



HIROSE ELECTRIC CO.,LTD.

Profile

HIROSE ELECTRIC is a specialist in industrial-use connectors for electronic equipment, a field in which it has a proud track record of original product development. In recent years, the company has been aggressively expanding into consumer electronics and other fields, mobilizing its accumulated expertise to carve out a succession of new markets.

By supplying a broad range of high-quality connectors suitable for every conceivable type of application, Hirose Electric has won the patronage of leading global companies in the fields of computer and communications equipment, factory and office automation equipment, instrumentation, amusement devices, and automotive and consumer electronic equipment.

The main product range consists of multi-pin connectors which come in various formats: circular and rectangular, for nylon and ribbon cable, and for printed circuit boards including FPCs (flexible printed circuit boards) and PC cards. High-performance coaxial and optical fiber connectors form the second principal product range. They are used in a wide variety of microwave and other high-frequency signal applications. The company also manufactures various specialized devices and instruments.

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Financial Highlights

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

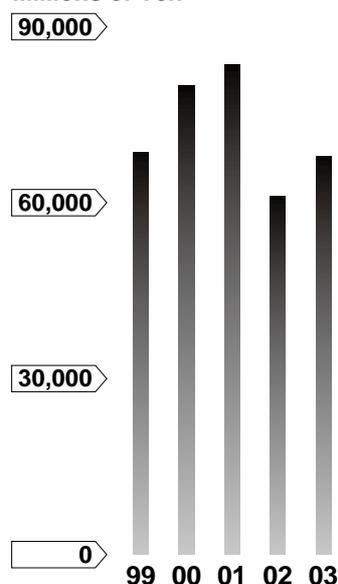
For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars*
	2003	2002	2001	2003
Net sales:	¥ 67,890	¥ 61,144	¥ 83,540	\$ 564,809
Domestic market	45,965	42,789	59,180	382,404
Overseas market	21,925	18,355	24,360	182,404
Operating income	20,138	14,408	25,990	167,537
Net income	11,398	8,113	15,906	94,825
At year-end:				
Total assets	¥192,802	¥177,876	¥175,647	\$1,604,010
Shareholders' equity	169,787	160,125	150,321	1,412,537
Per share of common stock:				
(in yen and dollars)				
Net income — Basic	¥ 284.9	¥ 204.4	¥ 400.7	\$ 2.37
— Diluted	282.9	203.1	397.8	2.35
Shareholders' equity	4,276.1	4,033.8	3,786.1	35.57

* U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥120.20 = U.S.\$1.

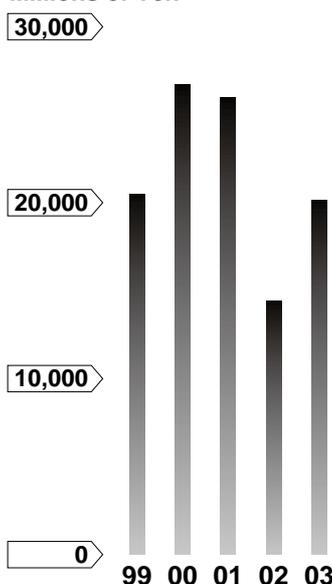
Net Sales

Millions of Yen



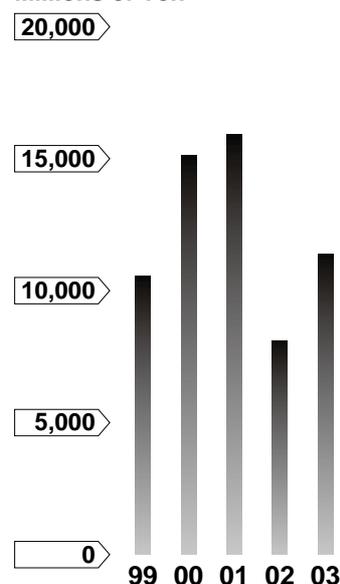
Operating Income

Millions of Yen



Net Income

Millions of Yen



To Our Shareholders



Many and Diverse Demands for Connectors

In the fiscal year ended March 31, 2003, the Japanese economy was initially supported by the moderate U.S. recovery. Although there was a brief improvement in production levels and export volumes, the subsequent worldwide drop in share prices, an expanding deflationary spiral in Japan and hostilities in Iraq resulted in uncertainties about the future, prolonging the economic malaise.

Amid this environment, Hirose Electric succeeded in posting higher net sales and net income. Consolidated net sales increased year on year by ¥6,746 million, or 11.0%, to ¥67,890 million and net income rose ¥3,285 million, or 40.5%, to ¥11,398 million.

By product area, sales of our flagship multi-pin connectors—which include circular and rectangular connectors, and connectors for ribbon cables, connectors used for printed circuit boards including FPCs (flexible printed circuit boards) and PC cards, as well as nylon connectors—increased 14.4% to ¥55,385 million. This was the result of strong demand in the communications fields, particularly for mobile telephones with new functions, and growing sales of digital consumer electronics.

