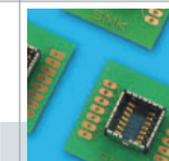
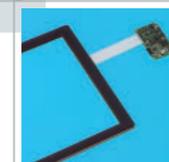
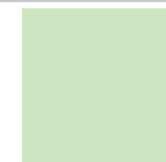
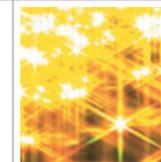
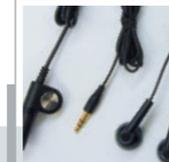




5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, JAPAN
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<http://www.smk.co.jp/>

ANNUAL REPORT 2007

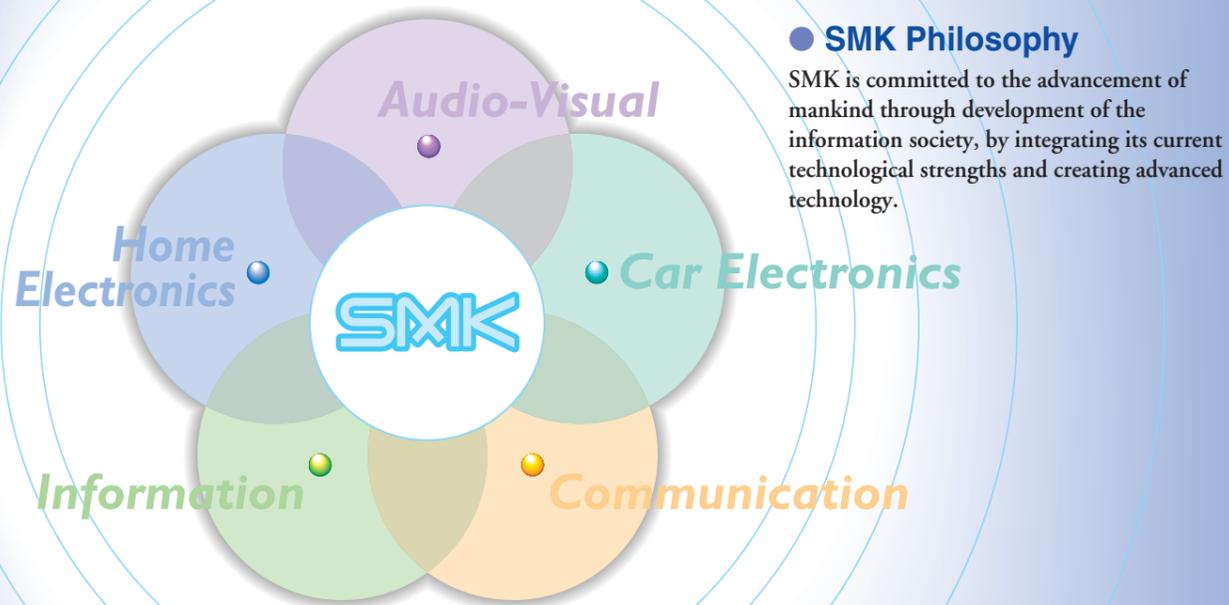
For the fiscal year ended March 31, 2007



SMK CORPORATION

“Innovation and Creation”

— Keeping up with Changes



● 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.

Contents

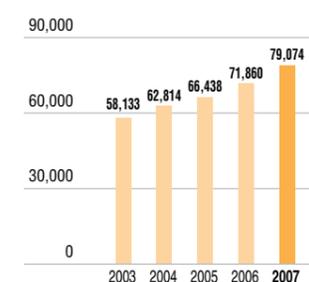
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Financial Highlights

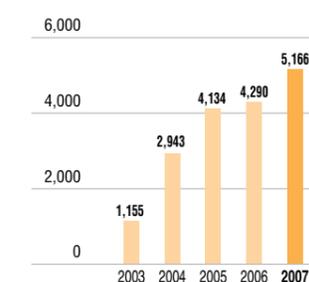
	Millions of yen		Percent Change 2006/2007	Thousands of U.S. dollars 2007
	2006	2007		
Operating Results				
Net sales	¥ 71,860	¥ 79,074	10.0%	\$ 669,841
Operating income	4,290	5,166	20.4	43,765
Net income	3,473	3,693	6.3	31,287
Financial Position				
Total assets	¥ 61,344	¥ 65,575	6.9%	\$ 555,488
Total net assets	32,736	34,564	5.6	292,792
Per Share Data				
Net income	Yen		U.S. dollars	
Basic	¥ 44.33	¥ 47.48	7.1%	\$ 0.40
Diluted	44.13	47.41	7.4	0.40
Cash dividends	10.00	14.00	40.0	0.12

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥118.05 = U.S. \$1.00.

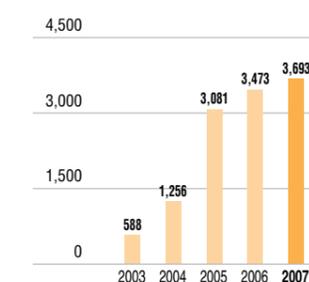
Net sales
Millions of yen



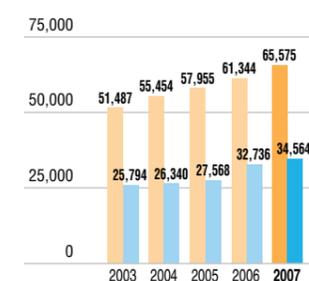
Operating income
Millions of yen



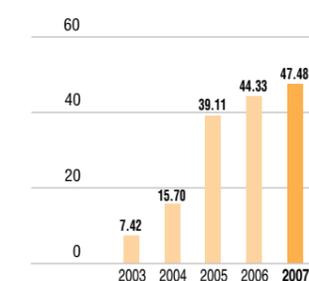
Net income
Millions of yen



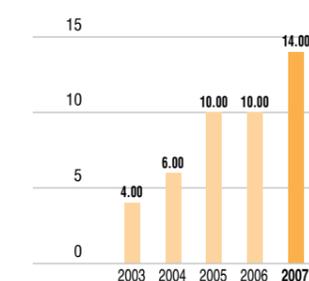
Total assets/Total net assets
Millions of yen



Basic net income per share
Yen



Cash dividends per share
Yen





Terutaka Ikeda
Chairman and
Chief Executive Officer

Tetsuya Nakamura
President and
Chief Operating Officer

Sales and Income Increase for the Fourth Consecutive Term

During the term under review, the global economy experienced sustained, balanced growth, notwithstanding a slight slowdown in the U.S. economy caused by factors such as a housing industry correction. In particular, economic growth in BRIC nations centering on China and India contributed to an increase in capital investment in fields relating to steel and machinery.

In the Japanese economy, corporate revenue increased steadily in areas centering on exports and related businesses thanks to strong overseas demand and the depreciation of the yen. In addition, capital investment by corporations has been continuing to increase. Although personal consumption has remained sluggish, it is our view that the upward trend of the economy will continue.

