



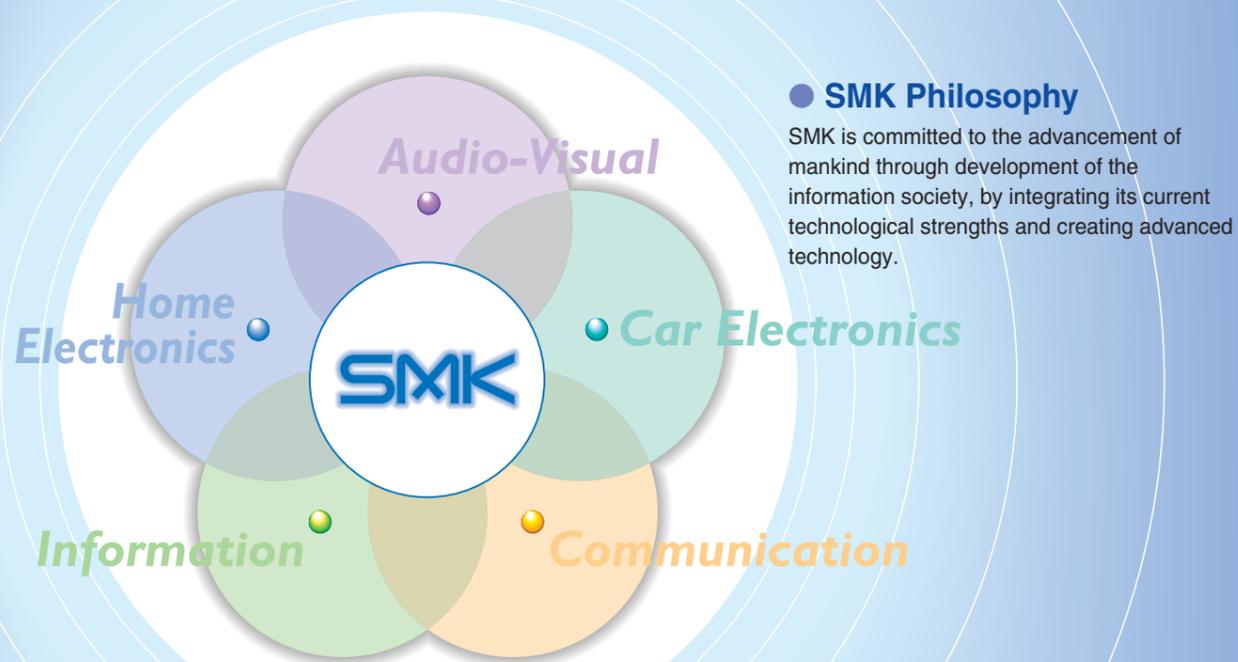
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<http://www.smk.co.jp/>

**ANNUAL REPORT 2006**  
For the fiscal year ended March 31, 2006



# “Innovation and Creation”

## – Practicing Speedy Company Management



### ● 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.

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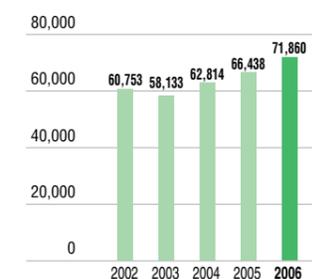
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## Financial Highlights

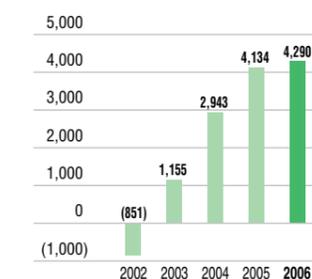
	Millions of yen		Percent Change 2005/2006	Thousands of U.S. dollars
	2005	2006		2006
<b>Operating Results</b>				
Net sales	¥ 66,438	¥ 71,860	8.2%	\$ 611,739
Operating income	4,134	4,290	3.8	36,524
Net income	3,081	3,473	12.7	29,569
<b>Financial Position</b>				
Total assets	¥ 57,955	¥ 61,344	5.8%	\$ 522,217
Total shareholders' equity	27,568	32,730	18.7	278,633
<b>Per Share Data</b>				
Yen				
Net income				U.S. dollars
Basic	¥ 39.11	¥ 44.33	13.3%	\$ 0.38
Diluted	38.94	44.13	13.3	0.38
Cash dividends	10.00	10.00	0.0	0.09

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥117.47 = U.S. \$1.00.

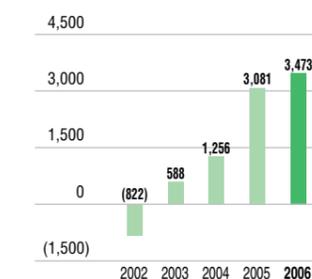
**Net sales**  
Millions of yen



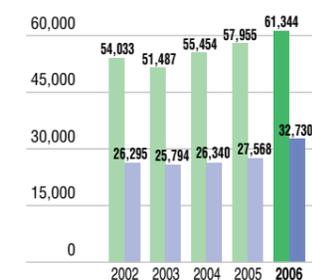
**Operating income**  
Millions of yen



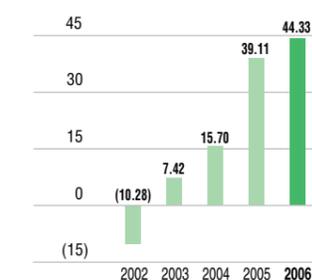
**Net income**  
Millions of yen



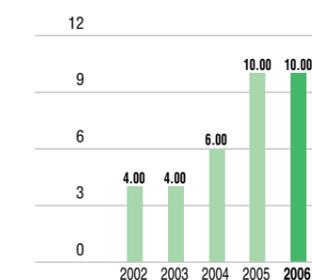
**Total assets/Total shareholders' equity**  
Millions of yen



**Net income per share**  
Yen



**Cash dividends per share**  
Yen





Terutaka Ikeda  
Chairman and  
Chief Executive Officer

Tetsuya Nakamura  
President and  
Chief Operating Officer

## Record Earnings

During the fiscal year under review, despite some negative factors including a sharp rise in oil prices and uncertainty in the Middle East, the progress of the global economy was generally solid as corporate revenue improved and capital investment expanded. The Japanese economy continued a modest expansion thanks to a turnaround in consumer spending and private-sector capital investment.

The electronics industry is gradually moving from a plateau to fresh growth. Although there is concern about the impact of skyrocketing material costs and falling product prices, the industry is supported by strong shipments of new digital home electronics appliances.

Under these circumstances, we achieved record profits as a result of our strenuous corporate efforts to improve product quality and reduce costs.

## Basic Management Policy

Based on our corporate philosophy of being “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 enhance our corporate value and increase the appeal of our brand.

