVs were flat. This caused prices to fall further, which, when combined with increasing raw material costs, put downward pressure on profits.

As a result of these conditions, in the fiscal year ended March 31, 2011, consolidated net sales were ¥295.9 billion (down 6.0% compared to last year), while operating income was dramatically lower at ¥0.7 billion (down 93.1% compared to last year).

The poorly performing TV business was the main factor behind the significant decline in operating income. We prepared a full lineup of LED TVs in anticipation of increased demand for high-priced PHILIPS brand products in the North American market. However, as previously mentioned, actual high-priced product sales were flat, owing to severe market conditions and causing another problem that forced us to sell off excess inventory at a loss. As a result of the decline in sales and profits from the LCD TV business, we recorded significant losses in this area.

Sales of other products, including Blu-ray Disc-related products, information equipment and receiver-related products, grew year on year; however, this growth was not enough to cover the loss in revenue sustained from LCD TVs.

Going forward, the Group will focus efforts on returning the TV business to profitability within this challenging business environment.

Initiatives in the Next Fiscal Year (Ending March 31, 2012)

Strengthening cost competitiveness to return TV business to profitability

2011 marks the 50th anniversary of our founding. In what is already a memorable year, I also want to make it the year when we stage a turnaround offensive that launches us on the path toward a new 50 years. To this end, the most critical issue is getting the TV business back on track. We aim to increase the number of units sold from 5.9 million this year to over 7 million next year, but we plan to promote policies that emphasize the improvement of operating income above all else. We will make an effort to assemble a full lineup of products at penetration price points, our Group strength, including PHILIPS brand products, and enhance LCD TV cost competitiveness across the board. Furthermore, reflecting on last year's excess inventory situation, we will maintain more thorough inventory management through closer communication with sales subsidiaries.

In October 2010, the Group acquired the hospitality TV business from Philips, which is focused on hotels and hospitals in the North American region. Stable earnings are expected in the hospitality business, where we will continue to expand sales channels that we expect will contribute to sales and earnings.

There is further market growth forecast in areas other than the TV business, most notably in Blu-ray Disc-related products, where sales continue at a brisk pace.

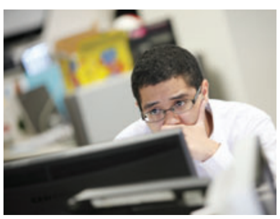
In light of the above initiatives, earnings in the next fiscal year are forecast for consolidated net sales of ¥310 billion (up 4.8% from the previous year) and operating income of ¥8 billion (up 935.9% from the previous year). This forecast is based on an assumed exchange rate of US$1 = ¥83.

Promote growth strategy and the further strengthening of our management base

The Funai Group's basic policy is the strict pursuit of manufacturing known for its focus on consistency, speed and cost competitiveness. Going forward, we will carefully promote our growth strategy and further strengthen our management base in accordance with this policy.

Promoting an all-out effort to bolster competitiveness

In terms of further strengthening our management base, to further enhance cost competitiveness—our company's strength—we will launch various companywide initiatives. First, we will establish a new organization by integrating the TV and DVD business divisions, as well as promote efficiency in product development, design and sales. In addition, we are attempting further cost cuts in development design and parts procurement. In development design, we have already increased productivity significantly through improvements in operating efficiency within the production process for new 2011 LCD TV products. We established an audiovisual development design facility in Shenzhen, China, the second after our facility in Malaysia. Core technologies will be developed in Japan, however, from now, the development of other technologies will shift to regions with cheap labor costs. Regarding parts procurement, with the Purchasing Department working more closely with the other business divisions, we strengthened the system that manages procurement costs by focusing on market price movements. As a result, we think we can now proceed with an even higher level of cost competitive manufacturing.



We also believe PSI management is a critical issue. PSI stands for "Purchase, Sales and Inventory," and we will foster closer communication between the three departments responsible for these functions, as well as the Production Department, to strengthen the production volume and inventory adjustment methods. Some products were unsuccessful this fiscal year, and because PSI management did not function properly, we ended up holding too much inventory. The speedy sharing of information such as PSI data with Purchase, Production, Sales and all other departments will enable us to provide products that are in step with market trends.

Strengthening initiatives to promote new business and the globalization of production and sales

Promotion of our growth strategy involves promotion of the globalization of our production and sales.

From the perspective of production, in China, it is becoming increasingly difficult to stably maintain a labor force, and any future revaluation of the Chinese Yuan is expected to cause a sudden spike in labor costs. For this reason, rather than expand our consignment production in China any further, we will instead increase our production system by introducing new equipment at our facilities in Thailand. Also, we are currently examining several countries as possible candidates for the establishment of a new production facility.

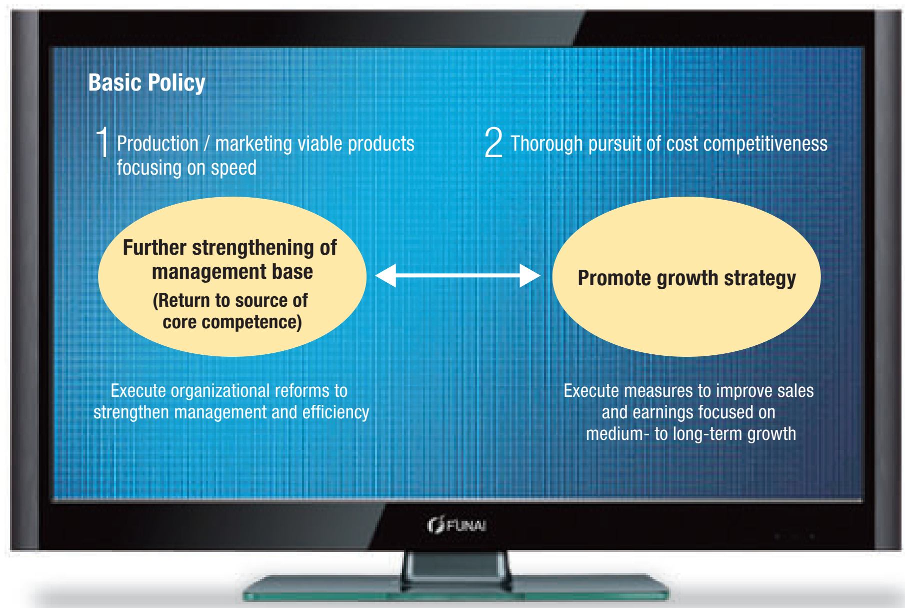
In terms of sales, our goals are to turnaround our situation in the European market, where sales have been stagnant, and enter the promising emerging markets, such as India.

New business initiatives will involve the proactive creation of new products that will form the main pillar of the Group's future through daily R&D. Already, we are moving forward with the development of various products, including network-related products, and device component. We think that, going forward, these products will contribute steady earnings. To further advance this growth strategy, we will aggressively pursue strategic alliances and M&A opportunities in our aim for sustainable growth.

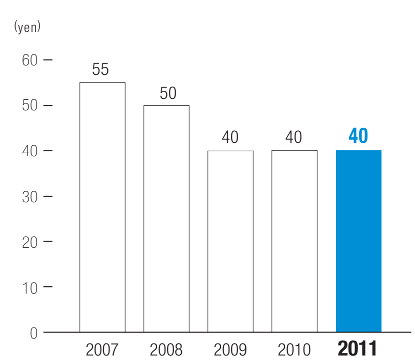
About Dividends

Maintaining stable dividends and strengthening the management base

The Funai Electric Group is aware that providing returns to shareholders is one of the most important issues that management faces. With this in mind, the Group's basic policy on profit distribution is to maintain a stable dividend level while ensuring the operating base of the Group is continuously strengthened. The basic measurement used to track the policy is the dividend-to-consolidated net assets ratio, with the current target figure being set at 1.0%. Based on this target, the Group plans to implement a stable dividend policy while taking into consideration the operating environment facing the business.



Cash dividend per share (Years ended March 31)



Based upon the aforementioned policy, the year-end dividend for the period ended March 2011 was set at ¥40 per share (annual dividend of ¥40 per share).

We look forward to receiving your continued understanding and support as we implement our strategies in the future.

Tomonori Hayashi
President and CEO

Research & Development

We aim for continuous review and improved production of our main product designs. We also attempt to create profits from intellectual properties by promoting technological development as the source of new growth potential.

Striving to Achieve Overwhelming Cost Competitiveness

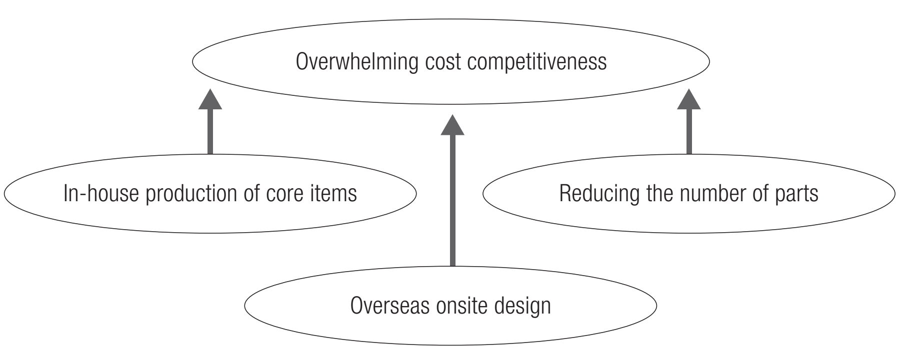
Leveraging three design strengths

From the product design stage, Funai Electric promotes in-house production of core items and reducing the number of parts used at the design stage in an attempt to improve productivity and cut costs. Also, we established development design facilities in Shenzhen, China, and Malaysia. We keep development costs low by developing the base model in Japan, then designing the development model overseas.

Major improvements to productivity result from review of LCD TV design

Traditionally, labor costs had been cheap in China, and even if there were many processes involved in manufacturing there, parts were cheap. This was the thinking when it came to LCD TV design, but each year, labor costs in China continue to rise, and our thinking has changed. Our strategy has shifted to one focused on automation rather than human hands, to raising productivity and lowering costs.

Specifically, upon review of the design of TVs sold in 2011, we were able to dramatically improve productivity by optimizing the balance between processes involving parts inserted by hand and those inserted automatically by machines. Furthermore, we improved cost competitiveness with advances in the miniaturization and reduction of parts.



Sowing Seeds for Future Growth

The R&D Division promotes technical developments involving the services and software that will be required during the era of cloud services in a full-fledged broadband environment. We are also working on “ultra AV home electronics,” which feature a superior human interface.

Network-related technology

The Group pursues development activities over wide range, spanning from fundamental technologies to products. We were an early provider of products compatible with VOD services and SNS in various countries at an early date in Blu-ray Disc-related products and LCD TVs, and take the lead in the development of networked consumer electronics. Furthermore, we have introduced products that take advantage of cloud-based services and are pursuing the wireless networking products. Our next step will be to develop and launch into the market for mobile devices and telecommunication devices and services, and we strive to promote a leap forward the telecommunications field.

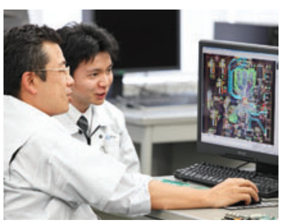
Human interface devices

We are moving ahead in the development of device and application software based on optical control technology, nanotechnology and MEMS technology by creating products to make our lives more rewarding and enjoyable by taking advantage of digitization.

Advanced technology development

FUNAI ELECTRIC ADVANCED APPLIED TECHNOLOGY RESEARCH INSTITUTE INC. was established to conduct practical applied research into material, elemental and basic theories to develop advanced technologies that will become fundamental production technology in the future.

In addition to development focused on strengthening intellectual property and our current core businesses of LCD TVs and optical disks, we will continue to proactively develop standard devices for electronic publishing and other new growth markets.



Intellectual Property Strategy

Protect proprietary technology and products, generate profit from intellectual properties

As the digitization of consumer electronics continues to advance, Funai Electric has positioned intellectual property as an important management theme.

We follow a quality-oriented policy on patent filing, based on a policy of protecting Funai products with our own patents, working to acquire patents effectively and efficiently. We also attempt to differentiate ourselves from other companies with technology while always being prepared for an attack by the competition.

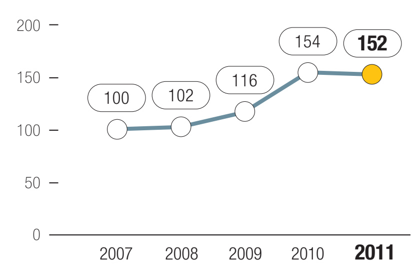
Formulating optimal strategies for traditional main products and new areas

The competition for our main TV and DVD and Blu-ray Disc-related products, major global electronics manufacturers, have an advantage regarding the development of core technologies. Because of this, Funai Electric is engaged in building a portfolio focused on related technologies to enhance the value of existing products.

At the same time, we are also standing at the same starting line as the major manufacturers when it comes to the cultivation of new areas. We promote the aggressive development of core technologies in new areas in pursuit of a robust portfolio that meets or exceeds that of other companies.

Looking ahead, we will focus on generating profits by providing our patented content to other companies and promoting a sound intellectual property strategy.

