



**ANNUAL REPORT 2005**  
For the fiscal year ended March 31, 2005



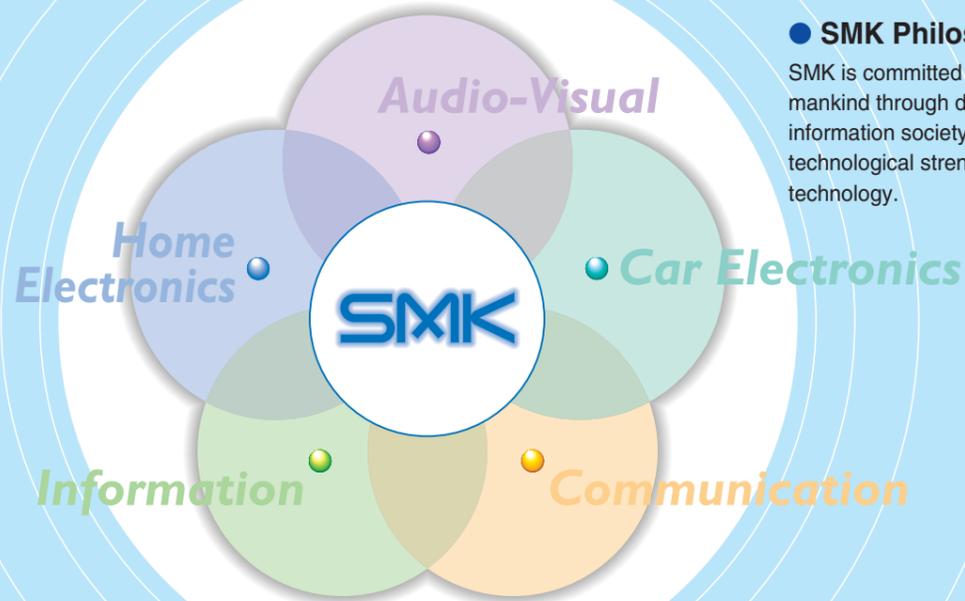
5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, JAPAN  
Telephone: 81-3-3785-1111 Fax: 81-3-3785-1878  
<http://www.smk.co.jp/>



*Connection System*  
*Functional Components*  
*Touch Panel*

# “Go for the Goal”

## – Challenge to unlimited possibilities



### ● SMK Philosophy

SMK is committed to the advancement of mankind through development of the information society, by integrating its current technological strengths and creating advanced technology.

### ● Action Guidelines

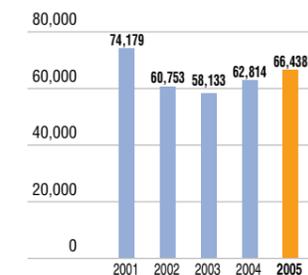
1. Contribute to society with pride and confidence.
2. Be customer-oriented, with zeal and sincerity.
3. Challenge courageously for higher goals without fear of failure.
4. Trust and respect each other for a brighter working atmosphere.
5. Keep an open mind, and view SMK from a global perspective.

## Financial Highlights

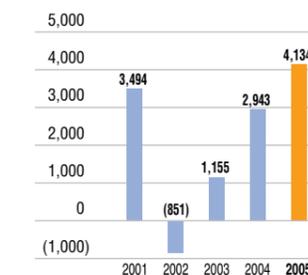
	Millions of yen		Percent Change 2004/2005	Thousands of U.S. dollars 2005
	2004	2005		
<b>Operating Results</b>				
Net sales	¥ 62,814	¥ 66,438	5.8%	\$ 618,670
Operating income	2,943	4,134	40.4	38,498
Net income	1,256	3,081	145.3	28,695
<b>Financial Position</b>				
Total assets	¥ 55,454	¥ 57,955	4.5%	\$ 539,672
Total shareholders' equity	26,340	27,568	4.7	256,716
<b>Per Share Data</b>				
Yen				
Net income				U.S. dollars
Basic	¥ 15.70	¥ 39.11	149.1%	\$ 0.36
Diluted	15.66	38.94	148.7	0.36
Cash dividends	6.00	10.00	66.7	0.09

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥107.39 = U.S. \$1.00.

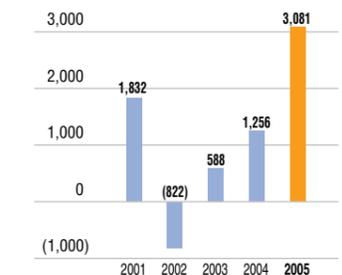
**Net sales**  
Millions of yen



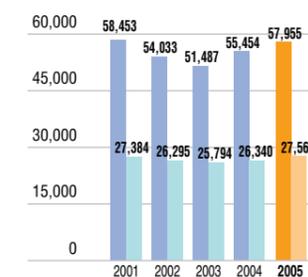
**Operating income**  
Millions of yen



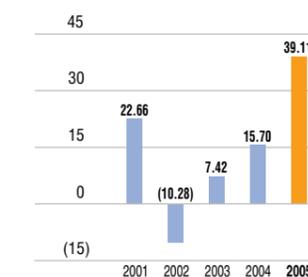
**Net income**  
Millions of yen



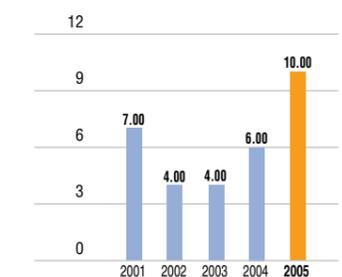
**Total assets/Total shareholders' equity**  
Millions of yen



**Net income per share**  
Yen



**Cash dividends per share**  
Yen



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Tetsuya Nakamura  
President and Chief Operating Officer

### Exceeding the Previous Fiscal Year's Earnings

The Japanese economy continued a modest expansionary course throughout the fiscal year under review (April 1, 2004 to March 31, 2005) bolstered by improving corporate earnings and increasing exports as well as capital investment. The entire electronics industry was on an expansionary track driven mainly by new digital home appliance sales, despite a stock adjustment implemented mainly in the IT market in the latter half of 2004.

Under these circumstances, we achieved sales and earnings that surpassed our performance in the previous fiscal year as a result of our strenuous corporate efforts to improve product quality and reduce costs.

### Basic Management Policy

Based on our corporate philosophy to be "committed to the advancement of mankind through the development of the information society, by integrating its current technological strengths and creating advanced technology," with the specific goal to "establish its position as the leading supplier for information technology infrastructure in the global information society," all group resources are being integrated to promote faster, more efficient research and development. In addition, marketing activities of the caliber required by the global market are being adopted with a focus on our production and sales bases around the world.

In order to achieve the above objectives, we have established a corporate management system capable of quickly responding to changes. Striving for more effective corporate management overall, we reorganized our division system in September 2003, and partially modified our sales system in April 2004 and March 2005.

### Approach to Environmental Issues

We successfully acquired ISO 14001 environmental management certification in both our domestic and overseas works. In response to growing public demand, we are promoting the implementation of "Green Procurement" together with our customers and suppliers. Moreover, we are taking a proactive approach towards meeting such requirements for reducing the use of environmentally hazardous substances, according to Europe's RoHS Directive.

### Celebrating the 80th Anniversary of the Founding of SMK

SMK celebrates its 80th anniversary in the year 2005. We are committed to make our best efforts to make this commemorative year more successful and to strive for the realization of stable growth and the enhancement of our corporate value in the future. With this intent, we have devised our mid-term management plans to take a comprehensive approach so as to achieve medium- to long-term corporate growth and development without being unduly affected by the economic climate. On the globalization front, emphasis will be placed on the reinforcement of our sales system and improving our local development system in the booming Chinese market, among others.

We will be promoting proprietary product development in order to introduce revolutionary products primarily in the information technology market, while reaffirming our origins in manufacturing principles.

In this fiscal year, in addition to the enhancement of our manufacturing, we proceed with a comprehensive approach towards establishing a more robust corporate structure through such objectives as improving our corporate brand value and further upgrading product quality.

The overview of the Company's corporate management policy is as stated above. We trust that you, our shareholders, will continue to extend your much appreciated understanding and support to the Company.

June 2005

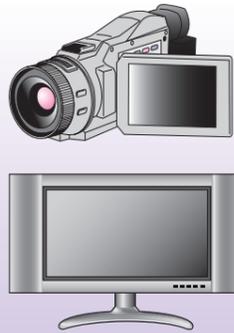
A handwritten signature in black ink, appearing to read 'Tetsuya Nakamura', written over a light blue background.

