

# ANNUAL REPORT 2003

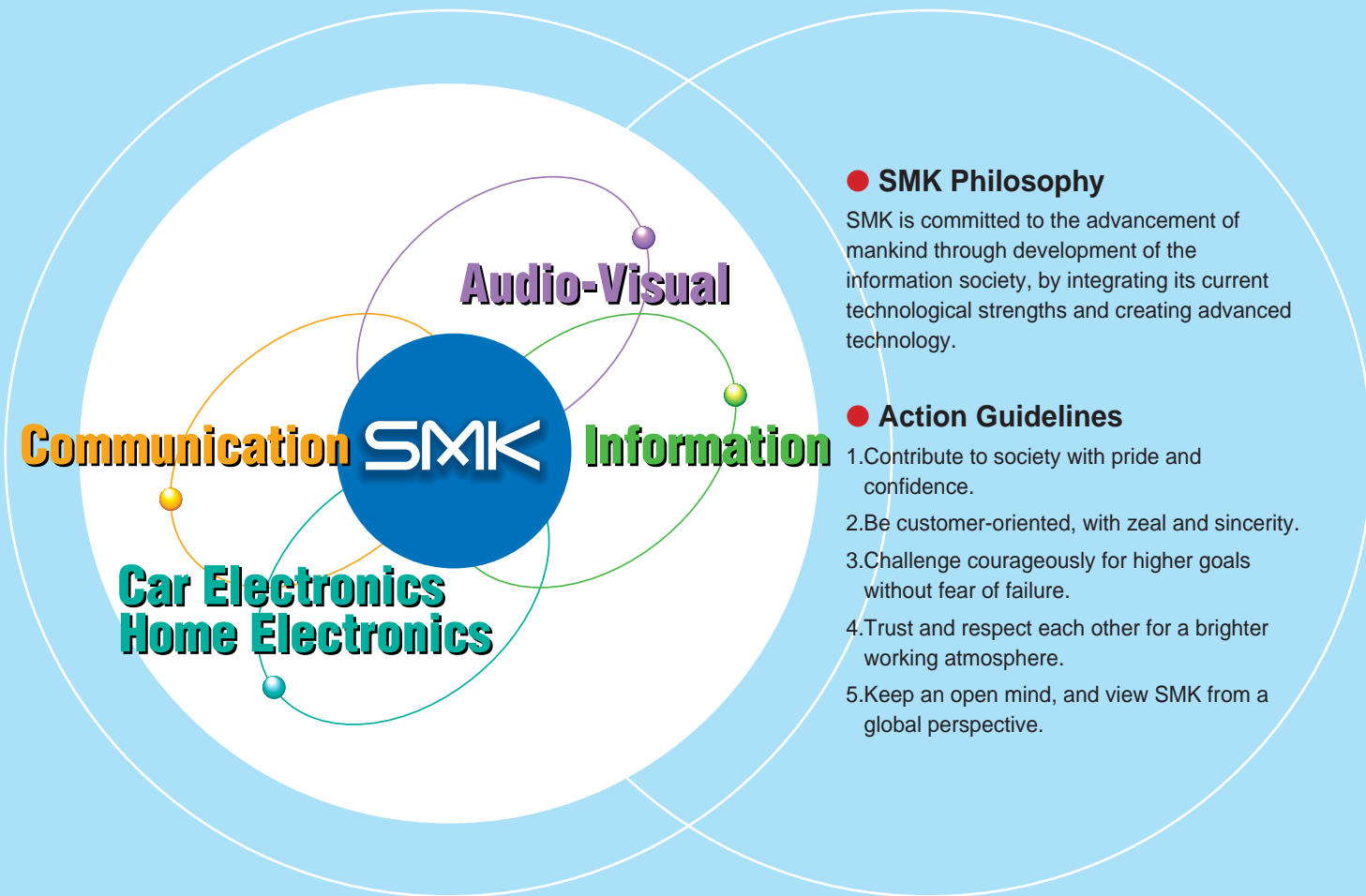


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# Speeding Up Product Development in Line with Advances in Broadband

## Fulfilling Global Needs through Reinforcement of Our Transnational Development System



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## Financial Highlights

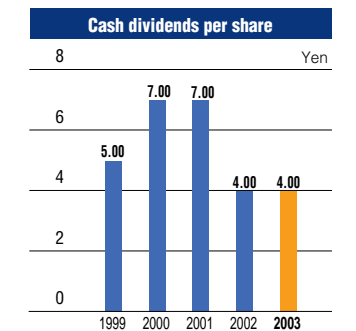
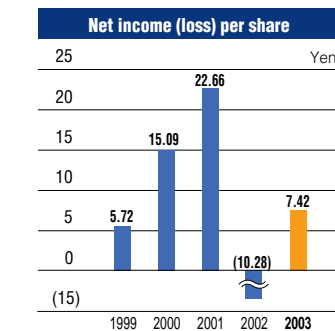
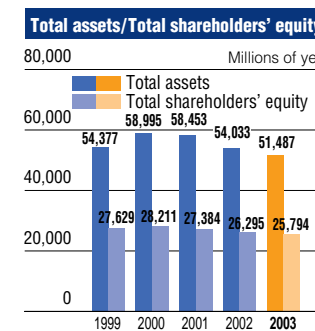
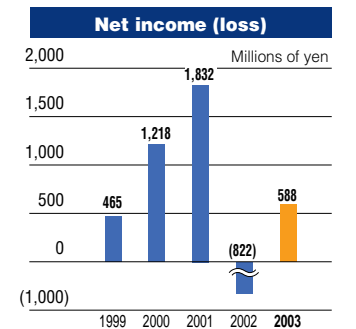
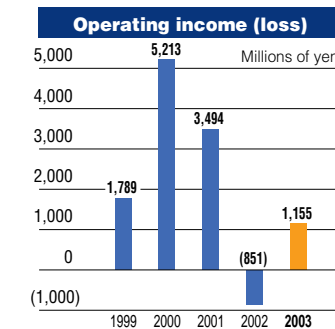
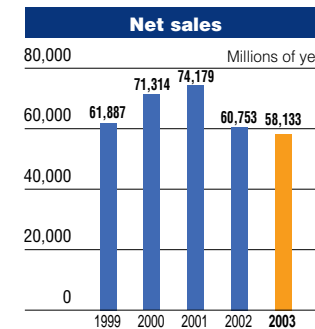
<http://www.smk.co.jp/>

### SMK Corporation and Consolidated Subsidiaries

Year ended March 31

	Millions of yen		Percent Change 2002/2003	Thousands of U.S. dollars 2003
	2002	2003		
<b>Operating Results</b>				
Net sales	¥ 60,753	¥ 58,133	(4.3) %	\$ 483,636
Operating income (loss)	(851)	1,155	—	9,612
Net income (loss)	(822)	588	—	4,892
<b>Financial Position</b>				
Total assets	¥ 54,033	¥ 51,487	(4.7)	\$ 428,348
Total shareholders' equity	26,295	25,794	(1.9)	214,593
<b>Per Share Data</b>				
	Yen		U.S. dollars	
Net income (loss)	¥ (10.28)	¥ 7.42	—	\$ 0.06
Cash dividends	4.00	4.00	0	0.03

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥120.20 = U.S. \$1.00.



## From Endurance to Full-Boost



Tetsuya Nakamura  
President and Chief Operating  
Officer

Terutaka Ikeda  
Chairman and Chief Executive  
Officer

### Recovery to profitability in a severe economic environment

The Japanese economy during this fiscal year (April 1, 2002 – March 31, 2003) performed very passively due to sluggish personal consumption and falling share prices and the severe economic conditions remained just like the preceding fiscal year. The growth of electronics industry, despite seeing signs of a recovery in demand centering on the audio-visual and other markets in the first half of the year, decelerated upon entering the latter half of the year.

In such severe circumstances, the Company diligently strove to achieve its targets. Although we were unable to attain the level of original plans in the end, these efforts were somewhat rewarded by our successful return to profitability.

### To be an important supplier for information infrastructure

Our corporate philosophy is “SMK is committed to the advancement of mankind through development of the information society, by integrating its current technological strengths and creating advanced technology”. In Specific, we aim “to establish our status as an important global supplier for information infrastructure.” We will maintain speedy research and development towards this goal by proactively incorporating new technologies and comprehensively combining our group strengths. In addition, we will conduct marketing activities that are suitable for the global market around our production and sales sites throughout the world.

### Future management philosophy and “product manufacturing”

Among the many steps taken to improve management efficiency, the Company has established a management system that can promptly respond to the intensely changing business environment by separating the posts of chairman and president in April 2002. We have also enhanced corporate governance by introducing the system of executive officer and outside director. These and other measures will be further applied to achieve a highly efficient management organization.

Furthermore, we are going to make a medium-term strategic plan and to continue our diversified efforts so that our medium- and long-term corporate growth and development will be made possible under the current severe economic environment. As for measures that address globalization, a vital issue is the establishment of production and sales systems that can quickly respond to the intense changes of business environment. We are steadily fulfilling these tasks while keeping close eyes on the market trends. Over the past few years, we have newly built or expanded our works located in various regions of the world leading to the steady growth of its production system. In particular, we will focus on the Chinese market and its remarkable growth. In addition to linking existing production and sales sites, we endeavor to formulate measures for the future to appropriately meet the business needs in the Chinese market.