Patents registered
(Year ended March 31, 2007=100)



(Years ended March 31)

Production & Sales

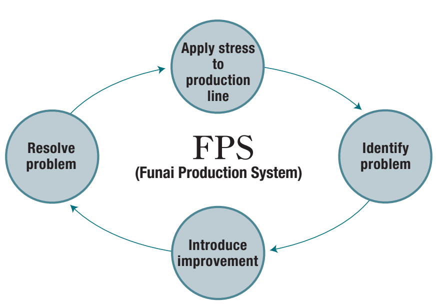
The Funai Production System (FPS) proprietary manufacturing system creates the world's most price-competitive products, which are provided through a diverse array of global brands.

Production

The Funai Production System (FPS) is the realization of global top class price-competitiveness

We make continual efforts to improve productivity to provide high-quality, user-friendly products at a reasonable price. The focal point of these efforts is the Funai Production System (FPS) proprietary manufacturing system.

Funai Production System



This system applies stress to the production line, such as reducing the number of operators and increasing the speed of the conveyor belt, until conditions are created such that the production line stops. The FPS creates these conditions to analyze what causes the line to stop, then improves on those conditions that caused the failure. By repeating this cycle, we hopes to realize continuous improvements to productivity.

Optimizing production facility locations to further improve cost competitiveness

Along with FPS, the source of Funai Electric's cost competitiveness is optimized production facility locations.

Funai Electric concentrates its production facilities into the most appropriate locations and enhances cost competitiveness by purchasing parts in bulk. In particular, our production facilities are concentrated in the Asian region, where we have the competitive ability to procure raw materials and parts, and secure a low-cost, good quality labor force. However, the increasing trend toward labor shortages and wage increases in China in recent years has led us to enhance our Thai facility to mitigate these risks. We are also considering establishing new facilities in other locations.

North America

We develop LCD TVs and DVD- and Blu-ray Disc-related products for the PHILIPS, MAGNAVOX, SYLVANIA and Emerson brands, which are sold at Walmart, Target, Kmart, Sears and other leading mass retailers.

Europe

The FUNAI brand sells LCD TVs and DVD, Blu-ray Disc-related products.

Japan

The DX BROADTEC brand sells LCD TVs and DVD, Blu-ray Disc-related products. The DX ANTENNA brand sells receiver-related products.

Sales

Developing a variety of brands with high recognition in North America

In North America, the world's largest market and Funai's area of primary focus, our audiovisual brands PHILIPS, MAGNAVOX, SYLVANIA and Emerson enjoy high name recognition. And, we maintain an top-class share in this market through the creation of close relationships with leading mass retailers such as Walmart.

Top 5 Companies by share of shipments in North America (Based on a 2010 survey by DisplaySearch)

Ranking	Company	Share (%)
1	A	18.2
2	B	17.5
3	**FUNAI**	**12.0**
4	C	10.4
5	D	9.7

In the giant European market, comparable to North America, we have facilities in Hamburg, Paris and Warsaw, where we develop FUNAI brand LCD TVs and DVD, Blu-ray Disc-related products. We also make an effort to build strong relationships with leading mass retailers in each country.

In Japan, we sell LCD TVs and DVD, Blu-ray Disc-related products under the DX BROADTEC brand. In fiscal 2010, we posted a significant increase in net sales compared to the previous fiscal year due to special demand generated by governmental policy to stimulate consumption.

In addition, sales of receiver-related products sold under the DX ANTENNA brand expanded substantially, owing to the shift to terrestrial digital broadcasting.

Cultivating emerging markets

Economic and population growth in BRICs and other emerging markets is increasing at a rapid pace, fueling expectations over increased audiovisual demand in these promising markets.

Recognizing the importance of emerging markets, Funai Electric is moving forward with preparations to enter the Indian markets.

Corporate Governance

Corporate Governance Policies and Organization

The Funai Electric Group's basic philosophy on corporate governance is to continuously increase the value of the corporation by being transparent to all stakeholders, both internal and external, ranging from shareholders and customers to vendors, neighboring communities and employees; ensuring the soundness and efficiency of management and responding to changing operating environments through quick decision-making capabilities.

Based on this philosophy, the Group adopted an executive officer system in 2002, and subsequently transitioned into a "Company with Committees" system in June 2005, with both moves aimed at separating the management and execution functions of its operations. However, with the aim to nurture internal management for the future of the company and to strengthen the management structure, a resolution to change the organizational structure of the Group to a "Company with a Board of Corporate Auditors" was passed at the Annual General Shareholders' Meeting on June 22, 2010.

Also, to ensure objectivity and transparency in every management process, we established a Nomination Committee, a Compensation Committee and an Internal Investment and Loan Committee as advisory bodies to the Board of Directors.

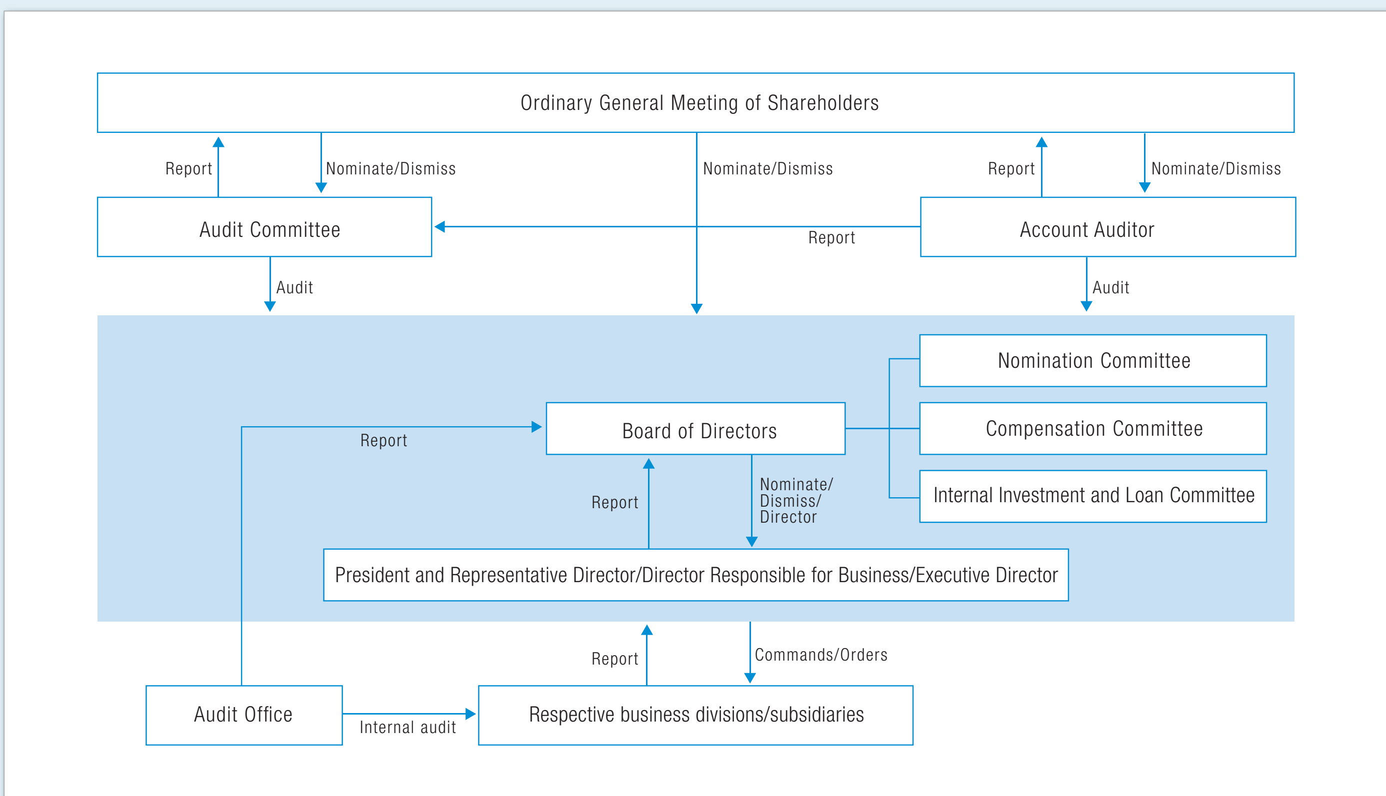
Furthermore, we attempt to maintain strong corporate governance from the perspectives of transparency, health and efficiency by selecting highly independent outside directors and auditors.

Board of Directors

The Funai Electric Group Board of Directors consists of nine directors, of whom two are highly independent outside directors. Internal directors are well-versed in Group business matters, enabling rapid decision-making. At the same time, soundness and transparency of operations is ensured through the independence of the outside directors. Moreover, one of the outside directors reports to the Tokyo Stock Exchange and Osaka Securities Exchange as an appointed independent officer of said institutions. As a general rule, scheduled Board of Directors meetings are held once every three months. When necessary, nonscheduled meetings are also held. Additionally, to ensure that this system remains flexible and clarifies the responsibilities of the Board of Directors, the director's term of office is one year.

Board of Corporate Auditors

The Board of Corporate Auditors consists of three corporate auditors, of whom two are highly independent outside auditors. No



special financial relationship exists between these outside auditors and the Funai Electric Group. Moreover, one of the outside auditors reports to the Tokyo Stock Exchange and Osaka Securities Exchange as an appointed independent officer of said institutions. Also, full-time Corporate Officer and Certified Public Accountant Akitaka Inoue has sufficient knowledge of finance and accounting. As a rule, the Board of Corporate Auditors meets once each month.

Nomination Committee

An advisory body whose members are appointed by the Board of Directors to recommend candidates for the Board of Directors and other bodies, and ensure that the director nomination and other selection processes are transparent and objective.

Compensation Committee

Appointed and authorized by the Board of Directors to determine compensation for directors and executive officers and ensure that the compensation selection process is transparent and objective. Auditor compensation is determined through mutual consultation.

Furthermore, the amount of auditor compensation is determined through mutual consultation.

Internal Investment and Loan Committee

Appointed by the president to ensure transparency and objectivity with respect to the decision-making process regarding major investment and loan projects through council providing an individualized, companywide perspective.

Outside director (auditor) support system

The administration department sends out reference materials to outside directors and corporate auditors ahead of scheduled Board of Directors and Board of Corporate Auditors meetings. In addition, meeting minutes and other necessary information are provided to outside directors and corporate auditors unable to attend meetings. Further, outside directors and corporate auditors are given the opportunity to meet regularly with the heads of various sections and view internal documents that contain important decision-making matters. In this manner, the system allows outside directors and corporate auditors to sufficiently exhibit their respective supervisory and audit functions.

Internal Control System Enhancements

In accordance with resolutions passed by the Board of Directors, our internal control system will be enhanced to ensure appropriate business activities as follows.

Systems for ensuring director execution of business duties is compliant with the law and articles of incorporation

The Funai Group Code of Conduct and Executive Compliance Regulations clarify proper conduct for directors and ensure their business duty execution is compliant with the law and articles of incorporation.

Systems for managing and storing information relating to director execution of business of duties

In accordance with the law and document management regulations, we conduct the appropriate management and storage of Board of Director's other important meeting minutes, key documents and other information necessary to ensure the appropriate execution of business duties.

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

We institute risk management regulations with regard to the management of exposure to the risk from loss. Each division or department shall manage risks to its operations and also take measures to manage those risks systematically.

Systems to ensure that directors execute business duties efficiently

We introduced an executive officer system to promote quick and efficient decision-making in management, placing executive officers under the supervision of managing directors to ensure quick execution of business duties as determined by the managing director. To heighten transparency and strengthen the supervisory function, we also introduced outside directors.

Systems for ensuring employee execution of business duties is compliant with the law and Articles of Incorporation

The Funai Group Code of Conduct and Executive Compliance Regulations clarify proper conduct for employees and ensure their business duty execution is compliant with the law and articles of incorporation. We also strive to strengthen our compliance structure with the establishment of an internal reporting system independent from normal lines of communication.

Systems to ensure appropriate business practices across entire corporate Group

The Funai Group Code of Conduct establishes standards of conduct for all Group executives and employees. The Affiliate Management Regulations are intended to address important issues facing Group companies, while respecting the independence and clarifying the rights and responsibilities of those companies, to ensure appropriate business practices across the entire Group.

Matters relating to auditor request for employee assistance with execution of business duties

In the event auditors request employee assistance with execution of auditor business duties, upon deliberation of the Board of Corporate Auditors, the Office of Corporate Auditors shall assign an employee to assist the Board of Corporate Auditors.

Matters relating to independence from director's previous employ

In the event the employee assigned to the Board of Corporate Auditors by the Office of Corporate Auditors in the previous matter is recalled, to ensure independence from the director, the Board of Corporate Auditors will respect the change of employees and/or change in personnel evaluations.

Systems for directors and employees to report to corporate auditors

Corporate auditors attend Board of Directors and other important meetings, hear about the execution of executives' business duties from directors and view related documents. Also, In accordance with the Regulations for Reporting to the Board of Corporate Auditors, directors, executive officers and employees report important matters that they determine have the potential to impact the ability to perform job duties to corporate auditors.