## Commitment to Corporate Social Responsibility (CSR)

In September 2005, we completed the acquisition of the ISO 14001 certification for all our works and offices in Japan. There is growing public demand for “Green Procurement” and businesses are facing Europe’s RoHS Directive and other requests for reducing the use of environmentally hazardous substances. We are taking a proactive approach towards meeting these environmental requirements. In addition, we have established the SMK-Group Charter for Corporate Behavior to create a corporate group that contributes to society.

In April 2006, we established the “SMK-Group Code of Conduct” to further strengthen our commitment to the corporate social responsibility (CSR). We will also be increasing our support of the Showa Ikeda Memorial Foundation, which is marking its 30th anniversary.

## “Innovation,” “Creation” and “Speedy Management”

At present, we are not focused just on traditional electronic parts, but also on camera modules, touch panels, hands-free microphones, Bluetooth and power line communication modules in order to enhance our product lineup. These days, an increasing number of assembly makers are shifting to the internal production of parts, while parts manufacturers are moving towards module production. This trend for vertical integration is becoming remarkable in the manufacturing sector. As consumption grows more diverse, the product development period is being shortened at an accelerating pace. Under these circumstances, it is increasingly important for corporate management to keep up with the speed of the market.

Furthermore, we are now facing the challenge of redesigning “manufacturing,” the starting point of our company, and devising new concepts and ideas to respond to the changes in the environment. Particularly in the current year, the entire SMK Group will be committed to innovation, creation and speedy management to promptly implement the former two targets without being swayed by conventional modes of thinking.

Based on our efforts in telecommunications, information technology and digital home electronics appliances, we will continue to act swiftly in growing sectors to cultivate new markets. We will also strive to develop new products and technologies to satisfy the needs of our customers, to upgrade our production technologies and to develop an effective sales force. In addition, we will make the utmost effort to increase our cost competitiveness and attain better business results in an industry that is seeing tremendous price declines.

We trust that you, our shareholders, will continue to extend your understanding and support to the Company.

June 2006

Handwritten signature of Terutaka Ikeda in black ink.

Terutaka Ikeda  
Chairman and Chief Executive Officer

Handwritten signature of Tetsuya Nakamura in black ink.

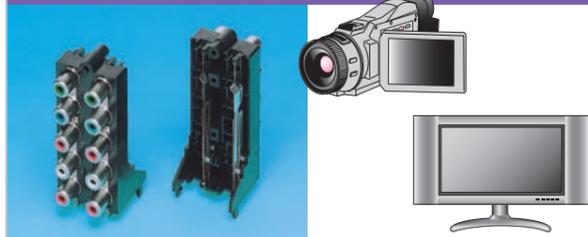
Tetsuya Nakamura  
President and Chief Operating Officer

# Sales and Market Overview

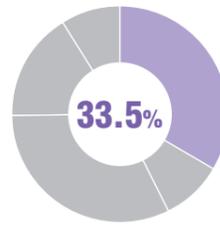
(April 1, 2005 to March 31, 2006)

Net Sales Millions of yen				
2003	2004	2005	2006	2007 (plan)
19,327	19,573	21,913	24,086	23,519

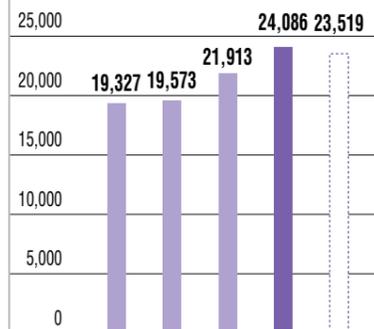
## Audio-Visual



5-deck Jack Board



**Audio-visual parts**  
24,086 million yen

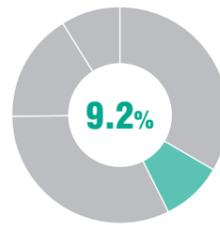


The markets for LCD, PDP and other flat panel televisions are growing on a global scale. Remote controls and various connectors had a substantial positive impact. In the United States market, sales in the set-top boxes and audio markets are bullish. We will continue to develop new products to satisfy the demands of our customers.

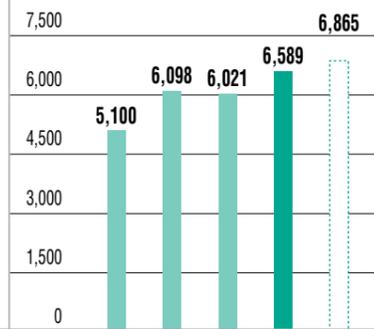
## Car Electronics



"Force-feedback" touch panels

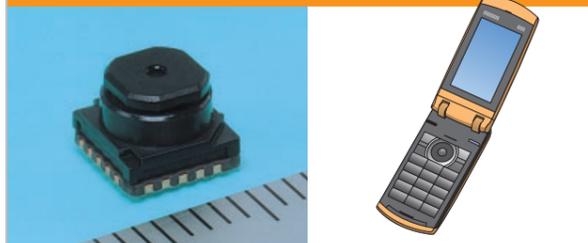


**Electronic instruments**  
6,589 million yen

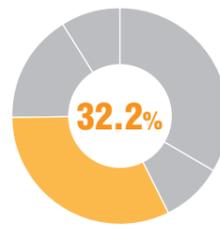


Sales increased steadily for touch panels for car navigation systems in domestic and foreign genuine parts markets. Other products that contributed to sales included coaxial connectors for ETC devices, microphone units for Telematics units and remote controls for car audio units in foreign genuine parts markets. In the future, we will continue development in new areas, such as components for car mounted cameras.

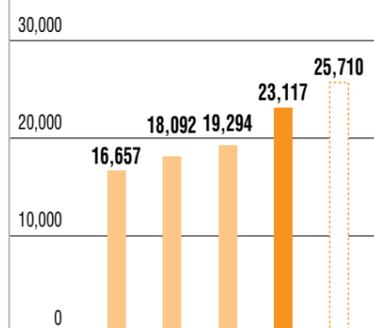
## Communication



Camera modules



**Communications parts**  
23,117 million yen

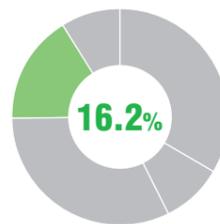


Demand for cellular phones continues to expand in overseas, especially in the BRICs (Brazil, Russia, India and China) markets, and sales for interface connectors and camera connectors for overseas manufacturers saw solid growth. The expansion of camera modules and earphone-microphones continues amid the trend for adding functionality, such as cameras and music features, to cellular phones.

