

ANNUAL REPORT 2014

For the fiscal year ended March 31, 2014



Automotive capacitive touch panel



Touch Panel Division

Connection System Division

Functional Components Division



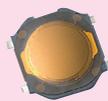
SMB coaxial connector with a molded locking provision



Wide-angle camera module



Rectangular coaxial connector



Top push switch (long stroke type)



FPC connector

SMK CORPORATION

To Our Shareholders

We are obliged to you for your continued support and good patronage.

We would like to report on the outline and results of the SMK Group's businesses for the 92nd fiscal year (from April 1, 2013 to March 31, 2014).

We look forward to your continuing support and encouragement.

June 2014

Yasumitsu Ikeda
President and COO



Taking Changes as Opportunities for Growth

Overview

During the fiscal year ended March 31, 2014, the global economy saw a moderate recovery. The U.S. economy was on a recovery trend, reflecting improved employment and the shale revolution. In China, despite some signs of deceleration, the growth trend continued as a whole.

The Japanese economy is also on a recovery path, as the Abenomics measures successfully corrected yen's appreciation, leading to the improvement of corporate earnings.

The SMK Group achieved favorable sales mainly in products for the information and communication, automobile, Internet protocol set-top boxes and photovoltaic power generation systems, whereas sales of products for flat-panel televisions and digital cameras remained sluggish.

Under these circumstances, we continued aggressive introduction of new products and enhancement of our marketing capabilities. As a result, the Group's consolidated net sales for the fiscal year under review achieved a year-on-year increase.

The Group's consolidated income also improved significantly from a year earlier, owing to the corrected yen's appreciation, as well as the increased net sales, cost-cutting efforts and other measures such as reduction of fixed costs.

Toward a New Growth Path

The Japanese economy is expected to reach a stable growth track, owing to the continuation of monetary easing measures and the weaker yen tendency. However, future uncertainties remain due to negative factors, such as the deceleration of emerging economies and geopolitical risks.

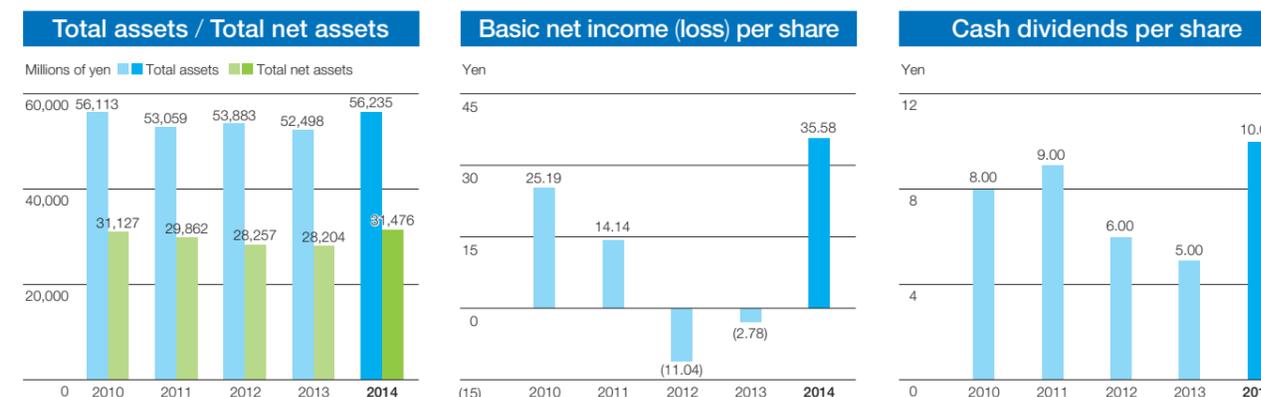
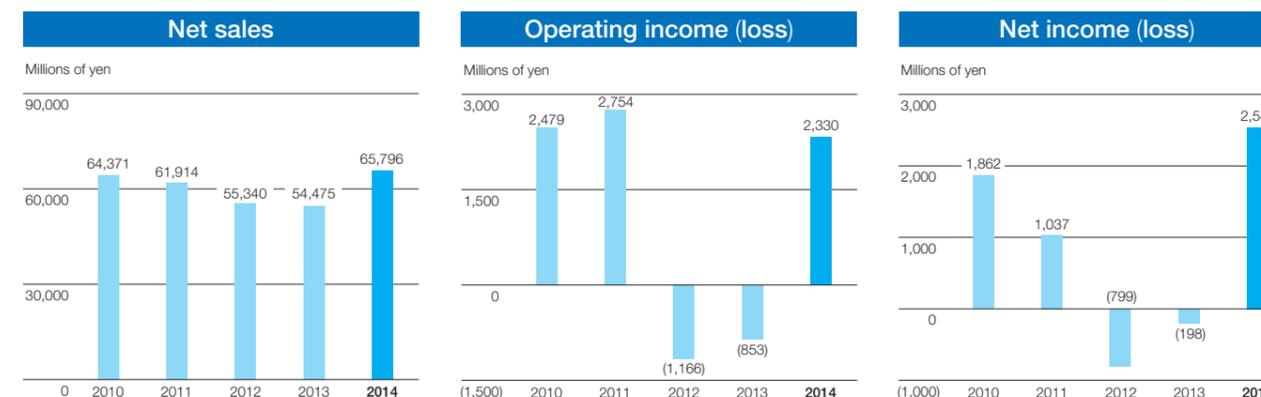
The SMK Group will endeavor to accommodate the changing market environments, while making focused efforts to enhance management efficiency and reinforce the corporate structure through the continuation of cost-cutting measures. To ensure medium- to long-term corporate growth, we will explore business opportunities in new markets such as wearable devices, the field of the environment and energy, healthcare and smart life, based on our accumulated experience in the information and communication and automobile industries, as well as in the emerging nations' markets with high growth potential. In addition, we will make all-out efforts to ensure a corporate structure that enables sustainable growth by promoting the development of new products and technologies that best suit customer needs and the sophistication of production technologies.

Financial Highlights

Years ended and as of March 31	Millions of yen		Percent change 2013/2014	Thousands of U.S. dollars
	2013	2014		
Operating Results				
Net sales	¥ 54,475	¥ 65,796	20.8 %	\$ 639,293
Operating income (loss)	(853)	2,330	—	22,639
Net income (loss)	(198)	2,541	—	24,689
Financial Position				
Total assets	¥ 52,498	¥ 56,235	7.1 %	\$ 546,395
Total net assets	28,204	31,476	11.6	305,830

Per Share Data	Yen		%	U.S. dollars
	2013	2014		
Net income (loss)				
Basic	¥ (2.78)	¥ 35.58	— %	\$ 0.35
Diluted	—	35.52	—	0.35
Cash dividends	5.00	10.00	100.0	0.10

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥102.92 = U.S. \$1.00.



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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.

SMK 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.

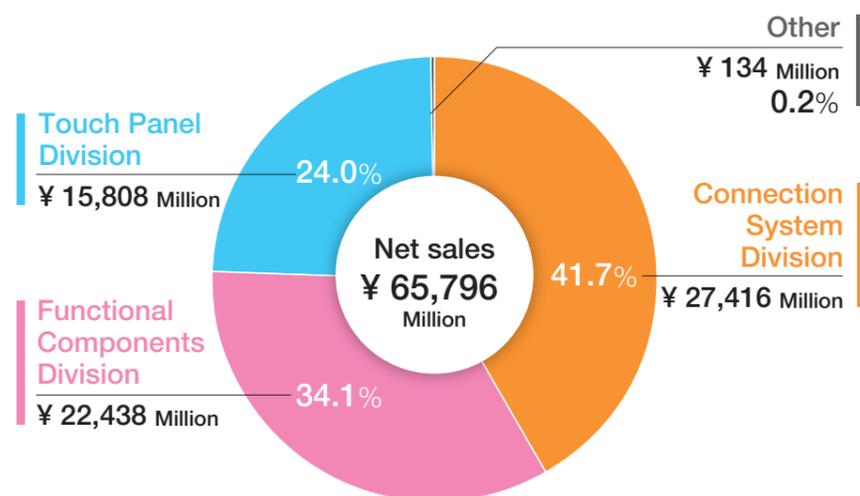
Overview of Consolidated Results by Division

(Year ended March 31, 2014)

The many different electronic components that SMK produces are widely used by electronics manufacturers in and outside Japan. The markets for these components can be broadly classified into seven markets: the communications market, the information market, the home appliance market, the industry market, the car electronics market, the audiovisual market and the eco market.