As for product development, we will pursue pioneering product development more than ever before by turning back to the “product manufacturing” principle. We will also focus on the

IT market as its central target market while also striving to develop new markets in which future growth is expected.

### Environmental measures

The Company has a long history of being involved in measures to produce environmentally-friendly products and components and established the “Environmental Charter” to ensure that each employee works with the environmental awareness. We will continue to obtain ISO14001 certification, the international environmental conservation standard, for each of domestic and overseas works and issue our first environmental report this year.

The above is an overview of the SMK Group’s management policy. We will devote ourselves to realizing more growth and heightening our corporate value through continued business efforts and with a new way of thinking. We sincerely ask our shareholders to continue providing us with your valuable understandings and supports.

June 2003

Terutaka Ikeda  
Chairman and Chief Executive Officer

Tetsuya Nakamura  
President and Chief Operating Officer

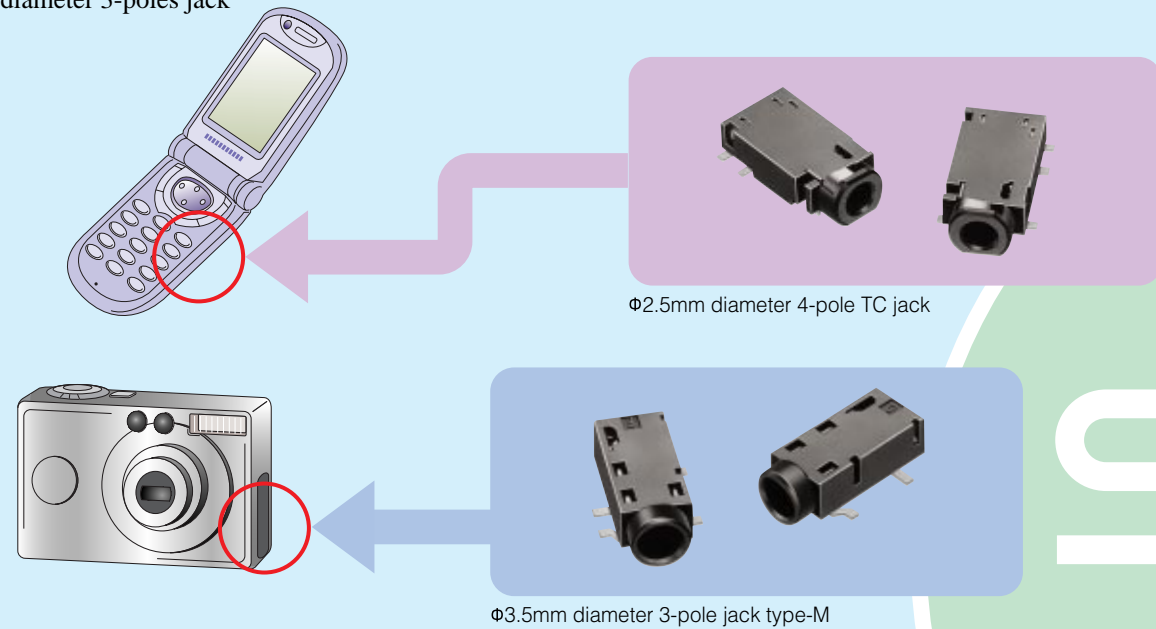
## Contributions to the miniaturization and thinning of information equipments

### ■ Smallest

SMK has achieved miniaturization\* for each of these products (as of March 2003).

Our efforts are contributing to high density mounting and thinning.

\*A height of 3.2mm for the  $\Phi 2.5$ mm diameter 4-poles jack and a height of 4.4mm for the  $\Phi 3.5$ mm diameter 3-poles jack



SMK  
in MARKET

## Bathroom and kitchen become an “entertainment” and “relaxation” space



Highly functional remote control for hot water supplies  
Left: for bathroom  
Right: for kitchen

### ■ A Wide variety of sound functions

Vocal guide, intercom, melody, sound effects, voice memo and audio input

### ■ Flat design

A thin product has been realized by using a unique sensor switch

### ■ Clear LCD

The product contains a graphic LCD back-lighted by RGB color LEDs.

### Intercom functions

Kitchen ↔ Bathroom

### External line playback function

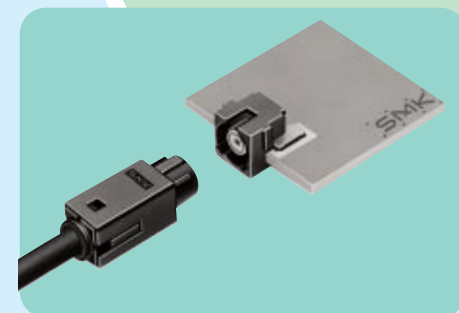
Radio CD player → Kitchen → Bathroom

## 6GHz band coaxial connector with a switch for external connection

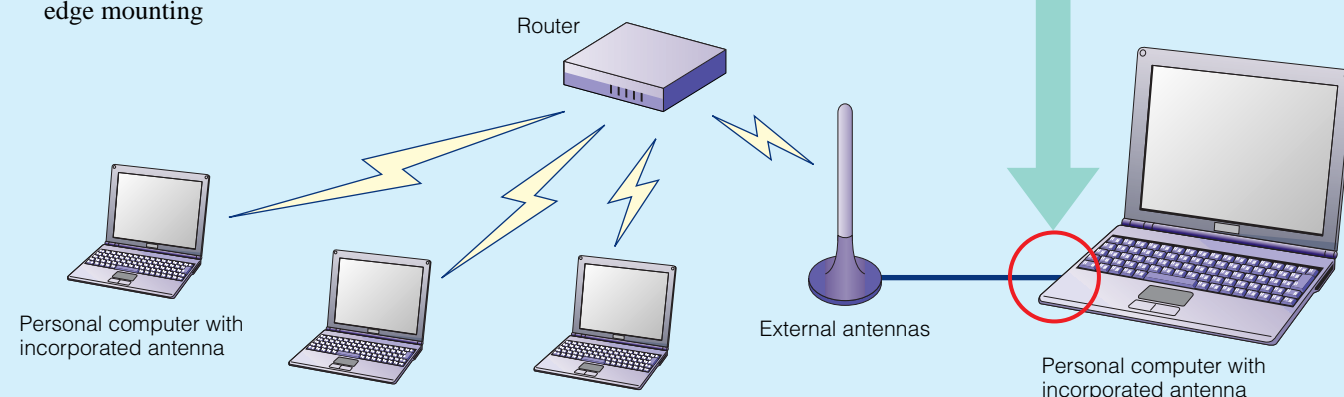
■ SMK has developed a broadband coaxial connector with switch in correlation with the expansion of demand for high-speed wireless LAN.

### ■ Features

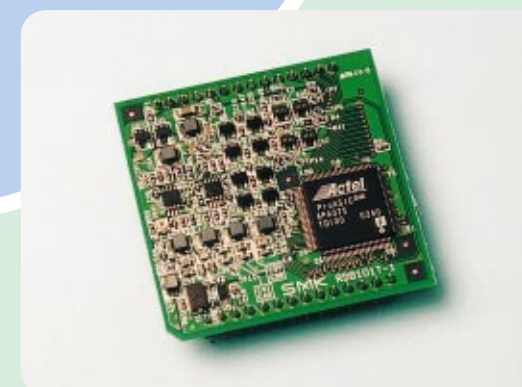
- For switching of internal and external antennas
- Operating life of 5,000 cycles
- Contributes to the thinning of sets as print board mounting is done with edge mounting



Coaxial connector with Switch, "TS-6 Series"



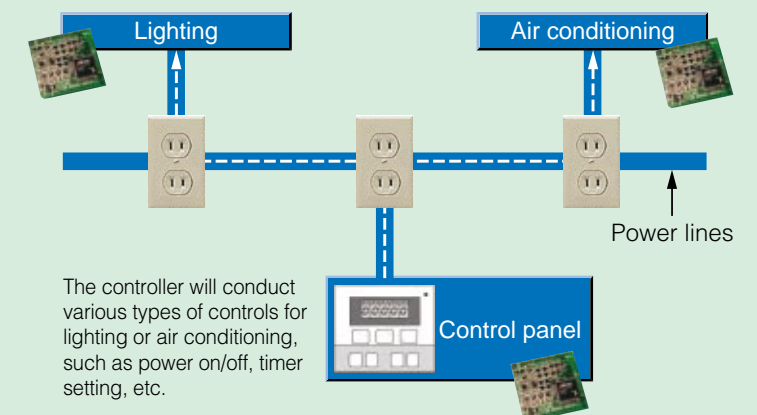
## Realize Small-size and Low-price Power Line Communication Module



Small-size Power Line Communication Module

Incorporating the Power Line Communication Module into equipment, you may realize an inter-equipment network through power lines as communication medium.

