

BUSINESS REPORT 2007

(from April 1, 2006 to March 31, 2007)



To Our Shareholders

I would like to take this opportunity to extend my best wishes and to thank everyone for the exceptional support given to us. It is my pleasure to report on the business results of SHINKO ELECTRIC INDUSTRIES CO., LTD. (the Company) for the fiscal year 2006 (April 1, 2006 to March 31, 2007), which marks our 72nd business year.

The semiconductor industry is expected to continue to grow over the medium and long term, with further progress of digital consumer products, advancement of personal computers and portable equipment, and expansion of markets including those of emerging countries.

On the other hand, however, competition for survival is expected to further intensify on a global basis. Product cycles will accelerate more than ever due to rapidly advancing technical innovation. It will be necessary to establish flexible development and production systems to manufacture at a low cost in order to keep up with constantly changing market needs.

The Company is acting from the inception point of the manufacturing industry, working to meet customers' expectations for product quality and turnaround times and supplying products at competitive prices. The Company remains firmly focused on manufacturing with the intention of 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 strengths and secure the Company's earning power.

■ Business Results for the Fiscal Year Ended March 31, 2007

Expanding the mobile phone market and accelerating popularization of digital home electronics
Expanding DRAM production

In the term under review, the semiconductor industry developed favorably in general. Though product prices declined further because of fierce competition, digital home electronics including flat-panel TVs accelerated in popularity, and the mobile phone market continued to expand, mainly in emerging countries. In the PC-related sector, production of DRAMs expanded in anticipation of increased demand following the release of a new PC operating system.

Through enhancement of production capabilities and production innovation activities, the Company achieved its highest results on record.

In this environment, we focused on building a production system that conforms to trends in demand, including the increase in production capacities at the Wakaho Plant, which produces our main flip-chip type packages for PCs and the latest game consoles. In addition, along with our efforts to increase production capacities of module products for mobile phones and heat spreaders for MPUs, we have also pushed forward with our production innovation activities at all divisions based on the Toyota production system to enhance earning power. Further depreciation of the Japanese yen also contributed favorably to our financial performance. As a result, net sales for the period under review totaled 205,859 million yen, a 30.5% increase from a year earlier, while recurring income was 34,887 million yen, a 23.7% increase from a year earlier and net income was 19,225 million yen, an increase of 17.7% with both sales and earnings at historical peak levels.

Non-consolidated net sales totaled 200,100 million yen, an increase of 30.7%, with recurring income of 33,584 million yen and net income of 18,602 million yen, respectively 22.6% and 16.8% higher than a year earlier. For the term under review, the Company will pay a regular year-end dividend of 9.0 yen and a special dividend of 3.0 yen, for a total year-end dividend of 12.0

yen per share (18.0 yen in annual dividends including an interim dividend of 6.0 yen).

■ Outlook

Growth set to continue in mobile phones and digital home electronics
Downward pressure on lowering product prices amid fierce competition

As for the economic outlook in Japan, the overall prospect is that it will sustain moderate expansion. Increases in capital investment and personal consumption are expected to continue with the support of favorable corporate earnings and improvements in employment and income, though there are misgivings about a slowdown in exports following the deceleration of overseas economies, including the U.S. economy. Similarly, U.S. consumer spending and capital investment are projected to remain steady, since there is much optimism that the influence of the adjustment in the housing sector is limited. On the other hand, it is anticipated situations will continue that will not allow for any optimism to eliminate lingering concerns about economic deceleration. Crude oil prices which peaked and then started falling last summer, began rising firmly again this year as well as accumulated inventories in the IT-related sector remain unresolved.

The semiconductor industry is anticipated to sustain growth, when compared to the previous term, with the expansion of demand for mobile phones and the digital home electronics market. On the other hand, depending on market trends in the future, an adjustment phase could occur in the PC-related sector, where demand is expected for a new PC operating system. Together with growing downward pressure on product prices due to further fierce competition among corporations and with materials prices remaining high, the market conditions will become harsher and will not allow for much optimism.

