

1. Matters Concerning the Current State of the Funai Group (the “Group”)

(1) Development and Results of Business Activities

In the United States, the Group’s main market, the real GDP growth rate for the full year of 2021 was high at 5.7% compared to the previous year. In particular, personal consumption increased by 5.3 points for the full year, driving high growth. In 2022, the impact of the Omicron mutants of the COVID-19 and the monetary tightening policy of FRB (Federal Reserve Board) due to the effects of prolonged inflation are expected to weigh on consumer and corporate activities. In March 2022, the FRB decided to lift its monetary easing policy and raise the policy rate. In light of these effects, the IMF (International Monetary Fund) lowered its forecast for U.S. economic growth in 2022 to 4.0%, down 1.2% from its previous forecast.

As for the situation in Japan, the "Government Economic Outlook" approved by the Cabinet on January 17, 2022, published that the GDP growth rate for FY2021 is expected to be around 2.6% in real terms and 1.7% in nominal terms and that GDP is expected to recover to the pre-COVID-19 level during the year. In addition, in the Monthly Economic Report released by the government on March 25, 2022, the basic assessment of the Japanese economy in March for the current status indicated that "the economy continues to recover, but weakness remains in some areas as severe conditions from the COVID-19 remain." As for the future outlook, it also indicated that "the economy is expected to pick up, partly due to the effects of various policies and improvement in overseas economies as all possible measures are taken against infection and economic and social activities move toward normalization. However, amid the uncertainties arising from the situation in Ukraine, etc., we must pay close attention to downside risks due to factors including rising raw material prices, fluctuations in financial and capital markets, and supply-side constraints. In addition, we need to monitor the impact of infectious diseases."

Under these circumstances, the Group recorded net sales of 69.697 billion yen (down 13.4% year-on-year) for the current consolidated fiscal year. This decrease was due to a sharp rise in LCD panel prices in our mainstay LCD TV business from the fourth quarter of the fiscal year ending March 31, 2021, as well as to problems in procuring LCD panels due to the shortage of parts and other components related to the worldwide semiconductor shortage, which caused sales to significantly underperform our plan in both the U.S. and Japanese markets.

Net sales by equipment segment are as follows.

<Audiovisual Equipment>

In the audiovisual equipment segment, as already stated, the sales significantly underperformed our plan in both the U.S. and Japanese markets as a result of a sharp rise in LCD panel prices in our mainstay LCD TV business from the fourth quarter of the fiscal year ending March 31, 2021, as well as to problems in procuring LCD panels due to the shortage of parts and other components related to the worldwide semiconductor shortage. For the Blu-ray Disc-related products, the trend of market contraction continued due to the dissemination of video distribution services via the Internet. However, the rate of market contraction slowed slightly in the U.S. and Japanese markets. As a result, net sales amounted to 61.069 billion yen (down 15.7% year-on-year.)

<Information Equipment>

In information equipment, sales of mainstay high-capacity inkjet printers and ink cartridges were lower than the plan, but higher than the results in the previous fiscal. As a result, net sales were 4.917 billion yen (up 17.9% year-on-year.)

<Other>

In equipment other than the above, sales of automotive backlights, medical and healthcare-related products such as dental CT scans and nursing care bed modules decreased slightly compared to the previous fiscal year. Consequently, net sales were 3.710 billion yen (down 3.3% year-on-year.)

(Consolidated Net Sales by Equipment)

Segment	Net Sales	Sales Composition
Audiovisual Equipment	61,069 million yen	87.6%
Information Equipment	4,917	7.1
Other	3,710	5.3
Total	69,697	100.0

(2) Investment in Property, Plant and Equipment

Investment in property, plant and equipment during the current consolidated fiscal year totaled 968 million yen in the Group, which comprised of 721 million yen by its manufacturing companies and 246 million yen by its sales companies. Such investments were mainly for the improvement of manufacturing facilities.

(3) Financing

Nothing to be reported.

(4) Major Organizational Restructuring, etc.

The tender offer for the Company's shares, etc., by Shuwa System Holding Co., Ltd. was conducted from March 24, 2021 to May 10, 2021, and concluded.

Subsequently, the Company became a wholly owned subsidiary of Shuwa System Holding Co., Ltd. through the following procedures.