In addition to lighting or air conditioning, the module can be applied to other various applications, such as hot water systems, electronic locks or electronic leakage sensors.



The controller will conduct various types of controls for lighting or air conditioning, such as power on/off, timer setting, etc.

# Sales and Market-wise Overview

(April 1, 2002 to March 31, 2003)

## Car Electronics and home electronics 19.2%

Electronic instruments, electronic toys, home electronics and other parts  
11,173 million yen

## Audio-visual 33.2%

Audio-visual parts  
19,327 million yen

## Communication 28.7%

Communications parts  
16,657 million yen

## Information 18.9%

Information parts  
10,974 million yen

**58,133  
Million yen**

### (1) Overview for the Fiscal Year

In the electronic component industry, a gradual recovery in demand was seen up to about the middle of the year centering on some sections of the market including digital home appliances represented by televisions. However, this began fading in the latter half of the year and there was an absence of strength in the growth of cellular phones and IT related markets. These factors together with downward pressures on wholesale prices prolonged the severe environment.

In those conditions, efforts were made by the SMK Group to increase our market share, strengthen new product development, and improve cost competitiveness. Nonetheless, consolidated net sales for this fiscal year fell 4.3% year-on-year\* to 58,133 million yen.

The performances by market are as follows.

In the **visual parts market**, TVs (including LCD/PDP) and DVDs sold well in the first half of the year, partly due to the World Cup that was held in June 2002. However, the stagnation of the U.S. markets from the latter half and the slump in the VTR segment led to an overall drop of 3.8% to 15,223 million yen.

In the **audio parts market**, high grade AV receivers performed poorly leading to a 3.7% drop to 4,104 million yen.

In the **electronic instrument parts market**, the solid demand for car navigation systems installed in automobiles and effects from the introduction of new products led to a 1.9% increase to 5,100 million yen.

In the **electronic toys and home electronic parts market**, the poor sales of parts for home appliances and the enormous drop in volume for TV game parts parts in the latter half of the year combined to form a 14.3% drop to 4,910 million yen.

In the **communication parts market**, positive factors such as the rapid spread of cellular phones with cameras in the domestic market and some increased production by overseas clients were offset by the drop in unit price. Consequently, sales dropped 3.0% to 16,657 million yen.

In the **information parts market**, there was a dramatic growth in the digital still camera segment, but overall sales fell 5.9% to 10,974 million yen due to the decrease in demand in the personal computer and office equipment segments.

As for revenues, despite the decrease in sales, our efforts in cost reduction and other rationalization measures led to

an operating income of 1,155 million yen and ordinary income of 923 million yen.

Furthermore, we realized an extraordinary income of 1,862 million yen due to the transfer of the public pension portion from the employee's pension fund, but we also posted extraordinary losses including a loss on valuation of securities investment due to impairment accounting and special retirement allowance payments. Consequently, net income for the fiscal year was 588 million yen.

### (2) Dividends

Dividends are determined based on the fiscal year's business results, after considering conditions such as the medium to long-term future earning capacity and the level of internal reserves. The dividend for the current term shall be 4 yen per share.

### (3) Cash Flow

Capital investment totaling 2,601 million yen were made for molds and production streamlining. In addition, the amount of repayment for borrowings totaled 776 million yen.

### (4) Forecast

As for prospects for the future, despite signs of ending of the drops in personal consumption in some sectors, there is a continued anxiety over the future of the Japanese economy due to the slump in the stock market, progression of deflation and the likes. The future of global economy is also difficult to forecast due to the shadow cast over the weakening U.S. economy. In case of the electronic component industry, some

markets such as car electronics and digital cameras are doing well, but the present environment makes it difficult to foresee the overall market trend at the present time including for cellular telephone business.

However, this industry incorporates segments for which growth is anticipated due to the medium and long term advancement of information technology and digitalization, and the expansion of networks as a result of a spread of broadband and optical fiber.

SMK maintain its efforts around globalization and information technology, while it endeavors to quickly respond to growth areas, to develop new markets, to develop new products and technologies in line with customer needs, to advance our production technology, prepare an efficient sales system and to review our cost so as to continue growing as a company in such an increasingly difficult environment. Therefore we will improve our performance by demonstrating the aggregate group power.

Moreover, we have established a carefully developed system to prevent an impact from the recent Severe Acute Respiratory Syndrome (SARS) in our overseas business activities.

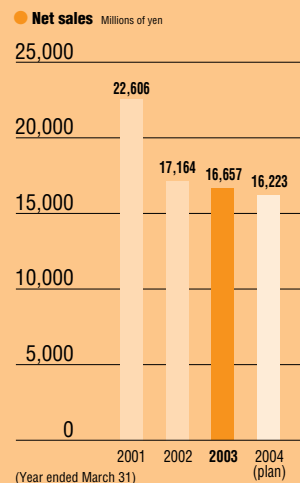
Our forecast for the coming year anticipates consolidated net sales growing 3.2% to 60 billion yen, ordinary income of 1.7billion yen and net income of 0.8 billion yen.

\*All comparisons are year-on-year unless otherwise noted

## Communication

While we see a recovery of global cellular phones production, SMK is proceeding with the

development of new products meeting the trends of thinning and cellular phones with cameras. In addition, our RF coaxial connectors have begun to be adopted for the base station market and the promotion of sales for cellular phones and base stations will be pursued.

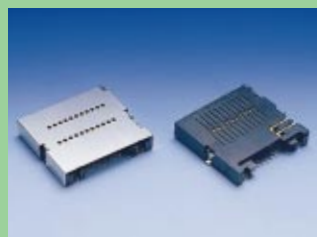
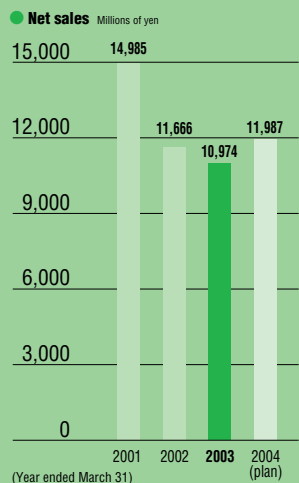


Micro Joystick switch

## Information

Despite the stagnation of demand in the office equipment sector, sales grew in remote control units for

personal computers that could also act as TVs, complex card connectors and control panels for personal computer peripherals. In addition, SMK is also posting increased sales for the digital camera sector, which is exhibiting remarkable growth. We will also endeavor to reinforce our performance in touch panels for personal computers and RF components in the wireless LAN sector.

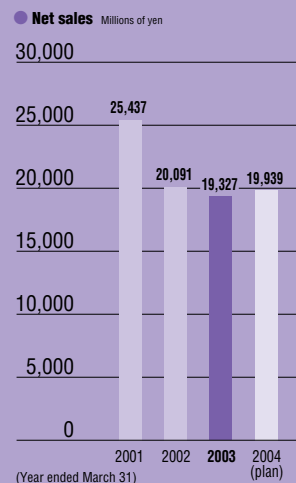


4 in 1 Card Connector

## Audio-Visual

SMK has established a supply system for the global AV equipment market and is striving to develop products

that meet local needs. In addition, SMK is focusing on enhancing its product lineup based on new technologies centered on pin jacks with optical fiber connectors, FPC connectors and remote control units prior to the full-fledged growth phase of the LCD/PDP TV and DVD recorder markets, which are both expected to post astounding growth in the future.

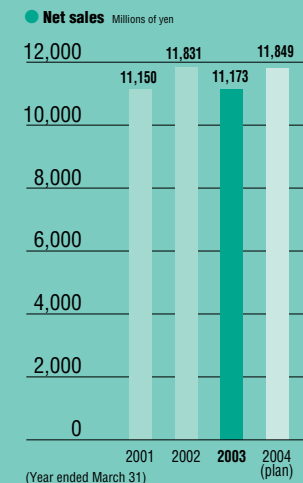


Intelligent Remote Control Unit

## Car Electronics & Home Electronics

In case of the electronic instrument parts segment, touch panels for car navigation systems sold well for

those units targeting medium-class and luxury cars and the automobile accessories market. In the home electronic segment, sales to air purifiers and other comfort and health home electronic products recorded well. SMK will further strengthen its value added products including its newly developed multifunctional control panels for hot water systems.

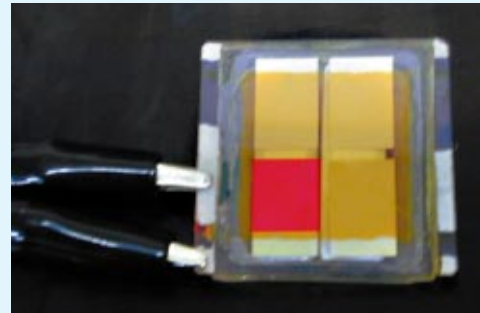


Force Feedback Touch Panel

# ●●Organic Electro-luminescence ●●Succeeded in light emission by means of a printing method

## ■ What is Organic EL (= surface luminescence device) display?

Organic EL is a “next generation display” that is said to replace liquid crystal display (LCD). While LCD needs to be lit from its back, EL device does not need to; it is because the latter spontaneously emits by itself, under a voltage charged. “Inorganic EL displays”, by means of inorganic material, have already been in practical use, but it is difficult for it to display colours, which is a problem. This is why research is continued to realize full-colour TVs using Organic EL.