Tetsuya Nakamura  
President and Chief Operating Officer

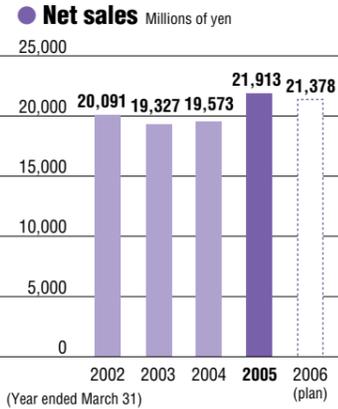
# Sales and Market Overview

(April 1, 2004 to March 31, 2005)

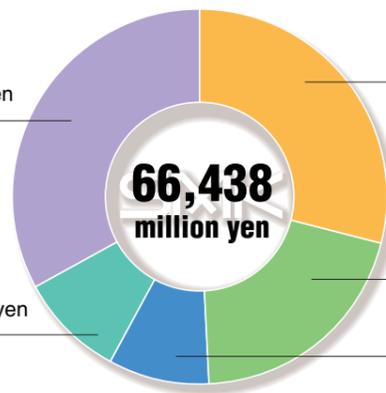
## Audio-visual



In line with the growing popularity of digital audio-visual equipment in the world, the sales of set-top boxes for digital broadcasting, as well as flat-screen TVs, remote control units for DVD recorders, pin jacks and lamp connectors are significantly increasing. We will continue to supply new products made with our proprietary technology to the digital home appliance and digital mobile device markets, where further growth is expected.



**Audio-visual 33.0%**  
Audio-visual parts: 21,913 million yen



**Communication 29.0%**  
Communications parts: 19,294 million yen

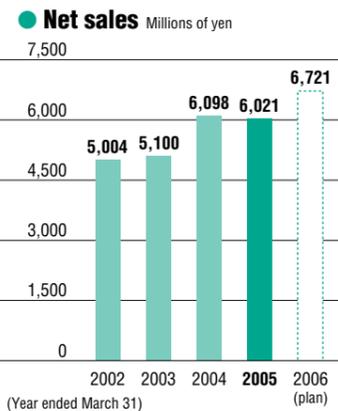
**Information 20.2%**  
Information parts: 13,409 million yen

**Home electronics 8.7%**  
Electronic toys, home electronics and other parts: 5,799 million yen

**Car electronics 9.1%**  
Electronic instruments: 6,021 million yen

## Car electronics

Sales of touch panels for car navigation systems in the domestic and foreign original parts markets steadily increased. In the retail market, the new "force-feedback" touch panels mounted on car navigation systems contributed to overall sales performance. In addition, sales of coaxial connectors for digital radios and ETC devices are showing good results.



## Outlook for this Fiscal Year

In the electronic component industry, in addition to the new digital home equipment market—consisting of thin digital TVs, HDTV, MP3 audio players, etc.—which will grow rapidly mainly in Japan and the U.S. as digital broadcasting progresses on a global scale and next generation optical memory disks emerges, the markets for cellular phones and automobile-related devices expand.

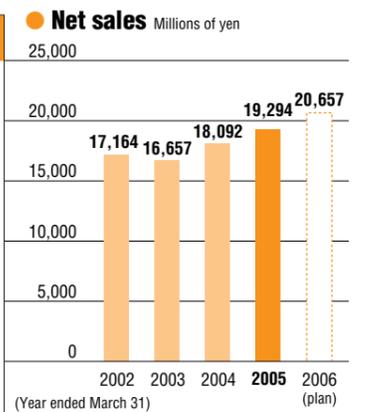
The Company celebrates its 80th anniversary this year. In this commemorative year, we are striving to attain continued growth amidst a progressively tough economic climate, backed by our efforts to promote globalization, and enhance utilization of IT and digital home appliances. While responding quickly in growth areas and cultivating new markets, we are developing new products and technologies that meet customer needs, upgrading our manufacturing technologies and establishing more efficient sales systems, as well as reassessing our cost structure. By consolidating the strength of our group, we seek to improve our overall performance.

For our consolidated business performance in the fiscal year ending March 2006, we anticipate net sales to increase 2.1%, year on year, to 67.8 billion yen, with ordinary income amounting to 4.9 billion yen and net income at 3.2 billion yen.

## Communication

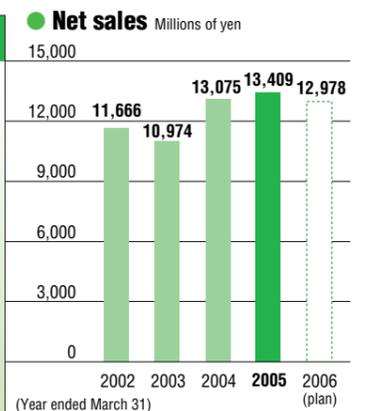
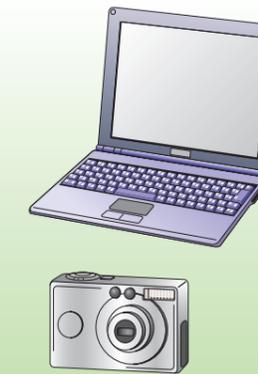


Demand for cellular phones is growing steadily, except in Japan where the market has entered a maturity phase. However, we are strengthening our performance in camera connectors, earphone-microphones, etc. by riding the trend to slimmer design and multiple functions. As a next step forward, we will promote the expansion of the camera module business and the applications for PB connectors and FPC connectors, and switches, while developing new products complying with new media card standards.



## Information

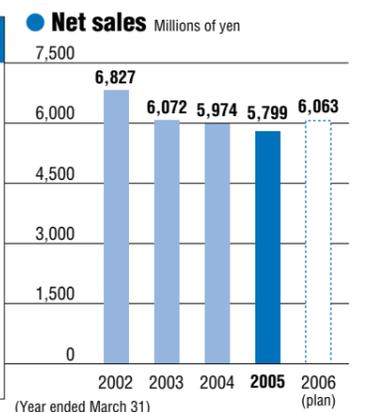
As components to low-price set-products were introduced to the market in certain fields, overall sales saw only sluggish growth. However, the incorporation of audio-visual functions in PCs is progressing on a global scale so that demand for remote control units and optical receivers is expanding worldwide. Furthermore, the field of digital camera products is continuously growing, supported by a flood of new single-lens reflex digital cameras in the market. We will continuously market new products that satisfy the emerging needs of customers.



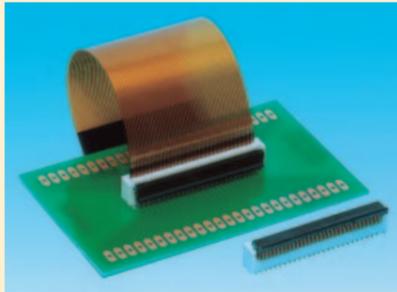
## Home electronics



In the white goods and house equipment market, we were successful in further increasing the sales of remote control units for lighting fixtures and shower toilets (bidet-equipped toilet seats). Concurrently, we strived to enhance our line of terminal block connectors for air-conditioners and hot water heaters. We will continue to develop new products that help to conserve energy, which is a growing need.



## Unique flip-cover structure to ensure high contact stability and operability Developed and introduced to the market 0.5mm spacing vertical FPC connector — Flip type



0.5mm Spacing Vertical FPC Connector, Flip Type FP-5F Series

**Applications:**

FPDs (Flat panel displays),  
DVD recorders, copy machines, etc.

The Flip-cover structure of our exclusive design applied in this connector has made it possible to separate the cover operation section from the FPC insertion section. This structure frees the cover from stress when an FPC is inserted, helps prevent disengagement of the cover when an FPC is locked and ensures stable contact performance despite its multi-pole design.

**Features**

- FPC/FFC connection can be completed simply with a small amount of force.
- Delivery to customers of connectors with covers open will relieve them from the necessity of having to release the lever, helping improve productivity.
- Supplied in emboss-tape packaging for automatic mounting, with a sucking space provided.

## Increased order receipt of stereo earphone-microphone for 3rd generation cellular phones (music cellular phone)

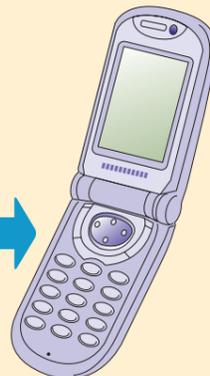
We developed stereo earphone-microphones before the music playback function for cellular phone became popular, and expanded their sales, which contributed to the Company's net sales and income.

As it is possible to interchange or replace the earphone section according to the user's taste and the design looks excellent, the stereo earphone-microphones are very well received by the customers.

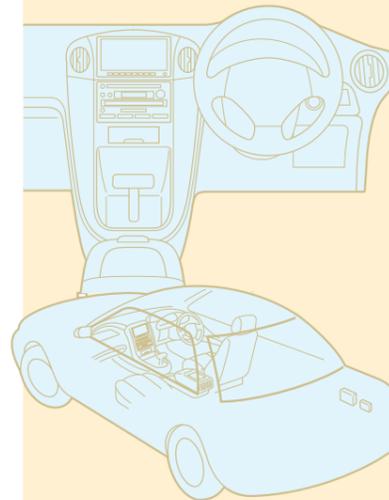
Our division will continue to proactively promote the product development in the earphone-microphone business.