Three divisions, namely the Connection System (CS) Division, the Functional Components (FC) Division and the Touch Panel (TP) Division, as well as the Research & Development Center, are responsible for developing products that continually meet market requirements in the wide range of markets outlined above. The three divisions handle operations ranging from product planning and design to mass production, whereas the Research & Development Center is primarily in charge of designing and developing products mainly in new fields.

In this section, we present an overview of our results achieved in each of the three divisions in the fiscal year under review.



In addition to net sales for the divisions presented above, net sales of ¥134 million were earned by "Other" businesses in the fiscal year under review, which include net sales of the Research & Development Center.

Connection System Division



Major Products

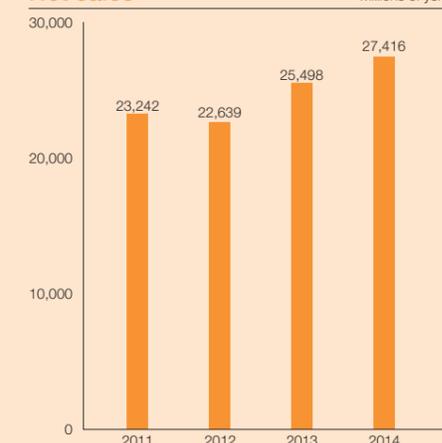
- RF coaxial connectors
- FPC connectors
- Board to Board connectors
- Jacks

In the first half of the fiscal year under review, our net sales increased significantly due to favorable performance in the automobile, environmental and energy markets, as well as in our mainstay communications market where our new products were increasingly adopted into smartphones, which enjoyed remarkable demand growth, and an increasing number of our products were employed as standard components.

In the second half, however, the poor performance of our primary customers in the highly volatile smartphone market and the lowering of product prices resulted in a sharp sales decline. As a result, the year-on-year growth of our net sales for the year under review was relatively mild at 7.5%.

With an emphasis on the information and communications, automobile and environmental markets, we will continue to develop new products targeted at devices with high growth potential.

Net sales



Functional Components Division



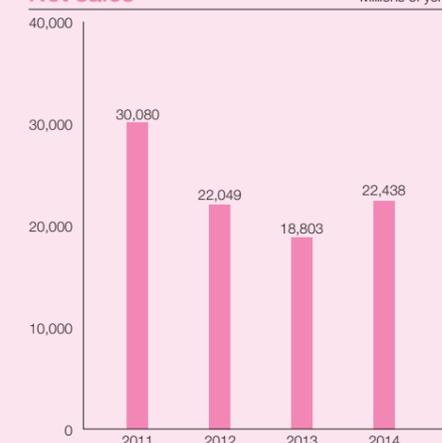
Major Products

- Remote controls
- Switches
- Wireless devices units
- Camera modules

Sales of remote controls, our mainstay products, increased significantly for overseas Internet protocol set-top boxes, especially for the new media that offer video viewing and game play. Meanwhile, we were affected by sluggish sales of digital home appliances, including flat-panel televisions, and the shrinking market share of the smartphone manufacturers that employ our products.

Going forward, we will strive to expand businesses with a focus on the promising housing equipment sector, which draws attention from an energy-saving viewpoint; the audiovisual sector centering on set-top boxes; and the rapidly growing automobile market.

Net sales



Touch Panel Division



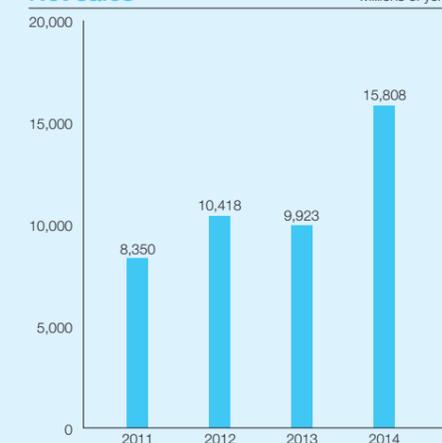
Major Products

- Resistive touch panels
- Capacitive touch panels
- Optical touch panels

Due to the favorable market condition, sales of our products for car navigation systems and center consoles increased significantly, mainly for the North American market. Sales of our touch panels for the ATM market remained strong as planned, despite inventory adjustments in some products for the Chinese market. Sales of touch panels for smartphones suffered from severe competition, although they enjoyed growing demand.

To meet the growing demand for capacitive touch switches for home appliances, we will intensify our efforts to develop and promote innovative products, such as those that can be pasted onto a curved surface.

Net sales



SMK's New Lineup

New Product Research & Development Center "FBS Series" Quick Active™ Actuator

We have developed the "FBS Series" Quick Active™ Actuator. Built in an input device, such as touch panels and touch pads, this actuator feeds back



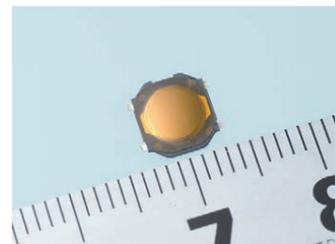
Applications:
PC-related and Amusement devices,
Health appliances, etc.

contact sensation to the fingertips when the operation screen of the input device is touched.

Compared with conventional methods using vibration motors and piezoelectric elements, this product is capable of providing a strong force momentarily, thereby producing a good "clicking" feel. This leads to enhanced operability of the input device and prevention of faulty operation, which is expected to provide this actuator with a wide range of applications.

New Product FC Division "Long-stroke type" top push switches

While retaining the thin shape of the conventional top push switches, this new switch ensures a long stroke of 0.27 mm, which is 1.8 times longer

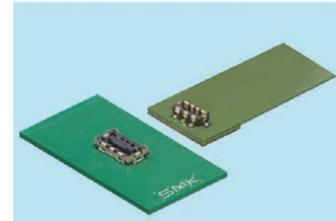


Applications:
Tablet PCs, Smartphones and MFPs

than that of the Company's conventional switches. This produces a stronger operational feeling and a longer operating life of 500,000 clicks, which is five times more than that of the Company's conventional switches. This product is expected to find an extensive range of applications, including multi-function printers (MFPs), for which thinner and longer-life switches are increasingly in demand, and various industrial and vehicle-mounted devices.

New Product CS Division "FB-5 Series" FPC-to-board connectors for battery connection

To enlarge the lineup of FPC-to-board connectors for battery connection, we have developed the "FB-5 Series" connectors by



Applications:
Mobile phones, Smartphones,
Digital cameras and other mobile devices

upgrading the FB Series connectors for large current applications in terms of lower height and space saving.

This new connector achieves a joint height of as low as 0.9 mm and a packaging area that is 72% smaller than that of the Company's conventional connectors. This space-saving structure can contribute to making the end products smaller and thinner.

We will continue to promote product development in response to market needs.

New Product TP Division "CapBeat Touch®" capacitive touch panels with 2-step input and vibration

We have developed a touch panel that allows input when the area of fingertip contact with the panel is large enough and disallows input when such contact



Applications:
Car navigation systems, Tablet PCs, etc.

area is too small. This feature can prevent the unintentional input that tends to occur with conventional capacitive touch panels for which only the slightest touch can trigger an inputting operation unintentionally. In addition, the new touch panel incorporates the already well-reputed force feedback technology, a feature that delivers a sense of vibration to fingertips when an input is accomplished, to produce a good "inputting" feel.

We will continue to engage in the development of new products from the viewpoint of users.

BCM (Business Continuity Management) Activities

SMK has previously endeavored to establish a business recovery and continuity response at times of disaster. When the Great East Japan Earthquake struck on March 11th, 2011, companies in the supply chain such as suppliers were badly affected.

SMK responded to this by changing suppliers and implementing alternate production at overseas factories, which helped to minimize the impact on the customers. Taking the lessons learned from this unprecedented disaster, SMK has reviewed BCP that are based on combination between site substitution strategy and site recovery strategy across group companies.

As management measures to improve business continuity of Head Office functions, SMK relocated IT systems to a data center with seismic isolation technology. Additionally, SMK installed an electric generator to continue daily business operations without delay in the event of power outage.

Topics

1 Land is acquired for second plant in the Philippines

We are pleased to announce that our Philippine production base, SMK Electronics (Phils.) Corporation, has acquired land for a second plant from the Clark Development Corporation.