Other systems to ensure corporate auditors conduct their duties effectively

To ensure corporate auditors conduct their duties effectively, corporate auditors maintain a close relationship with accounting auditors and regularly meet with the president to exchange opinions regarding risk and management policies.

Corporate Social Responsibility (CSR)

We formulated the Funai Group Code of Conduct and the Environmental, Occupational Health and Safety Charter to contribute to the development of a sustainable society an comply with laws and regulations.

Environmental activities

In terms of environmental activities, we are making an effort to receive ISO 14001 certification at all our facilities outside Japan. We also aim to contribute to environmental protection activities through strict compliance Furthermore, in accordance with the Home Appliance Recycling Law, we have increased the ratio of recyclable materials in our products.

We engage in Green Procurement, which uses fewer materials and lessens the impact on the environment, and strive to reduce the amount of toxic substances in

Funai Group Code of Conduct

All members of the Funai Group (hereinafter "We") pledge to make a sincere effort to observe the following code of conduct.

Senior management recognizes that it is their role to embody this code of conduct, and that they must take the initiative and set an example for others in the company to follow. In the event their conduct is in opposition to this code, it will be their responsibility to correct themselves publicly and ensure such conduct is never repeated.

1 We shall develop and provide products and services useful to society with sufficient consideration for the safety and privacy of personal and customer information, and strive to earn the trust and satisfy the needs of consumers and customers while ensuring the healthy development of society.

2 We shall engage in fair, transparent and free competition and transactions while maintaining a healthy and proper and relationship with politicians and political administrations.

3 We shall ensure management transparency and health through the timely, proactive and fair disclosure of Company information aimed at widening the communication channel with shareholders and greater society.

4 We shall maintain a safe and comfortable work environment where employee diversity, character and individuality are respected.

5 We shall voluntarily engage in initiatives aimed at mitigating environmental problems, which we see as common challenge facing all humanity, and recognize as a necessary activity of all corporations.

6 We shall aggressively promote social contribution activities as a good corporate citizen.

7 We shall firmly oppose anti-social forces or groups.

8 We shall observe international law and local ordinances in terms of our international business activities, always respecting local cultures and customs to develop business efficiently.

June 22, 2006

our products. In addition, we are moving forward with activities aimed at reducing the amount of waste generated from production, as well as the amount of energy consumed during production, in order to reduce our environmental impact.

Socially responsible activities

We formulated compliance rules in an attempt to improve compliance awareness among all group employees.

Funai Electric is aggressively engaged in initiatives to ensure improved product quality as well as higher health and safety standard for our employees. We promote obtaining certification of an international management system at all our facilities as well as those of our vendors around the world.

Given that the need for a system protecting transaction, trade, customer and stock information is increasing critical, we also create and maintain an information security system.

In an effort to disclose what we determine to be material information to facilitate understanding of the Company in a fair and timely manner, we have a disclosure policy to provide shareholders and investors with standardized information in accordance with the Financial Instruments and Exchange Act and securities exchanges.

Environmental and Occupational Health and Safety Charter

Basic Ideas

In keeping with our corporate commitment "to adopt continual product improvements, to continually promote ever deeper trust, and to seek further harmony and mutual prosperity," all employees of Funai pledge to remain aware of the need to protect the environment and to operate our business in an environment-friendly manner. We shall provide our customers with simple, high-quality products and shall make an effort to use resources effectively, minimize waste, and reduce our environmental impacts. In short, we remain committed to contributing to a society that remains in harmony with nature.

Environmental Policies

1. We shall practice ethical management and comply with all laws and regulations.
2. We shall take the initiative in voluntarily eliminating the use of hazardous substances and shall offer environment-friendly products.
3. We shall establish goals for environmentally conscious design and shall offer environment-friendly products.
4. We shall implement initiatives to attain zero emissions.
5. We shall establish environmental goals, conduct periodic reviews, and implement continual improvements.
6. We shall provide all employees with environmental education and shall strive to adopt environmental improvements.

Occupational Health and Safety Policies

1. We shall practice ethical management and comply with all laws and regulations with respect to occupational health and safety.
2. We shall look into occupational health and safety risks in the workplace to prevent injury and illness to employees and visitors.
3. We shall make ongoing improvements to occupational health and safety management, while making an effort to improve occupational health and safety performance.

June 22, 2010

Third party certification acquisition status

Standard	Certification acquisition facility	
	FUNAI ELECTRIC CO., LTD., and Group company facilities	FUNAI ELECTRIC (H.K.), LTD. consignment production plants
Environmental management system ISO 14001	HQ FUNAI (THAILAND) CO., LTD. FUNAI ELECTRIC EUROPE Sp.zo.o. Zhong Yue Funai Electron Co. CHUGOKU FUNAI ELECTRIC CO., LTD. FUNAI SERVICE CO., LTD. DX ANTENNA CO., LTD.*	DONG GUAN PLANT ZHONG SHAN PLANT HUANG JIANG PLANT
Quality management system ISO 9001	HQ FUNAI (THAILAND) CO., LTD. FUNAI ELECTRIC EUROPE Sp.zo.o. Zhong Yue Funai Electron Co. CHUGOKU FUNAI ELECTRIC CO., LTD. FUNAI SERVICE CO., LTD. DX ANTENNA CO., LTD.*	DONG GUAN PLANT ZHONG SHAN PLANT HUANG JIANG PLANT
Occupational health and safety management system OHSAS 18001	HQ FUNAI ELECTRIC EUROPE Sp.zo.o. Zhong Yue Funai Electron Co.	ZHONG SHAN PLANT
Information security Management system ISO/IEC 27001: 2005 JIS Q 27001: 2006	Information System Department in HQ Personnel and Administration Department in HQ Business Administrative Department in HQ Investor and Public Relations Department in HQ	—

*Only DX ANTENNA was certified by the JQA

Members of the Board and Corporate Auditors and Officers

Members of the Board

Tetsuro Funai ·········· Chairman

Tomonori Hayashi ····· President and Chief Executive Officer

Toshio Otaku·········· Director and Senior Executive Officer

Yoshikazu Uemura····· Director and Officer

Jyoji Okada············ Director and Officer

Hideaki Funakoshi····· Director and Officer

Shigeki Saji··········· Director and Officer

Mitsuo Yonemoto······ Outside Director

Yasuhisa Katsuta······ Outside Director

Corporate Auditors

Akitaka Inoue ········· Full-time Corporate Auditor

Shinichi Komeda ······ Outside Corporate Auditor

Masahide Morimoto···· Outside Corporate Auditor

Officers

Takashi Kiyomoto ······ Senior Officer

Hideo Nakai ··········· Senior Officer

Fumiaki Kidera ········ Officer

Nobuhisa Uchikawa ···· Officer

Susumu Nojii··········· Officer

Kazuo Uga ············· Officer

Takeshi Ito ············ Officer

Hisao Tatsumi ········· Officer

Sei Kono ·············· Officer

Management Policies

Basic management policy

Funai Electric's basic management policy is to pursue its business activities by building strong trust and seeking the mutual prosperity of all parties related to the Group, by creating the most efficient development, production and sales organization possible and by providing stable supplies of high-quality and reasonably priced products to global markets, based on a corporate creed of continual product improvements, promotion of deeper trust and further harmony and mutual prosperity.

Target management indicators

The Group prioritizes the operating margin as its Group management indicator, seeking to achieve an operating margin of at least 5% at all companies over the medium term.

Basic policy on the distribution of profits

The Group recognizes the return of earnings to shareholders as an important management issue, and considers its fundamental policy to be the maintenance of stable dividends while strengthening the Group's management base. The Group employs a proactive dividend policy that takes into consideration factors such as the operating environment and uses a dividend ratio of 1.0% of consolidated net assets as its standard.

Based on this policy, for the fiscal year ended March 31, 2011, the Group has announced a year-end dividend of ¥40 per share. The Group also projects a dividend of ¥40 per share for the fiscal year ending March 31, 2012.

The Group plans to implement dividend payments as a year-end dividend (once a year).

Medium- to long-term management strategies and issues to be addressed

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 Funai 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 groupwide efficiency.

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

Increasing net sales and returning to profitability

The Funai Group has positioned the increase of net sales and improvement of earnings as its highest priority issue.

Product strategy:
In audiovisual equipment, a decline in consumer purchasing propensity in our mainstay North America 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 TVs, such as those with LED and 3D and Internet-equipped models. For Blu-ray Disc-related products, in addition to launching 3D, Internet-equipped and portable players, 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 Group'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 TVs 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 India and other emerging 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 TVs to hotels and hospitals in North America. We expect this new business channel to be highly profitable.

Through 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.

Reinforcing production and development systems

The Funai Group's production structure is highly dependent on China, and we recognize this as a risk that must be mitigated. To diversify production, we will increase capacity at FUNAI (THAILAND) CO., LTD., and have begun studying the possibility of production in other locations.

To increase groupwide 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.

Training and appointment of human resources

The Group recognizes that improving employee capabilities and linking this progress to bolstering the Group's strength is critical to ensure that the Group maintains its lead in the era of global competition and successfully implements its medium- to long-term business strategy. Accordingly, our policy is to proactively train and assign employees, without regard to their age or position, and we are strengthening and expanding our internal and external training systems to this end.

Business Performance

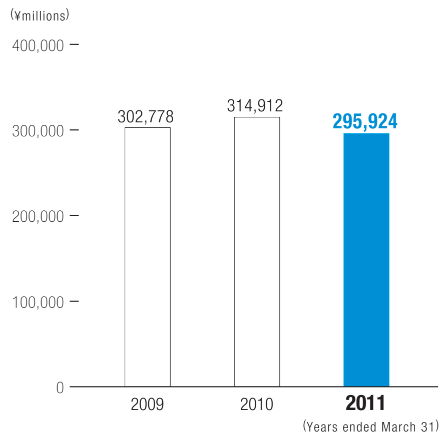
The year in review

During the fiscal year ended March 31, 2011, the economy of the United States, which is the Funai Group's principal market, was characterized by a gradual overall recovery. Government initiatives, 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 TVs 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-priced new products, such as LED and 3D TVs, out of income uncertainty. These circumstances put downward pressure on prices, while raw materials costs continued to escalate, squeezing profits.

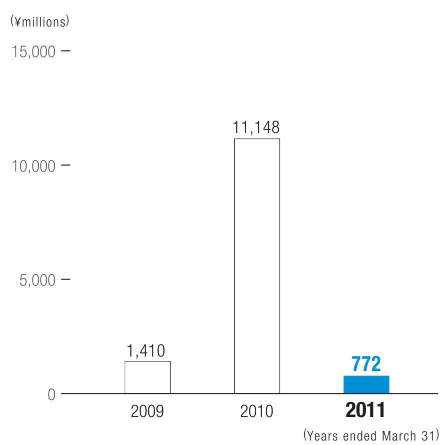
Net sales:

In the preceding fiscal year, net sales totaled ¥314,912 million. During the year under review, net sales decreased 6.0%, to ¥295,924 million.



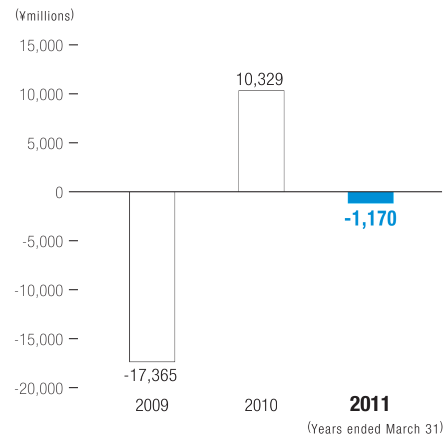
Operating income:

In the preceding fiscal year, operating income totaled ¥11,148 million. During the year under review, operating income decreased 93.1%, to ¥772 million.



Net income (loss):

The Group recorded a net loss of ¥1,170 million, compared with net income of ¥10,329 million in the preceding fiscal year.



Performance by geographical area

North America:

During the year, the Group generated no sales of TV set-top boxes* (STBs) targeting the U.S. market, as production of such devices was halted in June 2009. In addition, sales of DVD-related products fell year on year, as demand for DVD players and Blu-ray Disc players remained weak. Furthermore, the decline in consumer demand for LCD TVs—the Group's core product in the market—and the consequent fall in the unit price for such products resulted in a 28.0% decline in net sales in this region, to ¥155,755 million.

* These products convert digital signals to analog signals, allowing users to view digital terrestrial broadcasts on analog televisions. In the United States, analog terrestrial broadcasting ended in June 2009.

Europe:

Difficult economic conditions caused sales of LCD TVs and DVD-related products to fall, prompting a 21.8% decline in net sales, to ¥23,837 million.

Asia and others:

In Asia, the Group posting net sales of ¥8,505 million, down 3.6% from the preceding fiscal year.

In other market, the Group posting net sales of ¥13,630 million, up 26.6% from the preceding fiscal year.

Japan:

In addition to the growth in sales of LCD TVs as a result of the positive effect of the government efforts to stimulate consunption, sales of antennas and related products increased as a result of the transition to digital terrestrial broadcasting. Moreover, robust sales of Blu-ray Disc recorders introduced by the Group in the third quarter of the previous fiscal year. Consequently, the Group posted net sales of ¥94,197 million, up 94.7% from the preceding fiscal year.