Stereo earphone-microphone



## Developed and marketed low reflection touch panel composed of 2% reflecting film + glass



Conventionally, it was only possible to apply polarizing material to glass + glass touch panel. This product made it possible for the first time to apply the polarizing material to a film + glass panel configuration. By taking advantage of its low price, we anticipate that we will be able to sell this product to genuine car navigation system market for medium to small cars that are rapidly gaining popularity.

Film + glass touch panel



**Features**

- Easy light-touch inputting
- It can withstand the severe temperature conditions required for a car navigation system.

## Bluetooth™ Serial Port Adapter BT201 developed

This product is a Bluetooth™ module compliant to Bluetooth™ Version 1.2, specialized to supersede serial cables. Developed in answer to market request for downsizing BA112 which has been on the market, BT201 can be fitted into more kinds of equipment.



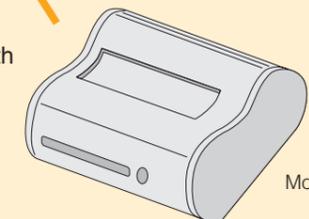
Serial Port Adapter BT201

**Features**

- Downsized in one forth (in area) of its available equivalent.
- Supports Serial Port Profile (SPP), and can be connected to any kind of equipment to support SPP.
- Supports a low power mode (Sniff Mode).



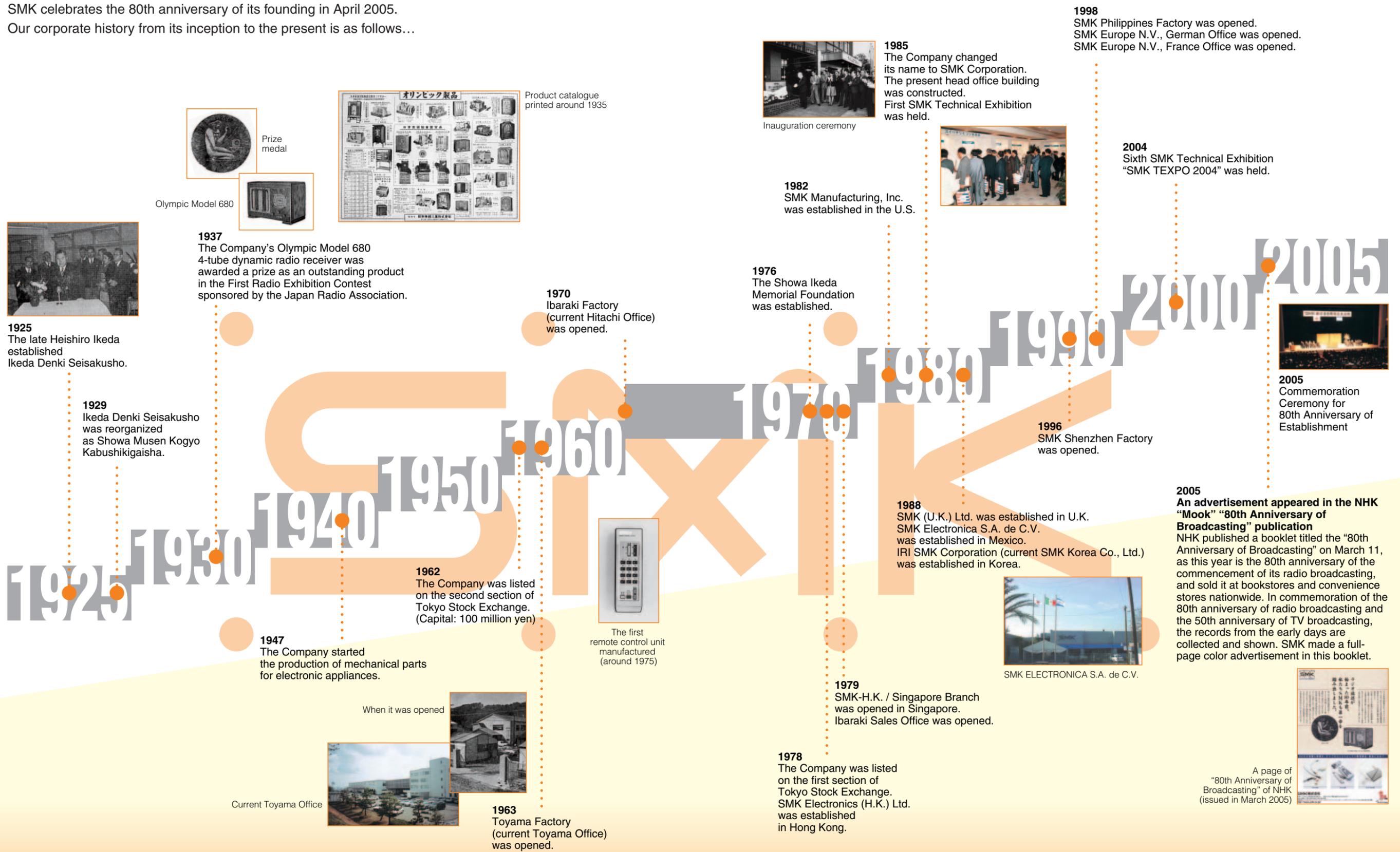
Bluetooth



Mobile printer

## 80-Year Chronology of SMK

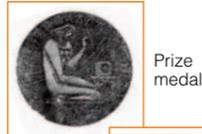
SMK celebrates the 80th anniversary of its founding in April 2005.  
Our corporate history from its inception to the present is as follows...



**1925**  
The late Heishiro Ikeda established Ikeda Denki Seisakusho.

**1929**  
Ikeda Denki Seisakusho was reorganized as Showa Musen Kogyo Kabushikigaisha.

Olympic Model 680



Prize medal



**1937**  
The Company's Olympic Model 680 4-tube dynamic radio receiver was awarded a prize as an outstanding product in the First Radio Exhibition Contest sponsored by the Japan Radio Association.



Product catalogue printed around 1935

**1940**

**1947**  
The Company started the production of mechanical parts for electronic appliances.



Current Toyama Office

When it was opened



**1963**  
Toyama Factory (current Toyama Office) was opened.

**1962**  
The Company was listed on the second section of Tokyo Stock Exchange. (Capital: 100 million yen)



The first remote control unit manufactured (around 1975)

**1970**  
Ibaraki Factory (current Hitachi Office) was opened.

**1976**  
The Showa Ikeda Memorial Foundation was established.



Inauguration ceremony

**1982**  
SMK Manufacturing, Inc. was established in the U.S.



**2004**  
Sixth SMK Technical Exhibition "SMK TEXPO 2004" was held.

**1988**  
SMK (U.K.) Ltd. was established in U.K. SMK Electronica S.A. de C.V. was established in Mexico. IRI SMK Corporation (current SMK Korea Co., Ltd.) was established in Korea.



SMK ELECTRONICA S.A. de C.V.

**1979**  
SMK-H.K. / Singapore Branch was opened in Singapore. Ibaraki Sales Office was opened.

**1978**  
The Company was listed on the first section of Tokyo Stock Exchange. SMK Electronics (H.K.) Ltd. was established in Hong Kong.

**1998**  
SMK Philippines Factory was opened. SMK Europe N.V., German Office was opened. SMK Europe N.V., France Office was opened.



**2005**  
Commemoration Ceremony for 80th Anniversary of Establishment

**2005**  
An advertisement appeared in the NHK "Mook" "80th Anniversary of Broadcasting" publication. NHK published a booklet titled the "80th Anniversary of Broadcasting" on March 11, as this year is the 80th anniversary of the commencement of its radio broadcasting, and sold it at bookstores and convenience stores nationwide. In commemoration of the 80th anniversary of radio broadcasting and the 50th anniversary of TV broadcasting, the records from the early days are collected and shown. SMK made a full-page color advertisement in this booklet.



A page of "80th Anniversary of Broadcasting" of NHK (issued in March 2005)

## Opened a technical center on the premises of the Chinese SMK subsidiary

A Technical Development Center was opened at our local subsidiary SMK Electronics (Shenzhen) Co., Ltd., and human resource recruitment began in September 2004.

This Technical Development Center is intended to train staff recruited in China and, in the future, dispatch them to the production facilities throughout China and other countries as research and development staffers.



Technical Development Center, China

## Started a website to disclose and promote environmental activities



The Company started a website to introduce its environmental activities.

On this website, the environmental activity of the Company in general is introduced, such as the environmental policies of the Company's management, the Company's green procurement activity and the development of ecologically conscious products as well as the other corporate topics and issues regarding energy and resource conservation.



You can refer to our previously issued Environmental Report as a PDF file.

## Made donations to relieve the damage caused by the Niigata-Chuetsu Earthquake and the Indian Ocean Tsunami

The SMK Group donated disaster relief funds to the regions affected by the Niigata Prefecture Chuetsu Earthquake which occurred in October and the Indian Ocean Tsunami disaster which occurred in December of last year.

