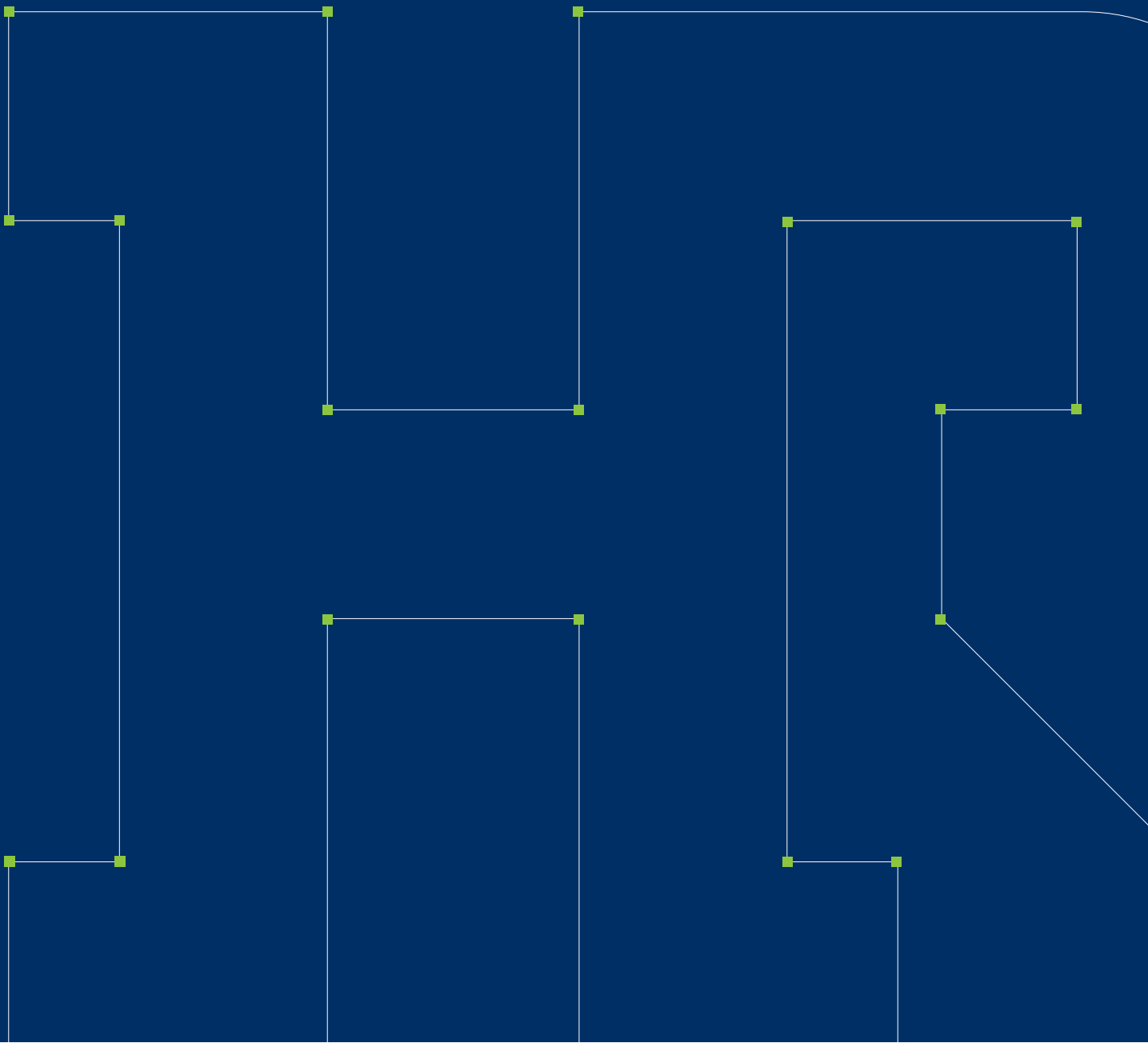




## Creative Links to World Electronics

HIROSE ELECTRIC CO.,LTD.  
Annual Report 2006



# 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

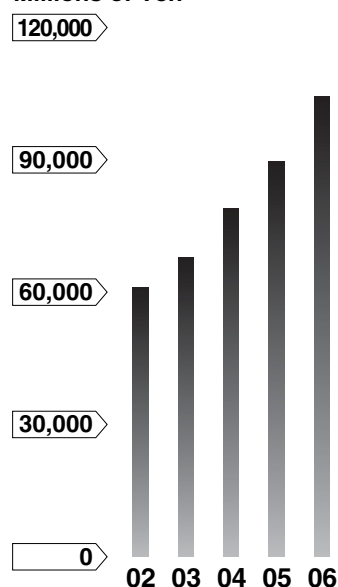
For the years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Thousands of U.S. Dollars*
	2006	2005	2004	2006
Net Sales: . . . . .	¥ 104,407	¥ 89,562	¥ 79,012	\$ 888,797
Domestic market . . . . .	56,914	52,580	49,818	484,498
Overseas market . . . . .	47,493	36,982	29,194	404,299
Operating Income . . . . .	36,892	29,665	26,044	314,054
Net Income . . . . .	22,913	18,315	15,043	195,053
<b>At year-end:</b>				
Total assets . . . . .	¥ 255,419	¥ 221,682	¥ 202,873	\$ 2,174,334
Shareholders' equity . . . . .	218,571	194,992	176,672	1,860,654
<b>Per share of common stock:</b>				
(in yen and dollars)				
Net income — Basic . . . . .	¥ 589.03	¥ 468.46	¥ 382.26	\$ 5.01
— Diluted . . . . .	589.02	—	381.15	5.01
Shareholders' equity . . . . .	5,612.00	5,017.74	4,538.25	47.77

\* U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥117.47 = U.S.\$1.

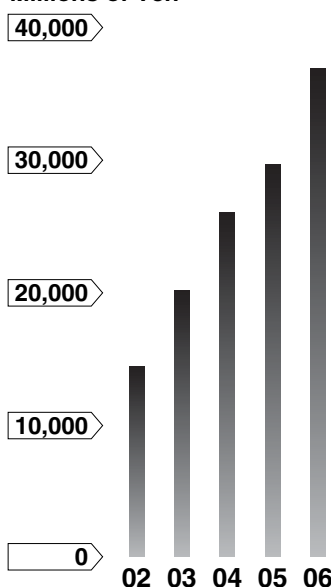
## Net Sales

Millions of Yen



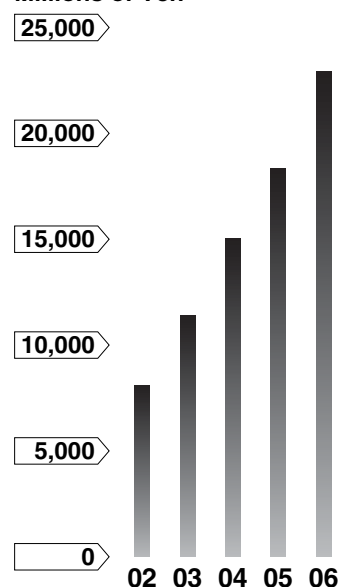
## Operating Income

Millions of Yen



## Net Income

Millions of Yen



# To Our Shareholders

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## **Record-high Sales and Income for the Second Consecutive Year**

In the fiscal year ended March 31, 2006, the Japanese economy's modest recovery continued, supported by firm domestic demand in the form of capital investment and consumer spending, as well as exports, which took a favorable turn from the summer onwards.

