



**YUHO REPORT**  
**Annual**

Fiscal Year Ended	March 31, 2005
Traded	TSE1
Stock Code	7296



**F.C.C. CO., LTD.**

# YUHOREPORT

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This report is based on the Company's Japanese-language annual filing with the Financial Services Agency and supplemented with materials that facilitate comparison with the Company's peers. The materials from the annual filing with the Financial Services Agency have been edited and reorganized in a format more familiar to the international investment community. All information contained in this report has been obtained from sources believed to be reliable, but the accuracy of the data and the translation and the completeness and timeliness of the information are not warranted by the Company, Pacific Associates, or Asia Securities Printing. None of the above parties shall be responsible for any error or omission or for results obtained from the use of this information.

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## Company Profile

### *Financial highlights*

Years ended March 31; Millions of yen	2001	2002	2003	2004	2005	Change 2005/2001
<b>Consolidated</b>						
Net sales	63,161	71,071	82,887	89,627	100,882	160%
Ordinary income	6,081	7,405	11,332	12,428	13,847	228%
Net income	3,232	3,876	6,515	7,192	8,153	252%
Shareholders' equity	30,852	35,427	39,383	44,946	52,703	171%
Total assets	52,287	60,155	65,477	70,803	82,304	157%
Shareholders' equity per share (Yen)	1,758.25	2,018.91	2,241.26	2,561.85	2,002.33	
Net income per share (Yen)	184.24	220.92	367.97	409.94	309.83	
Net income per share, fully diluted (Yen)	-	-	-	-	-	
Net cash provided by (used in) operating activities	6,061	7,308	8,949	11,402	12,003	198%
Net cash provided by (used in) investing activities	(5,127)	(6,566)	(6,396)	(9,377)	(7,430)	145%
Net cash provided by (used in) financing activities	(307)	235	(393)	(1,541)	(430)	140%
Cash and cash equivalents, end of term	5,976	7,196	9,939	10,047	14,091	236%
Employees	2,234	2,403	2,879	3,028	3,539	158%

*The Company split its stock (through a gratis issue) at the ratio of 1.5:1 on November 22, 2004. Its calculations of earnings per share assume that the stock split occurred at the beginning of the term.*

### *Peer comparisons*

Years ended March 31	2001	2002	2003	2004	2005
Net income / net sales (%)	5.1	5.5	7.9	8.0	8.1
Peers	0.1	0.4	2.2	3.0	3.2
Ordinary income / net sales (%)	9.6	10.4	13.7	13.9	13.7
Peers	3.3	2.9	4.4	5.3	5.3
Net income / assets (%)	6.2	6.4	10.0	10.2	9.9
Peers	0.5	0.8	2.6	3.7	3.9
Ordinary income / assets (%)	11.6	12.3	17.3	17.6	16.8
Peers	4.2	3.4	5.3	6.5	6.7
Equity / assets (%)	59.0	58.9	60.1	63.5	64.0
Peers	39.2	40.1	40.3	41.9	43.2
Net income / equity (%)	10.5	10.9	16.5	16.0	15.5
Peers	(7.9)	(3.4)	8.6	10.6	9.5

*Peers include 43 motorcycle and automobile parts manufacturers in the transportation equipment industry listed on the First and Second Sections of Tokyo Stock Exchange.*

*Common size statements*

Years ended March 31; Percent	Consolidated		Parent	
	2004	2005	2004	2005
<b>Balance sheets</b>				
<b>Assets</b>	100.0	100.0	100.0	100.0
Current assets	51.5	52.5	42.1	41.2
Tangible fixed assets	38.5	37.7	23.4	25.0
Intangible fixed assets	0.5	0.4	0.2	0.1
Investments and other assets	9.5	9.4	34.3	33.7
Total fixed assets	48.5	47.5	57.9	58.8
<b>Liabilities and shareholders' equity</b>	100.0	100.0	100.0	100.0
Current liabilities	25.3	25.2	25.1	24.7
Long-term liabilities	5.4	5.0	5.8	5.5
Total liabilities	30.7	30.2	30.9	30.2
Minority interests	5.8	5.8	-	-
Common stock	5.9	5.1	8.5	7.9
Capital surplus	6.4	5.5	9.2	8.6
Retained earnings	52.4	54.4	47.0	48.8
Unrealized gains or losses on other securities	3.2	3.0	4.4	4.5
Foreign currency translation adjustments	(4.4)	(4.0)	-	-
Treasury stock	(0.0)	(0.0)	(0.0)	(0.0)
Total shareholders' equity	63.5	64.0	69.1	69.8
<b>Statements of income</b>				
<b>Net sales</b>	100.0	100.0	100.0	100.0
Cost of goods sold	77.4	77.7	80.5	81.1
Gross profit on sales	22.6	22.3	19.5	18.9
Selling, general and administrative expenses	9.1	8.8	11.8	12.6
Operating income	13.5	13.5	7.7	6.3
Non-operating income	0.7	0.6	2.3	2.6
Non-operating expenses	0.3	0.4	0.2	0.0
Ordinary income	13.9	13.7	9.8	8.9
Extraordinary gains	0.2	0.2	0.1	0.0
Extraordinary losses	0.3	0.1	0.4	0.1
Income before taxes and other adjustments	13.8	13.8	9.5	8.8
	4.7	4.4	3.4	2.7
Minority interest in income of consolidated subsidiaries	1.1	1.3	-	-
Net income for the term	8.0	8.1	6.1	6.1

## Business Overview

### *Description of business*

The FCC Group, comprising the Company, 16 subsidiaries and 1 affiliated company, is engaged in the manufacture and sale of clutches and clutch-related components for motorcycles, automobiles and other vehicles. It supplies these products to final assemblers, components manufacturers and car dealers.

The companies in the FCC Group play the following roles in the Group's businesses. Because the Company does not disclose segment-based information by type of business, the following information is arranged according to operating divisions.

#### Motorcycle clutches

The Company: manufacturing and sales. KYUSHU F.C.C. CO., LTD.: manufacturing. FCC (PHILIPPINES) CORP.; CHU'S F.C.C. CO., LTD. (SHANGHAI) (China); CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD. (China); FCC (EUROPE) LTD. (UK); FCC DO BRASIL LTDA. (Brazil); FCC (THAILAND) CO., LTD.; KWANG HWA SHING INDUSTRIAL CO., LTD. (Taiwan); FCC RICO LTD. (India); FCC (North Carolina), LLC. (United States); and PT. FCC INDONESIA: manufacturing and sales.

#### Automobile clutches

The Company: manufacturing and sales. KYUSHU F.C.C. CO., LTD.; FCC (PHILIPPINES) CORP.; FCC (North Carolina), LLC. (United States); and FCC (INDIANA) Mfg., LLC. (United States): manufacturing. FCC (THAILAND) CO., LTD.; FCC RICO LTD. (India); and FCC (EUROPE) LTD. (UK); CHU'S F.C.C. CO., LTD. (SHANGHAI) (China); PT. FCC INDONESIA; FCC (Adams), LLC. (United States): manufacturing and sales. FCC (INDIANA), INC. (United States): sales.

#### Other products

The Company: manufacturing and sales. KYUSHU F.C.C. CO., LTD.: manufacturing; TENRYU SANGYO CO., LTD. and FCC (North Carolina), LLC. (United States): manufacturing and sales.

*Group companies*

Name	Operations	Common stock Millions of yen or as indicated	Percent ownership
<b>(Consolidated subsidiaries)</b>			
KYUSHU F.C.C. CO., LTD.	Motorcycle and automobile clutches and other products	30	100
TENRYU SANGYO CO., LTD.	Other products	22.5	53.55
FCC (North America), INC.	Administration of U.S. subsidiaries	US\$42,800,000	100
FCC (INDIANA), INC.	Sales of automobile clutches	US\$500,000	100*
FCC (INDIANA) Mfg., LLC.	Automobile clutches	US\$17,300,000	100*
FCC (North Carolina), LLC.	Motorcycle and automobile clutches and other products	US\$10,000,000	100*
FCC (Adams), LLC.	Automobile clutches	US\$15,000,000	100*
FCC (THAILAND) CO., LTD.	Motorcycle and automobile clutches	THB60,000,000	58
FCC (PHILIPPINES) CORP.	Motorcycle and automobile clutches	PHP200,000,000	100
CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD.	Motorcycle clutches	US\$8,000,000	100
CHU'S F.C.C. CO., LTD. (SHANGHAI)	Motorcycle and automobile clutches	US\$9,800,000	90
FCC (EUROPE) LTD.	Motorcycle and automobile clutches	£6,000,000	90
FCC RICO LTD.	Motorcycle and automobile clutches	INR79,000,000	50
FCC DO BRASIL LTDA.	Motorcycle clutches	BRL8,000,000	100
PT. FCC INDONESIA	Motorcycle and automobile clutches	US\$11,000,000	100
<b>(Affiliates accounted for using the equity method)</b>			
KWANG HWA SHING INDUSTRIAL CO., LTD.	Motorcycle clutches	NT\$195,000,000	23
<b>(Affiliated company)</b>		<b>Company stock owned</b>	
		<b>Shares</b>	<b>Percent</b>
HONDA MOTOR CO., LTD.	Manufacturing and sales of automobiles and engines	86,067	20.66

\* The Company indirectly owns subsidiaries with asterisks.

*History*

<b>Year</b>	<b>Month</b>	<b>Event</b>
1939	June	Fuji Lite Industries Co., Ltd. is established in Sato-cho, Hamamatsu-shi, Shizuoka Prefecture; the Company begins manufacturing clutch plates, gears and other products employing compression molding of Bakelite resins.
1943	March	Changes name to Fuji Chemical Co., Ltd.
1982	February	Establishes Kyushu Fuji Chemical Industries Co., Ltd. (now KYUSHU F.C.C. CO., LTD., a consolidated subsidiary) in Matsubase-machi, Shimomashiki-gun, Kumamoto Prefecture.
1984	July	Changes name to F.C.C. CO., LTD.
1988	July	Establishes JAYTEC, INC. (now FCC (INDIANA) Mfg., LLC., a consolidated subsidiary) in Indiana, U.S.A.
1989	March	Establishes FCC (THAILAND) CO., LTD. (now a consolidated subsidiary) in Bangkok, Thailand.
	June	Moves corporate head office to current address.
1992	September	Makes equity investment in KWANG HWA SHING INDUSTRIAL CO., LTD. of Tainan Province, Taiwan.
1993	September	Establishes FCC (PHILIPPINES) CORP. (now a consolidated subsidiary) in Laguna, Philippines.
	October	Acquires shares of TENRYU SANGYO CO., LTD. (now a consolidated subsidiary) of Ichino-cho, Hamamatsu-shi, Shizuoka Prefecture.
1994	August	Registers its shares for OTC trading with the Securities Dealers Association of Japan.
	December	Establishes CHENGDU JIANG HUA. F.C.C. CLUTCHES. CO., LTD. (now CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD., a consolidated subsidiary) in Chengdu, Szechuan Province, China.
1995	March	Establishes CHU'S F.C.C. CO., LTD. (SHANGHAI) (now a consolidated subsidiary) in Shanghai, China.
	September	Establishes FCC (EUROPE) LTD. (now a consolidated subsidiary) in Milton Keynes, UK.
1997	April	Establishes FCC RICO LTD. (now a consolidated subsidiary) in Haryana, India.
1998	November	Establishes FCC DO BRASIL LTDA. (now a consolidated subsidiary) in Amazonas, Brazil.
2000	April	Establishes FCC (North Carolina), INC. (now FCC (North Carolina), LLC., a consolidated subsidiary) in North Carolina, U.S.A.
2001	April	Establishes PT. FCC INDONESIA in Karyawan, Indonesia.
2002	December	Establishes FCC (North America), INC. and FCC (INDIANA), INC. (both consolidated subsidiaries) in Indiana, U.S.A.
2003	February	Lists its shares on the Second Section of Tokyo Stock Exchange.
	May	Establishes FCC (Adams), LLC. (now a consolidated subsidiary) in Indiana, U.S.A.
2004	March	Lists its shares on the First Section of Tokyo Stock Exchange.

**Risk factors****(1) Business strategies centered on clutches**

The FCC Group's principal business is the manufacture and sale of clutches and components to final assemblers. Its principal products include motorcycle clutches, automobile clutches and other clutches.

As the following table on sales according to division and product for the past three years indicates, the Group continues to evolve as a specialist in clutches.

Millions of yen	2003		2004		2005	
	Amount	% of total sales	Amount	% of total sales	Amount	% of total sales
Motorcycle clutches	32,388	39.1%	39,040	43.6%	47,519	47.1%
Automobile clutches	40,578	48.9%	41,162	45.9%	42,883	42.5%
Other products	9,920	12.0%	9,423	10.5%	10,479	10.4%
Consolidated sales	82,887	100.0%	89,627	100.0%	100,882	100.0%

Although the clutches that are currently manufactured and sold by the Group are an important functional component of automobile and motorcycle drive trains, there is no guarantee that a replacement for the clutch will not be developed and put into general use hereafter. In addition, clutches may be unnecessary as a drive train component in next-generation vehicles such as fuel cell and electric cars.