The existing plant in the Philippines serves as a major production facility for touch panels, whereas the second plant is primarily intended to prepare for a possible increase in demand for touch panels, mainly for automobiles, and for the full-scale production of memory card connectors for smartphones and connectors for solar cell modules.

Adjoining the current plant, the second plant will have around 5,000 square meters of manufacturing space, resulting in a combined 16,000 square meters and 1.5 times the existing space. The workforce is also anticipated increase from 2,300 to 3,500 eventually.

SMK Electronics (Phils.) Corporation will respond to growing demand as a major production base of the SMK Group.



SMK Electronics (Phils.)
Corporation
Clark Field, Pampanga, PHILIPPINES

2 We employ and support the physically challenged athlete Masayuki Haga.

To encourage the spread and development of sports for athletes with physical disabilities, we have established an employment contract with Masayuki Haga, a candidate for membership on the national wheelchair rugby team representing Japan.

Aiming for an appearance in the 2016 Rio de Janeiro and 2020 Tokyo Paralympics, Mr. Haga will pursue his competitive career on a priority basis, while taking on the duties relating to human resources and public relations for SMK Corporation.



Profile of Masayuki Haga

Born in November 1984 in Chiba Prefecture. When he was a technical school student, a traffic accident condemned him to a wheelchair. In 2006, he learned about wheelchair rugby, and went to New Zealand in 2009 to play wheelchair rugby and study English. Currently, he belongs to the wheelchair rugby team AXE.

Major competitive career

- 2010 Designated as a candidate for national team membership for 2010. The team won the bronze medal at the world championships.
- 2012 Designated as a candidate for national team membership for 2012. He participated in the London Paralympics as an alternate for the team.
- 2013 Designated as a candidate for national team membership for 2013. The team won the silver medal at the Asia-Oceania zone championships.

Five-Year Summary

SMK Corporation and Consolidated Subsidiaries

Years ended and as of March 31	Millions of yen					Thousands of U.S. dollars	
	2010	2011	2012	2013	2014	2014	
Operating Results							
Net sales	¥ 64,371	¥ 61,914	¥ 55,340	¥ 54,475	¥ 65,796	\$ 639,293	
Operating income (loss)	2,479	2,754	(1,166)	(853)	2,330	22,639	
Net income (loss)	1,862	1,037	(799)	(198)	2,541	24,689	
Financial Position							
Total assets	¥ 56,113	¥ 53,059	¥ 53,883	¥ 52,498	¥ 56,235	\$ 546,395	
Total net assets	31,127	29,862	28,257	28,204	31,476	305,830	
Per Share Data							
Total net assets	¥ 420.07	¥ 408.12	¥ 392.59	¥ 394.81	¥ 437.84	\$ 4.25	
Net income (loss)							
Basic	25.19	14.14	(11.04)	(2.78)	35.58	0.35	
Diluted	—	—	—	—	35.52	0.35	
Cash dividends	8.00	9.00	6.00	5.00	10.00	0.10	

Note: The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥102.92 = U.S. \$1.00.

SMK's net sales for the fiscal year ended March 31, 2014, increased 20.8% year on year to ¥65,796 million (US\$639,293 thousand), whereas an operating income of ¥2,330 million (US\$22,639 thousand) and a net income of ¥2,541 million (US\$24,689 thousand) were recorded, on a consolidated basis.

Net Sales

Our products enjoyed favorable sales, especially for the information and communication market owing to rapid spreading of smartphones and tablet PCs, as well as for the automotive market and Internet protocol set-top boxes, for which our components enjoy growing demand overseas, and photovoltaic generation systems which is rapidly expanding in Japan.

As a result, consolidated net sales were ¥65,796 million (US\$639,293 thousand), up 20.8% year on year.

Operating Income

Consolidated operating income reached ¥2,330 million (US\$22,639 thousand), owing to such measures as aggressive promotion activities and the introduction of new products, cost-cutting efforts and the slashing of fixed costs, in addition to the significant increase in net sales.

Net Income

The favorable operating income, combined with foreign exchange gain due to the correction in yen appreciation, brought about net income of ¥2,541 million (US\$24,689 thousand).

Total Assets / ROA

As of March 31, 2014, total assets were ¥56,235 million (US\$546,395 thousand). ROA jumped to 4.7%.

Total Net Assets / ROE

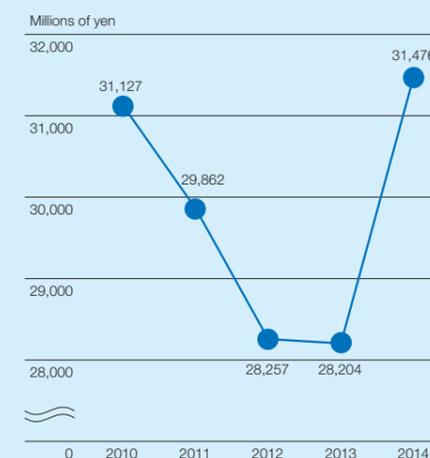
As of March 31, 2014, total net assets were ¥31,476 million (US\$305,830 thousand). ROE jumped to 8.5%.

Cash Flows

Net cash provided by operating activities amounted to ¥7,645 million (US\$74,281 thousand), net cash used in investing activities totaled ¥3,420 million (US\$33,230 thousand) and net cash used in financing activities was ¥1,521 million (US\$14,778 thousand).

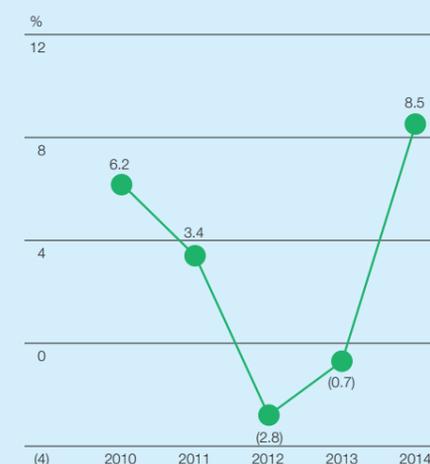
Total net assets

(As of March 31)



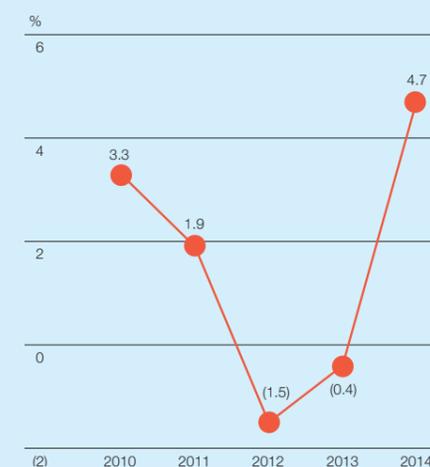
Return on equity (ROE)

(Years ended March 31)



Return on assets (ROA)

(Years ended March 31)



Consolidated Balance Sheet

SMK Corporation and Consolidated Subsidiaries
As of March 31, 2013 and 2014

Consolidated Balance Sheets

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2014	2014
Current assets			
Cash and cash equivalents (Note 15)	¥ 8,631	¥ 11,134	\$ 108,181
Time deposits (Note 15)	82	93	904
Notes and accounts receivable, trade (Note 15)	14,551	14,681	142,645
Allowance for doubtful accounts	(53)	(36)	(350)
Inventories (Note 3)	5,466	5,905	57,375
Deferred tax assets (Note 8)	472	744	7,229
Other current assets (Notes 15 and 19)	3,484	2,704	26,272
	32,633	35,225	342,256
Investments and long-term loans			
Investment securities (Notes 12 and 15)	1,908	2,656	25,806
Long-term loans receivable	141	126	1,224
Asset for retirement benefits (Note 13)	—	511	4,965
Other investments (Note 19)	619	635	6,171
Allowance for doubtful accounts	(112)	(111)	(1,079)
	2,556	3,817	37,087
Property, plant and equipment (Notes 4, 7 and 16)			
Land	4,358	4,254	41,333
Buildings	17,055	17,337	168,451
Machinery and vehicles	17,132	18,276	177,575
Tooling and office furniture	21,174	21,753	211,359
Construction in progress	357	246	2,390
	60,076	61,866	601,108
Less-accumulated depreciation	(43,370)	(45,035)	(437,573)
	16,706	16,831	163,535
Other assets			
Deferred tax assets (Note 8)	290	167	1,623
Intangible assets (Note 7)	313	195	1,894
	603	362	3,517
Total assets	¥ 52,498	¥ 56,235	\$ 546,395