In the electronics industry, overall demand has expanded, especially demand for flat panel televisions and mobile phones, which have shown steady growth. Demands for mobile phones and digital consumer electronics, etc., are expected to grow further in the future in countries, especially the BRICs whose economy is growing remarkably.

In this business environment, in spite of negative factors such as an appreciation of raw material prices and declining product prices, SMK increased both sales and income for the fourth consecutive term through business initiatives that included efforts to reduce costs.

“Innovation and Creation” — Keeping up with Changes

Based on our corporate philosophy of being “committed to the advancement of mankind through development of the information society, by integrating current technological strengths and creating advanced technology,” we aim to “establish a position as the leading supplier of information technology infrastructure in the global information society.”

In recent years, the pace of changes has been increasingly accelerating; Chinese economy, in particular, has been growing at a dizzying speed, which has drawn global attention as a new market. The SMK Group is making the best of these circumstances by seeking production efficiency at each production site in China by spurring the mechanization and automation of production process, etc. On the other hand, new issues such as an energy shortage and environmental pollution have also surfaced. The Group considers it necessary to address these issues adequately in the future.

In order to respond quickly to such rapid changes and continue to achieve sales with fair profit, we will enhance our capability to respond to changes under our new slogan “Innovation and Creation” in the coming fiscal year.

Commitment to Corporate Social Responsibility (CSR)

As a part of our commitment to fulfill our CSR, our social contributions include manufacturing environment-friendly goods and supporting the activities of the Showa Ikeda Memorial Foundation. However, because of a recent string of corporate scandals, society’s awareness for the importance of compliance and internal control systems to prevent such harmful actions has grown. We, as the SMK Group, will take every possible measure to ensure management transparency by developing the corporate governance systems fully.

All employees of SMK are united in their determination to further increase corporate value and income. We hope that we can continue to count on the understanding and support of our shareholders as we pursue this goal.

June 2007

A handwritten signature in black ink, appearing to read 'Terutaka Ikeda'.

Terutaka Ikeda
Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Tetsuya Nakamura'.

Tetsuya Nakamura
President and Chief Operating Officer

Sales and Market Overview

(April 1, 2006 to March 31, 2007)

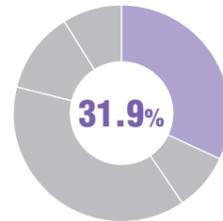
(Year ended March 31)

Net Sales Millions of yen				
2004	2005	2006	2007	2008 (plan)
19,573	21,913	24,086	25,262	26,377

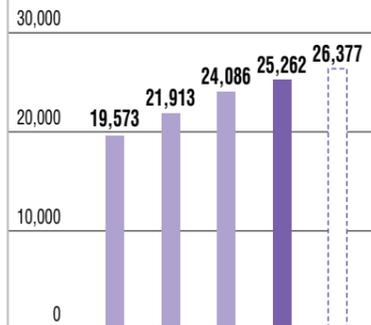
Audio-Visual



HDMI Standard Type A receptacle



Audio-visual parts
25,262 million yen

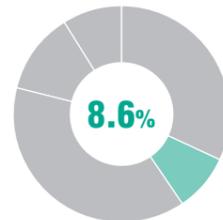


Sales of remote controls, connectors and control switch units grew as demand for flat-panel televisions increased on a global scale. In European and North American markets, remote controls for set-top boxes were bullish. We will continue to aggressively develop new products for the digital audio-visual market, which is set to continue to expand.

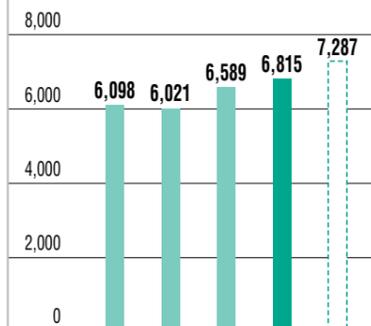
Car Electronics



"Force-feedback" touch panels

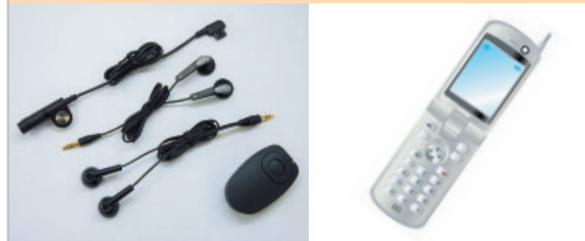


Electronic instruments
6,815 million yen

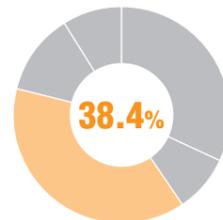


In the car audio and car navigation system market, demand for parts remained strong. In particular, demand expanded in areas relating to connections with portable audio players and rear-seat audio-visual equipment. Demand for jacks also increased. From this point on, we will expand sales of parts used in operating systems, while promoting sales of connectors and other products compatible with cameras mounted on vehicles.

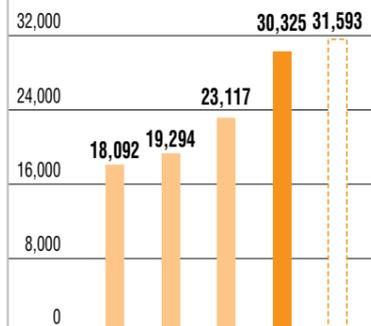
Communication



Stereo earphone-microphone and Bluetooth unit



Communications parts
30,325 million yen

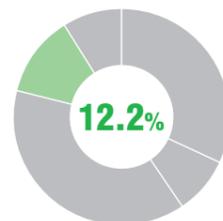


The cellular phone market expanded overseas centering on BRIC nations. Sales of connectors to major overseas manufacturers made a substantial contribution to our performance as demand shifted to high-function models globally. We will continue to upgrade and expand accessory parts and operation switches for connectors and other products, to respond to the trend for adding high-functionality to cellular phones, such as music downloads and high-speed data transmissions.

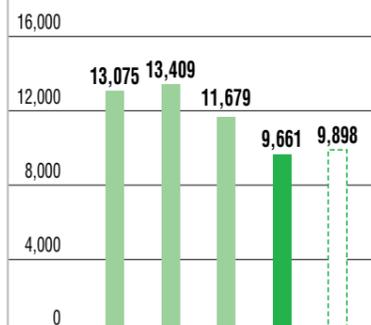
Information



xD-4in1 card connectors

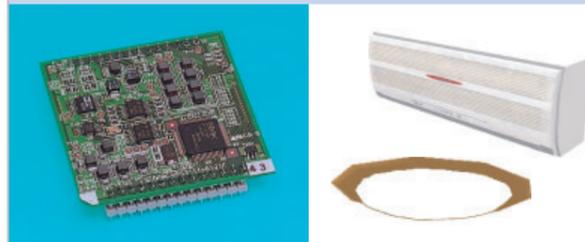


Information parts
9,661 million yen

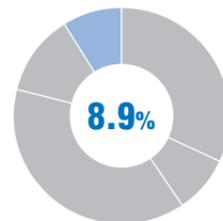


We established access to major overseas manufacturers, but we struggled with factors such as the delayed release of the new operating software (Windows Vista). As a result, sales of PC-related parts made a smaller contribution than expected, while demand for parts for digital still cameras declined as the prices of these products plummeted. We will strengthen activities such as the development of connectors for laptop PCs whose market size is continuing to expand.