July 28, 2021	Resolution for consolidation of shares at the extraordinary general shareholders' meeting
August 26, 2021	Delisting
August 30, 2021	Effective date of consolidation of shares
October 6, 2021	Acquired shares from Mr. Tetsuo Funai and cancelled
November 10, 2021	Purchase of fractional shares by Shuwa System Holding Co., Ltd.
November 15, 2021	Payment of fractional shares to shareholders

(5) Issues to be Addressed

(i) Issues related to the management environment

(A) Sales expansion and recovery of earnings strength

The Company positions the expansion of Group sales and the recovery of earnings strength as the most important issues.

The Company is exposed to fierce competition in the LCD TV business, which accounts for approximately 90% of its sales, due to factors such as the emergence of Chinese manufacturers in the market. At the same time, the market is not expected to grow significantly in the future. In line with this situation, the Company needs to increase the sales ratio of businesses other than the AV business to approximately 50% in the medium- to long-term and improve the profitability of the existing LCD TV

business by further increasing its operational efficiency.

For the mainstay LCD TV business, we will gain consumer spending at major mass retailers in the main North American market. In addition, we will develop our sales network in the Mexican market and link it to increased revenue. In the Japanese market, we will cooperate with Amazon Japan LLC and Yamada Holdings Co., Ltd. to expand sales of Japan's first TV with built-in Fire TV.

Regarding information equipment, we continue to strengthen sales of high-capacity inkjet printers. In addition, the Company further expands the professional-use cartridge business, which accounts for a large proportion of our business, by introducing new products that have doubled the ink ejection distance of existing products.

Regarding new businesses (other), in dental CT, we respond to expanding needs by strengthening our lineup through introduction of new products. Furthermore, the Company will actively promote sales on web to complement the sales activities at face-to-face meetings. For automotive LCD backlights, the Company focuses on further sales expansion for the direct backlight method, which we were the first in the world to mass produce successfully. We will also seek to enter the market for gaming monitors with distinctive features of TV manufacturers in preparation for the e-sports market, where demand is increasing.

In response, we will take strategic measures to (a) restructure the supply chain, secure stable procurement of components, and ensure the stable supply of products, (b) correct product sales prices in response to higher semiconductor and panel prices, and (c) reduce service costs through improvement in design quality. The Company procures stably the semiconductors by placing orders for the necessary annual quantities and the LCD panels by taking measures such as placing orders without circuit boards.

In addition, we focus on reducing product return rates and minimizing losses incurred from processing product returns with the aim of creating products selected from around the world. We will strive to improve profit margins through these measures.

(B) Training and appointment of human resources

With the launch of a new management system in July 2021, we aim to transform the Company's culture into "Active & Smart." As the first step toward this goal, we have launched the project towards the corporate culture reform by young employees.

The Group recognizes that it remains important to bolster its capabilities by improving employee's capabilities to win out new global competition era and implement the medium- to long-term business strategy. Therefore, the Group conducts training for candidates for general manager and section manager regularly every year to foster executive candidates in the future. In addition, we are actively training and assigning employees, regardless of their age and career, by enhancing and expanding internal and external training systems.

Moreover, we also conduct e-learning and other trainings to support self-development regularly every year.

(ii) Measures to recover operating performance and strengthen financial soundness

The Group will implement the following measures to recover operating performance.

(A) Display business (flat-panel TVs, etc.)

- Strengthen efforts to gain consumer spending at major mass retailers in the North American
- Expand sales of smart TVs with built-in Fire TV jointly developed with Amazon in the Japanese market
- Expand sales by restructuring the business model and value chain in Canadian and Mexican markets

(B) Digital media business (Blu-ray disc related equipment)

- Maintain and secure market share with Blu-ray disc players, etc., in the North American market
- Enhance lineup of FUNAI brand products in the Japanese market and strengthen collaboration with OEM producers

(C) Printing solution business (printer related equipment)

- Expand solution proposals through the ink cartridge "Zion," which achieved the longest ink discharge

distance in the industry.

- Expand sales of special-purpose printers, including high-capacity inkjet and label printers
- Increase sales through market development, including penetrating the medical field utilizing microfluidics (microfluid control technology)

(D) New businesses

- Expand sales of automotive backlights and other products and strengthen alliance strategies for automotive-related businesses
- Expand sales of medical and healthcare-related products, including dental CT scanners, and secure the revenue base

Moreover, relationships with financial institutions remain strong, with no significant changes in their credit stance. In the current consolidated fiscal year, the Group carried out short-term borrowings of 2 billion yen, leading to the Group's cash and deposits balance of 25.686 billion yen as of the end of the current consolidated fiscal year. The Company recorded net income attributable to owners of the parent of 7.560 billion yen in the current consolidated fiscal year, but net assets were 42.011 billion yen as of the end of the current consolidated fiscal year, with a capital adequacy ratio of 58.0%. We believe there are no issues with our financial soundness. We continue to take measures to improve profitability and strengthen our financial profile.

