

**HIROSE ELECTRIC CO.,LTD.**

# Profile

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**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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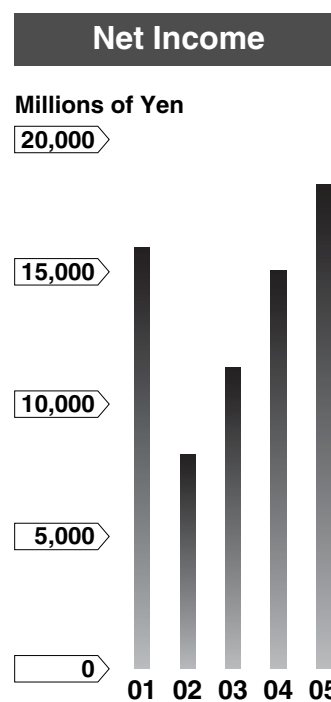
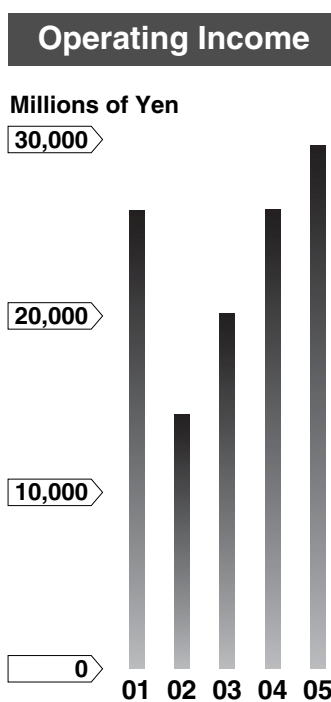
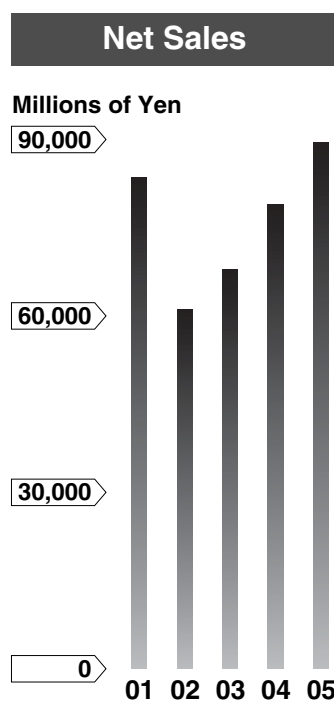
# Financial Highlights

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars*
	2005	2004	2003	2005
Net Sales: .....	¥ <b>89,562</b>	¥ 79,012	¥ 67,890	\$ <b>833,988</b>
Domestic market .....	<b>52,580</b>	49,818	45,965	<b>489,617</b>
Overseas market .....	<b>36,982</b>	29,194	21,925	<b>344,371</b>
Operating Income .....	<b>29,665</b>	26,044	20,138	<b>276,236</b>
Net Income .....	<b>18,315</b>	15,043	11,398	<b>170,547</b>
<b>At year-end:</b>				
Total assets .....	¥ <b>221,682</b>	¥ 202,873	¥ 192,802	\$ <b>2,064,270</b>
Shareholders' equity .....	<b>194,992</b>	176,672	169,787	<b>1,815,737</b>
<b>Per share of common stock:</b>				
(in yen and dollars)				
Net income — Basic .....	¥ <b>468.46</b>	¥ 382.26	¥ 284.87	\$ <b>4.36</b>
— Diluted .....	—	381.15	282.94	—
Shareholders' equity .....	<b>5,017.74</b>	4,538.25	4,276.05	<b>46.72</b>

\* U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥107.39 = U.S.\$1.



# To Our Shareholders

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## **Sales and Income Hit Record Highs**

In the fiscal year ended March 31, 2005, the Japanese economy was supported until the summer by the strength of the U.S. and Chinese economies, which led to increases in exports and capital investment that resulted in a trend toward economic recovery. However, the subsequent rise in oil prices resulted in slowdowns in the U.S. and Chinese economies, and the Japanese economy entered an adjustment phase.

Amid this environment, Hirose Electric succeeded in posting net sales and net income that hit record highs. Consolidated net sales increased year on year by ¥10,550 million, or 13.4%, to ¥89,562 million and net income rose ¥3,272 million, or 21.8%, to ¥18,315 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 15.2% to ¥74,419 million. This was mainly the result of demand in the IT and communications fields, particularly for advanced-function mobile phones and digital consumer electronics.

In coaxial connectors, sales decreased 2.5% to ¥10,474 million due to a slump in demand for mobile communications equipment and 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, and switching and transmission equipment and other electronic equipment. Optical fiber connectors are also included in this sector.

Sales in the Other Products sector increased 27.3% to ¥4,667 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 several decades, we have maintained a fundamental management concept for the company that emphasizes intelligence over size. This concept 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**

Our increasingly severe operating environment seems set to continue. As a result of expansion in such fields as IT and communications networks, digital consumer equipment and car electronics, market growth prospects in our industry are good. However, increasing diversification of the market and shorter lifecycles of products mean growing investment return risks and intensified competition between companies.

We intend to meet these challenges by constantly pursuing state-of-the-art technology, devising more efficient allocation and concentration of resources, persevering in implementing reforms and innovations, bolstering our ability to develop products that cater to emerging needs and increasing high value-added products, driving improvements in productivity, and increasing cost competitiveness by raising quality and taking other measures. At the same time, we will advance globalization and develop sales routes in Japan and overseas, strive for profitable growth to strengthen our business foundation, and increase corporate value.