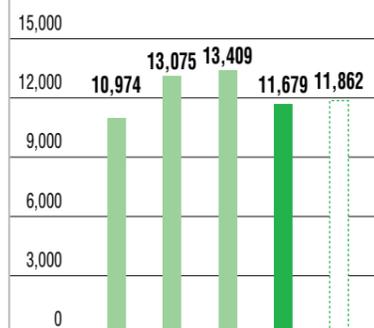
## Information



xD-4in1 card connectors

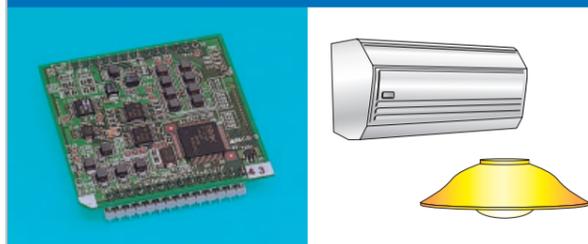


**Information parts**  
11,679 million yen

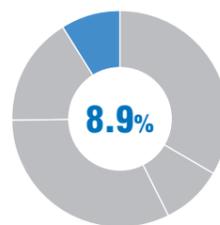


The prices of digital cameras are dropping at an increasing rate and manufacturers have stopped using high-priced parts. Sales of printers, optical disk drives and other PC peripherals have slowed. This market has been difficult. However, as an increasing number of PCs support audiovisual functions, the demand for remote controls is rising. We will continue to actively develop products to meet the needs of customers.

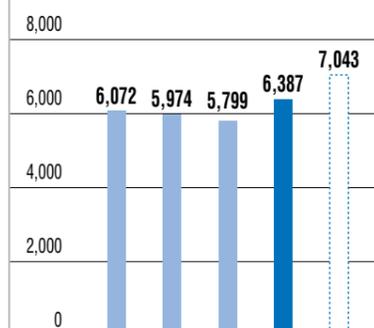
## Home Electronics



DS-SS Modulation/Demodulation Engine for PLC



**Electronic toys, home electronics and other parts**  
6,387 million yen



There was good progress in sales in the market of remote control units for air-conditioners. Remote control units for shower toilets and lighting fixtures remain strong. We plan to continue to expand the array of terminal block connectors for hot water heaters and strengthen our development of energy-saving products, power line modules and Bluetooth-compliant products.

## Future Outlook

In the electronic component industry, the new digital home equipment market is expected to grow, mainly in Japan, the United States and Europe. Cellular phone demand should see full-fledged expansion not only in the Japanese market but also overseas, including in the BRIC nations. Further growth is also anticipated in the market for automotive electronic parts.

To continue our corporate growth under an increasingly difficult economic climate, we will boost our efforts to respond swiftly to growth areas, to pioneer new markets, we are developing new products and technologies that meet our customers' needs, upgrading our manufacturing technologies and establishing more efficient sales systems to enhance the utilization of telecommunications, IT and digital home appliances. In response to the expected decline in the prices of digital home appliance sets, we will endeavor to increase cost effectiveness and enhance our business performance.

For the coming fiscal year, we anticipate an increase in consolidated net sales of 4.4% year on year to 75 billion yen, with ordinary income amounting to 5.6 billion yen and net income of 3.6 billion yen.

## SMIA\*-compliant camera module socket developed

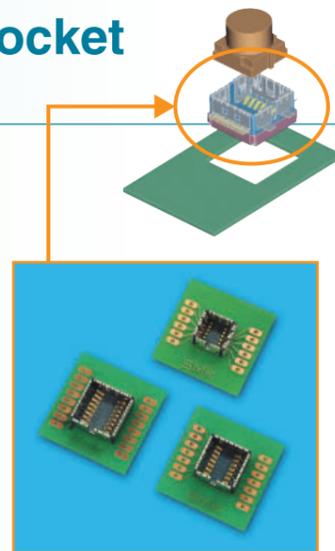
This connector is used for connecting a PWB or a FPC with a camera module.

With its excellent contact reliability and lock structure, this connector ensures a secure connection between the grounds of the module and the socket.

Connectors compliant with the SMIA standards 65 and 85 have been added to our existing SMIA-95-compliant models to broaden our range of connectors.

**\* SMIA (Standard Mobile Imaging Architecture):**

This is the standard for camera modules proposed by Nokia and ST Microelectronics. It is intended to unify the functional and optical operating specifications of camera modules to help mobile device manufacturers mount camera modules onto cellular phones.



Camera module sockets

## Expanded arrays of earphones for music cellular phones



Stereo earphone-microphone and Bluetooth Unit

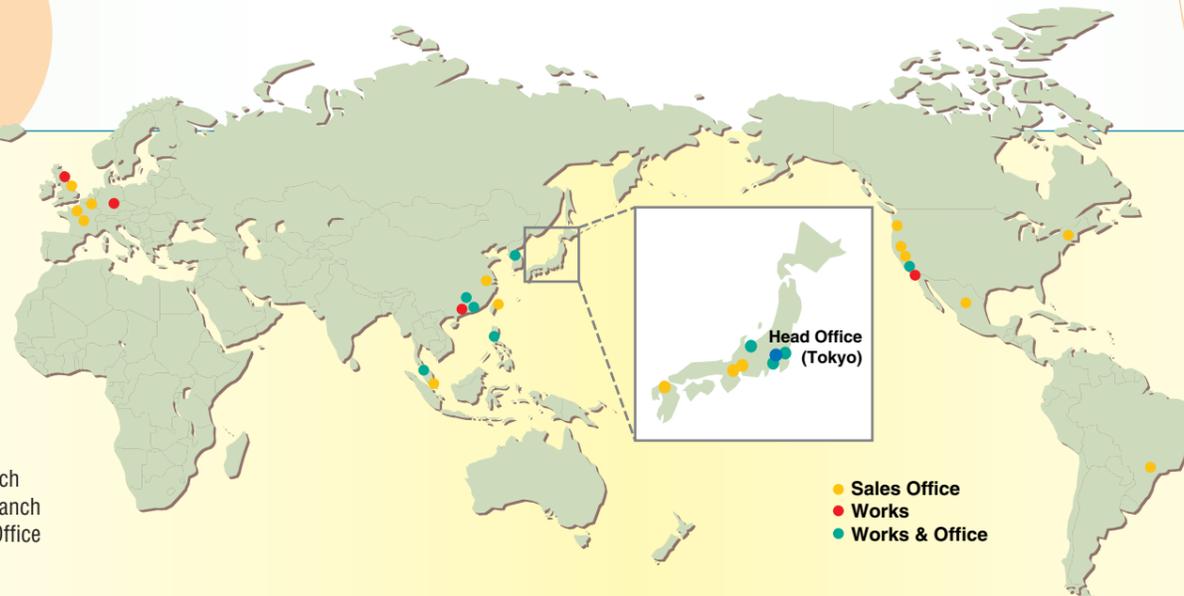
With the rapid spread of music cellular phones, the demand for earphones and peripherals is growing.

We have added new models of stereo earphones that incorporate Bluetooth and other new elemental technologies and support enhanced sound quality and functionality to our popular existing models. We will continue to satisfy emerging market demand.