(6) Property and Income/Loss

Fiscal Term	67th (FY2018)	68th (FY2019)	69th term (FY2020)	70th (FY2021)
Net sales (millions of yen)	105,549	88,425	80,448	69,697
Total assets (millions of yen)	83,293	70,683	73,771	72,394
Equity (millions of yen)	54,057	51,189	51,826	42,011

(7) Parent Company and Major Subsidiaries

(i) Parent company

Trade Name	Capital Stock	Percentage of Voting Rights against the Company	Relationship with the Company
SHUWA SYSTEM CO., LTD	95 million yen	100.00% (100.00%)	—
Shuwa System Holding Co., Ltd.	1,360 million yen	100.00%	Management support

Notes: 1. Shuwa System Holding Co., Ltd., the Company's parent company, is a wholly owned subsidiary of Shuwa System Co., Ltd., and Shuwa System Co., Ltd. is also a parent company of the Company.

2. The number in parentheses in the Company's voting rights ratio column is the indirect ownership ratio.

3. The Company has entered into a management support agreement with our parent company, Shuwa System Holding Co., Ltd.

(ii) Major subsidiaries

Trade Name	Capital Stock	Percentage of Voting Rights of the Company	Main Business
FUNAI CORPORATION, INC.	US\$ 123.5 million	100.00%	Sales of the Company's products
FUNAI (THAILAND) CO., LTD.	THB 1,568 million	100.00%	Sales of the Company's products
Funai Electric Philippines Inc.	PHP 1,176 million	100.00%	Sales of the Company's products

(8) Main Business

Segment	Principal Products
Audiovisual Equipment	LCD TV, organic EL TV, Blu-ray disc recorders Blu-ray disc recorder
Information Equipment	High-capacity inkjet and label printers Nail art printer, ink cartridge
Other	Automotive backlights, dental CT, and other equipment

(9) Major Business Sites of the Group

Category	Name	Location
Funai Electric Co., Ltd.	Osaka Head Office	Daito City, Osaka
	Tokyo Head Office	Chiyoda-ku, Tokyo
Sales subsidiary	FUNAI CORPORATION, INC.	U.S.A.
	P&F MEXICANA, S.A. DE C.V.	Mexico
Production subsidiary	FUNAI (THAILAND) CO., LTD.	Thailand
	Funai Electric Cebu, Inc.	Philippines
	Funai Electric Philippines Inc.	Philippines
	Funai Manufacturing, S.A. DE C.V.	Mexico
	Chugoku Funai Electric Co., Ltd.	Fukuyama City, Hiroshima

(10) Employees of the Group

No. of Employees (persons)	Change from the End of the Previous Fiscal Year (+/-) (persons)
2,144	-99

Notes: 1. The above number of employees represents those who are at work.

2. The number of employees decreased from the previous consolidated fiscal year end mainly due to personnel reduction at FUNAI (THAILAND) CO., LTD., production subsidiary.

(11) Major Lenders

Nothing to be reported.

(12) Matters Concerning the Transactions with Parent Company, etc.

When conducting important transactions with Shuwa System Holding Co., Ltd., and Shuwa System Co., Ltd., the parent companies., the Company shall pay careful attention that the necessity and terms of the transaction are not significantly different from the ones with third parties and make decisions fairly and appropriately so that the transaction does not harm the interests of the Company.

Although the Company accepts Directors from the parent companies, etc., the Board of Directors decides whether or not to implement the transaction after multifaceted discussions to obtain opinions from Outside Directors based on the perspective of ensuring independence from the parent company, etc. Accordingly, the Company determines that the transaction does not harm the interests of the Company.

Furthermore, no determination of the Board of Directors is at variance with the opinions of Outside Directors.

(13) Other Important Matters Concerning the Current State of the Group

(i) The Company transitioned from a company with an Audit and Supervisory Committee to a company with corporate auditors on October 1, 2021.

