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SMK CORPORATION



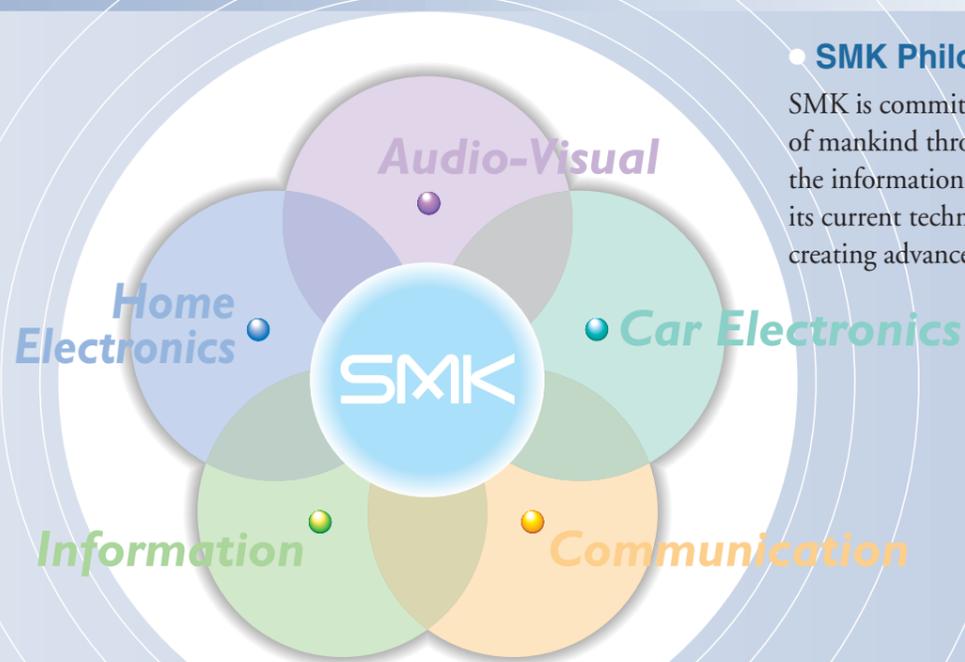
ANNUAL REPORT 2008

For the fiscal year ended March 31, 2008



# “Value Creation and Progress”

## — Technologies, Quality and Manufacturing



### • SMK Philosophy

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

### • Action Guidelines

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

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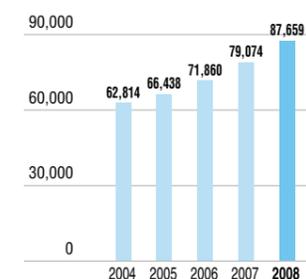
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## Financial Highlights

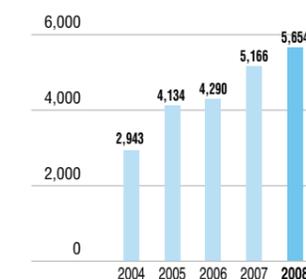
	Millions of yen		Percent change 2007/2008	Thousands of U.S. dollars
	2007	2008		2008
<b>Operating Results</b>				
Net sales	¥ 79,074	¥ 87,659	10.9 %	\$ 874,928
Operating income	5,166	5,654	9.4	56,438
Net income	3,693	2,094	(43.3)	20,901
<b>Financial Position</b>				
Total assets	¥ 65,575	¥ 66,737	1.7 %	\$ 666,107
Total net assets	34,564	32,386	(6.3)	323,246
<b>Per Share Data</b>				
Net income	Yen		U.S. dollars	
Basic	¥ 47.48	¥ 27.32	(42.5)%	\$ 0.27
Diluted	47.41	27.30	(42.4)	0.27
Cash dividends	14.00	14.00	—	0.14

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥100.19 = U.S. \$1.00.

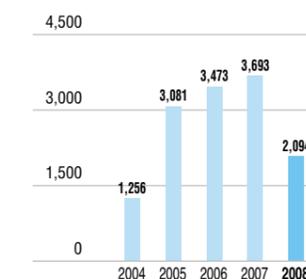
**Net sales**  
Millions of yen



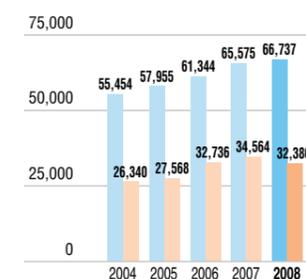
**Operating income**  
Millions of yen



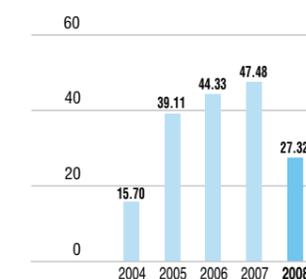
**Net income**  
Millions of yen



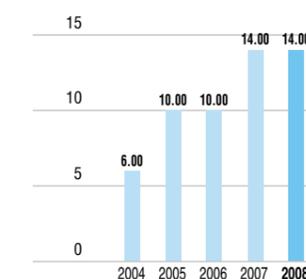
**Total assets/Total net assets**  
Millions of yen



**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

## Overview

During the term under review, the global economy remained buoyant, primarily supported by emerging countries such as China and Russia in the first half of the year. However, the economic situation became uncertain in the second half, impacted by the credit crunch stemming from the U.S. mortgage crisis, concerns over a slowing U.S. economy, and soaring prices of crude oil and other resources. In the Japanese economy, with the impact of the weak U.S. dollar against global currencies, the economic outlook is now much more uncertain. In the electronics industry, sales grew strongly on the strength of strong global demand for mobile phones, and growing use of new digital consumer electronics. Profit opportunities, however, have diminished reflecting a rapid weakening of the U.S. dollar, high raw material costs, and a decline in product prices.

In this environment, SMK has sought to strengthen the appeal of its products and reduce costs. As a result, aided by strong demand for connectors for mobile phones and control switches for flat-panel televisions from overseas customers, net sales and operating income rose. Net income, however, declined, reflecting the rapid appreciation of the yen in the fourth quarter of the term under review.

## “Value Creation and Progress — Technologies, Quality and Manufacturing”

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, while the speed of change has accelerated due to the diversification of consumption and the digitalization of products, the period for product development has shortened, and demand for further improvement in the quality of electronics components has been growing. To respond quickly to these changes, and overcome competition, we will carry out zero defects initiatives, and redevelop a manufacturing structure in an effort to enhance the SMK brand and product quality under our new slogan, “Value Creation and Progress — Technologies, Quality, and Manufacturing.”

In 2008, we will focus in particular on advancing our technologies. We will seek to develop cutting-edge technologies, and improve basic elemental technologies. We will also seek to restructure high-precision processing technologies to pass skills down to the next generation. Also, we will enter new markets by introducing new products that achieve differentiation in the market with unique technologies.

As part of our commitment to fulfill our corporate social responsibility (CSR), we have developed a structure to respond to the internal control reporting system (the Financial Instrument’s and Exchange Act) that will be adopted from April this year. In line with this initiative, we also established an internal audit office. We, at SMK, will take every possible measure to ensure management transparency by developing corporate governance systems.

Although the earnings environment is likely to become more severe in the future, we are fully committed to enhancing corporate value and bolstering profits by executing the 7th Medium Term Business Plan that was launched last year. We hope that we can continue to count on the understanding and support of our shareholders as we pursue this goal.