Amid this environment, the Hirose Electric Group succeeded in posting net sales and net income that hit record highs for a second straight year. Consolidated net sales increased year on year by ¥14,845 million, or 16.6%, to ¥104,407 million and net income rose ¥4,598 million, or 25.1%, to ¥22,913 million.

By product area, sales of our flagship multi-pin connectors—which include circular and rectangular connectors, 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 18.8% to ¥88,385 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 increased 5.7% to ¥11,076 million due to a recovery 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 6.0% to ¥4,946 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 2006

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

Tatsuro Nakamura

President and Representative Director

# Five-year Summary

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31

	Millions of yen				
	2006	2005	2004	2003	2002
Net Sales . . . . .	<b>¥104,407</b>	¥ 89,562	¥ 79,012	¥ 67,890	¥ 61,144
Operating Income . . . . .	<b>36,892</b>	29,665	26,044	20,138	14,408
Net Income . . . . .	<b>22,913</b>	18,315	15,043	11,398	8,113

**At year-end:**

Total assets . . . . .	<b>¥255,419</b>	¥221,682	¥202,873	¥192,802	¥177,876
Shareholders' equity . . . . .	<b>218,571</b>	194,992	176,672	169,787	160,125

Yen

**Per share of common stock:**

Net income —					
Basic . . . . .	<b>¥ 589.03</b>	¥ 468.46	¥ 382.26	¥ 284.87	¥ 204.36
Diluted . . . . .	<b>589.02</b>	—	381.15	282.94	203.10
Shareholders' equity . . . . .	<b>5,612.00</b>	5,017.74	4,538.25	4,276.05	4,033.77