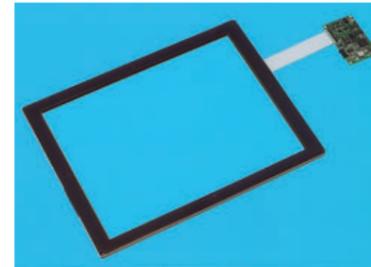


- ASIA**
- SMK High-Tech Taiwan Trading Co., Ltd.
  - SMK Electronics (H.K.) Ltd.
  - SMK Trading (H.K.) Ltd.
  - SMK Dongguan Gaobu Factory
  - SMK Electronics (Shenzhen) Co., Ltd.
  - SMK Electronics Trading (Shanghai) Co., Ltd.
  - SMK Electronics Singapore Pte. Ltd.
  - SMK Electronics (Malaysia)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



## Thin optical touch panel developed: Thickness reduced 35% to 8 mm



Thin optical touch panel

Currently, optical touch panels are widely used as control panels in automated teller machines (ATMs) and ticket vending machines. Earning high marks for their long life and high durability, they are attracting attention from a wide variety of sectors.

Two models are available: the acrylic panel model characterized by its lightweight and shatter-resistant features and the reinforced glass models that are resistant to scratches and heat.

Design freedom limited and viewing and operating capabilities are poor

Due to its structure, the optical touch panel has a wider bezel and is thicker than other types of touch panels.

Unparalleled flat feel that does not degrade the style of the equipment

Small chip LEDs and transistors are used as sensors to minimize thickness.

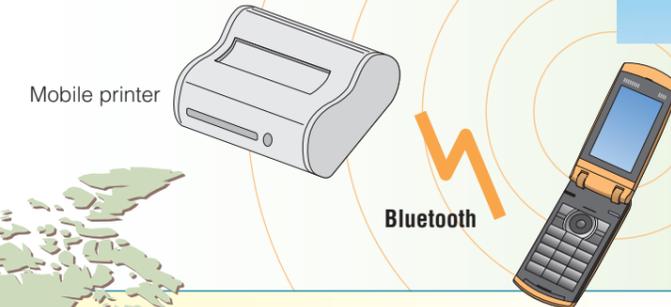
## A Good Deal of Design-ins Attained with Bluetooth™ Serial Port Adapter BT201.

Since its release in January 2005, BT201 has proved commercially successful and received an increasing number of purchase orders.

We will further expand Bluetooth product lineups by building various know-how and expertise on Bluetooth applications into a module.



BT201 Serial Port Adapter



Bluetooth

- 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.

# SMK Exhibit at CES 2006

Date: January 5–8, 2006  
 Venue: Las Vegas Convention Center, U.S.A.

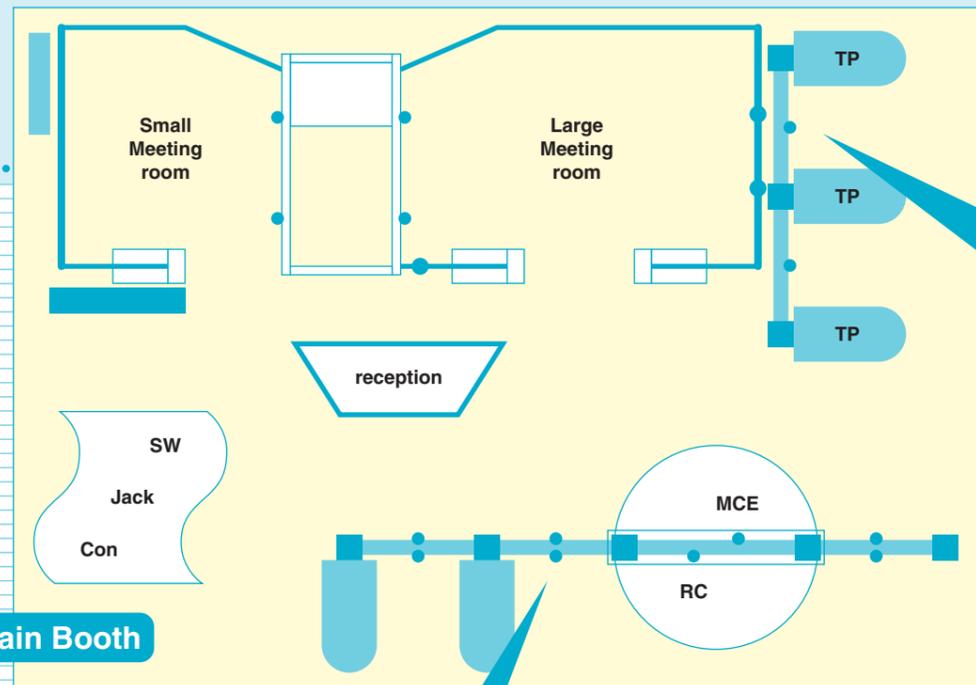
Since its inception 39 years ago with 200 exhibitors and 17,500 visitors, the Consumer Electronics Show (CES) has been expanding every year. Today, it is the largest trade show in the United States attracting over 140,000 visitors.



In addition to our main booth, SMK had a separate booth in the Car Telematics Zone this year.



Car Telematics Zone



SMK's Main Booth

Touch Panel

This is one of the products that we featured at this year's show.



This year, we received twice as many inquiries as last year.

At this year's show, visitors to our booths were received by staff from SMK USA. We will enhance our marketing activities to impress visitors with SMK's promising future.



Remote Control Lineup



## The Showa Ikeda Memorial Foundation Marks its 30th Anniversary

### [Background]

The Showa Ikeda Memorial Foundation was established in 1976 by the late Heishiro Ikeda, the founder of SMK Corporation (founded in 1925 as Showa Musen Kogyo Co., Ltd.), and his wife. Mr. Ikeda served as the president for about 50 years, and his wife, the late Shizuko Ikeda also served as a director and made great efforts to the development of the Company. Financed by their personal funds and partial contributions from the Company, the Foundation was established to commemorate the 50th anniversary of the Company with the approval of the Tokyo Metropolitan Government.



Founders of the Showa Ikeda Memorial Foundation: the Late Heishiro and Shizuko Ikeda

### [Major Activities]

The Foundation provides grants mainly to welfare facilities and organizations for the elderly, the disabled and children as well as to other facilities and organizations engaged in general social welfare in an effective and appropriate manner. In addition, it extends scholarships to high school and university students and invites theses from university, graduate and junior college students to help cultivate talented students.

The Foundation has also been providing scholarships every year since 1990 to 20 overseas students studying at the Tokyo Japanese Language Education Center for future study at Japanese universities and graduate schools.



Children learning on donated computers

## Projects to Commemorate the 80th Anniversary

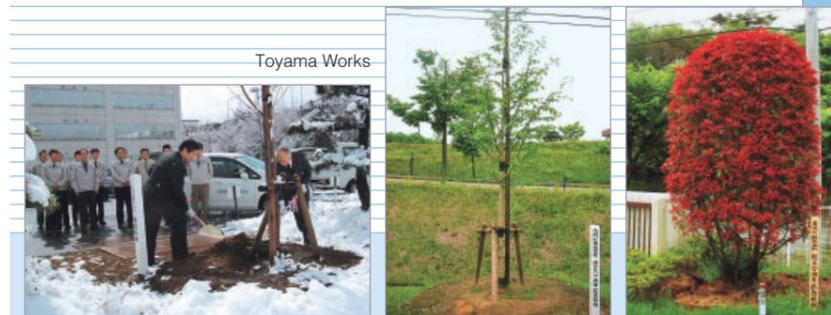
SMK Corporation marked its 80th anniversary in April 2005. To commemorate this event, we conducted various activities during the fiscal year under review.