**(2) Dependence on certain industries and customers****1) Dependence on the automobile and motorcycle industries**

As stated in section (1) above, the FCC Group manufactures and sells clutches primarily to the automobile and motorcycle industries. Dependence on each of these industries is high. The financial performance of the FCC Group can therefore be affected by trends in the production of automobiles and motorcycles.

In addition, the unit price of clutches differs according to the type of automobile or motorcycle supplied (compact, mid-sized or large vehicles). Generally, the larger the vehicle, the higher the unit price of the clutch. The financial performance of the FCC Group could therefore also be affected by trends in demand for various types of automobiles and motorcycles.

## 2) Dependence on the Honda Motor group

HONDA MOTOR CO., LTD. owns 20.66% of the Company's shares and is classified as an "other affiliate" of the Company. The FCC Group sells primarily motorcycle clutches, passenger car clutches and other clutches to Honda and its affiliates. This dependence is particularly high in relation to motorcycles, where the Group supplies clutches for virtually all of Honda's motorcycles. In the area of automobiles, the FCC Group supplies clutches for virtually all the cars in the Honda lineup with automatic transmissions.

The following table shows the percentages of the Group's sales that were accounted for by the Honda Motor group over the past three years. In recent years, the FCC Group has been endeavoring to develop and expand its marketing presence outside the Honda group. As of March 2005, however, sales to the Honda group as a whole still accounted for a very high 74.4% of total sales, with Honda Motor itself generating 25.7% of the Group's sales and Honda Transmission Manufacturing of America, Inc. accounting for 20.3%. As these figures indicate, the financial performance of the FCC Group could be affected by the sales trends and procurement policies of the Honda group.

The FCC Group procures recycled aluminum ingots, zinc, and copper sheets from HONDA MOTOR CO., LTD. and its affiliates, moreover, for use as raw materials. These procurements constitute roughly 20% of the FCC Group's total procurements. The commercial relationship between the FCC Group and the Honda group has been stable over its long history.

Millions of yen	2003		2004		2005	
	Amount	% of total sales	Amount	% of total sales	Amount	% of total sales
HONDA MOTOR CO., LTD.	26,395	31.8%	25,845	28.8%	25,929	25.7%
Honda Transmission Mfg., of America, Inc.	20,669	24.9%	20,069	22.4%	20,486	20.3%
Other HONDA MOTOR CO., LTD. Group members	17,975	21.8%	23,561	26.3%	28,627	28.4%
	65,039	78.5%	69,475	77.5%	75,042	74.4%

## (3) Development of overseas markets

The following table shows the percentage of the Group's sales accounted for by overseas sales during the past three years, along with a breakdown of sales by region. Reflecting the recent shift to overseas production by Japan's automakers and the need to respond to growing demand in the Asian region, this percentage has risen from 54.4% in the fiscal year ended March 2003 to 60.3% and 64.0% in the fiscal years ended March 2004 and March 2005, respectively. In line with the FCC

Group's fundamental policy of "manufacturing at the site of the demand," its overseas production by region has generally mirrored the above trend in sales by region.

To minimize the risks associated with expansion into overseas markets, the Group is increasing local production and procurement, while promoting a system of parts and product sharing among Group companies. But eliminating all risks associated with such expansion is beyond the realm of possibility. The Group's financial performance could consequently be affected by fluctuations in overseas exchange rates, and by other factors affecting the various markets in which it operates, including economic trends, political uncertainties, unforeseen changes in the legal and regulatory environment and natural disasters.

Finally, although the Company foresees the percentage of overseas sales and production increasing hereafter, there is no assurance that events will unfold as predicted.

Millions of yen	2003		2004		2005	
	Amount	% of total sales	Amount	% of total sales	Amount	% of total sales
North America	26,276	31.7%	26,585	29.6%	27,113	26.9%
Asia	15,409	18.6%	23,489	26.2%	32,941	32.7%
Others	3,407	4.1%	4,001	4.5%	4,472	4.4%
	45,092	54.4%	54,076	60.3%	64,528	64.0%
Consolidated sales	82,887	100.0%	89,627	100.0%	100,882	100.0%

#### (4) Competition in the automobile components industry

Competition in the automobile components industry has taken on an extremely frenzied quality, both within Japan and internationally. For suppliers of automobile components, the vital issue is whether they can maintain and strengthen their ability to compete in terms of cost. While the FCC Group is endeavoring to sustain and enhance its cost competitiveness by adding greater value, enhancing manufacturing efficiency, reducing expenses, etc., certain obstacles may make it difficult to do so in the future, in which case the Group's earnings capability could decline.

#### (5) Compensation for product defects

While the FCC Group is doing all it can to assure sufficient quality control, it cannot guarantee defect-free conditions for all of its products. Although the Company is protected against product liability claims by insurance policies, moreover, there is no guarantee that its insurance will be sufficient to cover the ultimate amount of the Group's liability. In addition, large-scale recalls by final

assemblers initiated as a result of defects in products supplied by the Group could result in enormous costs to the FCC Group as well as serious damage to its reputation. In such event, product defect liability could exert a serious impact on both the Group's financial performance and its financial condition.

(6) Impact of natural disasters, earthquakes, etc.

The Group inspects and services all of its equipment from the perspective of disaster-readiness in order to minimize the potential effects of production line stoppages. There is no guarantee, however, that it will be capable of fully preventing or ameliorating the impact of work stoppages caused by disasters, electrical outages, or other events at the Group's manufacturing facilities. In this respect, the concentration of the Company's principal manufacturing facilities in western Shizuoka Prefecture is particularly notable, because this area lies within the region that is likely to be affected by the widely predicted Tokai and Tonankai earthquakes. Such a disaster could exert an enormous impact on the Group's manufacturing facilities and cause significant reduction in manufacturing capability.

*(Note) All forward-looking statements made in items (1) through (6) are based on information that was available as of the date of the submission of the filing with the Financial Services Agency.*

### ***Research and development***

The FCC Group manufactures functional components used in transportation equipment. For this reason, its basic policy with respect to research and development is to identify customer needs and to provide products that offer superior performance through the application of creative ideas and technologies. In line with this policy, the Group is tackling issues across the range from basic research on friction materials for use in clutches for motorcycles, automobiles and power equipment to advancements in production technology. In terms of new product development, the Group seeks to benefit from improvements in existing products and to apply technologies accumulated through its experience in manufacturing friction materials and other components. New product research related to the environment includes a joint research project the Group is conducting with Kyushu University on a porous fiber catalytic sheet.

The Group conducts its research and development at the Company's R&D Center. The following is a summary of R&D activities by the various divisions during the most recent fiscal year.

## (1) Motorcycle clutches

R&D in the area of motorcycle clutches encompasses such tasks as enhancing the commercial attractiveness and durability of wet and dry friction materials for use in motorcycles and scooter clutches and developing new materials and clutch mechanisms and structures that lead to lighter, more compact clutches. The division is also engaged in research aimed at adapting to the growing diversity of consumer tastes and in investigating ways of reducing the number of components in scooter pulleys by 25% (compared to other companies) as a means of reducing costs. In addition, the division is working on ways to expand business opportunities by applying basic technologies and its existing technologies to new product lines.

During the year, R&D in this division produced a number of notable results, including the following: application of wet friction material for enhancing the commercial appeal of acceleration clutches used in business bikes which employ both acceleration and gear clutches; development of wet, multi-plate clutches aimed at creating new customer segments; and development of products designed to the specifications of overseas production centers.

Total R&D expenditures for motorcycle clutches amounted to 1,043 million yen.

## (2) Automobile clutches

Activities at this division ranged from the development of friction materials to R&D aimed at enhancing product marketability, improving friction characteristics and reducing weight, and achieving greater compactness. The division is working on improving the friction characteristics of friction plates through a new technology that improves further on its proprietary manufacturing technologies for friction plates (its “segment method”); on development of multi-plate clutches for vehicles with automatic transmissions; on development of cost-reducing specifications; and on development of products that meet the specifications for components sourced locally by the Company’s overseas production facilities. It is also focusing on expanding potential business opportunities for friction materials.

The principal results achieved by the division during the year include development of lock-up clutches for V6 hybrid vehicles offering enhanced responsiveness that contributes to greater fuel efficiency through the adoption of new mechanisms; development of clutches for dual-pump systems used in four-wheel drive vehicles that provide twice the commercial value of clutches made by other companies because of the use of a newly developed friction material and because of improvements in the sliding surfaces of counterpart members; and development of

new friction materials for manual transmission vehicles that place a reduced burden on the environment and offer enhanced durability.

Total R&D expenditures for automobile clutches amounted to 1,586 million yen.

### (3) Other products

Engineers in this division primarily worked on acceleration and gear clutches designed to meet the needs of larger displacement ATVs. Activities ranged from the development of wet friction materials to the development of methods aimed at enhancing the merchantability and durability of these clutches and at reducing costs. Work in the area of drive train components focused on expanding the applications for and increasing sales of torque-responsive differentials.

The principal results achieved by the division during the year include development using existing components of a centrifugal clutch for large-displacement engines for a new customer; development of a centrifugal clutch for large-displacement engines by reinforcing a clutch designed for medium-displacement engines; and development aimed at meeting the needs of new models in general. R&D expenditures by this division amounted to 120 million yen.

## *Analysis of financial condition and results of operations*

### (1) Important accounting principles and estimates

The FCC Group's financial statements are prepared in accordance with accounting standards generally deemed to be fair and appropriate in Japan. In the course of preparing these financial statements, a number of important estimates and suppositions must be made. The following is a discussion of areas in which important judgments are required in the application of accounting principles and where such judgments have a significant impact on the Group's financial condition and operating performance.

#### Retirement benefit expenses and retirement benefit liabilities

To ensure their ability to pay benefits to retiring employees, FCC CO., LTD. and its subsidiaries recognize a provision for retirement benefits based on estimates of retirement benefit liabilities and pension assets as of the end of the fiscal year.

Calculations of retirement-benefit expenses rest on a number of assumptions, including those concerning discount rates, rates of pay increases, and expected rates of returns on investments. The companies take interest rates and other market trends into account to determine discount rates and expected rates of returns on

investments. Their estimates of rates of pay increases reflect the actual rates of increase as well as their most recent projections.

The Company considers its accounting estimates of retirement-benefit liabilities to be an “important accounting estimate.” This is because any change in assumptions used to estimate this liability could have a material impact on its financial standing and operating performance. Differences in retirement-benefit liabilities resulting from such changes in assumptions are amortized over future periods, with these differences reflected on the financial statements for future periods as expenses and liabilities. Although management believes that its current assumptions are appropriate, any changes in these assumptions could have an effect on retirement benefit expenses and liabilities.

## (2) Analysis of financial condition

### 1) Current assets

Current assets as of year-end stood at 43,180 million yen, an increase of 6,697 million yen compared with the end of the previous year.

This was primarily attributable to a 4,522 million yen increase in cash and deposits and a 1,461 million yen increase in trade receivables.

### 2) Fixed assets

Fixed assets as of year-end stood at 39,124 million yen, an increase of 4,803 million yen compared with the end of the previous year.

This was primarily the result of a 3,786 million yen increase in tangible fixed assets, a 423 million yen increase in the current valuation of investment securities and a 348 million yen increase in long-term loans.

### 3) Current liabilities

Current liabilities as of year-end stood at 20,732 million yen, an increase of 2,793 million yen compared with the end of the previous year.

This was primarily attributable to a 966 million yen increase in notes and accounts payable, a 365 million yen increase in short-term borrowings and a 471 million yen increase in income taxes payable.

### 4) Long-term liabilities

Long-term liabilities as of year-end stood at 4,086 million yen, an increase of 308 million yen compared with the end of the previous year.

This was primarily the result of a 91 million yen decrease in long-term debt and a 412 million yen increase in deferred tax liabilities resulting from the marking to market of security investments.

#### 5) Shareholders' equity

Shareholders' equity as of year-end stood at 52,703 million yen, an increase of 7,757 million yen compared with the end of the previous year.

This was primarily the result of increases in retained earnings and in unrealized gains or losses on other securities. It also reflected a 153 million yen decline in the foreign currency translation adjustments account due to the appreciation of the yen beginning at the end of the previous year.

### (3) Analysis of operating results (year-on-year percentage changes)

#### 1) Net sales

Net sales increased 12.6% to 100,882 million yen. This represented the sixth consecutive year of growth. By division, motorcycle clutches contributed 47,519 million yen (+21.7%), automobile clutches 42,883 million yen (+4.2%) and other products 10,479 million yen (+11.2%).

As a result of the stronger yen, sales generated in local currencies by overseas subsidiaries translated into fewer yen. Excluding the effects of the yen's appreciation would have resulted in approximately 17.0% higher net sales than recorded.

#### 2) Operating income

Operating income increased 12.2% to 13,598 million yen. Viewed by division, motorcycle clutches contributed 9,386 million yen (+30.0%), automobile clutches 3,807 million yen (-17.2%) and other products 405 million yen (+33.6%).

The increase in operating income was primarily attributable to higher profits generated by growing revenues in Asia, where demand for motorcycles has been expanding, and from the effects of rationalization measures. These gains offset increases in R&D expenses, depreciation and sales and administrative expenses.