The SMK Dongguan Gaobu Factory located in Dongguan, China, was publicly recognized on local TV for its donation of relief money to Tsunami victims.

We continuously and sincerely extend our sympathy to the victims of the disasters as we pray for recovery as soon as possible.



## Celebrated our 80th anniversary of establishment which coincides with the beginning of radio broadcasting in Japan

The year 2005, which is the 80th anniversary year of our establishment, is also the 80th anniversary of radio broadcasting in Japan.

As part of the commemorative events, we posted an advertisement in JR Osaki Station Japanese to the effect of: "80 years ago when radio broadcasting began, SMK also embarked on its first step towards its current business."



# Five-Year Summary

## SMK Corporation and Consolidated Subsidiaries

Year ended and as of March 31	Millions of yen					Thousands of U.S. dollars
	2001	2002	2003	2004	2005	2005
<b>Operating Results</b>						
Net sales	¥ 74,179	¥ 60,753	¥ 58,133	¥ 62,814	¥ 66,438	\$ 618,670
Operating income (loss)	3,494	(851)	1,155	2,943	4,134	38,498
Net income (loss)	1,832	(822)	588	1,256	3,081	28,695
<b>Financial Position</b>						
Total assets	¥ 58,453	¥ 54,033	¥ 51,487	¥ 55,454	¥ 57,955	\$ 539,672
Total shareholders' equity	27,384	26,295	25,794	26,340	27,568	256,716
<b>Per Share Data</b>						
	Yen					U.S. dollars
Total shareholders' equity	¥ 341.69	¥ 328.65	¥ 328.72	¥ 336.69	¥ 362.88	\$ 3.38
Net income (loss) (Note)						
Basic	22.66	(10.28)	7.42	15.70	39.11	0.36
Diluted	—	—	7.42	15.66	38.94	0.36
Cash dividends	7.00	4.00	4.00	6.00	10.00	0.09

Note: Net income (loss) per share of common stock for the years ended March 31, 2001 and 2002 have not been recalculated using the new accounting standard, which is effective April 1, 2002.

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SMK's consolidated net sales for fiscal 2005, which ended on March 31, 2005, increased 5.8% year-on-year to ¥66,438 million (US\$618,670 thousand). Both operating income and net income surpassed the preceding fiscal year and were ¥4,134 million (US\$38,498 thousand) and ¥3,081 million (US\$28,695 thousand), respectively.

### Net sales

Net sales increased 5.8% to ¥66,438 million (US\$618,670 thousand). This was due to strong sales of components for digital-broadcasting set top boxes in Europe and the U.S., for flat-screen TVs and for cellular phones with cameras, in the first half of 2004.

### Operating Income

Although there were adverse conditions such as increasing material costs due to rising crude oil prices and a higher cost burden in the initial stage of new product development, operating income surpassed that of the previous year and reached ¥4,134 million (US\$38,498 thousand), as a result of sales expansion to domestic and overseas customers alike and the elaborate cost curtailment efforts being implemented.

### Net Income

Net income vastly improved over the previous year and reached ¥3,081 million (US\$28,695 thousand), bolstered by strong sales throughout the fiscal year, as well as foreign exchange gains due to the comparatively low value of the yen that prevailed in the first half of the year.

### Total Assets/ROA

Total assets as of March 31, 2005 totaled ¥57,955 million (US\$539,672 thousand). ROA grew 3.1 percentage points to 5.4%.

### Total Shareholders' Equity/ROE

Total shareholders' equity as of March 31, 2005 was ¥27,568 million (US\$256,716 thousand). ROE grew 6.6 percentage points to 11.4%.

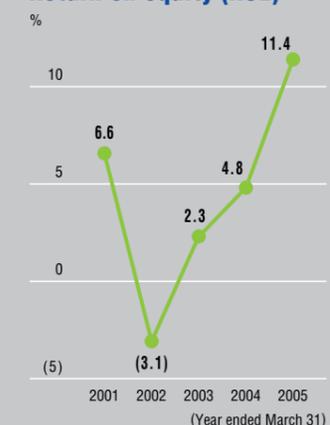
### Cash Flows

Net cash provided by operating activities amounted to ¥4,554 million (US\$42,405 thousand), net cash used in investing activities totaled ¥4,133 million (US\$38,490 thousand) and net cash used in financing activities was valued at ¥1,052 million (US\$9,792 thousand).

### Total shareholders' equity



### Return on equity (ROE)



### Return on assets (ROA)



# Consolidated Balance Sheets

SMK Corporation and Consolidated Subsidiaries  
As of March 31

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
<b>Current assets</b>			
Cash and cash equivalents	¥ 7,792	¥ 7,314	\$ 68,111
Time deposits	342	178	1,660
Notes and accounts receivable, trade	18,371	19,945	185,726
Allowance for doubtful accounts	(7)	(17)	(156)
Inventories (Note 3)	5,193	5,319	49,530
Deferred tax assets (Note 7)	826	674	6,272
Other current assets	1,545	835	7,769
	34,062	34,248	318,912
<b>Investments and long-term loans</b>			
Investment securities (Note 11)	3,440	3,517	32,754
Long-term loans receivable	393	1,127	10,496
Other investments	1,612	1,553	14,462
Allowance for doubtful accounts	(531)	(406)	(3,780)
	4,914	5,791	53,932
<b>Property, plant and equipment (Note 4)</b>			
Land	3,596	3,590	33,434
Buildings	15,234	15,750	146,657
Machinery and vehicles	12,846	13,895	129,387
Tooling and office furniture	22,186	23,367	217,592
Construction in progress	24	19	181
	53,886	56,621	527,251
Less-Accumulated depreciation	(38,395)	(40,154)	(373,912)
	15,491	16,467	153,339
<b>Other assets</b>			
Deferred tax assets (Note 7)	821	1,309	12,186
Intangible assets	166	140	1,303
	987	1,449	13,489
<b>Total assets</b>	¥ 55,454	¥ 57,955	\$ 539,672

See accompanying notes to consolidated financial statements.

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
<b>Current liabilities</b>			
Short-term loans payable (Note 4)	¥ 7,577	¥ 7,713	\$ 71,819
Notes and accounts payable, trade	6,484	5,000	46,559
Accrued income taxes (Note 7)	634	496	4,623
Accrued bonuses	723	931	8,667
Account payable-non trade	6,350	7,907	73,633
Other current liabilities	1,172	1,038	9,664
	22,940	23,085	214,965
<b>Long-term liabilities</b>			
Corporate bond	300	300	2,794
Long-term debt (Note 4)	4,220	4,775	44,468
Accrued employees' retirement benefits (Note 12)	1,302	1,546	14,394
Accrued directors' and officers' retirement benefits	—	312	2,903
Other long-term liabilities	352	369	3,432
	6,174	7,302	67,991
<b>Contingent liabilities (Note 9)</b>			
<b>Shareholders' equity</b>			
Common stock			
Authorized: 195,961,274 shares			
Issued and outstanding: 79,000,000 shares	7,996	7,996	74,465
Capital surplus (Note 8)	12,057	12,058	112,280
Retained earnings (Note 8)	8,399	10,683	99,476
Foreign currency translation adjustments	(1,891)	(1,808)	(16,835)
Net unrealized gains on other securities	141	275	2,566
Treasury stock (Note 10)	(362)	(1,636)	(15,236)
	26,340	27,568	256,716
<b>Total liabilities and shareholders' equity</b>	¥ 55,454	¥ 57,955	\$ 539,672