In coaxial connectors, sales decreased 5.3% to ¥9,593 million due to weak demand for mobile communications equipment and curbs on investments in communications infrastructure. Coaxial connectors are a special type of high-performance connector used primarily for microwave and other high-frequency signals. Their applications include microwave communications devices, satellite communications equipment, electronic measuring instruments, mobile communications equipment such as mobile phones, switching and transmission equipment, other IT and communications network equipment, and digital consumer equipment. Optical fiber connectors are also included in this sector.

Sales in the Other Products sector increased 11.0% to ¥2,911 million. This sector includes high-frequency devices such as directional couplers, non-reflecting terminal equipment, fixed attenuators, circulators and coaxial switches, as well as low-frequency equipment designed for medical treatment applications and instruments for connectors.

Our Management Philosophy

As a specialist manufacturer of connectors, Hirose Electric has been contributing to the development of the electronics sector for more than half a century. Over the last few decades, we have maintained a fundamental management concept for the company that emphasizes intelligence over size. It is rooted in the belief that we can maintain high-quality management in an efficient organization if we humbly recognize our limitations of scale, acquire expertise from outside and combine it with our own intelligence. In this way, we aim to participate in the rapid growth of the electronics industry.

In this time of economic uncertainty and increasingly borderless economic activity, we must reaffirm our responsibilities as an electronics component manufacturer, making the Hirose brand synonymous with top-quality products. We believe that our mission is to accurately and dynamically deliver policies that will gain the trust of our customers and fulfill the expectations of our shareholders.

Raising Corporate Value

As the information society continues to evolve and communications technologies become more diverse and sophisticated, the medium- to long-term growth prospects in our industry are good. Nevertheless, competition between companies is bound to intensify. We intend to meet these challenges by bolstering our ability to develop products that cater to emerging needs, raising quality, driving improvements in productivity and paring costs. At the same time, we will respond to the increasing globalization of our markets and increase corporate value by raising our presence in fields exhibiting strong growth prospects, such as IT, communications, digital AV equipment, home appliances and car electronics.

We will also continue to do our utmost to protect the environment. We have obtained ISO 14001 certification, the international standard for environmental management, at our domestic manufacturing subsidiaries. Through efforts such as these, we will continue to ensure that all group companies consider the environment in the course of their business activities.

In closing, we would like to thank all our shareholders for their ongoing support and encouragement.

August 2003



Hideki Sakai
Chairman and Chief Executive Officer



Tatsuro Nakamura
President and Chief Operating Officer

Five-Year Summary

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

Years ended March 31

	Millions of Yen				
	2003	2002	2001	2000	1999
Net sales	¥ 67,890	¥ 61,144	¥ 83,540	¥ 79,962	¥ 68,570
Operating income	20,138	14,408	25,990	26,725	20,504
Net income	11,398	8,113	15,906	15,140	10,535
At year-end:					
Total assets	¥192,802	¥177,876	¥175,647	¥158,456	¥145,830
Shareholders' equity	169,787	160,125	150,321	134,253	117,150

	Yen				
	2003	2002	2001	2000	1999
Per share of common stock:					
Net income —					
Basic	¥ 284.9	¥ 204.4	¥ 400.7	¥ 381.4	¥ 265.4
Diluted	282.9	203.1	397.8	378.7	263.6
Shareholders' equity	4,276.1	4,033.8	3,786.1	3,381.4	2,951.1

	Thousands of U.S. Dollars *				
	2003	2002	2001	2000	1999
Net sales	\$ 564,809	\$ 508,686	\$ 695,008	\$ 665,241	\$ 570,466
Operating income	167,537	119,867	216,223	222,338	170,582
Net income	94,825	67,496	132,329	125,957	87,646
At year-end:					
Total assets	\$1,604,010	\$1,479,834	\$1,461,290	\$1,318,270	\$1,213,228
Shareholders' equity	1,412,537	1,332,155	1,250,591	1,116,913	974,626

	U.S. Dollars *				
	2003	2002	2001	2000	1999
Per share of common stock:					
Net income —					
Basic	\$ 2.37	\$ 1.70	\$ 3.33	\$ 3.17	\$ 2.21
Diluted	2.35	1.69	3.31	3.15	2.19
Shareholders' equity	35.57	33.56	31.50	28.13	24.55

* U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥120.20 = U.S.\$1.

Financial Review

The Hirose Electric Co., Ltd. group consists of the parent company, Hirose Electric, 13 subsidiaries and 3 affiliates. Of the subsidiaries, nine are consolidated: Tohoku Hirose Electric Co., Ltd., Koriyama Hirose Electric Co., Ltd., Ichinoseki Hirose Electric Co., Ltd., Hirose Electric (U.S.A.), Inc., Hirose Electric GmbH, Hirose Electric UK Ltd., Hirose Electric Hong Kong Co., Ltd., Hirose Electric (Dong Guan) Co., Ltd. and Hirose Electric (Taiwan) Co., Ltd. One of the affiliates, Hirose Cherry Precision Co., Ltd., is accounted for by the equity method. As the fiscal year end of affiliate Hirose Electric (Dong Guan) Co., Ltd. is December 31, financial statements of this company prepared as if the fiscal year end were March 31 have been used in the preparation of the consolidated financial statements of Hirose Electric.