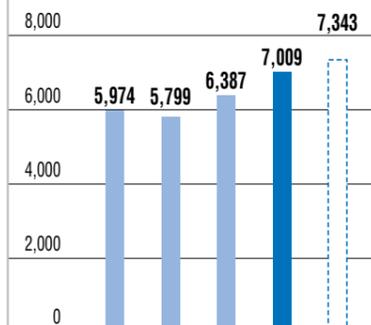
Home Electronics



DS-SS modulation/demodulation engine for PLC



Electronic toys, home electronics and other parts
7,009 million yen



Demand for connectors expanded in the video game market booming with new product releases, while demand for remote controls for air-conditioners and lighting fixtures remained strong. We will continue our development of connectors for next-generation lighting fixtures and other products that meet needs for energy conservation, and strengthen our capabilities to developing and marketing products containing wireless modules in relation as typified by Bluetooth-compatible products.

Future Outlook

The electronic component industry is expected to sustain its growth in the medium and long terms, supported by such factors as an anticipated expansion of the new market for digital home appliances, mainly in Japan, the United States and Europe, and steady demand for cellular phones in domestic and overseas markets including BRIC nations.

To continue to achieve our growth in an increasingly difficult environment, SMK is resolved to focus on responding rapidly to growth areas, cultivating new markets, developing new products and technologies based on customer demand, advancing manufacturing technologies, and establishing an efficient sales organization through initiatives in telecommunications, IT and digital home appliances as the basis for such efforts. At the same time, we will endeavor to increase our cost competitiveness and improve our business performance.

For the coming fiscal year, we anticipate an increase in consolidated net sales of 4.3% year-on-year, to 82.5 billion yen, with operating income of 5.5 billion yen, ordinary income of 6.2 billion yen and net income of 4.0 billion yen.

Type B Micro-USB connector developed

We have developed the USB-Compliant model, Type B Micro-USB Connector, and have started shipping samples. In developing this product, we participated in the USB Implementers Forum and advanced standardization. We released this product after Micro-USB specifications were added to the USB Standard.

Compared with previous USB Mini-B connectors, this new product has achieved a 60% reduction in cubic volume. In light of the most suitable applications for high speed data transfer of USB2.0Hi Speed (480M bps) and charging functions, it is optimal external connectors of small devices such as mobile phones, digital cameras, PDAs and portable music players. Operating life of receptacles and plugs extend to as many as 10,000 cycles.

We have added three types of receptacles: normal type, reverse type and mid-mount type. We plan to broaden our product range further.



Type B Micro-USB connector

Favorable order receipts and sales of remote controls for FPD

SMK has focused on the development of remote controls designed for flat-panel displays (FPDs), which have been continuing to enjoy remarkable growth among audio-visual equipment in recent years. Our FPD remote controls for FPD have been achieving strong results in both order receipts and sales.

We have introduced products adapted to the enhanced functionality and multifunctionality of LCDs (liquid crystal displays) and PDPs (plasma displays) ahead of the trend. They are contributing to improving set operations.

Key Features

- Our remote controls adopt easy-to-use designs based on ergonomics, such as use of large buttons.
- We offer remote controls equipped with multi-function devices including jog dials that guarantee operational comfort at the time of menu selection.
- High quality coating adds a sense of exclusivity to FPD remote controls.

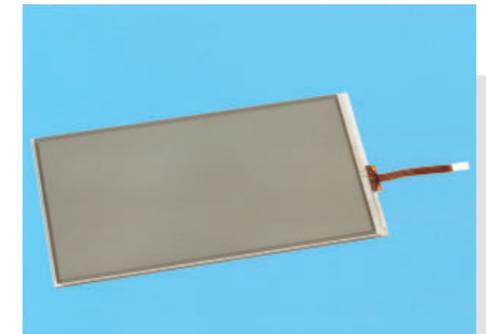


Low-reflection touch panel using high heat-resistant film and glass developed and marketed

We have developed a low-reflection touch panel using high heat-resistant film and glass, and has begun receiving orders for the product. This new touch panel uses film for the upper electrode and glass for the lower electrode. The panel is pasted together with a polarizing plate and a differential phase shifter.

Touch panels mounted on cars need to have impressive heat resistance. Along with high heat-resistant products, low-reflection touch panels that prevent the reflection of direct sunlight and increase visibility of LCDs are finding increasing demand. At present, touch panels consisting entirely of glass are mostly used. This new product consists of low-price film and glass. Nonetheless, it reduced the reflection rate from the previous level of more than 15% to 7%, thanks to an improved structure.

Moreover, with the addition of anti-reflection (AR) processing on both sides of the touch panel, the reflection rate falls to 1.5%. The product makes it possible to reduce the reflection of direct sunlight and improve viewing capabilities. We plan to produce it at a rate of 100,000 units per month at our Philippines plant.



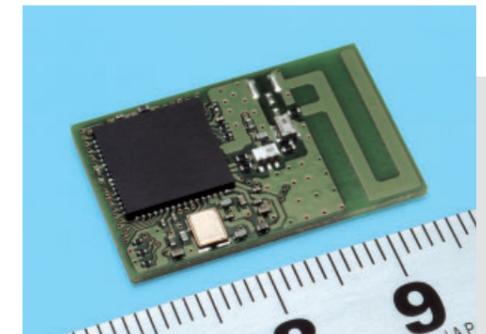
Highly heat resistant film + glass type low reflectance touch panel

2.4 GHz Band Wireless Communication Module (Compliant to IEEE 802.15.4), developed

SMK has developed 2.4 GHz Band Wireless Communication Module (Compliant to IEEE 802.15.4) and started pre-marketing activities with it.

We have seen increase in demand for RF communication modules in a large number of market segments in recent years. Above all of them, IEEE 802.15.4 has attracted attentions of the market as a standard of short-distance wireless communication that will realize low current consumption and high cost-effectiveness. This market trend has encouraged us to develop and market 2.4 GHz Band Wireless Communication Module, which complies with IEEE 802.15.4 and successfully delivers ease of use and low power operation to customers.

It is much expected that this module will outstandingly expand our product lines of RF communication modules.



2.4 GHz Band Wireless Communication Module (Compliant to IEEE 802.15.4 Standard)

SMK improves its overall rank in the Nikkei PRISM ranking of excellent companies

In the Nikkei PRISM ranking of excellent companies published in March 2007, SMK improved its position from the 314th to 254th. This ranking arranges in order a group of companies experts consider “excellent,” by creating evaluation models based on the four criteria of “flexibility and social nature,” “income and growth potential,” “research and development,” and “youthfulness” and calculating scores on the basis of research data and financial statements.

SMK improved its evaluations particularly in the areas of “income and growth potential” and “flexibility and social nature.” The higher evaluations contributed to the rise in the Company’s overall score.