June 2008

**Terutaka Ikeda**  
Chairman and Chief Executive Officer

**Tetsuya Nakamura**  
President and Chief Operating Officer

# Sales and Market Overview

(April 1, 2007 to March 31, 2008)

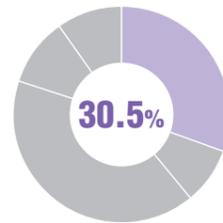
(Year ended March 31)

Net Sales Millions of yen			
2005	2006	2007	2008
21,913	24,086	25,262	26,755

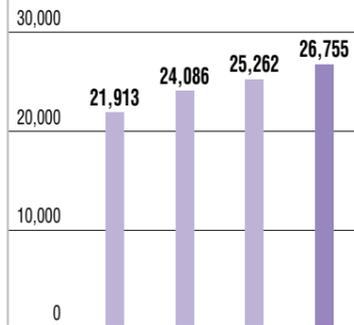
## Audio-Visual



HDMI Standard Type A receptacle



Audio-visual parts  
¥26,755 million

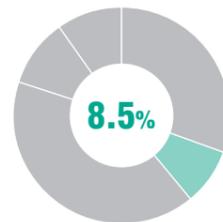


Sales of remote controls and connectors, as well as DVD recorders remained robust as demand for flat-panel televisions increased worldwide. To respond to customer needs in the future, we will enhance our lineup of new products, including high-speed transmission parts, such as HDMI connectors, and RF remote controls.

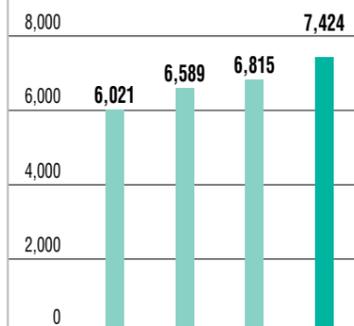
## Car Electronics



"Force-feedback" touch panels

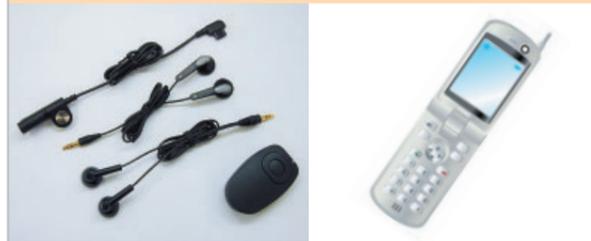


Electronic instruments  
¥7,424 million

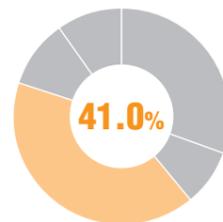


Sales of microphone units, touch panels, and remote controls for car navigation systems remained strong. Sales of connectors for car entertainment were also strong. We will continue to develop parts for cameras mounted on vehicles and for receiving terrestrial digital broadcasting, and will focus on initiatives in developing vehicle-mounted Bluetooth and parts used in operating systems.

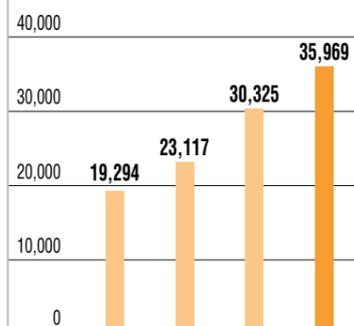
## Communication



Stereo earphone-microphone and Bluetooth unit



Communications parts  
¥35,969 million

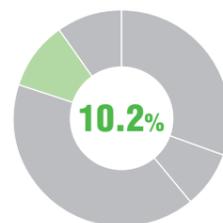


Spurred by growing demand for cellular phones in emerging countries, such as BRICs, and for high-function models in Western countries, strong sales of connectors to major overseas cellular phone manufacturers contributed to our overall performance. We will continue to focus on developing light, compact connectors and products that enable the creation of value-added cellular phones in the future. These products include high-frequency parts and parts used in operating systems.

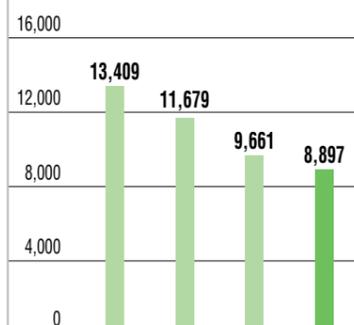
## Information



xD-4in1 card connectors

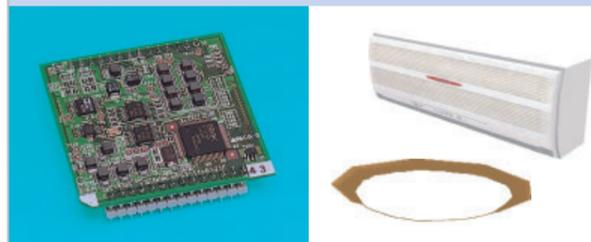


Information, office equipment parts  
¥8,897 million

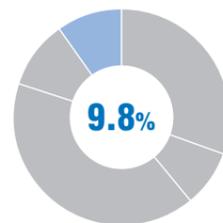


Although sales of connectors for digital still cameras and ATM touch panels remained strong, overall sales were stagnant, reflecting a lower-than-expected contribution from parts for PCs with audio-visual functions and the ECR/POS. We will continue to develop connectors and high-frequency parts for laptop and mobile PCs, the markets for which are growing.

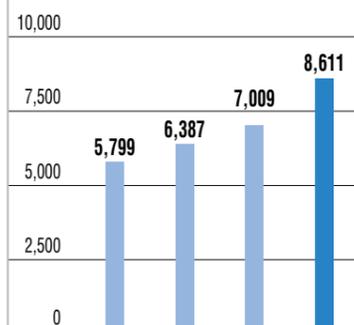
## Home Electronics



DS-SS modulation/demodulation engine for PLC



Electronic toys, home electronics and other parts  
¥8,611 million



Demand for parts for the video game market remained strong. Sales of remote controls for home electronics and housing equipment, including air conditioners and lighting fixtures, was also buoyant. In light of the growth in awareness of energy saving and environmental friendliness around the world, we will strengthen expanding sales in growth markets, including the solar cell market, in which we will strive to bolster the product range of connectors used for solar cell modules.

## Future Outlook

Although short-term adjustment is likely to take place, the electronic component industry is expected to sustain its growth in the medium-to-long term, supported by the Beijing Olympic Games scheduled to be held this summer, the anticipated expansion of the new digital home electronics market, especially in Japan, the United States and Europe, and the steady demand for products associated with the ICT in both domestic and overseas markets, including the BRICs.

To continue to grow in an increasingly difficult environment, SMK, through initiatives in telecommunications, IT, and digital home consumer electronics, is aiming to rapidly respond to growth areas and cultivate new markets. While concentrating on the development of new technologies and new products suited to consumer needs, the advancement of production technology and the establishment of an efficient sales organization, we will endeavor to improve our cost competitiveness and boost our business performance.

For the coming fiscal year, we will aim to achieve higher sales and secure profits through initiatives, including strengthening of production and our sales organization. We anticipate consolidated net sales of ¥94.5 billion, operating income of ¥5.6 billion, ordinary income of ¥6.2 billion, and net income of ¥3.8 billion.

## Rectangular connectors for car navigation equipment compatible with the reception of terrestrial digital broadcasts developed and marketed

SMK has developed and launched a new industry vanguard: rectangular connectors for car navigation equipment, compatible with the reception of terrestrial digital broadcasts. Recent years have seen a trend of making car interiors venues for a place to enjoy terrestrial digital broadcasts of high quality video images. Accordingly, providing the capability of receiving terrestrial digital broadcasts has effectively become the standard for car navigation equipment. To respond to this market trend, car navigation equipment is increasingly being equipped with a tuner for terrestrial digital broadcasts, creating greater demand for small connectors for connection of an antenna and a tuner.

This new connector is designed to have a profile when mounted of just 9.7 mm, a depth of just 13.9 mm, a width of 15.5 mm and a PWB occupancy area (2-pole receptacle) of 215.5 mm<sup>2</sup>, to help equipment designers make their products smaller and more PWB space effective. A compatible locking mechanism for joining the plug and the receptacle is ensured by the push-on mold locking system provided.