Operating Environment

In the fiscal year ended March 31, 2003, the Japanese economy was initially supported by the moderate U.S. recovery. Although there was a brief improvement in production levels and export volumes, the subsequent worldwide drop in share prices, an expanding deflationary spiral in Japan and hostilities in Iraq resulted in uncertainties about the future, prolonging the economic malaise.

In the electronics industry, exports to Asian and other countries were relatively strong, amid intense competition among suppliers. Nevertheless, a difficult business environment prevailed in which capital investment was subdued in general and demand continued to stagnate in the IT and communications fields.

Net Sales and Net Income

During the year, Hirose Electric took steps to enhance its ability to develop higher-quality products that meet ever diversifying needs, to develop new products and strengthen product development capabilities, especially in the sphere of industrial-use electronic devices. At the same time, the company implemented wide-ranging management policies to improve production efficiency, cut costs, including by actively developing production overseas, develop new domestic and overseas sales channels and strengthen marketing.

As a result of these efforts, consolidated net sales increased year on year by 11.0% to ¥67,890 million. Net income rose 40.5% to ¥11,398 million.

Segment Information

Connector Manufacturing and Sales Business

Hirose Electric's principal business is manufacturing and selling connectors for electronics devices. These connectors are used to link and separate various functional units and circuits in electrical and electronics equipment. They are widely used in computers and peripheral equipment, mobile communications devices, office automation equipment, communications equipment, digital information devices for the home and car electronics.

Composition of sales by connector type:

Years ended March 31	2003	2002	
Multi-pin connectors	81.6%	79.1%	Circular, rectangular, printed circuit boards
Coaxial connectors	14.1%	16.6%	Coaxial, optical
Other	4.3%	4.3%	Coaxial components, crimp contacts, medical equipment, etc.
Total	100.0%	100.0%	

Overseas Sales

Overseas sales increased by ¥3,570 million, or 19.4%, to ¥21,925 million (US\$182,404 thousand).

Overseas sales by region

Years ended March 31	Millions of Yen			
	Overseas sales	Share of consolidated sales	Overseas sales	Share of consolidated sales
	2003		2002	
North America	¥ 2,905	4.3%	¥ 2,497	4.1%
Asia	13,764	20.3%	10,113	16.5%
Europe	4,492	6.6%	4,277	7.0%
Other	764	1.1%	1,468	2.4%
Total	¥21,925	32.3%	¥18,355	30.0%

Financial Position

Total assets at the end of the year stood at ¥192,802 million (US\$1,604,010 thousand), an increase of 8.4% from a year ago. Current assets increased 11.4% to ¥170,415 million (US\$1,417,762 thousand), reflecting an increase in cash and bank deposits offset by a decrease in marketable securities.

Shareholders' equity rose by 6.0% to ¥169,787 million (US\$1,412,537 thousand). As a result, the equity ratio decreased by 0.9 percentage points to 88.1%. Shareholders' equity per share rose ¥242.3 to ¥4,276.1 (US\$35.57).

Repurchase of Treasury Stock

Hirose Electric repurchased a total of 1,000,400 shares of common stock at a cost of ¥8,843 million (US\$ 73,569 thousand), based on a resolution approved at the annual general meeting of shareholders on June 27, 2002. This action was taken to give the company the flexibility it needs in its capital policy to respond to changes in the operating environment.

Approval for Repurchase of Treasury Stock

On June 27, 2003, at the annual general meeting of shareholders, a resolution was approved that authorizes the repurchase of up to 2 million shares of Hirose Electric common stock for a maximum amount of ¥20,000 million.

Granting of Stock Options

On June 27, 2003, at the annual general meeting of shareholders, a resolution to grant additional stock options to five directors was approved. This action will raise morale and motivation to improve business performance, thereby increasing corporate value.