“Nikkei PRISM” ranking of excellent companies (overall rank)



SMK’s rank is published in the Nihon Keizai Shimbun newspaper as it enters the top 300.

(The survey for the ranking was conducted on a total of 2,219 listed companies and prominent unlisted companies from October 2006 to December 2006. Of this total, 1,047 companies provided valid responses. In principle, the financial statements used were the most recent for periods to the term ended on March 31, 2006. Figures used were consolidated accounting figures (non-consolidated accounting figures were used when consolidated ones were not published or otherwise unavailable). Business performance predictions were partially used to produce the ranking.)
(Source: March 5, 2007 edition of the Nihon Keizai Shimbun newspaper)

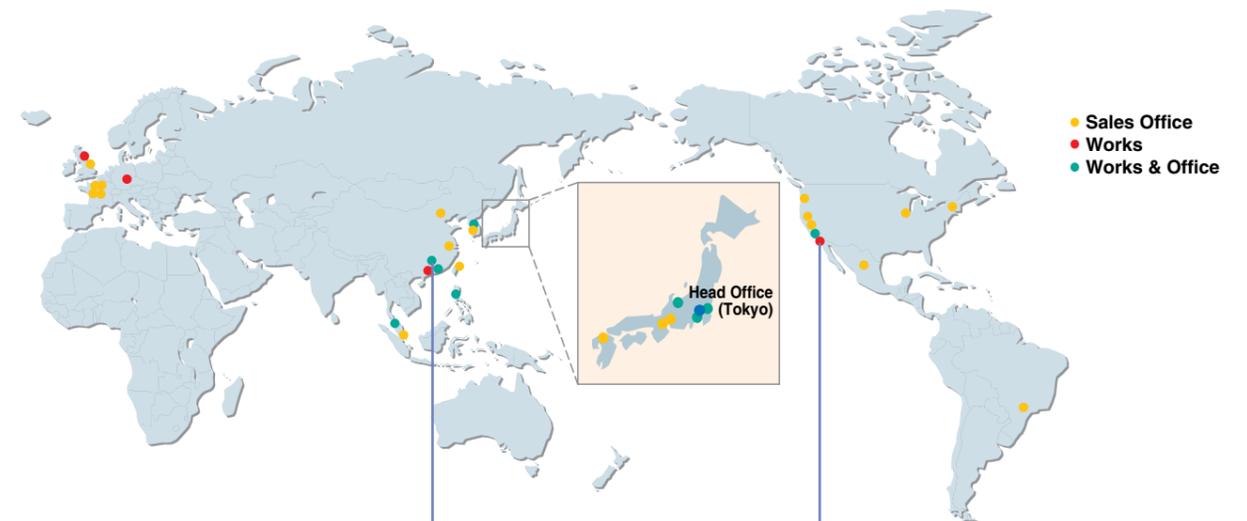
SMK supports a participating vehicle in the “Peking to Paris Motor Challenge 2007”

SMK is the sponsor of the “SMK Special,” a 1916 Lancia Theta currently competing in the “Beijing to Paris” rally that started in May 2007. In principle, the rally is only open to vehicles manufactured in 1969 or earlier. This is the third occasion that the rally has been held, and it commemorates 100 years since the original 1907 event. Departing Beijing on May 27, participating vehicles drive a total driving distance of 12,200 km half way across the world traversing nine countries to arrive in Paris on June 30.

The corporate logo “SMK” is displayed in a large size on all four sides of the SMK Special. Scenes from the rally will be distributed to countries around the world as a video documentary. Many overseas newspapers and magazines are also expected to cover the event. We believe the SMK Special can contribute to our efforts to promote the SMK brand.



“SMK Special”



Shenzhen, China

SMK Electronics (Shenzhen) Co., Ltd.



Mexico

SMK Electronica S.A. de C.V.



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 Trading (Shanghai) Co., Ltd. Beijing Office
- SMK Electronics Int'l Trading (Shanghai) Co., Ltd.
- SMK Electronics Singapore Pte. Ltd.
- SMK Electronics (Malaysia) Sdn. Bhd.
- SMK Electronics (Phils.) Corporation
- SMK Korea Co., Ltd.
- SMK Korea Co., Ltd. Seoul Office

EUROPE

- SMK Europe N.V.
- SMK Europe N.V., U.K. Branch
- SMK Europe N.V., France Branch
- SMK Europe N.V., Munich Office
- SMK Europe N.V., Dortmund 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 Electronics Corporation U.S.A., Chicago Office
- SMK Manufacturing, Inc.
- SMK Electronica S.A. de C.V.

SOUTH AMERICA

- SMK São Paulo Indústria Eletrônica Ltda.

Five-Year Summary

SMK Corporation and Consolidated Subsidiaries

Year ended and as of March 31	Millions of yen					Thousands of U.S. dollars
	2003	2004	2005	2006	2007	2007
Operating Results						
Net sales	¥ 58,133	¥ 62,814	¥ 66,438	¥ 71,860	¥ 79,074	\$ 669,841
Operating income	1,155	2,943	4,134	4,290	5,166	43,765
Net income	588	1,256	3,081	3,473	3,693	31,287
Financial Position						
Total assets	¥ 51,487	¥ 55,454	¥ 57,955	¥ 61,344	¥ 65,575	\$ 555,488
Total net assets	25,794	26,340	27,568	32,736	34,564	292,792
Per Share Data						
Total net assets	¥ 328.72	¥ 336.69	¥ 362.88	¥ 416.04	¥ 445.33	\$ 3.77
Net income						
Basic	7.42	15.70	39.11	44.33	47.48	0.40
Diluted	7.42	15.66	38.94	44.13	47.41	0.40
Cash dividends	4.00	6.00	10.00	10.00	14.00	0.12

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SMK's net sales for fiscal 2007, which ended on March 31, 2007, increased 10.0% year-on-year, to ¥79,074 million (US\$669,841 thousand). Both operating income and net income surpassed the levels of the preceding fiscal year, reaching ¥5,166 million (US\$43,765 thousand) and ¥3,693 million (US\$31,287 thousand), respectively.

Net sales

Net sales increased 10.0% year-on-year, to ¥79,074 million (US\$669,841 thousand) thanks to a significant contribution by sales for connectors against the rising demands for cellular phones in BRICs-centric area, including China.

Operating Income

In addition to an increase of net sales, operating income exceeded the level of previous fiscal year, to ¥5,166 million (US\$43,765 thousand) as a result of our cost reduction efforts.

Net Income

Including good performance in operating income and the posting of foreign currency translation gains due to Yen depreciation, net income outperformed the level of previous fiscal year, to ¥3,693 million (US\$31,287 thousand).

Total Net Assets/ROE

As of March 31, 2007, total net assets were at ¥34,564 million (US\$292,792 thousand). ROE was at 11.0%.