Thousands of U.S. dollars\*

	Thousands of U.S. dollars*				
	2006	2005	2004	2003	2002
Net Sales . . . . .	<b>\$ 888,797</b>	\$ 762,424	\$ 672,614	\$ 577,935	\$ 520,507
Operating Income . . . . .	<b>314,054</b>	252,533	221,708	171,431	122,653
Net Income . . . . .	<b>195,053</b>	155,912	128,058	97,029	69,064

**At year-end:**

Total assets . . . . .	<b>\$2,174,334</b>	\$1,887,137	\$1,727,020	\$1,641,287	\$1,514,225
Shareholders' equity . . . . .	<b>1,860,654</b>	1,659,930	1,503,975	1,445,365	1,363,114

U.S. dollars\*

**Per share of common stock:**

Net income — Basic . . . . .	<b>\$ 5.01</b>	\$ 3.99	\$ 3.25	\$ 2.43	\$ 1.74
— Diluted . . . . .	<b>5.01</b>	—	3.24	2.41	1.73
Shareholders' equity . . . . .	<b>47.77</b>	42.72	38.63	36.40	34.34

\* U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥117.47 = 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, 14 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 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., Hirose Electric Europe B.V., and Hirose Engineering Co., Ltd. Additional shares were acquired in HST 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 its subsidiary, 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, 2006, the Japanese economy's modest recovery continued, supported by firm domestic demand in the form of capital investment and consumer spending, as well as exports, which took a favorable turn from the summer onwards.

In the electronics industry, the same period saw increased exports to Asia amid intensifying competition among suppliers. Favorable business conditions prevailed, however, as the phase of inventory adjustment in IT-related components ended and production, which took an upturn, remained at a high level.

## 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 for a second consecutive year. Consolidated net sales increased year on year by 16.6% to ¥104,407 million. Net income rose 25.1% to ¥22,913 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 electronic 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	Share of total sales		Description
	2006	2005	
Multi-pin connectors . . . . .	84.7%	83.1%	Circular, rectangular, printed circuit boards
Coaxial connectors . . . . .	10.6	11.7	Coaxial, optical
Other . . . . .	4.7	5.2	Coaxial components, crimp contacts, medical equipment, etc.
Total . . . . .	100.0%	100.0%	

*Consolidated basis*

## Overseas Sales

Overseas sales increased by ¥10,511 million, or 28.4%, to ¥47,493 million (US\$404,299 thousand).

Overseas sales by region

Years ended March 31	Millions of Yen			
	Overseas sales	Share of consolidated sales	Overseas sales	Share of consolidated sales
	2006		2005	
*North America . . . . .	¥ 3,806	3.6%	¥ 3,045	3.4%
*Asia . . . . .	35,126	33.6	26,623	29.7
Europe . . . . .	7,707	7.4	6,655	7.4
Other . . . . .	854	0.9	658	0.7
Total . . . . .	¥47,493	45.5%	¥36,982	41.3%

*\*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 ¥255,419 million (US\$2,174,334 thousand), an increase of 15.2% from a year ago. Current assets increased 15.9% to ¥199,032 million (US\$1,694,322 thousand), mainly reflecting an increase in cash and bank deposits and in trade notes and accounts receivable.

Shareholders' equity rose by 12.1% to ¥218,571 million (US\$1,860,654 thousand). As a result, the equity ratio decreased by 2.4 percentage points to 85.6%. Shareholders' equity per share rose ¥594.26 to ¥5,612.00 (US\$47.77).

## 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 simultaneously 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, 2006 to ¥100 per share, comprising the interim dividend of ¥35 per share which has already been paid and the year-end dividend of ¥65 per share.

# Consolidated Balance Sheets

Hirose Electric Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits (Note 1 (c)) . . . . .	¥143,901	¥125,985	\$1,225,002
Marketable securities (Note 2) . . . . .	10,033	10,010	85,409
Trade notes and accounts receivable . . . . .	33,336	26,501	283,783
Allowance for doubtful receivables . . . . .	(17)	(21)	(145)
Inventories . . . . .	6,609	5,465	56,261
Deferred income taxes (Note 7) . . . . .	2,093	1,625	17,817
Other current assets . . . . .	3,077	2,218	26,195
<b>Total current assets</b> . . . . .	<b>199,032</b>	<b>171,783</b>	<b>1,694,322</b>
<b>Property, plant and equipment:</b>			
Land . . . . .	1,991	1,935	16,949
Buildings . . . . .	7,337	7,054	62,459
Machinery and equipment (Note 1 (g)) . . . . .	56,057	49,740	477,203
Construction in progress . . . . .	712	352	6,060
	<b>66,097</b>	59,081	<b>562,671</b>
Less accumulated depreciation . . . . .	(48,049)	(44,229)	(409,032)
<b>Property, plant and equipment, net</b> . . . . .	<b>18,048</b>	<b>14,852</b>	<b>153,639</b>
<b>Investments and other assets:</b>			
Investment securities (Note 2) . . . . .	25,835	24,571	219,928
Investment in affiliates . . . . .	7,201	5,127	61,301
Deferred income taxes (Note 7) . . . . .	487	305	4,146
Goodwill . . . . .	1,452	1,936	12,361
Intangible and other assets . . . . .	3,364	3,108	28,637
<b>Total investments and other assets</b> . . . . .	<b>38,339</b>	<b>35,047</b>	<b>326,373</b>
<b>Total assets</b> . . . . .	<b>¥255,419</b>	<b>¥221,682</b>	<b>\$2,174,334</b>