Consolidated Balance Sheets

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
ASSETS			
Current assets:			
Cash and bank deposits	¥138,905	¥122,870	\$1,155,616
Marketable securities (Notes 1 (d) and 3)	377	1,258	3,136
Trade notes and accounts receivable (Note 2)	22,369	19,910	186,098
Allowance for doubtful receivables	(48)	(55)	(399)
Inventories	4,675	5,030	38,894
Deferred income taxes (Note 10)	1,269	1,004	10,557
Other current assets	2,868	2,995	23,860
Total current assets	170,415	153,012	1,417,762
Property, plant and equipment:			
Land	1,809	1,848	15,050
Buildings	6,338	6,411	52,729
Machinery and equipment	39,785	44,588	330,990
Construction in progress	231	220	1,922
	48,163	53,067	400,691
Less accumulated depreciation	(35,502)	(39,370)	(295,358)
Property, plant and equipment, net	12,661	13,697	105,333
Investments and other assets:			
Investment securities (Notes 1 (d) and 3)	4,831	6,297	40,191
Investment in affiliates	2,154	2,167	17,920
Deferred income taxes (Note 10)	127	101	1,057
Intangible and other assets	2,614	2,602	21,747
Total investments and other assets	9,726	11,167	80,915
Total assets	¥192,802	¥177,876	\$1,604,010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade notes and accounts payable	¥ 9,410	¥ 7,386	\$ 78,286
Short-term borrowings (Note 6)	143	—	1,190
Convertible bonds due within one year (Note 7)	1,523	—	12,671
Accrued expenses	1,325	1,193	11,023
Accrued income taxes	5,876	2,608	48,885
Accrued bonuses	976	1,025	8,120
Deferred income taxes (Note 10)	6	10	50
Other current liabilities	1,265	1,101	10,524
Total current liabilities	20,524	13,323	170,749
Long-term liabilities:			
Convertible bonds (Note 7)	—	1,534	—
Employees' retirement and severance benefits (Notes 1 (j) and 9)	758	549	6,306
Directors' and Corporate Auditors' retirement and severance benefits (Note 1 (j))	659	623	5,483
Deferred income taxes (Note 10)	693	1,343	5,765
Other long-term liabilities	381	379	3,170
Total long-term liabilities	2,491	4,428	20,724
Contingent liabilities (Note 13)			
Shareholders' equity (Note 11):			
Common stock			
Authorized — 80,000,000 shares			
Issued 2002 — 39,705,407 shares			
2003 — 39,707,690 shares	8,650	8,645	71,963
Additional paid-in capital	11,254	11,249	93,627
Retained earnings	148,473	137,871	1,235,216
Accumulated other comprehensive income —			
Unrealized gain on available-for-sale securities (Note 1 (d)) . .	1,676	2,288	13,943
Foreign currency translation adjustments	(67)	154	(557)
	169,986	160,207	1,414,193
Less— Cost of common stock in treasury			
22,320 shares in 2003 and 9,200 shares in 2002	(199)	(82)	(1,656)
Total shareholders' equity	169,787	160,125	1,412,537
Total liabilities and shareholders' equity	¥192,802	¥177,876	\$1,604,010

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Consolidated Statements of Shareholders' Equity

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Common stock:			
Balance at beginning of year	¥ 8,645	¥ 8,641	\$ 71,922
Conversion of bonds	5	4	41
Balance at end of year	<u>¥ 8,650</u>	<u>¥ 8,645</u>	<u>\$ 71,963</u>
Additional paid-in capital:			
Balance at beginning of year	¥ 11,249	¥ 11,244	\$ 93,586
Conversion of bonds	5	5	41
Balance at end of year	<u>¥ 11,254</u>	<u>¥ 11,249</u>	<u>\$ 93,627</u>
Retained earnings:			
Balance at beginning of year	¥137,871	¥130,609	\$1,147,013
Net income	11,398	8,113	94,825
Effect of change in scope of consolidation	22	—	183
Cash dividends paid	(734)	(754)	(6,106)
Bonuses to directors and corporate auditors	(84)	(97)	(699)
Balance at end of year	<u>¥148,473</u>	<u>¥137,871</u>	<u>\$1,235,216</u>
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	¥ 1,676	¥ 2,288	\$ 13,943
Foreign currency translation adjustments	(67)	154	(557)
Total accumulated other comprehensive income, net	<u>¥ 1,609</u>	<u>¥ 2,442</u>	<u>\$ 13,386</u>
Treasury stock, at cost	(199)	(82)	(1,656)
2002: 9,200 shares			
2003: 22,320 shares			
Total shareholders' equity	<u>¥169,787</u>	<u>¥160,125</u>	<u>\$1,412,537</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Operating activities:			
Income before income taxes	¥ 19,505	¥ 13,850	\$ 162,271
Adjustments to reconcile income before income taxes to net cash provided by operating activities —			
Depreciation and amortization	4,301	5,313	35,782
Equity in earnings of affiliates	(10)	(27)	(83)
Income taxes paid	(5,289)	(8,783)	(44,002)
Bonus paid to directors	(90)	(97)	(749)
Changes in assets and liabilities —			
(Increase) decrease in trade notes and accounts receivable . . .	(2,222)	9,630	(18,486)
Decrease in inventories	479	2,619	3,985
Decrease (increase) in trade notes and accounts payable . . .	1,330	(4,139)	11,065
Other, net	885	193	7,363
Net cash provided by operating activities	18,889	18,559	157,146
Investing activities:			
Proceeds from sales of marketable securities	1,261	3,104	10,491
Proceeds from sales of property	342	345	2,845
Purchases of property	(3,331)	(5,624)	(27,712)
Other, net	(308)	(58)	(2,562)
Net cash used in investing activities	(2,036)	(2,233)	(16,938)
Financing activities:			
Dividends paid	(734)	(754)	(6,106)
Other, net	(117)	(81)	(973)
Net cash used in financing activities	(851)	(835)	(7,079)
Effect of exchange rate change on cash and cash equivalents . . .	(121)	166	(1,007)
Net increase in cash and cash equivalents	15,881	15,657	132,122
Cash and cash equivalents, beginning of year	122,870	107,213	1,022,213
Increase of cash and cash equivalents due to certain subsidiaries consolidated commencing in fiscal 2003	154	—	1,281
Cash and cash equivalents, end of year	¥138,905	¥122,870	\$1,155,616
Supplemental disclosures of cash flow information:			
Cash paid for interest	¥ 32	¥ 31	\$ 266
Non-cash investing and financing activities —			
Issuance of common stock with conversion of convertible bonds	10	9	82
Assets and liabilities of the subsidiaries consolidated commencing in fiscal 2003 (Note 1 (b)) —			
Total assets	2,198	—	18,286
Total liabilities	1,595	—	13,270