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2014	2014
Current liabilities			
Short-term loans payable (Notes 4 and 15)	¥ 7,141	¥ 5,119	\$ 49,738
Notes and accounts payable, trade (Note 15)	3,194	3,733	36,271
Accrued income taxes	370	798	7,754
Accrued bonuses	476	1,069	10,387
Accrued directors' and officers' bonuses	—	70	680
Accounts payable, non-trade (Note 15)	6,657	5,928	57,598
Other current liabilities	1,326	1,405	13,651
	19,164	18,122	176,079
Long-term liabilities			
Long-term debt (Notes 4 and 15)	4,347	5,447	52,925
Accrued employees' retirement benefits (Note 13)	162	—	—
Accrued directors' and officers' retirement benefits	143	180	1,749
Liability for retirement benefits (Note 13)	—	36	350
Other long-term liabilities	478	974	9,462
	5,130	6,637	64,486
Net assets			
Shareholders' equity (Note 10)			
Common stock			
Authorized : 195,961,274 shares			
Issued and outstanding : 79,000,000 shares	7,996	7,996	77,691
Capital surplus	12,345	12,327	119,773
Retained earnings	14,154	15,982	155,286
Treasury stock (Note 11)	(3,697)	(3,434)	(33,366)
	30,798	32,871	319,384
Accumulated other comprehensive income			
Net unrealized gains (losses) on other securities	70	274	2,662
Foreign currency translation adjustments	(2,742)	(2,171)	(21,094)
Retirement benefit asset and liability adjustments	—	463	4,499
	(2,672)	(1,434)	(13,933)
Subscription rights to shares (Note 18)	78	39	379
	28,204	31,476	305,830
Total liabilities and net assets	¥ 52,498	¥ 56,235	\$ 546,395

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2014	2014
Net sales (Note 17)	¥ 54,475	¥ 65,796	\$ 639,293
Cost of sales (Notes 3 and 5)	47,047	54,389	528,459
Selling, general and administrative expenses (Notes 5 and 6)	8,281	9,077	88,195
Operating income (loss) (Note 17)	(853)	2,330	22,639
Other income			
Interest and dividend income	73	89	865
Rent income	718	743	7,219
Foreign exchange gain, net	1,963	1,421	13,807
Gain on sales of fixed assets	144	44	428
Gain on sales of investment securities (Note 12)	352	225	2,186
Other	203	199	1,933
Total other income	3,453	2,721	26,438
Other expenses			
Interest expense	127	107	1,040
Rent expense	294	266	2,585
Loss on disposal of fixed assets	256	280	2,721
Loss on liquidation of subsidiaries and affiliates	108	—	—
Special retirement benefit expenses	99	41	398
Loss on impairment of fixed assets (Note 7)	200	613	5,956
Other	169	149	1,447
Total other expenses	1,253	1,456	14,147
Income (loss) before income taxes and minority interests	1,347	3,595	34,930
Income taxes (Note 8)			
Current	488	1,041	10,115
Deferred	1,062	13	126
Income (loss) before minority interests	(203)	2,541	24,689
Minority interests	(5)	—	—
Net income (loss)	¥ (198)	¥ 2,541	\$ 24,689

	Yen		U.S. dollars (Note 2)
	2013	2014	2014
Per share data			
Total net assets	¥ 394.81	¥ 437.84	\$ 4.25
Net income (loss)			
Basic	(2.78)	35.58	0.35
Diluted	—	35.52	0.35
Cash dividends	5.00	10.00	0.10

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2014	2014
Income (loss) before minority interests	¥ (203)	¥ 2,541	\$ 24,689
Other comprehensive income (Note 9)			
Net unrealized gains(losses) on other securities	(77)	204	1,982
Foreign currency translation adjustments	757	571	5,548
Total other comprehensive income	680	775	7,530
Comprehensive income	¥ 477	¥ 3,316	\$ 32,219
Total comprehensive income attributable to:			
Shareholders of the Company	¥ 482	¥ 3,316	\$ 32,219
Minority interests	(5)	—	—

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen												
	Shareholders' equity						Accumulated other comprehensive income						
	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	Retirement benefit asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2012	79,000,000	¥ 7,996	¥ 12,345	¥ 14,785	¥ (3,554)	¥ 31,572	¥ 147	¥ (3,499)	¥ —	¥ (3,352)	¥ 32	¥ 5	¥ 28,257
Cash dividends paid				(433)		(433)							(433)
Net income (loss)				(198)		(198)							(198)
Acquisition of treasury stock					(143)	(143)							(143)
Disposition of treasury stock			(0)		0	0							0
Net changes in items other than shareholders' equity							(77)	757	680	46	(5)		721
Total changes			(0)	(631)	(143)	(774)	(77)	757	680	46	(5)		(53)
Balance at March 31, 2013	79,000,000	7,996	12,345	14,154	(3,697)	30,798	70	(2,742)	(2,672)	78	—		28,204
Balance at April 1, 2013	79,000,000	7,996	12,345	14,154	(3,697)	30,798	70	(2,742)	(2,672)	78	—		28,204
Cash dividends paid				(713)		(713)							(713)
Net income (loss)				2,541		2,541							2,541
Acquisition of treasury stock					(21)	(21)							(21)
Disposition of treasury stock			(18)		284	266							266
Net changes in items other than shareholders' equity							204	571	463	1,238	(39)		1,199
Total changes			(18)	1,828	263	2,073	204	571	463	1,238	(39)	—	3,272
Balance at March 31, 2014	79,000,000	¥ 7,996	¥ 12,327	¥ 15,982	¥ (3,434)	¥ 32,871	¥ 274	¥ (2,171)	¥ 463	¥ (1,434)	¥ 39	¥ —	¥ 31,476

	Thousands of U.S. dollars (Note 2)												
	Shareholders' equity						Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on other securities	Foreign currency translation adjustments	Retirement benefit asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets	
Balance at April 1, 2013	\$ 77,691	\$ 119,948	\$ 137,524	\$ (35,921)	\$ 299,242	\$ 680	\$ (26,642)	\$ —	\$ (25,962)	\$ 758	\$ —	\$ 274,038	
Cash dividends paid			(6,927)		(6,927)							(6,927)	
Net income (loss)			24,689		24,689							24,689	
Acquisition of treasury stock				(204)	(204)							(204)	
Disposition of treasury stock			(175)	2,759	2,584							2,584	
Net changes in items other than shareholders' equity						1,982	5,548	4,499	12,029	(379)		11,650	
Total changes			(175)	17,762	2,555	20,142	1,982	5,548	4,499	12,029	(379)	—	31,792
Balance at March 31, 2014	\$ 77,691	\$ 119,773	\$ 155,286	\$ (33,366)	\$ 319,384	\$ 2,662	\$ (21,094)	\$ 4,499	\$ (13,933)	\$ 379	\$ —	\$ 305,830	