Creating a manufacturing environment conducive to the highest standards of manufacturing for high quality products, toward “Progress Without Limits”

In this environment, as a leading company in semiconductor packages, we will further focus on the development and commercial production of new products that satisfy the needs of customers, by deepening the progress of elemental technologies for semiconductor packaging, which have been accumulated since our foundation. In order to achieve “Progress Without Limits” in the semiconductor market, where competition is fierce, we will push forward with our production innovation activities more aggressively and create a manufacturing environment conducive to the highest standards of manufacturing for high quality products. In so doing, we intend to establish a robust corporate structure capable of dealing with changes in the environment.

In addition, the Company introduced the corporate officer system as of April 21, 2007, with a goal of enhancing corporate governance and establishing a swift and efficient management system in a rapidly changing business environment.

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

June 2007



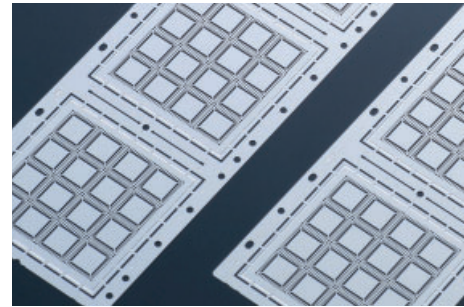
Mamoru Kuroiwa
President

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

Summary of Operations by Product Category

IC Leadframes

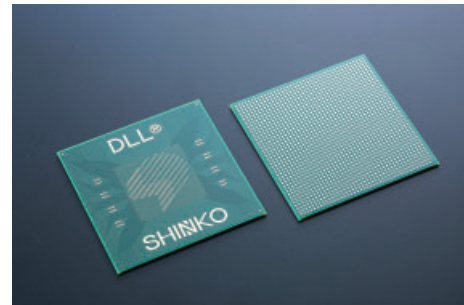
Etch-type leadframes, including QFN (Quad Flat Non-lead)-type leadframes, enjoyed firm demand for mobile phone applications. Sales of LOC (Lead on chip)-type leadframes for DRAMs and stamp-type leadframes fell. The former were affected by decreased demand resulting from model changes despite the expansion of demand for digital home electronics applications. The latter were impacted by intensifying competition. Consolidated sales in this segment fell 9.9% from the previous year to 25,324 million yen.



Demand for QFN-type leadframes are rising in response to IC downsizing, for use in mobile phones, etc.

IC Packages

In BOC (Board on Chip)-type BGA (Ball Grid Array) substrates, sales decreased due to price declines resulting from intensified competition, though demand for the use in DRAMs increased. In our mainstay flip-chip type packages, sales of packages for PCs rose and demand surged thanks to the expansion of applications for new game consoles. The assembly business, which includes camera module assembly for mobile phones, expanded, while heat spreaders for MPUs and tape BGAs for DSP (Digital Signal Processor) applications respectively saw an increase. Consolidated sales in this segment increased 45.4% from the previous year to 157,885 million yen.



Demand for flip-chip type packages are expanding, following the development of high-performance PCs and game consoles.