	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Trade notes and accounts payable . . . . .	¥ 16,822	¥ 11,481	\$ 143,203
Accrued expenses . . . . .	775	618	6,597
Accrued income taxes . . . . .	9,379	6,739	79,842
Accrued bonuses . . . . .	1,348	1,206	11,475
Other current liabilities . . . . .	3,325	2,299	28,305
<b>Total current liabilities . . . . .</b>	<b>31,649</b>	<b>22,343</b>	<b>269,422</b>
<b>Long-term liabilities:</b>			
Retirement and severance benefits:			
Employees' (Note 6) . . . . .	1,172	1,163	9,977
Directors' and Corporate Auditors' . . . . .	766	744	6,521
Deferred income taxes (Note 7) . . . . .	3,057	2,045	26,024
Other long-term liabilities . . . . .	204	395	1,736
<b>Total long-term liabilities . . . . .</b>	<b>5,199</b>	<b>4,347</b>	<b>44,258</b>
<b>Shareholders' equity: (Note 8)</b>			
Common stock			
Authorized — 80,000,000 shares			
Issued — 40,020,736 shares in 2006 and 2005 . . . . .	9,404	9,404	80,054
Additional paid-in capital . . . . .	14,363	12,008	122,270
Retained earnings . . . . .	202,643	182,940	1,725,062
Accumulated other comprehensive income —			
Unrealized gain on available-for-sale securities . . . . .	3,184	2,355	27,105
Foreign currency translation adjustments . . . . .	531	(903)	4,520
	230,125	205,804	1,959,011
Less— Cost of common stock in treasury			
1,095,235 shares in 2006 and			
1,181,675 shares in 2005 . . . . .	(11,554)	(10,812)	(98,357)
<b>Total shareholders' equity . . . . .</b>	<b>218,571</b>	<b>194,992</b>	<b>1,860,654</b>
<b>Total liabilities and shareholders' equity . . . . .</b>	<b>¥255,419</b>	<b>¥221,682</b>	<b>\$2,174,334</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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 10) .....	<b>¥104,407</b>	¥89,562	<b>\$888,797</b>
Cost of sales .....	<b>49,975</b>	44,144	<b>425,428</b>
Gross profit .....	<b>54,432</b>	45,418	<b>463,369</b>
Selling, general and administrative expenses (Note 4) .....	<b>17,540</b>	15,753	<b>149,315</b>
Operating income .....	<b>36,892</b>	29,665	<b>314,054</b>
Other income (expenses):			
Interest and dividend income .....	<b>288</b>	249	<b>2,452</b>
Equity in earnings of affiliates .....	<b>1,624</b>	725	<b>13,825</b>
Interest expense .....	—	(2)	—
Loss on disposal of inventories .....	—	(281)	—
Foreign exchange gain (loss), net .....	<b>(165)</b>	49	<b>(1,405)</b>
Expense related to sale of treasury stock .....	<b>(320)</b>	—	<b>(2,724)</b>
Loss on disposal of plant and equipment, net .....	<b>(276)</b>	(241)	<b>(2,350)</b>
Other, net .....	<b>330</b>	283	<b>2,809</b>
	<b>1,481</b>	782	<b>12,607</b>
Income before income taxes .....	<b>38,373</b>	30,447	<b>326,661</b>
Provision for income taxes — Current .....	<b>15,646</b>	12,163	<b>133,191</b>
— Deferred .....	<b>(186)</b>	(31)	<b>(1,583)</b>
	<b>15,460</b>	12,132	<b>131,608</b>
Net income .....	<b>¥ 22,913</b>	¥18,315	<b>\$195,053</b>
	Yen		U.S. dollars (Note 1)
<b>Per share of common stock: (Note 9)</b>			
Net income — Basic .....	<b>¥589.03</b>	¥468.46	<b>\$5.01</b>
— Diluted .....	<b>589.02</b>	—	<b>5.01</b>
Cash dividends, applicable to the year .....	<b>100.00</b>	55.00	<b>0.85</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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Common stock:</b>			
Balance at beginning of year	¥ 9,404	¥ 9,404	\$ 80,054
Balance at end of year	¥ 9,404	¥ 9,404	\$ 80,054
<b>Additional paid-in capital:</b>			
Balance at beginning of year	¥ 12,008	¥ 12,008	\$ 102,222