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 2005



Hideki Sakai  
Chairman and Chief Executive Officer



Tatsuro Nakamura  
President and Chief Operating Officer

# Five-year Summary

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31

	Millions of Yen				
	2005	2004	2003	2002	2001
Net Sales .....	¥ 89,562	¥ 79,012	¥ 67,890	¥ 61,144	¥ 83,540
Operating Income .....	29,665	26,044	20,138	14,408	25,990
Net Income .....	18,315	15,043	11,398	8,113	15,906
<b>At year-end:</b>					
Total assets .....	¥ 221,682	¥ 202,873	¥ 192,802	¥ 177,876	¥ 175,647
Shareholders' equity .....	194,992	176,672	169,787	160,125	150,321
Yen					
<b>Per share of common stock:</b>					
Net income —					
Basic .....	¥ 468.46	¥ 382.26	¥ 284.87	¥ 204.36	¥ 400.65
Diluted .....	—	381.15	282.94	203.10	397.82
Shareholders' equity .....	5,017.74	4,538.25	4,276.05	4,033.77	3,786.11
Thousands of U.S. Dollars*					
	2005	2004	2003	2002	2001
Net Sales .....	\$ 833,988	\$ 735,748	\$ 632,182	\$ 569,364	\$ 777,912
Operating Income .....	276,236	242,518	187,522	134,165	242,015
Net Income .....	170,547	140,078	106,137	75,547	148,114
<b>At year-end:</b>					
Total assets .....	\$2,064,270	\$1,889,124	\$1,795,344	\$1,656,355	\$1,635,599
Shareholders' equity .....	1,815,737	1,645,144	1,581,032	1,491,061	1,399,767
U.S. Dollars*					
<b>Per share of common stock:</b>					
Net income — Basic .....	\$ 4.36	\$ 3.56	\$ 2.65	\$ 1.90	\$ 3.73
— Diluted .....	—	3.55	2.63	1.89	3.70
Shareholders' equity .....	46.72	42.26	39.82	37.56	35.26

\* U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥107.39 = U.S.\$1.

## Financial Review

The Hirose Electric Co., Ltd. group consists of the parent company, Hirose Electric, 17 subsidiaries and 2 affiliates. Of the subsidiaries, fourteen are consolidated. Thirteen of these consolidated subsidiaries were in existence last fiscal year: 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., Hirose Electric (Taiwan) Co., Ltd., Hirose Electric Malaysia Sdn. Bhd., P.T. Hirose Electric Indonesia, Hirose Electric (Shanghai) Co., Ltd. and Hirose Electric Europe B.V. One more consolidated subsidiary was added in the fiscal year under review: Hirose Engineering Co., Ltd. Additional shares were acquired in HST Co., Ltd. (formerly Hirose Cherry Precision Co., Ltd.) and the company is accounted for by the equity method in view of its importance as a wholly owned non-consolidated subsidiary. One of the two affiliates, Hirose Korea Co., Ltd., and one of the subsidiaries, Wei-Hai Hirose Korea Electric Co., Ltd. are accounted for by the equity method from the fiscal year under review. As the fiscal year end of consolidated subsidiary 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.

As the fiscal year-end of consolidated subsidiary Hirose Engineering Co., Ltd. is February 28, financial statements of this company were used as if the fiscal year end were March 31, and adjustments have been made for any important transactions occurring between the two dates in the preparation of the consolidated financial statements.

## Operating Environment

In the fiscal year ended March 31, 2005, the Japanese economy was supported until the summer by the strength of the U.S. and Chinese economies, which led to increases in exports and capital investment that resulted in a trend toward economic recovery. However, the subsequent rise in oil prices resulted in slowdowns in the U.S. and Chinese economies, and the Japanese economy entered an adjustment phase.

In the electronics industry, exports to Asia were strong until the end of summer amid intense competition among suppliers. Accompanying the subsequent business slowdown, however, IT-related components entered a phase of inventory adjustment.

## 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. At the same time, the company implemented wide-ranging proactive management policies to improve production efficiency, cut costs, including by expanding production overseas, develop new domestic and overseas sales channels and strengthen marketing.

As a result of these efforts, both net sales and net income achieved record highs. Consolidated net sales increased year on year by 13.4% to ¥89,562 million. Net income rose 21.8% to ¥18,315 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	2005	2004	
Multi-pin connectors . . . . .	83.1%	81.8%	Circular, rectangular, printed circuit boards
Coaxial connectors . . . . .	11.7	13.6	Coaxial, optical
Other . . . . .	5.2	4.6	Coaxial components, crimp contacts, medical equipment, etc.
Total . . . . .	100.0%	100.0%	

*Consolidated basis*

## Overseas Sales

Overseas sales increased by ¥7,788 million, or 26.7%, to ¥36,982 million (US\$344,371 thousand).

Overseas sales by region

Years ended March 31	Millions of Yen			
	Overseas sales	Share of consolidated sales	Overseas sales	Share of consolidated sales
	2005		2004	
*North America . . . . .	¥ 3,045	3.4%	¥ 2,710	3.4%
*Asia . . . . .	26,623	29.7	19,990	25.3
Europe . . . . .	6,655	7.4	5,737	7.3
Other . . . . .	659	0.7	757	0.9
Total . . . . .	¥36,982	41.3%	¥29,194	36.9%

*\*Note: Many sales of "design-in" products for major customers in the North America market are included in "Asia" because the sales were for these customers' Asian production bases.*

## Financial Position

Total assets at the end of the year stood at ¥221,682 million (US\$2,064,270 thousand), an increase of 9.3% from a year ago. Current assets decreased 2.5% to ¥171,783 million (US\$1,599,618 thousand), reflecting a decrease in cash and bank deposits used to purchase Japan bonds. Investments and other assets increased ¥23,473 million (US\$218,577 thousand) to ¥35,047 million (US\$326,352 thousand), due to the acquisition of organic EL business goodwill and the purchase of Japan bonds.