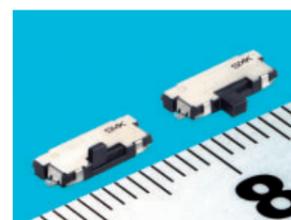
Receptacles are available in two versions: a single-pole type (for one-segment broadcast tuners) and a 2-pole type (for terrestrial digital broadcasts of 12 segments).



Rectangular connectors for car navigation equipment compatible with the reception of terrestrial digital broadcasts

## New products developed to expand the switch business

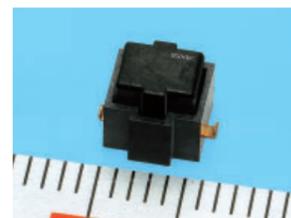
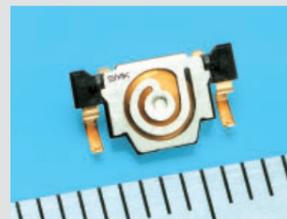
SMK has been focusing on developing new products to further expand its switch business. We have developed and introduced compact, multifunctional, and highly durable products to the information market, where demand for cellular phones and digital camera has been growing, thus contributing to the miniaturization and greater reliability of sets. Also, aiming to increase sales in the vehicle-mounted equipment market, whose use of digital equipment is rapidly growing, we have developed long-life products with high contact stability for this market.



**[1] JSD series long-life thin slide switches**  
By maintaining a height of 1.1 mm, the thinnest of its kind in the industry, JSD series long-life thin slide switches have achieved an operating life of 100,000 cycles (10 times that of our previous equivalents).

**[2] 1-dome switch**

A 1-dome switch achieved a reduction of 16% in height compared with our previous equivalents, providing a stable connection and effective anti-ESD performance by employing a metal cover.



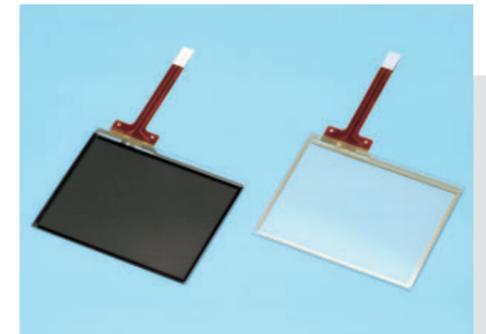
**[3] New rubber single-key switch**  
A new rubber single-key switch has achieved an operational life as three times long as that of our previous equivalents, and high contact stability. With a broad product lineup, we will respond to a range of needs for vehicle-mounted equipment.

## Two types of film + film touch panel developed

SMK has developed and begun to accept orders for two types of touch panel: a film + film type, in which films are used for both the upper and lower electrodes; and a low reflection film + film type. Mobile usage of products such as digital camcorders, DSCs, and portable terminal equipment are required to be lightweight and thin. Touch panels for these products must be resistant to breakage when dropped. These touch panels are also required to be low in reflection to prevent deteriorated visibility resulting from the reflection of, for example, direct sunlight, on the screen when the equipment is used outdoors.

These new touch panels introduced are light, thin and unbreakable when dropped. They also inhibit reflection, enhancing the visibility of LCDs. These new touch panels include a "film + film type," where PET film is used for the upper and lower electrodes, and a "low reflection film + film type," which is made up of an optically isotropic film for the upper and lower electrodes with a polarizing plate laid over the touch panel screen. The panels are able to be directly attached to screens of LCDs.

These touch panels can also be delivered in the form of "film + film + plastic type" which is a film + film type touch panel with a 1-2 mm thick plastic plate laid over the panel.



Right: film + film type  
Left: low reflection film + film type

## High-speed power line communication module developed

SMK has developed and begun to accept orders for the 14 Mbps PLC Module PL014-0J. High-speed power line communication, often shortened to High-speed PLC is a communication technology that enables high-speed data transmission through power lines, which had previously only been used overseas. In Japan, use of High-speed PLC was permitted in October 2006, and SMK began developing PL014-0J.

By using PL014-0J, which transmits data through the power lines that we are throughout every room in a building or a house, high-speed data transmission can become available without extra communication lines newly wired. In addition, equipped with cryptographic technology for security of data communications, PL014-0J offers a highly reliable communication network.

With data rate of 14 Mbps (physical layer), PL014-0J is compatible with Ethernet as an external interface. As a result, High-speed PLC is realized just by installing PL014-0J into devices communicating in an Ethernet environment.

Moreover, PL014-0J is an all-in-one module that is equipped with a coupling circuit and an Ethernet transformer, into which a security design is embedded. PL014-0J is designed to be as small as a business card, offering enhanced usability.



14 Mbps PLC module PL014-0J

Major Activities — FY2007 ended March 2008

● Management ● CSR ● Marketing

2007 April to June

- SMK announces results for the 85<sup>th</sup> term, reporting higher sales and profits for the fourth consecutive term.
- The 7<sup>th</sup> Medium Term Business Plan begins.
- The SMK Special successfully completes the Beijing-Paris rally.
- SMK Electronics (Shenzhen) Co., Ltd. is ranked 46<sup>th</sup> in the “Top Hundred Electronics Component Companies in China.”
- Mexican Ambassador to Japan visits SMK.

2007 July to September

- SMK acquires remote control business from Interlink Electronics Inc. of the United States.
- SMK makes donations to the Niigata Prefecture Emergency Task Force Headquarters for the victims of Niigata Chuetsu Offshore Earthquake.
- SMK is ranked 113<sup>th</sup> out of 399 companies nominated in the “Worker Friendly Companies” list published by the *Nihon Keizai Shimbun*.
- 1 ● SMK commercializes the first connectors for the photovoltaic module.

2007 October to December

- SMK establishes an Internal Audit Department.
- 2 ● SMK exhibits at the CEATEC JAPAN (Chiba).
- 3 ● The remote control with a laser pointer for presentation receives the Good Design Award 2007.
- SMK exhibits at the FPD International (Yokohama). (Note 1)
- Terutaka Ikeda, Chairman and CEO, becomes Vice Chairman of the Tokyo Chamber of Commerce and Industry.
- SMK exhibits at the Embedded Technology (Yokohama). (Note 2)
- Director and General of Training and Employment Authority of Government of Ireland visits SMK.
- SMK makes entrustment of a fund the U.S. Red Cross for Californian fire victims.
- The third plant is established in Dongguan, China.

2008 January to March

- SMK establishes sales offices in Helsinki and Shenzhen.
- 4 ● SMK exhibits at CES (Las Vegas).
- SMK exhibits at the Fiber Optics EXPO (Tokyo). (Note 3)
- SMK establishes a sales company in Mexico.



1 Photovoltaic module connectors



2 Exhibition: CEATEC JAPAN (Makuhari, Chiba)  
CEATEC JAPAN is the largest cutting-edge IT and electronics general exhibition in Asia, where most sophisticated technologies, products, and services are presented. SMK participated in the exhibition focusing on the demonstration of its products to raise the customer awareness of the SMK brand.

Note 1: FPD International (Yokohama)

FPD International is a general exhibition of flat panel displays, equipment, parts and materials. SMK presented an exhibition of touch panels. Our force feedback touch panels, which offer a variety of sizes ranging from 3.8 inch to 10.4 inch, attracted attention from a large number of visitors.

Note 2: Embedded Technology (Yokohama)

Embedded Technology is the world's largest special technology exhibition of the embedded technology that is essential for cutting edge technologies, such as digital consumer electronics, mobile terminals, car electronics, industrial equipment, and RFID. The embedded technology is a technology associated with products and systems, to which microprocessors and the software that control these microprocessors, are embedded. SMK presented a variety of communication modules and camera modules, and received a large number of visitors.



3 Navigator and Presenter received the Good Design Award 2007.

Note 3: Fiber Optics EXPO (Tokyo)

The Fiber Optics EXPO is the largest exhibition of fiber optics technologies in Asia, in which fiber optics systems and devices, and equipment associated with the next generation network are presented. SMK exhibited the Metal Ferrule, to which SMK has a patent in the connector zone.