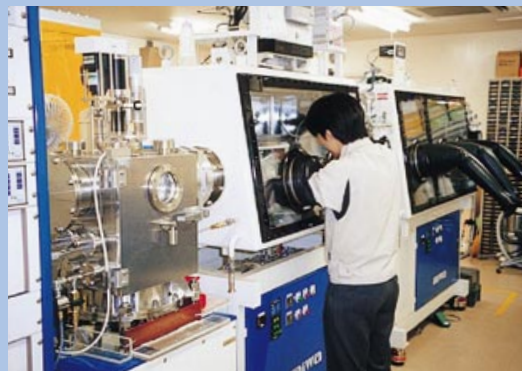


## ■ What will happen when LCD is replaced by Organic EL?

Organic EL will accept unlimited angles for viewing and bring a quicker response than LCD. Organic EL does not need backlight, so it will realize a display device with less power consumption and in a further thinner shape. You will be able to bend it just like paper, applying a soft plastic.

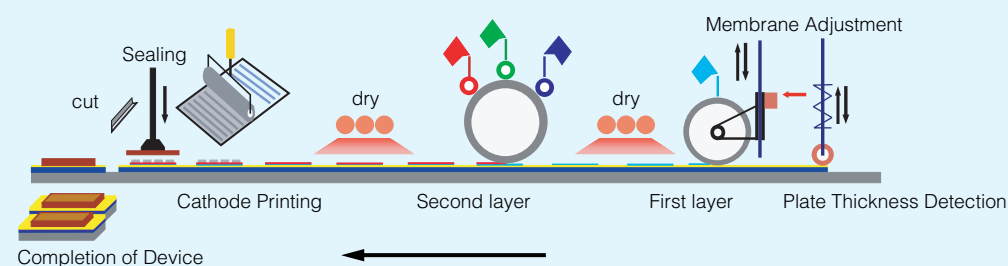
## ■ Latest development status at SMK

SMK has developed a technology to form a polymer Organic EL membrane using a printing method and successfully managed it to emit. Since this technology shows economy features or efficiency in volume production, there are expectations that it will realize a large-scale display such as one for a large-screen TV. Although we SMK have finally reached the stage to have it emitted, yet we hear few cases of developing EL with a similar technology reported in the world and hardly heard of any success. There still remain issues unsolved in this technology, so we will carry on its improvement and target its practical use.



## Image of the Printing Manufacturing Method

The rollers are forming two membrane layers by transferring EL agents just upon required part of glass surface. There is a drying process put between the first and second layers.



## Measures concerning eco products

SMK is striving to develop products that minimize the stress on the environment.

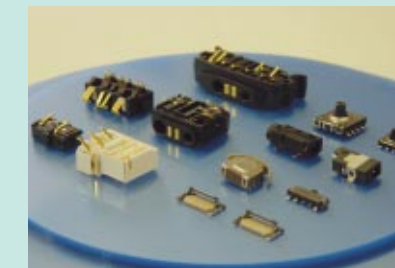
### ■ Products compatible with lead-free soldering

Lead is used in the soldering and plating to connect electronic components and circuit boards.

Presently, SMK is working to completely abolish the use of lead by March 2004.



Lead-free soldering reflow device



Products for lead-free soldering

### ■ Activities concerning heavy metals

Heavy metals and their compounds negatively impact the ecosystem by entering into water and soil. SMK has established stricter standards than the industry standard and are implementing measures to reduce and completely abolish the use of heavy metals and their compounds.



Inspection device of heavy metal concentration (XRF device)

In addition, we have also developed a power-saving module that reduces power on standby, and are pursuing product creation that considers recycling. Furthermore, we, as component makers, are pursuing the product development that support the reduction of the environmental load by electric and electronic equipment. Such a step is striving to introduce technologies that configure components with a single material as much as possible.

“Exposed to more people —that’s what SMK desires for its products.”  
 SMK proactively participates in trade shows held throughout the world.



**New Munich Trade Fair Centre  
 Electronica 2002  
 (November 12-15, 2002)**

We arranged our booth based on white and blue tones and partitioned it with transparent glass. The force feedback touch panel proved overwhelmingly popular in the car electronics market while the low profile FPC connector also proved popular in the telecommunication market.



“We will continue to introduce our products to a variety of markets.”  
**Patrick Delanoetje**  
 General Manager  
 SMK Europe N.V.



**Shanghai New International  
 Expo Centre  
 CeBIT asia  
 (September 2-5, 2002)**

We particularly focused on information communications, audio-visual and car electronics related areas at this show. We also strove earnestly to hold conversations with as many visitors as possible and to apply information gathered through these conversations to our marketing strategies. Consequently, SMK's future perspective is to provide distinctive products; miniaturized, lightened, or easy to use products for information communications market, as well as environmental-friendly or cost-effective products for Audio-Visual/car electronics related area.



“We must maintain our focus on the ever-changing markets of China.”  
**Fumikazu Hata**  
 Branch Manager  
 SMK Electronics (Shenzhen) Co.,Ltd.  
 Shanghai Representative Office



**Las Vegas Convention Center  
 2003 International Consumer  
 Electronics Show  
 (January 9-12, 2003)**

We arranged for a meeting space within this year's booth, to create an environment that was optimal for description on inquiry with clients. We had an exhibit in the SD Pavilion in addition to the SMK booth and our various memory card connectors drew much attention.



“Many people gathered for the demonstrations.”  
**Paul Evans**  
 President  
 SMK Electronics Corporation U.S.A.



# Five-Year Summary

## SMK Corporation and Consolidated Subsidiaries

Year ended and as of March 31	Millions of yen					Thousands of U.S. dollars	
	1999	2000	2001	2002	2003	2003	
<b>Operating Results</b>							
Net sales	¥ 61,887	¥ 71,314	¥ 74,179	¥ 60,753	¥ 58,133	\$ 483,636	
Operating income (loss)	1,789	5,213	3,494	(851)	1,155	9,612	
Net income (loss)	465	1,218	1,832	(822)	588	4,892	
<b>Financial Position</b>							
Total assets	¥ 54,377	¥ 58,995	¥ 58,453	¥ 54,033	¥ 51,487	\$ 428,348	
Total shareholders' equity	27,629	28,211	27,384	26,295	25,794	214,593	
<b>Per share data</b>							
	Yen				U.S. dollars		
Total shareholders' equity	¥ 339.15	¥ 350.13	¥ 341.69	¥ 328.65	¥ 328.72	\$ 2.73	
Net income (loss)	5.72	15.09	22.66	(10.28)	7.42	0.06	
Cash dividends	5.00	7.00	7.00	4.00	4.00	0.03	

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SMK's consolidated net sales for fiscal 2003, which ended on March 31, 2003, decreased by 4.3% from the previous year to ¥58,133 million (US\$ 483,636 thousand). Both operating income and net income surpassed the preceding fiscal year and were ¥1,155 million (US\$ 9,612 thousand) and ¥588 million (US\$ 4,892 thousand) respectively.

### Net sales

Net sales decreased 4.3% to ¥58,133 million (US\$ 483,636 thousand). This was due to the slowdown in some markets in the latter half of the year including digital appliances such as TVs, which had showed a mild recovery up to the middle of the year. Stagnation of the growth in cellular telephones and IT related markets also contributed to these results.

### Operating Income

Operating income vastly improved over the previous year and reached ¥1,155 million (US\$ 9,612 thousand). The results were due to cost reduction and other streamlining measures offsetting the decrease in sales.

### Net Income

Net income surpassed last year and reached ¥588 million (US\$ 4,892 thousand). Extraordinary income totaled ¥1,862 million (US\$ 15,492 thousand) as a result of exemption from future payments of the substituted portion of the welfare pension fund plans, and the posted extraordinary losses consisted of ¥235 million (US\$1,953 thousand) in loss from devaluation of investment securities resulting from impairment processing and ¥155 million (US\$ 1,291 thousand) posted for special retirement payments.

### Total Assets/ROA

Total assets as of March 31, 2003 totaled ¥51,487 million (US\$ 428,348 thousand). The ROA grew 2.6% percentage points to 1.1%.

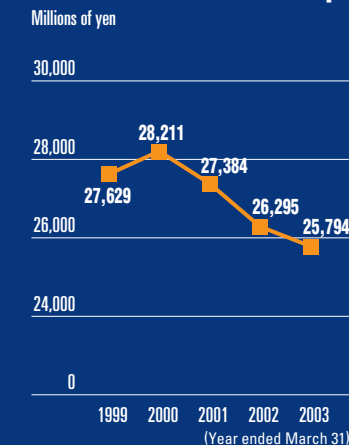
### Total Shareholders' Equity/ROE

The total shareholders' equity as of March 31, 2003 was ¥25,794 million (US\$ 214,593 thousand). ROE grew 5.4% percentage points to 2.3%.

