

ANNUAL REPORT

2020

For the fiscal year ended March 31, 2020

CREATIVE CONNECTIVITY



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 98th fiscal year (from April 1, 2019 to March 31, 2020).

We look forward to your continuing support and encouragement.

June 2020

Yasumitsu Ikeda
President and CEO/COO



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SMK Philosophy

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

SMK Action Guidelines

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

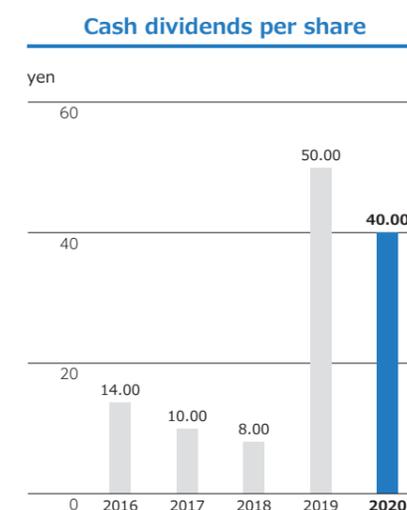
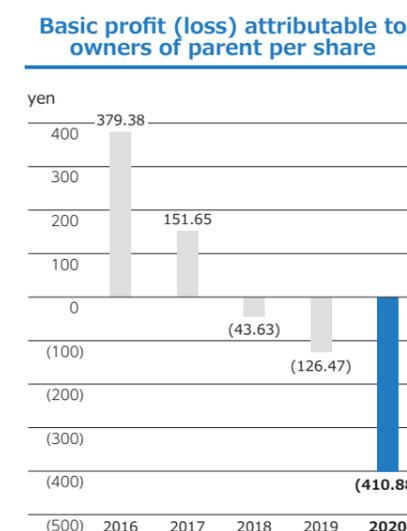
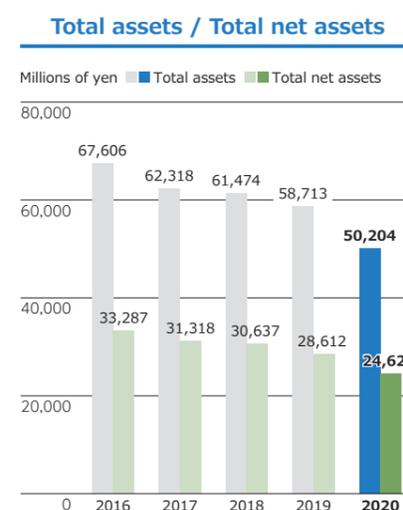
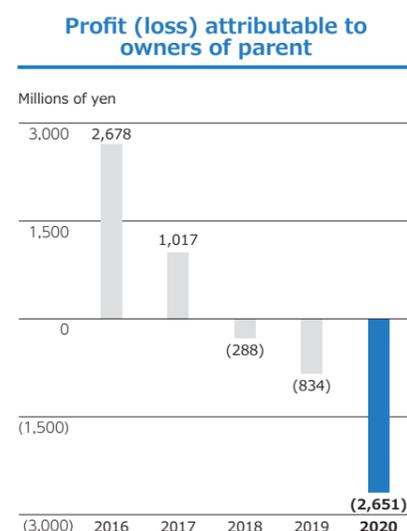
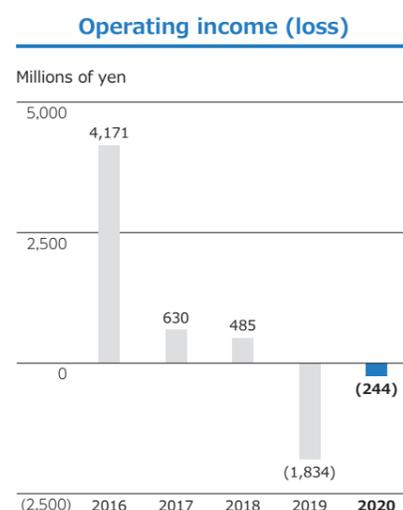
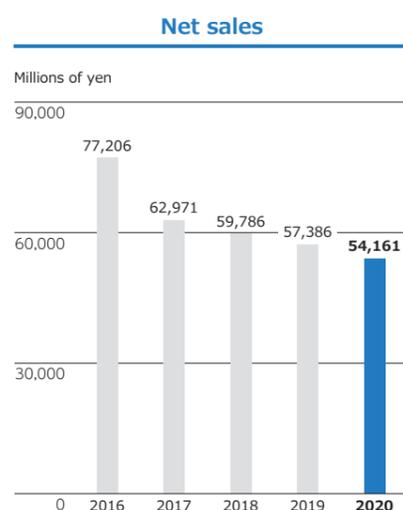


Financial Highlights

Years ended and as of March 31	Millions of yen		Percent Change 2019/2020	Thousands of U.S. dollars
	2019	2020		2020
Operating Results				
Net sales	¥57,386	¥54,161	(5.6) %	\$497,666
Operating loss	(1,834)	(244)	—	(2,242)
Loss attributable to owners of parent	(834)	(2,651)	—	(24,359)
Financial Position				
Total assets	¥58,713	¥50,204	(14.5) %	\$461,307
Total net assets	28,612	24,629	(13.9)	226,307

Years ended and as of March 31	Yen		Percent Change 2019/2020	U.S. dollars
	2019	2020		2020
Per Share Data				
Loss attributable to owners of parent				
Basic	¥(126.47)	¥(410.88)	— %	\$(3.78)
Diluted	—	—	—	—
Cash dividends	50.00	40.00	—	0.37

Note 1. The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥108.83 = 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, 2016.
 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.



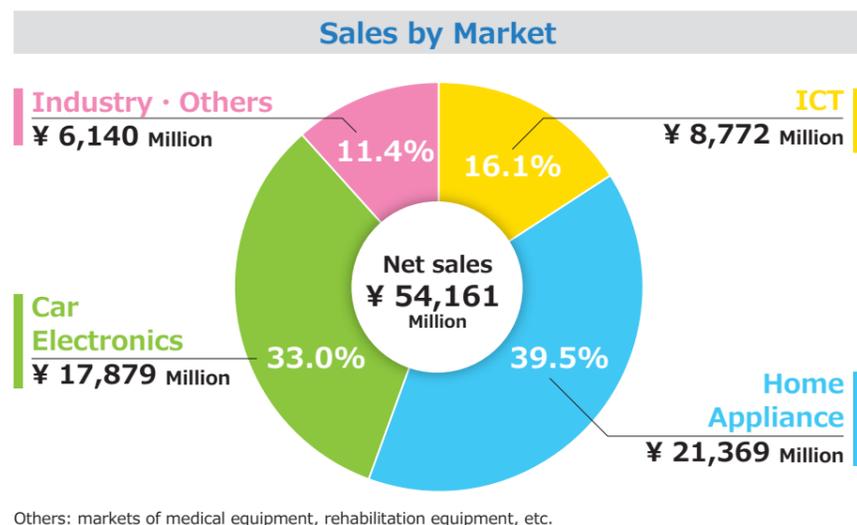
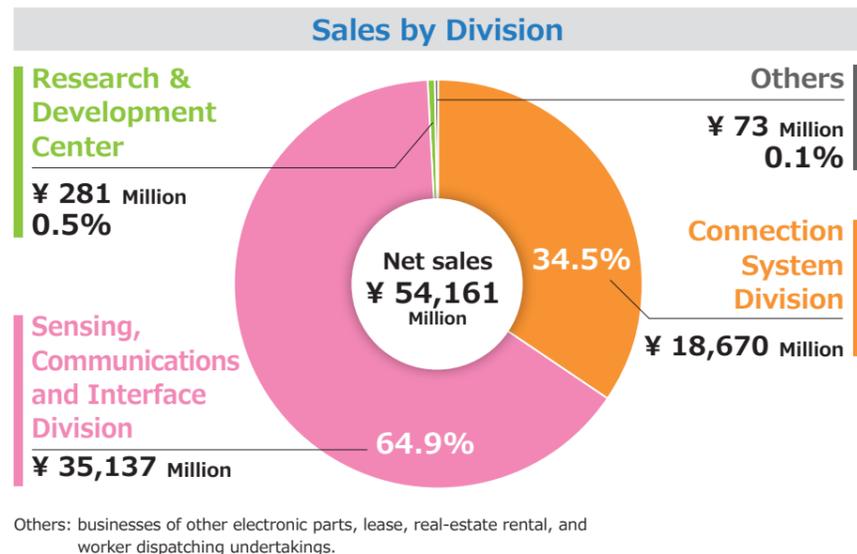
Overview of Consolidated Results by Division

(April 1, 2019 to March 31, 2020)

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.

