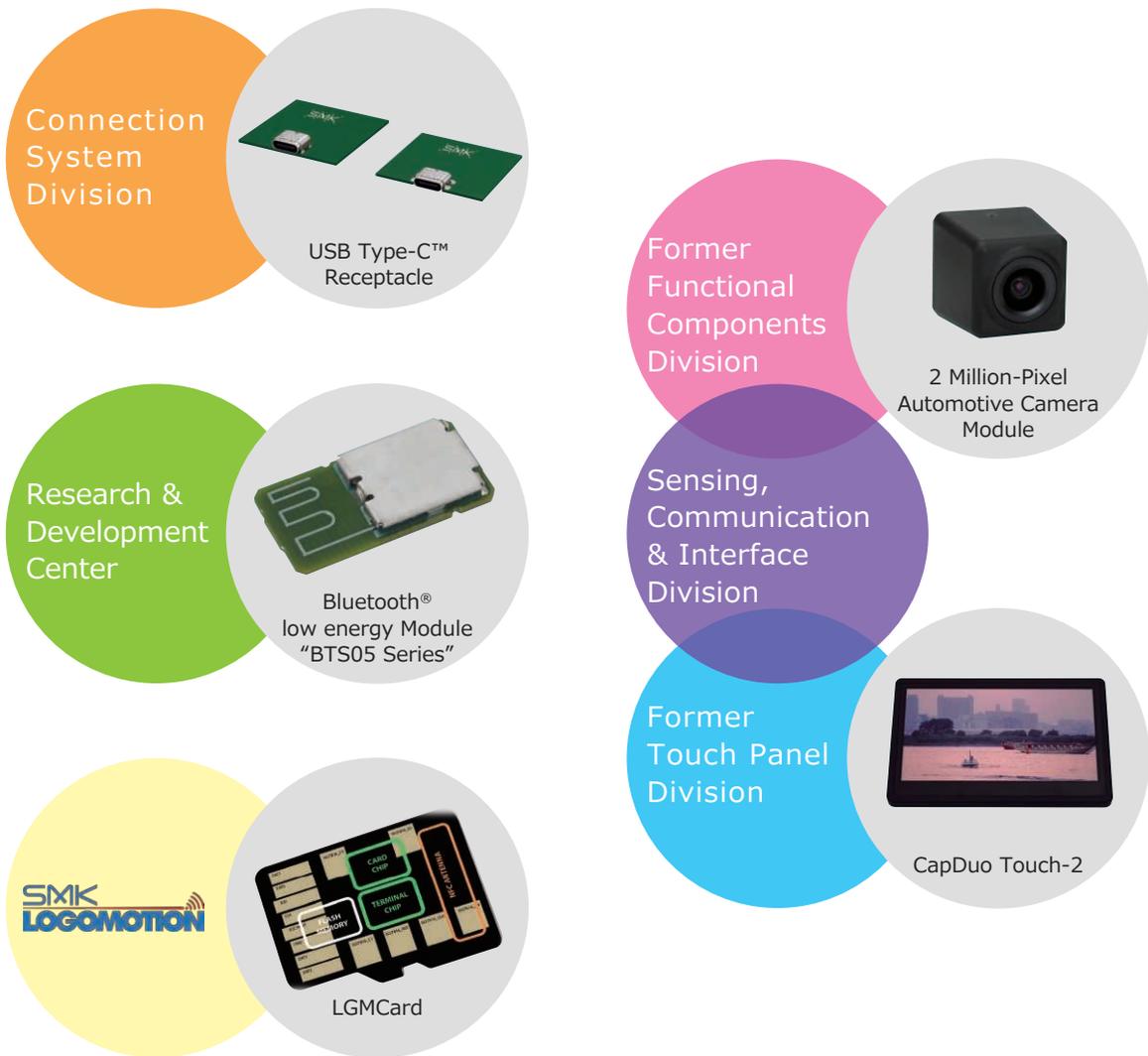


# ANNUAL REPORT

# 2019

For the fiscal year ended March 31, 2019





## To Our Shareholders and Investors

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 business for the 97th fiscal year (from April 1, 2018 to March 31, 2019).

We look forward to your continuing support and encouragement.

June 2019

**Yasumitsu Ikeda**  
President and CEO/COO



## CONTENTS

	To Our Shareholders and Investors
	Financial Highlights
2	Overview of Consolidated Results by Division
4	Financial Section
5	Financial Review
6	Consolidated Balance Sheet
8	Consolidated Statement of Income
8	Consolidated Statement of Comprehensive Income
9	Consolidated Statement of Changes in Net Assets
10	Consolidated Statement of Cash Flows
11	Notes to Consolidated Financial Statements
27	Report of Independent Auditors
28	Officer Introduction
29	Topics
	Corporate Information

## 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.

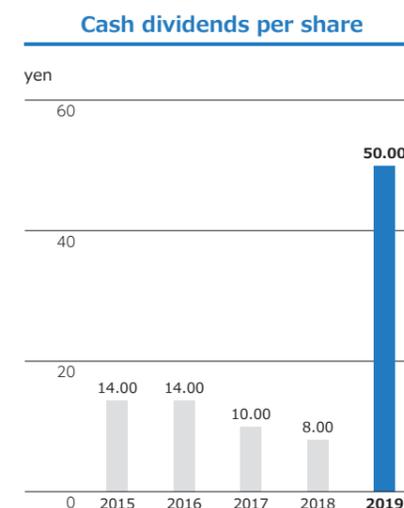
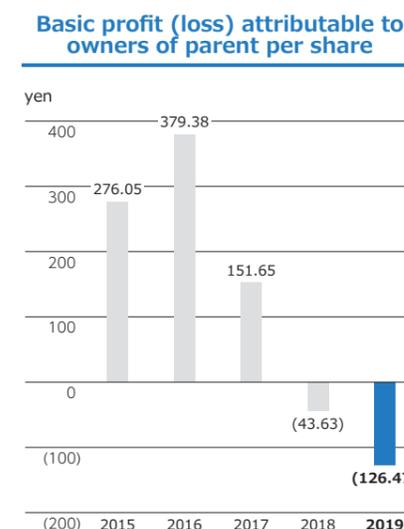
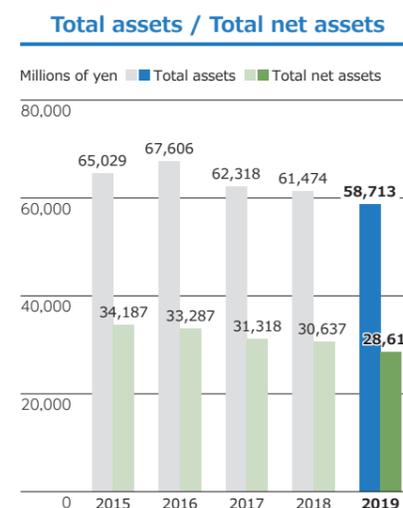
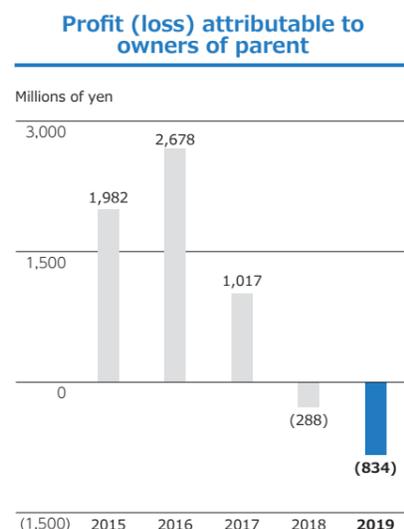
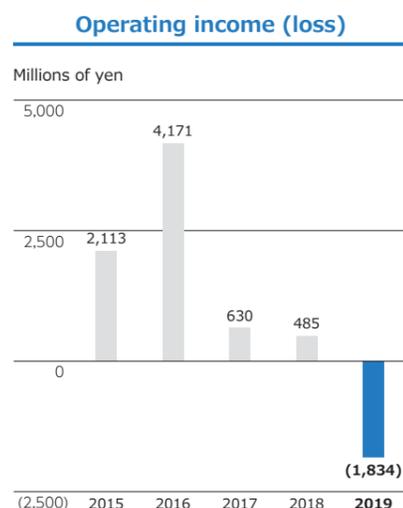
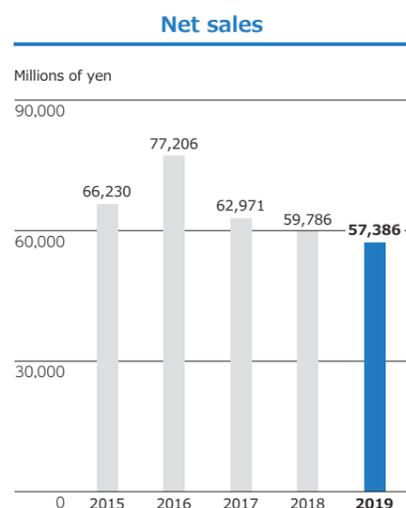


## Financial Highlights

Years ended and as of March 31	Millions of yen		Percent change 2018/2019	Thousands of U.S. dollars
	2018	2019		
<b>Operating Results</b>				
Net sales	¥ 59,786	¥ <b>57,386</b>	(4.0) %	<b>\$517,038</b>
Operating income (loss)	485	<b>(1,834)</b>	—	<b>(16,524)</b>
Loss attributable to owners of parent	(288)	<b>(834)</b>	—	<b>(7,514)</b>
<b>Financial Position</b>				
Total assets	¥ 61,474	¥ <b>58,713</b>	(4.5) %	<b>\$528,994</b>
Total net assets	30,637	<b>28,612</b>	(6.6)	<b>257,789</b>

Years ended and as of March 31	Yen		Percent change 2018/2019	U.S. dollars
	2018	2019		
<b>Per Share Data</b>				
Loss attributable to owners of parent				
Basic	¥(43.63)	¥ <b>(126.47)</b>	— %	<b>\$(1.14)</b>
Diluted	—	—	—	—
Cash dividends	8.00	<b>50.00</b>	—	<b>0.45</b>

Note 1. The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥110.99 = U.S. \$1.00.  
 2. The Company carried out a consolidation of share at the ratio of 10 shares to 1 share on October 1, 2018. Basic earnings per share and diluted earnings per share have been calculated on the assumption that the said consolidation of share was carried out at the beginning of the year ended March 31, 2015.  
 3. The Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) (hereinafter, the "Partial Amendments") from the beginning of the fiscal year ended March 31, 2019. As such, financial position for the year ended March 31, 2018 is calculated on the assumption that "Partial Amendments" is applied retrospectively.  
 4. In the calculation of loss per share, the Company's shares remaining in the Board Benefit Trust (BBT), which are recorded as treasury stock under shareholders' equity, are included in the treasury stocks that are deducted in the calculation of the average number of shares in the period.