Sales by product category

Audiovisual equipment:

In the audiovisual equipment segment, the Group was able to increase the volume of LCD TV units sold, but sales fell due to intense price competition. In 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. This was mainly due to the absence of sales of TV STBs targeting the U.S. market, as the Group's halted their production in June 2009. Sales of DVD players and Blu-ray Disc players fell, as well. Consequently, net sales in this product segment were down 15.0% year on year, to ¥198,607 million.

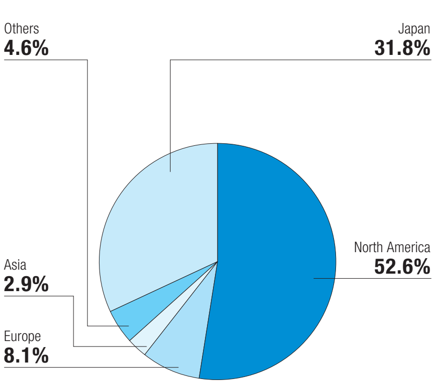
Information equipment:

In the information equipment segment, an increase in orders for printers resulted in net sales of ¥56,405 million, up 3.3% from the preceding fiscal year.

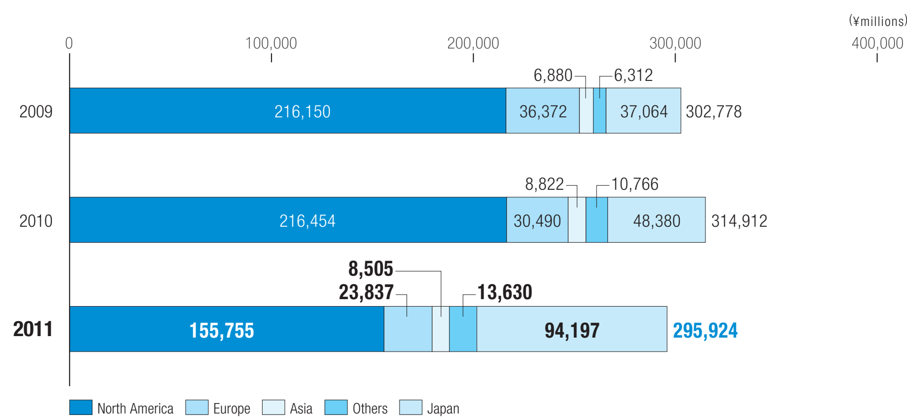
Others:

Sales of other products other than those in the above categories increased, owing to strong demand for antennas and related products as a result of the transition from analog to digital terrestrial broadcasting. Consequently, the Group posted net sales of ¥40,912 million, a 52.9% increase.

Sales composition by geographical area (Year ended March 31, 2011)



Sales by geographical area (Years ended March 31)



Financial condition

Current assets:

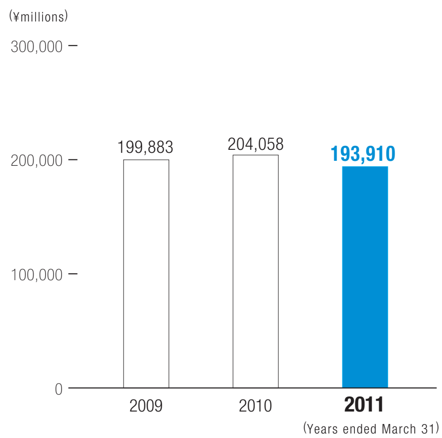
As of March 31, 2011, total current assets stood at ¥158,821 million, down ¥8,335 million from ¥167,156 million one year earlier.

Major changes in this category included cash and deposits, which fell ¥15,969 million, from ¥86,045 million to ¥70,076 million, whereas merchandise and finished goods increased ¥2,715 million, from ¥20,850 million to ¥23,565 million, and raw materials and supplies grew ¥2,420 million, from ¥16,057 million to ¥18,477 million. As such, the decline in cash and deposits stemmed primarily from increases in receivables and inventories. Sluggish sales were the primary reason for rises in merchandise and finished goods and raw materials and supplies.

Fixed assets:

Fixed assets totaled ¥35,089 million at year-end, falling ¥1,813 million from ¥36,902 million one year earlier. The main reason was a ¥879 million decline in patents, from ¥3,666 million to ¥2,787 million, stemming from the amortization of patent rights.

Total assets



Current liabilities:

Total current liabilities as of March 31, 2011, were up ¥2,718 million from a year earlier, rising from ¥56,208 million to ¥58,926 million. Major factors included a ¥3,758 million increase in short-term loans payable, from ¥6,339 million to ¥10,097 million, owing mostly to bank borrowings employed as working capital.

Long-term liabilities:

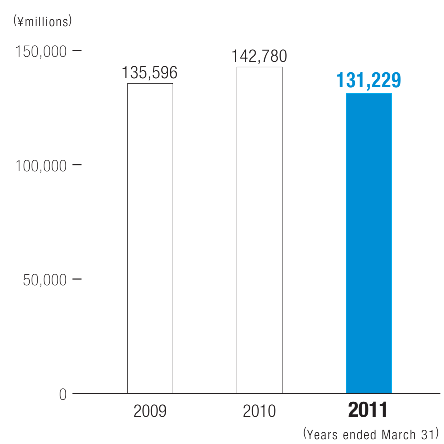
Long-term liabilities decreased ¥1,315 million during the year under review, from ¥5,070 million to ¥3,755 million. The main reason for this fall was a ¥772 million decrease in long-term accounts payable, included in the others line item, from ¥1,264 million to ¥492 million. This was attributable principally to a decrease in patent royalties payable.

Equity:

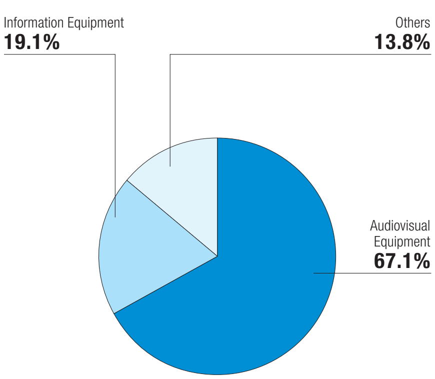
Total equity at the end of the fiscal year was down ¥11,551 million from the end of the preceding term, from ¥142,780 million to ¥131,229 million.

Major factors included a ¥2,534 million decrease in retained earnings, from ¥119,273 million to ¥116,739 million, as well as foreign currency translation adjustments, which fell a further ¥9,551 million, from a negative ¥17,936 to a negative ¥27,487 million.

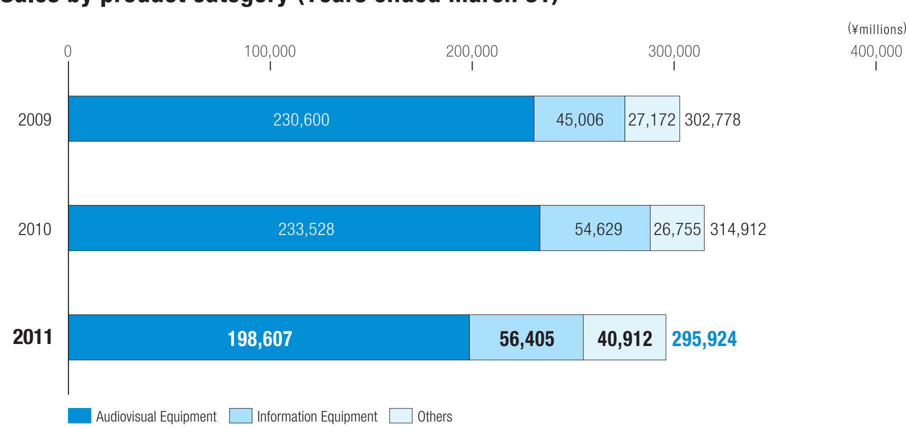
Total equity



Sales composition by product category (Year ended March 31, 2011)



Sales by product category (Years ended March 31)



Cash flows

Cash and cash equivalents amounted to ¥33,745 million as of March 31, 2011, down ¥317 million, or 0.9% from one year previously. The main reasons for this change was a decrease in income before income taxes and minority interests, the purchase of property, plant and equipment and an increase in short-term loans payable.

Cash flows during the fiscal year under review and the factors behind these changes are described below.

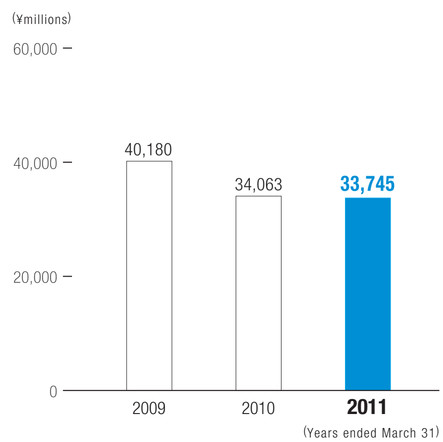
Cash flows from operating activities:
Net cash used in operating activities during the year came to ¥5,166 million, compared with ¥3,640 million provided by these activities during the preceding term. This reversal stemmed from a decrease in income before income taxes and minority interests and increases in receivables and inventories.

Cash flows from investing activities:
Net cash provided by investing activities was ¥4,071 million, compared with ¥2,714 million used in these activities during the fiscal year ended March 31, 2010. Although the purchase of property, plant and equipment increased, a decrease in payments into time deposits was behind this change.

Cash flows from financing activities:
Net cash provided by financing activities came to ¥2,466 million, compared with ¥7,871 million used in these activities in the preceding term. Primarily responsible was an increase in short-term loans payable.

Capital investment:
During the fiscal year under review, Group capital investment totaled ¥6,062 million. Of this amount, investment in Japan totaled ¥749 million, in North America ¥31 million, in Asia ¥5,239 million and in Europe ¥41 million. This capital investment was mainly for the expansion of production facilities. The Group did not dispose of or sell any major facilities during the year under review.

Cash and cash equivalents, end of yaer



Business Risk

Risks that may have a significant impact on the Group's financial situation and operating results are outlined below. Forward-looking statements in this text are based on decisions made by the Group as of June 22, 2011.

Funai Group management policy

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

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

1. Product cost and market prices
The Group's primary target is customers of mass merchandisers such as Walmart and therefore we must deliver low prices. Consequently, the Group is working to cut costs through measures such as establishing production systems in optimal locations, pursuing further application of the Funai Production System (FPS), the unique

productivity improvement system developed by Funai, and utilizing internal production of parts and centralized purchasing.

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

2. Product supply through OEM (producing partner brands)
As part of our effort to collaborate with distributors and electronic appliance manufacturers, particularly overseas, OEM accounted for 37.0% of the Group's production supply during the fiscal year under review.

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

3. New technologies
As the number of digital products in the home electronic appliance industry increases and the needs of the market become more diverse, Funai must improve the quality, volume and speed of its new product development.

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

4. Defects relating to products and services
The Group efforts to increase quality are centered on the departments that are responsible for quality management and technologies. In addition, a service platform consisting of service companies in both domestic and international markets has been established. However, if there is a defect in a product that requires the Group to respond by repairing or replacing such product, the impact of the warranty and/or the resultant decrease in corporate reputation may have negative implications for the Group's financial situation and operating results.

Impact of overseas market trends

1. Dependence on the North American market
A large portion of the Group's net sales originates in overseas markets. The North American market in particular accounted for 52.6% of net sales in the current consolidated fiscal year. Should the North American economy rapidly enter a recession, this may affect the Group's financial situation and operating results.

2. Dependence on Chinese production
The Group is working to improve the cost competitiveness of its products by concentrating production in positive cost-benefit regions and purchasing parts in bulk. In the current consolidated fiscal year 98.7% of our products were produced overseas, with 85.2% produced under consignment fabrication in China. Changes in the Chinese government, the outbreak of conflict or natural disasters or other unforeseen circumstances may affect the Group's financial situation and operating results.

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

DVD-related products, LCD TVs, and printers are produced in China, LCD TVs and DVD-related products are produced in Poland, and LCD TVs are produced in Thailand.

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

Purchases from overseas subsidiaries in these countries accounted for 84.0% of gross purchases during the current consolidated fiscal year. Likewise, overseas net sales accounted for 68.2% of net sales. The majority of our purchasing and sales are conducted in U.S. dollars. We believe this reduces the risks that accompany currency fluctuations.

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

Tax assessment based on the anti-tax haven system

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

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

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

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

2. Funai received a rectification notice from the Osaka Regional Taxation Bureau on June 16, 2008. The Bureau determined that Funai's Hong Kong subsidiary does not meet the requirements for exclusion under the anti-tax haven system and the Hong Kong subsidiary's income for the three fiscal years from March 2005 through March 2007 will be considered, and taxed as Funai's income.