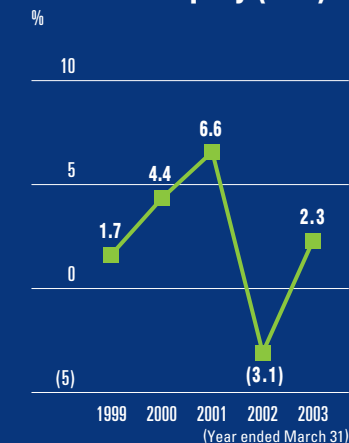
### Cash Flows

The net cash flow provided by operating activities amounted to ¥3,929 million (US\$ 32,691 thousand), net cash used in investing activities totaled ¥3,088 million (US\$ 25,694 thousand) and net cash used in financing activities was valued at ¥1,209 million (US\$ 10,054 thousand).

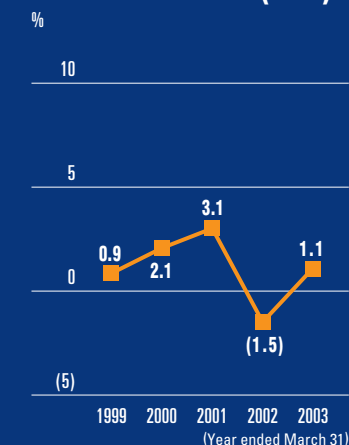
### Total shareholders' equity



### Return on equity (ROE)



### Return on assets (ROA)





# Consolidated Balance Sheets

## SMK Corporation and Consolidated Subsidiaries

As of March 31

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2003	2003
<b>Current assets</b>			
Cash and cash equivalents	¥ 7,190	¥ 6,575	\$ 54,702
Time deposits	233	231	1,924
Notes and accounts receivable, trade	14,964	15,608	129,850
Allowance for doubtful accounts	(138)	(115)	(961)
Inventories (Note 3)	5,670	4,924	40,970
Deferred income taxes (Note 5)	649	1,179	9,805
Other current assets	2,014	2,027	16,861
	30,582	30,429	253,151
<b>Investments and long-term loans</b>			
Investment securities (Note 9)	2,807	2,834	23,576
Long-term loans receivable	88	94	786
Other investments	1,423	1,454	12,100
Allowance for doubtful accounts	(292)	(541)	(4,504)
	4,026	3,841	31,958
<b>Property, plant and equipment (Note 4)</b>			
Land	3,657	3,641	30,294
Buildings	15,688	15,378	127,938
Machinery and vehicles	21,080	22,026	183,248
Tooling and office furnitures	15,005	13,313	110,755
Construction in progress	22	5	43
	55,452	54,363	452,278
Less-Accumulated depreciation	(37,957)	(37,996)	(316,108)
	17,495	16,367	136,170
<b>Other assets</b>			
Deferred income taxes (Note 5)	1,847	759	6,316
Intangible assets	83	91	753
	1,930	850	7,069
<b>Total assets</b>	¥ 54,033	¥ 51,487	\$ 428,348

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2003	2003
<b>Current liabilities</b>			
Short-term loans payable (Note 4)	¥ 11,131	¥ 8,680	\$ 72,215
Notes and accounts payable, trade	6,625	6,038	50,233
Accrued income taxes	107	29	238
Reserve for bonus	541	496	4,127
Account payable-non trade	4,796	5,088	42,328
Other current liabilities	1,284	1,341	11,157
	24,484	21,672	180,298
<b>Long-term liabilities</b>			
Corporate bond	90	300	2,496
Long-term debt (Note 4)	1,526	2,959	24,617
Liability for employees' retirement benefits (Note 10)	1,253	366	3,052
Other long-term liabilities	385	396	3,292
	3,254	4,021	33,457
<b>Contingent liabilities (Note 7)</b>			
<b>Shareholders' equity</b>			
Common stock			
Authorized:	198,313,000 shares		
Issued and outstanding:	2002 - 81,351,726 shares	7,996	—
	2003 - 79,000,000 shares	—	7,996
			66,529
Capital reserve (Note 6)	12,057	12,057	100,309
Earnings reserve (Note 6)	8,285	7,729	64,297
Foreign currency translation adjustments	(1,161)	(1,425)	(11,857)
Unrealized losses on securities available for sale	(226)	(307)	(2,555)
Treasury stock	(656)	(256)	(2,130)
	26,295	25,794	214,593
<b>Total liabilities and shareholders' equity</b>	¥ 54,033	¥ 51,487	\$ 428,348

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Operations

## SMK Corporation and Consolidated Subsidiaries

Year ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2003	2003
<b>Net sales</b>	¥ 60,753	¥ 58,133	\$ 483,636
Cost of sales	54,796	50,498	420,114
<b>Selling, general and administrative expenses</b>	6,808	6,480	53,910
<b>Operating income (loss)</b>	(851)	1,155	9,612
<b>Other income</b>			
Interest income	70	68	564
Rent income	712	686	5,712
Foreign exchange gain, net	158	—	—
Gain on sales of fixed assets	7	63	523
Gain on return of substitutional portion of retirement benefits	—	1,862	15,492
Other	257	177	1,471
<b>Total other income</b>	1,204	2,856	23,762
<b>Other expenses</b>			
Interest expenses	246	186	1,548
Foreign exchange loss, net	—	685	5,703
Loss on disposal of fixed assets	108	232	1,927
Loss from devaluation of investment securities	193	235	1,953
Bad debt expenses	156	251	2,088
Directors and statutory auditors retirement payments	—	145	1,208
Special retirement payments	149	155	1,291
Accrued severance expenses	747	594	4,942
Other	355	295	2,455
<b>Total other expenses</b>	1,954	2,778	23,115
<b>Income (loss) before income taxes</b>	(1,601)	1,233	10,259
<b>Income taxes (Note 5)</b>			
Current	203	41	344
Deferred	(982)	604	5,023
<b>Net income (loss)</b>	¥ (822)	¥ 588	\$ 4,892
	Yen		U.S. dollars (Note 2)
<b>Per share data</b>			
Total shareholders' equity	¥ 328.65	¥ 328.72	\$ 2.73
Net income (loss)	(10.28)	7.42	0.06
Cash dividends	4.00	4.00	0.03

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

## SMK Corporation and Consolidated Subsidiaries

	Millions of yen						
	Number of shares of common stock	Common stock	Capital reserve	Earnings reserve	Foreign currency translation adjustments	Unrealized losses on securities available for sale	Treasury Stock
<b>Balance at March 31, 2001</b>	81,451,726	¥ 7,996	¥ 12,057	¥ 9,628	¥ (1,646)	¥ —	¥ (651)
Increase resulting from inclusion of affiliate companies				89			
Net income				(822)			
Cash dividends paid				(562)			
Foreign currency translation adjustments					485		
Unrealized losses on securities available for sale						(226)	
Treasury stock retired	100,000			(48)			(5)
<b>Balance at March 31, 2002</b>	81,351,726	7,996	12,057	8,285	(1,161)	(226)	(656)
Net income				588			
Cash dividends paid				(320)			
Foreign currency translation adjustments					(264)		
Unrealized losses on securities available for sale						(81)	
Treasury stock retired	2,351,726			(824)			400
<b>Balance at March 31, 2003</b>	79,000,000	¥ 7,996	¥ 12,057	¥ 7,729	¥ (1,425)	¥ (307)	¥ (256)
		Thousands of U.S. dollars (Note 2)					
<b>Balance at March 31, 2002</b>		\$ 66,529	\$ 100,309	\$ 68,928	\$ (9,658)	\$ (1,883)	\$ (5,461)
Net income				4,892			
Cash dividends paid				(2,665)			
Foreign currency translation adjustments					(2,199)		
Unrealized losses on securities available for sale						(672)	
Treasury stock retired				(6,858)			3,331
<b>Balance at March 31, 2003</b>		\$ 66,529	\$ 100,309	\$ 64,297	\$ (11,857)	\$ (2,555)	\$ (2,130)

See accompanying notes to consolidated financial statements.