# Overview of Consolidated Results by Division

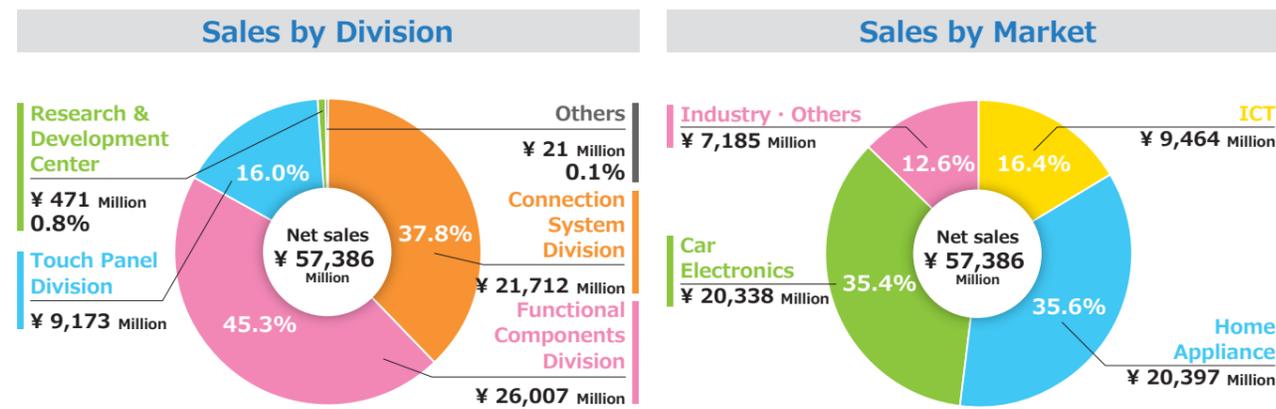
(April 1, 2018 to March 31, 2019)

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 four markets: ICT Market, Home Appliance Market, Car Electronics Market and Industry 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 and the Research & Development Center in the fiscal year under review.

From the fiscal year ending March 31, 2019, the reporting segment was changed and the segment information of the previous fiscal year has been calculated based on the changed reporting segment.



Others: businesses of other electronic parts, lease, real-estate rental, and worker dispatching undertakings.

Others: markets of medical equipment, rehabilitation equipment, etc.

## Connection System Division

### Major Products

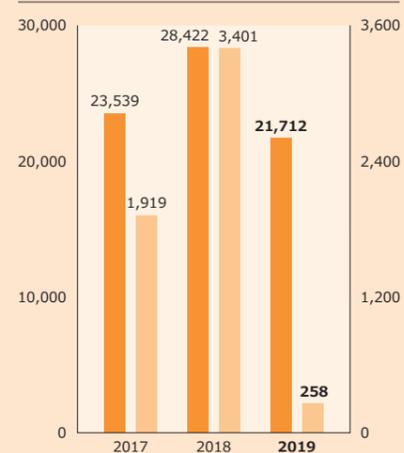
- Connectors (Coaxial, FPC)
- Jacks



Sales of connectors in the car electronics market continued to show steady growth with the accelerating development of car electronics serving as a tailwind. Sales of connectors for automotive cameras, which are maintaining a high market share, and those for high-speed transmissions also expanded steadily. In the ICT market, however, sales of connectors for smartphones fell year on year, due to the effects of intensified competition with other connector manufacturers for supply to customers in China and the U.S., as well as decreased demand in the Chinese market. Sales of connectors for the industry and other markets decreased year on year, as connectors for healthcare-related products, which had enjoyed steady growth, saw a sufficient spread in its mainstay market, causing demand to fall sharply.

As a result, net sales of the Connection System Division amounted to ¥21,712 million (23.6% decrease year on year), and operating income was ¥258 million (92.4% decrease year on year).

Net sales / Operating income Millions of yen



## Touch Panel Division

### Major Products

- Touch Panels (Resistive, Capacitive, Optical)

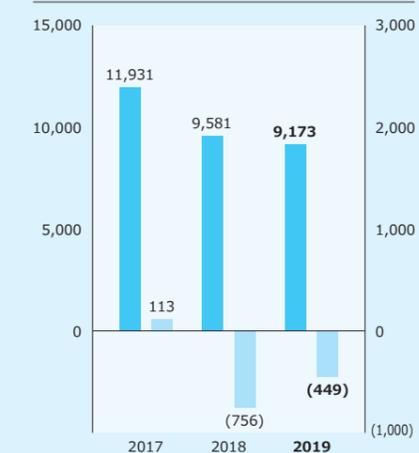


Regarding our mainstay touch panels for the car electronics market, as demand sharply shifts from resistive touch panels to capacitive touch panels, competition against competing touch panel manufacturers has intensified. Amid such changes in the environment, although sales of capacitive touch panels for the car electronics market remained steady in North America, they were not enough to offset the fall in sales of resistive touch panels, leading to a drop in sales compared to the previous year.

In markets other than the car electronics market, although sales of resistive touch panels for machine tools and office equipment, and sales of capacitive touch panels for wearable devices and home appliances showed steady increases year on year, there was a minor drop in overall sales of the touch panels business from the previous year.

As a result, net sales of the Touch Panel Division amounted to ¥9,173 million (4.3% decrease year on year), and operating loss was ¥449 million (compared to an operating loss of ¥756 million in the previous fiscal year).

Net sales / Operating income (loss) Millions of yen



## Functional Components Division

### Major Products

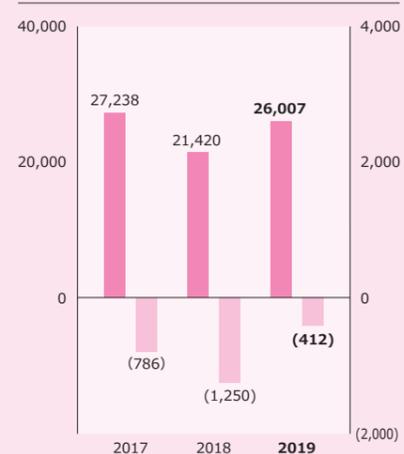
- Remote Control Units
- Switches
- Camera Modules



Sales of remote control units, our mainstay products, increased year on year on the whole, as orders from U.S. customers for new products for set-top boxes contributed greatly to sales, in addition to the solid performance of those for home and sanitary equipment, despite a drop in sales of products for air conditioners due to intensified price competition. As for units, sales increased significantly year on year as sales of units for home equipment, control units for car electronics, and automotive camera modules expanded. Sales of switches decreased year on year due to the effects of a large decrease in sales of those for POS, although sales of those for smartphones remained flat.

As a result, net sales of the Functional Components Division amounted to ¥26,007 million (21.4% increase year on year), and operating loss was ¥412 million (compared to an operating loss of ¥1,250 million in the previous fiscal year).

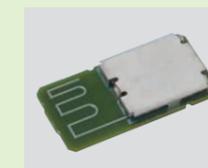
Net sales / Operating income (loss) Millions of yen



## Research & Development Center

### Major Products

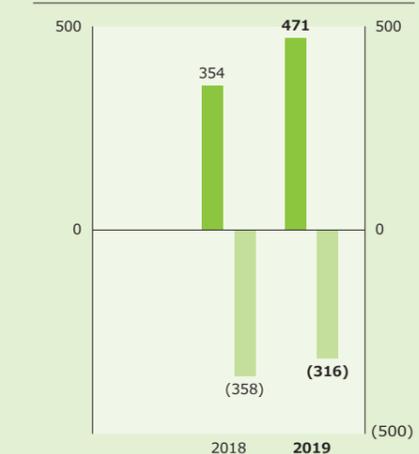
- Wireless Modules



Regarding wireless communication modules, the mainstay business of the Research & Development Center, sales of Bluetooth® modules for payment terminals and printers for the industry market have expanded steadily. In addition, the mass production of Low Power Wide Area (LPWA) modules, used in the IoT field where growth is expected, began. The IoT foundational technology development project in which SMK is involved has been adopted by the Public/Private R&D Investment Strategic Expansion Program (PRISM) of Japan's Cabinet Office. In the home appliance market, the Piezoelectric Switch Unit for sanitary equipment was ordered and developed.

As a result, net sales of the Research & Development Center amounted to ¥471 million (32.9% increase year on year), and operating loss was ¥316 million (compared to an operating loss of ¥358 million in the previous fiscal year).

Net sales / Operating income (loss) Millions of yen





# Five-Year Summary

SMK Corporation and Consolidated Subsidiaries

Years ended and as of March 31	Millions of yen					Thousands of U.S. dollars	
	2015	2016	2017	2018	2019	2019	
<b>Operating Results</b>							
Net sales	¥ 66,230	¥ 77,206	¥ 62,971	¥ 59,786	¥ 57,386	\$ 517,038	
Operating income (loss)	2,113	4,171	630	485	(1,834)	(16,524)	
Profit (loss) attributable to owners of parent	1,982	2,678	1,017	(288)	(834)	(7,514)	
<b>Financial Position</b>							
Total assets	¥ 65,029	¥ 67,606	¥ 62,318	¥ 61,474	¥ 58,713	\$ 528,994	
Total net assets	34,187	33,287	31,318	30,637	28,612	257,789	

Per Share Data	Yen				U.S. dollars	
	2015	2016	2017	2018	2019	2019
Total net assets	¥ 4,754.15	¥ 4,710.19	¥ 4,734.95	¥ 4,635.03	¥ 4,415.09	\$ 39.78
Profit (loss) attributable to owners of parent						
Basic	276.05	379.38	151.65	(43.63)	(126.47)	(1.14)
Diluted	275.65	378.63	151.62	—	—	—
Cash dividends	14.00	14.00	10.00	8.00	50.00	0.45

Note 1. The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥110.99 = U.S. \$1.00.  
 2. The Company carried out a consolidation of share at the ratio of 10 shares to 1 share on October 1, 2018. Basic earnings per share and diluted earnings per share have been calculated on the assumption that the said consolidation of share was carried out at the beginning of the years ended March 31, 2015.  
 3. The Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) (hereinafter, the "Partial Amendments") from the beginning of the fiscal year ended March 31, 2019. As such, financial position for the years ended March 31, 2018 is calculated on the assumption that "Partial Amendments" is applied retrospectively.  
 4. In the calculation of profit (loss) per share, the Company's shares remaining in the Board Benefit Trust (BBT), which are recorded as treasury stock under shareholders' equity, are included in the treasury stocks that are deducted in the calculation of the average number of shares in the period.



SMK's net sales for the fiscal year ended March 31, 2019 decreased 4.0% year on year to ¥57,386 million (US\$517,038 thousand), whereas operating loss of ¥1,834 million (US\$16,524 thousand) and loss attributable to owners of parent of ¥834 million (US\$7,514 thousand) were recorded.

## Net Sales

There was favorable sales growth in products such as remote control units for set-top boxes for the U.S. customers, automotive connectors, units for home equipment, control units for car electronics, and automotive camera modules. However, sales of products such as connectors for smartphones for Chinese customers and touch panels for car electronics were sluggish due to intensified competition in the market environment, as connectors for the healthcare market saw a sufficient spread in its mainstay market, causing demand to fall.

As a result, net sales were ¥57,386 million (US\$517,038 thousand), down 4.0% year on year.

## Operating Income

Despite our efforts such as proactive launch of new products and initiatives taken to reduce cost of sales and cut expenses, operating loss amounted to ¥1,834 million (US\$16,524 thousand) due to profit decreasing factors such as a decrease in net sales, the product mix, and loss on valuation of inventories.

