

BUSINESS REPORT 2006

(from April 1, 2005 to March 31, 2006)



To Our Shareholders

I would like to take this opportunity to extend my best wishes and to thank everyone for the exceptional support to us. It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. for the fiscal year 2005 (April 1, 2005 to March 31, 2006), which marks the 71st business year.

Amid the semiconductor industry being swept by global competition, the Company is acting from the very inception point of the manufacturing industry, working to meet customers' expectations for product quality and turnaround times and supplying products at appropriate prices. The Company remains firmly focused on actual manufacturing, intent on providing innovation at all stages of manufacturing, from product development and design to production and further to shipment. In this way, we work to enhance competitive strength and secure the Company's earning power.

This year in September, the Company commemorates the 60th anniversary of its founding. I would like to express my deep gratitude for the support afforded us by shareholders and all other stakeholders. The Company has designated this year as a turning point and a new first step toward "Progress Without Limits." Responding to the expectations of our shareholders and fully committed to serve our business partners, we will continue to develop our operations as a company essential to society.

■ Business Results for the Fiscal Year Ended March 31, 2006

**Expanding demand for mobile phones and PCs in emerging economies
Promoting enhancement of manufacturing capabilities and production innovation**

In the term under review, inventory adjustments of digital products in the semiconductor industry returned

to normal levels. In addition to rising demand for mobile phones and PCs in emerging economies spearheaded by BRICs countries, expanding markets for portable music players, flat-screen TVs and other digital home electronics have helped the industry develop favorably.

In this environment, SHINKO ELECTRIC Group has launched proactive initiatives at sales expansion. At the same time, together with all-out efforts to enhance manufacturing capabilities for semiconductor packages to enable an immediate response to customer needs as well as promotion of new product launches, we have further accelerated and augmented our production innovation activities while working to enhance earning power.

Thanks to market launches of new products, the Company posted the highest results on record

Sales for the period under review totaled 157,806 million yen, a 4.8% increase from a year earlier. In spite of a sustained decline in leadframe sales, positive contributions from new product launches for flip-chip type packages centered on MPU applications for PCs have supported this increase.

Recurring income totaled 28,202 million yen, a 61.3% increase from a year earlier. Despite a continued fall in product prices, this result came thanks to efforts in all segments to enhance production innovation, promote efficiency, and reduce costs. Net income was 16,338 million yen, an increase of 74.1%, with both sales and earnings at historical peak levels.

Non-consolidated sales totaled 153,123 million yen, an increase of 4.8%, with recurring income of 27,403 million yen and net income of 15,930 million yen, respectively 66.9% and 81.3% higher than a year earlier. For the term under review, the Company will pay a regular year-end dividend of 13.0 yen and a commemorative dividend of 6.0 yen on the occasion of the 60th anniversary of the

Company, for a total year-end dividend of 19.0 yen per share (32.0 yen in annual dividends including an interim dividend of 13.0 yen).

■ Outlook

Solid growth set to continue in markets for PCs and mobile phones Product prices remain on the decline amid intense competition

As to the economic outlook, in Japan the prospects for an overall sustained economic recovery remain intact as favorable capital investment and personal consumption are expected to continue. Similarly, the U.S. economy is seen to enjoy further solid expansion in the near term driven by personal consumption, despite a slowing pace in housing investment and capital investment in step with rising long-term interest rates. Nonetheless, concerns remain amid uncertainty introduced by factors such as high crude oil price, developments in the Chinese economy where overheating from excessive investment is feared, and widening deficits in the U.S. fiscal and current account balances.

In the semiconductor industry, healthy demand for PCs centered on notebooks continues. Furthermore, expectations are for sustained market growth amid rising demand for mobile phones in emerging economies and hopes that markets for digital consumer electronics will receive a boost from flat-type TVs, which have moved into mass proliferation. On the other hand, however, the view is that market conditions will offer little reason for optimism also in the future, given further declining product prices amid intense corporate competition and expectations for a shift in the demand-and-supply balance triggered by continuing large-scale capital investment.