### [Commemorative Tree Planting]

A metasequoia was planted at the Toyama Works while a red-leaf photinia was planted at the Hitachi Works.



Compilation of 80 years of the Company's history



Hitachi Works

## Toyama Works Designated as a Plant with Excellence in Energy Control

On February 17, 2006, Toyama Works was recognized as a Plant with Excellence in Energy Control by the Hokuriku Electric Association, a regional organization of the Japan Electric Association.

This recognition program is designed to laud and broadly publicize distinguished achievements in efforts to rationalize the consumption of electrical energy, such as encouraging the effective use of electricity and improving the load factor, with a view to raising awareness of the rational use of electric power.

The Toyama Works applied for the program and was inspected by examiners including a professor from Toyama University. The Toyama Works was the only business establishment recognized as a Plant with Excellence in Energy Control. Encouraged by the prize, we will continue to bolster our efforts.



# Five-Year Summary

## SMK Corporation and Consolidated Subsidiaries

Year ended and as of March 31	Millions of yen					Thousands of U.S. dollars
	2002	2003	2004	2005	2006	2006
<b>Operating Results</b>						
Net sales	¥ 60,753	¥ 58,133	¥ 62,814	¥ 66,438	¥ 71,860	\$ 611,739
Operating income (loss)	(851)	1,155	2,943	4,134	4,290	36,524
Net income (loss)	(822)	588	1,256	3,081	3,473	29,569
<b>Financial Position</b>						
Total assets	¥ 54,033	¥ 51,487	¥ 55,454	¥ 57,955	¥ 61,344	\$ 522,217
Total shareholders' equity	26,295	25,794	26,340	27,568	32,730	278,633
<b>Per Share Data</b>						
Total shareholders' equity	¥ 328.65	¥ 328.72	¥ 336.69	¥ 362.88	¥ 416.04	\$ 3.54
Net income (loss) (Note)						
Basic	(10.28)	7.42	15.70	39.11	44.33	0.38
Diluted	—	7.42	15.66	38.94	44.13	0.38
Cash dividends	4.00	4.00	6.00	10.00	10.00	0.09

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

SMK's consolidated net sales for fiscal 2006, which ended on March 31, 2006, increased 8.2% year-on-year, to ¥71,860 million (US\$611,739 thousand). Both operating income and net income surpassed the levels of the preceding fiscal year, reaching ¥4,290 million (US\$36,524 thousand) and ¥3,473 million (US\$29,569 thousand), respectively.

### Net sales

Sales remained firm thanks to an increase in demand for cellular phones in the BRIC nations and brisk worldwide demand for camera-phones. As a result, net sales rose 8.2%, to ¥71,860 million (US\$611,739 thousand).

### Operating Income

In addition to pressure from price reductions, the cost of sales ratio increased due to the surge in the prices of raw materials. However, due to sales expansion in growing markets, operating income surpassed the level of the previous fiscal year, reaching ¥4,290 million (US\$36,524 thousand).

### Net Income

Bolstered by strong sales and by foreign exchange gains stemming from the depreciation of the yen, net income reached ¥3,473 million (US\$29,569 thousand), exceeding the level of the previous fiscal year.

### Total Assets/ROA

As of March 31, 2006, total assets were ¥61,344 million (US\$522,217 thousand). ROA grew 0.4 percentage point to 5.8%.

### Total Shareholders' Equity/ROE

As of March 31, 2006, total shareholders' equity was ¥32,730 million (US\$278,633 thousand). ROE grew 0.1 percentage point to 11.5%.

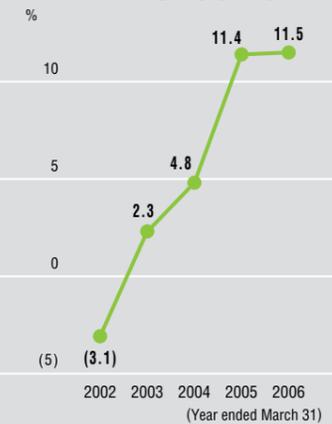
### Cash Flows

Net cash provided by operating activities amounted to ¥6,565 million (US\$55,886 thousand), net cash used in investing activities totaled ¥4,202 million (US\$35,774 thousand) and net cash used in financing activities was valued at ¥1,582 million (US\$13,466 thousand).

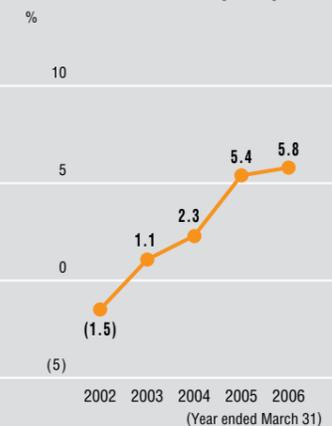
**Total shareholders' equity**  
Millions of yen



**Return on equity (ROE)**  
%



**Return on assets (ROA)**  
%



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# Consolidated Balance Sheets

SMK Corporation and Consolidated Subsidiaries  
As of March 31

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
<b>Current assets</b>			
Cash and cash equivalents	¥ 7,314	¥ 8,464	\$ 72,056
Time deposits	178	225	1,914
Notes and accounts receivable, trade	19,945	20,448	174,067
Allowance for doubtful accounts	(17)	(60)	(507)
Inventories (Note 3)	5,319	5,597	47,643
Deferred tax assets (Note 7)	674	839	7,143
Other current assets	835	1,285	10,937
	34,248	36,798	313,253
<b>Investments and long-term loans</b>			
Investment securities (Note 11)	3,517	4,308	36,671
Long-term loans receivable	1,127	1,018	8,664
Other investments	1,553	1,691	14,397
Allowance for doubtful accounts	(406)	(383)	(3,261)
	5,791	6,634	56,471
<b>Property, plant and equipment (Note 4)</b>			
Land	3,590	3,598	30,628
Buildings	15,750	15,667	133,374
Machinery and vehicles	13,895	14,375	122,374
Tooling and office furniture	23,367	22,228	189,225
Construction in progress	19	140	1,195
	56,621	56,008	476,796
Less-Accumulated depreciation	(40,154)	(39,294)	(334,502)
	16,467	16,714	142,294
<b>Other assets</b>			
Deferred tax assets (Note 7)	1,309	966	8,223
Intangible assets	140	232	1,976
	1,449	1,198	10,199
<b>Total assets</b>	¥ 57,955	¥ 61,344	\$ 522,217

See accompanying notes to consolidated financial statements.