Total Assets/ROA

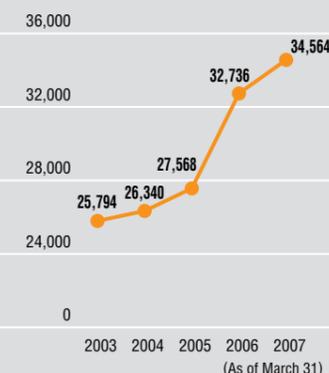
As of March 31, 2007, total assets were ¥65,575 million (US\$555,488 thousand). ROA was at 5.8%.

Cash Flows

Net cash flow from operating activities amounted to ¥5,713 million (US\$48,399 thousand), net cash used in investing activities totaled ¥6,763 million (US\$57,293 thousand) and net cash used in financing activities was valued at ¥2 million (US\$19 thousand).

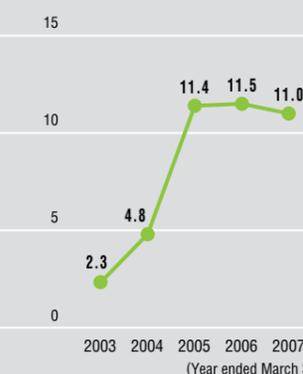
Total net assets

Millions of yen



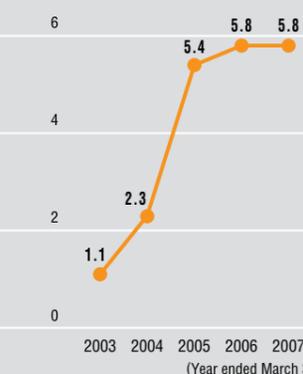
Return on equity (ROE)

%



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)
	2006	2007	2007
Current assets			
Cash and cash equivalents	¥ 8,464	¥ 7,562	\$ 64,058
Time deposits	225	993	8,412
Notes and accounts receivable, trade	20,448	21,644	183,346
Allowance for doubtful accounts	(60)	(81)	(687)
Inventories (Note 3)	5,597	6,396	54,178
Deferred tax assets (Note 8)	839	982	8,315
Other current assets	1,285	1,613	13,676
	36,798	39,109	331,298
Investments and long-term loans			
Investment securities (Note 12)	4,308	4,154	35,187
Long-term loans receivable	1,018	1,186	10,048
Other investments	1,691	1,527	12,936
Allowance for doubtful accounts	(383)	(290)	(2,459)
	6,634	6,577	55,712
Property, plant and equipment (Note 4)			
Land	3,598	4,372	37,038
Buildings	15,667	16,238	137,551
Machinery and vehicles	14,375	15,829	134,083
Tooling and office furnitures	22,228	23,250	196,954
Construction in progress	140	111	937
	56,008	59,800	506,563
Less-Accumulated depreciation	(39,294)	(41,140)	(348,498)
	16,714	18,660	158,065
Other assets			
Deferred tax assets (Note 8)	966	999	8,463
Intangible assets	232	230	1,950
	1,198	1,229	10,413
Total assets	¥ 61,344	¥ 65,575	\$ 555,488

See accompanying notes to consolidated financial statements.

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2007	2007
Current liabilities			
Short-term loans payable (Note 4)	¥ 9,968	¥ 12,562	\$ 106,409
Notes and accounts payable, trade	5,108	4,983	42,212
Accrued income taxes	590	1,112	9,419
Accrued bonus	992	1,100	9,314
Accrued directors' bonus	—	95	805
Accounts payable, non trade	4,482	5,322	45,083
Other current liabilities	1,080	1,176	9,972
	22,220	26,350	223,214
Long-term liabilities			
Corporate bond	300	300	2,541
Long-term debt (Note 4)	4,151	3,141	26,610
Accrued employees' retirement benefits (Note 13)	1,234	447	3,783
Accrued directors' and officers' retirement benefits	345	344	2,916
Other long-term liabilities	358	429	3,632
	6,388	4,661	39,482
Net assets			
Shareholders' equity (Note 9)			
Common stock			
Authorized: 195,961,274 shares			
Issued and outstanding: 79,000,000 shares	7,996	7,996	67,741
Capital surplus	12,429	12,390	104,952
Retained earnings	12,683	15,461	130,956
Treasury stock (Note 11)	(312)	(992)	(8,402)
	32,796	34,855	295,247
Valuation, translation adjustments and other			
Net unrealized gains on other securities	840	425	3,604
Foreign currency translation adjustments	(906)	(723)	(6,121)
	(66)	(298)	(2,517)
Minority Interests	6	7	62
	32,736	34,564	292,792
Total liabilities and net assets	¥ 61,344	¥ 65,575	\$ 555,488

Consolidated Statements of Cash Flows

SMK Corporation and Consolidated Subsidiaries
Year ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2007	2007
Cash flows from operating activities			
Income before income taxes	¥ 5,058	¥ 6,224	\$ 52,723
Depreciation and amortization	3,395	3,669	31,077
Increase in accrued directors' bonus	—	95	805
Decrease in accrued employees' retirement benefits	(313)	(789)	(6,683)
Increase (decrease) in accrued directors' retirement benefits	34	(1)	(8)
Increase (decrease) in allowance for doubtful accounts	16	(6)	(53)
Interest and dividend income	(178)	(243)	(2,057)
Interest expense	168	201	1,704
Loss on disposal of fixed assets	273	203	1,721
Impairment loss	—	352	2,982
Loss on liquidation of contributions	221	—	—
Increase (decrease) in notes and accounts receivable, trade	256	(1,488)	(12,605)
Increase in inventories	(0)	(729)	(6,173)
Increase (decrease) in notes and accounts payable, trade	(791)	140	1,189
Other	95	(43)	(360)
Subtotal	8,234	7,585	64,262
Receipts for interest and dividend income	175	248	2,100
Payments of interest expenses	(171)	(196)	(1,661)
Payments of income taxes	(1,673)	(1,924)	(16,302)
Net cash provided by operating activities	6,565	5,713	48,399
Cash flows from investing activities			
Payments into time deposits	(231)	(1,014)	(8,588)
Proceeds from time deposits	204	304	2,576
Purchases of fixed assets	(3,946)	(6,099)	(51,665)
Proceeds from sale of fixed assets	289	361	3,058
Purchases of intangible fixed assets	(27)	(41)	(345)
Purchases of investment securities	(69)	(1,271)	(10,767)
Proceeds from sale of investment securities	3	990	8,389
Purchases of subsidiaries' stock	(82)	—	—
Payment on loans receivable	(444)	(206)	(1,746)
Proceeds from loans receivable	108	199	1,688
Other	(7)	14	107
Net cash used in investing activities	(4,202)	(6,763)	(57,293)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	(1,570)	1,889	15,998
Proceeds from long-term debt	200	528	4,464
Payments of long-term debt	(698)	(842)	(7,129)
Purchases of treasury stock	(74)	(774)	(6,552)
Proceeds from sale of treasury stock	1,681	55	465
Dividends paid	(1,133)	(858)	(7,265)
Other	12	—	—
Net cash used in financing activities	(1,582)	(2)	(19)
Effect of exchange rate changes on cash and cash equivalents	373	(165)	(1,401)
Increase (decrease) in cash and cash equivalents	1,154	(1,217)	(10,314)
Cash and cash equivalents at beginning of year	7,314	8,464	71,702
Increase in cash and cash equivalents arising from inclusion of subsidiaries in consolidation	5	315	2,670
Decrease in cash and cash equivalents due to exclusion of a subsidiary from consolidation	(9)	—	—
Cash and cash equivalents at end of year	¥ 8,464	¥ 7,562	\$ 64,058