Gain on sale of treasury stock	2,355	0	20,048
Balance at end of year	¥ 14,363	¥ 12,008	\$ 122,270
<b>Retained earnings:</b>			
Balance at beginning of year	¥182,940	¥163,714	\$1,557,334
Net income	22,913	18,315	195,053
Effect of change in scope of consolidation	-	2	-
Increase of affiliates accounted for by the equity method	-	1,938	-
Cash dividends paid	(3,102)	(933)	(26,407)
Bonuses to directors and corporate auditors	(108)	(96)	(918)
Balance at end of year	¥202,643	¥182,940	\$1,725,062
<b>Accumulated other comprehensive income:</b>			
Unrealized gain on available-for-sale securities	¥ 3,184	¥ 2,355	\$ 27,105
Foreign currency translation adjustments	531	(903)	4,520
<b>Total accumulated other comprehensive income, net</b>	<b>¥ 3,715</b>	<b>¥ 1,452</b>	<b>\$ 31,625</b>
Treasury stock, at cost	(11,554)	(10,812)	(98,357)
2006: 1,095,235 shares			
2005: 1,181,675 shares			
<b>Total shareholders' equity</b>	<b>¥218,571</b>	<b>¥194,992</b>	<b>\$1,860,654</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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
<b>Operating activities:</b>			
Income before income taxes . . . . .	¥ 38,373	¥ 30,447	\$ 326,661
Adjustments to reconcile income before income taxes to net cash provided by operating activities —			
Depreciation and amortization . . . . .	6,918	6,197	58,892
Increase in liability for employees' retirement and severance benefits . . . . .	5	30	43
Equity in earnings of affiliates . . . . .	(1,624)	(725)	(13,825)
Income taxes paid . . . . .	(12,805)	(12,150)	(109,007)
Bonus paid to directors . . . . .	(103)	(94)	(877)
Changes in assets and liabilities —			
Increase in trade notes and accounts receivable . . . . .	(6,409)	(148)	(54,559)
Increase (decrease) in inventories . . . . .	(1,047)	282	(8,913)
Increase (decrease) in trade notes and accounts payable . .	4,979	(249)	42,385
Other, net . . . . .	(407)	1,360	(3,463)
Net cash provided by operating activities . . . . .	27,880	24,950	237,337
<b>Investing activities:</b>			
Proceeds from sale of investment securities . . . . .	55	69	468
Proceeds from redemption of marketable securities . . . . .	10,010	1,736	85,213
Purchases of marketable securities . . . . .	—	(10,005)	—
Acquisition of property and equipment . . . . .	(8,171)	(5,426)	(69,558)
Purchases of investment securities . . . . .	(10,005)	(20,087)	(85,171)
Purchases of investment securities in subsidiaries . . . . .	—	(1,214)	—
Other, net . . . . .	(539)	(930)	(4,588)
Net cash used in investing activities . . . . .	(8,650)	(35,857)	(73,636)
<b>Financing activities:</b>			
Dividends paid . . . . .	(3,102)	(933)	(26,407)
Proceeds from short-term borrowings . . . . .	—	500	—
Repayment of short-term borrowings . . . . .	—	(695)	—
Acquisition of treasury stock . . . . .	(6,017)	(731)	(51,222)
Proceeds from sale of treasury stock . . . . .	7,309	1	62,220
Other, net . . . . .	(5)	(6)	(42)
Net cash used in financing activities . . . . .	(1,815)	(1,864)	(15,451)
Effect of exchange rate change on cash and cash equivalents . .	501	168	4,266
Net increase (decrease) in cash and cash equivalents . . . . .	17,916	(12,603)	152,516
Cash and cash equivalents, beginning of year . . . . .	125,985	138,575	1,072,486
Increase of cash and cash equivalents due to newly consolidated subsidiaries . . . . .	—	13	—
Cash and cash equivalents, end of year (Note 1 (c)) . . . . .	¥143,901	¥125,985	\$1,225,002
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest . . . . .	¥ —	¥ 2	\$ —