## Consolidated Statements of Cash Flows

SMK Corporation and Consolidated Subsidiaries  
Year ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2005	2005
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 2,152	¥ 4,021	\$ 37,444
Depreciation and amortization	3,186	3,239	30,161
Increase in accrued employees' retirement benefits	936	240	2,236
Increase in accrued directors' and officers' retirement benefits	—	312	2,903
Increase (decrease) in allowance for doubtful accounts	13	(115)	(1,071)
Interest and dividend income	(85)	(154)	(1,432)
Interest expense	150	141	1,314
Special retirement benefits	2	—	—
Loss on disposal of fixed assets	298	276	2,568
Increase in notes and accounts receivable, trade	(3,731)	(1,411)	(13,136)
Increase in inventories	(592)	(7)	(69)
Increase (decrease) in notes and accounts payable, trade	2,487	(597)	(5,559)
Other, net	490	231	2,157
Subtotal	5,306	6,176	57,516
Interest and dividend received	67	147	1,364
Interest paid	(139)	(144)	(1,339)
Payments of directors' and officers' retirement benefits	—	(15)	(143)
Payments of special retirement benefits	(2)	—	—
Tax refunded	76	—	—
Income taxes paid	(255)	(1,610)	(14,993)
<b>Net cash provided by operating activities</b>	<b>5,053</b>	<b>4,554</b>	<b>42,405</b>
<b>Cash flows from investing activities</b>			
Payments for time deposits	(705)	(255)	(2,378)
Proceeds from time deposits	266	454	4,224
Proceeds from redemption of investment securities	105	—	—
Purchases of fixed assets	(2,965)	(3,812)	(35,499)
Proceeds from sale of fixed assets	459	225	2,095
Purchases of intangible fixed assets	(164)	(14)	(134)
Purchases of investment securities	(177)	(32)	(298)
Proceeds from sale of investment securities	—	11	106
Purchases of subsidiaries' stock	(1)	(1)	(13)
Payment for loans receivable	(179)	(862)	(8,025)
Collections of loans receivable	213	126	1,180
Other, net	4	27	252
<b>Net cash used in investing activities</b>	<b>(3,144)</b>	<b>(4,133)</b>	<b>(38,490)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans payable	(847)	212	1,973
Proceeds from long-term debt	2,540	1,253	11,668
Payments of long-term debt	(1,557)	(779)	(7,254)
Payment of redemption of corporate bond	(90)	—	—
Purchases of treasury stock	(121)	(1,478)	(13,759)
Proceeds from sale of treasury stock	9	209	1,951
Dividends paid	(312)	(469)	(4,371)
<b>Net cash used in financing activities</b>	<b>(378)</b>	<b>(1,052)</b>	<b>(9,792)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(314)</b>	<b>3</b>	<b>34</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,217</b>	<b>(628)</b>	<b>(5,843)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>6,575</b>	<b>7,792</b>	<b>72,555</b>
Increase in cash and cash equivalents arising from inclusion of a subsidiary in consolidation	—	150	1,399
Decrease in cash and cash equivalents due to exclusion of a subsidiary from consolidation	(0)	—	—
<b>Cash and cash equivalents at end of year</b>	<b>¥ 7,792</b>	<b>¥ 7,314</b>	<b>\$ 68,111</b>

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

SMK Corporation and Consolidated Subsidiaries

### Note 1. Summary of significant accounting policies

- (a) Basis of presenting financial statements  
The accompanying consolidated financial statements of SMK Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. For the purpose of this document, certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. In addition, certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's presentation. The consolidated statements of shareholders' equity and certain financial information are prepared for the purpose of inclusion in this report, although such statements and information are not customarily prepared in Japan.
- (b) Basis of consolidation and investments in affiliated companies  
In accordance with the accounting standards for consolidation issued by the Business Accounting Deliberation Council of Japan, effective April 1, 1999, the accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exercised either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. Certain foreign subsidiaries' fiscal periods end December 31, which differs from the year-end date of the Company; however, the accounts of these companies were tentatively closed as of March 31 and the necessary adjustments for consolidation were made. Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits. All assets and liabilities of the Company's subsidiaries are revalued on acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is amortized over a period of five years on a straight-line basis if such excess is material, or charged to income when incurred if immaterial.
- (c) Scope of consolidation  
Number of consolidated subsidiaries: 19  
The remaining 10 subsidiaries which are unconsolidated are deemed immaterial and, accordingly, their results of operations had no significant effect on the consolidated financial statements. From the year ended March 31, 2005, SMK Electronics (Phils.) Corporation was included in the scope of consolidation in view of its increased importance. Taiwan Showa Electronics Co., Ltd., which had been included in the scope of consolidation until the preceding fiscal year, was excluded from the scope of consolidation as its liquidation procedures were completed in the preceding fiscal year.
- (d) Application of equity method of accounting  
Number of affiliated companies accounted for by the equity method: 2  
The 10 unconsolidated subsidiaries and one other affiliated company are deemed immaterial. As the effect of their results of operations on the consolidated financial statements would be insignificant, the equity method of accounting has not been applied to these companies.
- (e) Translation of foreign currencies  
All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the appropriate year-end exchange rates except for shareholders' equity, which is translated at rates of exchange prevailing at the time the transactions occurred. Revenue and expense accounts are translated at the average rates of exchange prevailing during the year.
- (f) Cash and cash equivalents  
Cash and cash equivalents are composed of cash and time deposits all of which are low-risk, short-term financial instruments readily convertible into cash.
- (g) Inventories  
Inventories are stated at cost as determined principally by the following methods:  
Finished products: Retail cost method  
Work in process: Actual raw material cost, determined by the most recent purchase cost method, plus direct labor costs and manufacturing overheads  
Raw materials and supplies: Most recent purchase cost method
- (h) Securities  
Securities are classified into three categories depending upon the holding purpose and accounted for as follows:  
i) trading securities, which are held for the purpose of earning capital gains in the short-term, are stated at fair market value, with related gain and loss realized on disposal and unrealized gain and loss from market fluctuations recognized as gain or loss in the statement of income in the year of the change; ii) held-to-maturity debt securities, which a company has the positive intent to hold until maturity, are stated at amortized cost; and iii) other securities, which are not classified as either of the aforementioned categories but are stated at fair market value if such value is available, or, if not, at moving-average cost, with unrealized gain and loss, net of the applicable taxes, reported as a separate component of shareholders' equity. Realized gain and loss on sales of such securities are calculated based on the moving-average cost.
- (i) Derivatives  
Derivatives are stated at fair value.
- (j) Property, plant and equipment and depreciation  
Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is calculated principally by the declining-balance method for the Company and its domestic subsidiaries, and by the straight-line method mainly for foreign subsidiaries. The Company changed its method of accounting for property, plant and equipment whose acquisition cost is ¥100 thousand or more but less than ¥200 thousand and, effective April 1, 2004, charged the acquisition cost to income when acquired instead

of capitalizing such assets and depreciating them by straight-line method over 3 years in order to solidify the financial position and to improve the efficiency of the related clerical work considering the usage of such assets in recent years.

The net book value of such assets at March 31, 2004 in the amount of ¥60 million (\$561 thousand) was charged to income and included in other expenses for the year ended March 31, 2005. As a result of this change, compared with the previous method of accounting, operating income for the year ended March 31, 2005 increased by ¥11 million (\$104 thousand) and income before income taxes for the year ended March 31, 2005 decreased by ¥49 million (\$457 thousand).

(k) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at the amount of estimated uncollectable accounts, based on individual collectability with respect to identified doubtful receivables and past experience of doubtful receivables.

(l) Accrued bonuses

Accrued bonuses are provided on the estimate of the amounts to be paid in the future by the Company, domestic consolidated subsidiaries and certain overseas subsidiaries based on an accrual basis at the balance sheet date.

(m) Accrued retirement benefit obligations

To cover projected employee benefits, the Company records the estimated obligations at the end of the fiscal year based on projected year-end benefit obligations and plan assets, as adjusted for unrecognized net obligation at transition, unrecognized actuarial gains or losses and unrecognized prior service cost.

The unrecognized net obligation at transition to the new standard for retirement benefits is being amortized over the period of five years.

Unrecognized actuarial gains or losses are amortized in the year following the year in which the gains or losses are incurred by the straight-line method over the period of 5 years which is within the average remaining years of service of the employees. Unrecognized prior service cost is amortized in the year following the year in which the prior service cost is incurred by the straight-line method over the period of 5 years which is within the average remaining years of service of the employees.

(n) Accrued directors' and officers' retirement benefits

The Company changed its method of accounting for directors' and officers' retirement benefits and, effective April 1, 2004, has provided an accrual for retirement benefits instead of recognizing such expenses at the dates of the respective payments in order to more properly present its results of operations and to solidify the financial position by recording directors' and officers' retirement benefits over the tenure of each director or officer. The prevailing accounting practice in recent years to provide an accrual for directors' and officers' retirement benefits also contributes to this change.

Accrued directors' and officers' retirement benefits have been provided at an amount equal to 100% of the amount which would be required to be paid based on the Company's bylaws if all directors and officers resigned from the Company on the balance sheet date.

As a result, provision for directors' and officers' retirement benefits of ¥34 million (\$314 thousand) was recorded as selling, general and administrative expenses and that of ¥279 million (\$2,597 thousand), which should have been recorded until March 31, 2004 if the new accounting method had been applied for prior years, was included in other expenses for the year ended March 31, 2005. Consequently, operating income and income before income taxes for the year ended March 31, 2005 decreased by ¥34 million (\$314 thousand) and ¥312 (\$2,903 thousand) compared with the previous method of accounting.

(o) Hedge accounting

(1) Method of hedge accounting

The exception method of hedge accounting is applied for the transactions of interest rate swaps, in cases meeting certain conditions.

(2) Hedge instrument and hedged item

Hedge instrument: interest rate swap

Hedged item: interest rate for long-term borrowings subject to interest rate fluctuations.

(3) Hedge policy

The Company uses interest rate swaps to avoid risks from interest rate fluctuations on borrowings, only when approved by the management.