Focused and efficient investment of management resources Building corporate structures capable of negotiating change in environment based on strength in actual manufacturing

In this environment, SHINKO ELECTRIC Group has invested management resources in a focused and efficient manner in product and technology fields that promise future growth, and has worked to strengthen our manufacturing and development capabilities through close alignment with market needs. As a part of our actions, we increased production capacity for flip-chip type packages at the Wakaho Plant, our main flip chip production site, as the application of the packages are rapidly expanding to accommodate increasingly high speed and high-performance features of semiconductors. Furthermore, we will meld the core technologies of each business area, promote reinforced efforts in developing and launching new products in order to increase competitive strength, accelerate production innovation activities currently under way at all divisions, and create a manufacturing environment conducive to the highest standards of manufacturing for high-quality products. In so doing, we intend to establish robust corporate features capable of dealing with changes in the environment based on our strength in actual manufacturing.

I would like to request the continued support of our esteemed shareholders.

June 2006



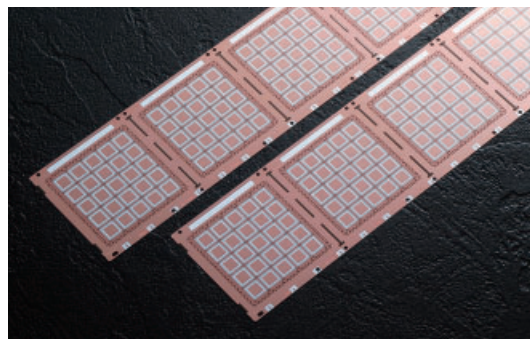
Mamoru Kuroiwa
President

A handwritten signature in black ink that reads "M. Kuroiwa". The signature is written in a cursive, flowing style.

Summary of Operations by Segment

■ IC Leadframes

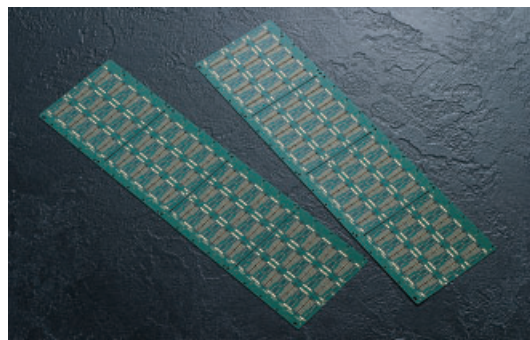
New orders fell for LOC-type leadframes for DRAMs and stamp-type leadframes as the former were affected by a progressing transition to BOC-type BGA substrates and the latter were strongly impacted by intensifying competition. Etch-type leadframes saw sales rise from a year earlier, thanks to firm demand for mobile phone applications. Consolidated net sales in this segment fell 9.8% from the previous year to 28,099 million yen.



The phototype process enables production of etch-type leadframes of different specifications in small lots within short turnaround times.

■ IC Packages

In mainstay flip-chip type packages, demand surged for new PC MPU products with strong contributions to sales growth. Moreover, in BOC-type BGA substrates, the progressing transition to next-generation DRAMs brought a substantial increase in orders. For tape BGAs, orders expanded for DSP applications driven by growth in the mobile phone market. On the other hand, however, camera module assembly experienced a drop in demand caused by adjustments associated with product model changes in the second half of the fiscal year. Consolidated net sales in this segment increased 10.7% from the previous year to 108,594 million yen.



Demand for BOC-type BGA substrates rose strongly in step with the transition to higher DRAM speeds.