Liabilities, minority interests and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
<b>Current liabilities</b>			
Short-term loans payable (Note 4)	¥ 7,713	¥ 9,968	\$ 84,852
Notes and accounts payable, trade	5,000	5,108	43,480
Accrued income taxes	496	590	5,023
Accrued bonus	931	992	8,442
Account payable, non trade	7,907	4,482	38,159
Other current liabilities	1,038	1,080	9,193
	23,085	22,220	189,149
<b>Long-term liabilities</b>			
Corporate bond	300	300	2,554
Long-term debt (Note 4)	4,775	4,151	35,335
Accrued employees' retirement benefits (Note 12)	1,546	1,234	10,507
Accrued directors' and officers' retirement benefits	312	345	2,939
Other long-term liabilities	369	358	3,046
	7,302	6,388	54,381
<b>Minority interests</b>	—	6	54
<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	68,075
Capital surplus (Note 8)	12,058	12,429	105,809
Retained earnings (Note 8)	10,683	12,683	107,966
Foreign currency translation adjustments	(1,808)	(906)	(7,714)
Net unrealized gains on other securities	275	840	7,153
Treasury stock (Note 10)	(1,636)	(312)	(2,656)
	27,568	32,730	278,633
<b>Total liabilities, minority interests and shareholders' equity</b>	¥ 57,955	¥ 61,344	\$ 522,217



	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 4,021	¥ 5,058	\$ 43,058
Depreciation and amortization	3,239	3,395	28,901
Increase (decrease) in accrued employees' retirement benefits	240	(313)	(2,670)
Increase in accrued directors' and officers' retirement benefits	312	34	285
Increase (decrease) in allowance for doubtful accounts	(115)	16	139
Interest and dividend income	(154)	(178)	(1,513)
Interest expense	141	168	1,431
Loss on disposal of fixed assets	276	273	2,328
Loss on liquidation of contributions	—	221	1,885
Increase (decrease) in notes and accounts receivable, trade	(1,411)	256	2,179
Increase in inventories	(7)	(0)	(2)
Decrease in notes and accounts payable, trade	(597)	(791)	(6,736)
Other, net	231	95	811
Subtotal	6,176	8,234	70,096
Interest and dividend received	147	175	1,487
Interest paid	(144)	(171)	(1,452)
Payments of directors' and officers' retirement benefits	(15)	—	—
Income tax paid	(1,610)	(1,673)	(14,245)
<b>Net cash provided by operating activities</b>	<b>4,554</b>	<b>6,565</b>	<b>55,886</b>
<b>Cash flows from investing activities</b>			
Payments for time deposits	(255)	(231)	(1,963)
Proceeds from time deposits	454	204	1,732
Purchases of fixed assets	(3,812)	(3,946)	(33,588)
Proceeds from sale of fixed assets	225	289	2,459
Purchases of intangible fixed assets	(14)	(27)	(230)
Purchases of investment securities	(32)	(69)	(587)
Proceeds from sale of investment securities	11	3	27
Purchases of subsidiaries' stock	(1)	(82)	(701)
Payment for loans receivable	(862)	(444)	(3,782)
Collections of loans receivable	126	108	922
Other, net	27	(7)	(63)
<b>Net cash used in investing activities</b>	<b>(4,133)</b>	<b>(4,202)</b>	<b>(35,774)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans payable	212	(1,570)	(13,366)
Proceeds from long-term debt	1,253	200	1,702
Payments of long-term debt	(779)	(698)	(5,938)
Purchases of treasury stock	(1,478)	(74)	(632)
Proceeds from sale of treasury stock	209	1,681	14,307
Dividends paid	(469)	(1,133)	(9,641)
Other, net	—	12	102
<b>Net cash used in financing activities</b>	<b>(1,052)</b>	<b>(1,582)</b>	<b>(13,466)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>3</b>	<b>373</b>	<b>3,178</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(628)</b>	<b>1,154</b>	<b>9,824</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>7,792</b>	<b>7,314</b>	<b>62,266</b>
Increase in cash and cash equivalents arising from inclusion of a subsidiary in consolidation	150	5	45
Decrease in cash and cash equivalents due to exclusion of a subsidiary from consolidation	—	(9)	(79)
<b>Cash and cash equivalents at end of year</b>	<b>¥ 7,314</b>	<b>¥ 8,464</b>	<b>\$ 72,056</b>

See accompanying notes to consolidated financial statements.

**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  
 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 9 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, 2006, Wood Create was included in the scope of consolidation in view of its increased importance. SMK Da Amazonia Ltda. finished being liquidated during the current consolidated accounting year. Accordingly, the accompanying financial statements included its operating results only.
- (d) Application of equity method of accounting  
 Number of affiliated companies accounted for by the equity method: 2  
 The 9 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.

(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.

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 was recorded as selling, general and administrative expenses and that of ¥279 million, 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 and ¥312 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 = ¥117.47, the approximate rate of exchange at March 31, 2006. 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, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Finished products	¥ 2,569	¥ 2,775	\$ 23,626
Work in process	520	428	3,641
Raw materials	2,143	2,348	19,988
Supplies	87	46	388
	¥ 5,319	¥ 5,597	\$ 47,643

**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 0.52818% to 7.0% per annum as of March 31, 2006.

Long-term debt as of March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Loans, principally to banks with interest rates ranging from 0.65% to 2.4%:			
Secured	¥ 2,720	¥ 2,112	\$ 17,979
Unsecured	2,753	2,863	24,375
Less: portion due within one year	(698)	(824)	(7,019)
	¥ 4,775	¥ 4,151	\$ 35,335

The assets pledged as collateral for long-term debt as of March 31, 2006 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment-book value	¥ 2,588	\$ 22,032

The aggregate annual maturities of long-term debt outstanding as of March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 824	\$ 7,019
2008	1,526	12,987
2009	1,866	15,881
2010	288	2,457
2011 and thereafter	471	4,010
	¥ 4,975	\$ 42,354

**Note 5. Research and development costs**

Research and development costs included in cost of sales for the years ended March 31, 2005 and 2006 amounted to ¥3,094 million and ¥3,522 million (\$29,982 thousand), respectively.