### 3) Income before taxes and other adjustments

Income before taxes and other adjustments increased 12.7% to 13,929 million yen.

In the non-operating accounts, although interest income increased and the Company amortized its consolidation adjustment account following the increase of its equity holdings in CHENGDU YONGHUA. F.C.C. CLUTCHES CO., LTD. to 100%, an increase in exchange losses resulted in a 56 million yen decline in net non-operating income.

In the extraordinary accounts, despite a decline in the gain on earnings from the previous term, a decline in losses on the removal or sale of fixed assets resulted in a 148 million yen increase in net extraordinary gains.

### 4) Net income

Net income increased by 13.4% to 8,153 million yen. The corporate tax rate on income before taxes declined by 1.7 percentage points to 32.0%.

The difference between this rate and the normal effective statutory tax rate resulted primarily from the use of different tax rates by overseas subsidiaries and from tax credits taken on R&D expenses.

## (4) Liquidity and sources of funds

The financial policies of the FCC Group revolve around three objectives: generating an appropriate amount of capital for its operations; maintaining an appropriate amount of liquidity; and sustaining a healthy balance sheet. Its basic policy is to fund all capital investments and R&D expenditures from cash generated by operations. During the year, cash flow from operations amounted to 12,003 million yen (up 601 million yen year-on-year); cash used in investing activities amounted to 7,430 million yen (down 1,946 million yen year-on-year); and cash used in financing activities amounted to 430 million yen (down 1,110 million yen year-on-year).

The group expects to finance all its requirements for capital investments and R&D in the year to March 2006 with cash and cash equivalents on hand and cash flow from operations.

### 1) Research and Development

R&D-related expenditures during the year amounted to 2,749 million yen (up 18.6% year-on-year).

## 2) Capital investment

Capital expenditures were allocated to factory sites, buildings, manufacturing equipment required for new model-related production, manufacturing equipment required for a production capacity expansion, and equipment designed to enhance the R&D environment.

Capital investment during the year amounted to 9,009 million yen (up 15.5% year-on-year). Expenditures by location were as follows.

Millions of yen	2005	
	Amount	Year-on-year comparison
Japan	3,693	129.2%
North America	3,352	134.9%
Asia	1,727	78.3%
Others	237	94.4%
	9,009	115.5%

## (5) Factors exerting a material impact on operating performance and the Group's responses

The Company's operating performance is affected by changes in currency rates, and the changes had an impact on net sales, gross profit, operating income, ordinary income, net income, and retained earnings. As a means of minimizing trading risks, the Company is engaged in efforts to increase the rate of local content in manufacturing by overseas subsidiaries and in efforts to create an effective system of parts and product sharing among Group companies.

During the year, HONDA MOTOR CO., LTD. and its affiliates accounted for 74.4% of the Company's total sales (versus 77.5% in the previous year). The Honda group's product trends and procurement policies consequently exert a significant impact on the Company's financial performance. The Company is engaged in aggressive efforts to expand its sales outside the Honda group in order to develop a more stable business base. It is also taking steps to strengthen its R&D capabilities in order to expand its new product pipeline.

*(Note) All forward-looking statements made in items (1) through (5) are based on information available as of the date of submission of the filing with the Financial Services Agency.*

## *Corporate governance*

### *Basic policy regarding corporate governance*

The FCC Group views corporate governance as the process of building a system that enables the Group to manage its affairs efficiently and soundly, while coordinating the interests of all stakeholders—shareholders, creditors, customers, employees, local communities, and others—involved in the various aspects of management.

#### (1) Organizational features and systems of internal control

##### 1) Basic organizations

The Company's oversight and auditing functions are carried out by the Board of Directors and Board of Statutory Auditors.

The Board of Directors comprises eleven directors. In addition to making decisions on important matters concerning operations and fulfilling functions required by law, the board oversees the execution of the Company's operations.

The Board of Statutory Auditors is composed of four auditors, of whom two are external auditors. In accordance with the auditing policies and divisions of responsibility established by the Board of Statutory Auditors, each auditor audits the performance of the Board of Directors based on his/her participation in Board of Directors meetings and in other important meetings and on examinations of the Company's operations and assets.

The Senior Management Meeting is composed of ten of the eleven members of the Board of Directors (with only the Representative Director excluded). It is responsible for reviewing all matters that have been placed on the agenda of Board of Directors meetings in advance and, when necessary to improve the efficiency of operations, for evaluating all important issues related to Group management.

##### 2) Organizational features and systems of internal control

On September 15, 2003, the FCC Group established a set of "Action Guideline" as a means of fostering enhanced trust among shareholders, customers, and local communities and of increasing its corporate value. It is now implementing these on a Group-wide basis.

The Representative Director & President is responsible for overseeing the operations of the Company as a whole, while the respective subsidiary presidents assume the same responsibilities for their subsidiary. Board members in charge of the respective divisions are responsible for establishing, promoting and executing an FCG (“F.C.C. Corporate Governance”) system in each division.

### 3) Internal audits and audits by statutory auditors

- Internal audits

To protect the Company’s assets and improve its financial performance, the Company has established an Office of Auditing, which reports directly to the president. The goals of this office are to contribute to streamlining management and to improving and enhancing the efficiency of operations. It seeks to achieve these goals by examining whether the organization is executing its tasks in accordance with the Company’s policies, plans, instructions and regulations. The two staff (including the chief audit officer) of this office carry out periodic operational audits in collaboration with the Board of Statutory Auditors and conduct unscheduled audits at the direction of the president.

- Audits by statutory auditors

The Company’s four statutory auditors, of whom two are internal auditors (standing) and two are external auditors (non-standing), audit the management performance of the directors, the Company’s system of internal controls, and other aspects of operations by attending Board of Directors meetings, senior management meetings and other important meetings, collaborating closely with the Office of Auditing, and examining the operations and assets of the Company’s divisions and domestic and overseas subsidiaries. Such audits are carried out in accordance with auditing policies, plans and divisions of responsibility established by the Board of Statutory Auditors, which are based on the “Regulations of the Board of Statutory Auditors” and the “Auditing Standards for Statutory Auditors.” The statutory auditors also exchange information and opinions with the financial auditor in an effort to improve the effectiveness and efficiency of their audits.

#### 4) Financial audits

The Company's financial auditor is the Yasumori Audit Corporation. The following information covers the names of the certified public accountants involved in the financial audit, their consecutive years of auditing, and the number of assistant accountants who also participated in the audit.

- Names and consecutive years of auditing of CPAs participating in the audit:  
Engagement partner: Yutaka Yabe; consecutive years of auditing: 15 years  
Engagement partner: Makoto Tsukura
- Assistant accountants participating in the audit:  
10 CPAs

#### 5) Relationships with external statutory auditors

One of the Company's two external statutory auditors is also an employee of HONDA MOTOR CO., LTD., the Company's principal customer. HONDA MOTOR CO., LTD. is the Company's largest shareholder with a 20.66% share. HONDA MOTOR CO., LTD. recognizes its share of the Company's profits through the equity method.

#### (2) Risk management

A risk management officer oversees risk management for the FCC Group as a whole. A managing director currently performs this role. In addition, in the interest of promoting early detection of potential legal or ethical violations at the level of individual business units, and, should such infringement arise, in the interest of guarding against reoccurrence, the Group has also established a department to which any Group employee can make proposals concerning the need for improvement in corporate ethics. All such proposals are processed by this department and submitted to the Corporate Ethics Committee. The Corporate Ethics Committee is led by the Corporate Compliance Officer (currently a senior managing director) with three other directors as the remaining members. It is the committee's job to protect the person who has made the proposals and, in cases of serious violations, to investigate the problems and take appropriate corrective action.

In addition, the Group has established an auditing office, which is responsible for monitoring the state of regulatory compliance of each business unit and for examining the effectiveness of the risk management mechanisms that have been put into place. The auditing office submits its findings directly to the

Representative Director. The Statutory Auditors and the Board of Statutory Auditors examine the functioning of governance at the overall Group level and make determinations as to the effectiveness of mechanisms set up to deal with regulatory compliance and risk management.

If an important legal issue arises, or if the Group believes it is faced with a serious regulatory problem, it consults with its outside legal advisers and involves them in all required examinations of the issue. In addition to regular financial auditing, the Group consults with its financial auditors on all important accounting-related issues as they arise.

(3) Compensation paid to directors and statutory auditors

During the year, the Company paid a total of 286 million yen in compensation to its directors and statutory auditors. This comprised compensation of 220 million yen to its 12 directors (including one who retired during the fiscal year) and compensation of 65 million yen to its five statutory auditors. The latter amount includes 7 million yen paid to external auditors. The amount of directors' compensation includes employee salaries and bonuses paid to directors who were concurrently employees of the Company.

(4) Professional fees paid to financial auditors

Remuneration paid to Yasumori Audit Corporation by the Company and its subsidiaries in accordance with Article 2-1 of the Certified Public Accountants Law, for services related to the fiscal year ended March 31, 2005: 24 million yen.

## Directors

Name	Title	Date joined Company	Previous or current employers/occupations	Date of birth	Hundreds of shares
Yoshihide Yamamoto	Representative Director, President	Mar-82		6-Jan-42	8,812
Katsumi Nakagawa	Senior Managing Director	Mar-66		8-Jul-41	166
Shirou Sumita	Managing Director	Sep-74		21-Apr-47	155
Keiichi Ishikawa	Director	Apr-01	HONDA R&D CO., LTD.	1-Nov-48	15
Satoru Noguchi	Director	Mar-71		12-Jun-48	30
Akio Suzuki	Director	Jun-01	HONDA MOTOR CO., LTD.	14-Oct-47	15
Toshimichi Matsuda	Director	Mar-75		9-Dec-52	45
Toru Nasu	Director	Apr-77		2-May-47	1,550
Noboru Sekine	Director	Oct-02	HONDA R&D CO., LTD.	1-Jul-48	15
Kouki Kishida	Director	Apr-04	HONDA MOTOR CO., LTD.	16-Jun-50	15
Hideo Suzuki	Standing Statutory Auditor	May-63		13-Aug-44	80
Hironobu Uchiyama	Standing Statutory Auditor	May-64		27-Jan-45	458
Hiroshi Kawai	Statutory Auditor	Jun-94		27-Aug-41	-
Mitsuru Nishino	Statutory Auditor	Jun-05	HONDA MOTOR CO., LTD. (present)	5-Jul-52	-
	14				11,359

*Current assignments and previous positions in the Company have been omitted.*

## Employees

<b>Consolidated</b>	
Business segment	Number
Motorcycle clutches	1,823
Automobile clutches	1,167
Other products	290
Administration (general operations)	259
	3,539
<b>Parent</b>	
	Total or average
Number	931
Average age	37.0
Average years of service	13.6
Average annual salary (Yen)	6,365,241

*The number noted under "Administration (general operations)" refers to employees in management and technical research divisions who cannot be categorized in terms of a specific area of operation.*

*The Company had 511 more employees at fiscal year-end than as of March 31, 2004. These were employees hired by its subsidiaries in India, the United States, Brazil and Indonesia to increase production capacity.*

*The average annual salary includes bonuses.*

## *Union*

### Parent company

The Company's labor union, known as the F.C.C. Labor Union, had 840 members as of March 31, 2005. It is a unit of the National Metal and Machinery Workers' Union of Japan, Shizuoka Regional Headquarters. Since its formation, the union has enjoyed amicable relations with the Company, and there are currently no unresolved issues between the two parties.

### FCC (THAILAND) CO., LTD.

The company's labor union, known as the F.C.C. Workers' Union, had 179 members as of December 31, 2004. It belongs to the Federation of Thailand Automobile Workers' Unions. Since its formation, the union has enjoyed amicable relations with the company, and there are currently no unresolved issues between the two parties.