## Profit attributable to owners of parent

Loss attributable to owners of parent was ¥834 million (US\$7,514 thousand) as a result of recording rent income/expense, gain on sales of fixed assets, foreign exchange gain, net, etc. in other income/expenses.

## Total Assets / ROA

As of March 31, 2019, total assets were ¥58,713 million (US\$528,994 thousand), with ROA of (1.2) %.

## Total Net Assets / ROE

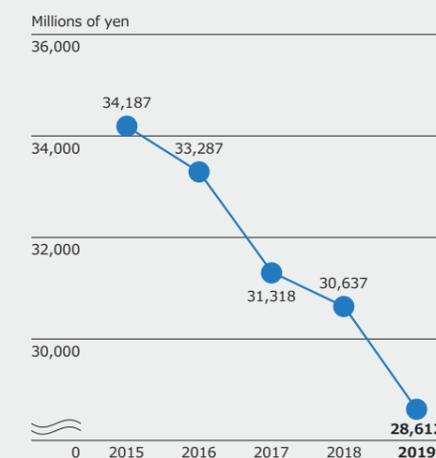
As of March 31, 2019, total net assets were ¥28,612 million (US\$257,789 thousand), with ROE of (2.8) %.

## Cash Flows

Net cash provided by operating activities amounted to ¥1,608 million (US\$14,488 thousand), net cash used in investing activities totaled ¥2,091 million (US\$18,840 thousand), and net cash provided by financing activities was ¥997 million (US\$8,983 thousand).

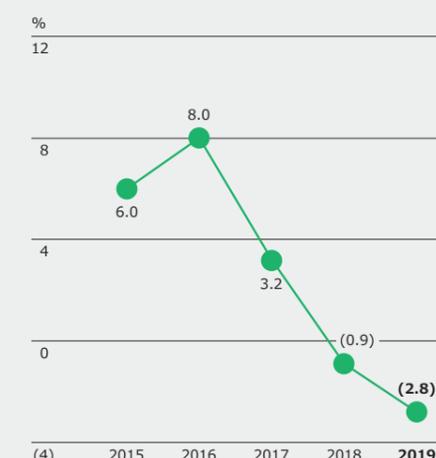
## Total net assets

(As of March 31)



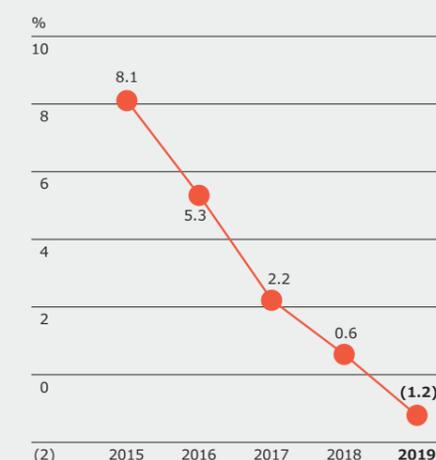
## Return on equity (ROE)

(Years ended March 31)



## Return on assets (ROA)

(Years ended March 31)



# Consolidated Balance Sheet

SMK Corporation and Consolidated Subsidiaries  
As of March 31, 2018 and 2019

Consolidated Balance Sheets

Assets	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2018	2019	2019
<b>Current assets</b>			
Cash and cash equivalents (Note 16)	¥ 10,482	¥ 10,776	\$ 97,090
Time deposits (Note 16)	117	112	1,009
Notes and accounts receivable, trade (Note 6 and 16)	15,251	14,496	130,606
Inventories (Note 3)	8,775	8,071	72,718
Other current assets (Note 18 and 21)	1,439	932	8,397
Allowance for doubtful accounts	(56)	(106)	(955)
	36,009	34,283	308,884
<b>Investments and long-term loans</b>			
Investment securities (Note 16 and 17)	2,460	2,548	22,957
Long-term loans receivable (Note 21)	93	61	550
Asset for retirement benefits (Note 7)	1,440	1,219	10,983
Other investments (Note 21)	599	678	6,109
Allowance for doubtful accounts	(87)	(40)	(360)
	4,506	4,466	40,238
<b>Property, plant and equipment</b> (Note 5, 12 and 19)			
Land (Note 4)	6,615	6,001	54,068
Buildings	19,320	19,063	171,754
Machinery and vehicles	22,077	23,585	212,497
Tooling and office furniture	23,050	22,737	204,856
Construction in progress	327	681	6,136
	71,390	72,069	649,329
Less-accumulated depreciation	(51,266)	(52,376)	(471,898)
	20,124	19,693	177,430
<b>Other assets</b>			
Deferred tax assets (Note 13)	618	115	1,036
Intangible assets (Note 12)	215	154	1,388
	834	269	2,424
<b>Total assets</b>	¥ 61,474	¥ 58,713	\$ 528,994

Liabilities and net assets	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2018	2019	2019
<b>Current liabilities</b>			
Short-term loans payable (Note 5 and 16)	¥ 12,731	¥ 14,263	\$ 128,507
Notes and accounts payable, trade (Note 6 and 16)	6,807	5,301	47,761
Accrued income taxes	542	524	4,721
Accrued bonuses	668	623	5,613
Accrued directors' and officers' bonuses	1	—	—
Accounts payable, non-trade (Note 16)	1,919	1,491	13,434
Other current liabilities (Note 18)	1,688	1,573	14,172
	24,358	23,778	214,236
<b>Long-term liabilities</b>			
Long-term debt (Note 5 and 16)	4,526	4,601	41,454
Deferred tax liabilities (Note 13)	1,000	799	7,199
Accrued directors' and officers' retirement benefits	171	176	1,586
Liability for retirement benefits (Note 7)	40	53	478
Other long-term liabilities	738	691	6,226
	6,478	6,323	56,969
<b>Net assets</b>			
<b>Shareholders' equity</b> (Note 8)			
Common stock			
Authorized : 195,961,274 shares as of March 31, 2018 19,596,127 shares as of March 31, 2019			
Issued : 75,000,000 shares as of March 31, 2018 7,500,000 shares as of March 31, 2019	7,996	7,996	72,043
Capital surplus	12,057	12,057	108,631
Retained earnings	15,730	14,597	131,516
Treasury stock	(4,001)	(4,313)	(38,859)
	31,783	30,338	273,340
<b>Accumulated other comprehensive income</b>			
Net unrealized gains (losses) on other securities	331	297	2,676
Net unrealized gains (losses) from hedging instruments	(9)	(7)	(63)
Foreign currency translation adjustments	(1,907)	(2,027)	(18,263)
Retirement benefits asset and liability adjustments	440	10	90
	(1,145)	(1,726)	(15,551)
	30,637	28,612	257,789
<b>Total liabilities and net assets</b>	¥ 61,474	¥ 58,713	\$ 528,994

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Income

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2019

	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2018	2019	2019
<b>Net sales</b> (Note 20)	¥ 59,786	¥ 57,386	\$ 517,038
<b>Cost of sales</b> (Note 3 and 9)	49,429	49,962	450,149
<b>Selling, general and administrative expenses</b> (Note 9 and 10)	9,871	9,258	83,413
<b>Operating income (loss)</b> (Note 20)	485	(1,834)	(16,524)
<b>Other income</b>			
Interest and dividend income (Note 21)	98	93	838
Rent income	1,175	1,076	9,695
Foreign exchange gain, net	—	350	3,153
Gain on sales of fixed assets (Note 11)	2,341	1,317	11,866
Gain on sales of investment securities (Note 17)	0	195	1,757
Gain on redemption of investment securities	46	—	—
Other	297	373	3,361
Total other income	3,960	3,407	30,696
<b>Other expenses</b>			
Interest expense	114	114	1,027
Rent expense (Note 21)	571	556	5,009
Foreign exchange loss, net	921	—	—
Loss on disposal of fixed assets (Note 11)	172	199	1,793
Loss on impairment of fixed assets (Note 12)	1,815	148	1,333
Loss on valuation of investment securities	181	86	775
Loss on liquidation of subsidiaries and affiliates	—	67	604
Other	96	96	865
Total other expenses	3,875	1,269	11,433
<b>Profit before income taxes</b>	570	303	2,730
<b>Income taxes</b> (Note 13)			
Current	821	620	5,586
Deferred	51	517	4,658
<b>Loss</b>	(302)	(834)	(7,514)
<b>Loss attributable to non-controlling interests</b>	(14)	—	—
<b>Loss attributable to owners of parent</b>	¥ (288)	¥ (834)	\$ (7,514)

### Per share data (Note 15)

	Yen	U.S. dollars (Note 2)
Total net assets	¥ 4,635.03	\$ 39.78
Loss attributable to owners of parent		
Basic	(43.63)	(1.14)
Diluted	—	—
Cash dividends	8.00	0.45

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2019

	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2018	2019	2019
<b>Loss</b>	¥ (302)	¥ (834)	\$ (7,514)
<b>Other comprehensive income</b> (Note 14)			
Net unrealized gains (losses) on other securities	(17)	(33)	(297)
Net unrealized gains (losses) from hedging instruments	(5)	2	18
Foreign currency translation adjustments	69	(119)	(1,072)
Retirement benefits asset and liability adjustments	177	(430)	(3,874)
Total other comprehensive income	223	(580)	(5,226)
<b>Comprehensive income</b>	¥ (79)	¥ (1,414)	\$ (12,740)
<b>Total comprehensive income attributable to:</b>			
Owners of parent	¥ (65)	¥ (1,414)	\$ (12,740)
Non-controlling interests	¥ (14)	¥ —	\$ —

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Net Assets

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2019

	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	Net unrealized gains (losses) from hedging instruments	Foreign currency translation adjustments	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
<b>Balance at April 1, 2017</b>	75,000,000	¥7,996	¥12,057	¥16,614	¥(3,995)	¥32,672	¥348	¥(3)	¥(1,976)	¥263	¥(1,368)	¥14	¥31,318
Cash dividends paid				(594)		(594)					—		(594)
Loss attributable to owners of parent				(288)		(288)					—		(288)
Acquisition of treasury stock					(5)	(5)					—		(5)
Disposition of treasury stock											—		—
Transfer to capital surplus from retained earnings											—		—
Net changes in items other than shareholders' equity							(17)	(5)	69	177	223	(14)	208
Total changes				(883)	(5)	(889)	(17)	(5)	69	177	223	(14)	(680)
<b>Balance at March 31, 2018</b>	75,000,000	7,996	12,057	15,730	(4,001)	31,783	331	(9)	(1,907)	440	(1,145)	—	30,637
<b>Balance at April 1, 2018</b>	75,000,000	7,996	12,057	15,730	(4,001)	31,783	331	(9)	(1,907)	440	(1,145)	—	30,637
Cash dividends paid				(264)		(264)					—		(264)
Loss attributable to owners of parent				(834)		(834)					—		(834)
Acquisition of treasury stock					(507)	(507)					—		(507)
Disposition of treasury stock					196	161					—		161
Transfer to capital surplus from retained earnings				34	(34)	—					—		—
Net changes in items other than shareholders' equity							(33)	2	(119)	(430)	(580)	—	(580)
Total changes	(67,500,000)	—	—	(1,133)	(311)	(1,445)	(33)	2	(119)	(430)	(580)	—	(2,025)
<b>Balance at March 31, 2019</b>	7,500,000	¥7,996	¥12,057	¥14,597	¥(4,313)	¥30,338	¥297	¥(7)	¥(2,027)	¥ 10	¥(1,726)	¥—	¥28,612