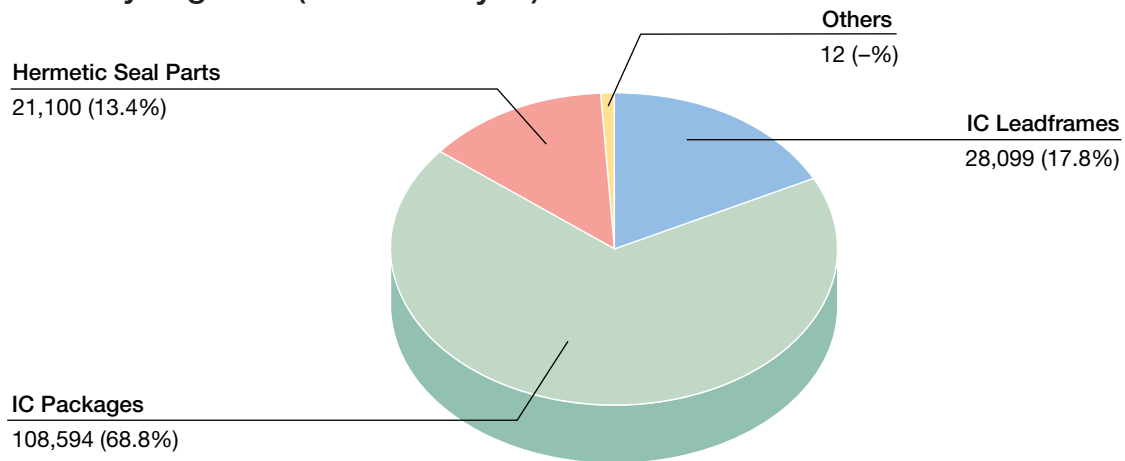
Hermetic Seal Parts

Orders for precision contact parts for mobile phones increased in line with market growth, while demand remained firm also for packages for optical fiber communications. However, although glass-to-metal seal parts for optical devices were on a recovery trend as inventory adjustments abated, progressing declines in selling prices caused a drop in sales. Furthermore, orders for LID's were weak owing to protracted inventory adjustments in products for rear-projection TVs. Consolidated net sales in this segment fell 0.9% to 21,100 million yen.



Due to their high hermiticity and superior electrical properties, glass-to-metal seal parts are widely used in applications where high reliability is needed, such as semiconductor lasers or automotive sensors.

Sales by segment (Millions of yen)



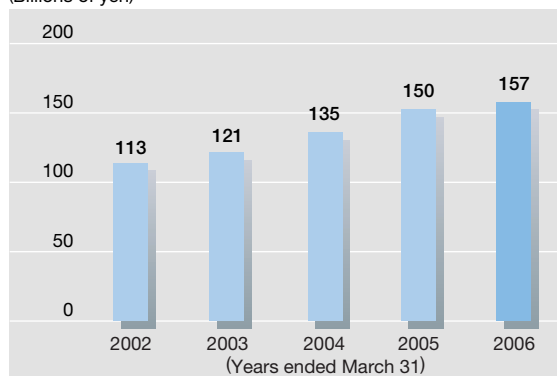
*Figures in () represent % to total sales.

Financial Highlights

Consolidated

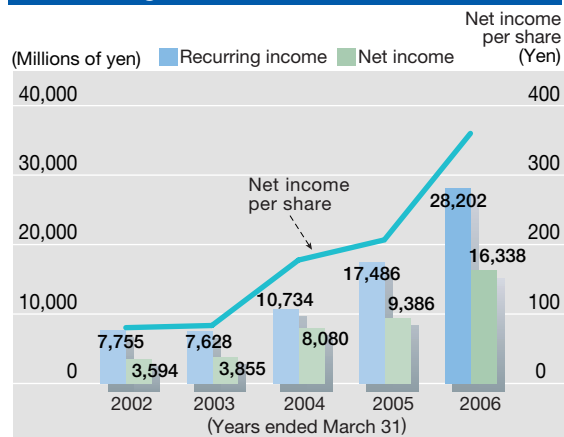
Net sales

(Billions of yen)



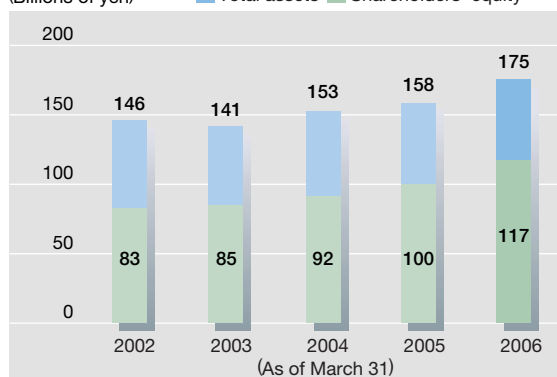
Recurring income / Net income

(Millions of yen)