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

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## 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 inclusion 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 translation 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, 2006, which was ¥117.47 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 Trading (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.
- PT. Hirose Electric Indonesia

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

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 in the year ended March 31, 2005, 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 account 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 Trading (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 statements. 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 statements 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, 2006 and March 31, 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and bank deposits . . . . .	<b>¥143,901</b>	¥125,985	<b>\$1,225,002</b>
	<b>¥143,901</b>	¥125,985	<b>\$1,225,002</b>

**(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 at 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 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 the 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 by the straight-line method over the 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**

Effective from the year ended March 31, 2006, the Company and its consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standard Board of Japan on October 31, 2003). The adoption of this new accounting standard had no impact on the Company's consolidated financial statements.

**(k) Allowance for doubtful receivables**

The allowance for doubtful receivables 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 an 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 consolidated 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) Changes in accounting policies**

Previously, the Company accounted for loss on disposal and write-down of inventory as other expense. Effective April 1, 2005, the Company changed its accounting policy and accounted for such expense as cost of sales.

To deal with the recent tough price competition in this industry, the Company reviewed the method of its gross profit control by products. Under such circumstances, the loss on disposal and write-down of inventory has been recorded constantly, has a direct impact on price decision making and sales policy and has a closer relationship with sales revenue than before. As such, in order to express gross profit more appropriately, the Company made this change to its accounting policy.

The effect of this change was to increase cost of sales by ¥388 million (\$3,303 thousand) and to decrease gross profit and operating income by the same amount for the year ended March 31, 2006.

**(q) Reclassification**

Certain prior period amounts in the consolidated financial statements have been reclassified to conform to the March 31, 2006 presentation. These reclassifications had no effect on the Company’s consolidated net income or shareholders’ 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, 2006 and 2005:

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

Millions of yen				
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2006				
Held-to-maturity debt securities . . . . .	<b>¥30,043</b>	–	<b>¥(170)</b>	<b>¥29,873</b>

Thousands of U.S. dollars				
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2006				
Held-to-maturity debt securities . . . . .	<b>\$255,750</b>	–	<b>\$(1,447)</b>	<b>\$254,303</b>

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

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

Millions of yen				
	Cost/ Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2006				
Available-for-sale securities:				
Equity securities . . . . .	<b>¥373</b>	<b>¥5,359</b>	¥–	<b>¥5,732</b>
Debt securities . . . . .	–	–	–	–
Other . . . . .	<b>62</b>	<b>0</b>	–	<b>62</b>
Total . . . . .	<b>¥435</b>	<b>¥5,359</b>	¥–	<b>¥5,794</b>

Thousands of U.S. dollars				
	Cost/ Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2006				
Equity securities . . . . .	<b>\$3,175</b>	<b>\$45,620</b>	\$–	<b>\$48,795</b>
Debt securities . . . . .	–	–	–	–
Other . . . . .	<b>528</b>	<b>0</b>	–	<b>528</b>
Total . . . . .	<b>\$3,703</b>	<b>\$45,620</b>	\$–	<b>\$49,323</b>

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 . . . . .	¥372	¥3,968	¥–	¥4,340
Debt securities . . . . .	10	0	–	10
Other . . . . .	80	8	(5)	83
Total . . . . .	¥462	¥3,976	¥(5)	¥4,433

The following tables summarize book values of securities with no available fair values as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Investments in affiliates . . . . .	¥7,201	¥5,127	\$61,301
Available-for-sale securities . . . . .	31	64	264
Total . . . . .	¥7,232	¥5,191	\$61,565

Available-for-sale securities sold in the year ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Sales amount . . . . .	¥55	¥69	\$468
Gross realized gain . . . . .	22	28	187
Gross realized loss . . . . .	—	—	—

Maturities of debt securities classified as available-for-sale and held-to-maturity debt at March 31, 2006 and 2005 are as follows:

2006	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds . . . . .	¥10,033	¥20,010	¥—	¥—
Corporate bonds . . . . .	—	—	—	—
Other . . . . .	—	—	—	—
Total . . . . .	¥10,033	¥20,010	¥—	¥—

2006	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds . . . . .	\$85,409	\$170,341	\$—	\$—
Corporate bonds . . . . .	—	—	—	—
Other . . . . .	—	—	—	—
Total . . . . .	\$85,409	\$170,341	\$—	\$—

2005	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Government bonds . . . . .	¥10,000	¥20,084	¥—	¥—
Corporate bonds . . . . .	10	—	—	—
Other . . . . .	—	—	—	—
Total . . . . .	¥10,010	¥20,084	¥—	¥—

### 3. LEASES

Total finance lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessees were ¥7 million (\$60 thousand) and ¥8 million for the years ended March 31, 2006 and 2005, respectively.