	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	Net unrealized gains (losses) from hedging instruments	Foreign currency translation adjustments	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets	
<b>Balance at April 1, 2018</b>	\$72,043	\$108,631	\$141,724	\$(36,048)	\$286,359	\$2,982	\$(81)	\$(17,182)	\$3,964	\$(10,316)	\$—	\$276,034	
Cash dividends paid			(2,379)		(2,379)					—		(2,379)	
Loss attributable to owners of parent			(7,514)		(7,514)					—		(7,514)	
Acquisition of treasury stock				(4,568)	(4,568)					—		(4,568)	
Disposition of treasury stock				1,766	1,451					—		1,451	
Transfer to capital surplus from retained earnings			306	(306)	—					—		—	
Net changes in items other than shareholders' equity						(297)	18	(1,072)	(3,874)	(5,226)	—	(5,226)	
Total changes			(10,208)	(2,802)	(13,019)	(297)	18	(1,072)	(3,874)	(5,226)	—	(18,245)	
<b>Balance at March 31, 2019</b>	\$72,043	\$108,631	\$131,516	\$(38,859)	\$273,340	\$2,676	\$(63)	\$(18,263)	\$ 90	\$(15,551)	\$—	\$257,789	

## Consolidated Statement of Cash Flows

SMK Corporation and Consolidated Subsidiaries  
Years ended March 31, 2018 and 2019

	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2018	2019	2019
<b>Cash flows from operating activities</b>			
Profit before income taxes	¥ 570	¥ 303	\$ 2,730
Depreciation and amortization	4,187	3,664	33,012
Loss on impairment of fixed assets	1,815	148	1,333
Increase (decrease) in accrued bonuses	40	(44)	(396)
Increase (decrease) in accrued directors' and officers' retirement benefits	(31)	4	36
Increase (decrease) in asset and liability for retirement benefits	(382)	(367)	(3,307)
Interest and dividend income	(98)	(93)	(838)
Interest expense	114	114	1,027
(Gain) loss on sales of investment securities	(0)	(193)	(1,739)
(Gain) loss on redemption of investment securities	(46)	—	—
(Gain) loss on sales of fixed assets	(2,339)	(1,316)	(11,857)
(Gain) loss on valuation of investment securities	181	86	775
Loss on disposal of fixed assets	172	199	1,793
(Increase) decrease in notes and accounts receivable, trade	(626)	924	8,325
(Increase) decrease in inventories	(1,662)	784	7,064
Increase (decrease) in notes and accounts payable, trade	777	(1,659)	(14,947)
(Increase) decrease in accounts receivable, non-trade	160	(35)	(315)
Increase (decrease) in accounts payable, non-trade	692	(692)	(6,235)
Other	209	230	2,072
Subtotal	3,735	2,057	18,533
Interest and dividends received	87	103	928
Interest paid	(110)	(113)	(1,018)
Income taxes paid	(923)	(439)	(3,955)
<b>Net cash provided by (used in) operating activities</b>	<b>2,788</b>	<b>1,608</b>	<b>14,488</b>
<b>Cash flows from investing activities</b>			
Payments into time deposits	(116)	(30)	(270)
Proceeds from time deposits	108	32	288
Purchases of fixed assets	(3,626)	(4,639)	(41,797)
Proceeds from sales of fixed assets	3,161	2,556	23,029
Payments for retirement of fixed assets	(29)	—	—
Purchases of intangible fixed assets	(59)	(47)	(423)
Purchases of investment securities	(282)	(223)	(2,009)
Proceeds from sales of investment securities	0	241	2,171
Proceeds from redemption of investment securities	68	—	—
Payments for execution of loans	(39)	(28)	(252)
Collection of loans receivable	70	45	405
Other	(43)	0	0
<b>Net cash provided by (used in) investing activities</b>	<b>(787)</b>	<b>(2,091)</b>	<b>(18,840)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans payable	(1,668)	2,228	20,074
Proceeds from long-term debt	2,490	2,090	18,831
Payments of long-term debt	(2,007)	(2,704)	(24,363)
Purchases of treasury stock	(4)	(506)	(4,559)
Proceeds from sales of treasury stock	—	161	1,451
Dividends paid	(594)	(264)	(2,379)
Other	10	(8)	(72)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,774)</b>	<b>997</b>	<b>8,983</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>242</b>	<b>(219)</b>	<b>(1,973)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>470</b>	<b>294</b>	<b>2,649</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>10,011</b>	<b>10,482</b>	<b>94,441</b>
<b>Cash and cash equivalents at end of the year</b>	<b>¥ 10,482</b>	<b>¥ 10,776</b>	<b>\$ 97,090</b>

## 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 the 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 Act 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 profit attributable to owners of parent includes the Company's equity in the current profit attributable to owners of parent 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: 28

#### (d) Application of equity method of accounting

Number of affiliated companies accounted for by the equity method: 1

#### (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 and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 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 5 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 mainly over 5 years.

- ( l ) Allowance for doubtful accounts  
The allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.
- ( m ) Accrued bonus  
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.
- ( n ) Accrued directors' and officers' bonuses  
Accrued directors' and officers' bonuses are provided on the estimate of the amounts to be paid subsequent to the balance sheet date.
- ( o ) Accrued directors' and officers' retirement benefits  
Accrued directors' and officers' retirement benefits have been provided at an amount equal to 100% of the amount which would be required to be paid based on the Company's bylaws if all directors and officers resigned from the Company on the balance sheet date.
- ( p ) Accrued board benefit trust  
Accrued board benefit trust 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 exercised board benefit trust on the balance sheet date.
- ( q ) Retirement benefits  
Asset 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 as of balance sheet date.  
The retirement benefit obligation for employees is attributed to each period by the benefit formula 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  
Deferral hedge accounting is applied for interest rate swap transactions.  
The exceptional treatment is applied for interest rate swap transactions meeting certain conditions.  
(2) Hedging instruments and hedged items  
Hedging instruments: interest rate swaps  
Hedged items: long-term debt subject to interest rate fluctuation risk.  
(3) Hedging policy  
The Company uses interest rate swaps to hedge risks from interest rate fluctuations on borrowings, only when approved by the management.  
(4) Assessment of effectiveness of hedging activities  
The Company evaluates the hedge effectiveness by comparing accumulated fluctuations of the hedging instrument and hedged item every quarter.  
When the exceptional treatment is applied for interest rate swaps, 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 profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent available for distribution to shareholders and 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. Nondeductible consumption taxes are expensed in the consolidated financial statements.
- ( v ) Accounting standards issued but not yet effective  
**Accounting Standards and Implementation Guidance on Revenue Recognition**  
On March 30, 2018, the Accounting Standards Board of Japan (ASBJ) issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30).  
(1) Overview  
This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:  
1. Identify the contract(s) with a customer  
2. Identify the performance obligations in the contract  
3. Determine the transaction price  
4. Allocate the transaction price to the performance obligations in the contract  
5. Recognize revenue when(or as) the entity satisfies a performance obligation  
(2) Schedule date of adoption  
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.  
(3) Impact of the adoption of accounting standard and implementation guidance  
The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

- ( w ) Change in presentation  
**Partial Amendments to Accounting Standard for Tax Effect Accounting**  
The Company and its consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) (hereinafter, the "Partial Amendments") from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures have been expanded.  
As a result, ¥539 million of deferred tax assets in current assets and ¥28 million of deferred tax liabilities included in other current liabilities in current liabilities and ¥303 million of deferred tax liabilities in long-term liabilities previously presented in consolidated balance sheet as of March 31, 2018 have been reclassified and included within ¥618 million of deferred tax assets in other assets and ¥1,000 million of deferred tax liabilities in long-term liabilities, respectively.  
Also, "Note 13 Income Taxes" in the Notes to the consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting for Tax Effect Accounting. However, comparative information for the year ended March 31, 2018 has not been disclosed in Note 13 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.
- ( x ) Additional information  
**Introduction of consolidated taxation system**  
The Company and some of its consolidated subsidiaries have introduced consolidated taxation system from the fiscal year ended March 31, 2019.  
**Introduction of Board Benefit Trust**  
From the year ended March 31, 2019, we introduced a new share-based compensation plan, a "Board Benefit Trust (BBT)" (the "Plan") for directors (including executive officer, excluding outside directors; "Directors") based on the resolution at the 96th General Meeting of Shareholders on June 22, 2018 for the purpose of raising awareness of contributing to the improvement of medium-to long-term business results.  
Regarding the accounting treatment for the plan, the gross method is adopted based on the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts" (ASBJ Practical Issue Task Force No. 30, March 26, 2015).  
(1) Outline of the Plan  
The Plan is a share-based compensation plan under which our shares are acquired through a trust (the trust established in accordance with the Plan, the "Trust") by using the funds contributed by us. Directors will receive our shares as well as the amount of money equivalent to the market value of our shares (as at the date of the retirement of Directors) through the Trust in accordance with the officer stock benefit rules formulated by us. In principle, Directors will receive benefits, such as our shares, on their retirement.  
(2) The Company's shares remaining in the Trust  
The Company's shares remaining in the Board Benefit Trust (BBT) are recorded by the Company as treasury stock under net assets at their book value in the BBT (excluding the amount of ancillary expenses). As of March 31, 2019, the book value of the said treasury stock was ¥160 million (\$1,442 thousand), and the number of shares was 43,800.