Consolidated Statement of Cash Flows

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2013	2014	2014
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	¥ 1,347	¥ 3,595	\$ 34,930
Depreciation and amortization	3,439	3,378	32,822
Loss on impairment of fixed assets	200	613	5,956
Amortization of goodwill	110	62	602
Increase (decrease) in accrued bonuses	(159)	590	5,733
Increase (decrease) in accrued directors' and officers' retirement benefits	25	37	360
Increase (decrease) in accrued employees' retirement benefits	138	(163)	(1,584)
Increase (decrease) in liability for retirement benefits	—	248	2,410
(Increase) decrease in prepaid pension costs	410	—	—
Interest and dividend income	(73)	(89)	(865)
Interest expense	127	107	1,040
Loss on disposal of fixed assets	256	280	2,721
Loss on liquidation of subsidiaries and affiliates	108	—	—
Special retirement benefit expenses	99	41	398
(Increase) decrease in notes and accounts receivable, trade	2,520	1,239	12,038
(Increase) decrease in inventories	541	(51)	(496)
Increase (decrease) in notes and accounts payable, trade	(2,236)	(1,072)	(10,416)
Increase (decrease) in accounts payable, non-trade	(925)	(848)	(8,239)
Other	(196)	380	3,692
Subtotal	5,731	8,347	81,102
Interest and dividends received	79	102	991
Interest paid	(129)	(108)	(1,049)
Income taxes paid	(181)	(655)	(6,364)
Income taxes refunded	16	0	0
Payments of liquidation of subsidiaries and affiliates	(107)	—	—
Payments of special retirement benefit expenses	(99)	(41)	(399)
Net cash provided by (used in) operating activities	5,310	7,645	74,281
Cash flows from investing activities			
Payments into time deposits	(65)	(82)	(797)
Proceeds from time deposits	77	79	768
Purchases of fixed assets	(3,823)	(3,797)	(36,893)
Proceeds from sale of fixed assets	439	200	1,943
Purchases of intangible fixed assets	(62)	(91)	(884)
Purchases of investment securities	—	(491)	(4,771)
Proceeds from sale of investment securities	38	745	7,239
Payments for execution of loans	(112)	(136)	(1,321)
Collection of loans receivable	70	166	1,613
Other	36	(13)	(127)
Net cash provided by (used in) investing activities	(3,402)	(3,420)	(33,230)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	(800)	(600)	(5,830)
Proceeds from long-term debt	2,940	1,790	17,392
Payments of long-term debt	(2,928)	(2,201)	(21,386)
Purchases of treasury stock	(142)	(20)	(194)
Proceeds from sale of treasury stock	0	218	2,118
Dividends paid	(430)	(708)	(6,878)
Net cash provided by (used in) financing activities	(1,360)	(1,521)	(14,778)
Effect of exchange rate changes on cash and cash equivalents	(307)	(201)	(1,953)
Increase (decrease) in cash and cash equivalents	241	2,503	24,320
Cash and cash equivalents at beginning of the year	8,390	8,631	83,861
Cash and cash equivalents at end of the year	¥ 8,631	¥11,134	\$108,181

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 its 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 period ends on 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 accounted for by the equity method. 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 at the 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: 26
The remaining 2 subsidiaries which are unconsolidated are deemed immaterial and, accordingly, their results of operations had no significant effect on the consolidated financial statements.
Ibaraki SMK Co., Ltd. finished being liquidated during the current consolidated accounting year and was excluded from the scope of consolidation.
- (d) Application of equity method of accounting
Number of affiliated companies accounted for by the equity method: 1
The 2 unconsolidated subsidiaries 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. 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. Differences arising from the translation are presented as translation adjustments in the consolidated financial statements.
- (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 mainly stated at the lower of cost or market. The following inventories are measured principally by their respective 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
Consolidated subsidiaries adopt mainly the moving average method.
- (h) Securities
Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. 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 are 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. Certain buildings of the Company and its domestic subsidiaries acquired on or after April 1, 1998 are depreciated by the straight-line method.
The estimated useful lives of the assets are as follows:
Buildings: 10 to 50 years
Machinery and vehicles: 4 to 10 years
Tooling and office furniture: 2 to 6 years
The residual values of the property, plant and equipment acquired on or before March 31, 2007 are depreciated equally over a period of five years starting from the year following the year in which they have been depreciated up to their depreciable limit or 5% of the acquisition cost.
- (k) Intangible assets
Amortization of intangible assets is calculated by the straight-line method. Software for own use is amortized based on the utilizable period (5 years).
Goodwill is amortized by the straight-line method over 5 years.
- (l) Leases
Finance leases which are deemed to transfer the ownership of the leased assets to the lessee are capitalized and depreciated over their lease term with no residual value.
- (m) 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.
- (n) 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.
- (o) Accrued directors' and officers' bonuses
Accrued directors' and officers' 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.
- (p) 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.
- (q) Retirement benefits
Asset for retirement benefits and liability for retirement benefits for employees are recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet date.
The retirement benefit obligation for employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of employees.
- (r) Hedge accounting
(1) Method of hedge accounting
The exceptional 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 debt 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 exceptional method is applied for interest rate swap, the assessment of hedge effectiveness is omitted.
- (s) 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.
- (t) 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 statement of income represent the dividends applicable to the respective period.
- (u) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.
- (v) Standards issued but not yet effective
On May 17, 2012, the Accounting Standards Board of Japan (ASBJ) issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.
The revised accounting standard and guidance were adopted as of the fiscal year ended March 31, 2014. However, revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

(w) Change in method of accounting

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as asset for retirement benefits and liability for retirement benefits. In addition, unrecognized actuarial differences are recorded as asset for retirement benefits and liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits asset and liability adjustments of accumulated other comprehensive income. As a result of this change, asset for retirement benefits was recognized in the amount of ¥511 million (\$4,965 thousand), liability for retirement benefits was recognized in the amount of ¥36 million (\$350 thousand), and accumulated other comprehensive income increased by ¥463 (\$4,499 thousand) as of March 31, 2014.

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 = ¥102.92, the approximate rate of exchange at March 31, 2014. 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, 2013 and 2014, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Finished products	¥ 2,805	¥ 3,188	\$ 30,976
Work in process	731	726	7,054
Raw materials and supplies	1,930	1,991	19,345
Total	¥ 5,466	¥ 5,905	\$ 57,375

The write-downs of inventories resulting from decreased profitability for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Cost of sales	¥ 311	¥ 227	\$ 2,206

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

Short-term loans payable and long-term debt as of March 31, 2013 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Short-term loans payable			
Average interest rates on short-term loans payable, principally from banks, is 0.61%			
Secured	¥ 1,364	¥ 1,117	\$ 10,853
Unsecured	3,576	3,312	32,181
Total	¥ 4,940	¥ 4,429	\$ 43,034

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Long-term debt			
Average interest rates on long-term debt, principally from banks, is 1.14%			
Secured	¥ 4,160	¥ 3,931	\$ 38,195
Unsecured	2,388	2,206	21,434
Less: portion due within one year	(2,201)	(690)	(6,704)
Total	¥ 4,347	¥ 5,447	\$ 52,925

The assets pledged as collateral for short-term and long-term debt as of March 31, 2013 and 2014 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Property, plant and equipment-book value	¥ 2,206	¥ 2,892	\$ 28,099

The aggregate annual maturities of long-term debt (including current portion) outstanding as of March 31, 2014 were summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
2015	¥ 690		\$ 6,704
2016	800		7,773
2017	992		9,639
2018	1,748		16,984
2019 and thereafter	1,907		18,529
Total	¥ 6,137		\$ 59,629

Note 5. Research and development costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2013 and 2014 amounted to ¥3,172 million and ¥3,302 million (\$32,083 thousand), respectively.

Note 6. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Salaries and wages of employees	¥ 3,443	¥ 3,928	\$ 38,166
Provision for bonuses	211	445	4,324
Provision for directors' and officers' bonuses	—	70	680
Retirement benefit cost	403	242	2,351
Provision for directors' and officers' retirement benefits	42	37	360

Note 7. Loss on impairment of fixed assets

An impairment loss is recognized when the carrying amount of an asset exceeds undiscounted future net cash flows which are 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 the higher of the discounted future net cash flows or net realizable value.

For the year ended March 31, 2013 and 2014 impairment losses were recognized for the following assets.

Asset group	Location	Use	Millions of yen				Total
			Buildings	Machinery and vehicles	Tooling and office furniture	Software	
Functional components	Japan	Remote controls/Switch/Unit production facilities	¥ 46	¥ 118	¥ 29	¥ 7	¥ 200

Asset group	Location	Use	Millions of yen					Total
			Land	Buildings	Machinery and vehicles	Tooling and office furniture	Software	
Toyama works	Japan	Unutilized assets	¥ 123	¥ 19	¥ —	¥ —	¥ —	¥ 142
Functional components	Japan	Remote controls/Switch/Unit production facilities	—	—	9	8	3	20
SMK Electronics (Dongguan) Co., Ltd.	China	Connector, Remote controls/Switch/Unit, Touch panel production facilities	—	—	256	82	—	338
SMK-Link Electronics Corporation	U.S.A.	Other	—	—	—	—	113	113
Total			¥ 123	¥ 19	¥ 265	¥ 90	¥ 3	¥ 613

Thousands of U.S. dollars

Asset group	Location	Use	2014					Total
			Land	Buildings	Machinery and vehicles	Tooling and office furniture	Software	
Toyama works	Japan	Unutilized assets	\$ 1,195	\$ 185	\$ —	\$ —	\$ —	\$ 1,380
Functional components	Japan	Remote controls/Switch/Unit production facilities	—	—	87	78	29	194
SMK Electronics (Dongguan) Co., Ltd.	China	Connector, Remote controls/Switch/Unit, Touch panel production facilities	—	—	2,487	797	—	3,284
SMK-Link Electronics Corporation	U.S.A.	Other	—	—	—	—	—	1,098
Total			\$ 1,195	\$ 185	\$ 2,574	\$ 875	\$ 29	\$ 5,956

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 37.9% for the year ended March 31, 2013 and 2014.