Shareholders' equity rose by 10.4% to ¥194,992 million (US\$1,815,737 thousand). As a result, the equity ratio increased by 0.9 percentage points to 88.0%. Equity per share rose ¥479.49 to ¥5,017.74 (US\$46.72).

## Dividend Policy

Hirose Electric's fundamental dividend policy is to be committed to continuing to pay shareholders a stable dividend over the long term, while at the same time working to enhance our operating structure, establish paths of growth and bolster our financial framework. At the same time, we comprehensively consider our business performance, operating environment and other relevant factors. From the viewpoint of making an adequate return to our shareholders, we also intend to repurchase treasury stock to improve our capital efficiency.

From the standpoint of returning earnings to shareholders, Hirose Electric has increased its annual dividend in the year ended March 31, 2005 to ¥55 per share, comprising the interim dividend of ¥10 per share, which has already been paid, and the year-end dividend of ¥45 per share.

# Consolidated Balance Sheets

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits (Note 1 (c)) . . . . .	¥125,985	¥138,575	\$1,173,154
Marketable securities (Note 2) . . . . .	10,010	1,699	93,212
Trade notes and accounts receivable . . . . .	26,501	26,312	246,773
Allowance for doubtful receivables . . . . .	(21)	(22)	(196)
Inventories . . . . .	5,465	5,747	50,889
Deferred income taxes (Note 8) . . . . .	1,625	1,594	15,132
Other current assets . . . . .	2,218	2,285	20,654
<b>Total current assets</b> . . . . .	<b>171,783</b>	<b>176,190</b>	<b>1,599,618</b>
<b>Property, plant and equipment:</b>			
Land . . . . .	1,935	1,967	18,018
Buildings . . . . .	7,054	6,987	65,686
Machinery and equipment (Note 1 (g)) . . . . .	49,740	46,055	463,172
Construction in progress . . . . .	352	259	3,278
	<b>59,081</b>	<b>55,268</b>	<b>550,154</b>
Less accumulated depreciation . . . . .	(44,229)	(40,160)	(411,854)
<b>Property, plant and equipment, net</b> . . . . .	<b>14,852</b>	<b>15,108</b>	<b>138,300</b>
<b>Investments and other assets:</b>			
Investment securities (Note 2) . . . . .	24,571	4,814	228,802
Investment in affiliates . . . . .	5,127	1,611	47,742
Long-term loan receivable (Note 11) . . . . .	—	2,587	—
Deferred income taxes (Note 8) . . . . .	305	231	2,840
Goodwill . . . . .	1,936	—	18,028
Intangible and other assets . . . . .	3,108	2,332	28,940
<b>Total investments and other assets</b> . . . . .	<b>35,047</b>	<b>11,575</b>	<b>326,352</b>
<b>Total assets</b> . . . . .	<b>¥221,682</b>	<b>¥202,873</b>	<b>\$2,064,270</b>



	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Trade notes and accounts payable . . . . .	¥ 11,481	¥ 11,657	\$ 106,909
Short-term borrowings (Note 5) . . . . .	—	204	—
Accrued expenses . . . . .	618	607	5,755
Accrued income taxes . . . . .	6,739	6,498	62,753
Accrued bonuses . . . . .	1,206	1,053	11,230
Deferred income taxes (Note 8) . . . . .	—	13	—
Other current liabilities . . . . .	2,299	2,157	21,408
<b>Total current liabilities</b> . . . . .	<b>22,343</b>	<b>22,189</b>	<b>208,055</b>
<b>Long-term liabilities:</b>			
Retirement and severance benefits:			
Employees' (Note 7) . . . . .	1,163	1,135	10,830
Directors' and Corporate Auditors' . . . . .	744	699	6,928
Deferred income taxes (Note 8) . . . . .	2,045	1,782	19,043
Other long-term liabilities . . . . .	395	396	3,677
<b>Total long-term liabilities</b> . . . . .	<b>4,347</b>	<b>4,012</b>	<b>40,478</b>
<b>Shareholders' equity: (Note 9)</b>			
Common stock			
Authorized — 80,000,000 shares			
Issued — 40,020,736 shares in 2005 and 2004 . . . . .	9,404	9,404	87,569
Additional paid-in capital . . . . .	12,008	12,008	111,817
Retained earnings . . . . .	182,940	163,714	1,703,511
Accumulated other comprehensive income —			
Unrealized gain on available-for-sale securities . . . . .	2,355	2,618	21,929
Foreign currency translation adjustments . . . . .	(903)	(991)	(8,409)
	<b>205,804</b>	<b>186,753</b>	<b>1,916,417</b>
Less — Cost of common stock in treasury			
1,181,675 shares in 2005 and			
1,112,316 shares in 2004 . . . . .	(10,812)	(10,081)	(100,680)
<b>Total shareholders' equity</b> . . . . .	<b>194,992</b>	<b>176,672</b>	<b>1,815,737</b>
<b>Total liabilities and shareholders' equity</b> . . . . .	<b>¥221,682</b>	<b>¥202,873</b>	<b>\$2,064,270</b>