4 CES (Las Vegas)

CES is the world's largest civil electronics equipment exhibition that presents cutting-edge products and services of the home appliances industry. SMK aggressively promoted its technologies by exhibiting a range of control switches at the home automation corner and pointing device corner. The demonstration of force feedback touch panels was reported by the media.

## ABC News of the United States reports on SMK's touch panels.

The leading U.S. news service has run a story on progress in touch panels on its website, mentioning SMK's touch panels (on January 20, 2008).

The story reports that previous LCD panels for automobiles did not allow drivers to sense that they were pressing the panel, so the drivers had to look at the panels to control them, diverting their attention from the road. Addressing this problem with support from automakers, Stanford University has been developing a new touch panel that enables communication between people and machines. With these new touch panels, drivers can tell that they have pressed the right buttons thanks to the vibration they feel in their fingertips when they touch the panel.

SMK developed the first commercial LCD panels to give users the impression they are pressing buttons. The report that introduced a force feedback touch panel developed by SMK concluded that it would be intriguing to see future developments, namely which automobile manufacturers would adopt the new panels first.

SMK has licensed the story from ABC News and made it available on its website with Japanese subtitles.

**SMK website** <http://www.smk.co.jp/>



"Clip(s)" of KGO-TV news footage of A Richard Hart segment titled "Auto touch-screens that touch back," 20th Jan. 2008

## SMK Special completes Beijing-Paris rally.

SMK Special (Lancia Theta 1916) left the Great Wall, Beijing on May 27, 2007, and arrived at Paris on June 30, 2007, completing the Beijing-Paris rally, which covered nine countries.

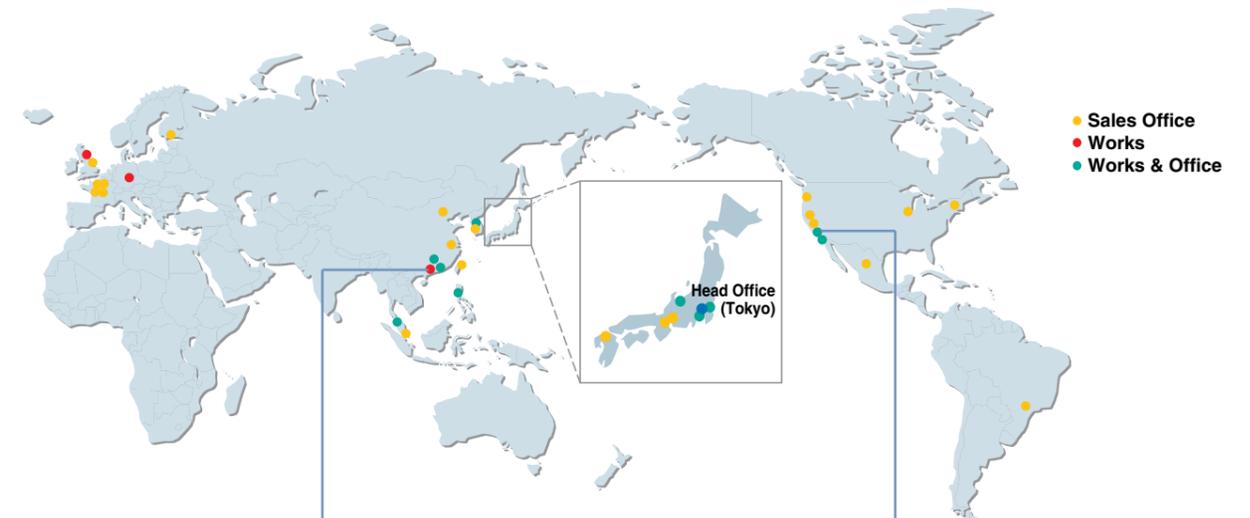
SMK Special is a compact red convertible with the SMK logo in large print, attracting the attention of spectators in Beijing and Paris. SMK successfully conveyed its passionate commitment to the automobile.



"SMK Special"

## Newly established sales office and sales company

Sales offices in Helsinki, Finland and Shenzhen, China in January 2008 and sales company in Mexico in March 2008 were established to improve customer services and to strengthen sales promotion activities.



### Dongguan, China



SMK Dongguan Gaobu Factory

### San Diego, U.S.A.



SMK Electronics Corporation U.S.A.  
SMK Manufacturing, Inc.

#### 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 (H.K.) Ltd. Shenzhen Office
- 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.
- SMK Corporation Helsinki Office

#### NORTH AMERICA

- SMK Electronics Corporation U.S.A.
- SMK-Link Electronics Corporation
- 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 Mexicana S.R.L. de C.V.
- 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
	2004	2005	2006	2007	2008	2008
<b>Operating Results</b>						
Net sales	¥ 62,814	¥ 66,438	¥ 71,860	¥ 79,074	¥ 87,659	\$ 874,928
Operating income	2,943	4,134	4,290	5,166	5,654	56,438
Net income	1,256	3,081	3,473	3,693	2,094	20,901
<b>Financial Position</b>						
Total assets	¥ 55,454	¥ 57,955	¥ 61,344	¥ 65,575	¥ 66,737	\$ 666,107
Total net assets	26,340	27,568	32,736	34,564	32,386	323,246
<b>Per Share Data</b>						
Total net assets	¥ 336.69	¥ 362.88	¥ 416.04	¥ 445.33	¥ 427.75	\$ 4.27
Net income						
Basic	15.70	39.11	44.33	47.48	27.32	0.27
Diluted	15.66	38.94	44.13	47.41	27.30	0.27
Cash dividends	6.00	10.00	10.00	14.00	14.00	0.14

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SMK's net sales for fiscal 2008, which ended March 31, 2008, increased 10.9% year-on-year, to ¥87,659 million (US\$874,928 thousand). Operating income increased 9.4% year-on-year to ¥5,654 million (US\$56,438 thousand) with net income of ¥2,094 million (US\$20,901 thousand), a 43.3% decrease year-on-year.

### Net Sales

Along with expansion of demands within emerging countries including China, India etc., sales of communications parts for cellular phones increased steadily. In addition, with worldwide market development for flat-panel televisions, audio-visual parts for digital home electronics contributed to an increase in revenue. As a result, net sales were ¥87,659 million (US\$874,928 thousand), up 10.9% year-on-year.

### Operating Income

As a result of an increase of net sales and our continuous cost reduction efforts to keep pace with a higher sales cost ratio caused by declining product prices and appreciation of raw material prices, operating income became ¥5,654 million (US\$56,438 thousand), exceeding the level of previous fiscal year.

### Net Income

In spite of good performance in operating income, net income was ¥2,094 million (US\$20,901 thousand) due to substantial foreign currency exchange loss incurred by sharp yen appreciation in the 4th quarter of the fiscal year under review.

### Total Net Assets/ROE

As of March 31, 2008, total net assets were at ¥32,386 million (US\$323,246 thousand). ROE was at 6.3%.

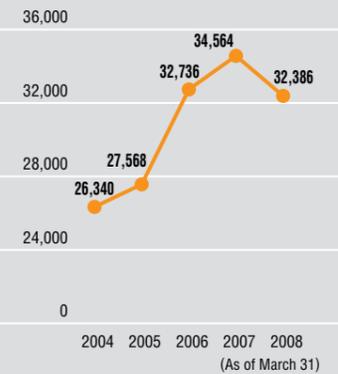
### Total Assets/ROA

As of March 31, 2008, total assets were ¥66,737 million (US\$666,107 thousand). ROA was at 3.2%.