## 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 = ¥110.99, the approximate rate of exchange at March 31, 2019. 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, 2018 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Finished products	¥ 3,891	¥ 3,477	\$ 31,327
Work in process	839	854	7,694
Raw materials and supplies	4,044	3,739	33,688
Total	¥ 8,775	¥ 8,071	\$ 72,718

The write-downs of inventories resulting from decreased profitability for the years ended March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Cost of sales	¥ 333	¥ 1,215	\$ 10,947

## Note 4. Reduction entries

Reduction entries due to acceptance of prefectural government's grants relating to property, plant and equipment as of March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Land	¥ 101	¥ 101	\$ 910

## Note 5. Short-term loans payable and long-term debt

Short-term loans payable and long-term debt as of March 31, 2018 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Short-term loans payable			
Average interest rate on short-term loans payable, principally from banks, is 0.47%			
Secured	¥ 3,400	¥ 4,400	\$ 39,643
Unsecured	6,627	7,848	70,709
Total	¥ 10,027	¥ 12,248	\$ 110,352
Long-term debt			
Average interest rate on long-term debt, principally from banks, is 0.83%			
Secured	¥ 3,485	¥ 3,598	\$ 32,417
Unsecured	3,745	3,018	27,192
Less: portion due within one year	(2,704)	(2,015)	(18,155)
Total	¥ 4,526	¥ 4,601	\$ 41,454

The assets pledged as collateral for short-term and long-term debt as of March 31, 2018 and 2019 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
(1) Factory foundation			
Buildings	¥ 1,240	¥ 1,180	\$ 10,632
Machinery and vehicles	76	70	631
Tooling and office furniture	82	134	1,207
Land	256	256	2,307
Total	¥ 1,655	¥ 1,642	\$ 14,794
(2) Other			
Buildings	¥ 51	¥ 205	\$ 1,847
Tooling and office furniture	2	2	18
Land	39	39	351
Total	¥ 92	¥ 246	\$ 2,216

The aggregate annual maturities of long-term debt (including current portion) outstanding as of March 31, 2019 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 2,015	\$ 18,155
2021	2,024	18,236
2022	619	5,577
2023	340	3,063
2024 and thereafter	1,618	14,578
Total	¥ 6,616	\$ 59,609

## Note 6. Notes receivable and payable maturing on the balance sheet date

Notes receivable and payable maturing on the balance sheet date are treated as if they were settled at the clearing date of notes. Consequently, as the balance sheet date for the fiscal year was a bank holiday, the following notes receivable and payable maturing on the balance sheet date were included in the amount of each balance at March 31, 2018 and 2019.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Notes receivable	¥ 138	¥ 190	\$ 1,712
Notes payable	¥ 2	¥ 1	\$ 9

## Note 7. Retirement benefits plans

The Company and certain of its domestic consolidated subsidiaries have either funded or unfunded defined benefit pension plans and defined contribution benefit pension plans.

The Company has funded corporate pension fund plans and defined contribution pension plans. As a defined benefit pension plan, the Company has adopted a cash balance plan. Under the cash balance plan, the plan sponsor contributes money into a plan participant's account based on the points according to the employee's years of service and job performance and the points are calculated with an interest credit that reflects changes in market interest rates.

Certain subsidiaries have funded and 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 domestic subsidiaries.

The changes in the retirement benefit obligation during the years ended March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Balance at the beginning of the year	¥ 7,660	¥ 7,042	\$ 63,447
Service cost	326	301	2,712
Interest cost	48	45	405
Actuarial gain and loss	(135)	108	973
Retirement benefit paid	(849)	(969)	(8,731)
Other	(6)	1	9
Balance at the end of the year	¥ 7,042	¥ 6,530	\$ 58,834

The changes in plan assets during the years ended March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Balance at the beginning of the year	¥ 8,466	¥ 8,443	\$ 76,070
Expected return on plan assets	154	152	1,369
Actuarial gain and loss	343	(259)	(2,334)
Contributions by the Company	323	324	2,919
Retirement benefits paid	(845)	(963)	(8,676)
Balance at the end of the year	¥ 8,443	¥ 7,696	\$ 69,340

The funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Funded retirement benefit obligation	¥ 7,021	¥ 6,509	\$ 58,645
Plan assets at fair value	(8,443)	(7,696)	(69,340)
	(1,421)	(1,187)	(10,695)
Unfunded retirement benefit obligation	20	21	189
Net liability for retirement benefits in the balance sheet	(1,400)	(1,165)	(10,496)
Liability for retirement benefits	40	53	478
Asset for retirement benefits	(1,440)	(1,219)	(10,983)
Net liability for retirement benefits in the balance sheet	¥ (1,400)	¥ (1,165)	\$ (10,496)

The components of retirement benefit expense for the years ended March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Service cost	¥ 326	¥ 301	\$ 2,712
Interest cost	48	45	405
Expected return on plan assets	(154)	(152)	(1,369)
Amortization of actuarial gain and loss	(237)	(246)	(2,216)
Retirement benefit expense	¥ (16)	¥ (51)	\$ (460)

The components of retirement benefits asset and liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Actuarial gain and loss	¥ 241	¥ (614)	\$ (5,532)

The components of retirement benefits asset and liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unrecognized actuarial gain and loss	¥ 623	¥ 8	\$ 72

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 and 2019 were as follows:

	2018	2019
Bonds	4.1%	4.5%
Stocks	43.6	37.9
Life insurances	36.2	36.8
Funds	14.8	16.0
Other	1.3	4.8
Total	100.0%	100.0%

- The total plan assets include retirement benefit trusts which constitute 12.5% for the year ended March 31, 2018 and 12.5% for the year ended March 31, 2019.
- The expected rates of 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 years ended March 31, 2018 and 2019 amounted to ¥91 million and ¥89 million (\$802 thousand), respectively.

Assumptions to calculate the actuarial present value of the benefit obligation and the expected return on plan assets as of March 31, 2018 and 2019 were as follows:

	2018	2019
Discount rate	0.6%	0.6%
Re-evaluation rate	1.00%	0.84%
Expected rates of return on plan assets	2.0%	2.0%

## Note 8. Net assets

Information regarding changes in net assets for the years ended March 31, 2018 and 2019 was as follows:

### 1. Shares issued and outstanding / Treasury stock

Types of shares	2018			2019			Number of shares at March 31, 2019
	Number of shares at April 1, 2017	Increase	Decrease	Number of shares at April 1, 2018	Increase	Decrease	
Shares issued:							
Common stock	75,000,000	—	—	75,000,000	—	67,500,000	7,500,000
Treasury stock:							
Common stock	8,887,440	12,319	—	8,899,759	147,708	8,027,984	1,019,483

The Company's shares remaining in the Board Benefit Trust (BBT) are included in treasury stock (43,800 shares at March 31, 2019).

### 1. Details of the decrease of shares issued are as follows:

	2018	2019
Decrease due to consolidation of shares	—	67,500,000

### 2. Details of the increase of treasury stock are as follows:

	2018	2019
Increase due to purchase of shares	—	125,900
Increase due to purchase of shares of less than standard unit	8,891	20,981
Increase due to purchase of fraction of shares	—	466
Increase in shares held by affiliates accounted for by the equity method	3,428	361

### 3. Details of the decrease of treasury stock are as follows:

	2018	2019
Decrease due to consolidation of shares	—	8,025,253
Decrease due to sales of shares of less than standard unit	—	2,731

## 2. Dividends

### (1) Dividends paid

2018					
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Shareholders' meeting on June 22, 2017	Common stock	331	5	March 31, 2017	June 23, 2017
Board of Directors' meeting on October 25, 2017	Common stock	265	4	September 30, 2017	November 20, 2017

2019						2019	
Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)
Shareholders' meeting on June 22, 2018	Common stock	264	4	March 31, 2018	June 25, 2018	2,379	0.04

(2) Dividends with the cut-off date in the year ended March 31, 2018 and the effective date in the year ending March 31, 2019

2018						
Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Shareholders' meeting on June 22, 2018	Common stock	Retained earnings	264	4	March 31, 2018	June 25, 2018

Dividends with the cut-off date in the year ended March 31, 2019 and the effective date in the year ending March 31, 2020

2019							2019	
Resolution	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)
Shareholders' meeting on June 25, 2019	Common stock	Retained earnings	326	50	March 31, 2019	June 26, 2019	2,937	0.45

- The Company carried out a consolidation of share at the ratio of 10 shares to 1 share on October 1, 2018 and dividends per share was calculated taking into the effect of the consolidation of share.
- Dividends of the Company's shares remaining in the Board Benefit Trust (BBT) are included in total dividends based on the resolution at shareholders' meeting on June 25, 2019.

## Note 9. 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, 2018 and 2019 amounted to ¥3,150 million and ¥2,982 million (\$ 26,867 thousand), respectively.

## Note 10. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Salaries and wages of employees	¥ 4,531	¥ 4,395	\$ 39,598
Provision for bonus	338	317	2,856
Provision for directors' and officers' bonus	1	—	—
Retirement benefit cost	37	26	234
Provision for directors' and officers' retirement benefits	5	3	27
Provision for doubtful accounts	(1)	6	54

## Note 11. Gains and losses of fixed assets

The components of gains and losses of fixed assets for the year ended March 31, 2018 and 2019 were as follows:

Gains on sales of fixed assets

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Buildings	¥ 1,610	¥ 91	\$ 820
Machinery and vehicles	25	15	135
Tooling and office furniture	64	12	108
Land	640	1,198	10,794
Total	¥ 2,341	¥ 1,317	\$ 11,866

Loss on disposal of fixed assets

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Buildings	¥ 84	¥ 42	\$ 378
Machinery and vehicles	69	147	1,324
Tooling and office furniture	17	9	81
Intangible asset	0	0	0
Total	¥ 172	¥ 199	\$ 1,793

## Note 12. 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, 2018, impairment losses were recognized for the following assets.

Millions of yen									
2018									
Asset group	Location	Use	Buildings	Machinery and vehicles	Tooling and office furniture	Construction in progress	Intangible assets	Total	
TP Division	Japan	Touch panel production facilities	¥ 171	¥ 89	¥ 9	¥ —	¥ 0	¥ 271	
SMK Manufacturing, Inc. U.S.A.	U.S.A.	Remote controls/Switch/Unit production facilities	5	68	57	0	2	133	
SMK Electronica S.A. de C.V.	MEXICO	Remote controls/Switch/Unit production facilities	22	30	4	—	0	56	
SMK-LOGOMOTION Corporation	Japan	Other	—	—	6	—	1,347	1,353	
<b>Total</b>			¥ 199	¥ 188	¥ 77	¥ 0	¥ 1,350	¥ 1,815	

For the year ended March 31, 2019, impairment losses were recognized for the following assets.

Millions of yen									
2019									
Asset group	Location	Use	Buildings	Machinery and vehicles	Tooling and office furniture	Land	Intangible assets	Other	Total
TP Division	Japan	Touch panel production facilities	¥ 0	¥ 13	¥ 4	¥ —	¥ 0	¥ —	¥ 18
SMK Hungary Kft.	Hungary	Remote controls/Unit production facilities	47	—	—	14	—	—	62
SMK Electronics (Phils.) Corporation	Phillipine	Remote controls production facilities and other	55	8	—	—	—	4	68
<b>Total</b>			¥ 102	¥ 21	¥ 4	¥ 14	¥ 0	¥ 4	¥ 148

Thousands of U.S. dollars									
2019									
Asset group	Location	Use	Buildings	Machinery and vehicles	Tooling and office furniture	Construction in progress	Intangible assets	Other	Total
TP Division	Japan	Touch panel production facilities	\$ 0	\$ 117	\$ 36	\$ —	\$ 0	\$ —	\$ 162
SMK Hungary Kft.	Hungary	Remote controls/Unit production facilities	423	—	—	126	—	—	559
SMK Electronics (Phils.) Corporation	Phillipine	Remote controls production facilities and other	496	72	—	—	—	36	613
<b>Total</b>			\$ 919	\$ 189	\$ 36	\$ 126	\$ 0	\$ 36	\$ 1,333

The Company's assets for business operations are categorized into groups on a division-by-division basis and the Company's rental property on an individual property basis, whereas consolidated subsidiaries' assets for business operations are categorized into groups on a subsidiary-by-subsiary basis and their rental property on an individual property basis. Of the above asset groups, because the TP (Touch Panel) Division suffered declining trends in net sales and income due to intense price competition in the market, the future cash flows from their asset groups were estimated after revising their business plans. As a result, it was found that they could not generate sufficient earnings to recover the carrying value of the asset groups, and therefore their book value was reduced to the recoverable amounts. As for SMK Hungary Kft., because of the decline in market price of their buildings and land, their book value was reduced to the recoverable amounts. As for SMK Electronics (Phils.) Corporation, because the relocation of manufacturing site for remote control was scheduled, the future cash flows from their asset groups until the relocation were estimated. As a result, it was found that they could not generate sufficient earnings to recover the carrying value of the asset groups, and therefore their book value was reduced to the recoverable amounts. The recoverable amount of the asset group of the TP Division was measured at value in use, and since no future cash flows are expected, the full amount of the book value of the fixed assets regarding this business is recorded as impairment loss. The recoverable amount of the asset group of SMK Electronics (Phils.) Corporation was measured at value in use, which was calculated by discounting future cash flows at 10.3%. The recoverable amount of the asset group of SMK Hungary Kft. was measured at net realizable value, which was calculated based on valuations by external independent real estate appraisers.