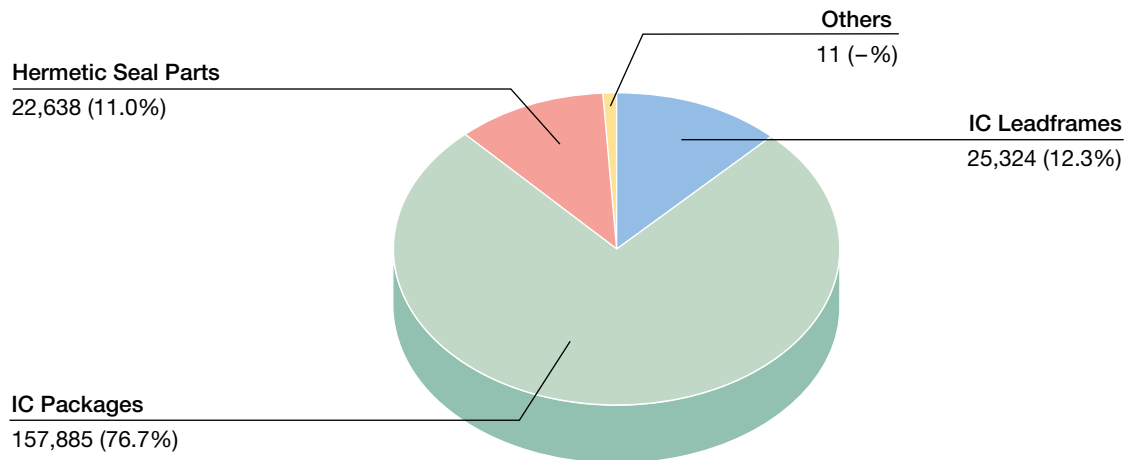
Hermetic Seal Parts

Sales of glass-to-metal seals for optical devices declined due to inventory adjustments in the latter half of the fiscal year, although sales were robust in the first half. Meanwhile, orders for ceramic electrostatic chucks grew due to the brisk semiconductor manufacturing equipment market, and precision contact parts also remained firm. Consolidated sales in this segment increased 7.3% from the previous year to 22,638 million yen.



Glass-to-metal seals have evolved with the Company's core technologies such as metal stamping and welding of glass to metal, which have been cultivated since its founding.

Sales by product category (Millions of yen)

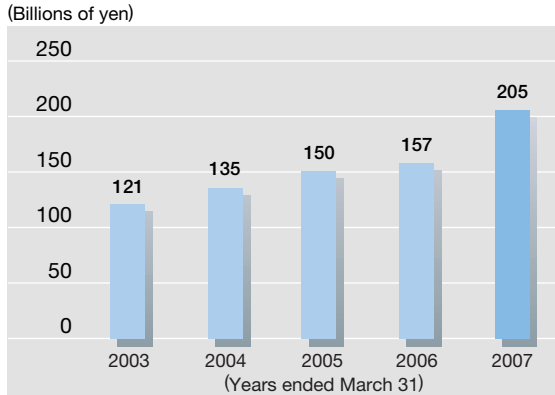


*Figures in () represent % to total sales.

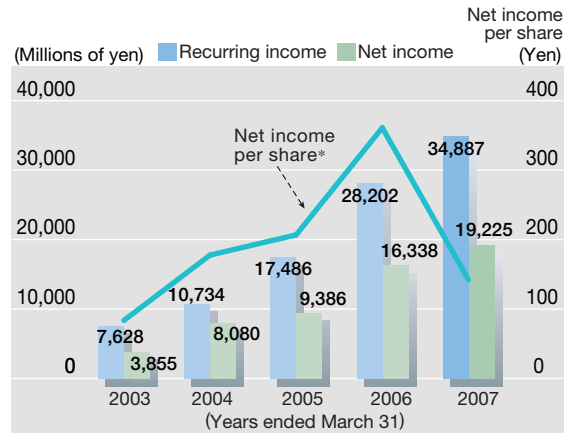
Financial Highlights

Consolidated

Net sales

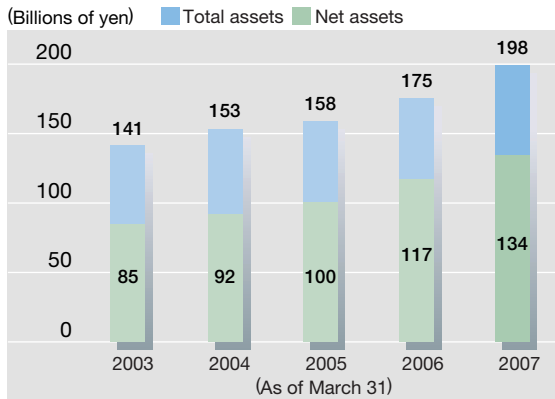


Recurring income / Net income

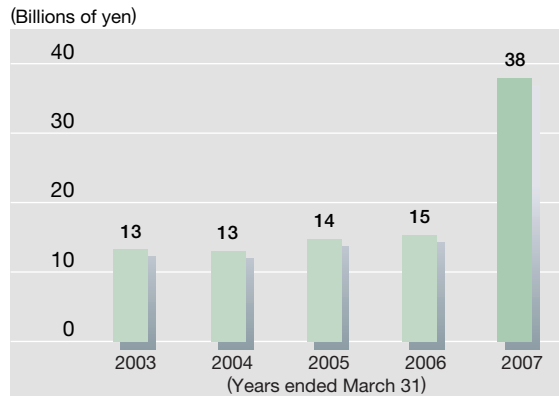


*Three-for-one stock split as of April 1, 2006.