Two divisions, namely the Connection System (CS) Division and the Sensing, Communications and Interface (SCI) 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 two 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 two divisions and the Research & Development Center in the fiscal year under review.



Connection System Division

- Major Products**
- Connectors (Coaxial, FPC)
 - Jacks

Sales of connectors in the previously burgeoning car electronics market began to decrease compared to the previous year. The downturn is attributable to factors including impacts from the global slump of automotive sales mainly in China due partly to ramifications of U.S.-China trade friction, compounded by the impact of COVID-19 ensuing since February. In the ICT market, the Company generated robust sales of connectors for smartphones made to customers in China, despite the impact of COVID-19. On the other hand, sales of connectors for smartphones and tablet devices made to customers in the U.S. fell year on year, due to the effects of factors including decrease in demand and customers encountering sluggish sales. Sales of connectors for the industry and other markets decreased year on year as connectors for healthcare-related products encountered falling demand due to sufficient spread in the mainstay market, despite special demand for such connectors in emerging countries.

As a result, net sales of the Connection System Division amounted to ¥18,670 million (14.0% decrease year on year), and operating income was ¥141 million (45.4% decrease year on year).



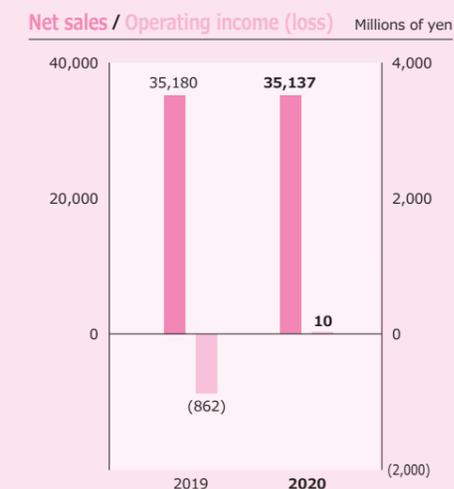
Sensing, Communications and Interface Division

- Major Products**
- Remote Control Units
 - Switches
 - Camera Modules
 - Touch Panels

Sales of remote control units increased substantially year on year, as orders from U.S. customers of remote control units for set-top boxes steadily expanded sales throughout the year, despite the impact of COVID-19 ensuing since February. As for units, sales decreased slightly year on year amid lower sales of units for home equipment, despite a growth in sales of automotive camera modules due to a rising number of adopted models. Sales of switches increased year on year amid rising sales of switches for smartphones. On the other hand, regarding touch panels mainly for the car electronics market, sales decreased compared to the previous year, due to factors including a downturn in automotive sales in the Chinese market and the impact of COVID-19.

Sales in the Sensing, Communications and Interface Division overall were on par with those of the previous year as a growth in the remote control units business offset decreased sales in the touch panels business.

As a result, net sales of the Sensing, Communications and Interface Division amounted to ¥35,137 million (0.1% decrease year on year), and operating income was ¥10 million (compared to an operating loss of ¥862 million in the previous fiscal year).



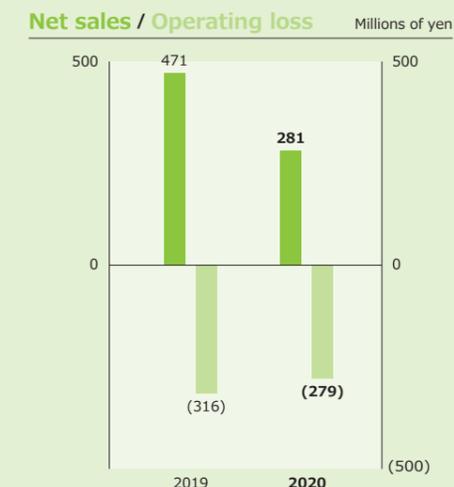
Research & Development Center

- Major Products**
- Wireless Modules

Regarding wireless communication modules, the mainstay business of the Research & Development Center, sales of Bluetooth® modules for printers expanded steadily, but sales of Bluetooth® modules for payment terminals decreased largely as a result of customers switching to different models.

As a result, net sales of the Research & Development Center amounted to ¥281 million (40.4% decrease year on year), and operating loss was ¥279 million (compared to an operating loss of ¥316 million in the previous fiscal year).

The Research & Development Center aims to commercialize its IoT operational management technologies in the next fiscal year, while engaging in field testing performed on the basis of new wireless modules and technology development commissioned by the Ministry of Internal Affairs and Communications.





Five-Year Summary

SMK Corporation and Consolidated Subsidiaries

Years ended and as of March 31	Millions of yen					Thousands of U.S. dollars	
	2016	2017	2018	2019	2020	2020	2020
Operating Results							
Net sales	¥ 77,206	¥ 62,971	¥ 59,786	¥ 57,386	¥ 54,161	\$ 497,666	
Operating income (loss)	4,171	630	485	(1,834)	(244)	(2,242)	
Profit (loss) attributable to owners of parent	2,678	1,017	(288)	(834)	(2,651)	(24,359)	
Financial Position							
Total assets	¥ 67,606	¥ 62,318	¥ 61,474	¥ 58,713	¥ 50,204	\$ 461,307	
Total net assets	33,287	31,318	30,637	28,612	24,629	226,307	
Per Share Data							
Total net assets	¥ 4,710.19	¥ 4,734.95	¥ 4,635.03	¥ 4,415.09	¥ 3,870.65	\$ 35.57	
Profit (loss) attributable to owners of parent							
Basic	379.38	151.65	(43.63)	(126.47)	(410.88)	(3.78)	
Diluted	378.63	151.62	—	—	—	—	
Cash dividends	14.00	10.00	8.00	50.00	40.00	0.37	

- Note 1. The U.S. dollar amounts represent translations of Japanese yen, for convenience only, at the rate of ¥108.83 = 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, 2016.
 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, 2020 decreased 5.6% year on year to ¥54,161 million (US\$497,666 thousand), whereas operating loss of ¥244 million (US\$2,242 thousand) and loss attributable to owners of parent of ¥2,651 million (US\$24,359 thousand) were recorded.

Net Sales

Sales of products such as remote control units for set-top boxes for the U.S. customers and automotive camera modules steadily increased. However, sales of products such as connectors and touch panels in the car electronics market decreased year on year due to lower customer demand and the lower operating ratios of the production works in China, the Philippines and Malaysia due to the governments' restrictions on factories amid the spread of COVID-19 infections in the fourth quarter.

As a result, net sales were ¥54,161 million (US\$497,666 thousand), down 5.6% year on year.

Operating Income

The cost of sales ratio improved year on year due to our efforts such as proactive launch of new products and initiatives taken to reduce fixed costs, but operating loss amounted to ¥244 million (US\$2,242 thousand) due to a decrease in net sales.

Profit attributable to owners of parent

Loss attributable to owners of parent was ¥2,651 million (US\$24,359 thousand) as a result of recording rent income/expense, foreign exchange loss, net, loss on impairment of fixed assets, etc. in other income/expenses.

Total Assets / ROA

As of March 31, 2020, total assets were ¥50,204 million (US\$461,307 thousand), with ROA of (0.3) %.

Total Net Assets / ROE

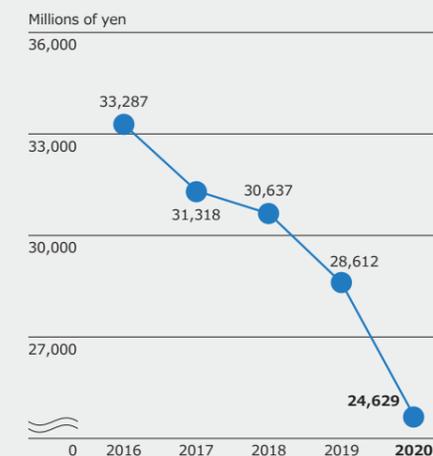
As of March 31, 2020, total net assets were ¥24,629 million (US\$226,307 thousand), with ROE of (9.9) %.

Cash Flows

Net cash provided by operating activities amounted to ¥6,345 million (US\$58,302 thousand), net cash used in investing activities totaled ¥2,525 million (US\$23,201 thousand), and net cash used in financing activities was ¥4,176 million (US\$38,372 thousand).