(ii) At the Board of Directors' meeting held on February 24, 2022, the Company resolved to conduct an absorption-type merger on April 1, 2022, with the Company as the surviving company and its parent company, Shuwa System Holding Co., Ltd. as the disappearing company, and concluded an Absorption-type Merger Agreement on this merger as of the same date. Furthermore, the Absorption-type Merger Agreement was approved at an extraordinary general shareholders' meeting and a general meeting of class shareholders by common shareholders held on the same day. This absorption-type merger was completed on April 1, 2022. Details regarding the merger are as stated in the "Notes Regarding Significant Subsequent Events" to the consolidated financial statements.

2. Matters Concerning Accounting Auditor

(1) Name of Accounting Auditor

Deloitte Touche Tohmatsu LLC

(2) Amount of Remuneration, etc. for the Accounting Auditor for the Current Fiscal Year

(i) Remuneration, etc., of the accounting auditor for the current fiscal year 45 million yen

(ii) Total amount of cash and other proprietary benefits to be paid by the Company 45 million yen

to the accounting auditor

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

(3) Outline of Liability Limitation Agreements

Nothing to be reported.

(4) Outline of Indemnification Agreements

Nothing to be reported.

3. Matters Concerning Development of Systems to Ensure Appropriateness of Business Operations

(1) System to Ensure Appropriateness of Business Operations

- (i) System to ensure that the Directors and employees perform their duties in compliance with laws or ordinances and the Articles of Incorporation

Under the “Funai Group Charter of Conduct,” the “Regulations of Officers’ Compliance,” and the “Regulations of Compliance,” the Company shall clarify acts to be taken by Directors, Officers, and employees to ensure their performance of duties in compliance with laws or ordinances and the Articles of Incorporation. The Company also established the “Whistleblower Protection Regulations” to prohibit unfavorable treatment of whistleblowers.

- (ii) System for the storage and management of information concerning Directors’ performance of duties

With regard to the storage and management of information concerning the Directors’ performance of duties, the minutes of meetings of the Board of Directors and other important meetings that Directors attend, circular decision documents, and other documents and information necessary for Directors to perform their duties shall be appropriately stored and managed in compliance with laws and regulation and the “Document Management Regulations.”

- (iii) Regulations and other system for managing the risk of loss

The Company appoints the Officers responsible for risk management to properly grasp and evaluate risks the Company is exposed to and manage risks related to their respective operations in charge under the “Risk Management Regulations.”

- (iv) System to ensure that Directors perform their duties effectively

Under the “Officer System” introduced to ensure quick and effective decision-making by the management, the Company shall assign Executive Officers under the control of the Executive Director to ensure that the operations determined by the Executive Director are performed swiftly. In addition, the Company appoints Outside Directors and has corporate auditors to enhance the transparency of the Board of Directors and strengthen its supervisory functions.

- (v) Systems to secure the propriety of business activities of the Group composed of the Company and its subsidiaries

- (A) System of reporting to the Company the matters concerning duties performed by Directors, etc. of its subsidiaries

The Company sets materiality standards and reporting items for the subsidiaries under the “Affiliated Companies Management Regulations” to grasp the management status of the subsidiaries appropriately. It requires the subsidiaries to submit operating results and financial reports monthly based on it.

- (B) Regulations and other system for managing the risk of loss for the subsidiaries

To manage the operation and administration of the subsidiaries, the Company shall set agenda and discuss with them the matters that may affect their financial condition and administration in terms of financing, technology, personnel, transactions, etc., under the “Affiliated Companies Management Regulations.”

- (C) System to ensure that Directors, etc. of the subsidiaries perform their duties effectively

To ensure that the subsidiaries manage the business effectively, the Company shall allow them to manage businesses that respect their managerial autonomy and independence under corporate regulations based on the “Affiliated Companies Management Regulations.”

- (D) System to ensure that Directors, etc., and employees of the subsidiaries perform their duties in compliance with laws or ordinances and the Articles of Incorporation

Under the “Funai Group Charter of Conduct” as a code of conduct for all Officers and employees of the Funai Group, and the “Funai Group Procurement Policies” and “Regulations of Compliance” based on the Charter of Conduct, the Company shall clarify acts to be taken by Directors, etc., and employees of the

subsidiaries to ensure their performance of duties in compliance with laws or ordinances and the Articles of Incorporation.