Total assets / Net assets

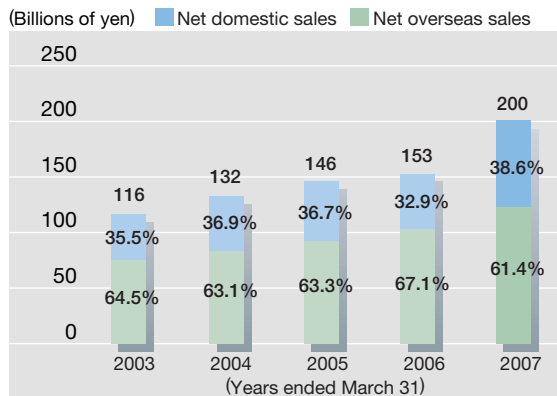


Capital expenditure

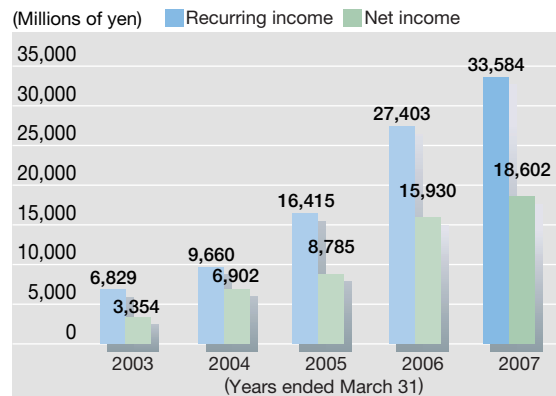


Non-consolidated

Net sales



Recurring income / Net income



Business performance and assets

Years ended March 31	2003	2004	2005	2006	2007
Consolidated					
Net sales (Millions of yen)	121,429	135,882	150,584	157,806	205,859
Recurring income (Millions of yen)	7,628	10,734	17,486	28,202	34,887
Net income (Millions of yen)	3,855	8,080	9,386	16,338	19,225
Net income per share (Yen)	83.50	177.70	206.80	361.13	142.32*
Total assets (Millions of yen)	141,601	153,056	158,499	175,541	198,862
Net assets (Millions of yen)	85,619	92,254	100,737	117,288	134,193
Net assets per share (Yen)	1,906.32	2,054.25	2,243.26	2,603.29	1,000.33*
Capital expenditure (Millions of yen)	13,325	13,085	14,851	15,398	38,038
Research & development (Millions of yen)	3,973	3,202	3,175	3,477	3,975

*Three-for-one stock split as of April 1, 2006.

Non-consolidated

Net sales (Millions of yen)	116,674	132,543	146,121	153,123	200,100
Recurring income (Millions of yen)	6,829	9,660	16,415	27,403	33,584
Net income (Millions of yen)	3,354	6,902	8,785	15,930	18,602

Financial Statements (Consolidated)

Balance Sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2007	2006	2007
Assets	198,862	175,541	1,684,559
Current assets	116,832	110,483	989,684
Cash and time deposits	20,626	25,216	174,724
Receivables, trade: notes and accounts	68,252	46,682	578,166
Inventories	9,419	8,376	79,790
Money deposited	13,620	25,700	115,374
Other current assets	4,933	4,536	41,792
Allowance for doubtful receivables	(19)	(28)	(164)
Fixed assets	82,029	65,057	694,874
Property, plant and equipment	75,042	58,035	635,687
Intangible assets	1,736	1,750	14,710
Investments and other assets	5,250	5,272	44,476
Total assets	198,862	175,541	1,684,559
Liabilities	64,668	59,187	547,808
Current liabilities	59,340	53,646	502,672
Payables, trade	30,576	23,215	259,015
Short-term borrowings, including current portion of long-term debt	1,500	5,500	12,706
Other current liabilities	27,263	24,930	230,950
Long-term liabilities	5,328	5,541	45,136
Minority interests in consolidated subsidiaries		(935)	
Shareholders' equity		117,288	
Common stock		24,223	
Capital surplus		24,131	
Retained earnings		70,506	
Unrealized gains on securities		409	
Foreign currency translation adjustments		(1,830)	
Treasury stock		(151)	
Total liabilities, minority interests and shareholders' equity		175,541	
Net assets	134,193		1,136,750
Shareholders' equity	136,217		1,153,899
Common stock	24,223		205,192
Capital surplus	24,129		204,401
Retained earnings	87,955		745,073
Treasury stock	(90)		(768)
Valuation and translation adjustments	(1,081)		(9,160)
Unrealized gains on securities	446		3,781
Deferred profits (losses) on hedges	5		43
Foreign currency translation adjustments	(1,532)		(12,985)
Minority interests in consolidated subsidiaries	(942)		(7,987)
Total liabilities and net assets	198,862		1,684,559

Note: The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥118.05 = U.S. \$1.00 on March 30, 2007.