## Cash Flows

*Consolidated statements of cash flows*

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Net cash provided by (used in) operating activities</b>		
Net income before taxes and other adjustments	12,362	13,929
Depreciation	4,407	4,731
Amortization of consolidation differences	-	(45)
Increase (decrease) in allowance for doubtful accounts	(14)	(2)
Increase (decrease) in allowance for employees' bonuses	16	61
Increase (decrease) in allowance for directors' bonuses	60	5
Increase (decrease) in allowance for employees' retirement benefits	90	(34)
Increase (decrease) in allowance for directors' retirement	(5)	(2)
Interest and dividend income	(166)	(261)
Interest expenses	47	43
Foreign exchange losses (gains)	15	(3)
Equity in earnings of affiliated companies	(39)	(32)
Loss (gain) on revision of earnings from previous term	(140)	(113)
Gain on sale of tangible fixed assets	(6)	(40)
Loss on removal or sale of tangible fixed assets	130	73
Gain on sale of investment securities	(0)	-
Valuation loss on investment securities	0	-
Decrease (increase) in trade receivables	(997)	(1,650)
Decrease (increase) in inventories	(465)	(1,951)
Decrease (increase) in other assets	(287)	(256)
Increase (decrease) in trade payables	(2,908)	1,091
Increase (decrease) in factoring liabilities	3,522	(101)
Increase (decrease) in other liabilities	335	784
Increase (decrease) in consumption tax payable	6	(132)
Directors' bonuses	(60)	-
	<u>15,903</u>	<u>16,091</u>
Interest and dividend received	186	316
Interests paid	(47)	(43)
Others	189	83
Income tax and others	(4,829)	(4,443)
	<u>11,402</u>	<u>12,003</u>

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Net cash provided by (used in) investing activities</b>		
Increase in time deposits	(504)	(902)
Proceeds from decrease in time deposits	895	419
Payments for purchases of tangible fixed assets	(7,724)	(8,269)
Proceeds from sales of tangible fixed assets	121	89
Payments for purchases of intangible fixed assets	(21)	(17)
Payments for purchases of investment securities	(18)	(21)
Proceeds from sales of investment securities	1	-
Payments for purchases of other investments	(60)	(432)
Proceeds from sales of other investments	0	38
Payments for loans and advances	(5,068)	(6,396)
Proceeds from collection of loans and advances	2,981	8,060
Others	18	-
	<u>(9,377)</u>	<u>(7,430)</u>
<b>Net cash provided by (used in) financing activities</b>		
Net increase (decrease) in short-term borrowings	(69)	403
Increase in long-term debt	50	50
Repayments of long-term debt	(856)	(153)
Proceeds from disposal of treasury stock	-	31
Payments for purchase of treasury stock	(3)	(12)
Cash dividends paid	(420)	(491)
Cash dividends paid for minority shareholders	(241)	(258)
	<u>(1,541)</u>	<u>(430)</u>
Effect of exchange rate fluctuations on cash and cash equivalents	(375)	(97)
Increase (decrease) in cash and cash equivalents	<u>107</u>	<u>4,044</u>
Cash and cash equivalents, beginning of term	9,939	10,047
Cash and cash equivalents, end of term	<u>10,047</u>	<u>14,091</u>

Relationship between balance of cash and cash equivalents as of term-end and balance sheet items

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
Cash and deposit accounts	10,262	14,785
Time deposits, etc., with term of over 3 months	(215)	(694)
Cash and cash equivalents, end of term	<u>10,047</u>	<u>14,091</u>

*Capital expenditures*

With a focus on products and R&D-related projects with medium-to-long term growth potential, the FCC Group makes investments that contribute to labor savings, rationalization, and enhanced product reliability. During the fiscal year to March 2005, it made a total of 9,009 million yen in capital investments, which included the following major projects.

Millions of yen	Buildings and structures	Machinery and transportation equipment	Land		Other	Total book value
			Book value	Square meters		
<b>Parent company</b>						
Ryuyo Factory						
Motorcycle and automobile clutches and other products	26	549	-	-	548	1,125
Hamakita Factory						
Automobile clutches	-	-	676	26,216	199	875
R&D Division						
Integrated research	10	270	3	-	412	697
Tenryu Factory						
Motorcycle and automobile clutches and other products	2	152	-	-	174	329
Hosoe Factory						
Automobile clutches and other products	9	161	-	-	62	233
<b>Domestic subsidiaries</b>						
KYUSHU F.C.C. CO., LTD.						
Motorcycle and automobile clutches and other products	15	47	-	-	54	117
<b>Overseas subsidiaries</b>						
FCC (Adams), LLC.						
Automobile clutches	58	77	-	-	1,565	1,702
FCC (INDIANA) Mfg., LLC.						
Automobile clutches	64	1,032	-	-	262	1,360
PT. FCC INDONESIA						
Motorcycle and automobile clutches	35	618	-	-	111	765
FCC (THAILAND) CO., LTD.						
Motorcycle and automobile clutches	53	383	-	-	101	538

## Capital expenditure and disposal plan

The FCC Group develops and adopts capital investment plans based on broad-ranging considerations of economic forecasts, industry trends and investment efficiency. As a rule, investment plans are formulated by the individual Group companies. The reporting company then functions as the coordinator in formulating a final plan.

Millions of yen	Budgeted amount	Expenditures to date	Date commenced	Date to be completed
Ryuyo Factory				
Motorcycle and automobile clutches and other products	1,780	-	2005/4	2006/3
Hosoe Factory				
Automobile clutches and other products	697	-	2005/4	2006/3
R&D Division				
Integrated research	688	-	2005/4	2006/3
Tenryu Factory				
Motorcycle and automobile clutches and other products	555	-	2005/4	2006/3
Hamakita Factory				
Automobile clutches	400	-	2005/4	2006/3
FCC (INDIANA) Mfg., LLC.				
Automobile clutches	1,625	-	2005/4	2006/3
FCC (THAILAND) CO., LTD.				
Motorcycle and automobile clutches	1,349	-	2005/1	2005/12
PT. FCC INDONESIA				
Motorcycle and automobile clutches	1,041	-	2005/1	2005/12
FCC (Adams), LLC.				
Automobile clutches	638	-	2005/4	2006/3
FCC (North Carolina), LLC.				
Motorcycle and automobile clutches and other products	560	-	2005/4	2006/3

### *Dividend policy*

The Company considers dividend policy to be one of most important decisions for management. The automobile and automobile component industries engage in businesses around the world from a global perspective. Against this background, the Company's fundamental stance toward dividends is to make payouts that are backed by performance, which in turn requires that it carry out aggressive programs of capital investment and R&D, that it develop new products and technologies and succeed in translating them into high-volume production, and that it maintain and consolidate its competitive position in the industry.

The Company will declare a dividend of 28 yen per share (of which 15 yen has been paid out as an interim dividend) for the year ended March 2005, resulting in a dividend payout ratio of 22.90% (on a parent basis) for the term.

The Company will allocate retained earnings toward investments designed to respond to the challenges of a changing operating environment. Specifically, this will mean investments aimed at increasing the Company's cost competitiveness, strengthening its ability to develop technologies and products that meet customer needs, and implementing steps to expand globally.

## Operations

*Consolidated statements of income*

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Net sales</b>	89,627	100,882
<b>Cost of goods sold</b>	69,385	78,360
Gross profit on sales	20,241	22,522
<b>Selling, general and administrative expenses</b>		
Packing and shipping expenses	1,103	1,303
Employees' salaries	1,759	1,934
Provision for employees' bonuses	238	261
Provision for directors' bonuses	60	65
Retirement benefit expenses	157	174
Provision for directors' retirement allowances	20	38
Depreciation expenses	155	164
Research and development expenses	2,319	2,749
Others	2,304	2,231
	8,118	8,923
Operating income	12,123	13,598
<b>Non-operating income</b>		
Interest income	130	209
Dividend income	35	51
Amortization of consolidation adjustments	-	45
Equity in earnings of affiliated companies	39	32
Agency commissions on equipment sales	206	-
Others	182	309
	594	648
<b>Non-operating expenses</b>		
Interest expenses	47	43
Foreign exchange losses	223	324
Others	17	32
	289	400
Ordinary income	12,428	13,847
<b>Extraordinary gains</b>		
Gain on revision of earnings from previous term	140	113
Gain on sale of tangible fixed assets	6	40
Others	15	2
	162	156

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Extraordinary losses</b>		
Loss on disposal or sale of tangible fixed assets	130	73
Amortization of prior service cost	85	-
Others	13	0
	229	74
Income before taxes and other adjustments	12,362	13,929
Corporate, inhabitants and enterprise taxes	4,125	4,746
Deferred taxes	37	(289)
	4,163	4,456
Minority interest in income of consolidated subsidiaries	1,006	1,319
Net income for the term	7,192	8,153

### *Consolidated statements of retained earnings*

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Capital surplus</b>		
Capital surplus, beginning of term	4,555	4,555
Increase in capital surplus		
Gain on disposal of treasury stock	-	10
	-	10
Capital surplus, end of term	4,555	4,566
<b>Retained earnings</b>		
Retained earnings, beginning of term	30,370	37,082
Increase in retained earnings		
Net income	7,192	8,153
	7,192	8,153
Decrease in retained earnings		
Dividends	421	491
Directors' bonuses	59	-
	481	491
Retained earnings, end of term	37,082	44,744

## ***Results of operations***

### **Fiscal year ended March 31, 2005**

#### ***Economic factors affecting operations***

1) Moderate economic growth in Japan

- Sharp improvement in corporate profits in the first half, led by strong exports and capital investment
- But soaring oil and raw material prices, combined with production and inventory adjustments in the IT and digital electronic appliance sectors (exacerbated by frequent natural disasters), cause certain economic indices to weaken in the second half.

2) Generally strong growth overseas

- In United States, growth remains solidly on track due to strong consumer spending, capital investment and housing construction, which overcome the fading impact of tax cuts and of higher gasoline and energy costs.
- In Asia, China and the ASEAN countries generate high rates of growth, benefiting from strong exports and domestic demand; their engines counteract second-half slowdowns in Korea and Taiwan, where exports of components and materials supplied to IT and digital electronic sectors weaken.

*(See also “Segment breakdown” and “Results by region” for further discussions of economic factors affecting operations.)*

#### ***Strategic responses by the Group***

1) Further initiatives to improve manufacturing efficiency and to meet the need for higher production capacity in Japan and other countries

- In February 2005, purchase of site in Hamakita, Shizuoka Prefecture, for construction of a Hamakita plant, where manufacturing is scheduled to begin in August 2005
- To meet growing demand for motorcycles in Indonesia, construction of a new plant by PT. FCC INDONESIA
- Addition of a plant at FCC (INDIANA) MFG., LLC to meet higher levels of production by a major customer in the United States

2) Continued efforts to enhance cost competitiveness, profitability, and management effectiveness

#### ***Financial analysis (year-on-year percentage changes)***

1) 12.6% increase in net sales

2) 12.2% increase in operating income

3) 11.4% increase in ordinary income; and 13.4% increase in net income

***Segment breakdown (year-on-year percentage changes)***

**Motorcycle clutch division:**

Sales increased by 21.7% to 47,519 million yen and operating income by 30.0% to 9,386 million yen.

- 1) Japan: Industry-wide production of motorcycles in Japan declined by 5.0% to 1.739 million units in latest calendar year. Shipments in the light motorcycle category (126cc-250cc displacement) increased by 10.5%, benefiting from strong sales of large scooters, which offer ease of handling and convenience; but sales in all other motorcycle categories declined, causing domestic shipments to decrease by 7.9% to just over 700,000 units. On the other hand, exports to Europe and South America increased by 3.6% to over 1.327 million units.
- 2) Overseas: In a reflection of continuing expansion of demand for motorcycles in Asia, the Company's subsidiaries in Indonesia, Thailand, India and China reported strong results. Sales and profits in Indonesia grow especially rapidly, in part because of the transfer of production of certain models to that country from Japan; demand in Indonesia was also boosted by election-related consumer spending, which was especially strong because of consecutive major national campaigns.

**Automobile clutch division:**

Sales increased by 4.2% to 42,883 million yen. Operating income declined by 17.2% to 3,807 million yen, however, reflecting start-up costs for production of automatic transmission clutches at FCC (ADAMS), LLC and at PT. FCC INDONESIA; operating income was also affected by higher R&D expenses.

- 1) 6.1% increase in domestic shipments by HONDA MOTOR CO., LTD., the Company's major customer, which reported the following:
  - A 3.9% increase in domestic shipments, and
  - A 10.3% increase in exports, primarily due to strength in the U.S. and European markets
- 2) In a reflection of sharply higher production in Asia, the Company increased overseas production of automobile clutches by 7.9% to 1.939 million units.

**Other products:**

Sales increased by 11.2% to 10,479 million yen, and operating profit by 33.6% to 405 million yen.

- 1) Strong trend in sales of ATVs in the United States
- 2) Rapid increase in sales of slip differentials for ATVs and of clutches for general engines (for lawn mowers, snow plows, etc.)

***Results by region (year-on-year percentage changes)***

- 1) Japan: Sales increased by 2.6% to 40,460 million yen. Operating income declined by 9.0% to 3,589 million yen, however, due to higher R&D expenditures and SG&A expenses.
  - Sales by the automobile clutch division increased at a healthy pace, reflecting steady gains in domestic production (including production for export) by HONDA MOTOR CO., LTD.
  - Increased royalty income was received from subsidiaries in Indonesia, Thailand, India and China, which benefited from sharply increasing demand for motorcycles in Asia.
- 2) North America: Sales, partly affected by a stronger yen, increased by 1.4% to 23,698 million yen; operating income increased by 6.5% to 2,802 million yen.
  - Strong new car sales by Japanese manufacturers, including HONDA MOTOR CO., LTD., led to strong sales by the Company to Honda Transmission Manufacturing of America, Inc.
  - Strong gains were reported by FCC (NORTH CAROLINA), LLC.
- 3) Asia: Sales increased by 40.8% to 32,511 million, and operating income by 37.0% to 6,606 million yen.
  - Continued strong domestic demand in their respective markets and throughout the Southeast Asian region generated large increases in sales and profit at the Company's subsidiaries in Thailand, Indonesia and India.
  - Production at two subsidiaries in China also soared, leading to large increases in sales in China.
- 4) Other regions: Sales increased by 12.6%. Operating income declined by 4.4%, however, partly because of higher royalty payments made by the Company's subsidiary in Brazil.
  - Despite concerns about the impact of foreign exchange, FCC DO BRASIL LTDA. generated significant growth in sales, as production increased in response to expansion of the motorcycle market.
  - Financial performance at FCC (EUROPE) LTD., the Company's UK subsidiary, was also strong.