## SMK Corporation and Consolidated Subsidiaries

Year ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2003	2003
<b>Cash flows from operating activities</b>			
Income (loss) before income taxes	¥ (1,601)	¥ 1,233	\$ 10,259
Depreciation and amortization	3,799	3,138	26,108
(Decrease)increase in liability for employees' retirement benefit	835	(886)	(7,373)
Increase in allowance for doubtful accounts	100	245	2,039
Interest and dividend income	(114)	(104)	(862)
Interest expenses	246	186	1,548
Provision for directors and statutory auditors retirement allowance	—	145	1,208
Provision for special retirement allowance	149	155	1,291
Loss on disposal of fixed assets	108	232	1,927
(Increase)decrease in notes and accounts receivable, trade	4,714	(1,019)	(8,481)
Decrease in inventories	3,594	505	4,205
Increase(decrease) in notes and accounts payable, trade	(3,709)	66	549
Other	(539)	596	4,956
<b>Subtotal</b>	<b>7,582</b>	<b>4,492</b>	<b>37,374</b>
Receipts of interest and dividend income	113	96	800
Payments of interest expenses	(294)	(200)	(1,660)
Directors and statutory auditors retirement payments	—	(145)	(1,208)
Special retirement payments	(70)	(186)	(1,546)
Receipts of tax refund	12	94	782
Payments of income taxes	(916)	(222)	(1,851)
<b>Net cash provided by operating activities</b>	<b>6,427</b>	<b>3,929</b>	<b>32,691</b>
<b>Cash flows from investing activities</b>			
Payments into time deposits	—	(1)	(5)
Proceeds from time deposits	2	—	—
Purchases of fixed assets	(4,465)	(2,601)	(21,640)
Proceeds from sale of fixed assets	218	333	2,773
Purchases of intangible fixed assets	—	(25)	(213)
Purchases of investment securities	(77)	(501)	(4,173)
Proceeds from sale of investment securities	0	0	1
Purchases of subsidiaries' stock	(98)	(1)	(7)
Payment of loans receivable	(520)	(344)	(2,861)
Proceeds from loans receivable	129	52	431
<b>Net cash used in investing activities</b>	<b>(4,811)</b>	<b>(3,088)</b>	<b>(25,694)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans receivable	1,206	(631)	(5,250)
Proceeds from long-term debt	493	2,153	17,910
Payments of long-term debt	(545)	(2,298)	(19,117)
Proceeds from issuance of corporate bond	—	287	2,393
Purchases of treasury stock	(85)	(416)	(3,461)
Proceeds from sale of treasury stock	41	18	150
Dividends paid	(545)	(322)	(2,679)
<b>Net cash provided by (used in) financing activities</b>	<b>565</b>	<b>(1,209)</b>	<b>(10,054)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>194</b>	<b>(247)</b>	<b>(2,058)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>2,375</b>	<b>(615)</b>	<b>(5,115)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>4,807</b>	<b>7,190</b>	<b>59,817</b>
<b>Increase in cash and cash equivalents arising from inclusion in consolidation</b>	<b>8</b>	<b>—</b>	<b>—</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 7,190</b>	<b>¥ 6,575</b>	<b>\$ 54,702</b>

See accompanying 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") have been prepared from the financial statements filed with the Prime Minister as required by the Japanese Securities and Exchange Law in accordance with accounting principles and practices generally accepted and applied in Japan. Accordingly, the accompanying financial statements are not intended to present the consolidated financial positions, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than 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.
- (b) Basis of consolidation and investments in affiliated companies  
In accordance with the accounting standards for consolidation issued by the Business Accounting Deliberation Council of Japan, effective April 1, 1999, the accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exercised either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. Certain foreign subsidiaries' fiscal periods end December 31, which differs from the year-end date of the Company; however, the accounts of these companies were tentatively closed as of March 31 and the necessary adjustments for consolidation were made. Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies, after the elimination of unrealized intercompany profits. All assets and liabilities of the Company's subsidiaries are revalued on acquisition, if applicable, and the excess of cost over the underlying net assets at the date of acquisition is amortized over a period of five years on a straight-line basis if such excess is material, or charged to income when incurred if immaterial.
- (c) Scope of consolidation  
Number of consolidated subsidiaries: 19  
The remaining 11 subsidiaries which are unconsolidated are deemed immaterial and, accordingly, their results had no significant effect on the consolidated financial statements.
- (d) Application of equity method of accounting  
Number of affiliated companies accounted for by the equity method: 2  
The 11 unconsolidated subsidiaries and one other affiliated company are deemed immaterial. As the effect of their results 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 assets 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  
Marketable securities classified as other securities are carried at fair value with unrealized gains and losses reported in a separate component of shareholders' equity, net of applicable income taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.
- (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) Basis for provision of reserves  
(1) 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.  
(2) Reserve for Accrued Bonuses  
Liabilities for employees' bonus reserves 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.

(3) Reserve for retirement benefit obligations

To cover projected employee benefits, the Company records the estimated obligations at the end of the current fiscal year based on projected year-end benefit obligations and plan assets.

The effect of the adoption of the new standard for retirement benefits are being amortized for the period of five years.

Unrecognized actuarial service cost are amortized as incurred by the straight-line method over the period of 5 years which is within the average remaining years of service, commencing with the following period.

(l) 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) Method of hedge effectiveness

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

(m) 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.

(n) 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.

(o) Per share information

Net income per share is calculated based on the weighted average number of shares of common stock outstanding during the respective years. Cash dividends per share shown for each period in the consolidated statements of operations represent the dividends applicable to the respective period.

Effective the fiscal year ended March 31, 2003, the Company adopted "Accounting Standard for Earnings Per Share" and "Guideline for Application of Accounting Standard for Earnings Per Share."

(p) Accounting for Treasury Stock and Reversal of Legal Reserves

Effective the fiscal year ended March 31, 2003, the Company adopted "Accounting Standard for Treasury Stock and Reversal of Legal Reserves." The effect of this change to operations was immaterial.

**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=¥120.20, the approximate rate of exchange at March 31, 2003. 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, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Finished products	¥ 2,699	¥ 2,181	\$ 18,141
Work in process	264	316	2,632
Raw materials	2,654	2,322	19,320
Supplies	53	105	877
	¥ 5,670	¥ 4,924	\$ 40,970

**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 0.580% to 4.600% per annum as of March 31, 2003.

Long-term debt as of March 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Loans, principally to banks with interest rates ranging from 1.20% to 6.00% :			
Secured	¥ 3,842	¥ 4,016	\$ 33,411
Unsecured	0	—	—
Less:portion due within one year	(2,316)	(1,057)	(8,794)
	¥ 1,526	¥ 2,959	\$ 24,617

The assets pledged as collateral for long-term debt as of March 31, 2003 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment-book value	¥ 3,310	\$ 27,540

The aggregate annual maturities of long-term debt outstanding as of March 31, 2003 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥ 1,057	\$ 8,794
2005	758	6,306
2006	544	4,526
2007	513	4,268
2008 and thereafter	1,144	9,517
	¥ 4,016	\$ 33,411

**Note 5. Income taxes**

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation, inhabitant's and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 41.8%.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2002 and 2003 is as follows:

	2002	2003
Statutory tax rate	41.8%	41.8%
Add (deduct) :		
Non- deductible expenses	(1.7)	2.0
Provision of valuation allowance	(19.6)	7.5
Statutory tax rate differences in subsidiaries	3.4	3.6
Elimination of intercompany profits	27.3	—
Foreign tax credits	—	(4.5)
Other	(2.5)	1.9
Effective tax rate	48.7%	52.3%

The significant components of deferred tax assets and liabilities at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Inventory write-down disallowed	¥ 142	¥ 123	\$ 1,020
Accrued bonuses disallowed	104	158	1,315
Unrealized holding profit of inventory	79	60	502
Retirement benefits disallowed	1,326	943	7,849
Operating losses carried forward for tax purposes	1,630	1,233	10,254
Unrealized holding losses on securities	162	209	1,739
Other	438	620	5,159
Valuation allowance	(1,006)	(1,052)	(8,754)
Deferred tax assets	2,875	2,294	19,084
Deferred tax liabilities:			
Advanced depreciation on land	(112)	(108)	(901)
Advanced depreciation on buildings	(229)	(211)	(1,752)
Reserve for special depreciation	(39)	(37)	(310)
Other	(53)	(48)	(400)
Net deferred tax assets	¥ 2,442	¥ 1,890	\$ 15,721

#### Note 6. Additional paid-in capital and retained earnings

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid - in capital equals 25% of common stock. The legal reserve and additional paid- in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the board of directors. On condition that the total amount of legal reserve and additional paid- in capital remains being equal to or exceeding 25% of common stock, they are available for distributions and certain other purposes by the resolution of shareholders' meeting.

Retained earnings in the accompanying consolidated balance sheet as of March 31, 2003 included the legal reserve of ¥1,306 million (\$10,865 thousand).

#### Note 7. Contingent liabilities

Contingent liabilities as of March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Trade notes receivable discounted with banks	¥ 1,153	¥ 269	\$ 2,240
Guarantees of loans	¥ 700	¥ 700	\$ 5,824

#### Note 8. Treasury stock

The number of common stock of Parent Company held by the Parent Company, consolidated subsidiaries and affiliated companies subject to the equity method, totals to 533,712 shares at March 31, 2003.

#### Note 9. Securities

The new accounting standards for financial instruments which became effective April 1, 2000, requires that securities be classified into three categories : trading securities, held-to-maturity securities and other securities. And under this standard, marketable securities classified as other securities are reported at fair value as of year end, with unrealized gains and losses, net of applicable income taxes, reported in a separate component of shareholders' equity, which, in prior years, were stated at cost based on the moving-average method. The cost of securities sold is determined based on the moving- average method.

As a result, "unrealized losses on securities available for sale" amounted to ¥307 million and "deferred income taxes" amounted to ¥209 million.