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

1. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(a) Basis of presenting consolidated financial statements

Hirose Electric Co., Ltd. (the “Company”) and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code (the “Code”) and accounting principles and practices generally accepted in Japan (“Japanese GAAP”). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusions of consolidated statements of shareholders’ equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and the following nine subsidiaries wholly owned by the Company:

- Tohoku Hirose Electric Co., Ltd.
- Koriyama Hirose Electric Co., Ltd.
- Ichinoseki Hirose Electric Co., Ltd.
- Hirose Electric (U.S.A.), Inc.
- Hirose Electric GmbH
- Hirose Electric UK Ltd.
- Hirose Electric (Taiwan) Co., Ltd.
- Hirose Electric Hong Kong Co., Ltd.
- Hirose Electric (Dong Guan) Co., Ltd.

From the year ended March 31, 2003, the Company increased the scope of consolidation by the accounts of Hirose Electric (Taiwan) Co., Ltd., Hirose Electric Hong Kong Co., Ltd., and Hirose Electric (Dong Guan) Co., Ltd., 100% subsidiaries of the Company, due to their increased materiality.

From the year ended March 31, 2003, Aomori Denso Co., Ltd. was excluded from the scope of consolidation due to the merger with Koriyama Hirose Electric Co., Ltd.

All significant inter-company balances, transactions and profits have been eliminated in consolidation.

Hirose Cherry Precision Co., Ltd., of which the Company owns 50% of equity, is accounted for by the equity method.

Hirose Electric (Dong Guan) Co., Ltd., while their closing date is December 31, is consolidated on the basis of the fiscal period ending March 31 as a tentative closing date.

(c) Cash equivalents

For the purpose of the statement of cash flows, the Company and its consolidated subsidiaries consider all short-term, highly liquid instruments with a maturity of three months or less to be cash equivalents.

Cash and cash equivalents at March 31, 2003 and March 31, 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash and bank deposits	¥138,905	¥122,870	\$1,155,616
	¥138,905	¥122,870	\$1,155,616

(d) Marketable securities and investment securities

The Company and its subsidiaries had neither trading securities nor held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at cost based on the moving-average method. Available-for-sale securities without fair market value are stated at cost based on the moving-average method.

Effective April 1, 2001, available-for-sale securities with fair market value are required to be stated at fair market value as of balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. The cost of securities sold is determined primarily by the moving-average method.

As a result of adopting the new accounting standard for available-for-sale securities, at March 31, 2002, unrealized gain on securities increased by ¥2,288 million and deferred income tax liabilities increased by ¥1,644 million.

(e) Derivative financial instruments

Derivative financial instruments are stated at fair value, and the gains and losses are charged to income.

(f) Inventories

Finished goods and work in process are stated at cost, being determined by the gross-average method. Raw material is stated at cost, being determined by the moving-average method.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment held by the Company and its domestic subsidiaries is computed by using the declining balance method over estimated useful lives, except for the buildings acquired after March 31, 1998 to which straight-line method is applied.

Depreciation of property, plant and equipment held by foreign subsidiaries is computed on the straight-line method over estimated useful lives.

(h) Software

Cost of software included in intangible and other assets are amortized over the estimated useful lives (five years) by the straight-line method.

(i) Allowance for doubtful receivables

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

(j) Retirement and Severance Benefits and Pension Costs

(1) Employees' severance and retirement benefits:

The Company and its consolidated domestic subsidiaries provided allowance for employees' retirement and severance benefits at the balance sheet dates based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

Actuarial gains or losses incurred during the year are recognized in the following year.

(2) Directors' and corporate auditors' retirement and severance benefits:

The Company provided for directors' and corporate auditors' retirement and severance benefit liabilities if all such individuals retired at the balance sheet date.

(k) Income taxes

Income taxes in the accompanying statements of income comprise corporation tax, inhabitant taxes and enterprise tax.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(l) Translation of Foreign Currencies

All monetary assets and liabilities denominated in foreign currencies are translated at the current exchange rates at the balance sheet date, and the translation gains and losses are charged to income.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates. Statements of income of consolidated overseas subsidiaries are translated at average rates.

(m) Accounting for leases

Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

2. EFFECT OF BANK HOLIDAY ON MARCH 31, 2002

As financial institutions in Japan were closed on March 31, 2002, ¥ 217 million of trade notes receivable maturing on the above dates were settled on the following business day, April 1, 2002, and accounted for accordingly.