## Note 13. 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 30.8% and 30.5% for the years ended March 31, 2018 and 2019, respectively.

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2018 and 2019 was as follows:

	2018	2019
Statutory tax rate	30.8%	30.5%
Items such as entertainment expenses permanently non-deductible for tax purposes	5.8	10.6
Items such as dividend income permanently non-taxable	(106.4)	(238.5)
Change in valuation allowance	121.7	307.3
Tax credit for R&D expenses	(8.9)	(24.5)
Foreign withholding taxes	2.9	7.8
Inhabitant tax on per capita basis	3.6	7.0
Statutory tax rate differences in subsidiaries	(31.9)	23.3
Elimination of dividend income	109.5	274.0
Accumulated surplus of subsidiaries	(12.2)	(21.9)
Decrease of tax assets at fiscal year-end by the change of tax rate	38.6	—
Other	(0.4)	(0.9)
<b>Effective tax rate</b>	<b>153.1%</b>	<b>374.8%</b>

The significant components of deferred tax assets and liabilities at March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
<b>Deferred tax assets:</b>			
Inventory write-down	¥ 57	¥ 352	\$ 3,171
Accrued bonuses	213	198	1,784
Intercompany profit on inventory	62	63	568
Liability for retirement benefits	6	8	72
Allowance for doubtful accounts	46	41	369
Impairment loss	1,020	877	7,902
Operating loss carryforwards for tax purposes	1,210	1,566	14,109
Other	732	480	4,325
<b>Total gross deferred tax assets</b>	<b>3,350</b>	<b>3,589</b>	<b>32,336</b>
Valuation allowance for net operating loss carryforwards	—	(1,477)	(13,308)
Valuation allowance for deductible temporary differences	—	(1,703)	(15,344)
<b>Total valuation allowance</b>	<b>(2,324)</b>	<b>(3,180)</b>	<b>(28,651)</b>
<b>Total deferred tax assets</b>	<b>1,026</b>	<b>409</b>	<b>3,685</b>
<b>Deferred tax liabilities:</b>			
Asset for retirement benefits	(439)	(372)	(3,352)
Deferred gain on land	(81)	(36)	(324)
Advanced depreciation on buildings	(7)	(6)	(54)
Reserve for special depreciation	(17)	(12)	(108)
Net unrealized gains on other securities	(134)	(118)	(1,063)
Accumulated surplus of foreign subsidiaries	(265)	(206)	(1,856)
Valuation difference on subsidiaries	(338)	(311)	(2,802)
Other	(124)	(27)	(243)
<b>Deferred tax liabilities</b>	<b>(1,408)</b>	<b>(1,093)</b>	<b>(9,848)</b>
<b>Net deferred tax assets</b>	<b>¥ (382)</b>	<b>¥ (684)</b>	<b>\$ (6,163)</b>

- Valuation allowance has increased ¥856 million (\$7,712 thousand). This increase is due to the additional recognition of valuation allowance for net operating loss carryforwards in subsidiaries ¥845 million (\$7,613 thousand).
- A breakdown of net operating loss carryforwards and valuation allowance by expiry date as of March 31, 2019 is as follows:

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Net operating loss carryforwards (a)	¥ 0	¥ 9	¥ 15	¥ 1	¥ 4	¥ 1,534	¥ 1,566
Valuation allowance	(0)	(9)	(15)	(1)	(4)	(1,445)	(1,477)
<b>Deferred tax assets</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 88</b>	<b>¥ 88</b>

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Net operating loss carryforwards (a)	\$ 0	\$ 81	\$ 135	\$ 9	\$ 36	\$ 13,821	\$ 14,109
Valuation allowance	(0)	(81)	(135)	(9)	(36)	(13,019)	(13,308)
<b>Deferred tax assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 793</b>	<b>\$ 793</b>

(a) The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.

## Note 14. 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, 2018 and 2019.

	Millions of Yen		Thousands of U.S. dollars
	2018	2019	2019
Net unrealized gains (losses) on other securities:			
Amount arising during the year	¥ 23	¥ 145	\$ 1,306
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	(46)	(193)	(1,739)
Amount before tax effect	(23)	(48)	(432)
Tax effect	5	15	135
Net unrealized gains (losses) on other securities	(17)	(33)	(297)
Net unrealized gains (losses) from hedging instruments:			
Amount arising during the year	(9)	(7)	(63)
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	3	9	81
Amount before tax effect	(5)	2	18
Tax effect	—	—	—
Net unrealized gains (losses) from hedging instruments	(5)	2	18
Foreign currency translation adjustments:			
Amount arising during the year	90	(119)	(1,072)
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	—	—	—
Amount before tax effect	90	(119)	(1,072)
Tax effect	(20)	(0)	(0)
Foreign currency translation adjustments	69	(119)	(1,072)
Retirement benefits asset and liability adjustments:			
Amount arising during the year	478	(368)	(3,316)
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	(237)	(246)	(2,216)
Amount before tax effect	241	(614)	(5,532)
Tax effect	(63)	184	1,658
Retirement benefits asset and liability adjustments	177	(430)	(3,874)
Total other comprehensive income	¥ 223	¥ (580)	\$ (5,226)

## Note 15. Amounts per share

- The Company carried out a consolidation of share at the ratio of 10 shares to 1 share on October 1, 2018. Basic earnings per share have been calculated on the assumption that the said consolidation of share was carried out at the beginning of the year ended March 31, 2018.
- In the calculation of loss per share, the Company's shares remaining in the Board Benefit Trust (BBT), which are recorded as treasury stock under shareholders' equity, are included in the treasury stocks that are deducted in the calculation of the number of shares as of March 31, 2019 and the average number of shares for the year ended March 31, 2019. In the calculation of total net assets per share, the said treasury stock deducted as of March 31, 2019 is 43,800. In the calculation of loss per share, the said treasury stock deducted for the year ended March 31, 2019 is 27,375.
- Loss attributable to owners of parent per share of common stock is based on the following information

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Basic loss attributable to owners of parent per share:			
Loss attributable to owners of parent	¥ (288)	¥ (834)	\$ (7,514)
Loss attributable to owners of parent not attributable to common stockholders	—	—	—
Loss attributable to owners of parent attributable to common stock	(288)	(834)	(7,514)
	Thousands of shares		
Average number of shares of common stock outstanding during the year	6,610	6,598	

## Note 16. Financial instruments

### (1) Policy for financial instruments

The Company and consolidated subsidiaries manage temporary cash surpluses through low-risk financial assets. 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.

### (2) 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 the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of effectiveness of hedging activities is found in Note 1 (r).

Execution and management of derivatives transactions are carried out in accordance with the company rules specifying the transaction authority. In addition, in order to alleviate credit risk, derivative transactions are restricted to banks with high credit ratings. Although operating liabilities and loans payable are exposed to liquidity risk, the Group's companies are able to manage it by using methods such as preparing monthly cash management plans.

### (3) Additional information regarding fair value of financial instruments

Fair value of financial instruments includes the value based on the market price. In addition, if such information is absent, reasonable assessments of their value are included. Furthermore, the contract amounts, etc. relating to derivatives transactions are described in Note 18. Derivatives themselves do not serve as indicators of market risk involved in derivatives transactions.

Information regarding fair value of financial instruments at March 31, 2018 and 2019 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2018			2019			2019		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	¥10,482	¥10,482	¥ —	¥10,776	¥10,776	¥ —	\$97,090	\$97,090	\$ —
Time deposits	117	117	—	112	112	—	1,009	1,009	—
Notes and accounts receivable, trade	15,251	15,251	—	14,496	14,496	—	130,606	130,606	—
Investment securities	2,019	2,019	—	1,926	1,926	—	17,353	17,353	—
Notes and accounts payable, trade	6,807	6,807	—	5,301	5,301	—	47,761	47,761	—
Short-term loans payable	10,027	10,027	—	12,248	12,248	—	110,352	110,352	—
Accounts payable, non-trade	1,919	1,919	—	1,491	1,491	—	13,434	13,434	—
Long-term debt	7,230	7,228	(2)	6,616	6,595	(21)	59,420	59,420	(189)
Derivatives	37	37	—	(18)	(18)	—	(162)	(162)	—

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

The assets and liabilities arising from derivatives are shown on a net basis with the amount in parentheses representing a net liability position.

### 1. 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 18. Derivatives of the notes to the consolidated financial statements.

### 2. Financial instruments whose fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unlisted securities	¥ 440	¥ 622	\$ 5,604

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.

### 3. The schedules for redemption of monetary assets and securities with maturities

	Millions of yen						Thousands of U.S. dollars		
	2018			2019			2019		
	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	Due in one year or less	Due after one year through five years	Due after five years through ten years
Cash equivalents and time deposits	¥ 10,590	¥ —	¥ —	¥ 10,879	¥ —	¥ —	\$ 98,018	\$ —	\$ —
Notes and accounts receivable, trade	15,251	—	—	14,496	—	—	130,606	—	—
<b>Total</b>	<b>¥ 25,841</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 25,376</b>	<b>¥ —</b>	<b>¥ —</b>	<b>\$ 228,633</b>	<b>\$ —</b>	<b>\$ —</b>

### Note 17. Securities

Information regarding securities classified as other securities at March 31, 2018 and 2019 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2018			2019			2019		
	Book value	Acquisition	Unrealized gain (loss)	Book value	Acquisition	Unrealized gain (loss)	Book value	Acquisition	Unrealized gain (loss)
<b>Securities whose Book value exceeds their Acquisition</b>									
Stocks	¥ 1,562	¥ 1,055	¥ 507	¥ 1,501	¥ 982	¥ 519	\$ 13,524	\$ 8,848	\$ 4,676
Subtotal	1,562	1,055	507	1,501	982	519	13,524	8,848	4,676
<b>Securities whose Acquisition exceeds their Book value</b>									
Stocks	457	499	(42)	424	527	(102)	3,820	4,748	(919)
Subtotal	457	499	(42)	424	527	(102)	3,820	4,748	(919)
<b>Total</b>	<b>¥ 2,019</b>	<b>¥ 1,554</b>	<b>¥ 464</b>	<b>¥ 1,926</b>	<b>¥ 1,509</b>	<b>¥ 416</b>	<b>\$ 17,353</b>	<b>\$ 13,596</b>	<b>\$ 3,748</b>

Unlisted stocks of ¥191 million at March 31, 2018 and ¥347 million (\$3,126 thousand) at March 31, 2019 are not included in the above table because there were no quoted market prices available and the fair value is extremely difficult to determine.