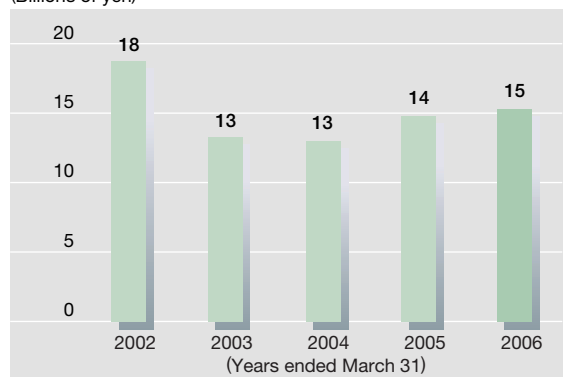
Total assets / Shareholders' equity

(Billions of yen)



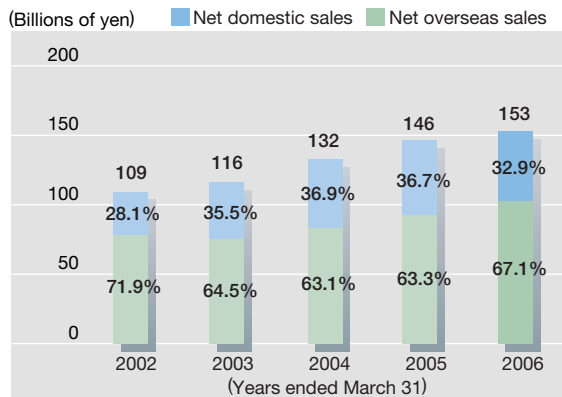
Capital expenditure

(Billions of yen)

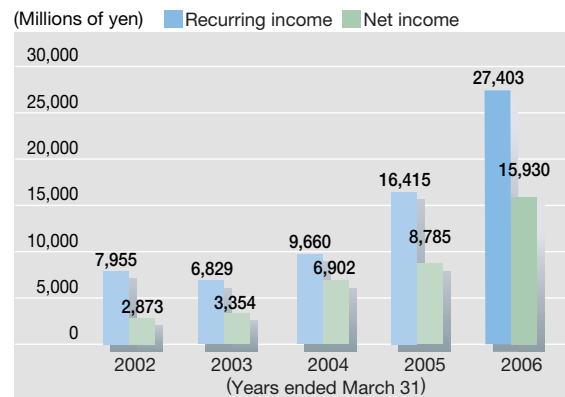


Non-consolidated

Net sales



Recurring income / Net income



Business performance and assets

Years ended March 31	2002	2003	2004	2005	2006
Consolidated					
Net sales (Millions of yen)	113,962	121,429	135,882	150,584	157,806
Recurring income (Millions of yen)	7,755	7,628	10,734	17,486	28,202
Net income (Millions of yen)	3,594	3,855	8,080	9,386	16,338
Net income per share (Yen)	80.04	83.50	177.70	206.80	361.13
Total assets (Millions of yen)	146,676	141,601	153,056	158,499	175,541
Shareholders' equity (Millions of yen)	83,262	85,619	92,254	100,737	117,288
Shareholders' equity per share (Yen)	1,856.21	1,906.32	2,054.25	2,243.26	2,603.29
Capital expenditure (Millions of yen)	18,879	13,325	13,085	14,851	15,398
Research & development (Millions of yen)	4,327	3,973	3,202	3,175	3,477

Non-consolidated

Net sales (Millions of yen)	109,254	116,674	132,543	146,121	153,123
Recurring income (Millions of yen)	7,955	6,829	9,660	16,415	27,403
Net income (Millions of yen)	2,873	3,354	6,902	8,785	15,930

Financial Statements (Consolidated)