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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Equipment			
Cost and depreciation:			
Acquisition cost . . . . .	¥49	¥51	\$417
Accumulated depreciation . . . . .	39	33	332
Net leased property . . . . .	¥10	¥18	\$ 85
Obligations under finance leases:			
Due within one year . . . . .	¥ 6	¥ 7	\$ 51
Due after one year . . . . .	4	11	34
Total . . . . .	¥10	¥18	\$ 85
Depreciation expense: . . . . .	¥ 7	¥ 8	\$ 60





## 6. 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, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation . . . . .	<b>¥3,058</b>	¥2,968	<b>\$26,032</b>
Less fair value of pension assets . . . . .	<b>1,862</b>	(1,778)	<b>15,851</b>
Unfunded benefit obligation . . . . .	<b>1,196</b>	1,190	<b>10,181</b>
Unrecognized actuarial differences . . . . .	<b>(24)</b>	(27)	<b>(204)</b>
Liability for retirement and severance benefits . . . . .	<b>¥1,172</b>	¥1,163	<b>\$ 9,977</b>

Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 were severance and retirement benefit expenses, which comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs – benefits earned during the year . . . . .	<b>¥558</b>	¥497	<b>\$4,750</b>
Interest cost on projected benefit obligation . . . . .	<b>32</b>	30	<b>272</b>
Expected return on plan assets . . . . .	<b>(17)</b>	(17)	<b>(145)</b>
Amortization of actuarial differences . . . . .	<b>31</b>	41	<b>264</b>
Other . . . . .	<b>65</b>	56	<b>554</b>
Retirement and severance benefit expenses . . . . .	<b>¥669</b>	¥607	<b>\$5,695</b>
		<b>2006</b>	2005
Discount rate . . . . .		<b>1.0%</b>	1.0%
Rate of expected return . . . . .		<b>1.0%</b>	1.0%

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

## 7. 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, 2006 and 2005.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Deferred tax assets:</b>			
Accrued enterprise taxes . . . . .	<b>¥ 738</b>	¥ 477	<b>\$ 6,282</b>
Accrued bonuses disallowed . . . . .	<b>548</b>	493	<b>4,665</b>
Employees' retirement benefits accrued disallowed . . . . .	<b>475</b>	474	<b>4,044</b>
Directors' and corporate auditors' retirement benefits accrued . . . . .	<b>312</b>	303	<b>2,656</b>
Devaluation of inventories . . . . .	<b>181</b>	148	<b>1,541</b>
Unrealized loss on inventories . . . . .	<b>417</b>	361	<b>3,550</b>
Depreciation of property and equipment . . . . .	<b>584</b>	419	<b>4,971</b>
Tax loss carryforwards . . . . .	<b>651</b>	308	<b>5,542</b>
Other . . . . .	<b>509</b>	289	<b>4,333</b>
Subtotal . . . . .	<b>4,415</b>	3,272	<b>37,584</b>
Valuation allowance . . . . .	<b>(657)</b>	(313)	<b>(5,593)</b>
Total deferred tax assets . . . . .	<b>3,758</b>	2,959	<b>31,991</b>
<b>Deferred tax liabilities:</b>			
Unrealized gain on available-for-sale securities . . . . .	<b>(2,181)</b>	(1,616)	<b>(18,566)</b>
Tax incentive depreciation . . . . .	<b>(1,779)</b>	(1,200)	<b>(15,144)</b>
Undistributed retained earnings . . . . .	<b>(183)</b>	(183)	<b>(1,558)</b>
Other . . . . .	<b>(92)</b>	(75)	<b>(784)</b>
Total deferred tax liabilities . . . . .	<b>(4,235)</b>	(3,074)	<b>(36,052)</b>
Net . . . . .	<b>¥ (477)</b>	¥ (115)	<b>\$ (4,061)</b>

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

## 8. SHAREHOLDERS' EQUITY

Under Japanese laws and regulations, the entire amount of payment for new shares is required to be designated as common stock, although, generally, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital.

Japanese Company Law ("the Law") became effective on May 1, 2006, and, at the same time, the Japanese Commercial Code was repealed ("the Code").

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Law, in cases when dividends are paid, an amount equal to 10% of the dividends or the excess of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve, whichever is the smaller, must be set aside as additional paid-in capital or legal earnings reserve. Under the Code, additional paid-in capital and legal earnings reserve were available for distribution by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, even when the total amount of additional paid-in-capital and legal earnings reserve is less than 25% of common stock, additional paid-in-capital and legal earnings reserve may be available for dividends if there are sufficient distributable surplus. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the Board of Directors. Under the Law, both of those appropriations require a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

On June 29, 2006, the general shareholders' meeting approved cash dividends of ¥2,530 million (\$21,537 thousand), or ¥65 (\$0.55) per share, payable to shareholders of record as of March 31, 2006, and bonuses to directors and corporate auditors of ¥121 million (\$1,030 thousand). In conformity with the Code, this declaration of cash dividends is not reflected in the consolidated financial statements as of March 31, 2006.