(4) Assessment of hedge effectiveness

As the exception method is applied for interest rate swap, the assessment of hedge effectiveness is omitted.

(p) Income taxes

Deferred income taxes are recognized based on the differences between financial reporting and the tax bases of the assets and liabilities and are calculated using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(q) Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessee are not capitalized, but are accounted for by a method similar to that applicable to operating leases.

(r) Per share information

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to shareholders and weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

Net assets per share is computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the balance sheet date. Cash dividends per share shown for each period in the consolidated statements of income represent the dividends applicable to the respective period.

**Note 2. U.S. Dollar amounts**

The U.S. dollar amounts are stated solely for the convenience of the reader at the rate of U.S.\$1.00 = ¥107.39, the approximate rate of exchange at March 31, 2005. The translation should not be construed as a representation that the Japanese yen amounts actually represent, have been or could be converted into U.S. dollars at that or any other rate.

**Note 3. Inventories**

Inventories as of March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Finished products	¥ 2,530	¥ 2,569	\$ 23,922
Work in process	567	520	4,841
Raw materials	2,009	2,143	19,956
Supplies	87	87	811
	¥ 5,193	¥ 5,319	\$ 49,530

**Note 4. Short-term loans payable and long-term debt**

Short-term loans payable principally to banks were unsecured and represented with interests ranging from 0.59% to 4.4% per annum as of March 31, 2005.

Long-term debt as of March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Loans, principally to banks with interest rates ranging from 0.64917% to 2.4%:			
Secured	¥ 3,499	¥ 2,720	\$ 25,328
Unsecured	1,500	2,753	25,636
Less: portion due within one year	(779)	(698)	(6,496)
	¥ 4,220	¥ 4,775	\$ 44,468

The assets pledged as collateral for long-term debt as of March 31, 2005 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment-book value	¥ 2,704	\$ 25,179

The aggregate annual maturities of long-term debt outstanding as of March 31, 2005 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 698	\$ 6,496
2007	830	7,725
2008	1,460	13,600
2009	1,817	16,925
2010 and thereafter	668	6,218
	¥ 5,473	\$ 50,964

**Note 5. Research and development costs**

Research and development costs included in cost of sales for the years ended March 31, 2004 and 2005 amounted to ¥3,160 million and ¥3,094 million (\$28,814 thousand), respectively.

**Note 6. Selling, general and administrative expenses**

Major elements of selling, general and administrative expenses for the years ended March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Freight and packing cost	¥ 657	¥ 671	\$ 6,251
Salaries and wages of employees	2,614	2,733	25,449
Provision for bonus	269	311	2,899
Retirement benefit cost	341	155	1,439
Depreciation	262	215	2,001

**Note 7. Income taxes**

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation, inhabitant's and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 41.8% for the year ended March 31, 2004 and 40.5% for the year ended March 31, 2005, respectively.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2005 is as follows:

	2005
Statutory tax rate	40.5%
Tax credit for research and development cost	(2.9)
Foreign tax credit	(2.8)
Provision of valuation allowance	(2.8)
Statutory tax rate differences in subsidiaries	(6.0)
Elimination of dividend income	5.6
Loss on investment in subsidiary	(8.2)
Other	(0.0)
Effective tax rate	23.4%

A reconciliation for the year ended March 31, 2004 was omitted, as there was no significant difference between the statutory tax rate and the effective tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2005	2005	
<b>Deferred tax assets:</b>				
Inventory write-down disallowed	¥ 118	¥ 97	\$ 899	
Accrued bonuses disallowed	281	365	3,398	
Unrealized holding profit of inventory	71	70	654	
Retirement benefits disallowed	1,310	1,404	13,078	
Accrued directors' and officers' retirement benefits	—	126	1,176	
Operating loss carryforwards for tax purposes	506	469	4,371	
Other	681	698	6,493	
Valuation allowance	(881)	(731)	(6,812)	
Deferred tax assets	2,086	2,498	23,257	
<b>Deferred tax liabilities:</b>				
Deferred gain on land	(108)	(108)	(1,009)	
Advanced depreciation on buildings	(198)	(182)	(1,693)	
Reserve for special depreciation	(37)	(30)	(284)	
Net unrealized gains on other securities	(96)	(188)	(1,747)	
Other	(56)	(66)	(611)	
Net deferred tax assets	¥ 1,591	¥ 1,924	\$ 17,913	

#### Note 8. Additional paid-in capital and retained earnings

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distributions and certain other purposes by the resolution of shareholders' meeting.

Retained earnings in the accompanying consolidated balance sheet as of March 31, 2005 included the legal reserve of ¥1,306 million (\$12,162 thousand).

#### Note 9. Contingent liabilities

Contingent liabilities as of March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2005	2005	
Guarantees of loans	¥ 700	¥ 700	\$ 6,518	

#### Note 10. Treasury stock

The number of common stock of the Company held by the Company, consolidated subsidiaries and affiliated companies subject to the equity method at March 31, 2004 and 2005 totaled 843,321 shares and 3,220,204 shares, respectively.

#### Note 11. Securities

Information regarding marketable securities classified as other securities at March 31, 2004 and 2005 were summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004		2005		2005		2005		
	Costs	Fair value	Unrealized gain (loss)	Costs	Fair value	Unrealized gain (loss)	Costs	Fair value	Unrealized gain (loss)
<b>Securities whose fair value exceeds their cost</b>									
Stocks	¥ 423	¥ 638	¥ 215	¥ 487	¥ 922	¥ 435	\$ 4,538	\$ 8,589	\$ 4,051
Others	383	495	112	413	527	114	3,845	4,903	1,058
	806	1,133	327	900	1,449	549	8,383	13,492	5,109
<b>Securities whose cost exceeds their fair value</b>									
Stocks	929	855	(74)	1,017	943	(74)	9,469	8,786	(683)
Others	163	147	(16)	150	138	(12)	1,398	1,285	(113)
	1,092	1,002	(90)	1,167	1,081	(86)	10,867	10,071	(796)
Total	¥ 1,898	¥ 2,135	¥ 237	¥ 2,067	¥ 2,530	¥ 463	\$ 19,250	\$ 23,563	\$ 4,313

Information regarding other securities without market value at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2005	2005	
Unlisted securities except for over-the-counter dealings	¥ 883	¥ 733	\$ 6,827	

The schedule for redemption of other securities with maturity dates at March 31, 2004 and 2005 were summarized as follows:

	Millions of yen					
	2004		2005		2005	
	Due in one year	Due after one year through five years	Due after five years through ten years	Due in one year	Due after one year through five years	Due after five years through ten years
Others	¥ 318	¥ 283	¥ 40	¥ —	¥ 374	¥ 21

	Thousands of U.S. dollars		
	2005		
	Due in one year	Due after one year through five years	Due after five years through ten years
Others	\$ —	\$ 3,488	\$ 194

#### Note 12. Retirement benefits

(a) Outline of retirement benefit plans

The Company and certain of its domestic consolidated subsidiaries transferred the retirement benefit plans to the corporate pension fund plans under the Defined Benefits Enterprise Pension Law of Japan on April 1, 2004. On the same day the approval was obtained for the exemption from the substituted portion of the welfare pension fund plans from the Minister of Health, Labor and Welfare. At the same time, the Company and certain of its domestic consolidated subsidiaries revised the retirement benefit schemes and adopted the cash balance pension plans and the defined contribution pension plans for a part of future contribution.

(b) Retirement benefit obligation as of March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars	
	2004	2005	2005	
Retirement benefit obligation	¥ 7,810	¥ 7,084	\$ 65,968	
Fair value of plan assets	(6,847)	(6,675)	(62,156)	
Funded status	963	409	3,812	
Unrecognized transition obligation	(472)	—	—	
Unrecognized actuarial losses	(1,560)	(746)	(6,954)	
Unrecognized prior service cost	2,371	1,883	17,536	
Accrued employees' retirement benefits	¥ 1,302	¥ 1,546	\$ 14,394	

(c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars	
	2004	2005	2005	
Service cost, net of plan participants' contributions	¥ 453	¥ 339	\$ 3,155	
Interest cost	233	155	1,440	
Expected returns on plan assets	(160)	(190)	(1,770)	
Amortization of unrecognized actuarial losses	605	544	5,068	
Amortization of the unrecognized net obligation at transition	472	472	4,393	
Amortization of unrecognized prior service cost	(8)	(476)	(4,430)	
Contribution to defined contribution pension plan	—	42	391	
Net periodic cost	¥ 1,595	¥ 886	\$ 8,247	

(d) Assumptions to calculate the actuarial present value of the benefit obligation and the expected return on plan assets

	2004	2005
Discount rate	2.0%	2.0%
Expected return on plan assets	3.5%	3.5%
Amortization period of unrecognized actuarial losses	5 years	5 years
Amortization period of the unrecognized net obligation at transition	5 years	5 years
Amortization period of unrecognized prior service cost	5 years	5 years

### Note 13. Derivatives

As a matter of policy, the Company does not speculate in derivative transactions. The Company does not anticipate nonperformance by any of the counterparties to the derivative transactions, all of whom are leading domestic financial institutions with high bond ratings.