Information regarding marketable securities classified as other securities at March 31, 2002 and 2003 were summarized as follows:

	2002			2003			2003		
	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	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	¥ 212	¥ 262	¥ 50	¥ 77	¥ 115	¥ 38	\$ 644	\$ 959	\$ 315
Bonds	105	107	2	105	106	1	874	879	5
Others	—	—	—	—	—	—	—	—	—
	317	369	52	182	221	39	1,518	1,838	320
Securities whose cost exceeds fair value									
Stocks	1,184	915	(269)	1,273	842	(431)	10,593	7,010	(3,583)
Bonds	—	—	—	—	—	—	—	—	—
Others	606	434	(172)	446	322	(124)	3,706	2,675	(1,031)
	1,790	1,349	(441)	1,719	1,164	(555)	14,299	9,685	(4,614)
Total	¥ 2,107	¥ 1,718	¥ (389)	¥ 1,901	¥ 1,385	¥ (516)	\$ 15,817	\$ 11,523	\$ (4,294)

	2002			2003		
	Millions of yen			Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Bonds	¥ —	¥ 105	¥ —	¥ 105	¥ —	¥ —
Others	30	312	263	—	175	146
Total	¥ 30	¥ 417	¥ 263	¥ 105	¥ 175	¥ 146

	2003		
	Thousands of U.S.dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Bonds	\$ 873	\$ —	\$ —
Others	—	1,458	1,217
Total	\$ 873	\$ 1,458	\$ 1,217

#### Note 10. Retirement benefits

##### (a) Outline of retirement benefit plans

The Company has terminated tax qualified pension plans on April 1, 1987 and totally switched over to employees' pension funds. Certain domestic subsidiaries are also member of this employees' pension funds.

The employees are also entitled to lump- sum payments at the time of termination which are determined based on years of service and compensation as stipulated in the Company's retirement regulations.

The Company and certain of its domestic consolidated subsidiaries obtained approval from the Minister of Health, Labor and Welfare to be exempted from future payments for the substituted portion of the welfare pension fund plans on September 30, 2002 in connection with the implementation of the Defined Benefits Enterprise Pension Law of Japan.

The Company and certain of its domestic consolidated subsidiaries recognized as an extinguishment, as of the date on which they received approval for this exemption, the retirement benefit obligation and an amount equivalent to the pension plan assets which are associated with the substituted portion and which must be returned. This was done in accordance with the transition measures set forth in "Practical Guidelines for Accounting for Retirement Benefits."

At March 31, 2003, the amount to be returned amounted to ¥3,377 million (\$28,095 thousand).

##### (b) Retirement benefit obligation as of March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Benefit obligation	¥16,333	¥ 9,410	\$ 78,286
Fair value of plan assets	(9,731)	(5,629)	(46,830)
Funded status	6,602	3,781	31,456
Unrecognized amount	(5,349)	(3,415)	(28,404)
Unrecognized effect of the adoption of the new standard for retirement benefit	(2,242)	(944)	(7,850)
Unrecognized actuarial service cost	(3,578)	(2,471)	(20,554)
Unrecognized prior service cost	471	—	—
Net amount recognized	¥ 1,253	¥ 366	\$ 3,052

"Net amount recognized" was recognized in the consolidated balance sheets as "Liability for employees' retirement benefits".

##### (c) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Service cost, net of plan participants' contributions	¥ 593	¥ 557	\$ 4,634
Interest cost	428	308	2,570
Expected returns on plan assets	(287)	(231)	(1,927)
Actuarial service cost	206	570	4,744
Amortization of the effect of the adoption of the new standard for retirement benefit	747	594	4,942
Expense on prior service liabilities	—	(39)	(326)
Net periodic cost	¥ 1,687	1,759	14,637
Gain on exemption from future payments of the substituted portion of the welfare pension fund plans	—	(1,862)	(15,491)
Total	—	¥ (103)	\$ (854)

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

Discount rate	2.5%
Expected return on plan assets	3.5%
Amortization period of unrecognized actuarial service cost	5 year
Amortization period of the effect of the adoption of the new standard for retirement benefits	5 year

##### Liability for Employees' Retirement Benefits

After the Company's exemption from future payments for the substituted portion of the Japanese welfare pension fund plans, there remained no past service liability for employees' retirement benefits.

#### Note 11. Derivatives

The Company has entered into interest rate option contracts (cap transactions) to reduce the cost of its borrowings. As a matter of policy, the Company does not speculate in derivative transactions, but uses such contracts to hedge its exposure to interest rate risks. The Company does not anticipate nonperformance by any of the counterparties to the above transactions, all of whom are leading domestic financial institutions with high bond ratings.

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

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

(Currency related)	Millions of yen						Thousands of U.S. dollars		
	Contract amount		Fair value		Unrealized gain (loss)		Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:	2002	2003	2002	2003	2002	2003	2003	2003	2003
Sell:									
US\$	¥ 210	¥ 198	¥ 211	¥ 202	¥ (1)	¥ (4)	\$ 1,647	\$ 1,681	\$ (34)
(Interest related)									
Interest rate option									
(cap transaction)									
Put	¥ 166[¥ 0]	¥ 86[¥ 0]	¥ 0	¥ 0	¥ (0)	¥ (0)	\$ 715[\$ 0]	\$ 0	\$ (0)

(1) Option expenses are shown in first two [ ].

(2) Calculation of fair value

The fair value is calculated by the proposed price by banks.

#### Note 12. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2002 and 2003, which would have been reflected in the balance sheets if lease accounting had been applied to finance leases currently accounted for as operating leases.

(Millions of yen)	Acquisition costs		Accumulated depreciation		Net book value	
	2002	2003	2002	2003	2002	2003
Machinery and vehicle	¥ 310	¥ 278	¥ 166	¥ 138	¥ 144	¥ 140
Tools, office furniture and equipment	265	271	135	191	130	80
Total	¥ 575	¥ 549	¥ 301	¥ 329	¥ 274	¥ 220
(Thousands of U.S. dollars)						
	2003		2003		2003	
Machinery and vehicle	\$ 2,309		\$ 1,146		\$ 1,163	
Tools, office furniture and equipment	2,259		1,593		666	
Total	\$ 4,568		\$ 2,739		\$ 1,829	

The amount of outstanding future lease payments subsequent to March 31, 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Due within one year	¥ 108	¥ 92	\$ 766
Due over one year	182	141	1,175
Total	¥ 290	¥ 233	\$ 1,941

Lease expenses on finance leases for the years ended March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Lease expenses:	¥ 123	¥ 131	\$ 1,087
Components of lease expenses:			
Depreciation	¥ 105	¥ 112	\$ 929
Interest	¥ 20	¥ 14	\$ 119

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

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

#### Note 13. 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

2002	Millions of yen					Consolidated
	Japan	Asia	North America	Other areas	Elimination	
<b>Net sales</b>						
Outside customers	¥ 36,177	¥ 13,229	¥ 9,032	¥ 2,315	¥ —	¥ 60,753
Intersegment sales	13,235	10,823	130	59	(24,247)	—
Total	49,412	24,052	9,162	2,374	(24,247)	60,753
<b>Cost and expenses</b>	50,793	23,484	8,797	2,876	(24,346)	61,604
<b>Operating income</b>	(1,381)	568	365	(502)	99	(851)
<b>Identifiable assets</b>	42,163	9,752	3,082	1,658	(2,622)	54,033
2003						Millions of yen
<b>Net sales</b>						
Outside customers	¥ 34,862	¥ 13,965	¥ 6,801	¥ 2,505	¥ —	¥ 58,133
Intersegment sales	14,096	10,526	146	24	(24,792)	—
Total	48,958	24,491	6,947	2,529	(24,792)	58,133
<b>Cost and expenses</b>	48,679	24,142	6,298	2,659	(24,800)	56,978
<b>Operating income</b>	279	349	649	(130)	8	1,155
<b>Identifiable assets</b>	41,612	9,478	2,658	1,408	(3,669)	51,487

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

Asia-----Singapore, Malaysia, China, Taiwan, Korea

North America---- U.S.A, Mexico

Other areas----- United Kingdom, Belgium, Brazil

2003	Thousands of U.S. dollars					Consolidated
	Japan	Asia	North America	Other areas	Elimination	
<b>Net sales</b>						
Outside customers	\$ 290,031	\$ 116,184	\$ 56,581	\$ 20,840	\$ —	\$ 483,636
Intersegment sales	117,279	87,570	1,214	196	(206,259)	—
Total	407,310	203,754	57,795	21,036	(206,259)	483,636
<b>Cost and expenses</b>	404,984	200,854	52,395	22,120	(206,329)	474,024
<b>Operating income</b>	2,326	2,900	5,400	(1,084)	70	9,612
<b>Identifiable assets</b>	346,188	78,855	22,115	11,715	(30,525)	428,348

#### Overseas sales

2002	Millions of yen				Total
	Asia	North America	Europe	Other areas	
Overseas sales	¥ 16,373	¥ 10,794	¥ 6,623	¥ 293	¥ 34,083
Consolidated sales					60,753
Ratio of overseas sales (%)	26.9	17.8	10.9	0.5	56.1

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

2003	Millions of yen				Total
	Asia	North America	Europe	Other areas	
Overseas sales	¥ 16,624	¥ 7,791	¥ 6,803	¥ 522	¥ 31,740
Consolidated sales					58,133
Ratio of overseas sales (%)	28.6	13.4	11.7	0.9	54.6

2003	Thousands of U.S. dollars				Total
	Asia	North America	Europe	Other areas	
Overseas sales	\$ 138,307	\$ 64,821	\$ 56,595	\$ 4,340	\$ 264,063
Consolidated sales					483,636
Ratio of overseas sales (%)	28.6	13.4	11.7	0.9	54.6



**Certified Public Accountants**  
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 2-2-3, Uchisaiwai-cho,  
 Chiyoda-ku, Tokyo 100-0011  
 C.P.O. Box 1196, Tokyo 100-8641

Phone: 03 3503-1100  
 Fax: 03 3503-1197

## Independent Auditors' Report

The Board of Directors  
 SMK Corporation

We have audited the accompanying consolidated balance sheets of SMK Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

June 20, 2003

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of SMK Corporation and consolidated subsidiaries under Japanese accounting principles and practices.