**Fiscal year ended March 31, 2004*****Economic factors affecting operations***

- 1) Rapidly expanding Japanese economy grows by 1.6% in the October-December quarter (6.4% annualized).
- 2) Speed of growth confounds fears of impact of war in Iraq and SARS:
  - Strong exports, particularly to North America and China and other parts of Asia
  - Recovery in capital spending, led by large manufacturing concerns
  - Improvement in employment environment; in December 2003, unemployment rate declines below 5% for the first time in two and a half years

***Strategic responses by the Group***

- 1) Aggressive implementation of PIA (Production Innovation Activity)
- 2) Further measures to lower production costs and other expenses
- 3) Addition of FCC (ADAMS), LLC to the Group

***Financial analysis (year-on-year percentage changes)***

- 1) 8.1% increase in net sales
- 2) 7.3% increase in operating income (reflecting currency impacts on U.S. subsidiaries—see segment breakdown below)
- 3) 9.7% increase in ordinary income; and 10.4% increase in net income

***Segment breakdown (year-on-year percentage change)***

Motorcycle clutch division: In the domestic market, shipments of up-to-50cc displacement motorcycles rose on a year-on-year basis for the first time in eight years to 530,000 units, as demand was stimulated by the introduction of new models. Total domestic shipments declined in calendar year 2003 by 1.4%, to 760,000 units, however, reflecting market maturation, a declining birthrate and changing consumer preferences. Overseas, the Company's consolidated subsidiaries in Thailand, Indonesia and India recorded substantial increases in sales and profits due to burgeoning demand for motorcycles in Asia. Production at the Company's two consolidated subsidiaries in China expanded sharply, generating large increases in revenue for those firms. Sales in this segment consequently rose by 20.5% to 39,040 million yen and operating income by 23.2% to 7,220 million yen.

Automobile clutch division: Domestic passenger car sales for calendar year 2003 remained virtually unchanged at 4.46 million units. Reflecting a momentary cooling off of demand, sales of compact cars declined 2.5% to 2.39 million units. Compact cars had supplied the primary impetus for growth in the previous year's auto market.

Sales of mini cars also declined by 1.2% to 1.29 million units. On the other hand, replacement demand supported a vigorous 14.1% resurgence in sales of standard-sized passenger cars to 760,000 units. In North America, sales of new cars by the Company's major customers were strong, generating both a healthy pace of exports from Japan and high levels of production in the United States. Sales in this segment consequently increased by 1.4% to 41,162 million yen. Operating income declined 7.1% to 4,599 million yen, however, largely because of currency fluctuations that affected the profits of U.S. subsidiaries when converted to yen.

Other products: Although sales of all-terrain vehicles in the United States remained unchanged, a decline in sales of clutches for general engines and unfavorable swings in currency rates led to a 5.0% decline in sales to 9,423 million yen and a 37.1% decline in operating income to 303 million yen.

### ***Results by region***

- 1) Japan: Sales of new cars in the domestic market by HONDA MOTOR CO., LTD., the Company's principal customer, declined by around 20%. Sales of automatic transmission clutches for passenger cars exported to North America remained strong, however, sustaining the sales momentum in the automobile clutch division. Rapidly increasing demand for motorcycles in Southeast Asia meant healthy gains in sales by the Company's subsidiaries in Thailand and Indonesia, which in turn resulted in higher royalty income for the Company. Because of the shift of motorcycle clutch production to overseas subsidiaries, however, net sales by Japanese operations were 39,424 million yen, a 4.5% decline. Operating income was affected by higher R&D expenditures and by increases in employer contributions to social insurance plans, the latter resulting from the implementation of new regulations on the treatment of bonuses in such calculations. Operating income consequently declined by 21.4% to 3,944 million yen.
- 2) North America: Sales of automobiles by Japanese auto manufacturers in the United States expanded briskly. Against this background, sales by the Company's major customer, Honda Transmission Manufacturing of America, Inc., continued to grow. FCC (NORTH CAROLINA), LLC also reported strong operating results. Because of the yen's appreciation, net sales from North American operations were virtually unchanged (+0.3%) from the previous year at 23,377 million yen, however, and operating income rose by only a modest 2.2% to 2,631 million yen.
- 3) Asia: The Company's subsidiaries in Thailand, Indonesia and India reported large increases in sales and profits. Their domestic markets continued to expand for the second consecutive year on a rising tide of demand for motorcycles throughout the Southeast Asian region. Production at the Company's two subsidiaries in China also increased sharply, contributing to a substantial increase in net sales by the Group's Chinese subsidiaries. Net sales by Asian operations consequently

increased by 52.8% to 23,083 million yen and operating income by 40.3% to 4,820 million yen.

- 4) Other regions: Despite concerns about the impact of foreign exchange rate movements, the Company's subsidiary in Brazil generated significant growth in sales and profits, as production volumes increased in response to expansion of the motorcycle market. In England, a more favorable mix of models sold by customers contributed to higher sales and profits. Net sales from other regions consequently increased by 16.6% to 3,740 million yen and operating income by 34.5% to 507 million yen.

## Segment information

### Geographical segment information

Millions of yen	Japan	North America	Asia	Others	Total	Eliminations	Consolidated
<b>2005</b>							
Net sales							
External customers	40,460	23,698	32,511	4,212	100,882	-	100,882
Inter-area	13,144	1,805	2,125	936	18,012	(18,012)	-
	53,605	25,503	34,637	5,149	118,895	(18,012)	100,882
Operating expenses	50,015	22,701	28,030	4,664	105,411	(18,128)	87,283
Operating income	3,589	2,802	6,606	485	13,483	115	13,598
Identifiable assets	56,397	15,155	23,486	3,668	98,707	(16,402)	82,304
<b>2004</b>							
Net sales							
External customers	39,424	23,377	23,083	3,740	89,627	-	89,627
Inter-area	11,370	1,043	1,569	502	14,485	(14,485)	-
	50,795	24,421	24,653	4,243	104,112	(14,485)	89,627
Operating expenses	46,851	21,789	19,832	3,736	92,209	(14,706)	77,503
Operating income	3,944	2,631	4,820	507	11,903	220	12,123
Identifiable assets	52,231	12,691	18,972	3,022	86,918	(16,114)	70,803

### Overseas sales

Millions of yen	2004		2005	
	International sales	As % of net sales	International sales	As % of net sales
North America	26,585	29.6	27,113	26.9
Asia	23,489	26.2	32,941	32.7
Others	4,001	4.5	4,472	4.4
	54,076	60.3	64,528	64.0
Consolidated sales	89,627		100,882	

### *Issues requiring action*

- 1) Assessment of environment: Automobile component manufacturers are staking their survival on an ability to achieve lower costs and higher quality. But cost and quality-related competition are intensifying around the world.
- 2) To lower costs, and to position itself to adapt rapidly to the business strategies of final assemblers in Japan and other markets, the Company will have to:
  - Improve production efficiency
  - Increase local content at its global manufacturing plants
  - Create an effective system of parts and product sharing among Group companies
- 3) To increase quality, the Company will have to:
  - Strengthen its ability to guarantee product quality
  - Strengthen sales capabilities to assure stable profitability
  - Strengthen R&D to provide a foundation for future growth
- 4) Short-term issue: Assuring the smooth start-up of operations at FCC (ADAMS), LLC, where commercial production began in May 2005, and at the new Hamakita Plant, where production will begin in August 2005.

*Production and sales*

## Production

Millions of yen	2005	
	Amount	Year-on-year comparison (%)
Motorcycle clutches	47,978	123.0
Automobile clutches	42,780	103.3
Other products	10,695	113.0
	101,454	112.9

## Orders

Millions of yen	2005			
	Orders		Orders outstanding	
	Amount	Year-on-year comparison (%)	Amount	Year-on-year comparison (%)
Motorcycle clutches	48,136	122.3	4,314	116.7
Automobile clutches	43,089	105.9	3,582	106.1
Other products	10,488	111.9	763	101.2
	101,714	113.4	8,659	110.6

## Sales by product

Millions of yen	2005	
	Amount	Year-on-year comparison (%)
Motorcycle clutches	47,519	121.7
Automobile clutches	42,883	104.2
Other products	10,479	111.2
	100,882	112.6

## Principal customers

Millions of yen	2004		2005	
	Amount	% of net sales	Amount	% of net sales
HONDA MOTOR CO., LTD.	25,845	28.8%	25,929	25.7%
Honda Transmission Mfg. of America, Inc.	20,069	22.4%	20,486	20.3%

## Leases

Under generally accepted accounting principles in Japan, finance leases that do not transfer ownership are accounted for in the same manner as operating leases when “as if capitalized” information is disclosed.

Pro forma information on leased property is as follows:

Millions of yen	2004	2005
<b>Machinery and transportation equipment</b>		
Acquisition cost	478	478
Accumulated depreciation	177	229
Net leased property	301	249
<b>Tools, appliances and fixtures</b>		
Acquisition cost	298	276
Accumulated depreciation	177	153
Net leased property	121	123
<b>Total</b>		
Acquisition cost	777	755
Accumulated depreciation	354	382
Net leased property	423	372
<b>Future minimum lease payments, including interest portion</b>		
Due within one year	104	89
Due after one year	319	282
	423	372
Lease payments		
Pro forma depreciation expenses (assuming declining balance method)	123	111
Pro forma interest expenses	123	111
<b>Operating leases - future minimum lease payments</b>		
Due within one year	19	21
Due after one year	29	22
	49	43

## Capital Structure

*Consolidated balance sheets*

## Assets

<b>March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Current assets</b>		
Cash and deposits	10,262	14,785
Notes and accounts receivable	13,352	14,813
Inventories	6,773	8,593
Deferred tax assets	1,099	1,391
Short-term loans	4,058	2,014
Others	949	1,592
Allowance for doubtful accounts	(12)	(10)
	<u>36,482</u>	<u>43,180</u>
<b>Fixed assets</b>		
<b>Tangible fixed assets</b>		
Buildings and structures	13,555	13,895
Accumulated depreciation	6,010	6,505
	<u>7,545</u>	<u>7,389</u>
Machinery and transportation equipment	34,775	37,609
Accumulated depreciation	22,922	25,515
	<u>11,853</u>	<u>12,093</u>
Tools, appliances and fixtures	6,597	7,138
Accumulated depreciation	5,392	5,946
	<u>1,204</u>	<u>1,191</u>
Land	4,843	5,496
Construction in progress	1,827	4,887
	<u>27,273</u>	<u>31,059</u>
<b>Intangible fixed assets</b>	304	287
<b>Investments and other assets</b>		
Investment securities	5,124	5,547
Long-term loans	157	505
Deferred tax assets	202	423
Others	1,289	1,331
Allowance for doubtful accounts	(31)	(31)
	<u>6,741</u>	<u>7,776</u>
Total fixed assets	<u>34,320</u>	<u>39,124</u>
<b>Total assets</b>	<u>70,803</u>	<u>82,304</u>

## Liabilities, minority interests and shareholders' equity

<b>March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Current liabilities</b>		
Notes and accounts payable	8,313	9,279
Factoring liabilities	3,888	4,012
Short-term borrowings	529	895
Income taxes payable	1,512	1,983
Deferred tax liabilities	1	-
Allowance for employees' bonuses	1,158	1,219
Allowance for directors' bonuses	60	65
Others	2,474	3,275
	<u>17,938</u>	<u>20,732</u>
<b>Long-term liabilities</b>		
Long-term debt	278	186
Deferred tax liabilities	1,536	1,949
Allowance for employees' retirement benefits	1,586	1,551
Allowance for directors' retirement	324	322
Others	52	77
	<u>3,778</u>	<u>4,086</u>
Total liabilities	21,717	24,819
<b>Minority interests</b>	4,139	4,781
<b>Shareholders' equity</b>		
Common stock	4,175	4,175
Capital surplus	4,555	4,566
Retained earnings	37,082	44,744
Unrealized gain or loss on other securities	2,257	2,487
Foreign currency translation adjustments	(3,114)	(3,268)
Treasury stock	(10)	(1)
Total shareholders' equity	<u>44,946</u>	<u>52,703</u>
<b>Total liabilities, minority interests and shareholders' equity</b>	<u>70,803</u>	<u>82,304</u>

**Market value of securities**

## Other quoted securities

Millions of yen	2004			2005		
	Cost of acquisition	Book value	Unrealized gain (loss)	Cost of acquisition	Book value	Unrealized gain (loss)
Securities valued on the consolidated balance sheet at amounts greater than the purchase cost						
Shares	866	4,717	3,851	887	5,138	4,250
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	-	-	-	-	-	-
	866	4,717	3,851	887	5,138	4,250
Securities for which valuations on the consolidated balance sheet do not exceed the purchase cost						
Shares	-	-	-	-	-	-
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	-	-	-	-	-	-
	-	-	-	-	-	-
	866	4,717	3,851	887	5,138	4,250

## Other marketable securities sold during the year ended March 31, 2004

Millions of yen		
2004		
Amount sold	Total gain on sales	Total loss on sales
1	0	-