### Cash Flows

Net cash flow from operating activities amounted to ¥6,070 million (US\$60,589 thousand), net cash used in investing activities totaled ¥6,819 million (US\$68,068 thousand) and net cash provided by financing activities was valued at ¥533 million (US\$5,327 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)
	2007	2008	2008
<b>Current assets</b>			
Cash and cash equivalents	¥ 7,562	¥ 7,073	\$ 70,600
Time deposits	993	145	1,439
Notes and accounts receivable, trade	21,644	20,830	207,909
Allowance for doubtful accounts	(81)	(66)	(660)
Inventories (Note 3)	6,396	8,207	81,915
Deferred tax assets (Note 8)	982	849	8,476
Other current assets (Note 13)	1,613	2,495	24,901
	39,109	39,533	394,580
<b>Investments and long-term loans</b>			
Investment securities (Note 12)	4,154	3,906	38,989
Long-term loans receivable	1,186	852	8,507
Other investments	1,527	1,779	17,751
Allowance for doubtful accounts	(290)	(269)	(2,689)
	6,577	6,268	62,558
<b>Property, plant and equipment (Notes 4 and 7)</b>			
Land	4,372	4,365	43,565
Buildings	16,238	16,274	162,435
Machinery and vehicles	15,829	16,815	167,833
Tooling and office furnitures	23,250	23,677	236,323
Construction in progress	111	28	282
	59,800	61,159	610,438
Less-Accumulated depreciation	(41,140)	(41,959)	(418,798)
	18,660	19,200	191,640
<b>Other assets</b>			
Deferred tax assets (Note 8)	999	827	8,257
Intangible assets (Note 7)	230	909	9,072
	1,229	1,736	17,329
<b>Total assets</b>	¥ 65,575	¥ 66,737	\$ 666,107

See accompanying notes to consolidated financial statements.

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2008	2008
<b>Current liabilities</b>			
Short-term loans payable (Note 4)	¥ 12,562	¥ 13,638	\$ 136,121
Notes and accounts payable, trade	4,983	4,864	48,544
Accrued income taxes	1,112	283	2,826
Accrued bonus	1,100	977	9,755
Accrued directors' bonus	95	83	828
Accounts payable, non trade	5,322	6,922	69,091
Other current liabilities	1,176	1,383	13,799
	26,350	28,150	280,964
<b>Long-term liabilities</b>			
Corporate bond	300	300	2,994
Long-term debt (Note 4)	3,141	5,042	50,322
Accrued employees' retirement benefits (Note 13)	447	13	130
Accrued directors' and officers' retirement benefits	344	388	3,874
Other long-term liabilities (Note 8)	429	458	4,577
	4,661	6,201	61,897
<b>Net assets</b>			
<b>Shareholders' equity (Note 9)</b>			
Common stock			
Authorized: 195,961,274 shares			
Issued and outstanding: 79,000,000 shares	7,996	7,996	79,816
Capital surplus	12,390	12,370	123,468
Retained earnings	15,461	16,741	167,088
Treasury stock (Note 11)	(992)	(2,264)	(22,603)
	34,855	34,843	347,769
<b>Valuation, translation adjustments and other</b>			
Net unrealized gains (losses) on other securities	425	(161)	(1,605)
Foreign currency translation adjustments	(723)	(2,304)	(23,003)
	(298)	(2,465)	(24,608)
<b>Minority interests</b>	7	8	85
	34,564	32,386	323,246
<b>Total liabilities and net assets</b>	¥ 65,575	¥ 66,737	\$ 666,107

# Consolidated Statements of Income

SMK Corporation and Consolidated Subsidiaries  
Year ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2008	2008
<b>Net sales</b>	¥ 79,074	¥ 87,659	\$ 874,928
<b>Cost of sales</b> (Note 5)	66,343	73,002	728,629
<b>Selling, general and administrative expenses</b> (Note 6)	7,565	9,003	89,861
<b>Operating income</b>	5,166	5,654	56,438
<b>Other income</b>			
Interest income	147	168	1,680
Rent income	845	889	8,872
Foreign exchange gain, net	272	—	—
Gain on sales of fixed assets	78	92	921
Gain on sales of investment securities	545	38	380
Other	396	461	4,592
Total other income	2,283	1,648	16,445
<b>Other expenses</b>			
Interest expense	201	285	2,848
Foreign exchange loss, net	—	2,148	21,439
Loss on disposal of fixed assets	203	229	2,284
Impairment loss (Note 7)	352	179	1,790
Other	469	456	4,547
Total other expenses	1,225	3,297	32,908
<b>Income before income taxes and minority interests</b>	6,224	4,005	39,975
<b>Income taxes</b> (Note 8)			
Current	2,359	1,256	12,539
Deferred	171	654	6,523
<b>Minority interests</b>	1	1	12
<b>Net income</b>	¥ 3,693	¥ 2,094	\$ 20,901
	Yen		U.S. dollars (Note 2)
<b>Per share data</b>			
Total net assets	¥ 445.33	¥ 427.75	\$ 4.27
Net income			
Basic	47.48	27.32	0.27
Diluted	47.41	27.30	0.27
Cash dividends	14.00	14.00	0.14

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

SMK Corporation and Consolidated Subsidiaries

	Millions of yen										
	Shareholders' equity					Valuation, translation adjustments and other					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
<b>Balance at March 31, 2006</b>	79,000,000	¥ 7,996	¥ 12,429	¥ 12,683	¥ (312)	¥ 32,796	¥ 840	¥ (906)	¥ (66)	¥ 6	¥ 32,736
Net income				3,693		3,693			—		3,693
Cash dividends paid				(858)		(858)			—		(858)
Bonuses to directors				(85)		(85)			—		(85)
Acquisition of treasury stock					(775)	(775)			—		(775)
Disposition of treasury stock				(39)	95	56			—		56
Increase due to inclusion of subsidiaries in consolidation					28	28			—		28
Items other than shareholders' equity, net						—	(415)	183	(232)	1	(231)
Total changes	—	—	(39)	2,778	(680)	2,059	(415)	183	(232)	1	1,828
<b>Balance at March 31, 2007</b>	79,000,000	7,996	12,390	15,461	(992)	34,855	425	(723)	(298)	7	34,564
Net income				2,094		2,094			—		2,094
Cash dividends paid				(1,159)		(1,159)			—		(1,159)
Acquisition of treasury stock					(1,329)	(1,329)			—		(1,329)
Disposition of treasury stock				(20)	57	37			—		37
Increase due to exclusion of subsidiaries from consolidation					345	345			—		345
Items other than shareholders' equity, net						—	(586)	(1,581)	(2,167)	1	(2,166)
Total changes	—	—	(20)	1,280	(1,272)	(12)	(586)	(1,581)	(2,167)	1	(2,178)
<b>Balance at March 31, 2008</b>	79,000,000	¥ 7,996	¥ 12,370	¥ 16,741	¥ (2,264)	¥ 34,843	¥ (161)	¥ (2,304)	¥ (2,465)	¥ 8	¥ 32,386

	Thousands of U.S. dollars (Note 2)									
	Shareholders' equity					Valuation, translation adjustments and other				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests	Total net assets
<b>Balance at March 31, 2007</b>	\$ 79,816	\$ 123,662	\$ 154,300	\$ (9,899)	\$ 347,879	\$ 4,246	\$ (7,212)	\$ (2,966)	\$ 73	\$ 344,986
Net income			20,901		20,901			—		20,901
Cash dividends paid			(11,566)		(11,566)			—		(11,566)
Acquisition of treasury stock				(13,267)	(13,267)			—		(13,267)
Disposition of treasury stock			(194)	563	369			—		369
Increase due to exclusion of subsidiaries from consolidation				3,453	3,453			—		3,453
Items other than shareholders' equity, net					—	(5,851)	(15,791)	(21,642)	12	(21,630)
Total changes	—	(194)	12,788	(12,704)	(110)	(5,851)	(15,791)	(21,642)	12	(21,740)
<b>Balance at March 31, 2008</b>	\$ 79,816	\$ 123,468	\$ 167,088	\$ (22,603)	\$ 347,769	\$ (1,605)	\$ (23,003)	\$ (24,608)	\$ 85	\$ 323,246