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

Major elements of selling, general and administrative expenses for the years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Freight and packing cost	¥ 671	¥ 620	\$ 5,278
Salaries and wages of employees	2,733	2,861	24,351
Provision for bonus	311	376	3,198
Retirement benefit cost	155	90	763
Provision for directors' and officers' retirement benefit	—	45	381
Depreciation	215	212	1,801

**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 40.5% for the years ended March 31, 2005 and 2006 respectively.

Reconciliations between the statutory tax rate and the effective tax rates for the years ended March 31, 2005 and 2006 are as follows:

	2005	2006
Statutory tax rate	40.5%	40.5%
Tax credit for research and development cost	(2.9)	(3.3)
Foreign tax credit	(2.8)	(6.7)
Change in valuation allowance	(2.8)	0.3
Statutory tax rate differences in subsidiaries	(6.0)	(10.2)
Elimination of dividend income	5.6	14.5
Loss on investment in subsidiary	(8.2)	—
Other	(0.0)	(3.8)
Effective tax rate	23.4%	31.3%

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2006	2006	
<b>Deferred tax assets:</b>				
Inventory write-down disallowed	¥ 97	¥ 79	\$ 676	
Accrued bonuses disallowed	365	387	3,291	
Unrealized holding profit of inventory	70	65	550	
Retirement benefits disallowed	1,404	1,287	10,960	
Accrued directors' and officers' retirement benefits	126	140	1,190	
Operating loss carryforwards for tax purposes	469	387	3,293	
Other	698	982	8,360	
Valuation allowance	(731)	(647)	(5,509)	
Deferred tax assets	2,498	2,680	22,811	
<b>Deferred tax liabilities:</b>				
Deferred gain on land	(108)	(108)	(923)	
Advanced depreciation on buildings	(182)	(167)	(1,417)	
Reserve for special depreciation	(30)	(28)	(236)	
Net unrealized gains on other securities	(188)	(572)	(4,869)	
Other	(66)	(72)	(614)	
Net deferred tax assets	¥ 1,924	¥ 1,733	\$ 14,752	

#### 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, 2006 included the legal reserve of ¥1,306 million (\$11,118 thousand).

#### Note 9. Contingent liabilities

Contingent liabilities as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2006	2006	
Guarantees of loans	¥ 700	¥ 500	\$ 4,256	

#### 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, 2005 and 2006 totaled 3,220,204 shares and 531,826 shares, respectively.

#### Note 11. Securities

Information regarding marketable securities classified as other securities at March 31, 2005 and 2006 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2005		2006		2006	
	Costs	Fair value	Unrealized gain (loss)	Costs	Fair value	Unrealized gain (loss)
<b>Securities whose fair value exceeds their cost</b>						
Stocks	¥ 487	¥ 922	¥ 435	¥ 1,512	¥ 2,504	¥ 992
Others	413	527	114	513	950	437
	900	1,449	549	2,025	3,454	1,429
<b>Securities whose cost exceeds their fair value</b>						
Stocks	1,017	943	(74)	66	51	(15)
Others	150	138	(12)	50	48	(2)
	1,167	1,081	(86)	116	99	(17)
Total	¥ 2,067	¥ 2,530	¥ 463	¥ 2,141	¥ 3,553	¥ 1,412

Information regarding other securities without market value at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2005	2006	2006	
Unlisted securities	¥ 733	¥ 529	\$ 4,506	

The schedule for redemption of other securities with maturity dates at March 31, 2005 and 2006 were summarized as follows:

	Millions of yen					
	2005		2006		2006	
	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	¥ —	¥ 374	¥ 21	¥ —	¥ 530	¥ 29

	Thousands of U.S. dollars		
	2006		
	Due in one year	Due after one year through five years	Due after five years through ten years
Others	\$ —	\$ 4,514	\$ 244

#### 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, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars	
	2005	2006	2006	
Retirement benefit obligation	¥ 7,084	¥ 7,099	\$ 60,432	
Fair value of plan assets	(6,675)	(8,654)	(73,666)	
Funded status	409	(1,555)	(13,234)	
Unrecognized actuarial losses	(746)	1,378	11,733	
Unrecognized prior service cost	1,883	1,411	12,008	
Accrued employees' retirement benefits	¥ 1,546	¥ 1,234	\$ 10,507	

##### (c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars	
	2005	2006	2006	
Service cost, net of plan participants' contributions	¥ 339	¥ 264	\$ 2,250	
Interest cost	155	141	1,200	
Expected returns on plan assets	(190)	(188)	(1,604)	
Amortization of unrecognized actuarial losses	544	485	4,128	
Amortization of the unrecognized net obligation at transition	472	—	—	
Amortization of unrecognized prior service cost	(476)	(473)	(4,024)	
Contribution to defined contribution pension plan	42	43	366	
Net periodic cost	¥ 886	¥ 272	\$ 2,316	

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

	2005	2006
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	—
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)
	2005	2006	2005	2006	2005	2006	2006	2006	2006
Forward foreign exchange contracts:									
Sell:									
US\$	¥ 432	¥ 413	¥ 451	¥ 422	¥ (19)	¥ (9)	\$ 3,521	\$ 3,595	\$ (74)
EUR	60	59	60	59	(0)	0	500	500	0
NT\$	120	90	123	91	(3)	(1)	766	774	(8)
Total	¥ 612	¥ 562	¥ 634	¥ 572	¥ (22)	¥ (10)	\$ 4,787	\$ 4,869	\$ (82)

(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, 2005 and 2006, 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	
	2005	2006	2005	2006	2005	2006
Machinery and vehicles	¥ 355	¥ 885	¥ 79	¥ 161	¥ 276	¥ 724
Tooling and office furniture	104	59	64	19	40	40
Total	¥ 459	¥ 944	¥ 143	¥ 180	¥ 316	¥ 764

(Thousands of U.S. dollars)	Acquisition costs		Accumulated depreciation		Net book value	
	2006	2006	2006	2006	2006	2006
Machinery and vehicles	\$ 7,535		\$ 1,375		\$ 6,160	
Tooling and office furniture	505		162		343	
Total	\$ 8,040		\$ 1,537		\$ 6,503	

The amount of outstanding future lease payments for finance leases subsequent to March 31, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥ 74	¥ 147	\$ 1,248
Due over one year	253	634	5,403
Total	¥ 327	¥ 781	\$ 6,651

Lease expenses and pro forma amounts of depreciation and interest expense for finance leases for the years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Lease expenses	¥ 71	¥ 136	\$ 1,155
Depreciation	¥ 61	¥ 116	\$ 984
Interest expense	¥ 10	¥ 31	\$ 263

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

2005	Millions of yen					
	Japan	Asia	North America	Other areas	Eliminations of 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

2006	Millions of yen					
	Japan	Asia	North America	Other areas	Eliminations of corporate	Consolidated
<b>Net sales</b>						
Outside customers	¥ 36,841	¥ 18,909	¥ 13,605	¥ 2,505	¥ —	¥ 71,860
Intersegment sales	19,192	17,709	104	60	(37,065)	—
Total	56,033	36,618	13,709	2,565	(37,065)	71,860
<b>Cost and expenses</b>	54,802	34,924	12,304	2,606	(37,066)	67,570
<b>Operating income</b>	1,231	1,694	1,405	(41)	1	4,290
<b>Identifiable assets</b>	53,064	14,280	5,429	1,729	(13,158)	61,344