(As of March 31, 2003)

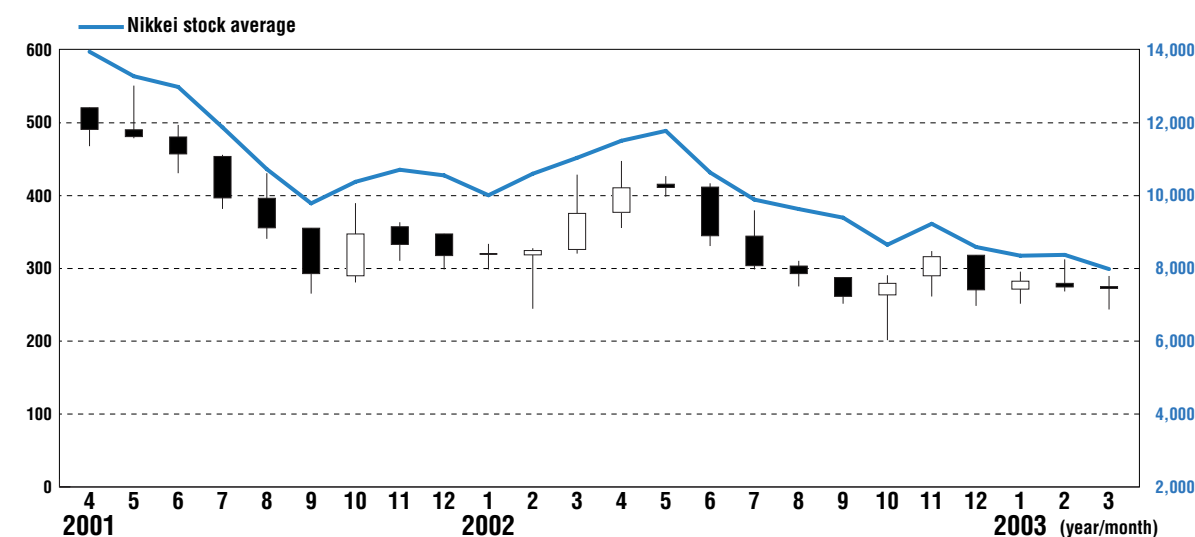
**Authorized shares:** 195,961,274  
**Issued shares:** 79,000,000  
**Number of shareholders:** 15,711

Major shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Shares (%)
Nippon Life Insurance Company	4,001	5.06
Mizuho Corporate Bank, Ltd.	3,912	4.95
The Mitsubishi Trust and Banking Corporation	3,183	4.03
Mizuho Bank, Limited	2,214	2.80
UFJ Bank, Ltd.	2,059	2.61
Terutaka Ikeda	2,009	2.54
The Bank of Tokyo-Mitsubishi, Ltd.	1,818	2.30
Dai Nippon Printing Co., Ltd.	1,795	2.27
SMK Cooperating Company Share Holding Association	1,631	2.06
Japan Trustee Services Bank, Ltd.	1,487	1.88

Distribution of share ownership	
1-99 shares	1,917 (12.20%)
100-499 shares	2,109 (13.42%)
500-999 shares	431 (2.74%)
1,000-4,999 shares	9,704 (61.78%)
5,000-9,999 shares	900 (5.73%)
10,000-49,999 shares	542 (3.45%)
50,000~ shares	106 (0.67%)
2 others	(0.01%)

Distribution of shareholders	
Government/local public organizations	1 (0.01%)
Financial institutions	54 (0.34%)
Securities companies	47 (0.30%)
Companies and other entities	290 (1.85%)
Foreigners	36 (0.23%)
Individuals and others	15,283 (97.27%)

### Share Price Chart (unit: yen)



# Corporate Data

(As of March 31, 2003)

**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

**Transfer Agent:** The Mitsubishi Trust and Banking Corporation

**Independent Auditors:** Shin Nihon & Co.  
Tokyo, Japan

**Employees (SMK-Group):** 6,485

**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 - 10 companies  
Affiliates - 3 companies  
**Overseas:** Subsidiaries - 20 companies

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

# Board of Directors and Corporate Auditors

(As of June 20, 2003)

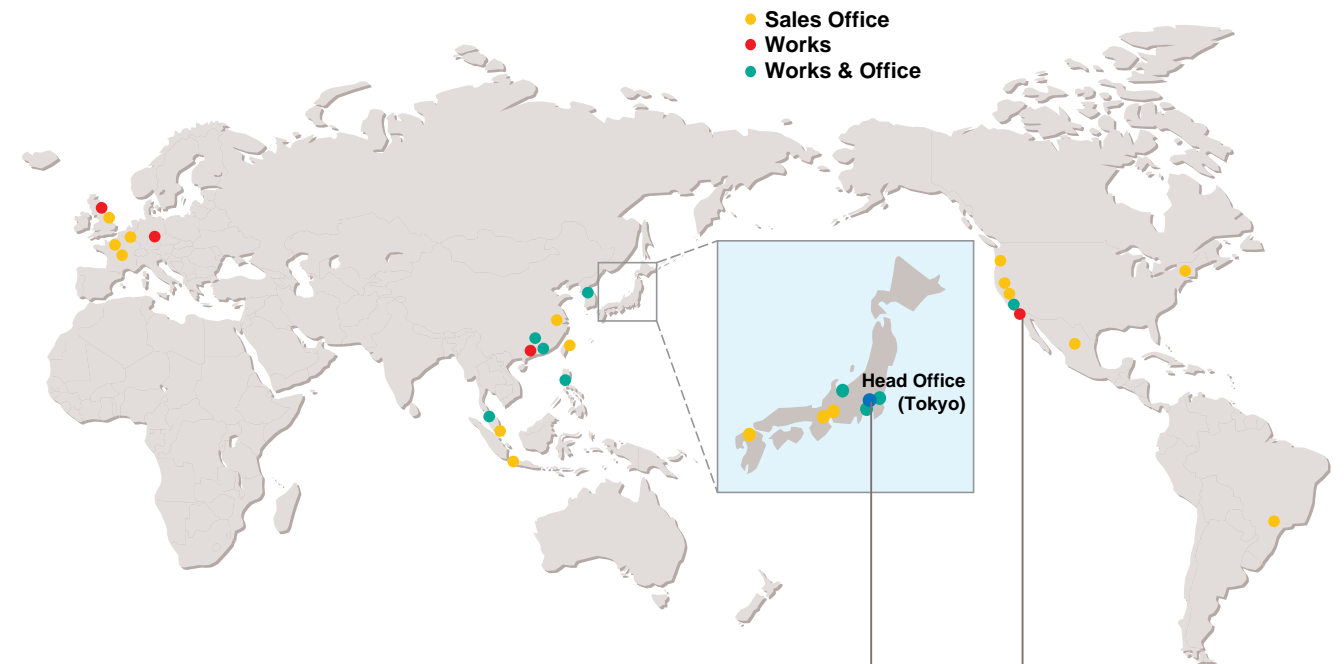
## Directors and Auditors

Chairman and Chief Executive Officer	Terutaka Ikeda
President and Chief Operating Officer	Tetsuya Nakamura
Executive Deputy President	Mikio Ito
Director	Yuji Tanahashi
Auditor	Jun Sugimoto
Auditor	Yoshio Tada
Auditor	Takeshi Nakamura

## Corporate Executive Officers

Senior Executive Vice President	Tetsuo Murase
Senior Executive Vice President	Shigenobu Oyashiki
Senior Executive Vice President	Kenji Kobayashi
Executive Vice President	Tadashi Yamoto
Executive Vice President	Takushi Suzuki
Executive Vice President	Hajime Yamada
Vice President	Mitsuru Ito
Vice President	Takashi Hirawata
Vice President	Toru Kaneyoshi
Vice President	Yu Hosoya
Vice President	Hirozumi Kawabata
Vice President	Yoshiyuki Yonejima
Vice President	Yasumitsu Ikeda

# Global Network



**Hitachi Works**  
 ●Manufactured and sold products:  
 Jacks, antennas and coaxial connectors

**SMK Electronica S.A. de C.V.**  
 ●Manufactured products:  
 Keyboards, control panels and remote control units

## ASIA

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

## EUROPE

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

## NORTH AMERICA

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

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

## SOUTH AMERICA

São Paulo Indústria Eletrônica Ltda.