Statements of Income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2007	2006	2007
Net sales	205,859	157,806	1,743,834
Cost of goods sold	155,708	116,453	1,319,007
Gross profit	50,150	41,352	424,826
Selling, general and administrative expenses	14,824	13,252	125,578
Operating income	35,326	28,100	299,248
Non-operating income	1,483	1,495	12,567
Non-operating expenses	1,922	1,393	16,285
Recurring income	34,887	28,202	295,529
Extraordinary expenses	2,226	1,334	18,861
Income before income taxes and minority interests	32,660	26,867	276,668
Income taxes - current	13,006	10,111	110,177
Income taxes - deferred	341	475	2,892
Minority interests in income (loss) of consolidated subsidiaries	87	(57)	739
Net income	19,225	16,338	162,858

Statements of Cash Flows

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2007	2006	2007
Cash flows from operating activities	25,909	32,670	219,476
Cash flows from investing activities	(37,400)	(15,223)	(316,819)
Cash flows from financing activities	(5,607)	(11,406)	(47,497)
Effect of exchange rate changes on cash and cash equivalents	217	634	1,838
Net increase (decrease) in cash and cash equivalents	(16,881)	6,675	(143,001)
Cash and cash equivalents at beginning of year	49,872	43,197	422,466
Cash and cash equivalents at end of year	32,990	49,872	279,464

■ Statements of Changes in Net Assets

Year ended March 31, 2007

(Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance of March 31, 2006	24,223	24,131	70,506	(151)	118,709
Changes in the term:					
Dividends from surplus*			(855)		(855)
Dividends from surplus			(810)		(810)
Bonuses to directors and corporate auditors*			(110)		(110)
Net income			19,225		19,225
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		(2)		62	60
Net changes of items other than shareholders' equity					
Total changes in the term	0	(2)	17,449	60	17,508
Balance of March 31, 2007	24,223	24,129	87,955	(90)	136,217

	Valuation and translation adjustments				Minority interests	Total net assets
	Unrealized gains on securities	Deferred profits (losses) on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance of March 31, 2006	409		(1,830)	(1,420)	(935)	116,353
Changes in the term:						
Dividends from surplus*						(855)
Dividends from surplus						(810)
Bonuses to directors and corporate auditors*						(110)
Net income						19,225
Purchase of treasury stock						(1)
Disposal of treasury stock						60
Net changes of items other than shareholders' equity	36	5	297	339	(7)	331
Total changes in the term	36	5	297	339	(7)	17,839
Balance of March 31, 2007	446	5	(1,532)	(1,081)	(942)	134,193

*These are appropriation items as of the Annual Shareholders' Meeting held in June, 2006.

Financial Statements (Non-consolidated)

Balance Sheets

As of March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2007	2006	2007
Assets	195,398	173,043	1,655,220
Current assets	109,375	103,820	926,518
Fixed assets	86,023	69,222	728,702
Total assets	195,398	173,043	1,655,220
Liabilities	62,518	57,090	529,594
Current liabilities	58,209	52,592	493,095
Long-term liabilities	4,308	4,498	36,498
Shareholders' equity		115,952	
Common stock		24,223	
Capital surplus		24,131	
Retained earnings		67,339	
Unrealized gains on securities		409	
Treasury stock		(151)	
Total liabilities and shareholders' equity		173,043	
Net assets	132,880		1,125,626
Shareholders' equity	132,428		1,121,801
Common stock	24,223		205,192
Capital surplus	24,129		204,401
Retained earnings	84,166		712,976
Treasury stock	(90)		(768)
Valuation and translation adjustments	451		3,824
Total liabilities and net assets	195,398		1,655,220