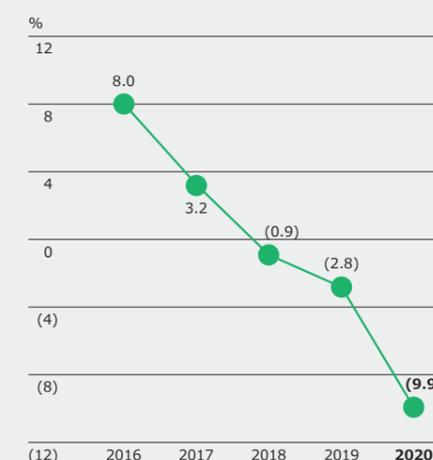
Total net assets

(As of March 31)



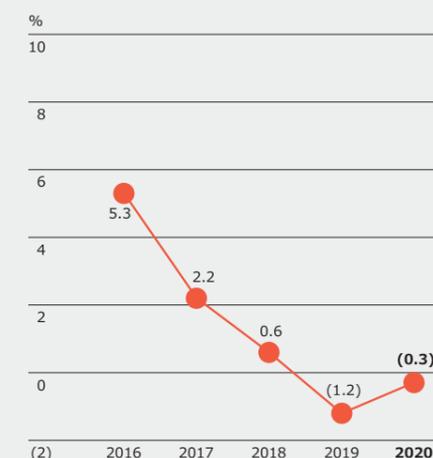
Return on equity (ROE)

(Years ended March 31)



Return on assets (ROA)

(Years ended March 31)



Consolidated Balance Sheet

SMK Corporation and Consolidated Subsidiaries
As of March 31, 2019 and 2020

Consolidated Balance Sheets

Assets	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2019	2020	2020
Current assets			
Cash and cash equivalents (Note 16)	¥ 10,776	¥ 10,437	\$ 95,902
Time deposits (Note 16)	112	77	708
Notes and accounts receivable, trade (Note 6 and 16)	14,496	12,332	113,314
Inventories (Note 3)	8,071	6,426	59,046
Other current assets (Note 18 and 21)	932	1,162	10,677
Allowance for doubtful accounts	(106)	(104)	(956)
	34,283	30,332	278,710
Investments and long-term loans			
Investment securities (Note 16 and 17)	2,548	2,493	22,907
Long-term loans receivable (Note 21)	61	50	459
Asset for retirement benefits (Note 7)	1,219	1,114	10,236
Other investments (Note 21)	678	641	5,890
Allowance for doubtful accounts	(40)	(39)	(358)
	4,466	4,259	39,134
Property, plant and equipment (Note 5, 12 and 19)			
Land (Note 4)	6,001	5,977	54,921
Buildings	19,063	19,032	174,878
Machinery and vehicles	23,585	22,762	209,152
Tooling and office furniture	22,737	19,082	175,338
Leased assets	—	30	276
Right of use assets	—	127	1,167
Construction in progress	681	221	2,031
	72,069	67,234	617,789
Less-accumulated depreciation	(52,376)	(51,842)	(476,362)
	19,693	15,392	141,432
Other assets			
Deferred tax assets (Note 13)	115	100	919
Intangible assets (Note 12)	154	120	1,103
	269	220	2,022
Total assets	¥ 58,713	¥ 50,204	\$ 461,307

Liabilities and net assets	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2019	2020	2020
Current liabilities			
Short-term loans payable (Note 5 and 16)	¥ 14,263	¥ 9,639	\$ 88,569
Notes and accounts payable, trade (Note 6 and 16)	5,301	5,101	46,871
Accrued income taxes	524	283	2,600
Accrued bonuses	623	576	5,293
Accrued directors' and officers' bonuses	—	0	0
Accounts payable, non-trade (Note 16)	1,491	1,468	13,489
Other current liabilities (Note 18)	1,573	1,529	14,049
	23,778	18,598	170,890
Long-term liabilities			
Long-term debt (Note 5 and 16)	4,601	5,513	50,657
Deferred tax liabilities (Note 13)	799	491	4,512
Accrued directors' and officers' retirement benefits	176	134	1,231
Liability for retirement benefits (Note 7)	53	62	570
Other long-term liabilities	691	774	7,112
	6,323	6,976	64,100
Net assets			
Shareholders' equity (Note 8)			
Common stock			
Authorized : 19,596,127 shares			
Issued : 7,500,000 shares	7,996	7,996	73,472
Capital surplus	12,057	12,057	110,787
Retained earnings	14,597	11,582	106,423
Treasury stock	(4,313)	(4,391)	(40,347)
	30,338	27,245	250,345
Accumulated other comprehensive income			
Net unrealized gains (losses) on other securities	297	106	974
Net unrealized gains (losses) from hedging instruments	(7)	(18)	(165)
Foreign currency translation adjustments	(2,027)	(2,295)	(21,088)
Retirement benefits asset and liability adjustments	10	(122)	(1,121)
	(1,726)	(2,329)	(21,400)
Non-controlling interests	—	(286)	(2,628)
	28,612	24,629	226,307
Total liabilities and net assets	¥ 58,713	¥ 50,204	\$ 461,307

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2019	2020	2020
Net sales (Note 20)	¥ 57,386	¥ 54,161	\$ 497,666
Cost of sales (Note 3 and 9)	49,962	46,437	426,693
Selling, general and administrative expenses (Note 9 and 10)	9,258	7,968	73,215
Operating loss (Note 20)	(1,834)	(244)	(2,242)
Other income			
Interest and dividend income (Note 21)	93	105	965
Rent income	1,076	1,050	9,648
Foreign exchange gain, net	350	—	—
Gain on sales of fixed assets (Note 11)	1,317	90	827
Gain on sales of investment securities (Note 17)	195	—	—
Gain on sales of golf memberships	—	23	211
Other	373	407	3,740
Total other income	3,407	1,676	15,400
Other expenses			
Interest expense	114	109	1,002
Rent expense (Note 21)	556	559	5,136
Foreign exchange loss, net	—	692	6,359
Loss on sales of fixed assets (Note 11)	1	36	331
Loss on disposal of fixed assets (Note 11)	199	72	662
Loss on impairment of fixed assets (Note 12)	148	2,953	27,134
Loss on valuation of investment securities	86	23	211
Loss on liquidation of subsidiaries and affiliates	67	—	—
Other	95	148	1,360
Total other expenses	1,269	4,596	42,231
Profit (loss) before income taxes	303	(3,165)	(29,082)
Income taxes (Note 13)			
Current	620	228	2,095
Refund	—	(292)	(2,683)
Deferred	517	(163)	(1,498)
Loss	(834)	(2,937)	(26,987)
Loss attributable to non-controlling interests	—	(286)	(2,628)
Loss attributable to owners of parent	¥ (834)	¥ (2,651)	\$ (24,359)

	Yen		U.S. dollars (Note 2)
	2019	2020	2020
Per share data (Note 15)			
Total net assets	¥ 4,415.09	¥ 3,870.65	\$ 35.57
Loss attributable to owners of parent			
Basic	(126.47)	(410.88)	(3.78)
Diluted	—	—	—
Cash dividends	50.00	40.00	0.37

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2019	2020	2020
Loss	¥ (834)	¥ (2,937)	\$ (26,987)
Other comprehensive income (Note 14)			
Net unrealized gains (losses) on other securities	(33)	(191)	(1,755)
Net unrealized gains (losses) from hedging instruments	2	(10)	(92)
Foreign currency translation adjustments	(119)	(268)	(2,463)
Retirement benefits asset and liability adjustments	(430)	(132)	(1,213)
Total other comprehensive income	(580)	(603)	(5,541)
Comprehensive income	¥ (1,414)	¥ (3,541)	\$ (32,537)
Total comprehensive income attributable to:			
Owners of parent	¥ (1,414)	¥ (3,254)	\$ (29,900)
Non-controlling interests	¥ —	¥ (286)	\$ (2,628)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	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
Balance at April 1, 2018	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)
Balance at March 31, 2019	7,500,000	7,996	12,057	14,597	(4,313)	30,338	297	(7)	(2,027)	10	(1,726)	¥—	28,612
Balance at April 1, 2019	7,500,000	7,996	12,057	14,597	(4,313)	30,338	297	(7)	(2,027)	10	(1,726)	¥—	28,612
Cash dividends paid				(326)		(326)					—		(326)
Loss attributable to owners of parent				(2,651)		(2,651)					—		(2,651)
Acquisition of treasury stock					(128)	(128)					—		(128)
Disposition of treasury stock					49	12					—		12
Transfer to Capital surplus from retained earnings			37	(37)		—					—		—
Net changes in items other than shareholders' equity						—	(191)	(10)	(268)	(132)	(603)	(286)	(889)
Total changes	—	—	—	(3,014)	(78)	(3,093)	(191)	(10)	(268)	(132)	(603)	(286)	(3,982)
Balance at March 31, 2020	7,500,000	¥7,996	¥12,057	¥11,582	¥(4,391)	¥27,245	¥106	¥(18)	¥(2,295)	¥(122)	¥(2,329)	¥(286)	¥24,629