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

# Consolidated Statements of Income

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
Net sales (Note 12) . . . . .	<b>¥89,562</b>	¥79,012	<b>\$833,988</b>
Cost of sales . . . . .	<b>44,144</b>	39,315	<b>411,062</b>
Gross profit . . . . .	<b>45,418</b>	39,697	<b>422,926</b>
Selling, general and administrative expenses (Note 4) . . . . .	<b>15,753</b>	13,653	<b>146,690</b>
Operating income . . . . .	<b>29,665</b>	26,044	<b>276,236</b>
<b>Other income (expenses):</b>			
Interest and dividend income . . . . .	<b>249</b>	194	<b>2,319</b>
Equity in earnings of affiliates . . . . .	<b>725</b>	10	<b>6,751</b>
Interest expense . . . . .	<b>(2)</b>	(6)	<b>(19)</b>
Gain on redemption of marketable securities . . . . .	<b>—</b>	133	<b>—</b>
Loss on disposal of inventories . . . . .	<b>(281)</b>	(370)	<b>(2,617)</b>
Loss on disposal of plant and equipment, net . . . . .	<b>(241)</b>	(328)	<b>(2,244)</b>
Prior year adjustment (Note 1 (g)) . . . . .	<b>—</b>	(117)	<b>—</b>
Other, net . . . . .	<b>332</b>	(35)	<b>3,092</b>
	<b>782</b>	(519)	<b>7,282</b>
Income before income taxes . . . . .	<b>30,447</b>	25,525	<b>283,518</b>
Provision for income taxes — Current . . . . .	<b>12,163</b>	10,931	<b>113,260</b>
— Deferred . . . . .	<b>(31)</b>	(449)	<b>(289)</b>
	<b>12,132</b>	10,482	<b>112,971</b>
Net income . . . . .	<b>¥18,315</b>	¥15,043	<b>\$170,547</b>
<b>Per share of common stock: (Note 10)</b>			
Net income — Basic . . . . .	<b>¥468.46</b>	¥382.26	<b>\$4.36</b>
— Diluted . . . . .	<b>—</b>	381.15	<b>—</b>
Cash dividends, applicable to the year . . . . .	<b>55.00</b>	23.00	<b>0.51</b>

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

# Consolidated Statements of Shareholders' Equity

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>Common stock:</b>			
Balance at beginning of year . . . . .	¥ 9,404	¥ 8,650	\$ 87,569
Conversion of bonds . . . . .	–	754	–
Balance at end of year . . . . .	¥ 9,404	¥ 9,404	\$ 87,569
<b>Additional paid-in capital:</b>			
Balance at beginning of year . . . . .	¥ 12,008	¥ 11,254	\$ 111,817
Conversion of bonds . . . . .	–	754	–
Gain on sale of treasury stock . . . . .	0	0	0
Balance at end of year . . . . .	¥ 12,008	¥ 12,008	\$ 111,817
<b>Retained earnings:</b>			
Balance at beginning of year . . . . .	¥163,714	¥148,473	\$1,524,481
Net income . . . . .	18,315	15,043	170,547
Effect of change in scope of consolidation . . . . .	2	1,056	19
Increase of affiliates accounted for by the equity method . . . . .	1,938	–	18,046
Cash dividends paid . . . . .	(933)	(767)	(8,688)
Bonuses to directors and corporate auditors . . . . .	(96)	(91)	(894)
Balance at end of year . . . . .	¥182,940	¥163,714	\$1,703,511
<b>Accumulated other comprehensive income:</b>			
Unrealized gain on available-for-sale securities . . . . .	¥ 2,355	¥ 2,618	\$ 21,929
Foreign currency translation adjustments . . . . .	(903)	(991)	(8,409)
<b>Total accumulated other comprehensive income, net . . . . .</b>	<b>¥ 1,452</b>	<b>¥ 1,627</b>	<b>\$ 13,520</b>
Treasury stock, at cost . . . . .	(10,812)	(10,081)	(100,680)
2005: 1,181,675 shares			
2004: 1,112,316 shares			
<b>Total shareholders' equity . . . . .</b>	<b>¥194,992</b>	<b>¥176,672</b>	<b>\$1,815,737</b>

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, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>Operating activities:</b>			
Income before income taxes . . . . .	¥ 30,447	¥ 25,525	\$ 283,518
Adjustments to reconcile income before income taxes to net cash provided by operating activities —			
Depreciation and amortization . . . . .	6,197	5,324	57,706
Increase in liability for employees' retirement and severance benefits . . . . .	30	368	279
Equity in earnings of affiliates . . . . .	(725)	(10)	(6,751)
Income taxes paid . . . . .	(12,150)	(10,425)	(113,139)
Bonus paid to directors . . . . .	(94)	(88)	(875)
Changes in assets and liabilities —			
Increase in trade notes and accounts receivable . . . . .	(148)	(3,538)	(1,378)
Decrease (increase) in inventories . . . . .	282	(828)	2,626
Decrease (increase) in trade notes and accounts payable . .	(249)	1,706	(2,319)
Other, net . . . . .	1,360	195	12,664
Net cash provided by operating activities . . . . .	<u>24,950</u>	<u>18,229</u>	<u>232,331</u>
<b>Investing activities:</b>			
Proceeds from sale of investment securities . . . . .	69	48	643
Proceeds from redemption of marketable securities . . . . .	1,736	390	16,165
Purchases of marketable securities . . . . .	(10,005)	—	(93,165)
Acquisition of property and equipment . . . . .	(5,426)	(6,150)	(50,526)
Purchases of investment securities . . . . .	(20,087)	—	(187,047)
Purchases of investment securities in subsidiaries . . . . .	(1,214)	—	(11,305)
Increase in long-term loans receivable . . . . .	—	(2,587)	—
Other, net . . . . .	(930)	470	(8,660)
Net cash used in investing activities . . . . .	<u>(35,857)</u>	<u>(7,829)</u>	<u>(333,895)</u>
<b>Financing activities:</b>			
Dividends paid . . . . .	(933)	(767)	(8,688)
Proceeds from short-term borrowings . . . . .	500	2,500	4,656
Repayment of short-term borrowings . . . . .	(695)	(2,635)	(6,472)
Acquisition of treasury stock . . . . .	(731)	(9,899)	(6,807)
Other, net . . . . .	(5)	(19)	(46)
Net cash used in financing activities . . . . .	<u>(1,864)</u>	<u>(10,820)</u>	<u>(17,357)</u>
Effect of exchange rate change on cash and cash equivalents . .	168	(455)	1,564
Net decrease in cash and cash equivalents . . . . .	<u>(12,603)</u>	<u>(875)</u>	<u>(117,357)</u>
Cash and cash equivalents, beginning of year . . . . .	138,575	138,905	1,290,390
Increase of cash and cash equivalents due to newly consolidated subsidiaries . . . . .	13	545	121
Cash and cash equivalents, end of year (Note 1 (c)) . . . . .	<u>¥125,985</u>	<u>¥138,575</u>	<u>\$1,173,154</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest . . . . .	¥ 2	¥ 6	\$ 19
Non-cash investing and financing activities —			
Issuance of common stock with conversion of convertible bonds . . . . .	—	1,508	—