3. SECURITIES

The following tables summarize acquisition costs, gross unrealized holding gains and losses and fair value of securities with available fair values as of March 31, 2003 and 2002:

	Millions of Yen			
	Cost/ Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2003				
Available-for-sale securities:				
Equity securities	¥ 410	¥2,572	¥41	¥2,941
Debt securities	1,762	285	–	2,047
Total	¥2,172	¥2,857	¥41	¥4,988

	Thousands of U.S. Dollars			
	Cost/ Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2003				
Equity securities	\$ 3,411	\$21,397	\$341	\$24,467
Debt securities	14,659	2,371	–	17,030
Total	\$18,070	\$23,768	\$341	\$41,497

	Millions of Yen			
	Cost/ Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2002				
Available-for-sale securities:				
Equity securities	¥ 433	¥3,656	¥24	¥4,065
Debt securities	2,886	338	1	3,223
Total	¥3,319	¥3,994	¥25	¥7,288

The following tables summarize book values of securities with no available fair values as of March 31, 2003 and 2002:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Investments in affiliates	¥2,154	¥2,167	\$17,920
Available-for-sale securities	220	267	1,830
Total	¥2,374	¥2,434	\$19,750

Maturities of debt securities classified as available-for-sale at March 31, 2003 and 2002 are as follows:

	Millions of Yen			
	2003			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Corporate bonds	¥ 2	¥1,790	¥100	¥ –
Others	375	–	–	–
Total	¥377	¥1,790	¥100	¥ –

	Thousands of U.S. Dollars			
	2003			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Corporate bonds	\$ 16	\$14,892	\$832	\$ –
Others	3,120	–	–	–
Total	\$3,136	\$14,892	\$832	\$ –

	Millions of Yen			
	2002			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds	¥1,000	¥ –	¥ –	¥ –
Corporate bonds	125	1,868	–	–
Other	133	364	–	–
Total	¥1,258	¥2,232	¥ –	¥ –

4. LEASES

Total finance lease payments under finance lease arrangements that do not transfer ownership of the leased property to the Companies were ¥20 million for the year ended March 31, 2002. The Companies did not enter into such lease transactions for the year ended March 31, 2003.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense of finance leases that do not transfer ownership of the leased property to the Companies for the years ended March 31, 2003 and 2002 are as follows:

	Millions of Yen	
	2003	2002
Equipment		
Cost and depreciation:		
Acquisition cost	¥ –	¥ 139
Accumulated depreciation	–	139
Net leased property	¥ –	¥ –
Obligations under finance leases:		
Due within one year	¥ –	¥ –
Due after one year	–	–
Total	¥ –	¥ –
Depreciation expense:	¥ –	¥ 20

The amount of obligations and depreciation under finance leases is calculated including the imputed interest portion. Leased properties are depreciated over their lease terms with the residual values zero.

The minimum rental commitments under non-cancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥ 29	¥ 29	\$ 241
Due after one year	93	108	774
Total	¥122	¥137	\$1,015

5. RESEARCH AND DEVELOPMENT EXPENSE

Research and development expenses are charged to income as incurred. Such amounts charged to income for the years ended March 31, 2003 and 2002 were ¥2,957 million (\$24,601 thousand) and ¥3,442 million, respectively.

6. SHORT-TERM BORROWINGS

Short-term borrowings at March 31, 2003 represent loans from banks amounting to ¥143 million (\$1,190 thousand). The average interest rate of the bank loans as of March 31, 2003 was 0.91%.

7. CONVERTIBLE BONDS

	Conversion Price (per share)	Millions of Yen		Thousands of U.S. Dollars
		2003	2002	2003
Convertible bonds —				
1.7% convertible unsecured bonds payable, due on September 30, 2003	¥4,813.80	¥1,523	¥1,534	\$12,671
		¥1,523	¥1,534	\$12,671

The convertible bonds are convertible into common stock at the option of the holders currently at applicable conversion prices per share as listed in the above table.

8. DERIVATIVE FINANCIAL INSTRUMENTS

From the year ended March 31, 2003, certain consolidated overseas subsidiaries use forward foreign currency contracts to reduce future risks of fluctuation of foreign currency exchange rates with respect to foreign currency payables from the purchase of the Company's services and products, within the amounts of foreign currency payables and do not utilize derivatives for trading purposes.

Forward foreign currency contracts are subject to risks of foreign exchange rate. The company does not anticipate non-performance by any of the counter-parties to the above transactions, all of whom are financial institutions with high credit ratings.

The derivative transactions are executed and managed by the subsidiaries' Finance Departments in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed. The subsidiaries' Finance Departments reports, on the execution of derivative transactions, information on derivative transactions to the director in charge of the Company.