## Major investment securities without market prices

Millions of yen	2004	2005
Other securities		
Unlisted stocks (excluding OTC stocks)	140	140

## Facilities

Millions of yen	Buildings and structures	Machinery and transportation equipment	Land		Other	Total book value	Number of employees
			Book value	Square meters			
<b>Parent company</b>							
Hosoe Factory							
Automobile clutches and other products	189	644	326	27,997	97	1,256	140
Ryuyo Factory							
Motorcycle and automobile clutches and other products	795	2,417	1,047	59,018	659	4,920	230
Tenryu Factory							
Motorcycle and automobile clutches and other products	802	648	1,022	32,511	258	2,731	145
Suzuka Factory							
Motorcycle and automobile clutches and other products	103	291	63	24,653	111	570	83
R&D Division							
Integrated research	230	616	216	12,093	432	1,495	134
<b>Domestic subsidiaries</b>							
KYUSHU F.C.C. CO., LTD.							
Motorcycle and automobile clutches and other products	309	585	-	19,174	100	996	125
<b>Overseas subsidiaries</b>							
FCC (INDIANA) Mfg., LLC.							
Automobile clutches	968	2,266	39	148,095	707	3,981	500
FCC (THAILAND) CO., LTD.							
Motorcycle and automobile clutches	227	758	194	36,708	251	1,431	209
FCC (North Carolina), LLC.							
Motorcycle and automobile clutches and other products	881	902	4	269,064	93	1,882	176
PT. FCC INDONESIA							
Motorcycle clutches	426	1,269	340	72,812	394	2,430	436
FCC (Adams), LLC.							
Automobile clutches	701	85	-	161,880	2,329	3,116	38

## Borrowings

Millions of yen	Previous term	Outstanding	Average rate	Maturity
Short-term borrowings	474	851	3.23%	-
Current portion of long-term debt	55	43	1.28%	-
Long-term debt (except current portion of long-term debt)	278	186	1.29%	2006 - 2016
Other interest-bearing liabilities	-	-	-	-
	808	1,081	-	-

Long-term debt repayable within 5 years of the end of the fiscal year to March 2005 (except the amount payable within one year) is as follows:

Millions of yen	Greater than 1 and up to 2 years	Greater than 2 and up to 3 years	Greater than 3 and up to 4 years	Greater than 4 and up to 5 years
Long-term debt	43	39	37	36

## Retirement benefits

### Outline of retirement benefit system

The Company and its consolidated subsidiaries offer employees the following options in terms of defined benefit pension plans: Employees' Welfare Pension Fund (*koseinenkin*); qualified retirement annuity plan; and lump-sum payment at retirement.

A number of consolidated subsidiaries have established defined contribution pension plans.

### Matters related to retirement benefit liabilities

Millions of yen	2004	2005
Retirement benefit obligation	(4,963)	(4,993)
Pension plan assets	2,376	2,610
Unfunded retirement benefit obligations	(2,586)	(2,383)
Unrecognized actuarial gain or loss	999	832
Unrecognized prior service cost	-	-
Net retirement benefit obligation recognized in consolidated balance sheets	(1,586)	(1,551)
Prepaid pension cost	-	-
Allowance for retirement benefits	(1,586)	(1,551)

### Matters related to retirement benefit expenses

Millions of yen	2004	2005
Service cost	598	639
Interest cost	90	72
Expected return on pension plan assets	(40)	(35)
Amortization of actuarial gain or loss	136	113
Amortization of prior service cost	85	-
Retirement benefit expenses	871	789

## Assumptions underlying the calculation of retirement benefit liabilities

	2004	2005
Term allocation of the estimated amount of retirement benefit	Period fixed amount basis	
Discount rate	1.5%	1.5%
	(At the beginning of the term, a 2.0% rate is used.)	
Expected rate of return on pension plan assets	2.0%	1.5%
Amortization period of actuarial gain or loss	18 years (using the fixed-rate method based on the average number of years remaining in the tenure of employees as of the date on which the gains or losses arise; differences are expensed during the fiscal year in which they occur.)	
Amortization period of prior service cost	Amortized in full in year liability was recognized	

*Deferred taxes*

Millions of yen	2004	2005
Deferred tax assets (current)	1,164	1,403
Deferred tax assets (fixed)	1,063	1,268
	2,228	2,672
Deferred tax liabilities (current)	(65)	(12)
Deferred tax liabilities (long-term)	(2,397)	(2,794)
	(2,463)	(2,806)
Deferred tax assets (liabilities) - net	(235)	(134)
Percentage		
Statutory tax rate	41.12%	39.75%
Differences in tax rates of overseas subsidiaries	(6.75)%	(5.91)%
Loss carried forward from overseas subsidiary	(0.55)%	(1.26)%
Tax credits for testing and research-related expenses	(1.83)%	(1.97)%
Others	1.69%	1.39%
Effective tax rates	33.68%	32.00%

## Related Parties

### Transactions with related parties

March 31; Millions of yen	Address	Capital or investment	% of voting rights held (held by others)	Relationship Shareholder and director	Business relationship	Type of transaction	Value of transactions	Accounting classification	Balance at term-end
<b>2005</b>									
<b>Parent company and primary institutional shareholders, etc.</b>									
HONDA MOTOR CO., LTD.	Minato-ku, Tokyo	86,067	Owned: Direct 20.66	Common directors: 1 Directors from parent company: 4	Sale of products and procurement of raw materials and components	Sale of the Company's products  Procurement of raw materials and components	25,929  3,762	Accounts receivable - trade  Accounts payable - trade	3,712  520
<b>2004</b>									
<b>Parent company and primary institutional shareholders, etc.</b>									
HONDA MOTOR CO., LTD.	Minato-ku, Tokyo	86,067	Owned: Direct 20.66	Common directors: 1 Directors from parent company: 3	Sale of products and procurement of raw materials and components	Sale of the Company's products  Procurement of raw materials and components	25,845  3,448	Accounts receivable - trade  Accounts payable - trade	4,015  482

### Investments in unconsolidated companies

March 31; Millions of yen	2004	2005
Investment securities (equity)	266	269

## Non-consolidated Financial Statements

*Non-consolidated statements of income*

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Net sales</b>	49,922	52,614
<b>Cost of goods sold</b>		
Finished goods inventory, beginning of term	431	490
Production costs for the term	38,127	40,465
Finished goods purchased during term	2,130	2,123
	40,689	43,080
Finished goods inventory, end of term	490	425
	40,198	42,654
Gross profit on sales	9,723	9,960
<b>Selling, general and administrative expenses</b>		
Packing and shipping expenses	770	913
Employees' salaries	1,100	1,166
Provision for employees' bonuses	227	244
Provision for directors' bonuses	60	65
Retirement benefit expenses	148	154
Provision for directors' retirement allowances	19	31
Depreciation expenses	29	29
Research and development expenses	2,329	2,749
Others	1,191	1,280
	5,877	6,636
Operating income	3,846	3,323
<b>Non-operating income</b>		
Interest income	21	10
Dividend income	607	860
Rental income	52	51
Agency commissions on equipment sales	206	279
Revenue for technical training provided	226	137
Others	39	51
	1,153	1,391
<b>Non-operating expenses</b>		
Interest expenses	12	13
Expenses for rented assets	9	9
Foreign exchange losses	60	16
Others	0	0
	82	38
Ordinary income	4,916	4,675

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Extraordinary gains</b>		
Gain on sale of tangible fixed assets	1	1
Reversal of allowance for doubtful accounts	16	4
	17	5
<b>Extraordinary losses</b>		
Loss on disposal or sale of tangible fixed assets	115	51
Amortization of prior service cost	85	-
Others	0	-
	200	51
Net income before taxes and special reserves for the term	4,733	4,629
Corporate, inhabitants and enterprise taxes	1,789	1,420
Adjustment for income and other taxes	(84)	(9)
	1,704	1,411
Net income for the term	3,029	3,217
Retained earnings brought forward from previous term	1,568	1,650
Interim dividends	228	263
Unappropriated retained earnings, end of term	4,369	4,605

### *Non-consolidated appropriation of retained earnings*

<b>Millions of yen</b>	<b>June 24, 2004</b>	<b>June 23, 2005</b>
Unappropriated profit, end of term	4,369	4,605
Disposition of voluntary reserves		
Disposition of reserve for special depreciation	31	31
Disposition of reserve for reduction entries for fixed assets	1	1
	32	32
	4,402	4,638
Appropriation of retained earnings		
Dividends	228	342
Voluntary reserves		
Reserve for special depreciation	24	20
Special reserves	2,500	2,500
	2,752	2,862
Retained earnings carried forward to following term	1,650	1,775

*Cost of goods sold*

<b>Years ended March 31; Millions of yen</b>	<b>2004</b>	<b>%</b>	<b>2005</b>	<b>%</b>
Cost of materials	27,143	68.3	29,638	69.1
Labor costs	5,397	13.6	5,516	12.8
Manufacturing overhead				
Subcontracted processing expenses	3,624		3,976	
Depreciation expenses	1,374		1,358	
Expenses for electricity and power	262		278	
Others	1,919		2,145	
	<u>7,179</u>	18.1	<u>7,759</u>	18.1
Total manufacturing costs for the term	39,721	100.0	42,914	100.0
Work-in-process inventory, beginning of term	874		800	
	<u>40,596</u>		<u>43,715</u>	
Transfers to other accounts	1,668		2,301	
Work-in-process inventory, end of term	800		947	
Production costs for the term	38,127		40,465	
<b>Transfers to other accounts</b>				
Supplies	1,148		1,414	
Construction in progress	323		646	
Research and development expenses	194		232	
Selling, general and administrative expenses	<u>2</u>		<u>8</u>	
	<u>1,668</u>		<u>2,301</u>	

*Non-consolidated balance sheets*

## Assets

March 31; Millions of yen	2004	2005
<b>Current assets</b>		
Cash and deposits	5,560	6,437
Notes receivable	134	60
Accounts receivable - trade	10,026	10,552
Finished goods	490	425
Raw materials	575	800
Work in process	800	947
Supplies	552	843
Prepaid expenses	30	16
Deferred tax assets	552	574
Short-term loans to affiliates	700	-
Accounts receivable - other	1,218	1,120
Others	141	99
Allowance for doubtful accounts	(6)	(2)
	<u>20,777</u>	<u>21,876</u>
<b>Fixed assets</b>		
<b>Tangible fixed assets</b>		
Buildings	6,091	6,089
Accumulated depreciation	3,591	3,754
	<u>2,500</u>	<u>2,334</u>
Structures	707	739
Accumulated depreciation	505	534
	<u>201</u>	<u>204</u>
Machinery and equipment	17,399	18,255
Accumulated depreciation	12,732	13,535
	<u>4,666</u>	<u>4,719</u>
Vehicles and delivery equipment	156	168
Accumulated depreciation	110	114
	<u>45</u>	<u>53</u>
Tools, appliances and fixtures	4,547	4,798
Accumulated depreciation	3,996	4,210
	<u>550</u>	<u>588</u>
Land	3,483	4,163
Construction in progress	60	1,191
	<u>11,509</u>	<u>13,255</u>

F. C. C. C O . , L T D .

<b>March 31; Millions of yen</b>	<b>2004</b>	<b>2005</b>
<b>Intangible fixed assets</b>		
Patents	74	63
Telephone subscription rights	3	3
Software	5	4
Others	1	0
	<u>85</u>	<u>71</u>
<b>Investments and other assets</b>		
Investment securities	867	792
Capital stock of affiliates	13,380	13,842
Investments other than securities	4	4
Equity investments in affiliates	1,329	1,658
Long-term loans to employees	70	72
Long-term loans to affiliates	150	350
Long-term prepaid expenses	0	0
Long-term money trusts	550	600
Long-term deposits	496	527
Others	101	76
Allowance for doubtful accounts	(27)	(27)
	<u>16,922</u>	<u>17,897</u>
Total fixed assets	<u>28,517</u>	<u>31,224</u>
<b>Total assets</b>	<u>49,294</u>	<u>53,101</u>

## Liabilities and shareholders' equity

March 31; Millions of yen	2004	2005
<b>Current liabilities</b>		
Notes payable	1,857	1,882
Accounts payable - trade	3,840	4,073
Factoring liabilities	3,888	4,012
Accounts payable - other	421	653
Accrued expenses	228	294
Income taxes payable	462	493
Advances from customers	1	5
Deposits received	31	33
Allowance for employees' bonuses	1,033	1,067
Allowance for directors' bonuses	60	65
Deposits received from employees	530	542
Others	19	0
	12,375	13,124
<b>Long-term liabilities</b>		
Deferred tax liabilities	1,034	1,193
Allowance for employees' retirement benefits	1,453	1,401
Allowance for directors' retirement	310	301
Others	44	36
	2,842	2,933
Total liabilities	15,218	16,057
<b>Shareholders' equity</b>		
Common stock	4,175	4,175
Capital surplus		
Additional paid-in capital	4,555	4,555
Other capital surplus		
Gains on disposal of treasury stock	-	10
	4,555	4,566
Retained earnings		
Legal retained earnings	1,043	1,043
Voluntary reserves - total		
Reserve for dividends	1,600	1,600
Reserve for special depreciation	139	132
Reserve for asset-reduction entries	516	514
Special reserve	15,500	18,000
Unappropriated retained earnings, end of term	4,369	4,605
	23,169	25,896
Unrealized gain or loss on other securities	2,185	2,406
Treasury stock	(10)	(1)
Total shareholders' equity	34,076	37,043
<b>Total liabilities and shareholders' equity</b>	49,294	53,101