Investment securities in unconsolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Investment securities	¥ 248	¥ 275	\$ 2,478

Information regarding sales of securities classified as other securities for the years ended March 31, 2018 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
<b>Proceeds from sales of securities</b>	<b>¥ 0</b>	<b>¥ 241</b>	<b>\$ 2,171</b>
Stocks	0	241	2,171
<b>Gains on sales</b>	<b>0</b>	<b>195</b>	<b>1,757</b>
Stocks	0	195	1,757
<b>Losses on sales</b>	<b>—</b>	<b>1</b>	<b>9</b>
Stocks	—	1	9

Impairment of investment securities classified as other securities for the years ended March 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Stocks	¥ 181	¥ 86	\$ 775

### Note 18. 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.

(Currency related)

	Millions of yen						Thousands of U.S. dollars		
	Contract amount		Fair value		Unrealized gain (loss)		Contract amount	Due after one year	Unrealized gain (loss)
Forward foreign exchange contracts:	2018	2019	2018	2019	2018	2019	2019	2019	2019
Sell: US\$ / Buy: Yen	¥ 1,853	¥ 1,064	¥ 47	¥ (11)	¥ 47	¥ (11)	\$ 9,586	\$ (99)	\$ (99)
Sell: US\$ / Buy: GBP	39	14	0	0	0	0	126	0	0
Sell: US\$ / Buy: EUR	78	—	0	—	0	—	—	—	—
<b>Total</b>	<b>¥ 1,971</b>	<b>¥ 1,079</b>	<b>¥ 47</b>	<b>¥ (11)</b>	<b>¥ 47</b>	<b>¥ (11)</b>	<b>\$ 9,722</b>	<b>\$ (99)</b>	<b>\$ (99)</b>

(1) Calculation of fair value

The fair value is calculated by the forward exchange rate.

(2) Derivative transactions to which hedge accounting was applied are excluded from the above table.

(Interest related)

	Millions of yen						Thousands of U.S. dollars		
	Contract amount		Due after one year		Fair value		Contract amount	Due after one year	Fair value
	2018	2019	2018	2019	2018	2019	2019	2019	2019
Interest rate swaps (Deferral hedge accounting)	¥ 1,941	¥ 1,872	¥ 1,872	¥ 1,004	¥ (9)	¥ (7)	\$ 16,866	\$ 9,046	\$ (63)
Interest rate swaps (Exceptional treatment)	¥ 1,938	¥ 1,240	¥ 1,240	¥ 600	¥ —	¥ —	\$ 11,172	\$ 5,406	\$ —

(1) Calculation of fair value

The fair value is calculated by the forward interest rate.

(2) Regarding interest rate swaps to which the exceptional treatment applied, 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 16.

### Note 19. Investment and rental property

The profit of investment and rental property for the years ended March 31, 2018 amounted to ¥604 million and the gain on sales of fixed assets amounted to ¥2,251 million.

The profit of investment and rental property for the years ended March 31, 2019 amounted to ¥520 million (\$4,685 thousand) and the gain on sales of fixed assets amounted to ¥1,288 million (\$11,605 thousand).

Information on the fair value of investment and rental property at March 31, 2018 and 2019 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars					
	2018		2019		2019		2019		2019			
	Book value beginning of the year	Net change	Book value end of the year	Fair value end of the year	Book value beginning of the year	Net change	Book value end of the year	Fair value end of the year	Book value beginning of the year	Net change	Book value end of the year	Fair value end of the year
	¥ 8,410	(¥ 806)	¥ 7,603	¥ 14,158	¥ 7,603	(¥ 1,200)	¥ 6,402	¥ 12,541	\$ 68,502	(\$ 10,812)	\$ 57,681	\$ 112,992

- The fair value represents the acquisition cost less accumulated depreciation.
- The components of net change in book value for the years ended March 31, 2018 included increases mainly due to acquisitions in the amount of ¥103 million and decrease mainly due to sales and disposal of fixed assets ¥753 million and depreciation ¥236 million. The components of net change in book value for the years ended March 31, 2019 included increases mainly due to acquisitions in the amount of ¥57 million (\$514 thousand) and decrease mainly due to sales and disposal of fixed assets ¥1,182 million (\$10,650 thousand) and depreciation ¥149 million (\$1,342 thousand).
- The fair value is mainly based upon the amount appraised by outside independent real estate appraisers.

## Note 20. Segment information

(Overview)

The reporting 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 four 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, remote controls and camera modules.

TP (Touch Panel) Division: The division produces and sells touch panels.

Research & Development Center: The center produces and sells wireless module.

(Changes in reporting segments)

In line with changes in the company organization aimed at strengthening the management structure, while "Research & Development Center" has previously been included in "Others," the Company shall change it into a reporting segment. In line with this change, with the aim of managing the performance of each segment more accurately, a portion of the expenses that were previously allocated to the "Connection System Division," "Functional Components Division" and "Touch Panel Division" have been allocated to the "Research & Development Center."

Also, the segment information of the previous fiscal year has been presented based on the classification and calculation methods after the change to the reporting segments.

The business segment information is prepared in a manner similar to the accounting treatment as described in Note 1. Segment performance is evaluated based on operating income or loss.

### 1. Business segment information

	Millions of yen								
	Reporting Segments				Subtotal	Other	Total	Adjustment	Consolidated
2018	Connection System Division	Functional Components Division	Touch Panel Division	Research & Development Center					
<b>Net sales</b>									
Outside customers	¥ 28,422	¥ 21,420	¥ 9,581	¥ 354	¥ 59,779	¥ 7	¥ 59,786	¥ —	¥ 59,786
Intersegment sales	—	—	—	—	—	—	—	—	—
Total	28,422	21,420	9,581	354	59,779	7	59,786	—	59,786
<b>Operating income (loss)</b>	3,401	(1,250)	(756)	(358)	1,036	(551)	485	—	485
<b>Identifiable assets</b>	16,359	13,289	5,107	262	35,018	9,291	44,310	17,164	61,474
<b>Others</b>									
Depreciation	2,234	942	579	15	3,772	414	4,187	—	4,187
Increase in fixed assets and intangible fixed assets	2,052	542	442	14	3,052	108	3,160	—	3,160

	Millions of yen								
	Reporting Segments				Subtotal	Other	Total	Adjustment	Consolidated
2019	Connection System Division	Functional Components Division	Touch Panel Division	Research & Development Center					
<b>Net sales</b>									
Outside customers	¥ 21,712	¥ 26,007	¥ 9,173	¥ 471	¥ 57,365	¥ 21	¥ 57,386	¥ —	¥ 57,386
Intersegment sales	—	—	—	—	—	—	—	—	—
Total	21,712	26,007	9,173	471	57,365	21	57,386	—	57,386
<b>Operating income (loss)</b>	258	(412)	(449)	(316)	(919)	(914)	(1,834)	—	(1,834)
<b>Identifiable assets</b>	12,944	16,332	5,054	341	34,673	7,636	42,309	16,403	58,713
<b>Others</b>									
Depreciation	1,869	1,013	575	15	3,472	191	3,664	—	3,664
Increase in fixed assets and intangible fixed assets	1,993	1,798	413	16	4,222	64	4,287	—	4,287

	Thousands of U.S. dollars								
	Reporting Segments				Subtotal	Other	Total	Adjustment	Consolidated
2019	Connection System Division	Functional Components Division	Touch Panel Division	Research & Development Center					
<b>Net sales</b>									
Outside customers	\$ 195,621	\$ 234,318	\$ 82,647	\$ 4,244	\$ 516,848	\$ 189	\$ 517,038	\$ —	\$ 517,038
Intersegment sales	—	—	—	—	—	—	—	—	—
Total	195,621	234,318	82,647	4,244	516,848	189	517,038	—	517,038
<b>Operating income (loss)</b>	2,325	(3,712)	(4,045)	(2,847)	(8,280)	(8,235)	(16,515)	—	(16,524)
<b>Identifiable assets</b>	116,623	147,148	45,536	3,072	312,398	68,799	381,197	147,788	528,994
<b>Others</b>									
Depreciation	16,839	9,127	5,181	135	31,282	1,721	33,012	—	33,012
Increase in fixed assets and intangible fixed assets	17,957	16,200	3,721	144	38,039	577	38,625	—	38,625

Other is business segments not included in the reporting segments. It includes other parts, leasing, property rental and worker dispatch businesses.

Adjustment includes corporate assets which are not allocable to the reporting segments.

## 2. Geographical information

### (1) Net sales

2018	Millions of yen						Consolidated
	Japan	Asia		North America		Europe	
		China	Other	U.S.A.	Other		
Net sales	¥ 14,368	¥ 14,797	¥ 7,731	¥ 15,071	¥ 508	¥ 7,307	¥ 59,786
2019	Millions of yen						Consolidated
	Japan	Asia		North America		Europe	
		China	Other	U.S.A.	Other		
Net sales	¥ 15,754	¥ 12,605	¥ 6,867	¥ 18,372	¥ 791	¥ 2,995	¥ 57,386
2019	Thousands of U.S. dollars						Consolidated
	Japan	Asia		North America		Europe	
		China	Other	U.S.A.	Other		
Net sales	\$ 141,941	\$ 113,569	\$ 61,870	\$ 165,528	\$ 7,127	\$ 26,984	\$ 517,038

### (2) Fixed assets

2018	Millions of yen					Consolidated
	Japan	Asia		North America	Europe	
		China	Other	U.S.A.	Other	
Fixed assets	¥ 13,951	¥ 3,383	¥ 2,364	¥ 18	¥ 406	¥ 20,124
2019	Millions of yen					Consolidated
	Japan	Asia		North America	Europe	
		China	Other	U.S.A.	Other	
Fixed assets	¥ 12,608	¥ 4,782	¥ 1,971	¥ 29	¥ 300	¥ 19,693
2019	Thousands of U.S. dollars					Consolidated
	Japan	Asia		North America	Europe	
		China	Other	U.S.A.	Other	
Fixed assets	\$ 113,596	\$ 43,085	\$ 17,758	\$ 261	\$ 2,703	\$ 177,430

### 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
	2018	2019	2019
Connection System Division	¥ —	¥ —	\$ —
Functional Components Division	190	125	1,126
Touch Panel Division	271	18	162
Research & Development Center	—	—	—
Subtotal	461	143	1,288
Other	1,353	—	—
Adjustments and eliminations	—	4	36
Consolidated	¥ 1,815	¥ 148	\$ 1,333

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

For the year ended March 31, 2018 and 2019, there was no amortization and balance of goodwill.