## 9. 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 resulted in the issuance of common stock. The stock options outstanding at March 31, 2006 were considered dilutive, because their exercise price was lower than the average closing market value on the Tokyo Stock Exchange Market of the Company's common stock, while the stock options outstanding at March 31, 2005 were considered anti-dilutive.

## 10. SEGMENT INFORMATION

### (a) Business segment information

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

### (b) Geographic segment information

As described in Note 1(p), effective April 1, 2005, the Company accounted for loss on disposal and write-down of inventory as cost of sales, which were previously accounted for as other expense. Accordingly, the operating profit for "Japan" decreased by ¥388 million compared to the amounts that would have been reported by the previous accounting method.

Geographic segment information for the years ended March 31, 2006 and 2005 was as follows:

2006	Millions of yen					Consolidated
	Japan	Asia	Other	Total	Elimination/ HO	
Sales						
– Third party . . . . .	¥ 92,322	¥ 4,180	¥7,905	¥104,407	¥ –	¥104,407
– Related						
Inter-segment . . . . .	7,133	10,984	15	18,132	(18,132)	–
Net sales . . . . .	99,455	15,164	7,920	122,539	(18,132)	104,407
Operating expense . . . . .	65,338	13,795	7,004	86,137	(18,622)	67,515
Operating profit . . . . .	¥ 34,117	¥ 1,369	¥ 916	¥ 36,402	¥ 490	¥ 36,892
Assets . . . . .	¥239,340	¥ 9,648	¥8,695	¥257,683	¥ (2,264)	¥255,419

Thousands of U.S. dollars						
2006	Japan	Asia	Other	Total	Elimination/ HO	Consolidated
Sales						
– Third party . . . . .	\$ 785,920	\$ 35,584	\$67,293	\$ 888,797	\$ –	\$ 888,797
– Related						
Inter-segment . . . . .	60,722	93,505	128	154,355	(154,355)	–
Net sales . . . . .	846,642	129,089	67,421	1,043,152	(154,355)	888,797
Operating expense . . . . .	556,210	117,434	59,625	733,269	(158,526)	574,743
Operating profit . . . . .	\$ 290,432	\$ 11,655	\$ 7,796	\$ 309,883	\$ 4,171	\$ 314,054
Assets . . . . .	\$2,037,456	\$ 82,132	\$74,019	\$2,193,607	\$ (19,273)	\$2,174,334

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 . . . . .	¥209,986	¥ 7,601	¥7,187	¥224,774	¥ (3,092)	¥221,682

(1) The area of Asia includes the People's 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:						
2006 . . . . .	¥56,914	¥3,806	¥35,126	¥7,707	¥854	¥104,407
2005 . . . . .	¥52,580	¥3,045	¥26,623	¥6,655	¥659	¥ 89,562

Thousands of US dollars						
	Japan	North America	Asia	Europe	Other	Consolidated
Net sales:						
2006 . . . . .	\$484,498	\$32,401	\$299,020	\$65,608	\$7,270	\$888,797

(1) The area of North America includes the United States of America.

(2) The area of Asia includes Korea, Taiwan and the People's 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 the 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, 2006 and 2005, 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, 2006 and 2005, 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.

Without qualifying our opinion, we draw attention to Note 1(p) to the consolidated financial statements. Effective April 1, 2005, Hirose Electric Co., Ltd. accounted for its loss on disposal and write-down of inventory as cost of sales which were previously accounted for other expense.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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.*

Tokyo, Japan  
June 29, 2006

# 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

Osaka Branch

Nagoya Sales Office

Hong Kong Branch

Singapore Branch

Shenzhen Representative Office

Beijing Representative Office

## **Overseas Sales Subsidiaries and affiliates**

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, 2006, approximately 40.02 million outstanding shares were held by 7,296 investors.

Foreign investors held 39.35% of shares outstanding.

## **Main Bank References**

Sumitomo Mitsui Banking Corporation

The Sumitomo Trust & Banking Co., Ltd.

Bank of Tokyo-Mitsubishi UFJ

Shinsei Bank, Ltd.

# Directors and Corporate Auditors

(As of June 29, 2006)

<b>Director</b>	HIDEKI SAKAI <i>Supreme Advisor</i>
<b>Representative Director</b>	TATSURO NAKAMURA <i>President</i>
<b>Managing Director</b>	SAKAE KUSHIDA <i>General Manager of Administrative Division</i>
<b>Directors</b>	IZUMI MORIMOTO <i>General Manager of Production Division</i>
	MITSUYOSHI YAMAMOTO <i>General Manager of Engineering Division</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 Company Law of Japan, Paragraph 15, Article 2.  
\*2 Special external company auditor, as stipulated in the Company Law of Japan, Paragraph 16, Article 2.

## 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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