Balance Sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2006	2005	2006
Assets	175,541	158,499	1,494,349
Current assets	110,483	98,504	940,523
Cash and time deposits	25,216	30,264	214,663
Receivables, trade: Notes and Accounts	46,682	42,962	397,401
Inventories	8,376	6,766	71,304
Money deposited	25,700	14,000	218,779
Other current assets	4,536	4,546	38,617
Allowance for doubtful receivables	(28)	(34)	(242)
Fixed assets	65,057	59,995	553,825
Property, plant and equipment	58,035	53,476	494,045
Intangible assets	1,750	1,416	14,897
Investments and other assets	5,272	5,102	44,882
Total assets	175,541	158,499	1,494,349
Liabilities	59,187	58,616	503,854
Current liabilities	53,646	47,786	456,679
Payables, trade	23,215	19,777	197,627
Short-term borrowings, including current portion of long-term debt	5,500	890	46,820
Other current liabilities	24,930	27,118	212,230
Long-term liabilities	5,541	10,829	47,175
Minority interests in consolidated subsidiaries	(935)	(853)	(7,961)
Shareholders' equity	117,288	100,737	998,455
Common stock	24,223	24,223	206,206
Capital surplus	24,131	24,150	205,429
Retained earnings	70,506	55,445	600,206
Unrealized gains on securities	409	205	3,487
Foreign currency translation adjustments	(1,830)	(2,628)	(15,582)
Treasury stock	(151)	(658)	(1,290)
Total liabilities and shareholders' equity	175,541	158,499	1,494,349

Note : The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥117.47 = U.S. \$1.00 on March 31, 2006.

Statements of Income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2006	2005	2006
Net sales	157,806	150,584	1,343,373
Cost of goods sold	116,453	119,982	991,343
Selling, general and administrative expenses	13,252	12,683	112,816
Operating income	28,100	17,918	239,213
Non-operating income	1,495	1,555	12,733
Non-operating expenses	1,393	1,987	11,866
Recurring income	28,202	17,486	240,081
Extraordinary expenses	1,334	2,095	11,363
Income before income taxes and minority interests	26,867	15,391	228,717
Income taxes - current	10,111	6,582	86,075
Income taxes - deferred	475	(630)	4,045
Minority interests in income (loss) of consolidated subsidiaries	(57)	52	(488)
Net income	16,338	9,386	139,085

Statements of Cash Flows

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2006	2005	2006
Cash flows from operating activities	32,670	30,382	278,118
Cash flows from investing activities	(15,223)	(15,129)	(129,593)
Cash flows from financing activities	(11,406)	(6,106)	(97,104)
Effect of exchange rate changes on cash and cash equivalents	634	174	5,402
Net increase (decrease) in cash and cash equivalents	6,675	9,319	56,823
Cash and cash equivalents at beginning of year	43,197	33,877	367,729
Cash and cash equivalents at end of year	49,872	43,197	424,552

Financial Statements (Non-consolidated)

Balance Sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2006	2005	2006
Assets	173,043	157,428	1,473,084
Current assets	103,820	93,326	883,803
Cash and time deposits	17,807	24,250	151,594
Receivables, trade: Notes and Accounts	48,412	44,650	412,124
Inventories	7,598	6,162	64,688
Money deposited	25,700	14,000	218,779
Other current assets	4,301	4,261	36,617
Fixed assets	69,222	64,102	589,281
Property, plant and equipment	55,527	51,223	472,691
Intangible assets	1,743	1,414	14,844
Investments and other assets	11,952	11,464	101,745
Total assets	173,043	157,428	1,473,084
Liabilities	57,090	56,821	486,002
Current liabilities	52,592	46,946	447,710
Payables, trade	22,402	19,533	190,708
Short-term borrowings, including current portion of long-term debt	5,500	600	46,820
Other current liabilities	24,689	26,813	210,181
Long-term liabilities	4,498	9,874	38,291
Shareholders' equity	115,952	100,607	987,082
Common stock	24,223	24,223	206,206
Capital surplus	24,131	24,150	205,429
Retained earnings	67,339	52,686	573,250
Unrealized gains on securities	409	205	3,487
Treasury stock	(151)	(658)	(1,290)
Total liabilities and shareholders' equity	173,043	157,428	1,473,084