The details for derivative activities are as follows:

	Millions of Yen			
	2003			
	Contracted amount		Market value	Recognized gain/(loss)
Total	Over one year			
Items not traded on exchanges				
Forward foreign exchange contracts:				
Buy				
Yen	¥115	—	¥114	¥(1)

	Thousands of U.S. Dollars			
	2003			
	Contracted amount		Market value	Recognized gain/(loss)
Total	Over one year			
Items not traded on exchanges				
Forward foreign exchange contracts:				
Buy				
Yen	\$956,738	—	\$948,419	\$ (8,319)

9. EMPLOYEES' SEVERANCE AND PENSION BENEFITS

The liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2003 and 2002 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	¥ 2,764	¥ 2,687	\$ 22,995
Less fair value of pension assets	(1,608)	(1,916)	(13,378)
Unrecognized prior service costs	1,156	771	9,617
Unrecognized actuarial differences	(398)	(222)	(3,311)
Liability for retirement and severance benefits	¥ 758	¥ 549	\$ 6,306

Included in the consolidated statements of income for the years ended March 31, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service costs — benefits earned during the year	¥ 381	¥ 392	\$ 3,170
Interest cost on projected benefit obligation	67	90	557
Expected return on plan assets	(48)	(68)	(399)
Amortization of actuarial differences	222	287	1,847
Other	125	78	1,040
Retirement and severance benefit expenses	¥ 747	¥ 779	\$ 6,215

	2003	2002
Discount rate	1.0%	2.5%
Rate of expected return	2.5%	3.5%

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income. The aggregate statutory tax rate used for calculation of deferred tax assets and liabilities was approximately 42% for the year ended March 31, 2002.

Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the aggregate statutory tax rates of 41.80% and 40.49% for current items and non-current items, respectively, for the year ended March 31, 2003.

As a result of the change in the aggregate statutory tax rates, deferred tax liabilities decreased by ¥22 million (\$183 thousand) and provision for deferred income taxes increased by ¥12 million (\$99 thousand) compared with what would have been recorded under the previous local tax law.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Accrued enterprise taxes	¥ 506	¥ 223	\$ 4,209
Accrued bonuses disallowed	359	298	2,987
Employees' retirement benefits accrued disallowed	310	229	2,579
Directors' and corporate auditors' retirement benefits accrued	267	260	2,221
Devaluation of inventories	191	256	1,589
Unrealized loss on inventories	181	159	1,506
Other	262	189	2,180
Total deferred tax assets	2,076	1,614	17,271
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(1,142)	(1,644)	(9,501)
Tax incentive depreciation	(182)	(188)	(1,514)
Other	(55)	(30)	(457)
Total deferred tax liabilities	(1,379)	(1,862)	(11,472)
Net	¥ 697	¥ (248)	\$ 5,799

11. SHAREHOLDERS' EQUITY

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated capital. The portion which is not transferred to stated capital is determined by resolution of the Board of Directors. Proceeds not transferred to stated capital are credited to additional paid-in capital.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be appropriated and set aside as a legal earnings reserve, until the total amount of the reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital is equal to or exceeds 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

Effective April 1, 2002, the Companies adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No.1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002). The effect of the adoption of the new accounting standard on net income was not material.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

Semiannual cash dividends may be approved by the shareholders after the end of each fiscal period or declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each fiscal or interim six-month period. In accordance with the Code, the declaration of these dividends and the related appropriations of retained earnings have not been reflected in the financial statements at the end of such fiscal or interim six-month periods.

In June 2003, the shareholders approved the declaration of a cash dividend and bonuses to directors and corporate auditors applicable to the year ended March 31, 2003, totaling ¥416 million (\$3,461 thousand) and ¥91 million (\$757 thousand), respectively. In conformity with the Code, this declaration of a cash dividend is not reflected in the consolidated financial statements as of March 31, 2003.

12. PER SHARE DATA

Dividends per share shown in the consolidated statements of income have been presented on the accrual basis and include, in each fiscal period, dividends approved after each balance sheet date, but applicable to the fiscal period then ended.

Net income per share is based on the weighted average number of shares of common stock and common stock equivalents. The 1.7% convertible bonds were considered as common stock equivalents. In computing net income per share, net income is adjusted, net of income taxes, by interest expense when the inclusions are dilutive.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002.)

If calculated by the former manner, stockholders' equity, net income and diluted net income per share as of March 31, 2003 and for the year then ended would have been ¥4,278.4 (\$35.59), ¥287.2 (\$2.39), and ¥285.2 (\$2.37), respectively.

13. CONTINGENT LIABILITIES

The Company is contingently liable as guarantors of indebtedness of unconsolidated subsidiaries aggregating to ¥221 million (\$1,839 thousand) at March 31, 2003.

14. SUBSEQUENT EVENTS

General Meeting of Shareholders held on June 27, 2002 approved an acquisition of treasury stock of the Company, in accordance with the provisions set forth in the Code, to the extent of 2,000,000 shares of common stock and amount of ¥20,000 million by the next General Meeting of Shareholders. According to the approval, at the meetings of the Board of Directors held on May 22, 2003 and on June 6, 2003, it was resolved that the Company purchases common stock at ¥8,840 (\$73.5) per share on market during the period from May 23, 2003 to June 16, 2003. Accordingly, the Company purchased 1,000,400 shares of common stock at the total purchase price of ¥8,843,536,000 (\$73,573,511) during the period.