Funai strongly objects to the submission of another claim and for this reason submitted an appeals application to the Osaka Regional Taxation Bureau's Board of Tax Appeals on August 6, 2008. In addition, Funai filed a request to the Osaka District Court for the rescission of the supplementary tax assessment order on November 14, 2008. On July 23, 2009, Funai received a written ruling from the Osaka Regional Taxation Bureau stating it will dismiss the Group's assertion. Funai believes this judgment is regrettable and is not a ruling to which it can agree. In the future, the Group plans to continue to assert the validity of its arguments to the courts. Currently, the Osaka District Court is reviewing both the current request made on November 14, 2008, along with the previous one filed on November 16, 2006.

The additional tax of ¥15,038 million (¥16,838 million including incidental taxes) includes corporate, enterprise and residence taxes. Funai charged the tax assessment to income as "prior year's taxes" in the fiscal year ended March 2009.

Financial Section

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Consolidated Balance Sheets

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
March 31, 2011 and 2010

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	March 31,		March 31,
ASSETS	**2011**	2010	***2011***
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	**¥ 33,745**	¥ 34,063	***$ 405,833***
Time deposits (Note 13)	**36,331**	51,982	***436,933***
Receivables:			
Trade (Note 13)	**36,367**	35,154	***437,366***
Other	**2,249**	942	***27,048***
Allowance for doubtful accounts	**(139)**	(179)	***(1,672)***
Inventories (Note 3)	**43,838**	38,418	***527,216***
Deferred tax assets (Note 12)	**3,722**	4,131	***44,762***
Prepaid expenses and other current assets	**2,708**	2,645	***32,568***
Total current assets	**158,821**	167,156	***1,910,054***
PROPERTY, PLANT AND EQUIPMENT:			
Land	**5,136**	5,181	***61,768***
Buildings and structures	**13,704**	13,870	***164,811***
Machinery, equipment and other	**50,207**	55,519	***603,812***
Lease assets (Note 11)	**651**	537	***7,829***
Construction in progress	**8**	25	***96***
Total	**69,706**	75,132	***838,316***
Accumulated depreciation	**(53,416)**	(59,478)	***(642,405)***
Net property, plant and equipment	**16,290**	15,654	***195,911***
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 13)	**4,151**	4,064	***49,922***
Investments in unconsolidated subsidiaries and associated companies	**2,117**	2,238	***25,460***
Patents	**2,787**	3,666	***33,518***
Long-term loans	**363**	248	***4,366***
Long-term prepaid expenses	**2,477**	3,208	***29,790***
Goodwill	**34**	66	***409***
Deferred tax assets (Note 12)	**4,239**	4,804	***50,980***
Other assets	**2,984**	3,729	***35,886***
Allowance for doubtful accounts	**(353)**	(775)	***(4,245)***
Total investments and other assets	**18,799**	21,248	***226,086***
TOTAL	**¥193,910**	¥204,058	***$2,332,051***

LIABILITIES AND EQUITY	(Millions of yen) March 31, 2011	2010	(Thousands of U.S. dollars) (Note 1) March 31, 2011
CURRENT LIABILITIES:			
Short-term bank borrowings (Notes 5 and 13)	¥ 9,563	¥ 5,806	$ 115,009
Current portion of long-term debt (Notes 5,11 and 13)	739	695	8,887
Payables:			
Trade (Note 13)	28,939	31,305	348,034
Other (Note 13)	12,556	11,035	151,004
Income taxes payable (Note 12)	2,072	1,799	24,919
Other current liabilities	5,057	5,568	60,818
Total current liabilities	58,926	56,208	708,671
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5,11and 13)	402	954	4,835
Liability for retirement benefits (Note 6)	2,393	2,429	28,779
Long-term payables other	492	1,264	5,917
Deferred tax liabilities (Note 12)	63	22	758
Other	405	401	4,871
Total long-term liabilities	3,755	5,070	45,160
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 12)			
EQUITY (Notes 7, 8 and 16)**:**			
Common stock,			
authorized, 80,000,000 shares; issued,			
36,123,596 shares in 2011 and 36,104,196 shares in 2010	31,300	31,280	376,428
Capital surplus	33,265	33,245	400,060
Stock acquisition rights	88	62	1,058
Retained earnings	116,739	119,273	1,403,957
Treasury stock – at cost			
2,011,607 shares in 2011 and 2,011,531 shares in 2010	(24,341)	(24,341)	(292,736)
Accumulated other comprehensive income (loss)			
Unrealized gain on available-for-sale securities	612	471	7,360
Foreign currency translation adjustments	(27,487)	(17,936)	(330,571)
Total	130,176	142,054	1,565,556
Minority interests	1,053	726	12,664
Total equity	131,229	142,780	1,578,220
TOTAL	¥193,910	¥204,058	$2,332,051

See notes to consolidated financial statements.

Consolidated Statements of Operations

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
	Years Ended March 31,		Year Ended March 31,
	2011	2010	***2011***
NET SALES	**¥295,924**	¥314,912	***$3,558,918***
COST OF SALES (Note 10)	**255,615**	257,442	***3,074,143***
Gross profit	**40,309**	57,470	***484,775***
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 10)	**39,537**	46,322	***475,491***
Operating income	**772**	11,148	***9,284***
OTHER INCOME (EXPENSES):			
Interest and dividend income	**399**	690	***4,799***
Interest expense	**(133)**	(84)	***(1,600)***
Foreign exchange gain (loss) , net	**197**	(103)	***2,369***
Provision for doubtful receivables	**(9)**	(1)	***(108)***
Loss on impairment of investment securities	**(1)**	(10)	***(12)***
Gain on sales of investment securities, net	**283**	88	***3,403***
Other – net	**(55)**	(850)	***(661)***
Other income (expenses) – net	**681**	(270)	***8,190***
NET INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**1,453**	10,878	***17,474***
INCOME TAXES (Note 12)**:**			
Current	**1,642**	2,520	***19,747***
Deferred	**634**	(2,205)	***7,625***
Total income taxes	**2,276**	315	***27,372***
NET INCOME (LOSS) BEFORE MINORITY INTERESTS	**(823)**	10,563	***(9,898)***
MINORITY INTERESTS	**(347)**	(234)	***(4,173)***
NET INCOME (LOSS)	**¥ (1,170)**	¥ 10,329	***$ (14,071)***

	(Yen)		(U.S. dollars)
PER SHARE OF COMMON STOCK (Notes 2.u and 15)**:**			
Basic net income (loss)	**¥ (34.31)**	¥ 302.97	***$ (0.41)***
Diluted net income		300.77	
Cash dividends applicable to the year	**40.00**	40.00	***0.48***

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2011

	(Millions of yen) Year Ended March 31,	*(Thousands of U.S. dollars) (Note 1) Year Ended March 31,*
	2011	***2011***
NET LOSS BEFORE MINORITY INTERESTS	**¥ (823)**	***$ (9,898)***
OTHER COMPREHENSIVE INCOME (LOSS) (Note 14)		
Unrealized gain on available-for-sale securities	**143**	***1,720***
Foreign currency translation adjustments	**(9,662)**	***(116,199)***
Share of other comprehensive income in associates	**90**	***1,082***
Total other comprehensive income (loss)	**(9,429)**	***(113,397)***
COMPREHENSIVE INCOME (LOSS) (Note 14)	**¥(10,252)**	***$(123,295)***
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO (Note 14)**:**		
Owners of the parent	**¥(10,578)**	***$(127,216)***
Minority interests	**326**	***3,921***

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	(Thousands)	(Millions of yen)					Accumulated other comprehensive income (loss)				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain (loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, APRIL 1,2009	**34,093**	**¥31,280**	**¥33,245**	**¥18**	**¥110,048**	**¥(24,340)**	**¥ (99)**	**¥(14,999)**	**¥135,153**	**¥ 443**	**¥135,596**
Net Income					10,329				10,329		10,329
Cash dividends, ¥ 40.00 per share					(1,364)				(1,364)		(1,364)
Purchase of treasury stock	(0)					(1)			(1)		(1)
Take-over of retained earning for merger of the unconsolidated subsidiaries					260				260		260
Net change in the year				44			570	(2,937)	(2,323)	283	(2,040)
BALANCE, MARCH 31, 2010	**34,093**	**31,280**	**33,245**	**62**	**119,273**	**(24,341)**	**471**	**(17,936)**	**142,054**	**726**	**142,780**
Net loss					**(1,170)**				**(1,170)**		**(1,170)**
Cash dividends, ¥40.00 per share					**(1,364)**				**(1,364)**		**(1,364)**
Purchase of treasury stock						**(0)**			**(0)**		**(0)**
Exercise of stock options	**19**	**20**	**20**						**40**		**40**
Net change in the year				**26**			**141**	**(9,551)**	**(9,384)**	**327**	**(9,057)**
BALANCE, MARCH 31, 2011	**34,112**	**¥31,300**	**¥33,265**	**¥88**	**¥116,739**	**¥(24,341)**	**¥612**	**¥(27,487)**	**¥130,176**	**¥ 1,053**	**¥131,229**

	(Thousands of U.S. dollars) (Note. 1)					*Accumulated other comprehensive income (loss)*				
	Common Stock	*Capital Surplus*	*Stock Acquisition Rights*	*Retained Earnings*	*Treasury Stock*	*Unrealized Gain (loss) on Available-for-sale Securities*	*Foreign Currency Translation Adjustments*	*Total*	*Minority Interests*	*Total Equity*
BALANCE, MARCH 31, 2010	***$376,188***	***$399,820***	***$ 746***	***$1,434,432***	***$(292,736)***	***$5,664***	***$(215,707)***	***$1,708,407***	***$ 8,731***	***$1,717,138***
Net loss				***(14,071)***				***(14,071)***		***(14,071)***
Cash dividends, $0.48 per share				***(16,404)***				***(16,404)***		***(16,404)***
Purchase of treasury stock					***(0)***			***(0)***		***(0)***
Exercise of stock options	***240***	***240***						***480***		***480***
Net change in the year			***312***			***1,696***	***(114,864)***	***(112,856)***	***3,933***	***(108,923)***
BALANCE, MARCH 31, 2011	***$376,428***	***$400,060***	***$1,058***	***$1,403,957***	***$(292,736)***	***$7,360***	***$(330,571)***	***$1,565,556***	***$12,664***	***$1,578,220***

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	(Millions of yen) Years Ended March 31, 2011	2010	(Thousands of U.S. dollars) (Note 1) Year Ended March 31, 2011
OPERATING ACTIVITIES:			
Net income before income taxes and minority interests	**¥ 1,453**	¥ 10,878	***$ 17,474***
Adjustments for:			
Income taxes – paid	**(2,970)**	(2,266)	***(35,719)***
Income taxes – refund	**246**	1,504	***2,959***
Depreciation and amortization	**6,367**	5,757	***76,572***
Loss (gain) on sale or disposal of property, plant and equipment	**(1)**	1	***(12)***
Equity in losses (gains) of unconsolidated subsidiaries and associated companies	**(28)**	34	***(337)***
Gain on sales of investment securities – net	**(283)**	(88)	***(3,403)***
Changes in assets and liabilities:			
Increase in trade accounts receivable	**(5,248)**	(7,103)	***(63,115)***
Increase in inventories	**(8,950)**	(8,587)	***(107,637)***
Increase in trade accounts payable	**2,289**	5,308	***27,529***
Increase (decrease) in liability for employees' retirement benefits	**(32)**	43	***(385)***
Other – net	**1,991**	(1,841)	***23,945***
Total adjustments	**(6,619)**	(7,238)	***(79,603)***
Net cash provided by (used in) operating activities	**(5,166)**	3,640	***(62,129)***
INVESTING ACTIVITIES:			
Payments for time deposits	**(71,744)**	(98,887)	***(862,826)***
Proceeds from time deposits	**82,008**	100,157	***986,266***
Proceeds from sale of property, plant and equipment	**44**	9	***529***
Purchases of property, plant and equipment	**(6,400)**	(3,547)	***(76,969)***
Purchases of intangible assets	**(235)**	(791)	***(2,826)***
Proceeds from sales of investment securities	**482**	540	***5,797***
Purchases of investment securities	**(139)**	(439)	***(1,672)***
Payments for loans receivable	**(3)**	(17)	***(36)***
Proceeds from collection of loans receivable	**45**	93	***541***
Other – net	**13**	168	***156***
Net cash provided by (used in) investing activities	**4,071**	(2,714)	***48,960***
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans – net	**4,496**	(6,280)	***54,071***
Repayments of long-term debt	**(533)**	(700)	***(6,410)***
Purchase of treasury stock	**(0)**	(1)	***(0)***
Dividends paid	**(1,364)**	(1,364)	***(16,404)***
Other – net	**(133)**	474	***(1,600)***
Net cash provided by (used in) financing activities	**2,466**	(7,871)	***29,657***
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(1,629)**	461	***(19,591)***
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(258)**	(6,484)	***(3,103)***
CASH AND CASH EQUIVALENTS INCREASED BY MERGER		367	
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO EXCLUSION OF SUBSIDIARIES FROM CONSOLIDATION	**(60)**		***(721)***
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**34,063**	40,180	***409,657***
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 33,745**	¥ 34,063	***$ 405,833***

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FUNAI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 14. In addition, "net loss before minority interests" is disclosed in the consolidated statement of operations from the year ended March 31, 2011.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2010 consolidated financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which FUNAI ELECTRIC CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥ 83.15 to $1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation**—The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its 14 significant (14 in 2010) subsidiaries (together, the "Group").