In accordance with the Company's policy, the accounting department controls derivative transactions and requires approval by the director responsible for accounting and the representative directors of the Company. The director who has the responsibility to control the performance and the related risks connected with derivatives reports these to the Management Committee of the Company.

The Company uses interest rate swaps to avoid risks from interest rate fluctuations on borrowings. The exception method of hedge accounting is used to account for those transactions.

(Currency related)	Millions of yen						Thousands of U.S. dollars		
	Contract amount		Fair value		Unrealized gain (loss)		Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:	2004	2005	2004	2005	2004	2005	2005	2005	2005
Sell:									
US\$	¥ 198	¥ 432	¥ 196	¥ 451	¥ 2	¥ (19)	\$ 4,026	\$ 4,197	\$ (171)
EUR	—	60	—	60	—	(0)	559	563	(4)
NT\$	—	120	—	123	—	(3)	1,117	1,150	(33)
Total	¥ 198	¥ 612	¥ 196	¥ 634	¥ 2	¥ (22)	\$ 5,702	\$ 5,910	\$ (208)

(1) Calculation of fair value

The fair value is calculated by the forward exchange rate.

(2) Derivative transactions to which hedge accounting was applied are excluded from the above table.

### Note 14. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2004 and 2005, which would have been reflected in the balance sheets if finance lease accounting had been applied to finance leases currently accounted for as operating leases.

(Millions of yen)	Acquisition costs		Accumulated depreciation		Net book value	
	2004	2005	2004	2005	2004	2005
Machinery and vehicles	¥ 202	¥ 355	¥ 99	¥ 79	¥ 103	¥ 276
Tooling and office furniture	155	104	115	64	40	40
Total	¥ 357	¥ 459	¥ 214	¥ 143	¥ 143	¥ 316

(Thousands of U.S. dollars)	Acquisition costs		Accumulated depreciation		Net book value	
	2005	2005	2005	2005	2005	2005
Machinery and vehicles	\$ 3,306		\$ 736		\$ 2,570	
Tooling and office furniture	967		595		372	
Total	\$ 4,273		\$ 1,331		\$ 2,942	

The amount of outstanding future lease payments for finance leases subsequent to March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Due within one year	¥ 61	¥ 74	\$ 692
Due over one year	89	253	2,352
Total	¥ 150	¥ 327	\$ 3,044

Lease expenses and pro forma amounts of depreciation and interest expense for finance leases for the years ended March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Lease expenses	¥ 77	¥ 71	\$ 660
Depreciation	¥ 66	¥ 61	\$ 565
Interest expense	¥ 11	¥ 10	\$ 98

Depreciation is calculated based on the straight-line method, assumed that useful life is within the lease term and salvage value is zero.

Interest is calculated based on the discrepancy between total lease expenses and acquisition cost and is allocated to each term by the interest method.

### Note 15. Segment information

The business segments were not presented because the Company's primary business activity is a single segment of electronic components.

#### Geographic segments

Year ended or as of March 31

2004	Millions of yen					
	Japan	Asia	North America	Other areas	Eliminations or Corporate	Consolidated
<b>Net sales</b>						
Outside customers	¥ 36,986	¥ 15,228	¥ 7,950	¥ 2,650	¥ —	¥ 62,814
Intersegment sales	15,661	11,907	197	4	(27,769)	—
Total	52,647	27,135	8,147	2,654	(27,769)	62,814
<b>Cost and expenses</b>	50,760	26,712	7,536	2,592	(27,729)	59,871
<b>Operating income</b>	1,887	423	611	62	(40)	2,943
<b>Identifiable assets</b>	49,773	9,614	3,397	1,791	(9,121)	55,454

2005	Millions of yen					
	Japan	Asia	North America	Other areas	Eliminations or Corporate	Consolidated
<b>Net sales</b>						
Outside customers	¥ 37,843	¥ 14,598	¥ 11,273	¥ 2,724	¥ —	¥ 66,438
Intersegment sales	17,609	15,606	183	47	(33,445)	—
Total	55,452	30,204	11,456	2,771	(33,445)	66,438
<b>Cost and expenses</b>	53,625	29,210	10,253	2,664	(33,448)	62,304
<b>Operating income</b>	1,827	994	1,203	107	3	4,134
<b>Identifiable assets</b>	51,200	12,163	4,127	1,656	(11,191)	57,955

2005	Thousands of U.S. dollars					
	Japan	Asia	North America	Other areas	Eliminations or Corporate	Consolidated
<b>Net sales</b>						
Outside customers	\$ 352,395	\$ 135,936	\$ 104,972	\$ 25,367	\$ —	\$ 618,670
Intersegment sales	163,974	145,319	1,706	435	(311,434)	—
Total	516,369	281,255	106,678	25,802	(311,434)	618,670
<b>Cost and expenses</b>	499,351	272,003	95,481	24,804	(311,467)	580,172
<b>Operating income</b>	17,018	9,252	11,197	998	33	38,498
<b>Identifiable assets</b>	476,768	113,259	38,427	15,427	(104,209)	539,672

The division of these groups depends on the geographic proximity and region.

Asia ----- Singapore, Malaysia, China, Taiwan and Korea  
North America ----- U.S.A. and Mexico  
Other areas ----- United Kingdom, Belgium and Brazil

#### Overseas sales

2004	Millions of yen				
	Asia	North America	Europe	Other areas	Total
Overseas sales	¥ 18,648	¥ 8,269	¥ 7,085	¥ 462	¥ 34,464
Consolidated sales					62,814
Ratio of overseas sales (%)	29.7	13.2	11.3	0.7	54.9

2005	Millions of yen				
	Asia	North America	Europe	Other areas	Total
Overseas sales	¥ 19,685	¥ 12,051	¥ 5,475	¥ 266	¥ 37,477
Consolidated sales					66,438
Ratio of overseas sales (%)	29.7	18.1	8.2	0.4	56.4

2005	Thousands of U.S. dollars				
	Asia	North America	Europe	Other areas	Total
Overseas sales	\$ 183,304	\$ 112,216	\$ 50,982	\$ 2,477	\$ 348,979
Consolidated sales					618,670
Ratio of overseas sales (%)	29.7	18.1	8.2	0.4	56.4

The division of these groups depends on the geographic proximity and region.

Asia ----- Singapore, Malaysia, China, Taiwan, Korea and others  
North America ----- U.S.A. and others  
Europe ----- United Kingdom, Belgium and others  
Other areas ----- Brazil and others



**■ Certified Public Accountants**  
 Hibiya Kokusai Bldg.  
 2-2-3, Uchisaiwai-cho  
 Chiyoda-ku, Tokyo, Japan 100-0011  
 C.P.O. Box 1196, Tokyo, Japan 100-8641  
**■ Tel: 03 3503 1100**  
**Fax: 03 3503 1197**

## Report of Independent Auditors

The Board of Directors  
SMK Corporation

We have audited the accompanying consolidated balance sheets of SMK Corporation and consolidated subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of SMK Corporation and consolidated subsidiaries at March 31, 2004 and 2005, 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.

### Supplemental Information

As described in Note 1(n) to the consolidated financial statements, effective April 1, 2004, the Company has changed its method of accounting for directors' and officers' retirement benefits.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

June 17, 2005

A MEMBER OF ERNST & YOUNG GLOBAL

As of March 31, 2005

**Authorized shares:** 195,961,274  
**Issued shares:** 79,000,000  
**Number of shareholders:** 13,885

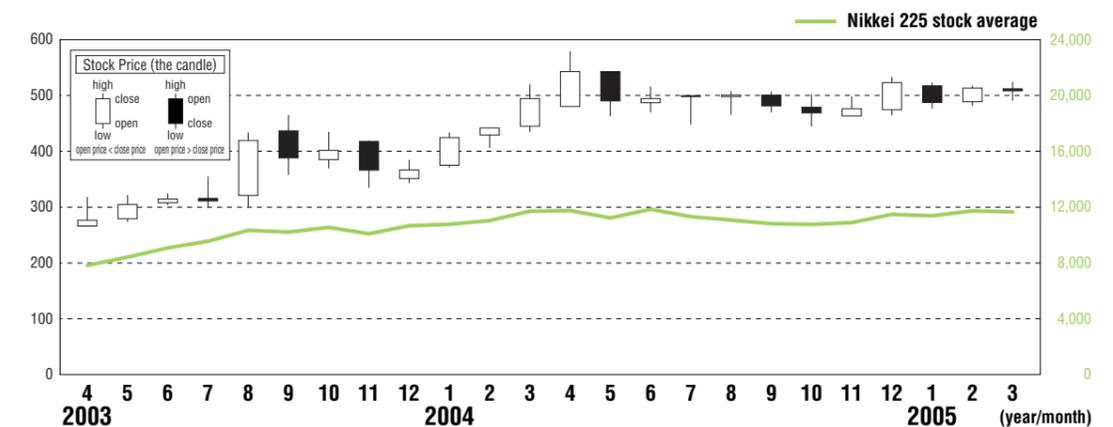
Major shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Shares (%)
Nippon Life Insurance Company	4,001	5.37
Mizuho Corporate Bank, Ltd.	3,815	5.12
Japan Trustee Services Bank, Ltd.	3,382	4.54
The Master Trust Bank of Japan, Ltd.	2,362	3.17
The Mitsubishi Trust and Banking Corporation	2,226	2.99
Terutaka Ikeda	1,980	2.66
Dai Nippon Printing Co., Ltd.	1,795	2.41
Trust & Custody Services Bank, Ltd.	1,769	2.38
The Bank of Tokyo-Mitsubishi, Ltd.	1,760	2.36
SMK Cooperating Company Share Holding Association	1,694	2.28