2006	Thousands of U.S. dollars					
	Japan	Asia	North America	Other areas	Eliminations of corporate	Consolidated
<b>Net sales</b>						
Outside customers	\$ 313,618	\$ 160,969	\$ 115,822	\$ 21,330	\$ —	\$ 611,739
Intersegment sales	163,375	150,756	883	507	(315,521)	—
Total	476,993	311,725	116,705	21,837	(315,521)	611,739
<b>Cost and expenses</b>	466,518	297,300	104,745	22,181	(315,529)	575,215
<b>Operating income</b>	10,475	14,425	11,960	(344)	8	36,524
<b>Identifiable assets</b>	451,725	121,564	46,220	14,721	(112,013)	522,217

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

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

#### Overseas sales

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

2006	Millions of yen				
	Asia	North America	Europe	Other areas	Total
Overseas sales	¥ 24,490	¥ 14,374	¥ 5,704	¥ 570	¥ 45,138
Consolidated sales					71,860
Ratio of overseas sales (%)	34.1	20.0	7.9	0.8	62.8

2006	Thousands of U.S. dollars				
	Asia	North America	Europe	Other areas	Total
Overseas sales	\$ 208,483	\$ 122,365	\$ 48,555	\$ 4,848	\$ 384,251
Consolidated sales					611,739
Ratio of overseas sales (%)	34.1	20.0	7.9	0.8	62.8

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

As of March 31, 2006



■ 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, 2005 and 2006, 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, 2005 and 2006, 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, 2006 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 20, 2006

A MEMBER OF ERNST & YOUNG GLOBAL

Authorized shares: 195,961,274  
 Issued shares: 79,000,000  
 Number of shareholders: 12,007

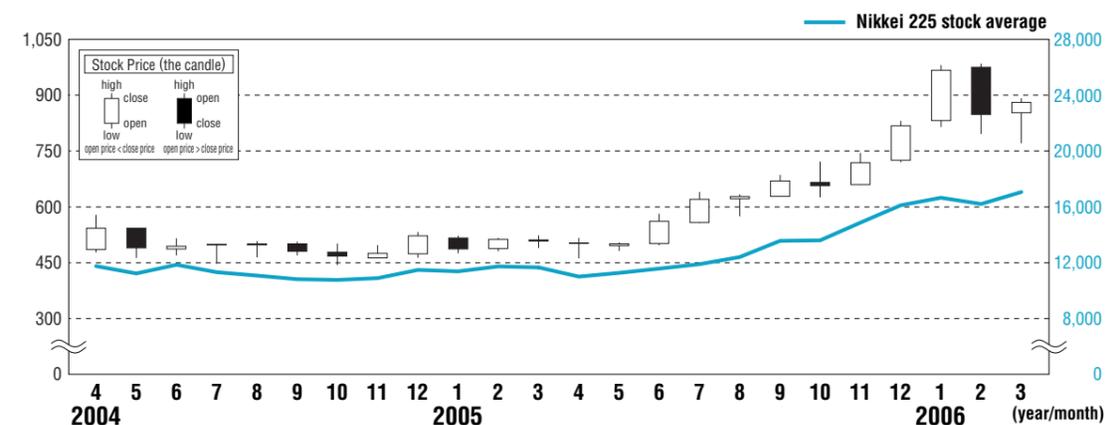
Major shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Voting Rights (%)
Japan Trustee Services Bank, Ltd.	6,560	8.50
Nippon Life Insurance Company	4,001	5.18
Mizuho Corporate Bank, Ltd.	3,722	4.82
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,134	4.06
Mitsubishi UFJ Trust and Banking Corporation	2,519	3.26
Terutaka Ikeda	1,962	2.54
Dai Nippon Printing Co., Ltd.	1,795	2.32
The Master Trust Bank of Japan, Ltd.	1,768	2.29
SMK Cooperating Company Share Holding Association	1,690	2.19
Trust & Custody Services Bank, Ltd.	1,666	2.16

Note: 1. The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Limited were merged to form The Bank of Tokyo-Mitsubishi UFJ, Ltd. on January 1, 2006.  
 2. The Mitsubishi Trust and Banking Corporation and UFJ Trust Bank Limited were merged to form Mitsubishi UFJ Trust and Banking Corporation on October 1, 2005.  
 3. Of the above shares owned by major shareholders, the following number of shares are held in trust operations:  
 Japan Trustee Service Bank, Ltd. : 6,560 thousand shares  
 The Master Trust Bank of Japan, Ltd. : 1,768 thousand  
 Trust & Custody Services Bank, Ltd. : 1,666 thousand  
 Mitsubishi UFJ Trust and Banking Corporation : 582 thousand

Share ownership by number	
1~99 shares	1,564 (13.02%)
100~499 shares	1,599 (13.32%)
500~999 shares	307 (2.56%)
1,000~4,999 shares	7,313 (60.90%)
5,000~9,999 shares	655 (5.45%)
10,000~49,999 shares	438 (3.65%)
50,000~ shares	129 (1.08%)
2 others	(0.02%)

Share ownership by shareholder type (unit: share)	
Financial institutions	30,059,434 (38.05%)
Securities companies	1,803,067 (2.28%)
Companies and other entities	8,393,072 (10.62%)
Foreign investors	10,030,020 (12.70%)
Individuals and others	28,714,407 (36.35%)

Share price chart (unit: yen)



## DIRECTORS



**Tetsuya Nakamura**  
President and COO

**Terutaka Ikeda**  
Chairman and CEO

**Kenji Kobayashi**  
Director, Senior Executive Vice President  
Sales Division



**Yasumitsu Ikeda**  
Director, Executive Vice President  
Corporate Planning

**Tadashi Yamoto**  
Director, Senior Executive Vice President  
Research and Development

**Yuji Tanahashi**  
Director

## AUDITORS



Auditor  
**Jun Sugimoto**

Auditor  
**Shigenobu Oyashiki**

Auditor  
**Yoshio Tada**

Auditor  
**Takeshi Nakamura**

## CORPORATE EXECUTIVE OFFICERS



**Hajime Yamada**  
Executive Vice President  
Chief Financial Officer

**Makoto Irisawa**  
Executive Vice President  
Human Resources  
and General Affairs

**Yoshiyuki Kaku**  
Executive Vice President  
Connection System Division

**Mitsuru Ito**  
Vice President  
Chief Information Officer  
(Computer and Network)

**Yu Hosoya**  
Vice President  
Business Affairs



**Hirozumi Kawabata**  
Vice President  
Sales Division, Europe

**Hideo Matsumoto**  
Vice President  
Sales Division, China

**Yoshio Sakurai**  
Vice President  
Production Engineering and  
Environmental Protection

**Akira Utazaki**  
Vice President  
Deputy Division Director  
of Sales Division

**Mikio Wakabayashi**  
Vice President  
Functional Components  
Division

**Paul Evans**  
Vice President  
Sales Division, Americas

## Corporate Data

(As of March 31, 2006)

<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>	Mitsubishi UFJ Trust and Banking Corporation
<b>Independent auditors:</b>	Ernst & Young ShinNihon Tokyo, Japan
<b>Employees (SMK-Group):</b>	11,110
<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 - 9 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>