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

Investments in 1 (1 in 2010) unconsolidated subsidiary and no (1 in 2010) associated companies are accounted for by the equity method.

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

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

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

c. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments". The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. This standard was applicable to the equity method of accounting for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010.

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

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

e. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Inventories—Inventories of the Company and its consolidated domestic subsidiaries are mainly stated at the lower of cost, determined by the average method for finished products and work in process, and by the first-in, first-out method for law materials, or net selling value.

Inventories of the consolidated foreign subsidiaries are mainly stated at the lower of cost, determined by the first-in, first-out method, or net selling value.

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

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

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

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

Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

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

j. Goodwill—Cost in excess of the net assets of subsidiaries acquired is amortized on a straight-line basis over 5 years.

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

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

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

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

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

m. Asset Retirement Obligations—In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21 “Guidance on Accounting Standard for Asset Retirement Obligations”. Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Group applied this accounting standard effective April 1, 2010. The effect of this change on the consolidated statements of operations is immaterial.

n. Stock Options—The ASBJ Statement No. 8 “Accounting Standard for Stock Options” and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received.

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

The Company recognizes compensation expense for directors, corporate auditors, executive officers and employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. A certain domestic subsidiary also measures options at their intrinsic value if they cannot reliably estimate the fair value. In the consolidated balance sheet, the stock option is presented as stock acquisition right as a separate component of equity until exercised.

o. Research and Development Costs—Research and development costs are charged to income as incurred.

p. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13 “Accounting Standard for Lease Transactions”, which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

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

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group continues to accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

q. Construction Contracts—In December 2007, the ASBJ issued ASBJ Statement No. 15 “Accounting Standard for Construction Contracts” and ASBJ Guidance No. 18 “Guidance on Accounting Standard for Construction Contracts”. Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts. This standard was applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009. The Group applied the accounting standard effective April 1, 2009.

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

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

In the past, the Group applied TTS or TTB rates when carrying out foreign currency exchange conversions. However, as from the fiscal year ended March 31, 2011, the Group has decided to use TTM rates instead of TTS or TTB.

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.

The effect of this change was to increase net sales by ¥902 million ($10,848 thousand) and operating income by ¥1,112 million ($13,373 thousand) and income before income taxes and minority interests by ¥241 million ($2,898 thousand), for the year ended March 31, 2011.

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

Differences arising from such translation were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity .

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

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

Diluted net income per share reflects the potential dilution that could occur if stock options were exercised into common stock. Diluted net income per share of common stock assumes full exercise of outstanding warrants. Diluted net income per share is not disclosed because of the Company's net loss position in 2011.

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

v. New Accounting Pronouncements

Accounting Changes and Error Corrections—In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows;

(1) Changes in Accounting Policies:

When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, a company shall comply with the specific transitional provisions.

(2) Changes in Presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2011	2010	***2011***
Merchandise and finished products	**¥23,565**	¥20,850	***$283,403***
Work in process	**1,796**	1,510	***21,600***
Raw materials and supplies	**18,477**	16,058	***222,213***
Total	**¥43,838**	¥38,418	***$527,216***

4. INVESTMENT SECURITIES

The costs and aggregate fair values of investment securities at March 31, 2011 and 2010 were as follows:

	(Millions of yen)			
March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥1,975**	**¥1,255**	**¥(106)**	**¥3,124**
March 31, 2010				
Securities classified as:				
Available-for-sale:				
Equity securities	¥2,116	¥ 869	¥ (76)	¥2,909

	(Thousands of U.S. dollars)			
March 31, 2011	*Cost*	*Unrealized Gains*	*Unrealized Losses*	*Fair Value*
Securities classified as:				
Available-for-sale:				
Equity securities	***$ 23,752***	***$15,093***	***$(1,274)***	***$37,571***

Available-for-sale securities whose fair values are not readily determinable as of March 31, 2011 and 2010 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2011	2010	***2011***
Available-for-sale:			
Equity securities	**¥ 595**	¥ 595	***$ 7,156***
Investments in limited partnerships	**432**	560	***5,195***
Total	**¥1,027**	¥1,155	***$12,351***

Proceeds from sales of available-for-sale securities for the years ended March 31, 2011 and 2010 were ¥482 million ($5,797 thousand) and ¥216 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, was ¥283 million ($3,403 thousand) for the year ended March 31, 2011. And such gains and losses were ¥40 million and ¥0 million, respectively, for the year ended March 31, 2010.

The impairment losses on available-for-sale equity securities for the years ended March 31, 2011 and 2010 were ¥1 million ($12 thousand) and ¥10 million, respectively.

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans bore interest at annual average rates of 1.8% and 1.7% at March 31, 2011 and 2010, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2011	2010	***2011***
Unsecured loans from banks and other financial institutions, due serially to 2013 with average interest rates of 0.6% (2011) and 0.7% (2010):	**¥ 567**	¥1,099	***$ 6,819***
Obligations under finance leases	**574**	550	***6,903***
Total	**1,141**	1,649	***13,722***
Less current portion	**(739)**	(695)	***(8,887)***
Long-term debt, less current portion	**¥ 402**	¥ 954	***$ 4,835***

Annual maturities of long-term debt, excluding finance leases (see Note 11), at March 31, 2011, were as follows:

Year Ending March 31	(Millions of yen)	*(Thousands of U.S. dollars)*
2012	¥534	*$6,422*
2013	33	*397*
Total	¥567	*$6,819*

6. RETIREMENT AND PENSION PLANS

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

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

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the followings:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2011	2010	***2011***
Projected benefit obligation	**¥ 8,980**	¥ 8,580	***$107,998***
Fair value of plan assets	**(7,180)**	(7,100)	***(86,350)***
Unrecognized prior service cost	**308**	376	***3,704***
Unrecognized actuarial loss	**(1,331)**	(986)	***(16,007)***
Unrecognized transitional obligation	**(684)**	(808)	***(8,226)***
Prepaid pension cost	**1,262**	1,324	***15,177***
Net liability	**¥ 1,355**	¥ 1,386	***$ 16,296***

The components of net periodic benefit costs for the years ended March 2011 and 2010 are as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2011	2010	***2011***
Service cost	**¥ 478**	¥ 509	***$ 5,749***
Interest cost	**176**	181	***2,117***
Expected return on plan assets	**(158)**	(135)	***(1,900)***
Amortization of prior service cost	**(68)**	(68)	***(818)***
Recognized actuarial loss	**206**	321	***2,477***
Amortization of transitional obligation	**125**	125	***1,503***
Net periodic benefit costs	**¥ 759**	¥ 933	***$ 9,128***

Assumptions used for the years ended March 31, 2011 and 2010 are set forth as follows:

	2011	2010
Discount rate	**1.4~2.0%**	1.4~2.5%
Expected rate of return on plan assets	**1.4~2.0%**	1.4~2.5%
Amortization period of prior service cost	**10 years**	10 years
Recognition period of actuarial gain / loss	**10 years**	10 years

Retirement allowances for directors, corporate auditors and executive officers at March 31, 2011 and 2010 were ¥1,038 million ($12,483 thousand) and ¥1,043 million, respectively, which were included in liability for retirement benefits. Retirement allowance for directors, corporate auditors and executive officers are paid subject to the approval of the Compensation Committee or shareholders' meeting.

7. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

8. STOCK OPTIONS

The stock options outstanding as of March 31, 2011 are as follows:

(The Company)

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2001 Stock Option	4 directors 284 employees	421,400 shares	2001.7.26	¥9,549 *($115)*	From January 1, 2004 to December 31, 2010
2002 Stock Option	6 directors 381 employees 18 other persons	399,700 shares	2002.7.23	¥15,150 *($182)*	From August 1, 2004 to July 31, 2011
2003 Stock Option	4 directors 313 employees 6 other persons	378,500 shares	2003.7.22	¥13,646 *($164)*	From August 1, 2005 to July 31, 2012
2004 Stock Option ①	2 directors 293 employees 5 other persons	359,900 shares	2004.7.21	¥16,167 *($194)*	From August 1, 2006 to July 31, 2013
2004 Stock Option ②	20 employees 1 other person	25,600 shares	2004.8.13	¥16,836 *($202)*	From August 1, 2006 to July 31, 2013
2005 Stock Option	2 directors 293 employees 5 other persons	346,400 shares	2005.7.12	¥12,369 *($149)*	From August 1, 2007 to July 31, 2014
2008 Stock Option	1 director officer 10 executive officers 315 employees	431,700 shares	2008.11.20	¥1,609 *($19)*	From August 1, 2010 to July 31, 2017

(DX ANTENNA CO., LTD.)

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2010 Stock Option	4 directors 29 employees	152,000 shares	2010.2.13	¥384 *($5)*	From February 11, 2012 to February 10, 2019

The stock option activity is as follows:

(The Company)

	2001 Stock Option (Shares)	2002 Stock Option (Shares)	2003 Stock Option (Shares)	2004 Stock Option ① (Shares)	2004 Stock Option ② (Shares)	2005 Stock Option (Shares)	2008 Stock Option (Shares)
For the year ended March 31, 2010							
Non-vested							
March 31, 2009 – Outstanding							
Granted							421,900
Canceled							4,200
Vested							
March 31, 2010 – Outstanding							417,700
Vested							
March 31, 2009 – Outstanding	311,600	399,600	378,500	359,900	25,600	346,400	
Vested							
Exercised							
Canceled							
March 31, 2010 – Outstanding	311,600	399,600	378,500	359,900	25,600	346,400	
For the year ended March 31, 2011							
Non-vested							
March 31, 2010 – Outstanding							417,700
Granted							
Canceled							
Vested							
March 31, 2011 – Outstanding							417,700
Vested							
March 31, 2010 – Outstanding	311,600	399,600	378,500	359,900	25,600	346,400	
Vested							417,700
Exercised							19,400
Canceled	311,600						12,100
March 31, 2011 – Outstanding		399,600	378,500	359,900	25,600	346,400	386,200
Exercise price	¥9,549 *($115)*	¥15,150 *($182)*	¥13,646 *($164)*	¥16,167 *($194)*	¥16,836 *($202)*	¥12,369 *($149)*	¥1,609 *($19)*
Average stock price at exercise							¥2,677 *($32)*
Fair value price at grant date							
From August 1, 2010 to July 31, 2017							¥440 *($5)*
From August 1, 2011 to July 31, 2017							¥447 *($5)*
From August 1, 2012 to July 31, 2017							¥454 *($5)*
From August 1, 2013 to July 31, 2017							¥458 *($6)*
From August 1, 2014 to July 31, 2017							¥475 *($6)*
From August 1, 2015 to July 31, 2017							¥487 *($6)*
From August 1, 2016 to July 31, 2017							¥510 *($6)*

(DX ANTENNA CO., LTD.)

	2010 Stock Option (Shares)
For the year ended March 31, 2010	
Non-vested	
March 31, 2009 – Outstanding	152,000
Granted	
Canceled	
Vested	
March 31, 2010 – Outstanding	152,000
Vested	
March 31, 2009 - Outstanding	
Vested	
Exercised	
Canceled	
March 31, 2010 – Outstanding	
For the year ended March 31, 2011	
Non-vested	
March 31, 2010 – Outstanding	152,000
Granted	
Canceled	2,000
Vested	
March 31, 2011 – Outstanding	150,000
Vested	
March 31, 2010 - Outstanding	
Vested	
Exercised	
Canceled	
March 31, 2011 – Outstanding	
Exercise price	¥384 *($5)*

The assumption used to measure fair value of the 2010 stock option.

(DX ANTENNA CO., LTD.)

On February 13, 2010, DX ANTENNA CO., LTD., one of the subsidiaries granted stock options. As the company was a non-public company, the fair unit value of the stock options was measured at their intrinsic value.

The total intrinsic values of the stock options at the year ended March 31, 2011 were ¥63 million ($ 758 thousand).

Estimated method of number of vested options.

(The Company)

Estimated number of vested options of the Company is determined based on the historical data.

(DX ANTENNA CO., LTD.)

Estimated number of vested options of the subsidiary is determined based on the actual cancellation data, because the number of options cancelled in the future reasonably estimated.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March, 31 2011 and 2010 principally consisted of the following.

	(Millions of yen)		*(Thousands of U.S. dollars)*
	Years Ended March 31,		*Year Ended March 31,*
	2011	2010	***2011***
Depreciation	**¥1,903**	¥1,865	***$22,886***
Amortization of goodwill	**31**	119	***373***
Provision for accrued pension and severance costs	**382**	434	***4,594***

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥12,969 million ($155,971 thousand) and ¥13,486 million for the years ended March 31, 2011 and 2010, respectively.

11. LEASES

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

Obligations under finance leases were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2011	2010	***2011***
Due within one year	**¥205**	¥162	***$2,465***
Due after one year	**369**	388	***4,438***
Total	**¥574**	¥550	***$6,903***

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases that do not transfer ownership of the leased property to the lessee and whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Company applied the ASBJ Statement No. 13 effective April 1, 2008 and continued to account for such leases as operating lease transactions.