	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
Balance at April 1, 2019	\$73,472	\$110,787	\$134,127	\$(39,631)	\$278,765	\$2,729	\$ (64)	\$(18,625)	\$ 92	\$(15,860)	\$ —	\$262,905
Cash dividends paid			(2,995)		(2,995)					—		(2,995)
Loss attributable to owners of parent			(24,359)		(24,359)					—		(24,359)
Acquisition of treasury stock				(1,176)	(1,176)					—		(1,176)
Disposition of treasury stock				450	110					—		110
Transfer to Capital surplus from retained earnings			340	(340)	—					—		—
Net changes in items other than shareholders' equity					—	(1,755)	(92)	(2,463)	(1,213)	(5,541)	(2,628)	(8,169)
Total changes	—	—	(27,695)	(717)	(28,420)	(1,755)	(92)	(2,463)	(1,213)	(5,541)	(2,628)	(36,589)
Balance at March 31, 2020	\$73,472	\$110,787	\$106,423	\$(40,347)	\$250,345	\$ 974	\$(165)	\$(21,088)	\$(1,121)	\$(21,400)	\$(2,628)	\$226,307

Consolidated Statement of Cash Flows

SMK Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2020

	Millions of Yen		Thousands of U.S. dollars (Note 2)
	2019	2020	2020
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 303	¥ (3,165)	\$ (29,082)
Depreciation and amortization	3,664	3,292	30,249
Loss on impairment of fixed assets	148	2,953	27,134
Increase (decrease) in accrued bonuses	(44)	(44)	(404)
Increase (decrease) in accrued directors' and officers' retirement benefits	4	(41)	(377)
Increase (decrease) in asset and liability for retirement benefits	(367)	(62)	(570)
Interest and dividend income	(93)	(105)	(965)
Interest expense	114	109	1,002
(Gain) loss on sales of investment securities	(193)	—	0
(Gain) loss on sales of fixed assets	(1,316)	(53)	(487)
(Gain) loss on valuation of investment securities	86	23	211
(Gain) loss on sales of golf memberships	—	(23)	(211)
Loss on disposal of fixed assets	199	72	662
(Increase) decrease in notes and accounts receivable, trade	924	1,622	14,904
(Increase) decrease in inventories	784	1,394	12,809
Increase (decrease) in notes and accounts payable, trade	(1,659)	533	4,898
(Increase) decrease in accounts receivable, non-trade	(35)	109	1,002
Increase (decrease) in accounts payable, non-trade	(692)	271	2,490
Other	230	(80)	(735)
Subtotal	2,057	6,806	62,538
Interest and dividends received	103	106	974
Interest paid	(113)	(102)	(937)
Income taxes paid	(439)	(464)	(4,264)
Net cash provided by (used in) operating activities	1,608	6,345	58,302
Cash flows from investing activities			
Payments into time deposits	(30)	(228)	(2,095)
Proceeds from time deposits	32	258	2,371
Purchases of fixed assets	(4,639)	(2,637)	(24,230)
Proceeds from sales of fixed assets	2,556	250	2,297
Purchases of intangible fixed assets	(47)	(40)	(368)
Proceeds from sale of intangible fixed assets	—	0	0
Purchases of investment securities	(223)	(159)	(1,461)
Proceeds from sales of investment securities	241	—	0
Proceeds from redemption of investment securities	—	29	266
Payments for execution of loans	(28)	(30)	(276)
Collection of loans receivable	45	32	294
Other	0	—	0
Net cash provided by (used in) investing activities	(2,091)	(2,525)	(23,201)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	2,228	(5,692)	(52,302)
Proceeds from long-term debt	2,090	4,000	36,755
Payments of long-term debt	(2,704)	(2,015)	(18,515)
Purchases of treasury stock	(506)	(127)	(1,167)
Proceeds from sales of treasury stock	161	12	110
Dividends paid	(264)	(325)	(2,986)
Other	(8)	(29)	(266)
Net cash provided by (used in) financing activities	997	(4,176)	(38,372)
Effect of exchange rate changes on cash and cash equivalents	(219)	17	156
Increase (decrease) in cash and cash equivalents	294	(338)	(3,106)
Cash and cash equivalents at beginning of the year	10,482	10,776	99,017
Cash and cash equivalents at end of the year	¥ 10,776	¥ 10,437	\$ 95,902

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 (except for leases)

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 (except for leases)

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) Leased assets
Noncancellable lease transaction that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. Depreciation of leased assets is calculated by the straight-line method based on the lease life as the useful life and the residual value is zero.
- (m) Right of use assets
Depreciation of right of use assets is calculated by the straight-line method based on the lease term as the useful life and the residual value is zero.
- (n) 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.
- (o) 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.
- (p) 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.
- (q) 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.
- (r) 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.
- (s) 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.
- (t) 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.
- (u) 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.
- (v) 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.
- (w) 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.
- (x) Consolidated taxation system
The Company and its consolidated subsidiaries apply consolidated taxation system.
- (y) Adoption of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system
For items that have transitioned to the group tax sharing system and those for which the non-consolidated tax payment system have been reviewed in line with the transition to the group tax sharing system, established under the "Act for Partial Revision of the Income Tax Act and Other Acts" (Act No. 8 of 2020), the Company adopts the treatment set forth in Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force No. 39, March 31, 2020) not to apply provisions of Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018). The amounts of deferred tax assets and deferred tax liabilities are, therefore, based on provisions of the tax code prior to the revision.
- (z) Change in method of accounting
Subsidiaries that adopt the International Financial Reporting Standards have adopted International Financial Reporting Standard No. 16 "Leases" (hereinafter, "IFRS 16") from the fiscal year ended March 31, 2020. Accordingly, lessees in principle are required to record all leases as assets and liabilities on the balance sheet. Upon adopting IFRS 16, the Company has applied a transitional approach of recognizing cumulative effects of accounting policy changes on the date of the initial application.
As a result, the effect on the consolidated financial statements for the current fiscal year is immaterial.
- (aa) Accounting standards issued but not yet effective
Accounting Standards and Implementation Guidance on Revenue Recognition
On March 31, 2020, 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.
Accounting Standard for Fair Value Measurement and Related Implementation Guidance
The Accounting Standards Board of Japan (ASBJ) issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), along with related updates to "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10), and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments." (ASBJ Guidance No. 19).
(1) Overview
The ASBJ has developed an "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively, the "Fair Value Measurement Standard"), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards. The Fair Value Measurement Standard is applied with respect to the fair value of the following items;
• Financial instruments defined in "Accounting Standard for Financial Instruments"
"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised requiring disclosure of financial instruments broken down by level in the fair value hierarchy.
(2) Scheduled date of adoption
The Company expects to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending March 31, 2022.
(3) Impact of adoption of revised accounting standard and related implementation guidance
The Company is currently evaluating the effect of the adoption of the accounting standards and related implementation guidance on its consolidated financial statements.
Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections
On March 31, 2020, the ASBJ issued the revised "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24)
(1) Overview
This accounting standard has been released to provide an outline of the applicable accounting principles and procedures in cases where directly relevant accounting standards are not available.
(2) Scheduled date of adoption
The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.
- (ab) Change in presentation
(Consolidated Statement of Income)
Loss on sales of fixed assets previously presented as "other" in other expenses have been reclassified to loss on sales of fixed assets in other expenses for the year ended March 31, 2020 in terms of the materiality of amount.
As a result, ¥1 million (\$9 thousand) of "other" in other expenses previously presented in consolidated statement of income for the year ended March 31, 2019 have been reclassified to ¥1 million (\$9 thousand) of loss on sales of fixed assets in other expenses in consolidated statement of income for the year ended March 31, 2020.
- (ac) Additional information
Introduction of Board Benefit Trust
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, 2020, the book value of the said treasury stock was ¥160 million (\$1,470 thousand), and the number of shares was 43,800.