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.
- (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: 20
The remaining 5 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, 2007, SMK Electronics Trading Shanghai company limited and SMK Electronics International Trading Shanghai company limited were included in the scope of consolidation in view of its increased importance.
- (d) Application of equity method of accounting
Number of affiliated companies accounted for by the equity method: 2
The 5 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 directors' bonuses

Effective from the year ended March 31, 2007, the Company adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan "ASBJ" Statement No. 4 issued by the ASBJ on November 29, 2005).
Accrued directors' bonuses are provided on the estimate of the amounts to be paid in the future by the Company based on an accrual basis at the balance sheet date.

As a result, operating income, and income before income taxes has decreased by 95 million yen, respectively.

(n) 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 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.

(o) Accrued directors' and officers' retirement benefits

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.

(p) 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.

(q) 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.

(r) 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.

(s) 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 = ¥118.05, the approximate rate of exchange at March 31, 2007. 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, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Finished products	¥ 2,775	¥ 3,358	\$ 28,443
Work in process	428	451	3,820
Raw materials	2,348	2,534	21,469
Supplies	46	53	446
	¥ 5,597	¥ 6,396	\$ 54,178

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 0.78636% to 7.5% per annum as of March 31, 2007.

Long-term debt as of March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Loans, principally to banks with interest rates ranging from 0.78636% to 7.5%:			
Secured	¥ 2,112	¥ 1,531	\$ 12,969
Unsecured	2,863	3,130	26,513
Less: portion due within one year	(824)	(1,520)	(12,872)
	¥ 4,151	¥ 3,141	\$ 26,610

The assets pledged as collateral for long-term debt as of March 31, 2007 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment-book value	¥ 2,476	\$ 20,977

The aggregate annual maturities of long-term debt outstanding as of March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 1,520	\$ 12,872
2009	1,909	16,167
2010	330	2,800
2011	369	3,131
2012 and thereafter	533	4,512
	¥ 4,661	\$ 39,482

Note 5. Research and development costs

Research and development costs included in cost of sales for the years ended March 31, 2006 and 2007 amounted to ¥3,522 million and ¥3,972 million (\$33,648 thousand), respectively.

Note 6. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Freight and packing cost	¥ 620	¥ 646	\$ 5,468
Salaries and wages of employees	2,861	3,093	26,199
Provision for bonus	376	386	3,269
Provision for directors' bonus	—	95	805
Retirement benefit cost	90	(52)	(437)
Provision for directors' and officers' retirement benefit	45	63	534
Depreciation	212	194	1,644

Note 7. Impairment of fixed assets

From the year ended March 31, 2006, the Company accounted for fixed assets in accordance with "Opinion Concerning Establishment of Accounting Standard for Impairment of fixed Assets" issued by the Business Accounting Deliberation Council and "Guidance for the Application of Accounting Standard for Impairment of Fixed Assets" issued by the Accounting Standards Board of Japan. Under this standard and guidance an impairment loss be recognized where the carrying amount of asset exceeds undiscounted future net cash flows expected to be generated by such asset. The impairment loss is measured by the amount by which the carrying amount of the asset exceeds its recoverable amount being higher of discounted future net cash flows or net realizable value.

For the year ended March 31, 2007, the impairment losses were recognized for the following assets.

Asset group	Location	Use	Millions of yen				
			2007				
			Buildings	Machinery and vehicles	Tooling and office furnitures	Leased assets	Total
Touch panel	Japan	Touch panel production facilities	¥ 90	¥ 189	¥ 34	¥ 6	¥ 319
SMK Korea Co., Ltd.	Korea	Switch production facilities	1	6	26	—	33
Total			¥ 91	¥ 195	¥ 60	¥ 6	¥ 352

Asset group	Location	Use	Thousands of U.S. dollars				
			2007				
			Buildings	Machinery and vehicles	Tooling and office furnitures	Leased assets	Total
Touch panel	Japan	Touch panel production facilities	\$ 764	\$ 1,598	\$ 289	\$ 54	\$ 2,705
SMK Korea Co., Ltd.	Korea	Switch production facilities	4	52	221	—	277
Total			\$ 768	\$ 1,650	\$ 510	\$ 54	\$ 2,982

Note 8. Income taxes

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 40.5% for the years ended March 31, 2006 and 2007 respectively. Reconciliations between the statutory tax rate and the effective tax rates for the years ended March 31, 2006 and 2007 are as follows:

	2006	2007
Statutory tax rate	40.5%	40.5%
Items such as entertainment expenses permanently not deductible for tax purposes	—	1.4
Tax credit for research and development cost	(3.3)	(3.1)
Foreign tax credit	(6.7)	(2.3)
Change in valuation allowance	0.3	(2.0)
Statutory tax rate differences in subsidiaries	(10.2)	(7.2)
Elimination of dividend income	14.5	10.7
Other	(3.8)	2.6
Effective tax rates	31.3%	40.6%

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006	2007	2007	2006	2007	2007
Deferred tax assets:						
Inventory write-down disallowed	¥ 79	¥ 75	\$ 637			
Accrued bonuses disallowed	387	430	3,645			
Unrealized holding profit of inventory	65	76	642			
Retirement benefits disallowed	1,287	970	8,216			
Accrued directors' and officers' retirement benefits	140	—	—			
Impairment loss	—	129	1,095			
Operating loss carryforwards for tax purposes	387	323	2,739			
Other	982	1,022	8,661			
Valuation allowance	(647)	(534)	(4,530)			
Deferred tax assets	2,680	2,491	21,105			
Deferred tax liabilities:						
Deferred gain on land	(108)	(108)	(918)			
Advanced depreciation on buildings	(167)	(152)	(1,292)			
Reserve for special depreciation	(28)	(25)	(209)			
Net unrealized gains on other securities	(572)	(225)	(1,908)			
Other	(72)	(63)	(533)			
Net deferred tax assets	¥ 1,733	¥ 1,918	\$ 16,245			

Note 9. Shareholders' equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

Note 10. Contingent liabilities

Contingent liabilities as of March 31, 2006 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006	2007	2007	2006	2007	2007
Guarantees of loans	¥ 500	¥ 500	\$ 4,235			

Note 11. 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, 2006 and 2007 totaled 531,826 shares and 1,401,902 shares, respectively.