Statements of Income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2006	2005	2006
Net sales	153,123	146,121	1,303,507
Cost of goods sold	112,563	116,429	958,233
Selling, general and administrative expenses	13,741	13,102	116,979
Operating income	26,817	16,589	228,294
Non-operating income	1,934	1,717	16,470
Non-operating expenses	1,349	1,891	11,484
Recurring income	27,403	16,415	233,281
Extraordinary expenses	1,334	2,095	11,363
Income before income taxes and minority interests	26,068	14,320	221,917
Income taxes - current	9,813	6,320	83,542
Income taxes - deferred	323	(785)	2,757
Net income	15,930	8,785	135,617
Retained earnings brought forward from previous year	1,800	2,297	15,324
Reversal of legal reserve	911		7,757
Loss from disposal of treasury stock		-	
Interim dividends	584	538	4,973
Unappropriated retained earnings at the end of this year	18,058	10,543	153,725

Appropriations

Years ended March 31

[Appropriation of retained earnings]	(Millions of Yen)		(Thousands of U.S. Dollars)
	2006	2005	2006
Unappropriated retained earnings	18,058	10,543	153,725
Reversal of reserve for special depreciation	27	11	238
Total	18,086	10,555	153,963
To be appropriated as follows:			
Dividends	855 <small>(¥19.0 per share) Common dividend ¥13.0 per share Special dividend ¥6.0 per share</small>	583 <small>(¥13.0 per share)</small>	7,280
Bonuses to directors and statutory auditors (of which bonuses to statutory auditors)	110 (7)	110 (7)	936 (63)
Reserve for special depreciation	124	62	1,057
General reserve	15,000	8,000	127,692
Retained earnings carried forward to next period	1,996	1,800	16,996

Note: The Company paid interim dividends of ¥12.0 per share on December 10, 2004, and ¥13.0 per share on December 9, 2005.

[Appropriation of other capital surplus]	(Millions of Yen)	(Thousands of U.S. Dollars)
	2006	2006
Other capital surplus	18,076	153,877
To be appropriated as follows:		
Other capital surplus carried forward to next period	18,076	153,877

Increased production capability for flip-chip type packages

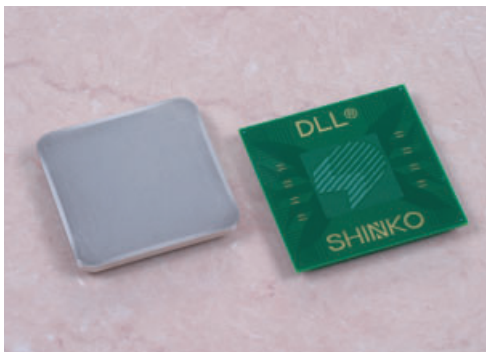


New building at Wakaho Plant

In step with increasingly high speeds and high-performance features of electronics products such as PCs and game consoles, demand has been rising for flip-chip type packages for high-performance ICs such as MPUs and chipsets used in these products.

For the Company to react promptly to growing markets and to accommodate the increasing minuteness and higher density of packages, we are taking substantial steps to promote the expansion of production capabilities. Our efforts include expansion of production facilities at our Wakaho Plant in Nagano City, the world's largest production base for flip-chip type packages.

Growing markets for heat spreaders



Heat spreader (left) and flip-chip type package

With rising speeds of IC devices, heat spreaders are gaining in importance as devices that efficiently drain away the heat generated by IC chips, thereby preventing deterioration in chip performance. The expectation is that in the future the market for heat spreader applications will reach beyond MPUs of PCs, and extend to ICs for game consoles and memory modules for next-generation servers.

Heat spreaders produced by the Company employ an array of core technologies accumulated since the founding of the Company, such as metal processing and surface treatment technologies. Our heat spreaders are highly acclaimed by customers as products featuring high-precision flatness and superior anti-corrosion properties.