Impact of COVID-19 infections

As for the impact of COVID-19 infections, the Company forecasts the business environment to remain unstable in the first half of the fiscal year ending March 31, 2021 and thereafter recover gradually. Given such assumptions, the Company has produced accounting estimates, including those for loss on impairment of fixed assets and the recoverability of deferred tax assets, based on information available as of March 31, 2020. Amid this situation where the assumptions underpinning such estimates are highly uncertain, consolidated financial statement results for the next fiscal year and beyond may be affected by timing as to when the COVID-19 pandemic will subside and the impact that the pandemic will have on the economic environment.

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 = ¥108.83, the approximate rate of exchange at March 31, 2020. 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, 2019 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Finished products	¥ 3,477	¥ 2,385	\$ 21,915
Work in process	854	810	7,443
Raw materials and supplies	3,739	3,230	29,679
Total	¥ 8,071	¥ 6,426	\$ 59,046

The write-downs of inventories resulting from decreased profitability for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Cost of sales	¥ 1,215	¥ 523	\$ 4,806

Note 4. Reduction entries

Reduction entries due to acceptance of prefectural government's grants relating to property, plant and equipment as of March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Land	¥ 101	¥ 101	\$ 928

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

Short-term loans payable and long-term debt as of March 31, 2019 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Short-term loans payable			
Average interest rate on short-term loans payable, principally from banks, is 0.48%			
Secured	¥ 4,400	¥ 2,000	\$ 18,377
Unsecured	7,848	4,551	41,818
Total	¥ 12,248	¥ 6,551	\$ 60,195
Long-term debt			
Average interest rate on long-term debt, principally from banks, is 0.92%			
Secured	¥ 3,598	¥ 3,223	\$ 29,615
Unsecured	3,018	5,378	49,417
Less: portion due within one year	(2,015)	(3,088)	(28,375)
Total	¥ 4,601	¥ 5,513	\$ 50,657

The assets pledged as collateral for short-term and long-term debt as of March 31, 2019 and 2020 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
(1) Factory foundation			
Buildings	¥ 1,180	¥ 1,107	\$ 10,172
Machinery and vehicles	70	60	551
Tooling and office furniture	134	110	1,011
Land	256	256	2,352
Total	¥ 1,642	¥ 1,535	\$ 14,105
(2) Other			
Buildings	¥ 205	¥ 228	\$ 2,095
Tooling and office furniture	2	1	9
Land	39	39	358
Total	¥ 246	¥ 269	\$ 2,472

The aggregate annual maturities of long-term debt (including current portion) outstanding as of March 31, 2020 were summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 3,088	\$ 28,375
2022	1,683	15,464
2023	2,212	20,325
2024	1,618	14,867
2025 and thereafter	—	—
Total	¥ 8,601	\$ 79,032

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 ended March 31, 2019 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, 2019.

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Notes receivable	¥ 190	¥ —	\$ —
Notes payable	¥ 1	¥ —	\$ —

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, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at the beginning of the year	¥ 7,042	¥ 6,530	\$ 60,002
Service cost	301	280	2,573
Interest cost	45	42	386
Actuarial gain and loss	108	(218)	(2,003)
Retirement benefit paid	(969)	(756)	(6,947)
Other	1	(1)	(9)
Balance at the end of the year	¥ 6,530	¥ 5,877	\$ 54,002

The changes in plan assets during the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at the beginning of the year	¥ 8,443	¥ 7,696	\$ 70,716
Expected return on plan assets	152	138	1,268
Actuarial gain and loss	(259)	(341)	(3,133)
Contributions by the Company	324	183	1,682
Retirement benefits paid	(963)	(747)	(6,864)
Balance at the end of the year	¥ 7,696	¥ 6,929	\$ 63,668

The funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Funded retirement benefit obligation	¥ 6,509	¥ 5,855	\$ 53,800
Plan assets at fair value	(7,696)	(6,929)	(63,668)
	(1,187)	(1,074)	(9,869)
Unfunded retirement benefit obligation	21	22	202
Net liability for retirement benefits in the balance sheet	(1,165)	(1,051)	(9,657)
	53	62	570
Asset for retirement benefits	(1,219)	(1,114)	(10,236)
Net liability for retirement benefits in the balance sheet	¥ (1,165)	¥ (1,051)	\$ (9,657)

The components of retirement benefit expense for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Service cost	¥ 301	¥ 283	\$ 2,600
Interest cost	45	42	386
Expected return on plan assets	(152)	(138)	(1,268)
Amortization of actuarial gain and loss	(246)	(63)	(579)
Retirement benefit expense	¥ (51)	¥ 124	\$ 1,139

The components of retirement benefits asset and liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Actuarial gain and loss	¥ (614)	¥ (188)	\$ (1,727)

The components of retirement benefits asset and liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unrecognized actuarial gain and loss	¥ 8	¥ (179)	\$ (1,645)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2020 were as follows:

	2019	2020
Bonds	4.5%	4.1%
Stocks	37.9	34.6
Life insurances	36.8	38.5
Funds	16.0	9.8
Other	4.8	13.0
Total	100.0%	100.0%

- The total plan assets include retirement benefit trusts which constitute 12.5% for the year ended March 31, 2019 and 10.5% for the year ended March 31, 2020.
- 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, 2019 and 2020 amounted to ¥89 million and ¥86 million (\$790 thousand), respectively.

Assumptions to calculate the actuarial present value of the benefit obligation and the expected return on plan assets as of March 31, 2019 and 2020 were as follows:

	2019	2020
Discount rate	0.6%	0.6%
Re-evaluation rate	0.84%	0.71%
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, 2019 and 2020 was as follows:

1. Shares issued and outstanding / Treasury stock

Types of shares	2019			2020			Number of shares at March 31, 2020
	Number of shares at April 1, 2018	Increase	Decrease	Number of shares at April 1, 2019	Increase	Decrease	
Shares issued:							
Common stock	75,000,000	—	67,500,000	7,500,000	—	—	7,500,000
Treasury stock:							
Common stock	8,899,759	147,708	8,027,984	1,019,483	48,026	4,600	1,062,909

The Company's shares remaining in the Board Benefit Trust (BBT) are included in treasury stock (43,800 shares at March 31, 2019 and 2020).

	Number of shares	
	2019	2020
1. Details of the decrease of shares issued are as follows:		
Decrease due to consolidation of shares	67,500,000	—
2. Details of the increase of treasury stock are as follows:		
Increase due to purchase of shares	125,900	46,800
Increase due to purchase of shares of less than standard unit	20,981	573
Increase due to purchase of fraction of shares	466	—
Increase in shares held by affiliates accounted for by the equity method	361	653
3. Details of the decrease of treasury stock are as follows:		
Decrease due to consolidation of shares	8,025,253	—
Decrease due to sales of shares of less than standard unit	2,731	—
Decrease due to sales of shares held by subsidiaries	—	4,600

2. Dividends

(1) Dividends paid

Resolution	Type of shares	2019		Cut-off date	Effective date	2020	
		Total dividends (Millions of yen)	Dividends per share (Yen)			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		
Shareholders' meeting on June 25, 2019	Common stock	326	50	March 31, 2019	June 26, 2019	2,995	0.46

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

Resolution	Type of shares	Source of dividends	2019		Cut-off date	Effective date	2020	
			Total dividends (Millions of yen)	Dividends per share (Yen)			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		

Dividends with the cut-off date in the year ended March 31, 2020 and the effective date in the year ending March 31, 2021

Resolution	Type of shares	Source of dividends	2020		Cut-off date	Effective date	2020	
			Total dividends (Millions of yen)	Dividends per share (Yen)			Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)
Shareholders' meeting on June 23, 2020	Common stock	Retained earnings	259	40	March 31, 2020	June 24, 2020	2,380	0.37

- 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 23, 2020.

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, 2019 and 2020 amounted to ¥2,982 million and ¥2,845 million (\$ 26,142 thousand), respectively.