Pro forma information of leased property whose lease inception was before March 31, 2008 and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2011	2010	***2011***
Acquisition cost	**¥596**	¥902	***$7,168***
Accumulated depreciation	**528**	734	***6,350***
Net leased property	**¥ 68**	¥168	***$ 818***

Obligations under finance leases:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2011	2010	***2011***
Due within one year	**¥59**	¥104	***$710***
Due after one year	**11**	71	***132***
Total	**¥70**	¥175	***$842***

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

	(Millions of yen)		(Thousands of U.S. dollars)
	Years Ended March 31,		Year Ended March 31,
	2011	2010	***2011***
Depreciation expense	**¥100**	¥177	***$1,203***
Interest expense	**3**	5	***36***
Total	**¥103**	¥182	***$1,239***
Lease payments	**¥105**	¥183	***$1,263***

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

The minimum rental commitments under noncancellable operating leases at March 31, 2011 and 2010 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2011	2010	***2011***
Due within one year	**¥ 759**	¥1,162	***$ 9,128***
Due after one year	**1,009**	1,361	***12,135***
Total	**¥1,768**	¥2,523	***$21,263***

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2011	2010	***2011***
Deferred tax assets :			
Liability for retirement benefits	**¥ 973**	¥ 988	***$ 11,702***
Accounts payable	**1,276**	1,191	***15,346***
Allowance for doubtful accounts	**3,910**	3,876	***47,023***
Accrued employees' bonuses	**604**	550	***7,264***
Impairment loss on investment securities	**292**	295	***3,512***
Inventories	**917**	1,022	***11,028***
Intercompany profit	**8**	30	***96***
Tax loss carryforwards	**10,514**	10,350	***126,446***
Other	**1,764**	1,691	***21,215***
Less valuation allowance	**(10,944)**	(9,864)	***(131,618)***
Total	**¥ 9,314**	¥10,129	***$ 112,014***
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 385**	¥ 313	***$ 4,630***
Prepaid pension cost	**514**	539	***6,182***
Other	**518**	364	***6,230***
Total	**¥ 1,417**	¥ 1,216	***$ 17,042***
Net deferred tax assets	**¥ 7,897**	¥ 8,913	***$ 94,972***

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	13.5	0.2
Elimination of dividend earned from subsidiaries	(1.7)	(1.5)
Reduction of earnings retained by tax haven company		(7.0)
Lower income tax rates applicable to income in certain foreign countries	3.6	(18.5)
Valuation Allowance	96.7	(16.0)
Other – net	3.9	4.9
Actual effective tax rates	156.7%	2.8%

On June 28, 2005 and June 16, 2008, the Company received notices of supplementary tax assessment to the additional tax on the income of its subsidiary in Hong Kong under the anti-tax haven rules for the three financial years ended March 31, 2002 to March 31, 2004 and the three financial years ended March 31, 2005 to March 31, 2007 from the Osaka Regional Taxation Bureau, as the subsidiary in Hong Kong did not satisfy the conditions for exemption from the application of anti-tax haven rules. The Company has contested the validity in court, as the Company disagreed with this assessment and considered it to be unacceptable.

The additional tax assessments were ¥16,651 million (¥19,184 million including incidental taxes) and ¥15,038 million (¥16,838 million including incidental taxes), including corporate income taxes, inhabitant taxes and enterprise taxes. They were recognized as “income taxes for prior periods” for the fiscal years ended March 31, 2007 and 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 claimed based on the status of any relevant foreign subsidiary at the end of each fiscal year end. Hence, for the reference, the effects of the application of these anti-tax haven rules on the income of a subsidiary in Hong Kong for the year ended March 31, 2008 and subsequent years up to March 31, 2011, less dividend income received by the Company for the years ended March 31, 2008 and 2009 are estimated at approximately ¥3,000 million ($36,079 thousand) in total. The Company has not accounted for this effect due to the aforementioned reasons.

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

In March 2008, the ASBJ revised ASBJ Statement No. 10 “Accounting Standard for Financial Instruments” and issued ASBJ Guidance No. 19 “Guidance on Accounting Standard for Financial Instruments and Related Disclosures”. This accounting standard and the guidance was applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the guidance effective March 31, 2010.

1. The situation of financial instruments

(1) Group policy for financial instruments

The Group uses bank loans for fund raising and short-term deposits to fund operations. In principle, derivatives are not permitted.

(2) Nature and extent of risks arising from financial instruments and risk management for financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk.

To avoid such a risk, the Group sets up sales management regulations, and determines trading conditions and credit limit by each customer.

The Company has many receivables and payables based on foreign currencies due to its overseas development. Basically the Group doesn’t make forward foreign currency contracts because of its US dollar basis trading.

Investment securities and equity instruments are exposed to the market risk. Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis. This risk should be reported to investment committee internally.

Payment terms of payables, such as trade notes and trade accounts are less than one year.

Loans, both short-term and long-term are financed for sales operations. In principle, derivatives are not permitted. Although the variable interest rates of loans are exposed to market risks, those risks may be mitigated by using interest-rate swap derivatives. This derivative transaction should be executed and managed by corporate regulations. To decrease credit risks, the Group only makes the relationships with highly rated financial institutions.

Sales credit and loans are exposed to liquidity risks. The Group manages to have our associated companies make monthly financial plans.

2. Fair value of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. The list below doesn’t contain financial instruments which fair value are difficult to recognize.

(a) Fair Value of financial instruments

March 31, 2011	Carrying amount	Fair Value	Unrealized gain/loss
	(Millions of yen)		
Cash and cash equivalents	**¥ 33,745**	**¥ 33,745**	
Time deposits	**36,331**	**36,331**	
Receivables Trade	**36,367**	**36,367**	
Investment securities	**3,124**	**3,124**	
Total	**¥109,567**	**¥109,567**	
Short-term bank loans (excluding finance lease obligation)	**¥ 10,097**	**¥ 10,097**	
Payables Trade	**28,939**	**28,939**	
Payables Other	**12,556**	**12,556**	
Long-term debt (excluding finance lease obligation)	**33**	**33**	
Total	**¥ 51,625**	**¥ 51,625**	

March 31, 2010	Carrying amount	Fair Value	Unrealized gain/loss
	(Millions of yen)		
Cash and cash equivalents	¥ 34,063	¥ 34,063	
Time deposits	51,982	51,982	
Receivables Trade	35,154	35,154	
Investment securities	2,909	2,909	
Total	¥124,108	¥124,108	
Short-term bank loans (excluding finance lease obligation)	¥ 6,339	¥ 6,339	
Payables Trade	31,305	31,305	
Payables Other	11,035	11,035	
Long-term debt (excluding finance lease obligation)	567	567	
Total	¥ 49,246	¥ 49,246	

March 31, 2011	*Carrying amount*	*Fair Value*	*Unrealized gain/loss*
	(Thousands of U.S. dollars)		
Cash and cash equivalents	***$ 405,833***	***$ 405,833***	
Time deposits	***436,933***	***436,933***	
Receivables Trade	***437,366***	***437,366***	
Investment securities	***37,571***	***37,571***	
Total	***$1,317,703***	***$1,317,703***	
Short-term bank loans (excluding finance lease obligation)	***$ 121,431***	***$ 121,431***	
Payables Trade	***348,034***	***348,034***	
Payables Other	***151,004***	***151,004***	
Long-term debt (excluding finance lease obligation)	***397***	***397***	
Total	***$ 620,866***	***$ 620,866***	

Assets

(1) Cash and cash equivalents (2) Time deposits (3) Receivables Trade

The carrying values of cash and cash equivalents (including time deposits) and receivables approximate fair values because of their short maturities.

(4) Investment securities

The investment securities are measured at the quoted market prices of the stock exchange for the equity instruments.

Liabilities

(1) Short-term bank loans (2) Payables Trade (3) Payables Other

The carrying value of short-term bank loans and payables approximate fair value because of their short maturities.

(4) Long term debt

The carrying value of long-term debt approximate fair value because of loans based on floating rates reflect market interest rates over a short period of time, as long as the credit standing of the Group does not change significantly from the time of borrowing.

Derivatives

No comments is described because derivatives are not permitted in principle.

(b) Financial instruments whose fair values cannot be reliably determined

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2011	2010	***2011***
Investments in equity instruments that do not have a quoted market price in an active market	**¥1,027**	¥1,155	***$12,351***

(c) Maturity analysis for financial assets and securities with contractual maturities

	(Millions of yen)			
March 31, 2011	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	**¥ 33,745**			
Time deposits	**36,331**			
Receivables Trade	**36,367**			
Total	**¥106,443**			

	(Millions of yen)			
March 31, 2010	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 34,063			
Time deposits	51,982			
Receivables Trade	35,154			
Total	¥121,199			

	(Thousands of U.S. dollars)			
March 31, 2011	*Due in one year or less*	*Due after one year through five years*	*Due after five years through ten years*	*Due after ten years*
Cash and cash equivalents	***$ 405,833***			
Time deposits	***436,933***			
Receivables Trade	***437,366***			
Total	***$1,280,132***			

Please See Notes 5 for annual maturities of long-term debt and Note 11 for obligations under finance leases, respectively.

14. COMPREHENSIVE INCOME

For the year ended March 31, 2010

Total comprehensive income for the year ended March 31, 2010 was the following:

Total comprehensive income (loss) attributable to:	**2010**
Owners of the parent	**¥7,961**
Minority interests	**230**
Total comprehensive income (loss)	**¥8,191**

Other comprehensive income (loss) for the year ended March 31, 2010 consisted of the following:

Other comprehensive income (loss)	**2010**
Unrealized gain on available-for-sale securities	**¥ 573**
Foreign currency translation adjustments	**(2,953)**
Share of other comprehensive income (loss) in associates	**8**
Total other comprehensive income (loss)	**¥(2,372)**

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income (loss) per share ("EPS") for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen	Thousands of shares	Yen	*Dollars*
	Net Income (Loss)	Weighted average shares	EPS	
For the year ended March 31, 2011:				
Basic EPS				
Net loss available to common shareholders	**¥ (1,170)**	**34,100**	**¥ (34.31)**	***$(0.41)***
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders	¥10,329	34,093	¥302.97	
Effect of Dilutive Securities				
Stock options		249		
Diluted EPS				
Net income for computation	¥10,329	34,342	¥300.77	

Diluted net income per share in 2011 is not disclosed due to the loss position.

16. SUBSEQUENT EVENTS

(1) Appropriations of Retained Earning

The following appropriation of retained earnings at March 31, 2011 was approved at the Company's Board of Directors held on May 23, 2011:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year-end cash dividends, ¥40.00 *($0.48)* per share	**¥1,364**	***$16,404***

(2) Anti-tax haven rule

The Company had objected to the reassessment notice from the Regional Commissioner of the Osaka Regional Taxation Bureau based on the decision that the Company's Hong Kong-based subsidiary did not meet the conditions that would allow it to be covered by the exceptions under the anti-tax haven taxation. The Company therefore filed an action with the Osaka District Court seeking the rescission of such tax assessment notice, pursuant to applicable laws and regulations. With respect to this action, on June 24, 2011, the court dismissed the claims of the Company. The Company will account for the effect of the application by this anti-tax haven rules for the fiscal year ended March 31, 2012.

On June 29, 2011, the Company received notice of supplementary tax assessment to the additional tax on the income of its subsidiary in Hong Kong under the anti-tax haven rules for the three financial years ended March 31, 2008 to March 31, 2010 from the Osaka Regional Taxation Bureau. The additional tax assessment was ¥826 million (¥936 million including incidental taxes) including corporate income taxes, inhabitant taxes and enterprise taxes. It will be recognized as "income taxes for prior periods" for the fiscal year ended March 31, 2012 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).

17. SEGMENT INFORMATION

For the years ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010. The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Group is engaged in the manufacture and sale of consumer electronics products. The Company and DX ANTENNA CO., LTD. cover Japan, and FUNAI CORPORATION, INC. covers North America, P&F USA, INC. covers North America, FUNAI ELECTRIC (H.K.) LTD. covers Asia, FUNAI ELECTRIC EUROPE Sp.z o.o. covers Europe and other corporations also cover such areas. Each local corporation is independent business unit and designs comprehensive strategy and performs each business.

The reportable segments of the Group are composed of four segments, "Japan", "North America", "Asia" and "Europe" which consist of geographic segments based on the manufacturing and selling system.

(2) Methods of measurement for the amounts of sales, profit (loss), assets, and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies". Intersegment sales are based on arm's length price.

In the past, the Group applied TTS or TTB rates when carrying out foreign currency exchange conversions. However, as from the fiscal year ended March 31, 2011, the Group has decided to use TTM rates instead of TTS or TTB.

This change to apply TTM rates across all exchange conversions was made in order to make it appropriate to recognize 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.

The effect of this change was to increase sales in "Japan" by ¥902 million ($10,848 thousand) and segment profit by ¥1,112 million ($ 13,373 thousand) for the year ended March 31, 2011.