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2013 and 2014 were as follows:

	2013	2014
Statutory tax rate	37.9%	37.9%
Items such as entertainment expenses permanently non-deductible for tax purposes	2.3	1.2
Items such as dividend income permanently non-taxable	(22.8)	(13.9)
Change in valuation allowance	66.0	4.0
Inhabitant tax on per capita basis	1.6	0.6
Statutory tax rate differences in subsidiaries	7.1	(22.5)
Elimination of dividend income	23.1	14.0
Accumulated surplus of foreign subsidiaries	—	6.6
Decrease in deferred tax assets at fiscal year-end due to the change in tax rate	—	1.2
Other	(0.1)	0.2
Effective tax rates	115.1%	29.3%

The significant components of deferred tax assets and liabilities at March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Deferred tax assets:			
Inventory write-down disallowed	¥ 60	¥ 51	\$ 496
Accrued bonuses disallowed	153	359	3,488
Intercompany profit on inventory	71	82	797
Retirement benefits disallowed	670	—	—
Liability for retirement benefits	—	411	3,993
Allowance for doubtful accounts	44	42	408
Impairment loss	144	284	2,759
Operating loss carryforwards for tax purposes	472	560	5,441
Other	549	656	6,374
Valuation allowance	(1,195)	(1,488)	(14,458)
Deferred tax assets	968	957	9,298
Deferred tax liabilities:			
Deferred gain on land	(95)	(95)	(923)
Advanced depreciation on buildings	(81)	(74)	(719)
Reserve for special depreciation	(4)	(0)	(0)
Net unrealized gains on other securities	(37)	(136)	(1,321)
Accumulated surplus of foreign subsidiaries	—	(407)	(3,955)
Other	(215)	(26)	(252)
Deferred tax liabilities	(432)	(738)	(7,170)
Net deferred tax assets	¥ 536	¥ 219	\$ 2,128

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 37.9% to 33.5% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announce reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by 44 million (\$428 thousand) and increase deferred income taxes by ¥ 44 million (\$428 thousand) as of and for the year ended March 31, 2014.

Note 9. Other comprehensive income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2013 and 2014.

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Net unrealized gains (losses) on other securities:			
Amount arising during the year	¥ 170	¥ 528	\$ 5,130
Reclassification adjustments for gains and losses included in net income	(293)	(224)	(2,176)
Amount before tax effect	(123)	304	2,954
Tax effect	46	(100)	(972)
Net unrealized gains (losses) on other securities	(77)	204	1,982
Foreign currency translation adjustments:			
Amount arising during the year	806	571	5,548
Reclassification adjustments for gains and losses included in net income	—	—	—
Amount before tax effect	806	571	5,548
Tax effect	(49)	—	—
Foreign currency translation adjustments	757	571	5,548
Total other comprehensive income	¥ 680	¥ 775	\$ 7,530

Note 10. 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 shareholder's meeting 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 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, 2013 and 2014 totaled 7,760,765 shares and 7,198,819 shares, respectively.

Note 12. Securities

Information regarding securities classified as other securities at March 31, 2013 and 2014 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars			
	2013			2014			2014			
	Fair value	Cost	Unrealized gain (loss)	Fair value	Cost	Unrealized gain (loss)	Fair value	Cost	Unrealized gain (loss)	
Securities whose fair value exceeds their cost										
Stocks	¥ 298	¥ 152	¥ 146	¥ 1,984	¥ 1,503	¥ 481	\$ 19,277	\$ 14,604	\$ 4,673	
Others	40	21	19	53	22	31	515	214	301	
Subtotal	338	173	165	2,037	1,525	512	19,792	14,818	4,974	
Securities whose cost exceeds their fair value										
Stocks	1,368	1,425	(57)	399	500	(101)	3,877	4,858	(981)	
Subtotal	1,368	1,425	(57)	399	500	(101)	3,877	4,858	(981)	
Total	¥ 1,706	¥ 1,598	¥ 108	¥ 2,436	¥ 2,025	¥ 411	\$ 23,669	\$ 19,676	\$ 3,993	

Unlisted stocks of ¥31 million at March 31, 2013 and ¥31 million (\$301 thousand) at March 31, 2014 are not included in the above table because there were no quoted market prices available and the fair value is extremely difficult to determine.

Information regarding sales of securities for the years ended March 31, 2013 and 2014 was as follows:

	Millions of yen			Thousands of U.S. dollars		
	2013		2014	2014		2014
Proceeds from sales of securities	¥ 493		¥ 289			\$ 2,808
Stocks	476		289			2,808
Others	17		—			—
Gains on sales	352		225			2,186
Stocks	349		225			2,186
Others	3		—			—

Note 13. Retirement benefits plans

The Company and certain of its consolidated subsidiaries have either funded or unfunded defined benefit plans and defined contribution pension plans. The Company has funded corporate pension fund plans and defined contribution pension plans. Certain subsidiaries have unfunded lump-sum payment plans and defined contribution pension plans. The simplified method is applied for the calculation of liability for retirement benefits and retirement benefit expense of certain subsidiaries. The changes in the retirement benefit obligation during the year ended March 31, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014	2014	2014	2014
Retirement benefit obligation at April 1, 2013	¥ 7,624		\$ 74,077	
Service cost	326		3,168	
Interest cost	153		1,487	
Actuarial loss	(153)		(1,487)	
Retirement benefit paid	(465)		(4,518)	
Other	0		0	
Retirement benefit obligation at March 31, 2014	¥ 7,485		\$ 72,727	

The changes in plan assets during the year ended March 31, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014	2014	2014	2014
Plan assets at April 1, 2013	¥ 7,275		\$ 70,686	
Expected return on plan assets	196		1,904	
Actuarial loss	413		4,013	
Contributions by the Company	537		5,218	
Retirement benefit paid	(461)		(4,479)	
Plan assets at March 31, 2014	¥ 7,960		\$ 77,342	

The funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014	2014	2014	2014
Retirement benefit obligation under funded plans	¥ 7,449		\$ 72,377	
Plan assets at fair value	(7,960)		(77,342)	
	(511)		(4,965)	
Retirement benefit obligation under unfunded plans	36		350	
Net liability for retirement benefits in the balance sheet	(475)		(4,615)	
Liability for retirement benefits	36		350	
Asset for retirement benefits	511		4,965	
Net liability for retirement benefits in the balance sheet	¥ (475)		\$ (4,615)	

The components of retirement benefit expense for the year ended March 31, 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014	2014	2014	2014
Service cost	¥ 326		\$ 3,168	
Interest cost	152		1,477	
Expected return on plan assets	(196)		(1,904)	
Amortization of actuarial loss	345		3,352	
Retirement benefit expense	¥ 627		\$ 6,093	

Unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014	2014	2014	2014
Unrecognized actuarial loss	¥ 743		\$ 7,219	

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 were as follows:

	2014
Bonds	4.0%
Stocks	35.2
Life insurances	42.1
Funds	14.6
Other	4.1
Total	100.0%

- The total plan assets include retirement benefit trusts which constitute 12.4%.
- The expected return on plan assets has been estimated based on the anticipated allocation of plan assets to each asset category and the expected long-term returns on plan assets held in each category.

The required contributions to the defined contribution plans by the Company and its consolidated subsidiaries for the year ended March 31, 2014 amounted to ¥78 million (\$78 thousand).