*Trade credits*

## Notes receivable

<b>Millions of yen</b>	<b>2005</b>
Shinnippon Wheel Kogyo	33
Rico Auto Industries Ltd.	25
Nittan Valve	0
SOQI INC.	0
SEIREI INDUSTRY	0
	60

## Accounts receivable — trade

<b>Millions of yen</b>	<b>2005</b>
HONDA MOTOR CO., LTD.	3,712
FCC (INDIANA) Mfg., LLC.	1,282
Suzuki Motor Corporation	1,066
Kawasaki Heavy Industries, Ltd.	854
PT. FCC INDONESIA	591
Others	3,045
	10,552

## Turnover of accounts receivable

<b>Millions of yen</b>	<b>2005</b>
Beginning balance	10,026
Increase	54,567
Collected	54,041
Ending balance	10,552
Turnover	83.7%
Average days for collection	69

## Notes payable

<b>Millions of yen</b>	<b>2005</b>
MARUICHI KOGYO CO., LTD.	315
NOK CORPORATION	269
aitech. inc. co., ltd	250
ACE GIKEN CO., LTD.	103
Mugai	83
Others	860
	1,882

## Accounts payable — trade

<b>Millions of yen</b>	<b>2005</b>
HONDA MOTOR CO., LTD.	520
KYUSHU F.C.C. CO., LTD.	338
NHK SPRING CO., LTD.	159
TENRYU SANGYO CO., LTD.	157
MUSASHI SEIMITSU INDUSTRY CO., LTD.	149
Others	2,747
	<u>4,073</u>

*Securities*

## Marketable and investment securities

<b>Millions of yen</b>		
<b>Stocks</b>	<b>Number of shares</b>	<b>Book value</b>
<b>Investment securities</b>		
Other securities		
Stanley Electric Co., Ltd. (6923)	137,975	224
Mizuho Financial Group, Inc. (8411)	234	168
KANEMATSU CORPORATION (8020)	821,000	133
suzuki motor corporation (7269)	52,500	100
Sumitomo Mitsui Financial Group, Inc. (8316)	57	41
Nikkan Co., Ltd.	33,582	33
SHIMIZU CORPORATION (1803)	39,000	21
MUSASHI SEIMITSU INDUSTRY CO., LTD. (7220)	6,000	16
Mizuho Trust & Banking Co., Ltd. (8404)	81,997	16
UFJ Holdings, Inc. (8307)	24	13
Others (13 shares)	19,169	22
	<u>1,191,539</u>	<u>792</u>

*Tangible fixed assets*

Millions of yen	Beginning of term	Increase	Decrease	End of term	Depreciation		End of term, net
					Accumulated	Current	
<b>Tangible fixed assets</b>							
Buildings	6,091	49	51	6,089	3,754	202	2,334
Structures	707	32	0	739	534	28	204
Machinery and equipment	17,399	1,226	371	18,255	13,535	1,139	4,719
Vehicles and delivery equipment	156	28	17	168	114	18	53
Tools, appliances and fixtures	4,547	343	91	4,798	4,210	294	588
Land	3,483	679	-	4,163	-	-	4,163
Construction in progress	60	2,111	981	1,191	-	-	1,191
	32,446	4,471	1,512	35,405	22,149	1,683	13,255
<b>Intangible fixed assets</b>							
Patents	88	-	-	88	25	11	63
Telephone subscription rights	3	-	-	3	-	-	3
Software	19	1	9	11	6	2	4
Utilization rights for water facilities	6	-	-	6	6	0	0
	118	1	9	110	38	14	71
Long-term prepaid expenses	1	1	0	1	0	0	0

*Allowances*

Millions of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	33	2	6	29
Allowance for employees' bonuses	1,033	1,067	1,033	1,067
Allowance for directors' bonuses	60	65	60	65
Allowance for directors' (special) retirement	310	31	40	301

## Accounting Policies

### Summary of accounting policies: consolidated

<b>Basis of presentation</b>	Japanese GAAP
<b>Marketable securities and investments in securities</b>	Other securities: Quoted securities: The market value method is applied, based on the market value as of the fiscal year-end. The entire positive or negative valuation difference with the purchase price is booked directly as shareholders' equity, and the cost of securities sold is calculated using the periodic average method. Unquoted securities: valued at cost using the periodic average method
<b>Inventories</b>	Finished goods and work in process: valued at cost, computed on a periodic average basis Raw materials and supplies: valued at cost, computed on a FIFO basis
<b>Depreciation</b>	Tangible fixed assets: The Company and domestic subsidiaries: declining-balance method Overseas subsidiaries: straight-line method However, buildings acquired after April 1, 1998 (excluding appurtenances) are depreciated using the straight-line method. Intangible fixed assets: straight-line method Software for internal use is amortized on a straight-line basis (based on the length of useful internal life of 5 years).
<b>Allowance for doubtful accounts</b>	To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated based on the historical default ratio for general accounts receivable, plus an amount for specific accounts for which collection appears doubtful.
<b>Allowance for bonuses</b>	Recognized based on standards for estimated bonus expenses
<b>Allowance for directors' bonuses</b>	Recognized based on standards for estimated bonus expenses
<b>Allowance for employees' retirement benefits</b>	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the fiscal year to March 2005.
<b>Allowance for directors' retirement</b>	Recognition of full amount of liability at term-end based on employment regulations.
<b>Opinion of independent auditors</b>	Auditors: Yasumori Audit Corporation Opinion: unqualified

## Summary of accounting policies: non-consolidated

<b>Basis of presentation</b>	Japanese GAAP
<b>Marketable securities and investments in securities</b>	Shares in subsidiaries and affiliated companies: valued at cost using the periodic average method Other securities: Quoted securities: The market value method is applied, based on the market value as of the fiscal year-end. The entire positive or negative valuation difference with the purchase price is booked directly as shareholders' equity, and the cost of securities sold is calculated using the periodic average method. Unquoted securities: valued at cost using the periodic average method
<b>Inventories</b>	Finished goods and work in process: valued at cost, computed on a periodic average basis Raw materials and supplies: valued at cost, computed on a FIFO basis
<b>Depreciation</b>	Tangible fixed assets: declining-balance method However, buildings acquired after April 1, 1998 (excluding appurtenances) are depreciated using the straight-line method. Intangible fixed assets: straight-line method Software for internal use is amortized on a straight-line basis (based on the length of useful internal life of 5 years).
<b>Allowance for doubtful accounts</b>	To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated based on the historical default ratio for general accounts receivable, plus an amount for specific accounts for which collection appears doubtful.
<b>Allowance for bonuses</b>	Recognized based on standards for estimated bonus expenses
<b>Allowance for directors' bonuses</b>	Recognized based on standards for estimated bonus expenses
<b>Allowance for employees' retirement benefits</b>	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the fiscal year to March 2005.
<b>Allowance for directors' retirement</b>	Recognition of full amount of liability at term-end based on employment regulations.
<b>Opinion of independent auditors</b>	Auditors: Yasumori Audit Corporation Opinion: unqualified

## Share-related Information

## Shares in issue

<b>Types of stock</b>	Common
<b>Number of shares authorized</b>	45,000,000
<b>Issued</b>	
As of March 31, 2005	26,322,015
As of June 24, 2005	26,322,015
<b>Stock exchange listings</b>	Tokyo Stock Exchange, First Section
<b>Comments</b>	The Company's standard shares, with no limitations as to shareholders' rights

## Changes in common stock and number of shares outstanding

	Shares outstanding		Common stock		Additional paid-in capital		Remarks
	Increase or decrease	Balance	Increase or decrease	Balance	Increase or decrease	Balance	
	Shares		Millions of yen		Millions of yen		
November 22, 2004	8,774,005	26,322,015	-	4,175	-	4,555	Split 1.5 for 1

## Shareholders by type of investor

Type of investor	Number of shareholders	Number of units owned	% owned
Financial institutions	58	72,607	27.64
Securities companies	21	712	0.27
Business and other corporations	136	71,697	27.30
Non-residents (businesses and corporations)	90	54,641	20.80
Individuals and others	6,968	63,016	23.99
	7,273	262,673	100.0
Shares less than one unit	-	54,715	-

## Largest shareholders

<b>Name</b>	<b>Hundreds of shares owned</b>	<b>% of shares outstanding</b>
HONDA MOTOR CO., LTD.	54,406	20.66
Japan Trustee Services Bank, Ltd.	27,837	10.57
The Master Trust Bank of Japan, Ltd	18,129	6.88
Matsuko Yamamoto	11,914	4.52
Trust & Custody Services Bank, Ltd.	11,509	4.37
Y.A Co., Ltd.	10,097	3.83
Bank of New York for Goldman Sachs International (Equity)	9,333	3.54
Yoshihide Yamamoto	8,812	3.34
CAIS Bank Luxembourg client account	5,704	2.16
HSBC Fund Services Sparks Asset Management Corporated	4,707	1.78
	162,450	61.71

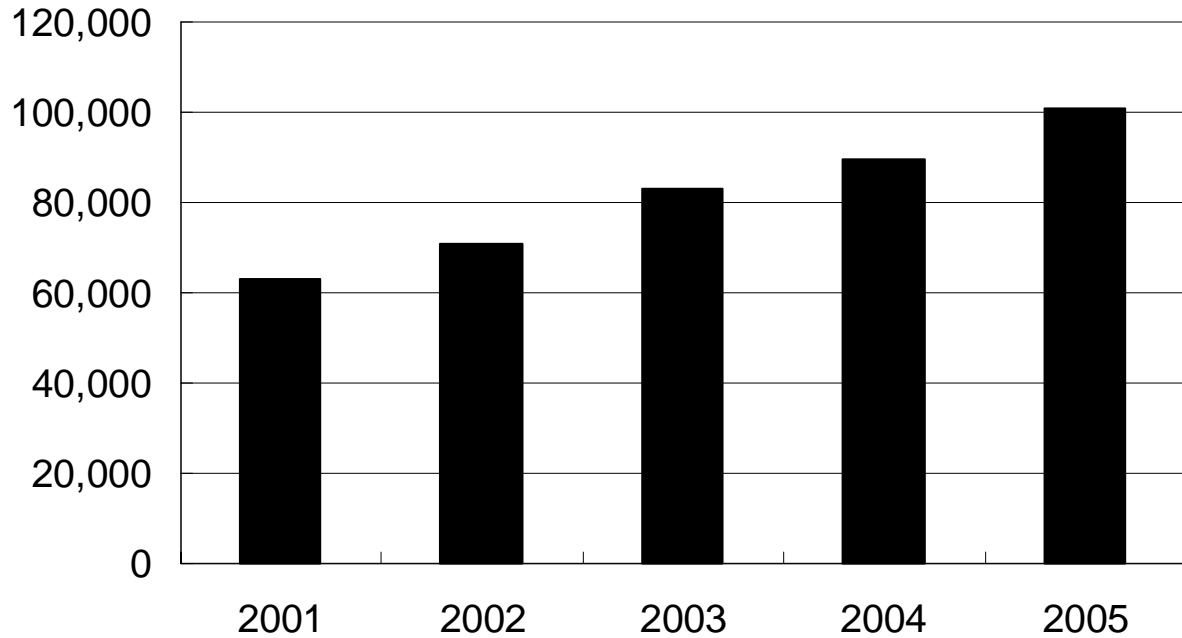
## Share information

<b>Fiscal year-end</b>	March 31
<b>Ex-rights date</b>	March 31
<b>Ex-rights date for interim dividend</b>	September 30
<b>Annual general meeting of shareholders</b>	June
<b>Trading unit</b>	100 shares
<b>Types of share certificates</b>	100, 1,000 and 10,000 shares
<b>Transfer agent</b>	Mizuho Trust & Banking Co., Ltd., 1-2-1, Yaesu, Chuo-ku, Tokyo
<b>Publication of record</b>	<i>Nihon Keizai Shimbun</i>