Note 12. Securities

Information regarding marketable securities classified as other securities at March 31, 2006 and 2007 were summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Costs	Fair value	Unrealized gain (loss)	Costs	Fair value	Unrealized gain (loss)	Costs	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost									
Stocks	¥ 1,512	¥ 2,504	¥ 992	¥ 623	¥ 1,321	¥ 698	\$ 5,279	\$ 11,194	\$ 5,915
Others	513	950	437	156	206	50	1,323	1,748	425
	2,025	3,454	1,429	779	1,527	748	6,602	12,942	6,340
Securities whose cost exceeds their fair value									
Stocks	66	51	(15)	2,136	2,043	(93)	18,098	17,307	(791)
Others	50	48	(2)	50	46	(4)	424	387	(37)
	116	99	(17)	2,186	2,089	(97)	18,522	17,694	(828)
Total	¥ 2,141	¥ 3,553	¥ 1,412	¥ 2,965	¥ 3,616	¥ 651	\$ 25,124	\$ 30,636	\$ 5,512

Information regarding sales of securities for the years ended March 31, 2006 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2007	2006	2007
Sales of securities	¥ 2	¥ 990	\$ 8,389	
Gains of sales	0	544	4,613	
Losses on sales	0	—	—	

Information regarding other securities without market value at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2006	2007	2006	2007
Unlisted securities	¥ 529	¥ 529	\$ 4,484	

The schedule for redemption of other securities with maturity dates at March 31, 2006 and 2007 were summarized as follows:

	Millions of yen					
	2006			2007		
	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	¥ —	¥ 530	¥ 29	¥ 175	¥ 50	¥ 27
	Thousands of U.S. dollars					
	2006			2007		
	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	\$ 1,481	\$ 425	\$ 229			

Note 13. Accrued employees' 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, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars	
	2006	2007	2006	2007
Retirement benefit obligation	¥ 7,099	¥ 6,856	\$ 58,078	
Fair value of plan assets	(8,654)	(8,612)	(72,954)	
Funded status	(1,555)	(1,756)	(14,876)	
Unrecognized actuarial losses	1,378	1,265	10,714	
Unrecognized prior service cost	1,411	938	7,945	
Accrued employees' retirement benefits	¥ 1,234	¥ 447	\$ 3,783	

(c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars	
	2006	2007	2006	2007
Service cost, net of plan participants' contributions	¥ 264	¥ 286	\$ 2,422	
Interest cost	141	142	1,198	
Expected returns on plan assets	(188)	(228)	(1,933)	
Amortization of unrecognized actuarial losses	485	39	329	
Amortization of unrecognized prior service cost	(473)	(473)	(4,004)	
Contribution to defined contribution pension plan	43	44	376	
Net periodic cost	¥ 272	¥ (190)	\$ (1,612)	

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

	2006	2007
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 unrecognized prior service cost	5 years	5 years

Note 14. 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)
	2006	2007	2006	2007	2006	2007	2007	2007	2007
Forward foreign exchange contracts:									
Sell:									
US\$	¥ 413	¥ 343	¥ 422	¥ 342	¥ (9)	¥ (1)	\$ 2,905	\$ 2,899	\$ (6)
EUR	59	50	59	51	0	1	424	430	6
NT\$	90	90	91	89	(1)	(1)	762	757	(5)
Total	¥ 562	¥ 483	¥ 572	¥ 482	¥ (10)	¥ (1)	\$ 4,091	\$ 4,086	\$ (5)

(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 15. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2006 and 2007, 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	
	2006	2007	2006	2007	2006	2007
Machinery and vehicles	¥ 885	¥ 901	¥ 161	¥ 293	¥ 724	¥ 608
Tooling and office furniture	59	53	19	25	40	28
Total	¥ 944	¥ 954	¥ 180	¥ 318	¥ 764	¥ 636

(Thousands of U.S. dollars)	Acquisition costs		Accumulated depreciation		Net book value	
	2007	2007	2007	2007	2007	2007
Machinery and vehicles	\$ 7,630		\$ 2,482		\$ 5,148	
Tooling and office furniture	449		209		240	
Total	\$ 8,079		\$ 2,691		\$ 5,388	

The amount of outstanding future lease payments for finance leases subsequent to March 31, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥ 147	¥ 155	\$ 1,313
Due over one year	634	514	4,357
Total	¥ 781	¥ 669	\$ 5,670

Lease expenses and pro forma amounts of depreciation and interest expense for finance leases for the years ended March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Lease expenses	¥ 136	¥ 195	\$ 1,656
Depreciation	¥ 116	¥ 162	\$ 1,370
Interest expense	¥ 31	¥ 44	\$ 375
Impairment losses	¥ —	¥ 6	\$ 55

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 16. 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

	Millions of yen					
	Japan	Asia	North America	Other areas	Eliminations or corporate	Consolidated
2006						
Net sales						
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
Cost and expenses	54,802	34,924	12,304	2,606	(37,066)	67,570
Operating income	1,231	1,694	1,405	(41)	1	4,290
Identifiable assets	53,064	14,280	5,429	1,729	(13,158)	61,344

	Millions of yen					
	Japan	Asia	North America	Other areas	Eliminations or corporate	Consolidated
2007						
Net sales						
Outside customers	¥ 36,905	¥ 23,339	¥ 15,894	¥ 2,936	¥ —	¥ 79,074
Intersegment sales	23,347	20,647	23	122	(44,139)	—
Total	60,252	43,986	15,917	3,058	(44,139)	79,074
Cost and expenses	58,657	42,217	14,090	3,079	(44,135)	73,908
Operating income	1,595	1,769	1,827	(21)	(4)	5,166
Identifiable assets	55,351	17,486	6,604	1,258	(15,124)	65,575

	Thousands of U.S. dollars					
	Japan	Asia	North America	Other areas	Eliminations or corporate	Consolidated
2007						
Net sales						
Outside customers	\$ 312,623	\$ 197,704	\$ 134,642	\$ 24,872	\$ —	\$ 669,841
Intersegment sales	197,773	174,896	197	1,033	(373,899)	—
Total	510,396	372,600	134,839	25,905	(373,899)	669,841
Cost and expenses	496,887	357,618	119,358	26,083	(373,870)	626,076
Operating income	13,509	14,982	15,481	(178)	(29)	43,765
Identifiable assets	468,880	148,122	55,942	10,656	(128,112)	555,488

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

	Millions of yen				
	Asia	North America	Europe	Other areas	Total
2006					
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

	Millions of yen				
	Asia	North America	Europe	Other areas	Total
2007					
Overseas sales	¥ 27,401	¥ 16,548	¥ 8,181	¥ 870	¥ 53,000
Consolidated sales					79,074
Ratio of overseas sales (%)	34.7	20.9	10.3	1.1	67.0

	Thousands of U.S. dollars				
	Asia	North America	Europe	Other areas	Total
2007					
Overseas sales	\$ 232,112	\$ 140,179	\$ 69,298	\$ 7,370	\$ 448,959
Consolidated sales					669,841
Ratio of overseas sales (%)	34.7	20.9	10.3	1.1	67.0

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

Note 17. Stock option plan

At the shareholders' meeting held on June 21, 2002, a stock option plan was approved. Under this plan, certain directors, employees, directors and employees of affiliated companies were granted options to purchase common stock of 1,051,000 shares in total at an exercise price of ¥293 (\$2.48). Those eligible could exercise the options when the market price exceeded 130% of the exercise price for preceding day within the term of exercise, which was from July 1, 2004 to June 30, 2007.