Corporate Data

(as of March 31, 2006)

■ Corporate Name	SHINKO ELECTRIC INDUSTRIES CO., LTD.
■ Established	September 12, 1946
■ Head Office	80, Oshimada-machi, Nagano-shi, Japan Tel: 81 (26) 283-1000
■ Major Business Lines	Manufacturing and sales of leadframes, plastic laminated packages (PLPs), glass-to-metal seals, arrester and precision contact parts IC assembly Development and sales of software
■ Number of Employees	4,079 (Consolidated: 4,944)
■ Plants	Kohoku Plant Wakaho Plant Takaoka Plant Arai Plant Kyogase Plant SHINKO R&D CENTER KURITA SOGO CENTER
■ Sales Office Network	Tokyo, Osaka, Sendai, Nagano, Nagoya, Oita, Fukuoka, Frankfurt, Shanghai, Manila
■ Subsidiaries	SHINKO PARTS CO., LTD. SHINKO TECHNOSERVE CO., LTD. SHINKO ELECTRONICS (MALAYSIA) SDN. BHD. KOREA SHINKO MICROELECTRONICS CO., LTD. SHINKO ELECTRIC AMERICA, INC. KOREA SHINKO TRADING CO., LTD. TAIWAN SHINKO ELECTRONICS CO., LTD. SHINKO ELECTRONICS (SINGAPORE) PTE. LTD. SHINKO MICROELECTRONICS (THAILAND) CO., LTD. SHINKO ELECTRIC INDUSTRIES (WUXI) CO., LTD.

Cover: Wakaho Plant in Nagano City

Shareholders' Data

(as of March 31, 2006)

- **Total number of authorized shares** 180,000,000 shares
(Total number of authorized shares has increased to 540,000,000 shares by the stock split effective April 1, 2006.)
- **Total number of shares issued** 45,057,314 shares
(Total number of shares issued has increased to 135,171,942 shares by the stock split effective April 1, 2006.)
- **Paid-in capital** 24,223,020,480 yen
- **Number of shareholders** 6,449
- **Principal shareholders**

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	22,529	50.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,170	7.04
Japan Trustee Services Bank, Ltd. (Trust Accounts)	2,285	5.07
Citigroup Global Markets Inc.	717	1.59
Mitsubishi UFJ Trust and Banking Corporation (Trust Account)	661	1.47
The Hachijuni Bank, Ltd.	612	1.36
Mizuho Bank, Ltd.	612	1.36
The Sumitomo Trust and Banking Co., Ltd. (Trust Account B)	608	1.35
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	552	1.23
Asahi Mutual Life Insurance Company	413	0.92

Board of Directors

(as of June 29, 2006)

President	Mamoru Kuroiwa	Directors	Kazuharu Iguchi
Executive Managing Directors	Fumio Kuraishi		Kunihiko Imai
	Akira Fujimoto		Seizo Mitsui
	Tetsushi Wakabayashi		Yoshihiro Asano
Managing Directors	Akio Imoto		Toshihiko Ogiwara
	Fumio Yanagihara	Standing Auditor	Masaji Yokoyama
Directors	Shin-ichi Wakabayashi	Auditors	Junichi Murashima
	Akihiko Murata		Koichi Ishizaka
	Yoshihiko Ogawa		

Shareholder Information

■ Location of stock administration agent and points of contact

Handling office of
administrator of shareholders'
register

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

(Mailing address)

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division
7-7, Nishiikebukuro 1-chome, Toshima-ku, Tokyo, 171-8508
TEL (Toll free number): 0120-707-696 (Japanese only)

Other points of contact

All branches of Mitsubishi UFJ Trust and Banking Corporation
throughout Japan

(For requesting an application form for changes to registered address,
designation or changes of dividend payment account, purchase request
and additional purchase request for fractional stocks, and inheritance
procedure of stocks, please contact the administrator of shareholders'
register who is available 24 hours a day by toll free number
0120-864-490 (Japanese only).)

■ Business year

From April 1 each year to March 31 of the following year

■ Record date

Record date for the annual
shareholders' meeting

March 31 each year

Record date for dividends

March 31 each year and September 30 if interim dividend shall be paid

■ Method of public notice

Electronic public notice

Electronic public notice shall be presented on our company website:

<http://www.shinko.co.jp/ir/kk/>

However, in case an accident or any other unavoidable circumstance
that precludes electronic notification arises, notices shall be posted in
the *Nihon Keizai Shimbun*.



SHINKO

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