Note 10. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Salaries and wages of employees	¥ 4,395	¥ 3,833	\$ 35,220
Provision for bonus	317	261	2,398
Provision for directors' and officers' bonus	—	0	0
Retirement benefit cost	26	81	744
Provision for directors' and officers' retirement benefits	3	0	0
Provision for doubtful accounts	6	(2)	(18)

Note 11. Gains and losses of fixed assets

The components of gains and losses of fixed assets for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Gains on sales of fixed assets			
Buildings	¥ 91	¥ 9	\$ 83
Machinery and vehicles	15	28	257
Tooling and office furniture	12	10	92
Land	1,198	41	377
Total	¥ 1,317	¥ 90	\$ 827

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Loss on sales of fixed assets			
Buildings	¥ —	¥ 17	\$ 156
Machinery and vehicles	0	18	165
Tooling and office furniture	1	1	9
Total	¥ 1	¥ 36	\$ 331

Loss on disposal of fixed assets

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Buildings	¥ 42	¥ 7	\$ 64
Machinery and vehicles	147	52	478
Tooling and office furniture	9	12	110
Intangible asset	0	0	0
Total	¥ 199	¥ 72	\$ 662

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, 2019, impairment losses were recognized for the following assets.

Asset group	Location	Use	Millions of yen						Total
			Buildings	Machinery and vehicles	Tooling and office furniture	Land	Intangible assets	Other	
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	Philippines	Remote controls production facilities and other	55	8	—	—	—	4	68
Total			¥ 102	¥ 21	¥ 4	¥ 14	¥ 0	¥ 4	¥ 148

For the year ended March 31, 2020, impairment losses were recognized for the following assets.

Asset group	Location	Use	Millions of yen					Total
			Buildings	Machinery and vehicles	Tooling and office furniture	Construction in progress	Intangible assets	
CS Division	Japan	Connector/Jack production facilities	¥ 8	¥ 995	¥ 194	¥ —	¥ —	¥ 1,197
SCI Division	Japan	Touch panel production facilities	0	0	1	—	—	2
Research & Development Center	Japan	Wireless module production facilities	—	38	1	—	0	40
SMK Manufacturing, Inc. U.S.A.	U.S.A.	Remote controls/Unit production facilities	0	17	9	1	0	30
SMK Electronica S.A. de C.V.	Mexico	Remote controls/Unit production facilities	0	2	0	1	2	6
SMK Electronics (Dongguan) Co., Ltd.	China	Connector/Jack production facilities Switch/Remote controls/Unit production facilities	—	904	173	—	—	1,077
SMK Electronics (Phils.) Corporation	Philippines	Touch panel/Remote controls production facilities	174	422	—	—	—	597
SMK-LOGOMOTION Corporation	Japan	Others	—	—	0	—	—	0
Total			¥ 183	¥ 2,380	¥ 382	¥ 3	¥ 2	¥ 2,953

Asset group	Location	Use	Thousands of U.S. dollars					Total
			Buildings	Machinery and vehicles	Tooling and office furniture	Construction in progress	Intangible assets	
CS Division	Japan	Connector/Jack production facilities	\$ 74	\$ 9,143	\$ 1,783	\$ —	\$ —	\$ 10,999
SCI Division	Japan	Touch panel production facilities	0	0	9	—	—	18
Research & Development Center	Japan	Wireless module production facilities	—	349	9	—	0	368
SMK Manufacturing, Inc. U.S.A.	U.S.A.	Remote controls/Unit production facilities	0	156	83	9	0	276
SMK Electronica S.A. de C.V.	Mexico	Remote controls/Unit production facilities	0	18	0	9	18	55
SMK Electronics (Dongguan) Co., Ltd.	China	Connector/Jack production facilities Switch/Remote controls/Unit production facilities	—	8,307	1,590	—	—	9,896
SMK Electronics (Phils.) Corporation	Philippines	Touch panel/Remote controls production facilities	1,599	3,878	—	—	—	5,486
SMK-LOGOMOTION Corporation	Japan	Others	—	—	0	—	—	0
Total			\$ 1,682	\$ 21,869	\$ 3,510	\$ 28	\$ 18	\$ 27,134

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 CS Division, SCI Division, Research & Development Center, SMK Manufacturing, Inc., SMK Electronica S.A. de C.V., SMK Electronics (Dongguan) Co. Ltd. and SMK Electronics (Phils.) Corporation 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-LOGOMOTION Corporation, because operating loss has been recorded continually and future plan was not certain, its book value was reduced to the recoverable amount.

The recoverable amount of the asset group of the CS Division, SCI Division, Research & Development Center, SMK Manufacturing, Inc., SMK Electronica S.A. de C.V. and SMK-LOGOMOTION Corporation were 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 (Dongguan) Co. Ltd was measured at value in use, which was calculated by discounting future cash flows at 13.0%. 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%.

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 30.5% for the year ended March 31, 2019. A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2019 was as follows. For the year ended March 31, 2020, note is omitted because it became loss before income taxes.

	2019	2020
Statutory tax rate	30.5%	—%
Items such as entertainment expenses permanently non-deductible for tax purposes	10.6	—
Items such as dividend income permanently non-taxable	(238.5)	—
Change in valuation allowance	307.3	—
Tax credit for R&D expenses	(24.5)	—
Foreign withholding taxes	7.8	—
Inhabitant tax on per capita basis	7.0	—
Statutory tax rate differences in subsidiaries	23.3	—
Elimination of dividend income	274.0	—
Accumulated surplus of subsidiaries	(21.9)	—
Other	(0.9)	—
Effective tax rate	374.8%	—%

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Deferred tax assets:			
Inventory write-down	¥ 352	¥ 358	\$ 3,290
Accrued bonuses	198	180	1,654
Intercompany profit on inventory	63	52	478
Liability for retirement benefits	8	8	74
Allowance for doubtful accounts	41	38	349
Impairment loss	877	1,248	11,467
Operating loss carryforwards for tax purposes	1,566	1,790	16,448
Other	480	529	4,861
Total gross deferred tax assets	3,589	4,207	38,657
Valuation allowance for net operating loss carryforwards	(1,477)	(1,782)	(16,374)
Valuation allowance for deductible temporary differences	(1,703)	(1,937)	(17,798)
Total valuation allowance	(3,180)	(3,720)	(34,182)
Total deferred tax assets	409	487	4,475
Deferred tax liabilities:			
Asset for retirement benefits	(372)	(340)	(3,124)
Deferred gain on land	(36)	(36)	(331)
Advanced depreciation on buildings	(6)	(6)	(55)
Reserve for special depreciation	(12)	(8)	(74)
Net unrealized gains on other securities	(118)	(37)	(340)
Accumulated surplus of foreign subsidiaries	(206)	(107)	(983)
Valuation difference on subsidiaries	(311)	(309)	(2,839)
Other	(27)	(32)	(294)
Deferred tax liabilities	(1,093)	(878)	(8,068)
Net deferred tax assets	¥ (684)	¥ (391)	\$ (3,593)

- Valuation allowance has increased ¥539 million (\$ 4,953 thousand). This increase is due to the additional recognition of valuation allowance for impairment loss in SMK Corporation ¥175 million (\$ 1,608 thousand), valuation allowance for net operating loss carryforwards in SMK Corporation ¥151 million (\$ 1,387 thousand) and valuation allowance for net operating loss carryforwards in subsidiaries ¥154 million (\$ 1,415 thousand).
- A breakdown of net operating loss carryforwards and valuation allowance by expiry date as of March 31, 2019 and 2020 is as follows:

2019	Millions of yen						Total
	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	
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)
Deferred tax assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 88	¥ 88

2020	Millions of yen						Total
	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	
Net operating loss carryforwards (a)	¥ 8	¥ 13	¥ 1	¥ 4	¥ 189	¥ 1,573	¥ 1,790
Valuation allowance	(8)	(13)	(1)	(4)	(189)	(1,566)	(1,782)
Deferred tax assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 7	¥ 7

2020	Thousands of U.S. dollars						Total
	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	
Net operating loss carryforwards (a)	\$ 74	\$ 119	\$ 9	\$ 37	\$ 1,737	\$ 14,454	\$ 16,448
Valuation allowance	(74)	(119)	(9)	(37)	(1,737)	(14,389)	(16,374)
Deferred tax assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 64	\$ 64

(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, 2019 and 2020.