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

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

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 Hirose Electric Co., Ltd. ("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 translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 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 fourteen subsidiaries wholly owned by the Company:

- Tohoku Hirose Electric Co., Ltd.
- Koriyama Hirose Electric Co., Ltd.
- Ichinoseki Hirose Electric Co., Ltd.
- Hirose Engineering Co., Ltd.
- Hirose Electric (U.S.A.), Inc.
- Hirose Electric GmbH
- Hirose Electric UK Ltd.
- Hirose Electric Europe B.V.
- Hirose Electric (Shanghai) Co., Ltd.
- Hirose Electric (Taiwan) Co., Ltd.
- Hirose Electric Hong Kong Co., Ltd.
- Hirose Electric (Dong Guan) Co., Ltd.
- Hirose Electric Malaysia Sdn. Bhd.
- P.T. Hirose Electric Indonesia

From the year ended March 31, 2005, the Company expanded the scope of consolidation by the accounts of Hirose Engineering Co., Ltd. due to its increased significance.

From the year ended March 31, 2004, the Company expanded the scope of consolidation by the accounts of Hirose Electric Europe B.V. and Hirose Electric (Shanghai) Co., Ltd. as they started operations during the fiscal year and by the accounts of Hirose Electric Malaysia Sdn. Bhd. and P.T. Hirose Electric Indonesia due to their increased significance. The above newly consolidated subsidiaries are 100% subsidiaries of the Company.

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

HST Co., Ltd., formerly Hirose Cherry Precision Co., Ltd., is accounted for by the equity method. As a result of the additional investment, the Company owns 100% of its equity.

From the year ended March 31, 2005, the Company expanded the scope of affiliates accounted for by the equity method by the accounts of Hirose Korea Co., Ltd. due to the increased significance and Wei-Hai Hirose Korea Electric Co., Ltd. as that started operation during the fiscal year.

Hirose Electric (Dong Guan) Co., Ltd. and Hirose Electric (Shanghai) Co., Ltd., while their closing date is December 31, are consolidated on the basis of the fiscal period ending March 31 as a tentative closing date. Hirose Engineering Co., Ltd., while its closing date is February 28, is consolidated on the basis of its financial statement. However, if significant transactions are conducted from March 1 to 31, such transactions are reflected in the consolidated financial statements.

### (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 an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents at March 31, 2005 and March 31, 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Cash and bank deposits . . . . .	¥125,985	¥138,575	\$1,173,154
	¥125,985	¥138,575	\$1,173,154

**(d) Marketable securities and investment securities**

The Company and its subsidiaries had no trading securities. Held-to-maturity debt securities are either amortized or accumulated to face value by the straight-line method. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for under 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.

Available-for-sale securities with fair market value are stated at fair market value as of the 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.

**(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 the 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.

Effective April 1, 2003, the Company and its consolidated domestic subsidiaries shortened, based on expected use, the estimated useful lives of certain machinery. This change is due to the current production environment such as the shortened life cycle of products and the shortened replacement cycle of certain machinery. The effect of the change in the estimated useful lives was an increase of depreciation expense by ¥540 million, of which ¥117 million was reported as prior year adjustment and ¥49 million as inventory. As a result, for the year ended March 31, 2004, gross profit and operating income decreased by ¥374 million, and income before income taxes decreased by ¥491 million compared with what would have been recorded under the previous estimated useful lives.

**(h) Goodwill**

Cost of goodwill is amortized over the estimated useful lives (five years) by the straight-line method.

**(i) Software**

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

**(j) Impairment of long-lived assets**

In August 2002, the Business Accounting Council issued "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets." The opinion set forth basic ideas about (a) assets subject to impairment consideration, (b) recognition and measurement of impairment loss, (c) accounting after recognition of impairment loss and (d) treatment of finance lease transactions. In October 2003, the Accounting Standards Board of Japan issued practical guidelines on the new accounting standard. The new accounting standard and practical guidelines will become effective for fiscal years beginning after March 31, 2005, while early adoption is permitted from the fiscal year ended March 31, 2004. The Company decided not to adopt the new accounting standard and guidelines for the year ended March 31, 2005.

**(k) 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.

**(l) Retirement and severance benefits and pension costs**

**(1) Employees' severance and retirement benefits:**

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

**(m) Income taxes**

Income taxes in the accompanying statements of income comprise corporation tax, inhabitants' 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.

**(n) 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.

**(o) Accounting 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.

**(p) Reclassification**

Certain prior period amounts in the consolidated financial statements have been reclassified to conform to the March 31, 2005 presentation. These reclassifications had no effect on the Company's consolidated net income or shareholder's equity.