(3) Information about sales, profit (loss), assets, and other items for each reportable segment for the years ended March 31, 2011 and 2010 were as follows:

	(Millions of yen)						
	2011						
	Japan	North America	Asia	Europe	Total	Reconciliations (Note.1)	Consolidated
Sales:							
Sales to external customers	**¥153,662**	**¥133,079**	**¥ 2,696**	**¥ 6,487**	**¥295,924**	**¥**	**¥295,924**
Intersegment sales or transfers	**126,434**	**3**	**194,332**	**8**	**320,777**	**(320,777)**	
Total	**280,096**	**133,082**	**197,028**	**6,495**	**616,701**	**(320,777)**	**295,924**
Segment profit (loss) (Note.2)	**¥ 7,220**	**¥ (6,663)**	**¥ 2,086**	**¥(1,749)**	**¥ 894**	**¥(122)**	**¥ 772**
Segment assets	**¥122,295**	**¥ 38,857**	**¥ 86,868**	**¥ 5,920**	**¥253,940**	**¥ (60,030)**	**¥193,910**
Other							
Depreciation	**¥ 2,866**	**¥ 132**	**¥ 3,140**	**¥ 230**	**¥ 6,368**	**¥ (1)**	**¥ 6,367**
Amortization of goodwill	**31**				**31**		**31**
Investment in equity method affiliate			**272**		**272**		**272**
Increase in property, plant and equipment and intangible assets	**¥ 1,189**	**¥ 33**	**¥ 5,353**	**¥ 56**	**¥ 6,631**	**¥ (200)**	**¥ 6,431**

	(Millions of yen)						
	2010						
	Japan	North America	Asia	Europe	Total	Reconciliations (Note.1)	Consolidated
Sales:							
Sales to external customers	¥114,180	¥191,855	¥ 1,049	¥ 7,828	¥314,912	¥	¥314,912
Intersegment sales or transfers	163,001	30	183,813	3	346,847	(346,847)	
Total	277,181	191,885	184,862	7,831	661,759	(346,847)	314,912
Segment profit (loss) (Note.2)	¥4,411	¥3,646	¥ 5,989	¥(1,205)	¥ 12,841	¥ (1,693)	¥ 11,148
Segment assets	¥120,425	¥ 35,735	¥102,814	¥ 9,966	¥268,940	¥ (64,882)	¥204,058
Other							
Depreciation	¥ 2,636	¥ 109	¥ 2,754	¥ 260	¥ 5,759	¥ (2)	¥ 5,757
Amortization of goodwill	119				119		119
Investment in equity method affiliate	0		286		286		286
Increase in property, plant and equipment and intangible assets	¥ 2,245	¥ 204	¥ 2,559	¥ 140	¥ 5,148	¥ (405)	¥ 4,743

	(Thousands of U.S. dollars)						
	2011						
	Japan	*North America*	*Asia*	*Europe*	*Total*	*Reconciliations (Note.1)*	*Consolidated*
Sales:							
Sales to external customers	***$1,848,010***	***$1,600,469***	***$ 32,423***	***$ 78,016***	***$3,558,918***	***$***	***$3,558,918***
Intersegment sales or transfers	***1,520,553***	***36***	***2,337,126***	***96***	***3,857,811***	***(3,857,811)***	
Total	***3,368,563***	***1,600,505***	***2,369,549***	***78,112***	***7,416,729***	***(3,857,811)***	***3,558,918***
Segment profit (loss) (Note.2)	***$ 86,831***	***$ (80,133)***	***$ 25,087***	***$(21,034)***	***$ 10,751***	***$ (1,467)***	***$ 9,284***
Segment assets	***$1,470,776***	***$ 467,312***	***$1,044,714***	***$ 71,197***	***$3,053,999***	***$ (721,948)***	***$2,332,051***
Other							
Depreciation	***$ 34,468***	***$ 1,587***	***$ 37,763***	***$ 2,766***	***$ 76,584***	***$ (12)***	***$ 76,572***
Amortization of goodwill	***373***				***373***		***373***
Investment in equity method affiliate			***3,271***		***3,271***		***3,271***
Increase in property, plant and equipment and intangible assets	***$ 14,299***	***$ 397***	***$ 64,378***	***$ 673***	***$ 79,747***	***$ (2,405)***	***$ 77,342***

Note.1 Components of Reconciliation are as follows.

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
Segment profit (loss)	**2011**	2010	***2011***
Elimination of intersegment transactions	**¥ 7**	¥ 41	***$ 84***
Company-wide expenses(*1)	**(995)**	(991)	***(11,966)***
Adjustment of inventory	**866**	(743)	***10,415***
Total	**¥(122)**	¥(1,693)	***$ (1,467)***

Segment Assets	(Millions of yen) March 31, 2011	(Millions of yen) March 31, 2010	*(Thousands of U.S. dollars) March 31, 2011*
Company-wide asset(*2)	**¥ 17,934**	¥ 14,382	***$ 215,683***
Adjustment of inventory	**(117)**	(983)	***(1,407)***
Elimination of intersegment assets and liabilities etc	**(77,847)**	(78,281)	***(936,224)***
Total	**¥(60,030)**	¥(64,882)	***$(721,948)***

(*1) Company-wide expenses are mainly general and administrative expenses not attributable to any reportable segments.
(*2) Company-wide asset mainly consists of cash surplus (cash and deposits) and long-term-investments (investment securities) that are not attributable to any reportable segments.

Note.2 Segment profit (loss) is adjusted to operating income in consolidated statements of operations.

(4) Related information for the year ended March 31, 2011

1. Information about product or service

	(Millions of yen) 2011			
	Audiovisual Equipment	Information Equipment	Other	Total
Sales to external customers	**¥198,607**	**¥56,405**	**¥40,912**	**¥295,924**

	(Thousands of U.S. dollars) 2011			
	Audiovisual Equipment	*Information Equipment*	*Other*	*Total*
Sales to external customers	***$2,388,539***	***$678,352***	***$492,027***	***$3,558,918***

2. Information about geographical areas

a. Sales

(Millions of yen) 2011						
	North America					
Japan	USA	Other	Asia	Europe	Other	Total
¥94,197	**¥147,876**	**¥7,879**	**¥8,505**	**¥23,837**	**¥13,630**	**¥295,924**

(Thousands of U.S. dollars) 2011						
	North America					
Japan	*USA*	*Other*	*Asia*	*Europe*	*Other*	*Total*
$1,132,856	***$1,778,425***	***$94,756***	***$102,285***	***$286,675***	***$163,921***	***$3,558,918***

Note: Sales are classified in countries or regions based on location of customers.

b. Property, plant and equipment

(Millions of yen) 2011						
		Asia		Europe		
Japan	North America	China	Other	Poland	Other	Total
¥9,815	**¥159**	**¥3,438**	**¥1,183**	**¥1,686**	**¥9**	**¥16,290**

(Thousands of U.S. dollars) 2011						
		Asia		*Europe*		
Japan	*North America*	*China*	*Other*	*Poland*	*Other*	*Total*
$118,040	***$1,912***	***$41,347***	***$14,227***	***$20,277***	***$108***	***$195,911***

3. Information about major customer

March 31, 2011	(Millions of yen)	*(Thousands of U.S. dollars)*	
Name of Customers	Sales	*Sales*	Related segment name
WAL-MART STORES, INC.	**¥79,107**	***$951,377***	North America

(5) Goodwill by reportable segment

	(Millions of yen)					
	2011					
	Japan	North America	Asia	Europe	Elimination	Total
Amortization of goodwill	**¥31**					**¥31**
Goodwill at March 31, 2011	**34**					**34**

	(Thousands of U.S. dollars)					
	2011					
	Japan	*North America*	*Asia*	*Europe*	*Elimination*	*Total*
Amortization of goodwill	***$373***					***$373***
Goodwill at March 31, 2011	***409***					***409***

For the year ended March 31, 2010

(1) Industry Segments

The Group operates in a single business segment of manufacturing and sales of electrical products in Japan and overseas. Therefore, industry segment information is not disclosed.

(2) Geographical Segments

The geographical segments of the Group for the year ended March 31, 2010 is summarized as follows:

	(Millions of yen)					
	2010					
	Japan	North America	Asia	Europe	Elimination	Consolidated total
Sales:						
Sales to outside customers	¥114,180	¥191,855	¥ 1,049	¥ 7,828	¥ 0	¥314,912
Inter-segment sales	163,001	30	183,813	3	(346,847)	
Total	277,181	191,885	184,862	7,831	(346,847)	314,912
Operating expenses	272,770	188,239	178,873	9,036	(345,154)	303,764
Operating income (loss)	¥ 4,411	¥ 3,646	¥ 5,989	¥(1,205)	¥ (1,693)	¥ 11,148
Identifiable assets	¥120,425	¥ 35,735	¥102,814	¥ 9,966	¥ (64,882)	¥204,058

(3) Sales to Foreign Customers

Sales to foreign customers for the year ended March 31, 2010 is summarized as follows:

	(Millions of yen)
	2010
North America	¥216,454
Asia	8,822
Europe	30,490
Other	10,766
Total	¥266,532

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Funai Electric Co., Ltd. and consolidated subsidiaries (the "Company") as of March 31, 2011 and 2010, and the related consolidated statements of operations for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Funai Electric Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 12 to the consolidated financial statements, the Company received notices of supplementary tax assessment on the income of a subsidiary in Hong Kong based on the application of anti-tax haven rules.

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

Deloitte Touche Tohmatsu LLC

June 14, 2011
(July 28, 2011 as to Note 16(2))

Corporate Data

Outline

Name	FUNAI ELECTRIC CO., LTD.
Established	August 1961
Head office	7-7-1 Nakagaito, Daito, Osaka 574-0013, Japan
Phone	+81-72-870-4303
Fax	+81-72-871-1112
URL	http://www.funaiworld.com/
Capital	¥31,300 million (March 31, 2011)
Net Sales	¥295,923 million (Year ended March 31, 2011)
Employees	1,120 (March 31, 2011 / Non-Consolidated)
Category	Electrical Equipment

Business Operations

Audiovisual Equipment
- LCD TVs
- DVD Players / Recorders
- Blu-ray Disc Players / Recorders

Information Equipment
- Printers

Others
- Receiver-related Products

History

Aug. 1961	FUNAI ELECTRIC CO., LTD. was established in Ikuno-ku, Osaka capitalized at ¥20 million.
Mar. 1964	CHUGOKU FUNAI ELECTRIC CO., LTD. was established as a production subsidiary in Fukayasu-gun (now Fukuyama), Hiroshima.
Sep. 1976	The head office was relocated to Daito, Osaka.
May 1991	FUNAI CORPORATION, INC. was established as a sales subsidiary in New Jersey, U.S.
Mar. 1992	HIGHSONIC INDUSTRIAL LTD. (now FUNAI ELECTRIC (H.K.), LTD.) was established in Hong Kong, China.
Apr. 1992	DONG GUAN PLANT in Dongguan City, Guangdong Province started operations as a consignment production plant in China.
Aug. 1994	ZHONG SHAN PLANT in Zhong Shan City, Guangdong Province started operations as a consignment production plant in China.
Jan. 1996	FUNAI SERVICE CO., LTD. was established as a service subsidiary in Higashi-Osaka, Osaka.
May 1996	HIGHSONIC INDUSTRIAL LTD. (now FUNAI ELECTRIC (H.K.), LTD.) established H.F.T. INDUSTRIAL LTD. by joint investment with a Japan company.
Feb. 1999	FUNAI ELECTRIC CO., LTD. was listed on the Second Section of Osaka Securities Exchange.
Mar. 2000	FUNAI ELECTRIC CO., LTD. was listed on the First Section of Tokyo Stock Exchange and the First Section of Osaka Securities Exchange.
Mar. 2001	Closing date for the fiscal year ending on June 15 was changed to March 31.
Nov. 2001	Acquired the majority stocks of DX ANTENNA CO., LTD. in Japan.
Jul. 2003	FUNAI (THAILAND) CO., LTD. was established as a production subsidiary in Nakornratchasima, Kingdom of Thailand.
Dec. 2003	HUANG JIANG PLANT in Dongguan City, Guangdong Province started operations as a consignment production plant in China.
Apr. 2004	FUNAI ELECTRIC ADVANCED APPLIED TECHNOLOGY RESEARCH INSTITUTE INC. was established.
Oct. 2006	FUNAI ELECTRIC (POLSKA) Sp. z o.o. (now FUNAI ELECTRIC EUROPE Sp. z o.o.) was established as a production subsidiary in the city of Nowa Sol, Poland.
Oct. 2007	FUNAI SERVICE CORPORATION was established as a service subsidiary in Ohio, U.S.
Jun. 2008	P&F USA, Inc. was established as a sales subsidiary in Georgia, U.S., for PHILIPS brand consumer TVs. Tetsuro Funai, President and CEO, assumed the post of Chairman. Tomonori Hayashi, Senior Executive Officer, assumed the post of President and CEO.
Apr. 2009	P&F MEXICANA, S.A. DE C.V. was established as a sales subsidiary in Mexico.
Jul. 2010	Zhong Yue Funai Electron Co. was established as a production subsidiary in Guangdong Province, China.

FUNAI

FUNAI ELECTRIC CO., LTD.

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