Stock option activities during the year ended March 31, 2007 were as follows:

Number of Shares	
Outstanding at beginning of year	86,000
Exercised	81,000
Exercisable at end of year	5,000
The weighted average price of stocks when exercised is	¥791 (\$6.70).

At the shareholders' meeting held on June 21, 2003, a stock option plan was approved. Under this plan, certain employees and employees of affiliated companies were granted options to purchase common stock of 482,000 shares in total at an exercise price of ¥442 (\$3.74). Those eligible could exercise the options when the market price exceeded 130% of the exercise price for preceding day within the term of exercise, which was from July 1, 2005 to June 30, 2008.

Stock option activities during the year ended March 31, 2007 were as follows:

Number of Shares	
Outstanding at beginning of year	220,000
Exercised	54,000
Exercisable at end of year	166,000
The weighted average price of stocks when exercised is	¥830 (\$7.03).

Note 18. Related party transactions

Significant transactions with related parties for the year ended March 31, 2007 were as follows:

	Millions of yen					
	Transactions			Balances		
2007	Loans	Guarantees	Leases	Loan receivable	Guarantees	Outstanding future lease payments
Showa Enterprise Co., Ltd.	¥ 385	¥ 500	¥ 180	¥ 1,069	¥ —	¥ 632

	Thousands of U.S. dollars					
	Transactions			Balances		
2007	Loans	Guarantees	Leases	Loan receivable	Guarantees	Outstanding future lease payments
Showa Enterprise Co., Ltd.	\$ 3,261	\$ 4,235	\$ 1,530	\$ 9,055	\$ —	\$ 5,361

Note 19. Subsequent events

On March 23, 2007, acting on the Corporation Law of Japan, the Company's Board of Directors decided to repurchase the Company's common stock of within 500,000 shares for within ¥400 million (\$3,388 thousand) during the period from April 2, 2007 to April 27, 2007. The Company repurchased 500,000 shares for ¥376 million (\$3,190 thousand). On May 17, 2007, acting on the Corporation Law of Japan, the Company's Board of Directors decided to repurchase the Company's common stock of within 1,000,000 shares for within ¥750 million (\$6,353 thousand) during the period from May 18, 2007 to June 21, 2007. The Company repurchased 500,000 shares for ¥363 million (\$3,082 thousand).



Certified Public Accountants
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 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, 2006 and 2007, and the related consolidated statements of income, changes in net assets, 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, 2006 and 2007, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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.

June 22, 2007

A MEMBER OF ERNST & YOUNG GLOBAL

(As of March 31, 2007)

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

Major shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Shares (%)
Nippon Life Insurance Company	4,001	5.06
Mizuho Corporate Bank, Ltd.	3,722	4.71
Dai Nippon Printing Co., Ltd.	3,200	4.05
Japan Trustee Services Bank, Ltd.	3,141	3.97
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,134	3.96
Mitsubishi UFJ Trust and Banking Corporation	2,420	3.06
Terutaka Ikeda	1,964	2.48
SMK Cooperating Company Share Holding Association	1,780	2.25
Meiji Yasuda Life Insurance Company	1,584	2.00
The Showa Ikeda Memorial Foundation	1,500	1.89

Note: Of the above shares owned by major shareholders, the following number of shares are held in trust operations:

Japan Trustee Service Bank, Ltd. :	3,141 thousand shares
Mitsubishi UFJ Trust and Banking Corporation :	483 thousand
Meiji Yasuda Life Insurance Company :	102 thousand

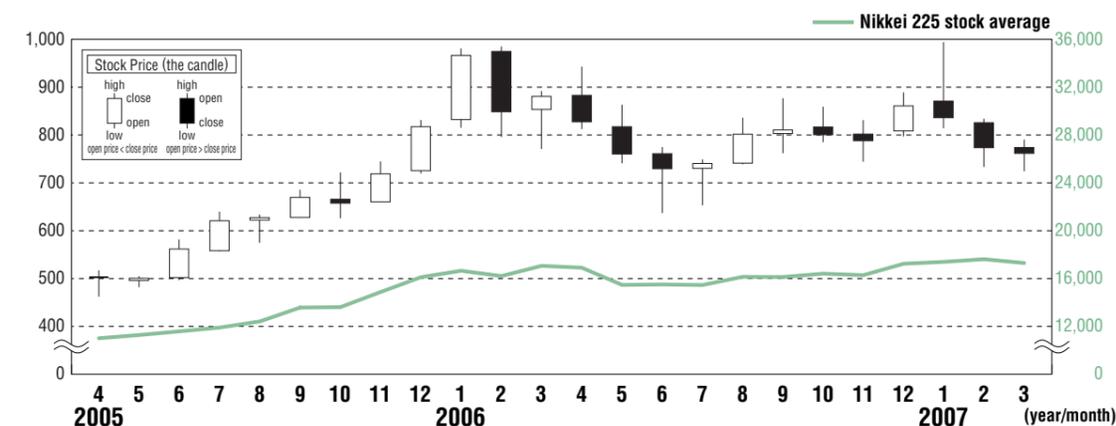
Share ownership by number

1-999 shares	3,217 (26.81%)
1,000-9,999 shares	8,208 (68.39%)
10,000-99,999 shares	487 (4.06%)
100,000-499,999 shares	63 (0.53%)
500,000- shares	25 (0.21%)

Share ownership by shareholder type (unit: share)

Financial institutions	25,529,685 (32.32%)
Securities companies	2,983,493 (3.78%)
Companies and other entities	10,021,242 (12.69%)
Foreign investors	10,050,233 (12.72%)
Individuals and others	30,415,347 (38.49%)

Share price chart (unit: yen)



Board of Directors and Corporate Auditors

(As of June 22, 2007)

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



Jun Sugimoto
Auditor

Shigenobu Oyashiki
Auditor

Hidefumi Kobayashi
Auditor

Kouichiro Sugihara
Auditor

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, 2007)

Name:	SMK Corporation
Established:	January 15, 1929
Primary business:	Manufacture and sale of various electronic machinery and parts used in power, communications and electronic equipment, other industrial machinery, information equipment, etc.
Capital:	7,996,828,021 yen
Stock exchange listing:	Tokyo Stock Exchange
Administrator of shareholders register:	Mitsubishi UFJ Trust and Banking Corporation
Independent auditors:	Ernst & Young ShinNihon Tokyo, Japan
Employees (SMK-Group):	13,289
Head office:	5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, Japan TEL 81-3-3785-1111 FAX 81-3-3785-1878
Subsidiaries & affiliates:	
Domestic:	Subsidiaries - 7 companies Affiliates - 3 companies
Overseas:	Subsidiaries - 18 companies
Website:	http://www.smk.co.jp/