**2. SECURITIES**

The following tables summarize costs, gross unrealized holding gains and losses and fair value of securities with available fair values as of March 31, 2005 and 2004:

**(a) Held-to-maturity debt securities**

	Millions of Yen			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2005				
Held-to-maturity debt securities	<b>¥30,084</b>	<b>¥11</b>	<b>¥(0)</b>	<b>¥30,095</b>

	Thousands of U.S. Dollars			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2005				
Held-to-maturity debt securities	<b>\$280,138</b>	<b>\$102</b>	<b>\$ (0)</b>	<b>\$280,240</b>

**(b) Available-for-sale securities**

	Millions of Yen			
	Cost/Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2005				
Available-for-sale securities:				
Equity securities	<b>¥372</b>	<b>¥3,968</b>	<b>¥ –</b>	<b>¥4,340</b>
Debt securities	<b>10</b>	<b>0</b>	<b>–</b>	<b>10</b>
Other	<b>80</b>	<b>8</b>	<b>(5)</b>	<b>83</b>
Total	<b>¥462</b>	<b>¥3,976</b>	<b>¥(5)</b>	<b>¥4,433</b>

	Thousands of U.S. dollars			
	Cost/Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2005				
Equity securities	<b>\$3,464</b>	<b>\$36,949</b>	<b>\$ –</b>	<b>\$40,413</b>
Debt securities	<b>93</b>	<b>0</b>	<b>–</b>	<b>93</b>
Other	<b>745</b>	<b>74</b>	<b>(46)</b>	<b>773</b>
Total	<b>\$4,302</b>	<b>\$37,023</b>	<b>\$(46)</b>	<b>\$41,279</b>

	Millions of Yen			
	Cost/Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2004				
Available-for-sale securities:				
Equity securities	<b>¥ 371</b>	<b>¥4,333</b>	<b>¥–</b>	<b>¥4,704</b>
Debt securities	<b>1,640</b>	<b>69</b>	<b>–</b>	<b>1,709</b>
Total	<b>¥2,011</b>	<b>¥4,402</b>	<b>¥–</b>	<b>¥6,413</b>

The following tables summarize book values of securities with no available fair values as of March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Investments in affiliates . . . . .	<b>¥5,127</b>	¥1,611	<b>\$47,742</b>
Available-for-sale securities . . . . .	<b>64</b>	100	<b>597</b>
Total . . . . .	<b>¥5,191</b>	¥1,711	<b>\$48,339</b>

Maturities of debt securities classified as available-for-sale and held-to-maturity debt at March 31, 2005 and 2004 are as follows:

	Millions of Yen			
	2005			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds . . . . .	<b>¥10,000</b>	<b>¥20,084</b>	¥-	¥-
Corporate bonds . . . . .	<b>10</b>	-	-	-
Other . . . . .	-	-	-	-
Total . . . . .	<b>¥10,010</b>	<b>¥20,084</b>	¥-	¥-

	Thousands of U.S. Dollars			
	2005			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds . . . . .	<b>\$93,119</b>	<b>\$187,019</b>	\$-	\$-
Corporate bonds . . . . .	<b>93</b>	-	-	-
Other . . . . .	-	-	-	-
Total . . . . .	<b>\$93,212</b>	<b>\$187,019</b>	\$-	\$-

	Millions of Yen			
	2004			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds . . . . .	¥ -	¥ -	¥-	¥-
Corporate bonds . . . . .	1,699	10	-	-
Other . . . . .	-	-	-	-
Total . . . . .	¥ 1,699	¥10	¥-	¥-

### 3. LEASES

Total finance lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessees were ¥8 million (\$74 thousand) and ¥1 million for the year ended March 31, 2005 and 2004.

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 lessees for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Equipment			
Cost and depreciation:			
Acquisition cost . . . . .	<b>¥51</b>	¥7	<b>\$475</b>
Accumulated depreciation . . . . .	<b>33</b>	4	<b>307</b>
Net leased property . . . . .	<b>¥18</b>	¥3	<b>\$168</b>
Obligations under finance leases:			
Due within one year . . . . .	<b>¥ 7</b>	¥3	<b>\$ 65</b>
Due after one year . . . . .	<b>11</b>	-	<b>103</b>
Total . . . . .	<b>¥18</b>	¥3	<b>\$168</b>
Depreciation expense: . . . . .	<b>¥ 8</b>	¥1	<b>\$ 74</b>



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 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year . . . . .	¥ 53	¥ 48	\$ 494
Due after one year . . . . .	149	153	1,387
Total . . . . .	¥202	¥201	\$1,881

#### 4. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Retirement and severance benefit expenses . . . . .	¥ 442	¥ 662	\$ 4,116
Transportation expense . . . . .	1,751	1,552	16,305
Salaries and bonuses . . . . .	3,881	3,683	36,139
Depreciation expenses . . . . .	756	223	7,040
Rent expenses . . . . .	373	343	3,473
Research and development expenses . . . . .	4,376	3,549	40,749
Other . . . . .	4,174	3,641	38,868
Total . . . . .	¥15,753	¥13,653	\$146,690

Research and development expenses are charged to income as incurred.

#### 5. SHORT-TERM BORROWINGS

Short-term borrowings at March 31, 2004 represent unsecured loans from banks. The average interest rate of the bank loans as of March 31, 2004 was 0.59%.

#### 6. DERIVATIVE FINANCIAL INSTRUMENTS

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 rates. 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 report on the execution of derivative transactions and offer information on derivative transactions to the director in charge of the Company.

The details for derivative activities are as follows:

	Millions of Yen			
	2005			
	Contracted amount			
	Total	Over one year	Market value	Recognized gain/(loss)
Items not traded on exchanges				
Forward foreign exchange contracts:				
Buy				
Yen . . . . .	¥230	—	¥224	¥(6)

Thousands of U.S. Dollars				
<b>2005</b>				
Contracted amount				
Total	Over one year	Market value	Recognized gain/(loss)	
Items not traded on exchanges				
Forward foreign exchange contracts:				
Buy				
Yen.....	<b>\$2,142</b>	—	<b>\$2,086</b>	<b>\$ (56)</b>

Millions of Yen				
<b>2004</b>				
Contracted amount				
Total	Over one year	Market value	Recognized gain/(loss)	
Items not traded on exchanges				
Forward foreign exchange contracts:				
Buy				
Yen.....	¥158	—	¥162	¥4

## 7. EMPLOYEES' SEVERANCE AND PENSION BENEFITS

The Company and certain consolidated subsidiaries provide defined benefit plans for employees, while its certain foreign consolidated subsidiaries provide defined contribution plans.