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

SMK Corporation and Consolidated Subsidiaries  
Year ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2008	2008
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests	¥ 6,224	¥ 4,005	\$ 39,975
Depreciation and amortization	3,669	4,934	49,248
Increase (decrease) in accrued directors' bonus	95	(12)	(120)
Decrease in accrued employees' retirement benefits	(789)	(430)	(4,290)
Increase in prepaid pension costs	—	(377)	(3,763)
Increase (decrease) in accrued directors' retirement benefits	(1)	44	438
Decrease in allowance for doubtful accounts	(6)	(26)	(256)
Interest and dividend income	(243)	(317)	(3,169)
Interest expense	201	285	2,848
Loss on disposal of fixed assets	203	229	2,284
Impairment loss	352	179	1,790
Increase in notes and accounts receivable, trade	(1,488)	(657)	(6,559)
Increase in inventories	(729)	(2,199)	(21,950)
Increase in notes and accounts payable, trade	140	1,751	17,478
Other	(43)	1,268	12,657
Subtotal	7,585	8,677	86,611
Receipts for interest and dividend income	248	317	3,167
Payments of interest expenses	(196)	(276)	(2,760)
Payments of income taxes	(1,924)	(2,648)	(26,429)
<b>Net cash provided by operating activities</b>	5,713	6,070	60,589
<b>Cash flows from investing activities</b>			
Payments into time deposits	(1,014)	(953)	(9,514)
Proceeds from time deposits	304	1,791	17,876
Purchases of fixed assets	(6,099)	(5,940)	(59,288)
Proceeds from sale of fixed assets	361	202	2,015
Purchases of intangible fixed assets	(41)	(77)	(768)
Purchases of investment securities	(1,271)	(740)	(7,384)
Proceeds from sale of investment securities	990	195	1,946
Payment on loans receivable	(206)	(299)	(2,989)
Proceeds from loans receivable	199	343	3,427
Payment for business transfer	—	(1,317)	(13,148)
Other	14	(24)	(241)
<b>Net cash used in investing activities</b>	(6,763)	(6,819)	(68,068)
<b>Cash flows from financing activities</b>			
Increase in short-term loans payable	1,889	609	6,079
Proceeds from long-term debt	528	3,890	38,826
Payments of long-term debt	(842)	(1,520)	(15,167)
Purchases of treasury stock	(774)	(1,328)	(13,255)
Proceeds from sale of treasury stock	55	37	369
Dividends paid	(858)	(1,155)	(11,525)
<b>Net cash (used in) provided by financing activities</b>	(2)	533	5,327
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(165)	(269)	(2,688)
<b>Decrease in cash and cash equivalents</b>	(1,217)	(485)	(4,840)
<b>Cash and cash equivalents at beginning of year</b>	8,464	7,562	75,477
Increase in cash and cash equivalents arising from inclusion of subsidiaries in consolidation	315	—	—
Decrease in cash and cash equivalents due to exclusion of a subsidiary from consolidation	—	(4)	(37)
<b>Cash and cash equivalents at end of year</b>	¥ 7,562	¥ 7,073	\$ 70,600

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 Financial Instruments 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: 19  
The remaining 7 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, 2008, SMK Link Electronics was included in the scope of consolidation.
- (d) Application of equity method of accounting  
Number of affiliated companies accounted for by the equity method: 2  
The 7 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 net assets. 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  
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.

(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 = ¥100.19, the approximate rate of exchange at March 31, 2008. 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, 2007 and 2008, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Finished products	¥ 3,358	¥ 4,727	\$ 47,180
Work in process	451	770	7,688
Raw materials	2,534	2,616	26,106
Supplies	53	94	941
	¥ 6,396	¥ 8,207	\$ 81,915

**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 1.12083% to 7.25% per annum as of March 31, 2008.

Long-term debt as of March 31, 2007 and 2008, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Loans, principally to banks with interest rates ranging from 1.12083% to 7.25%:			
Secured	¥ 1,531	¥ 985	\$ 9,834
Unsecured	3,130	6,046	60,346
Less: portion due within one year	(1,520)	(1,989)	(19,858)
	¥ 3,141	¥ 5,042	\$ 50,322

The assets pledged as collateral for long-term debt as of March 31, 2008, were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment-book value	¥ 1,555	\$ 15,522

The aggregate annual maturities of long-term debt outstanding as of March 31, 2008, are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 1,989	\$ 19,858
2010	448	4,477
2011	483	4,817
2012	649	6,474
2013 and thereafter	3,462	34,554
	¥ 7,031	\$ 70,180

**Note 5. Research and development costs**

Research and development costs included in cost of sales for the years ended March 31, 2007 and 2008, amounted to ¥3,972 million and ¥3,387 million (\$33,812 thousand), respectively.

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

Major elements of selling, general and administrative expenses for the years ended March 31, 2007 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Freight and packing cost	¥ 646	¥ 665	\$ 6,642
Salaries and wages of employees	3,093	3,843	38,359
Provision for bonus	386	369	3,678
Provision for directors' bonus	95	83	828
Retirement benefit cost	(52)	(166)	(1,656)
Provision for directors' and officers' retirement benefit	63	44	438
Depreciation	194	240	2,392

**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 and 2008, 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	Millions of yen				
			2008				
			Buildings	Machinery and vehicles	Tooling and office furnitures	Patent	Total
Idle assets	Japan	Ferrule production facilities	¥ —	¥ 47	¥ —	¥ 78	¥ 125
SMK Korea Co., Ltd.	Korea	Switch production facilities	1	1	1	—	3
SMK U.K. Ltd.	U.K.	Switch production facilities	—	42	9	—	51
Total			¥ 1	¥ 90	¥ 10	¥ 78	¥ 179

Asset group	Location	Use	Thousands of U.S. dollars				
			2008				
			Buildings	Machinery and vehicles	Tooling and office furnitures	Patent	Total
Idle assets	Japan	Ferrule production facilities	\$ —	\$ 468	\$ —	\$ 779	\$ 1,247
SMK Korea Co., Ltd.	Korea	Switch production facilities	7	6	13	—	26
SMK U.K. Ltd.	U.K.	Switch production facilities	—	427	90	—	517
Total			\$ 7	\$ 901	\$ 103	\$ 779	\$ 1,790

**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, 2007 and 2008, respectively.

Reconciliations between the statutory tax rate and the effective tax rates for the years ended March 31, 2007 and 2008, are as follows:

	2007	2008
Statutory tax rate	40.5%	40.5%
Items such as entertainment expenses permanently not deductible for tax purposes	1.4	1.4
Tax credit for research and development cost	(3.1)	(4.7)
Foreign tax credit	(2.3)	(8.0)
Change in valuation allowance	(2.0)	2.4
Statutory tax rate differences in subsidiaries	(7.2)	0.1
Elimination of dividend income	10.7	16.9
Other	2.6	(0.9)
Effective tax rates	40.6%	47.7%

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
<b>Deferred tax assets:</b>			
Inventory write-down disallowed	¥ 75	¥ 70	\$ 702
Accrued bonuses disallowed	430	384	3,832
Intercompany profit on inventory	76	112	1,120
Retirement benefits disallowed	970	523	5,225
Impairment loss	129	143	1,426
Operating loss carryforwards for tax purposes	313	389	3,879
Net unrealized losses on other securities	—	156	1,554
Other	1,022	865	8,637
Valuation allowance	(524)	(690)	(6,891)
Deferred tax assets	2,491	1,952	19,484
<b>Deferred tax liabilities:</b>			
Deferred gain on land	(108)	(108)	(1,082)
Advanced depreciation on buildings	(152)	(140)	(1,396)
Reserve for special depreciation	(25)	(27)	(272)
Net unrealized gains on other securities	(225)	—	—
Other	(63)	(74)	(732)
Net deferred tax assets	¥ 1,918	¥ 1,603	\$ 16,002

#### Note 9. Shareholders' equity

The Corporation Law of Japan 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, 2007 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Guarantees of loans	¥ 500	¥ 500	\$ 4,991

#### 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, 2007 and 2008, totaled 1,401,902 shares and 3,307,091 shares, respectively.