## Note 21. Related party transactions

Significant transactions with related parties for the years ended March 31, 2018 and 2019 were as follows:

2018	Millions of yen				
	Transactions		Balances		
	Guaranty money deposited	Rent	Other investments	Other current assets	
Terutaka Ikeda (Supreme corporate adviser)	¥ —	¥ 14	¥ 14	¥ 1	
2019	Millions of yen				
	Transactions		Balances		
	Collection of loan receivable	Interest income	Other current assets	Long-term loans receivable	
Paul Evans (Director)	¥ 1	¥ 1	¥ 30	¥ 2	
2019	Millions of yen				
	Transactions		Balances		
	Guaranty money deposited	Rent	Other investments	Other current assets	
Terutaka Ikeda (Supreme corporate adviser)	¥ —	¥ 14	¥ 14	¥ 1	
2019	Thousands of U.S. dollars				
	Transactions		Balances		
	Increase of loan receivable	Collection of loan receivable	Interest income	Other current assets	Long-term loans receivable
Paul Evans (Director)	¥ 30	¥ 31	¥ 1	¥ 1	¥ 31
2019	Thousands of U.S. dollars				
	Transactions		Balances		
	Guaranty money deposited	Rent	Other investments	Other current assets	
Terutaka Ikeda (Supreme corporate adviser)	\$ —	\$ 126	\$ 126	\$ 9	
2019	Thousands of U.S. dollars				
	Transactions		Balances		
	Increase of loan receivable	Collection of loan receivable	Interest income	Other current assets	Long-term loans receivable
Paul Evans (Director)	\$ 270	\$ 279	\$ 9	\$ 9	\$ 279

- Business transactions with related parties are carried out on an arm's-length basis similar to third party transactions.
- Terutaka Ikeda was the parent of President and CEO/COO Yasumitsu Ikeda.

## Note 22. Subsequent Events

### Acquisition of treasury stock

The Company resolved to acquire treasury stock in accordance with Article 156 of the Companies Act as applied pursuant to Article 165, Paragraph 3 thereof, at a meeting of the Board of Directors held on June 25, 2019.

Objective: To enable flexible management in response to changes in the business environment

Class of treasury stock: Common stock

Total treasury stock the Company may acquire: 50,000 shares, at maximum

Total acquisition amount: ¥140 million (\$1,261 thousand), at maximum

Acquisition period: From July 1, 2019 to August 30, 2019

Method of acquisition: Market transactions on the Tokyo Stock Exchange

## Report of Independent Auditors

SMK Corporation and Consolidated Subsidiaries



Ernst & Young ShinNihon LLC  
Hibiya Mitsui Tower, Tokyo Midtown Hibiya  
1-1-2 Yurakucho, Chiyoda-ku  
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197  
ey.com

### 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, 2019, 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, 2019, 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.

*Ernst & Young ShinNihon LLC*

June 25, 2019  
Tokyo, Japan

A member firm of Ernst & Young Global Limited



## Officer Introduction

(As of June 25, 2019)

### Directors



**Yasumitsu Ikeda**  
President,  
Chief Executive Officer and  
Chief Operating Officer



**Yoshiyuki Kaku**  
Director and  
Executive Deputy President,  
Chief Technology Officer



**Paul Evans**  
Director and  
Executive Vice President



**Tetsuo Hara**  
Director and  
Executive Vice President



**Toshio Nakamura**  
Director (Outside)



**Kaoru Ishikawa**  
Director (Outside)

### Auditors



**Morikazu Fukui**  
Full-Time Auditor  
(Outside)



**Naru Nakashima**  
Auditor (Outside)



**Fumio Nishimura**  
Auditor (Outside)

### Corporate Executive Officers



**Kohei Ohgaki**  
Executive Vice President,  
Chief Financial Officer



**Shigechika Yanagi**  
Executive Vice President



**Masanobu Ikeo**  
Executive Vice President



**Takemi Ishibashi**  
Vice President



**Mitsuhiko Goto**  
Vice President



**Mitsuyuki Masubuchi**  
Vice President



**Hiroshi Usami**  
Vice President,  
Chief Information Officer



**Atsushi Obinata**  
Vice President



**Fumikazu Hata**  
Vice President

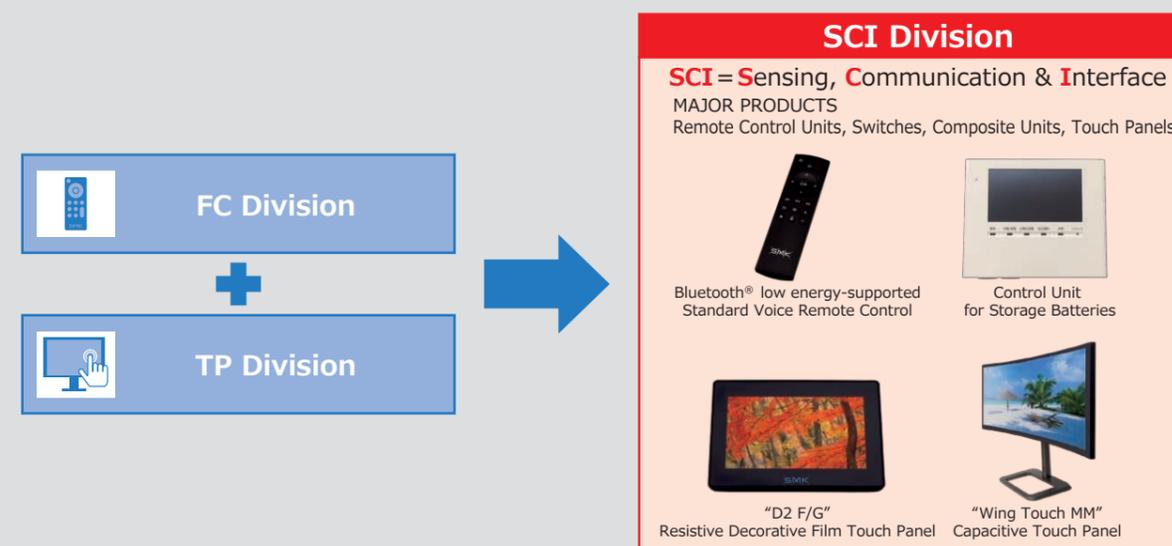


## Topics

### 1 New Division Structure

As of April 1, 2019, the Functional Components (FC) Division and the Touch Panel (TP) Division have been combined into the Sensing, Communication and Interface (SCI) Division.

SMK will envision a new growth strategy by integrating FC and TP technologies to create new products and businesses. We will also pursue efficient operation, such as by effectively utilizing the power of design and the production structure both within and outside Japan, as well as strengthening our efforts to enter new markets, strengthening our ability to provide automotive quality responses, and promoting the automation of production.



### 2 Initiatives Targeting the Future of Cars

SMK is proactively working on open innovation to promote new technological development to contribute to the evolution of vehicles and has been focusing on the development of the in-cabin sensors that will be essential for autonomous vehicles (e.g. camera modules for driver monitoring systems).

As part of the open innovation initiatives, SMK and Israeli company CAARESYS LTD. have announced a business partnership in developing automotive biometric sensor. SMK and CAARESYS are going to develop the world's first sensors that bring new features compatible with the new standards of safety in future vehicles.

Furthermore, to ensure quality levels for the auto industry and to expand the car electronics business, SMK has obtained the IATF 16949:2016 certification\* for its Mexico manufacturing facility (SMK Electronica S.A. de C.V.). The Mexico factory is the third IATF16949-certified manufacturing facility in the SMK Group after the one in the Philippines and the one in Shenzhen, China.

SMK will continue working on developing the latest technologies, and striving to further enhance its product line-up.

\*Note: The IATF 16949:2016 is an international standard for automotive quality management system published by the International Automotive Task Force (IATF).

### Uses of automotive biometric sensor

Expected to be used in many situations





# Corporate Information

(As of March 31, 2019)

## Corporate Data

<b>Name</b>	SMK Corporation
<b>Established</b>	April 3, 1925
<b>Registered</b>	January 15, 1929
<b>Primary business</b>	Manufacture and sale of various parts for electro-communication device and electronic equipment
<b>Capital</b>	¥ 7,996,828,021
<b>Stock exchange listing</b>	Tokyo Stock Exchange
<b>Administrator of shareholders register</b>	Mitsubishi UFJ Trust and Banking Corporation
<b>Independent auditors</b>	Ernst & Young ShinNihon LLC Tokyo, Japan
<b>Employees (SMK-Group)</b>	5,835
<b>Head office</b>	5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, Japan Tel: +81-3-3785-1111 Fax: +81-3-3785-1068
<b>Global network</b> (As of July 31, 2019)	
<b>Domestic bases</b> (7 Bases)	Shinagawa, Tokyo (Head office), Toyama, Hitachi, Osaka, Nagoya, Ibaraki and Fukuoka
<b>Overseas bases</b> (17 Countries/Areas, 36 Bases)	Taiwan, Hong Kong, China, Singapore, Thailand, Malaysia, Philippines, Korea, Ireland, U.K., France, Germany, Belgium, Slovakia, U.S.A., Mexico and Brazil



Head Office



Toyama Works



Hitachi Works

## Shares and Shareholders

<b>Authorized shares</b>	19,596,127
<b>Issued shares</b> (including 1,004,543 shares of treasury stock)	7,500,000
<b>Number of shareholders</b>	7,251

Note: The Company conducted a share consolidation of its common shares at the ratio of 10 shares to 1 share, effective October 1, 2018. As of the above date, the number of authorized shares changed from 195,961,274 to 19,596,127, and the number of issued shares changed from 75,000,000 to 7,500,000.

Major shareholders (top ten)	Shares owned (1,000 shares)	Percentage of shares (%)
SMK Cooperating Company Share Holding Association	368	5.67
Mizuho Bank, Ltd.	327	5.05
Nippon Life Insurance Company	324	4.99
Dai Nippon Printing Co., Ltd.	320	4.93
MUFG Bank, Ltd.	250	3.86
SMK Employees Share Holding Association	194	2.99
Mitsubishi UFJ Trust and Banking Corporation	180	2.77
The Showa Ikeda Memorial Foundation	150	2.31
The Master Trust Bank of Japan, Ltd. (Trust Account)	142	2.19
Meiji Yasuda Life Insurance Company	137	2.12

Note: The Company holds 1,004 thousand shares of treasury stock, but is excluded from the above list. Figures for percentage of shares are calculated after subtracting the number of treasury stock. The number of treasury stock includes the 43 thousand shares of the Company held by the Officer Stock Benefit Trust.

## Share ownership by shareholder type (unit : share)

Financial institutions	1,969,566 (26.26%)
Financial instruments dealers	98,976 ( 1.32%)
Other entities	1,001,229 (13.35%)
Foreign entities, etc.	436,101 ( 5.81%)
Individuals and others	3,994,128 (53.26%)

### 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 <https://www.smk.co.jp/>

- \* The Bluetooth® word mark and logos are registered trademarks owned by Bluetooth SIG, Inc. and any use of such marks by SMK Corporation is under license.
- \* USB Type-C™ is a trademark of USB Implementers Forum.
- \* Other products and company names listed in this report are the registered trademarks or trademarks of their respective holders.

## SMK CORPORATION

5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, JAPAN  
Tel: +81-3-3785-1111 Fax: +81-3-3785-1068