Statements of Income

Years ended March 31

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2007	2006	2007
Net sales	200,100	153,123	1,695,052
Cost of goods sold	150,773	112,563	1,277,199
Gross profit	49,327	40,559	417,852
Selling, general and administrative expenses	15,376	13,741	130,255
Operating income	33,950	26,817	287,597
Non-operating income	1,661	1,934	14,070
Non-operating expenses	2,026	1,349	17,170
Recurring income	33,584	27,403	284,497
Extraordinary expenses	2,217	1,334	18,784
Income before income taxes	31,367	26,068	265,712
Income taxes - current	12,455	9,813	105,512
Income taxes - deferred	308	323	2,615
Net income	18,602	15,930	157,584
Retained earnings brought forward from previous year		1,800	
Reversal of legal reserve		91	
Interim dividends		584	
Unappropriated retained earnings at the end of year		18,058	

Demand for camera module assembly expanding



Camera module

With the growth of the market of mobile phones equipped with cameras, demand is growing for assembly of camera modules (modules in which lenses, photographic sensors and other components are integrated), which provide a photographic function.

The Company has focused on the establishment of a stable production system for high density camera modules by acquiring technologies from the optics field in addition to the high density packaging technology cultivated through the assembly business. The Company has realized high yields by establishing an unique production system that keeps dust off parts, since invisible fine dust is a great adversary in the assembly of camera modules.

Website renewed

The Company has fully renewed its website. The renewal is primarily aimed at providing information that enables interested readers to learn about the Company. PCs and mobile phones are used as examples to introduce our products and explanations using computer graphics show where they are used in those consumer products. We hope you will visit our website at the following address:

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



Corporate Data

(as of March 31, 2007)

■ 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
■ Number of Employees	4,056 (Consolidated: 4,941)
■ Plants & Facilities	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 INDUSTRIES (WUXI) CO., LTD. SHINKO ELECTRIC AMERICA, INC. KOREA SHINKO TRADING CO., LTD. TAIWAN SHINKO ELECTRONICS CO., LTD. SHINKO ELECTRONICS (SINGAPORE) PTE. LTD.
■ Affiliated Company	SHINKO MICROELECTRONICS (THAILAND) CO., LTD.

Cover: Arai Plant (Myoko-shi, Niigata), Myoko mountain ranges in background

Shareholders' Data

(as of March 31, 2007)

■ Total number of authorized shares	540,000,000 shares
■ Total number of shares issued	135,171,942 shares
■ Paid-in capital	24,223,020,480 yen
■ Number of shareholders	15,969
■ Principal shareholders	

Name	Number of shares held (Thousands)	Ownership ratio (%)
Fujitsu Limited	67,587	50.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,372	6.19
Japan Trustee Services Bank, Ltd. (Trust Accounts)	7,103	5.26
The Hachijuni Bank, Ltd.	1,836	1.36
Mizuho Bank, Ltd.	1,836	1.36
The Sumitomo Trust and Banking Co., Ltd. (Trust Account B)	1,788	1.32
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1,458	1.08
Dexia BIL S/A Pool Julius Baer Multipartner Multistock	1,377	1.02
Goldman Sachs International	1,322	0.98
Investors Bank and Trust Company (West) - Pension Fund Clients	1,285	0.95

Board of Directors and Auditors

(as of June 28, 2007)

President	Mamoru Kuroiwa
Directors and Executive Managing Corporate Officers	Fumio Kuraishi Akira Fujimoto
Directors and Managing Corporate Officers	Fumio Yanagihara Akihiko Murata
Standing Auditor	Masaji Yokoyama
Auditors	Junichi Murashima Koichi Ishizaka

Corporate Officers

(as of June 28, 2007)

Managing Corporate Officers	Yoshihiko Ogawa Kunihiko Imai	Corporate Officers	Takahiro Kiyono Hiroshi Hasebe
Senior Corporate Officers	Kazuharu Iguchi Seizo Mitsui Yoshihiro Asano Toshihiko Ogiwara		Takato Kikuchi Haruo Aizu Mitsuharu Shimizu Haruo Sorimachi Toshihisa Yoda Tadashi Kodaira

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 10-11, Higashisuna 7-chome, Koto-ku, Tokyo, 137-8081 TEL (Toll free number): 0120-232-711 (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 0120-244-479 (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 <i>Nihon Keizai Shimbun</i> .



SHINKO

SHINKO ELECTRIC INDUSTRIES CO., LTD.
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