	Millions of Yen		Thousands of U.S. dollars
	2019	2020	2020
Net unrealized gains (losses) on other securities:			
Amount arising during the year	¥ 145	¥ (275)	\$ (2,527)
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	(193)	2	18
Amount before tax effect	(48)	(272)	(2,499)
Tax effect	15	81	744
Net unrealized gains (losses) on other securities	(33)	(191)	(1,755)
Net unrealized gains (losses) from hedging instruments:			
Amount arising during the year	(7)	(18)	(165)
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	9	7	64
Amount before tax effect	2	(10)	(92)
Tax effect	—	—	—
Net unrealized gains (losses) from hedging instruments	2	(10)	(92)
Foreign currency translation adjustments:			
Amount arising during the year	(119)	(272)	(2,499)
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	—	—	—
Amount before tax effect	(119)	(272)	(2,499)
Tax effect	(0)	3	28
Foreign currency translation adjustments	(119)	(268)	(2,463)
Retirement benefits asset and liability adjustments:			
Amount arising during the year	(368)	(124)	(1,139)
Reclassification adjustments for gains and losses included in profit attributable to owners of parent	(246)	(63)	(579)
Amount before tax effect	(614)	(188)	(1,727)
Tax effect	184	55	505
Retirement benefits asset and liability adjustments	(430)	(132)	(1,213)
Total other comprehensive income	¥ (580)	¥ (603)	\$ (5,541)

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, 2019.
- 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 2020 and the average number of shares for the year ended March 31, 2019 and 2020. In the calculation of total net assets per share, the said treasury stock deducted as of March 31, 2019 and 2020 is 43,800 and 43,800, respectively. In the calculation of loss per share, the said treasury stock deducted for the year ended March 31, 2019 and 2020 is 27,375 and 43,800, respectively.
- 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
	2019	2020	2020
Basic loss attributable to owners of parent per share:			
Loss attributable to owners of parent	¥ (834)	¥ (2,651)	\$ (24,359)
Loss attributable to owners of parent not attributable to common stockholders	—	—	—
Loss attributable to owners of parent attributable to common stock	(834)	(2,651)	(24,359)
	Thousands of shares		
	2019	2020	
Average number of shares of common stock outstanding during the year	6,598	6,452	

Note 16. Financial instruments

- 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.
- 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 five 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 (t). 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.
- 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, 2019 and 2020 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2019			2020			2020		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and cash equivalents	¥10,776	¥10,776	¥ —	¥10,437	¥10,437	¥ —	\$95,902	\$95,902	\$ —
Time deposits	112	112	—	77	77	—	708	708	—
Notes and accounts receivable, trade	14,496	14,496	—	12,332	12,332	—	113,314	113,314	—
Investment securities	1,926	1,926	—	1,651	1,651	—	15,170	15,170	—
Notes and accounts payable, trade	5,301	5,301	—	5,101	5,101	—	46,871	46,871	—
Short-term loans payable	12,248	12,248	—	6,551	6,551	—	60,195	60,195	—
Accounts payable, non-trade	1,491	1,491	—	1,468	1,468	—	13,489	13,489	—
Long-term debt	6,616	6,595	(21)	8,601	8,569	(32)	79,032	78,737	(294)
Derivatives	(18)	(18)	—	(21)	(21)	—	(193)	(193)	—

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
	2019	2020	2020
Unlisted securities	¥ 622	¥ 841	\$ 7,728

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		
	2019			2020			2020		
	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	¥ 10,879	¥ —	¥ —	¥ 10,506	¥ —	¥ —	\$ 96,536	\$ —	\$ —
Notes and accounts receivable, trade	14,496	—	—	12,332	—	—	113,314	—	—
Total	¥ 25,376	¥ —	¥ —	¥ 22,839	¥ —	¥ —	\$ 209,859	\$ —	\$ —

Note 17. Securities

Information regarding securities classified as other securities at March 31, 2019 and 2020 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2019			2020			2020		
	Book value	Acquisition	Unrealized gain (loss)	Book value	Acquisition	Unrealized gain (loss)	Book value	Acquisition	Unrealized gain (loss)
Securities whose book value exceeds their acquisition									
Stocks	¥ 1,501	¥ 982	¥ 519	¥ 1,288	¥ 960	¥ 327	\$ 11,835	\$ 8,821	\$ 3,005
Subtotal	1,501	982	519	1,288	960	327	11,835	8,821	3,005
Securities whose acquisition exceeds their book value									
Stocks	424	527	(102)	363	546	(182)	3,335	5,017	(1,672)
Subtotal	424	527	(102)	363	546	(182)	3,335	5,017	(1,672)
Total	¥ 1,926	¥ 1,509	¥ 416	¥ 1,651	¥ 1,506	¥ 144	\$ 15,170	\$ 13,838	\$ 1,323

Unlisted stocks of ¥347 million at March 31, 2019 and ¥532 million (\$4,888 thousand) at March 31, 2020 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
	2019	2020	2020
Investment securities	¥ 275	¥ 308	\$ 2,830

Information regarding sales of securities classified as other securities for the years ended March 31, 2019 and 2020 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Proceeds from sales of securities	¥ 241	¥ —	\$ —
Stocks	241	—	—
Gains on sales	195	—	—
Stocks	195	—	—
Losses on sales	1	—	—
Stocks	1	—	—

Impairment of investment securities classified as other securities for the years ended March 31, 2019 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Stocks	¥ 86	¥ 23	\$ 211

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	Fair value	Unrealized gain (loss)
	2019	2020	2019	2020	2019	2020	2020	2020	2020
Forward foreign exchange contracts:									
Sell: US\$ / Buy: Yen	¥ 1,064	¥ 744	¥ (11)	¥ (1)	¥ (11)	¥ (1)	\$ 6,836	\$ (9)	\$ (9)
Sell: US\$ / Buy: EUR	—	59	—	(0)	—	(0)	542	(0)	(0)
Sell: US\$ / Buy: GBP	14	30	0	(0)	0	(0)	276	(0)	(0)
Total	¥ 1,079	¥ 834	¥ (11)	¥ (1)	¥ (11)	¥ (1)	\$ 7,663	\$ (9)	\$ (9)

(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
	2019	2020	2019	2020	2019	2020	2020	2020	2020
Interest rate swaps (Deferral hedge accounting)	¥ 1,872	¥ 5,004	¥ 1,004	¥ 3,072	¥ (7)	¥ (18)	\$ 45,980	\$ 28,228	\$ (165)
Interest rate swaps (Exceptional treatment)	¥ 1,240	¥ 600	¥ 600	¥ —	¥ —	¥ —	\$ 5,513	\$ —	\$ —

(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 year ended March 31, 2019 amounted to ¥520 million and the gain on sales of fixed assets amounted to ¥1,288 million.

The profit of investment and rental property for the year ended March 31, 2020 amounted to ¥491 million (\$4,512 thousand), the gain on sales of fixed assets amounted to ¥50 million (\$459 thousand) and the loss on sales of fixed assets amounted to ¥17 million (\$156 thousand).

Information on the fair value of investment and rental property at March 31, 2019 and 2020 was summarized as follows:

	Millions of yen						Thousands of U.S. dollars					
	2019		2020		2020		2020		2020			
	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
	¥ 7,603	(¥ 1,200)	¥ 6,402	¥ 12,541	¥ 6,402	¥ 534	¥ 6,936	¥ 14,305	\$ 58,826	\$ 4,907	\$ 63,732	\$ 131,444

- The fair value represents the acquisition cost less accumulated depreciation.
- The components of net change in book value for the year ended March 31, 2019 included increases mainly due to acquisitions in the amount of ¥57 million and decrease mainly due to sales and disposal of fixed assets ¥1,182 million and depreciation ¥149 million. The components of net change in book value for the year ended March 31, 2020 included increases mainly due to acquisitions in the amount of ¥578 million (\$5,311 thousand) and reclassifications from assets for business operation ¥147 million (\$1,351 thousand), and decrease mainly due to sales and disposal of fixed assets ¥50 million (\$459 thousand) and depreciation ¥142 million (\$1,305 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 three divisions as follows;

CS (Connection System) Division: The division produces and sells connectors and jacks.

SCI (Sensing, Communications and Interface) Division: The division produces and sells remote controls, switches, camera modules and touch panel.