The retirement benefit obligation as of March 31, 2013 was as follows:

	Millions of yen	
	2013	2013
Retirement benefit obligation	¥ 7,623	
Fair value of plan assets	(7,274)	
Funded status	349	
Unrecognized actuarial gains (losses)	(187)	
Net amount recognized in the consolidated balance sheet	162	
Accrued employees' retirement benefits	¥ 162	

The retirement benefit cost as of March 31, 2013 was as follows:

	Millions of yen	
	2013	2013
Service cost, net of plan participants' contributions	¥ 325	
Interest cost	150	
Expected returns on plan assets	(176)	
Amortization of unrecognized actuarial (gains) losses	812	
Contribution to defined contribution pension plan	80	
Net periodic cost	¥ 1,191	

Assumptions to calculate the actuarial present value of the benefit obligation and the expected return on plan assets as of March 31, 2013 and 2014 were as follows:

	2013	2014
	Discount rate	2.0%
Expected return on plan assets	3.0%	3.0%

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 hedge the risks from interest rate fluctuations on borrowings. The exceptional 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)
	2013	2014	2013	2014	2013	2014	2014	2014	2014
Forward foreign exchange contracts:									
Sell:									
US\$	¥ 1,237	¥ 371	¥ (84)	¥ (1)	¥ (84)	¥ (1)	\$ 3,605	\$ (10)	\$ (10)
MXN	556	5	18	(0)	18	(0)	49	(0)	(0)
Total	¥ 1,793	¥ 376	¥ (66)	¥ (1)	¥ (66)	¥ (1)	\$ 3,654	\$ (10)	\$ (10)

- Calculation of fair value
The fair value is calculated by the forward exchange rate.
- Derivative transactions to which hedge accounting was applied are excluded from the above table.

	Millions of yen				Thousands of U.S. dollars	
	Contract amount		Due after one year		Contract amount	Due after one year
	2013	2014	2013	2014	2014	2014
Interest rate swaps	¥ 3,635	¥ 3,606	¥ 3,316	¥ 3,230	\$ 35,037	\$ 31,384

Since exceptional treatment is applied to interest rate swaps transactions, they are accounted for as if they were an integral part of the hedged long-term debt, and their fair value is included in the fair value of long-term debt in Note 15.

Note 15. Financial instruments

- Policy for financial instruments
The Company and consolidated subsidiaries raise funds through bank borrowings. The Company and consolidated subsidiaries use derivatives for the purpose of reducing risk and do not enter into derivatives for speculative or trading purposes.
- Types of financial instruments and related risk
Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers. Regarding this risk, the credit management is executed periodically. Marketable securities and investment securities are exposed to market risk. The fair value of those securities is reported in a board meeting periodically. Substantially all trade payables—trade notes and accounts payable—have payment due dates within one year. Short-term loans payable are raised mainly in connection with business activities, and the repayment dates of long-term debt extend up to four years from the balance sheet date. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Company and consolidated subsidiaries utilizes interest rate swap transactions as a hedging instrument. Information regarding fair value of financial instruments at March 31, 2013 and 2014 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2013		2014		2014		2014		2014
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	¥ 8,631	¥ 8,631	¥ —	¥ 11,134	¥ 11,134	¥ —	\$ 108,181	\$ 108,181	\$ —
Time deposits	82	82	—	93	93	—	904	904	—
Notes and accounts receivable, trade	14,551	14,551	—	14,681	14,681	—	142,645	142,645	—
Investment securities	1,706	1,706	—	2,436	2,436	—	23,669	23,669	—
Notes and accounts payable, trade	3,194	3,194	—	3,733	3,733	—	36,271	36,271	—
Short-term loans payable	4,940	4,940	—	4,429	4,429	—	43,034	43,033	—
Accounts payable, non-trade	6,657	6,657	—	5,928	5,928	—	57,598	57,598	—
Long-term debt	6,548	6,542	(6)	6,137	6,105	(32)	59,629	59,318	(311)
Derivatives	(66)	(66)	—	(1)	(1)	—	(10)	(10)	—

Investment securities include securities recorded as other current assets in the consolidated balance sheets. Long-term debt includes current portion of long-term debt recorded as short-term loans payable in the consolidated balance sheets.

- Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions
Cash and cash equivalents, time deposits, and notes and accounts receivable, trade
Since these items are settled in a short period of time, their carrying value approximates fair value.
Investment securities
The fair value of stocks is based on quoted market prices.
Short-term loans payable, notes and accounts payable, trade and accounts payable, non-trade
Since these items are settled in a short period of time, their carrying value approximates fair value.
Long-term debt
The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into.
Derivatives
Please refer to Note 14 Derivatives of the notes to the consolidated financial statements.
- Financial instruments whose fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars	
	2013	2014	2014	2014
Unlisted securities	¥ 202	¥ 220		\$ 2,137

Unlisted securities are not included in the investment securities because there were no quoted market prices available and the fair value is extremely difficult to determine.

- The schedules for redemption of monetary assets and securities with maturities

	Millions of yen						Thousands of U.S. dollars		
	2013		2014		2014		2014		2014
	Due within one year	Due after one year through five years	Due after five years through ten years	Due within one year	Due after one year through five years	Due after five years through ten years	Due within one year	Due after one year through five years	Due after five years through ten years
Cash equivalents and time deposits	¥ 8,705	¥ —	¥ —	¥ 11,125	¥ —	¥ —	\$ 108,094	\$ —	\$ —
Notes and accounts receivable, trade	14,551	—	—	14,681	—	—	142,645	—	—
Investment securities (other)	—	40	—	—	53	—	—	515	—
Total	¥ 23,256	¥ 40	¥ —	¥ 25,806	¥ 53	¥ —	\$ 250,739	\$ 515	\$ —

Note 16. Investment and rental property

The profit of investment and rental property for the years ended March 31, 2013 and 2014 amounted to ¥424 million and ¥476 million (\$4,625 thousand), respectively. Information on the fair value of investment and rental property at March 31, 2013 and 2014 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2013			2014			2014		
	Book value beginning of the year	Book value end of the year	Fair value	Book value beginning of the year	Book value end of the year	Fair value	Book value beginning of the year	Book value end of the year	Fair value
	¥ 4,100	¥ 4,057	¥ 10,010	¥ 4,057	¥ 3,873	¥ 10,053	\$ 39,419	\$ 37,631	\$ 97,678

- The fair value represents the acquisition cost less accumulated depreciation.
- The fair value is mainly based upon the amount appraised by outside independent real estate appraisers.

Note 17. Segment information

(Overview)
The reportable segments of the Company and consolidated subsidiaries are designed as business segments whose segregated financial information can be obtained and to which the management reviews to decide on the allocation of managerial and financial resources and to evaluate their financial performance. The Company and consolidated subsidiaries are primarily engaged in the three divisions as follows:
CS (Connection System) Division: The division produces and sells connectors and jacks.
FC (Functional Components) Division: The division produces and sells switches, units, remote controls and camera modules.
TP (Touch Panel) Division: The division produces and sells touch panels.

The business segment information is prepared in a manner similar to the accounting treatment as described in Note 1.

1. Business segment information

	Millions of yen							
	Reportable Segments					Total	Adjustment	Consolidated
2013	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other			
Net sales								
Outside customers	¥ 25,498	¥ 18,803	¥ 9,923	¥ 54,224	¥ 251	¥ 54,475	¥ —	¥ 54,475
Intersegment sales	—	—	—	—	—	—	—	—
Total	25,498	18,803	9,923	54,224	251	54,475	—	54,475
Operating income (loss)	521	(1,430)	12	(897)	44	(853)	—	(853)
Identifiable assets	15,907	10,430	6,000	32,337	4,646	36,983	15,515	52,498
Others								
Depreciation	2,245	651	435	3,331	3	3,334	—	3,334
Increase in fixed assets and intangible fixed assets	2,402	393	667	3,462	30	3,492	—	3,492

	Millions of yen							
	Reportable Segments					Total	Adjustment	Consolidated
2014	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other			
Net sales								
Outside customers	¥ 27,416	¥ 22,438	¥ 15,808	¥ 65,662	¥ 134	¥ 65,796	¥ —	¥ 65,796
Intersegment sales	—	—	—	—	—	—	—	—
Total	27,416	22,438	15,808	65,662	134	65,796	—	65,796
Operating income (loss)	1,403	(963)	1,866	2,306	24	2,330	—	2,330
Identifiable assets	15,702	9,876	7,863	33,441	4,133	37,574	18,661	56,235
Others								
Depreciation	2,312	445	524	3,281	4	3,285	—	3,285
Increase in fixed assets and intangible fixed assets	2,649	427	933	4,009	43	4,052	—	4,052

	Thousands of U.S. dollars							
	Reportable Segments					Total	Adjustment	Consolidated
2014	Connection System Division	Functional Components Division	Touch Panel Division	Subtotal	Other			
Net sales								
Outside customers	\$ 266,382	\$ 218,014	\$ 153,595	\$ 637,991	\$ 1,302	\$ 639,293	\$ —	\$ 639,293
Intersegment sales	—	—	—	—	—	—	—	—
Total	266,382	218,014	153,595	637,991	1,302	639,293	—	639,293
Operating income (loss)	13,632	(9,357)	18,131	22,406	233	22,639	—	22,639
Identifiable assets	152,565	95,958	76,399	324,922	40,157	365,079	181,316	546,395
Others								
Depreciation	22,464	4,324	5,091	31,879	39	31,918	—	31,918
Increase in fixed assets and intangible fixed assets	25,738	4,149	9,065	38,952	418	39,370	—	39,370

Other is business segments not included in the reportable segments. It includes other parts, leasing, property rental and factoring businesses. Adjustment includes corporate assets which are not allocable to the reportable segments.