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 sheets as of March 31, 2005 and 2004 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<b>2005</b>	2004	<b>2005</b>
Projected benefit obligation .....	<b>¥ 2,968</b>	¥ 2,868	<b>\$ 27,637</b>
Less fair value of pension assets .....	<b>(1,778)</b>	(1,692)	<b>(16,556)</b>
Unfunded benefit obligation .....	<b>1,190</b>	1,176	<b>11,081</b>
Unrecognized actuarial differences .....	<b>(27)</b>	(41)	<b>(251)</b>
Liability for retirement and severance benefits .....	<b>¥ 1,163</b>	¥ 1,135	<b>\$ 10,830</b>

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<b>2005</b>	2004	<b>2005</b>
Service costs — benefits earned during the year .....	<b>¥497</b>	¥464	<b>\$4,628</b>
Interest cost on projected benefit obligation .....	<b>30</b>	29	<b>279</b>
Expected return on plan assets .....	<b>(17)</b>	(16)	<b>(158)</b>
Amortization of actuarial differences .....	<b>41</b>	398	<b>382</b>
Other .....	<b>56</b>	54	<b>521</b>
Retirement and severance benefit expenses .....	<b>¥607</b>	¥929	<b>\$5,652</b>

	<b>2005</b>	2004
Discount rate .....	<b>1.0%</b>	1.0%
Rate of expected return .....	<b>1.0</b>	1.0

## 8. INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 41% for the years ended March 31, 2005 and 2004.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
<b>Deferred tax assets:</b>			
Accrued enterprise taxes . . . . .	¥ 477	¥ 551	\$ 4,442
Accrued bonuses disallowed . . . . .	493	431	4,591
Employees' retirement benefits accrued disallowed . . . . .	474	464	4,414
Directors' and corporate auditors' retirement benefits accrued . .	303	284	2,821
Devaluation of inventories . . . . .	148	140	1,378
Unrealized loss on inventories . . . . .	361	356	3,362
Depreciation of property and equipment . . . . .	419	248	3,902
Tax loss carryforwards . . . . .	308	–	2,868
Other . . . . .	289	304	2,692
Subtotal . . . . .	3,272	2,778	30,470
Valuation allowance . . . . .	(313)	–	(2,916)
Total deferred tax assets . . . . .	2,959	2,778	27,554
<b>Deferred tax liabilities:</b>			
Unrealized gain on available-for-sale securities . . . . .	(1,616)	(1,764)	(15,048)
Tax incentive depreciation . . . . .	(1,200)	(183)	(11,174)
Undistributed retained earnings . . . . .	(183)	(672)	(1,704)
Other . . . . .	(75)	(129)	(699)
Total deferred tax liabilities . . . . .	(3,074)	(2,748)	(28,625)
Net . . . . .	¥ (115)	¥ 30	\$ (1,071)

The difference between the statutory tax rate and the effective tax rate of the Company and its consolidated subsidiaries is not material.

## 9. SHAREHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") provides that (1) all appropriations of retained earnings, including dividends, require approval at an ordinary general meeting of shareholders, (2) interim cash dividends can be distributed upon the approval of the board of directors if the articles of incorporation provide for such interim dividends, subject to some restrictions in the amount, and (3) an amount equal to at least 10% of cash dividends and other appropriations paid in cash be appropriated as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock of the Company.

The legal earnings reserve and additional paid-in capital, up to 25% of common stock, are not available for dividends but may be used to reduce a deficit or may be transferred to common stock. The legal earnings reserve and additional paid-in capital, exceeding 25% of common stock, are available for distribution upon approval of the shareholders' meeting.

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.

In accordance with the Code, the declaration of annual and interim 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.

On June 29, 2005, the general shareholders' meeting approved cash dividends of ¥1,748 million (\$16,277 thousand), or ¥45 (\$0.42) per share, payable to shareholders of record as of March 31, 2005, and bonuses to directors and corporate auditors of ¥108 million (\$1,006 thousand). In conformity with the Code, this declaration of cash dividends is not reflected in the consolidated financial statements as of March 31, 2005.

## 10. 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.

Basic net income per share is calculated by dividing the net income for the period attributable to common shareholders by the weighted average number of shares of common stock outstanding during the period.

Diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. The 1.7% convertible bonds were considered as dilutive securities at March 31, 2004. In computing net income per share, net income is adjusted, net of income taxes, by interest expense when the inclusions are dilutive. The stock options outstanding at March 31, 2005 and 2004 were considered anti-dilutive, because their exercise prices were higher than the average closing market value on the Tokyo Stock Exchange Market of the Company's common stock.

## 11. RELATED PARTY TRANSACTIONS

On March 18, 2004, the Company provided a loan of ¥2,587 million due March 31, 2012 to Hirose Engineering Co., Ltd., a wholly owned subsidiary. Currently, the Company and Hirose Engineering Co., Ltd. agree that the interest rate on this loan will be zero through March 31, 2007.