#### Note 12. Securities

Information regarding marketable securities classified as other securities at March 31, 2007 and 2008, was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007		2008		2008				
	Costs	Fair value	Unrealized gain (loss)	Costs	Fair value	Unrealized gain (loss)	Costs	Fair value	Unrealized gain (loss)
<b>Securities whose fair value exceeds their cost</b>									
Stocks	¥ 623	¥ 1,321	¥ 698	¥ 385	¥ 669	¥ 284	\$ 3,845	\$ 6,674	\$ 2,829
Others	156	206	50	—	—	—	—	—	—
	779	1,527	748	385	669	284	3,845	6,674	2,829
<b>Securities whose cost exceeds their fair cost</b>									
Stocks	2,136	2,043	(93)	3,060	2,444	(616)	30,543	24,390	(6,153)
Others	50	46	(4)	100	79	(21)	998	793	(205)
	2,186	2,089	(97)	3,160	2,523	(637)	31,541	25,183	(6,358)
Total	¥ 2,965	¥ 3,616	¥ 651	¥ 3,545	¥ 3,192	¥ (353)	\$ 35,386	\$ 31,857	\$ (3,529)

Information regarding sales of securities for the years ended March 31, 2007 and 2008, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Sales of securities	¥ 990	¥ 194	\$ 1,939
Gains of sales	544	38	380
Losses on sales	—	—	—

Information regarding other securities without market value at March 31, 2007 and 2008, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Unlisted securities	¥ 529	¥ 529	\$ 5,281

The schedules for redemption of other securities with maturity dates at March 31, 2007 and 2008, were summarized as follows:

	Millions of yen					
	2007		2008		2008	
	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	¥ 175	¥ 50	¥ 27	¥ —	¥ 39	¥ 40
	Thousands of U.S. dollars					
	2007		2008		2008	
	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	\$ —	\$ 392	\$ 402			

#### 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, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Retirement benefit obligation	¥ 6,856	¥ 6,955	\$ 69,413
Fair value of plan assets	(8,612)	(6,902)	(68,885)
Funded status	(1,756)	53	528
Unrecognized actuarial gains (losses)	1,265	(882)	(8,804)
Unrecognized prior service cost	938	465	4,643
Net amount recognized in the consolidated balance sheets	447	(364)	(3,633)
Prepaid pension costs	—	377	3,763
Accrued employees' retirement benefits	¥ 447	¥ 13	\$ 130

(c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Service cost, net of plan participants' contributions	¥ 286	¥ 275	\$ 2,740
Interest cost	142	137	1,364
Expected returns on plan assets	(228)	(236)	(2,353)
Amortization of unrecognized actuarial (gains) losses	39	(246)	(2,455)
Amortization of unrecognized prior service cost	(473)	(473)	(4,718)
Contribution to defined contribution pension plan	44	45	453
Net periodic cost	¥ (190)	¥ (498)	\$ (4,969)

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

	2007	2008
Discount rate	2.0%	2.0%
Expected return on plan assets	3.5%	3.5%
Amortization period of unrecognized actuarial gains or 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.

	Millions of yen						Thousands of U.S. dollars		
	Contract amount		Fair value		Unrealized gain (loss)		Contract amount	Fair value	Unrealized gain (loss)
	2007	2008	2007	2008	2007	2008	2008	2008	2008
<b>Forward foreign exchange contracts:</b>									
<b>Sell:</b>									
US\$	¥ 343	¥ 549	¥ 342	¥ 521	¥ (1)	¥ (28)	\$ 5,482	\$ 5,204	\$ (278)
EUR	50	—	51	—	1	—	—	—	—
NT\$	90	90	89	96	(1)	6	898	953	55
Total	¥ 483	¥ 639	¥ 482	¥ 617	¥ (1)	¥ (22)	\$ 6,380	\$ 6,157	\$ (223)

(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, 2007 and 2008, 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	
	2007	2008	2007	2008	2007	2008
Machinery and vehicles	¥ 901	¥ 896	¥ 293	¥ 429	¥ 608	¥ 467
Tooling and office furniture	53	53	25	36	28	17
Total	¥ 954	¥ 949	¥ 318	¥ 465	¥ 636	¥ 484

(Thousands of U.S. dollars)	Acquisition costs		Accumulated depreciation		Net book value	
	2008	2008	2008	2008	2008	2008
Machinery and vehicles	\$ 8,944		\$ 4,286		\$ 4,658	
Tooling and office furniture	529		360		169	
Total	\$ 9,473		\$ 4,646		\$ 4,827	

The amount of outstanding future lease payments for finance leases subsequent to March 31, 2007 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥ 155	¥ 161	\$ 1,607
Due over one year	514	357	3,567
Total	¥ 669	¥ 518	\$ 5,174
Balance of accumulated impairment loss on leased assets	¥ —	¥ 4	\$ 47

Lease expenses and pro forma amounts of depreciation and interest expense for finance leases for the years ended March 31, 2007 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease expenses	¥ 195	¥ 192	\$ 1,916
Reversal of allowance for impairment loss on leased assets	¥ —	¥ 2	\$ 18
Depreciation	¥ 162	¥ 158	\$ 1,580
Interest expense	¥ 44	¥ 36	\$ 356
Impairment losses	¥ 6	¥ —	\$ —

Depreciation is calculated based on the straight-line method, assuming 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
<b>2007</b>						
<b>Net sales</b>						
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
<b>Cost and expenses</b>	58,657	42,217	14,090	3,079	(44,135)	73,908
<b>Operating income</b>	1,595	1,769	1,827	(21)	(4)	5,166
<b>Identifiable assets</b>	55,351	17,486	6,604	1,258	(15,124)	65,575

	Millions of yen					
	Japan	Asia	North America	Other areas	Eliminations or corporate	Consolidated
<b>2008</b>						
<b>Net sales</b>						
Outside customers	¥ 38,983	¥ 29,345	¥ 17,883	¥ 1,448	¥ —	¥ 87,659
Intersegment sales	33,458	28,125	110	325	(62,018)	—
Total	72,441	57,470	17,993	1,773	(62,018)	87,659
<b>Cost and expenses</b>	69,278	56,536	16,346	1,753	(61,908)	82,005
<b>Operating income</b>	3,163	934	1,647	20	(110)	5,654
<b>Identifiable assets</b>	58,654	19,443	6,882	963	(19,205)	66,737

	Thousands of U.S. dollars					
	Japan	Asia	North America	Other areas	Eliminations or corporate	Consolidated
<b>2008</b>						
<b>Net sales</b>						
Outside customers	\$ 389,092	\$ 292,891	\$ 178,493	\$ 14,452	\$ —	\$ 874,928
Intersegment sales	333,942	280,713	1,100	3,247	(619,002)	—
Total	723,034	573,604	179,593	17,699	(619,002)	874,928
<b>Cost and expenses</b>	691,463	564,289	163,144	17,497	(617,903)	818,490
<b>Operating income</b>	31,571	9,315	16,449	202	(1,099)	56,438
<b>Identifiable assets</b>	585,431	194,059	68,686	9,618	(191,687)	666,107

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
<b>2007</b>					
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

	Millions of yen				
	Asia	North America	Europe	Other areas	Total
<b>2008</b>					
Overseas sales	¥ 37,654	¥ 18,776	¥ 6,139	¥ 803	¥ 63,372
Consolidated sales					87,659
Ratio of overseas sales (%)	43.0	21.4	7.0	0.9	72.3