2. Geographical information

(1) Net sales

	Millions of yen					
	Japan	Asia	North America	Europe	Other	Consolidated
2013						
Net sales	¥ 14,130	¥ 24,737	¥ 14,551	¥ 1,048	¥ 9	¥ 54,475

	Millions of yen					
	Japan	Asia	North America	Europe	Other	Consolidated
2014						
Net sales	¥ 13,878	¥ 28,664	¥ 21,153	¥ 2,067	¥ 34	¥ 65,796

	Thousands of U.S. dollars					
	Japan	Asia	North America	Europe	Other areas	Consolidated
2014						
Net sales	\$ 134,843	\$ 278,508	\$ 205,529	\$ 20,084	\$ 329	\$ 639,293

(2) Fixed assets

	Millions of yen				
	Japan	Asia	North America	Europe	Consolidated
2013					
Fixed assets	¥ 10,161	¥ 5,820	¥ 294	¥ 431	¥ 16,706

	Millions of yen				
	Japan	Asia	North America	Europe	Consolidated
2014					
Fixed assets	¥ 10,045	¥ 5,994	¥ 287	¥ 505	¥ 16,831

	Thousands of U.S. dollars				
	Japan	Asia	North America	Europe	Consolidated
2014					
Fixed assets	\$ 97,600	\$ 58,239	\$ 2,789	\$ 4,907	\$ 163,535

3. Information about major customers

The Company and consolidated subsidiaries have no major customers which account for 10% or more of net sales.

4. Information about the loss on impairment of fixed assets

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Connection System Division	¥ —	¥ 182	\$ 1,768
Functional Components Division	200	278	2,701
Touch Panel Division	—	11	107
Subtotal	200	471	4,576
Other	—	—	—
Adjustments and eliminations	—	142	1,380
Consolidated	¥ 200	¥ 613	\$ 5,956

5. Information about the amortization of goodwill and the balance of goodwill

	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Amortization	¥ 109	¥ 61	\$ 593
Balance	164	—	—

Note 18. Changes in stock options

At the board of directors meeting held on July 27, 2011, a stock option plan was approved. Under this plan, certain employees of the Company and a director and employees of affiliated companies were granted options to purchase common stock of 1,141,000 shares in total at an exercise price of ¥360. Stock option activity during the year ended March 31, 2014 was as follows:

	July 27, 2011	
	Share subscription rights which are not yet vested	Share subscription rights which have already been vested
Outstanding as of March 31, 2013	1,109,000	—
Granted	—	—
Forfeited	—	—
Vested	1,109,000	—
Outstanding as of March 31, 2014	—	—
Outstanding as of March 31, 2013	—	—
Vested	1,109,000	—
Exercised	606,000	—
Forfeited	12,000	—
Outstanding as of March 31, 2014	491,000	—
The fair value of stock options when granted	¥81 (\$0.79)	—

Note 19. Related party transactions

Significant transactions with related parties for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen			
	Transactions		Balances	
2013	Guaranty money deposited	Rent	Other investments	Other current assets
Terutaka Ikeda	—	¥ 13	¥ 14	¥ 1

	Millions of yen			
	Transactions		Balances	
2014	Guaranty money deposited	Rent	Other investments	Other current assets
Terutaka Ikeda	—	¥ 13	¥ 14	¥ 1

	Thousands of U.S. dollars			
	Transactions		Balances	
2014	Guaranty money deposited	Rent	Other investments	Other current assets
Terutaka Ikeda	—	\$ 126	\$ 136	\$ 10

Note 20. Subsequent events

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, 2014, was approved at a shareholders' meeting held on June 24, 2014.

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Cash dividends (¥5.00 = \$0.05 per share)	¥ 359	\$ 3,488

Report of Independent Auditors

SMK Corporation and Consolidated Subsidiaries



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011
Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Independent Auditor's Report

The Board of Directors
SMK Corporation

We have audited the accompanying consolidated financial statements of SMK Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SMK Corporation and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

June 24, 2014
Tokyo, Japan

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

Officer Introduction

(As of June 24, 2014)

Directors



Yasumitsu Ikeda
President and COO



Yoshio Sakurai
Representative Director,
Executive Deputy President,
Chief Information Officer



Yoshiyuki Kaku
Director,
Executive Vice President,
Chief Technology Officer



Mikio Wakabayashi
Director,
Executive Vice President



Yuji Tanahashi
Director

Auditors



Terutaka Ikeda
Chairman of
Auditors Meeting



Hajime Yamada
Statutory Auditor



Kouichiro Sugihara
Statutory Auditor



Naru Nakashima
Statutory Auditor

Corporate Executive Officers



Paul Evans
Executive Vice President



Kohei Ohgaki
Executive Vice President,
Chief Financial Officer



Hideo Matsumoto
Vice President



Tsutomu Isoda
Vice President



Hiroshi Miyakawa
Vice President



Shigechika Yanagi
Vice President



Takemi Ishibashi
Vice President



Harutaka Seki
Vice President



Masanobu Ikeo
Vice President



Mitsuhiro Goto
Vice President



Tetsuo Hara
Vice President

Corporate Information

(As of March 31, 2014)

Corporate Data

Name	SMK Corporation
Established	April 3, 1925
Registered	January 15, 1929
Primary business	Manufacture and sale of various parts for electro-communication device and electronic equipment
Capital	¥ 7,996,828,021
Stock exchange listing	Tokyo Stock Exchange
Administrator of shareholders register	Mitsubishi UFJ Trust and Banking Corporation
Independent auditors	Ernst & Young ShinNihon LLC Tokyo, Japan
Employees (SMK-Group)	6,470
Head office	5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, Japan TEL: +81-3-3785-1111 FAX: +81-3-3785-1878
Global Network	
Domestic Bases	Gate City Ohsaki, Toyama, Hitachi, Osaka, Nagoya, Ibaraki, Hokuriku and Fukuoka
Overseas Bases	Taiwan, Hong Kong, China, Singapore, Thailand, Malaysia, Philippines, Korea, Belgium, U.K., France, Germany, Hungary, U.S.A., Mexico and Brazil

Please see our website for detailed IR information.

The IR Information section of SMK's website includes annual reports and presentation materials. The website also carries information about SMK's products, corporate data, CSR initiatives, and commitment to the environment.

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

Shares and Shareholders

Authorized shares	195,961,274
Issued shares	79,000,000
Number of shareholders	9,139

Major Shareholders (top ten)	Shares Owned (1,000 shares)	Percentage of Shares (%)
Mizuho Bank, Ltd.	3,531	4.90
Nippon Life Insurance Company	3,421	4.75
Dai Nippon Printing Co., Ltd.	3,200	4.44
SMK Cooperating Company Share Holding Association	2,855	3.96
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,508	3.48
Mitsubishi UFJ Trust and Banking Corporation	1,800	2.50
SMK Employees Share Holding Association	1,703	2.36
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,611	2.23
The Showa Ikeda Memorial Foundation	1,500	2.08
Terutaka Ikeda	1,454	2.02

Note: SMK holds 7,054 thousand shares of treasury stock, but these are excluded from the above list. Figures for percentage of shares are calculated excluding the treasury stock.

Share ownership by number

1 - 999 shares	1,951 (21.35%)
1,000 - 9,999 shares	6,559 (71.77%)
10,000 - 99,999 shares	548 (6.00%)
100,000 - 499,999 shares	57 (0.62%)
500,000 shares -	24 (0.26%)

Share ownership by shareholder type (unit : share)

Financial institutions	22,155,685 (28.05%)
Financial instruments dealers	1,700,615 (2.15%)
Companies and other entities	11,102,739 (14.05%)
Foreign investors	8,429,325 (10.67%)
Individuals and others	35,611,636 (45.08%)



5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, JAPAN
Telephone: 81-3-3785-1111 Fax: 81-3-3785-1878

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