## 12. 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

Geographic segment information for the years ended March 31, 2005 and 2004 was as follows:

Millions of Yen						
2005	Japan	Asia	Other	Total	Elimination/ HO	Consolidated
Sales						
– Third party . . . . .	¥ 79,191	¥ 3,717	¥6,654	¥ 89,562	¥ –	¥ 89,562
– Related Inter-segment . . . . .	5,911	9,975	0	15,886	(15,886)	–
Net sales . . . . .	85,102	13,692	6,654	105,448	(15,886)	89,562
Operating expense . . . . .	58,092	12,135	5,990	76,217	(16,320)	59,897
Operating profit . . . . .	¥ 27,010	¥ 1,557	¥ 664	¥ 29,231	¥ 434	¥ 29,665
Assets . . . . .	¥209,987	¥ 7,601	¥7,187	¥224,775	¥ (3,092)	¥221,683

Thousands of U.S. Dollars						
2005	Japan	Asia	Other	Total	Elimination/ HO	Consolidated
Sales						
– Third party . . . . .	\$ 737,415	\$ 34,612	\$61,961	\$ 833,988	\$ –	\$ 833,988
– Related Inter-segment . . . . .	55,042	92,886	0	147,928	(147,928)	–
Net sales . . . . .	792,457	127,498	61,961	981,916	(147,928)	833,988
Operating expense . . . . .	540,944	112,999	55,778	709,721	(151,969)	557,752
Operating profit . . . . .	\$ 251,513	\$ 14,499	\$ 6,183	\$ 272,195	\$ 4,041	\$ 276,236
Assets . . . . .	\$1,955,368	\$ 70,779	\$66,925	\$2,093,072	\$ (28,792)	\$2,064,280

Millions of Yen						
2004	Japan	Asia	Other	Total	Elimination/ HO	Consolidated
Sales						
– Third party . . . . .	¥ 70,049	¥ 3,362	¥5,601	¥ 79,012	¥ –	¥ 79,012
– Related Inter-segment . . . . .	5,627	8,922	5	14,554	(14,554)	–
Net sales . . . . .	75,676	12,284	5,606	93,566	(14,554)	79,012
Operating expense . . . . .	51,571	10,895	5,031	67,497	(14,529)	52,968
Operating profit . . . . .	¥ 24,105	¥ 1,389	¥ 575	¥ 26,069	¥ (25)	¥ 26,044
Assets . . . . .	¥196,525	¥ 7,153	¥6,105	¥209,783	¥ (6,910)	¥202,873

(1) The area of Asia includes the Republic of China, Malaysia and Indonesia.

(2) The area of Other includes the United States of America and Germany.

### (c) Overseas sales information

The following is a breakdown of net sales:

Millions of Yen						
	Japan	North America	Asia	Europe	Other	Consolidated
Net sales: . . . . .						
2005 . . . . .	¥52,580	¥3,045	¥26,623	¥6,655	¥659	¥89,562
2004 . . . . .	49,818	2,710	19,990	5,737	757	79,012

Thousands of U.S. Dollars						
	Japan	North America	Asia	Europe	Other	Consolidated
Net sales: . . . . .						
2005 . . . . .	\$489,617	\$28,355	\$247,909	\$61,970	\$6,137	\$833,988

(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

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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 consolidated subsidiaries as of March 31, 2005 and 2004, 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 independently 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, 2005 and 2004, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

KPMG AZSA & Co.  
Tokyo, Japan  
June 29, 2005

# General Information

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## **R&D Facility**

Yokohama Engineering Center

## **Domestic Subsidiaries**

TOHOKU HIROSE ELECTRIC CO., LTD.

KORIYAMA HIROSE ELECTRIC CO., LTD.

ICHINOSEKI HIROSE ELECTRIC CO., LTD.

HST CO., LTD.

HIROSE ENGINEERING 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 and Overseas Offices and Branches**

Tachikawa Sales Office

Kita-Kanto Sales Office

Osaka Branch

Nagoya Sales Office

Hong Kong Branch

Singapore Branch

Shenzhen Representative Office

Beijing Representative Office

## **Overseas Sales Subsidiaries and Joint Ventures**

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

HIROSE ELECTRIC GmbH (Germany)

HIROSE ELECTRIC UK LTD. (U.K.)

HIROSE ELECTRIC EUROPE B.V. (The Netherlands)

HIROSE ELECTRIC (SHANGHAI) CO., LTD.

(China)

HIROSE KOREA CO., LTD.

(joint venture with Dae Duck Industries)

WEI-HAI HIROSE KOREA ELECTRIC CO., LTD.

(subsidiary of Hirose Korea Co., Ltd.)

## **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, 2005, approximately 40.02 million outstanding shares were held by 6,008 investors.

Foreign investors held 37.44% of shares outstanding.

## **Main Bank References**

Sumitomo Mitsui Banking Corporation

The Sumitomo Trust & Banking Co., Ltd.

The Bank of Tokyo-Mitsubishi, Ltd.

Shinsei Bank, Ltd.

# Directors and Corporate Auditors

(As of June 29, 2005)

<b>Representative Director</b>	HIDEKI SAKAI <i>Chairman and Chief Executive Officer</i>
<b>Representative Director</b>	TATSURO NAKAMURA <i>President and Chief Operating Officer</i>
<b>Managing Director</b>	SAKAE KUSHIDA <i>General Manager of Administrative Division; General Manager of Corporate Planning Department, Accounting Department, General Affairs Department, and Personnel Department</i>
<b>Directors</b>	IZUMI MORIMOTO <i>General Manager of Production Division</i>
	MITSUYOSHI YAMAMOTO <i>General Manager of Engineering Division; General Manager of SB Department</i>
	MITSUGU SUGINO <i>General Manager of Sales and Marketing Division</i>
<b>Outside Director</b>	*1 MASASHI KOJIMA <i>(Senior Advisor, NIPPON TELEGRAPH AND TELEPHONE CORPORATION)</i>
<b>Corporate Auditors</b>	MASAO HIROHASHI
	*2 HIDESATO SEKINE
	*2 TAKASHI HIGA
	*1 Outside director, as stipulated in the Commercial Code of Japan, Item 7-2, Paragraph 2, Article 188.
	*2 Special external company auditor, as stipulated in the Commercial Code of Japan, Section 18, Article 1.

## 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.

4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

## **HIROSE ELECTRIC CO.,LTD.**

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