(vi) Systems concerning reporting to the corporate auditors

(A) System of reporting by Directors, Executive Officers, and employees of the Company to report to the corporate auditors

If Directors, Executive Officers, and employees of the Company find any fact that has caused or may cause significant damage to the Company, they shall immediately report the fact to the corporate auditors.

(B) System for Directors, corporate auditors, Executive Officers, and employees of the subsidiaries to report to corporate auditors

If Directors, Executive Officers, and employees of the subsidiaries are required to report the fact by the corporate auditors of the Company, they shall immediately do so unless there is any justifiable reason to the contrary. If Directors, corporate auditors, Executive Officers, and employees of the subsidiaries find any fact that has caused or may cause significant damage to the Company, they shall immediately report it to the corporate auditors.

(vii) System to ensure that any person who has reported to the corporate auditors does not suffer unfavorable treatment because of giving such a report

The Company prohibits unfavorable treatment of whistleblowers under the “Regulations of Compliance” and the “Whistleblower Protection Regulations.” The Company also ensures that any person who reports to the corporate auditors does not suffer unfavorable treatment because of giving such a report.

(viii) Matters concerning policies on the treatment of expenses to be incurred in duties performed by corporate auditors

When a corporate auditor requests payment of expenses for the performance of their duties, the Company shall make such payments unless such expenses are not necessary for their performance of duties.

(ix) Other systems to ensure that the corporate auditors conduct audits effectively

To ensure that the corporate auditors conduct audits effectively, the corporate auditors shall closely cooperate with the accounting auditors, hold regular meetings with the Representative Directors and Directors, etc., of the subsidiaries to confirm the management policies and exchange opinions on risks and issues surrounding the Company.

(x) System to ensure the reliability of financial reporting

The Company shall establish a “Basic Policy for Internal Control over Financial Reporting” to ensure the reliability of financial reporting and the effective and appropriate disclosure of “Internal Control Reports.” Under the Basic Policy, the Company shall establish an “Internal Control Committee,” chaired by the President and CEO, continuously develop, operate, and evaluate internal control over financial reporting and promptly correct any defect in case it is found.

(xi) System for the exclusion of antisocial forces

The Company shall have a basic policy of having no relation with any antisocial force and refusing any unjust claim.

In the event that a client is found to be an entity, enterprise, individual, etc., having any relation with such antisocial force, the Company shall promptly terminate a business relationship with it.

The Company designates the Personnel and General Affairs Department as a principal division in charge of dealing with antisocial forces and controlling the information centrally. To ensure compliance by Officers and employees, the Company also defines this basic policy clearly in the related regulations and establishes an education system. Furthermore, the Company develops countermeasures as necessary to prevent damage by antisocial forces. In the event that any unjust claim is made by an antisocial force, the Company will work closely with external specialized agencies, including the police and legal counsels, and build a cooperative system for emergencies.

(2) Summary of Operation Status of Systems to Secure Propriety of Business Activities

(i) Compliance

In addition to establishing the “Funai Group Charter of Conduct” as a code of conduct, the Company has established the “Regulations of Officers’ Compliance” and the “Regulations of Compliance” and clarified the basic policy on compliance to all Officers and employees, thereby ensured that they perform their duties in compliance with laws or ordinances and the Articles of Incorporation. The Company also has a whistleblower system to prevent violations of law and detect problems swiftly.

The Company provided Directors, corporate auditors, Executive Officers, and employees with e-learning sessions twice in the current fiscal year as educational activities to raise their awareness of compliance.

(ii) Risk management

The Company shall perform continuous risk management to minimize losses and disadvantages in business activities through regular monitoring by a risk management division under the “Risk Management Regulations.”

(iii) Directors’ performance of duties

The Board of Directors, which consists of seven Directors including one Outside Director, makes decisions on the matters required by laws or ordinances and important matters concerning the management and supervises the execution of business. During the current fiscal year, the Board of Directors held 20 meetings. In addition, the Investment and Loan Committee held six sessions, the Nomination Committee held three sessions, and the Compensation Committee held four sessions.

(iv) Corporate auditors’ performance of duties

The corporate auditors attend meetings of the Board of Directors and the Investment and Loan Committee, as well as monthly reporting meetings. During the fiscal year under review, the Audit and Supervisory Committee held eight sessions during the period when the Company was a company with an Audit and Supervisory Committee. After the transition to a company with corporate auditors, the Company conducted a written audit for Directors regarding the execution of their duties.

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