	Thousands of U.S. dollars				
	Asia	North America	Europe	Other areas	Total
<b>2008</b>					
Overseas sales	\$ 375,819	\$ 187,407	\$ 61,275	\$ 8,015	\$ 632,516
Consolidated sales					874,928
Ratio of overseas sales (%)	43.0	21.4	7.0	0.9	72.3

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, 2008, were as follows:

Number of Shares	
Outstanding at beginning of year	5,000
Exercised	5,000
Exercisable at end of year	—
The weighted average price of stocks when exercised	¥770 (\$7.69)

At the shareholders' meeting held on June 20, 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, 2008, were as follows:

Number of Shares	
Outstanding at beginning of year	166,000
Exercised	66,000
Exercisable at end of year	100,000
The weighted average price of stocks when exercised	¥849 (\$8.47)

## Note 18. Related party transactions

Significant transactions with related parties for the year ended March 31, 2007 and 2008, were as follows:

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

	Millions of yen					
	Transactions			Balances		
	Loans	Guarantees	Leases	Loan receivable	Guarantees	Outstanding future lease payments
<b>2008</b>						
Showa Enterprise Co., Ltd.	¥ 150	¥ 500	¥ 177	¥ 834	¥ —	¥ 484

	Thousands of U.S. dollars					
	Transactions			Balances		
	Loans	Guarantees	Leases	Loan receivable	Guarantees	Outstanding future lease payments
<b>2008</b>						
Showa Enterprise Co., Ltd.	\$ 1,497	\$ 4,991	\$ 1,767	\$ 8,324	\$ —	\$ 4,831

## Note 19. Business combination

On August 31, 2007, SMK Electronics Corporation U.S.A. and SMK LINK Electronics Corporation, consolidated subsidiaries of the Company, acquired from Interlink Electronics (U.S.A.) its remote control business segments. This acquisition provides the Company to expand the business in the field of remote control around U.S.A. The results of operations for this business for the period from September 1, 2007 to March 31, 2008 are included in the accompanying consolidated statement of income for the year ended March 31, 2008.

The acquisition was accounted for using the purchase method of accounting.

The amounts of assets acquired and liabilities assumed of this business at the date of the acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 400	\$ 3,994
Goodwill	856	8,544
Current liabilities	(104)	(1,038)
Acquisition cost	¥ 1,152	\$ 11,500

## Note 20. Subsequent events

(a) The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008, was approved at a shareholders' meeting held on June 24, 2008.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7.00 = \$0.07 per share)	¥ 531	\$ 5,297

(b) At the Company's Board of Directors held on April 24, 2008, a stock option plan was approved. Under this plan, certain employees, directors and employees of affiliated companies were granted options to purchase common stock of 1,102,000 shares in total at an exercise price of ¥509 (\$5.08). 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 June 1, 2010, to May 31, 2013.



**Certified Public Accountants**  
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 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, 2007 and 2008, 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, 2007 and 2008, 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, 2008 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 24, 2008

A MEMBER OF ERNST & YOUNG GLOBAL

(As of March 31, 2008)

**Authorized shares:** 195,961,274  
**Issued shares:** 79,000,000  
**Number of shareholders:** 10,019

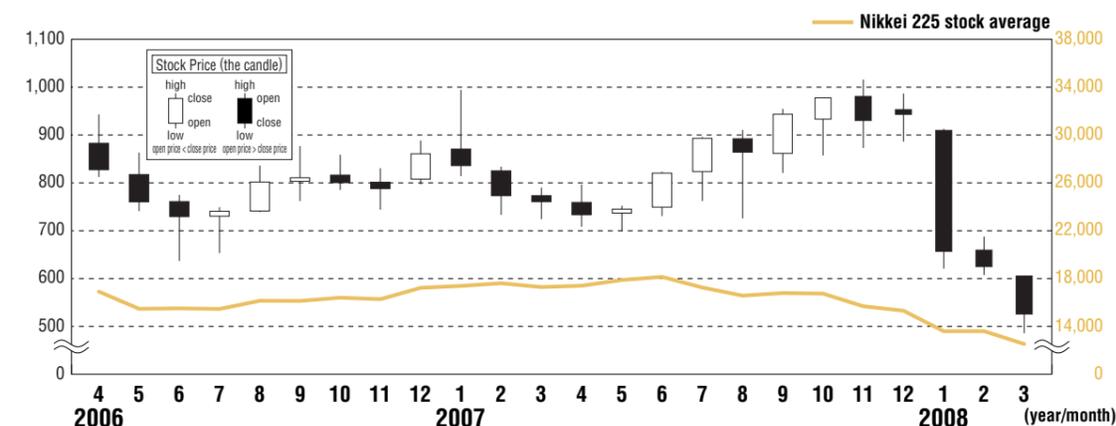
Major shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Shares (%)
Japan Trustee Services Bank, Ltd.	6,329	8.01
Nippon Life Insurance Company	4,001	5.06
Mizuho Corporate Bank, Ltd.	3,722	4.71
Dai Nippon Printing Co., Ltd.	3,200	4.05
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,134	3.97
Mitsubishi UFJ Trust and Banking Corporation	2,415	3.06
The Master Trust Bank of Japan, Ltd.	2,206	2.79
SMK Cooperating Company Share Holding Association	2,083	2.64
Terutaka Ikeda	1,938	2.45
Meiji Yasuda Life Insurance Company	1,565	1.98

Notes: 1. The Company owns 3,179 thousand shares of treasury stock which are excluded from the above list.  
 2. Of the above shares owned by major shareholders, the following number of shares are held in trust operations:  
 Japan Trustee Service Bank, Ltd. : 6,329 thousand shares  
 Mitsubishi UFJ Trust and Banking Corporation : 478 thousand  
 The Master Trust Bank of Japan, Ltd. : 2,206 thousand

Share ownership by number	
1-999 shares	3,010 (30.04%)
1,000-9,999 shares	6,513 (65.01%)
10,000-99,999 shares	402 (4.01%)
100,000-499,999 shares	74 (0.74%)
500,000 shares-	20 (0.20%)

Share ownership by shareholder type (unit: share)	
Financial institutions	29,620,685 (37.49%)
Securities companies	1,178,096 (1.49%)
Companies and other entities	10,289,612 (13.02%)
Foreign investors	9,632,276 (12.19%)
Individuals and others	28,279,331 (35.81%)

Share price chart (unit: yen)



# Board of Directors and Corporate Auditors

(As of June 24, 2008)

## DIRECTORS



**Tetsuya Nakamura**  
President and COO

**Terutaka Ikeda**  
Chairman and CEO

**Yasumitsu Ikeda**  
Executive Deputy President  
Sales Division



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

**Tadashi Yamoto**  
Director, Senior Executive Vice President  
Chief Technology Officer

**Yuji Tanahashi**  
Director

## AUDITORS



**Jun Sugimoto**  
Auditor

**Shigenobu Oyashiki**  
Auditor

**Kenji Kobayashi**  
Auditor

**Hidefumi Kobayashi**  
Auditor

**Kouichiro Sugihara**  
Auditor

**Naru Nakashima**  
Auditor

## CORPORATE EXECUTIVE OFFICERS



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

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

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

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

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



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

**Mikio Wakabayashi**  
Vice President  
Functional Components  
Division

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

**Tsutomu Isoda**  
Vice President  
Research and Development

**Hiroshi Miyakawa**  
Vice President  
Sales Division

## Corporate Data

(As of March 31, 2008)

<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>Administrator of shareholders register:</b>	Mitsubishi UFJ Trust and Banking Corporation
<b>Independent auditors:</b>	Ernst & Young ShinNihon Tokyo, Japan
<b>Employees (SMK-Group):</b>	14,869
<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 - 6 companies Affiliates - 3 companies
<b>Overseas:</b>	Subsidiaries - 20 companies
<b>Website:</b>	<a href="http://www.smk.co.jp/">http://www.smk.co.jp/</a>