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

(Changes in reporting segments)

In line with changes in the company organization as of April 1, 2019, the reporting segments were changed from "CS Division", "FC Division", "TP Division" and "Research & Development Center" to "CS Division", "SCI Division" and "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
2019	CS Division	SCI Division	Research & Development Center					
Net sales								
Outside customers	¥ 21,712	¥ 35,180	¥ 471	¥ 57,365	¥ 21	¥ 57,386	¥ —	¥ 57,386
Intersegment sales	—	—	—	—	—	—	—	—
Total	21,712	35,180	471	57,365	21	57,386	—	57,386
Operating income (loss)	258	(862)	(316)	(919)	(914)	(1,834)	—	(1,834)
Identifiable assets	12,944	21,387	341	34,673	7,636	42,309	16,403	58,713
Others								
Depreciation	1,869	1,588	15	3,472	191	3,664	—	3,664
Increase in fixed assets and intangible fixed assets	1,993	2,212	16	4,222	64	4,287	—	4,287

	Millions of yen							
	Reporting Segments			Subtotal	Other	Total	Adjustment	Consolidated
2020	CS Division	SCI Division	Research & Development Center					
Net sales								
Outside customers	¥ 18,670	¥ 35,137	¥ 281	¥ 54,088	¥ 73	¥ 54,161	¥ —	¥ 54,161
Intersegment sales	—	—	—	—	—	—	—	—
Total	18,670	35,137	281	54,088	73	54,161	—	54,161
Operating income (loss)	141	10	(279)	(127)	(117)	(244)	—	(244)
Identifiable assets	9,791	16,856	247	26,895	7,272	34,168	16,036	50,204
Others								
Depreciation	1,704	1,387	23	3,115	176	3,292	—	3,292
Increase in fixed assets and intangible fixed assets	1,633	722	1	2,357	639	2,996	—	2,996

	Thousands of U.S. dollars							
	Reporting Segments			Subtotal	Other	Total	Adjustment	Consolidated
2020	CS Division	SCI Division	Research & Development Center					
Net sales								
Outside customers	\$ 171,552	\$ 322,861	\$ 2,582	\$ 496,995	\$ 671	\$ 497,666	\$ —	\$ 497,666
Intersegment sales	—	—	—	—	—	—	—	—
Total	171,552	322,861	2,582	496,995	671	497,666	—	497,666
Operating income (loss)	1,296	92	(2,564)	(1,167)	(1,075)	(2,242)	—	(2,242)
Identifiable assets	89,966	154,884	2,270	247,129	66,820	313,958	147,349	461,307
Others								
Depreciation	15,657	12,745	211	28,623	1,617	30,249	—	30,249
Increase in fixed assets and intangible fixed assets	15,005	6,634	9	21,658	5,872	27,529	—	27,529

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

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

2. Geographical information

(1) Net sales

	Millions of yen						
	Japan	Asia		North America		Europe	Consolidated
2019		China	Other	U.S.A.	Other		
Net sales	¥ 15,754	¥ 12,605	¥ 6,867	¥ 18,372	¥ 791	¥ 2,995	¥ 57,386
2020	Millions of yen						
2020	Japan	Asia		North America		Europe	Consolidated
Net sales	¥ 15,688	¥ 10,699	¥ 5,605	¥ 19,002	¥ 857	¥ 2,307	¥ 54,161
2020	Thousands of U.S. dollars						
2020	Japan	Asia		North America		Europe	Consolidated
Net sales	\$ 144,151	\$ 98,309	\$ 51,502	\$ 174,603	\$ 7,875	\$ 21,198	\$ 497,666

(2) Fixed assets

	Millions of yen					
	Japan	Asia		North America	Europe	Consolidated
2019		China	Other			
Fixed assets	¥ 12,608	¥ 4,782	¥ 1,971	¥ 29	¥ 300	¥ 19,693
2020	Millions of yen					
2020	Japan	Asia		North America	Europe	Consolidated
Fixed assets	¥ 11,366	¥ 2,875	¥ 862	¥ 6	¥ 281	¥ 15,392
2020	Thousands of U.S. dollars					
2020	Japan	Asia		North America	Europe	Consolidated
Fixed assets	\$ 104,438	\$ 26,417	\$ 7,921	\$ 55	\$ 2,582	\$ 141,432

3. Information about major customers

Sales amount and ratio of the major customers which account for 10% or more of net sales is as follows:

Major Customer	Related Segment	Millions of yen		Thousands of U.S. dollars
		2019	2020	2020
Company A	CS Division SCI Division	¥ —	¥ 6,337	\$ 58,228

(1) Company name is not disclosed because there is a confidentiality clause in the contract with Company A.

(2) For the year ended March 31, 2019, note is omitted because sales amount of Company A is less than 10% of net sales.

4. Information about the loss on impairment of fixed assets

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
CS Division	¥ —	¥ 1,512	\$ 13,893
SCI Division	143	1,399	12,855
Research & Development Center	—	40	368
Subtotal	143	2,952	26,748
Other	—	0	—
Adjustments and eliminations	4	—	—
Consolidated	¥ 148	¥ 2,953	\$ 27,134

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

For the years ended March 31, 2019 and 2020, there was no amortization and balance of goodwill.

Note 21. Related party transactions

Significant transactions with related parties for the years ended March 31, 2019 and 2020 were as follows:

2019	Millions of yen			
	Transactions		Balances	
	Rent		Other investments	Other current assets
Terutaka Ikeda (Supreme corporate adviser)	¥ 14		¥ 14	¥ 1

2020	Millions of yen			
	Transactions		Balances	
	Increase of loan receivable	Collection of loan receivable	Interest income	Other current assets
Paul Evans (Director)	¥ 30	¥ 31	¥ 1	¥ 1

2020	Thousands of U.S. dollars			
	Transactions		Balances	
	Rent		Other investments	Other current assets
Terutaka Ikeda (Supreme corporate adviser)	\$ 129		\$ 129	\$ 9

2020	Thousands of U.S. dollars			
	Transactions		Balances	
	Collection of loan receivable	Interest income	Other current assets	Long-term loans receivable
Paul Evans (Director)	\$ 9	\$ 9	\$ 9	\$ 266

- 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

There were no subsequent events for the year ended March 31, 2020.

Report of Independent Auditors

SMK Corporation and Consolidated Subsidiaries

Independent Auditor's Report

The Board of Directors

SMK Corporation

Opinion

We have audited the accompanying consolidated financial statements of SMK Corporation and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 23, 2020
/s/ Takeo Sato
Designated Engagement Partner
Certified Public Accountant

Officer Introduction

(As of June 23, 2020)

Directors



Auditors



Corporate Executive Officers





Corporate Information

(As of March 31, 2020)

Corporate Data

Name	SMK Corporation
Established	April 3, 1925
Registered	January 15, 1929
Primary business	Manufacture and sale of various parts for electro-communication device and electronic equipment
Capital	¥ 7,996,828,021
Stock exchange listing	Tokyo Stock Exchange
Administrator of shareholders register	Mitsubishi UFJ Trust and Banking Corporation
Independent auditors	Ernst & Young ShinNihon LLC Tokyo, Japan
Employees (SMK-Group)	5,593
Head office	5-5, Togoshi 6-chome, Shinagawa-ku, Tokyo 142-8511, Japan Tel: +81-3-3785-1111 Fax: +81-3-3785-1068

Global network (As of July 31, 2020)

Domestic bases
(7 Bases)

Tokyo (Head office), Toyama, Hitachi, Osaka, Nagoya, Ibaraki and Fukuoka

Overseas bases
(15 Countries/Areas, 32 Bases)

Taiwan, Hong Kong, China, Singapore, Thailand, Malaysia, Philippines, Korea, Ireland, U.K., France, Germany, Belgium, U.S.A. and Mexico



Head Office



Toyama Works



Hitachi Works

Shares and Shareholders

Authorized shares	19,596,127
Issued shares (including 1,051,916 shares of treasury stock)	7,500,000
Number of shareholders	6,654

Major shareholders (top ten)	Shares owned (1,000 shares)	Percentage of shares (%)
SMK Cooperating Company Share Holding Association	394	6.12
Nippon Life Insurance Company	324	5.03
Mizuho Bank, Ltd.	322	5.00
Dai Nippon Printing Co., Ltd.	320	4.96
MUFG Bank, Ltd.	250	3.89
The Master Trust Bank of Japan, Ltd. (Trust Account)	250	3.88
SMK Employees Share Holding Association	208	3.23
Mitsubishi UFJ Trust and Banking Corporation	180	2.79
The Showa Ikeda Memorial Foundation	150	2.33
Meiji Yasuda Life Insurance Company	137	2.14

Note: The Company holds 1,051 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

Financial institutions	27.61%
Financial instruments dealers	1.10%
Other entities	13.15%
Foreign entities, etc.	6.17%
Individuals and others	51.97%

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/>

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SMK CORPORATION

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