Note: 1. The Company owns 3,097 thousand shares of treasury stock which are excluded from the above list.  
 2. Of the above shares owned by major shareholders, the following numbers of shares are held in trust operations:  
 Japan Trustee Service Bank, Ltd. : 3,382 thousand shares  
 The Master Trust Bank of Japan, Ltd. : 2,362 thousand  
 Trust & Custody Services Bank, Ltd. : 1,769 thousand  
 The Mitsubishi Trust and Banking Corporation : 289 thousand

Distribution of share ownership	
1~99 shares	1,705 (12.28%)
100~499 shares	1,809 (13.03%)
500~999 shares	354 (2.55%)
1,000~4,999 shares	8,584 (61.82%)
5,000~9,999 shares	805 (5.80%)
10,000~49,999 shares	509 (3.67%)
50,000~ shares	117 (0.84%)
2 others	(0.01%)

Distribution of shareholders	
Financial institutions	60 (0.43%)
Securities companies	46 (0.33%)
Companies and other entities	241 (1.74%)
Foreign investors	73 (0.52%)
Individuals and others	13,465 (96.98%)

### Share Price Chart (unit: yen)



## Corporate Data

(As of March 31, 2005)

<b>Name:</b>	SMK Corporation
<b>Established:</b>	January 15, 1929
<b>Primary business:</b>	Manufacture and sale of various electronic machinery and parts used in power, communications and electronic equipment, other industrial machinery, information equipment, etc.
<b>Capital:</b>	7,996,828,021 yen
<b>Stock Exchange Listing:</b>	Tokyo Stock Exchange
<b>Transfer Agent:</b>	The Mitsubishi Trust and Banking Corporation
<b>Independent Auditors:</b>	Shin Nihon & Co. Tokyo, Japan
<b>Employees (SMK-Group):</b>	9,384
<b>Head office:</b>	5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, Japan TEL 81-3-3785-1111 FAX 81-3-3785-1878
<b>Subsidiaries &amp; Affiliates:</b>	
<b>Domestic:</b>	Subsidiaries - 10 companies Affiliates - 3 companies
<b>Overseas:</b>	Subsidiaries - 19 companies
<b>Website:</b>	<a href="http://www.smk.co.jp/">http://www.smk.co.jp/</a>
<b>Transfer agent:</b>	The Mitsubishi Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan Stock Transfer Agency Division
<b>(Contact)</b>	The Mitsubishi Trust and Banking Corporation 7-7, Nishi-Ikebukuro 1-chome, Toshima-ku, Tokyo 171-8508, Japan Stock Transfer Agency Division TEL 81-3-5391-1900

## Board of Directors and Corporate Auditors

(As of June 17, 2005)

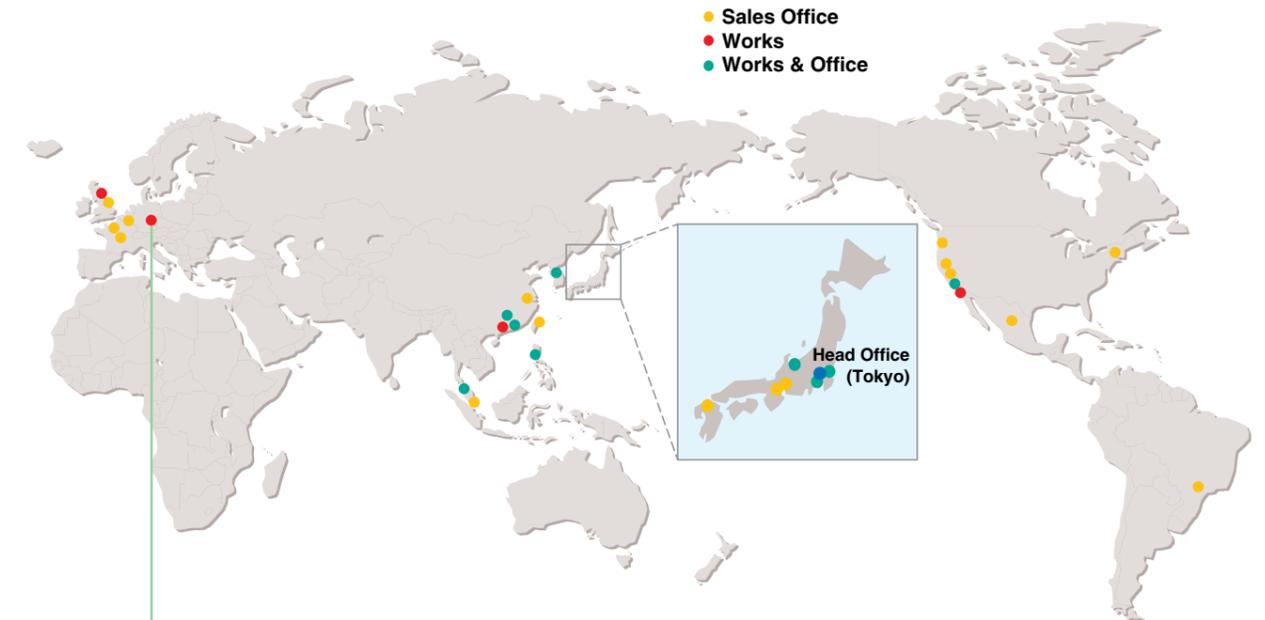
### Directors and Corporate Auditors

Chairman and Chief Executive Officer	Terutaka Ikeda
President and Chief Operating Officer	Tetsuya Nakamura
Executive Deputy President	Mikio Ito
Director, Senior Executive Vice President	Kenji Kobayashi
Director, Senior Executive Vice President	Tadashi Yamoto
Director	Yuji Tanahashi
Auditor	Jun Sugimoto
Auditor	Shigenobu Oyashiki
Auditor	Yoshio Tada
Auditor	Takeshi Nakamura

### Corporate Executive Officers

Senior Executive Vice President	Tetsuo Murase
Executive Vice President	Takushi Suzuki
Executive Vice President	Hajime Yamada
Executive Vice President	Yasumitsu Ikeda
Executive Vice President	Makoto Irisawa
Vice President	Mitsuru Ito
Vice President	Toru Kaneyoshi
Vice President	Yu Hosoya
Vice President	Hirozumi Kawabata
Vice President	Hideo Matsumoto
Vice President	Yoshiyuki Kaku

## Global Network



**SMK Hungary Kft.**

● **Manufactured products:**  
AC chargers, jacks and remote control units

### ASIA

SMK High-Tech Taiwan Trading Co., Ltd.  
 SMK Electronics (H.K.) Ltd.  
 SMK Trading (H.K.) Ltd.  
 SMK Dongguan Gaobu Factory  
 SMK Electronics (Shenzhen) Co., Ltd.  
 SMK Electronics Trading (Shanghai) Co., Ltd.  
 SMK Electronics Singapore Pte. Ltd.  
 SMK Electronics (Malaysia) Sdn. Bhd.  
 SMK Electronics (Philis.) Corporation  
 SMK Korea Co., Ltd.

### EUROPE

SMK Europe N.V.  
 SMK Europe N.V., U.K. Branch  
 SMK Europe N.V., France Branch  
 SMK Europe N.V., German Office  
 SMK (U.K.) Ltd.  
 SMK Hungary Kft.

### NORTH AMERICA

SMK Electronics Corporation U.S.A.  
 SMK Electronics Corporation U.S.A., East Office

SMK Electronics Corporation U.S.A., San Jose Office  
 SMK Electronics Corporation U.S.A., Los Angeles Office  
 SMK Electronics Corporation U.S.A., Seattle Office  
 SMK Electronics Corporation U.S.A., Guadalajara Office  
 SMK Manufacturing, Inc.  
 SMK Electronica S.A. de C.V.

### SOUTH AMERICA

SMK São Paulo Indústria Eletrônica Ltda.