General Meeting of Shareholders held on June 27, 2003 approved an acquisition of treasury stock of the Company, in accordance with the provisions set forth in the Code, to the extent of 2,000,000 shares of common stock and amount of ¥20,000 million (\$166,389 thousand) by the next General Meeting of Shareholders.

15. SEGMENT INFORMATION

(a) Business segment information

The Company and its consolidated subsidiaries primarily operate in one business segment of sales and manufacturing connectors for electronic equipment.

(b) Geographic segment information

The Company and consolidated subsidiaries primarily operate their business in Japan.

(c) Overseas sales information

The following is a breakdown of net sales:

	Millions of Yen					
	Japan	North America	Asia	Europe	Other	Consolidated
Net sales:						
2002.....	¥42,789	¥2,497	¥10,113	¥4,277	¥1,468	¥61,144
2003.....	45,965	2,905	13,764	4,492	764	67,890
						Thousands of U.S. Dollars
	Japan	North America	Asia	Europe	Other	Consolidated
Net sales:						
2003.....	\$382,404	\$24,169	\$114,509	\$37,371	\$6,356	\$564,809

- (1) The area of North America includes the United States of America.
- (2) The area of Asia includes Korea, Taiwan and the Republic of China.
- (3) The area of Europe includes the United Kingdom and Germany.
- (4) The area of Other includes Brazil.

Independent Auditors' Report

To the Shareholders and Board of Directors of Hirose Electric Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Hirose Electric Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hirose Electric Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to Notes 1(d) to the consolidated financial statements, which states that effective March 31, 2002, Hirose Electric Co., Ltd. and consolidated domestic subsidiaries prospectively adopted new Japanese accounting standards for available-for-sale securities.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.



Asahi & Co.
Tokyo, Japan
June 27, 2003

Directors and Corporate Auditors

(As of June 27, 2003)

Representative Director	HIDEKI SAKAI <i>Chairman and Chief Executive Officer</i>
Representative Director	TATSURO NAKAMURA <i>President and Chief Operating Officer</i>
Managing Director	KUNIO YONEBAYASHI <i>General Manager of Sales Division</i>
Directors	IZUMI MORIMOTO <i>General Manager of Production Division</i>
	MITSUYOSHI YAMAMOTO <i>General Manager of Engineering Division; General Manager of SB Department</i>
	SAKAE KUSHIDA <i>General Manager of Administrative Division; General Manager of Corporate Planning Department, Accounting Department, General Affairs Department, and Personnel Department</i>
Corporate Auditors	MASAO HIROHASHI
	*HIDESATO SEKINE
	*TAKASHI HIGA

* Special external company auditor, as stipulated in the Commercial Code of Japan, Section 18, Article 1.

General Information

R&D Facilities

Yokohama Engineering Center

Domestic Manufacturing Subsidiaries

TOHOKU HIROSE ELECTRIC CO., LTD.

KORIYAMA HIROSE ELECTRIC CO., LTD.

ICHINOSEKI HIROSE ELECTRIC CO., LTD.

Overseas Manufacturing Subsidiaries

HIROSE ELECTRIC (TAIWAN) CO., LTD. (Taiwan)

HIROSE ELECTRIC MALAYSIA, SDN. BHD.
(Malaysia)

P.T. HIROSE ELECTRIC INDONESIA (Indonesia)

HIROSE ELECTRIC HONG KONG CO., LTD.
(Hong Kong)

HIROSE ELECTRIC (DONG GUAN) CO., LTD.
(China)

Domestic Sales Offices and Overseas Sales Offices

Tachikawa Sales Office

Kita-Kanto Sales Office

Osaka Sales Office

Nagoya Sales Office

Hong Kong Branch Office

Singapore Branch Office

Europe Branch Office (The Netherlands)

Overseas Sales Subsidiaries and Joint Ventures

HIROSE ELECTRIC (U.S.A.), INC.

HIROSE ELECTRIC GmbH (Stuttgart, Germany)

HIROSE ELECTRIC UK LTD.

(Milton Keynes, England)

HIROSE ELECTRIC TRADING (SHANGHAI) CO., LTD.
(China)

HIROSE KOREA CO., LTD.

(joint venture with Dae Duck Industries)

Hirose Cherry Precision Co., Ltd. (Japan)

(joint venture with The Cherry Corporation)

Shareholder Information

Hirose Electric common stock is listed on the First Section of the Tokyo Stock Exchange under the securities code number 6806. As of March 31, 2003, approximately 39.71 million outstanding shares were held by 6,259 investors.

Foreign investors held 33.92% of shares outstanding.

Main Bank References

Sumitomo Mitsui Banking Corporation

Shinsei Bank, Ltd.

The Sumitomo Trust & Banking Co., Ltd.

Corporate Data

Date of Incorporation

June, 1948

Head Office

5-23, Osaki 5-chome, Shinagawa-ku, Tokyo 141-8587, Japan

Telephone: +81(3) 3491-5300

Facsimile: +81(3) 3495-5230

Stock Exchange Listings

Tokyo Stock Exchange, First Section

Transfer Agent

The Sumitomo Trust & Banking Co., Ltd.

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