## Performance in Graphs

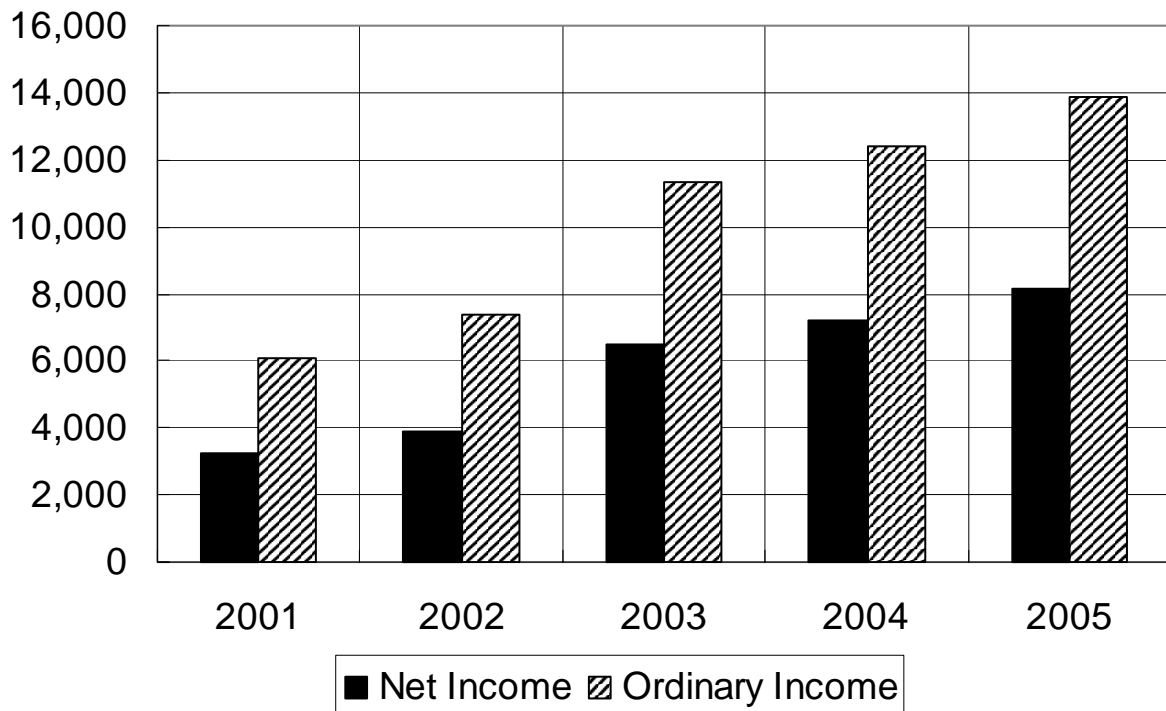
### Net Sales

Million yen

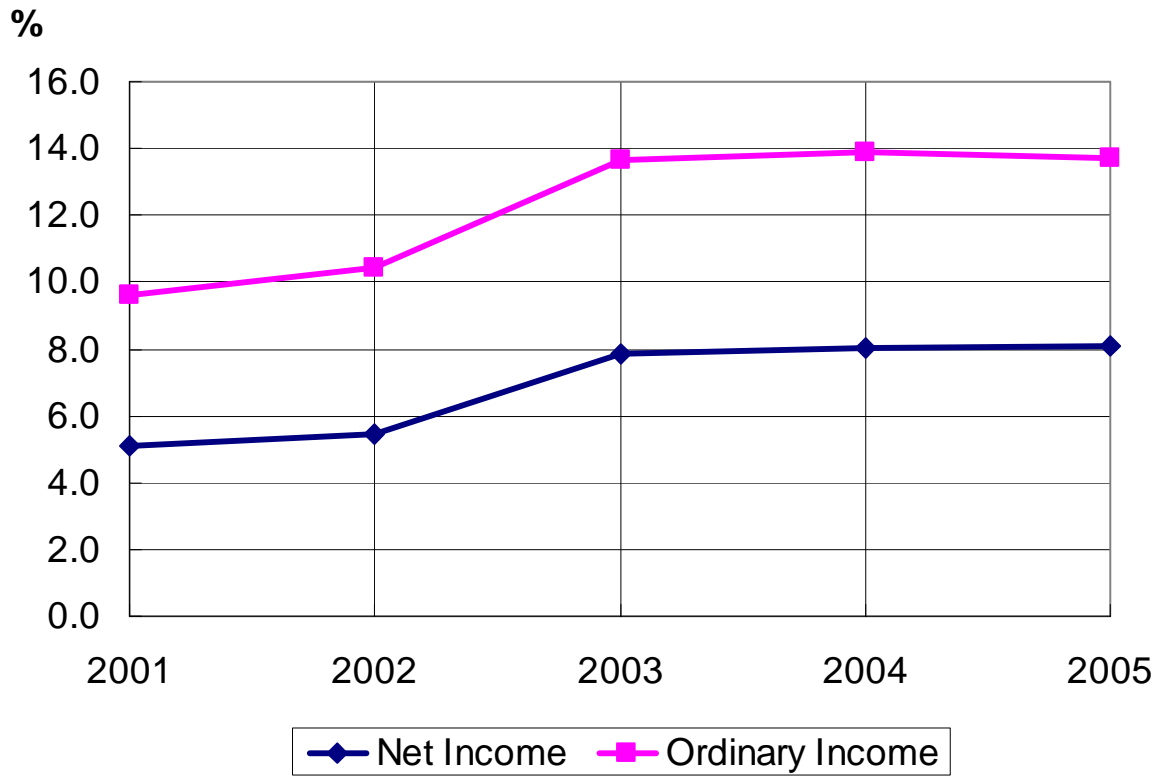


### Net Income and Ordinary Income

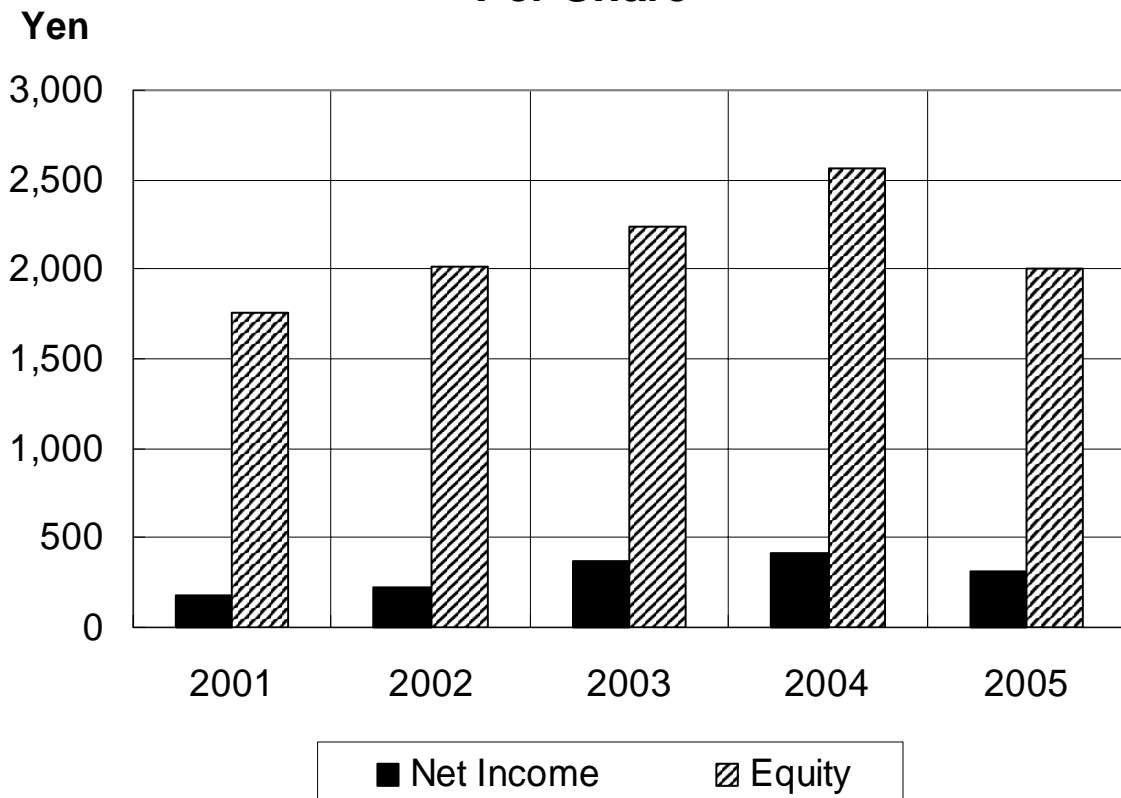
Million yen



### Margins on Sales

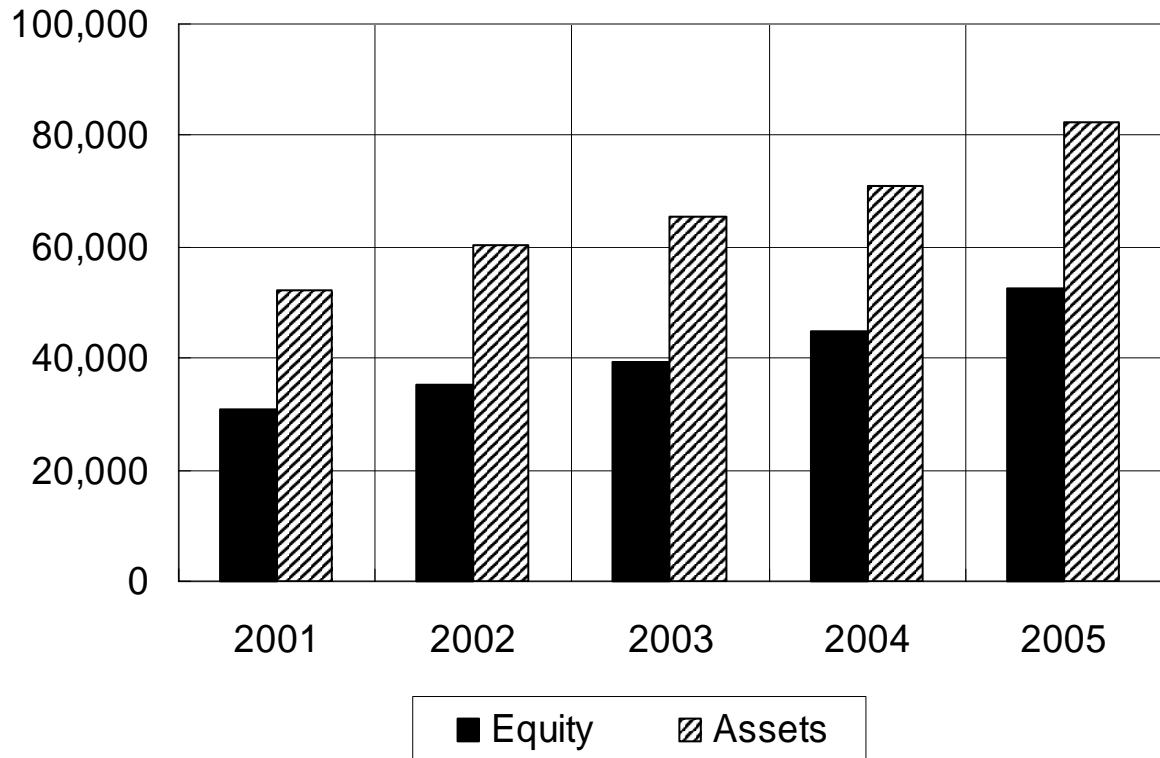


### Per Share

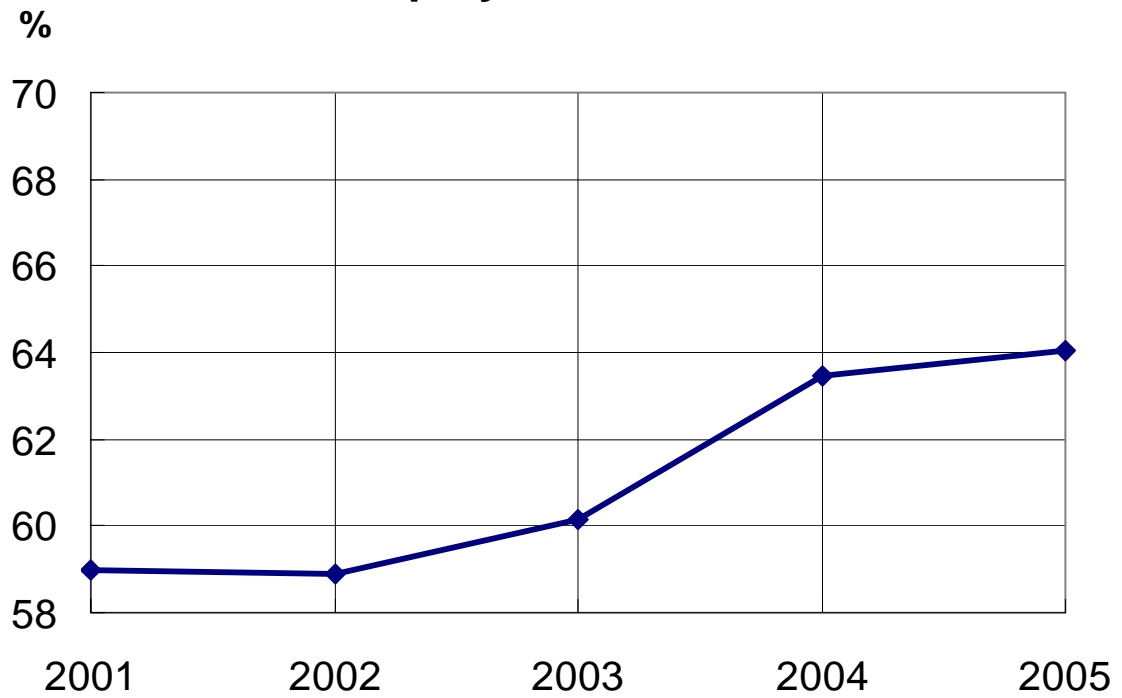


## Equity and Assets

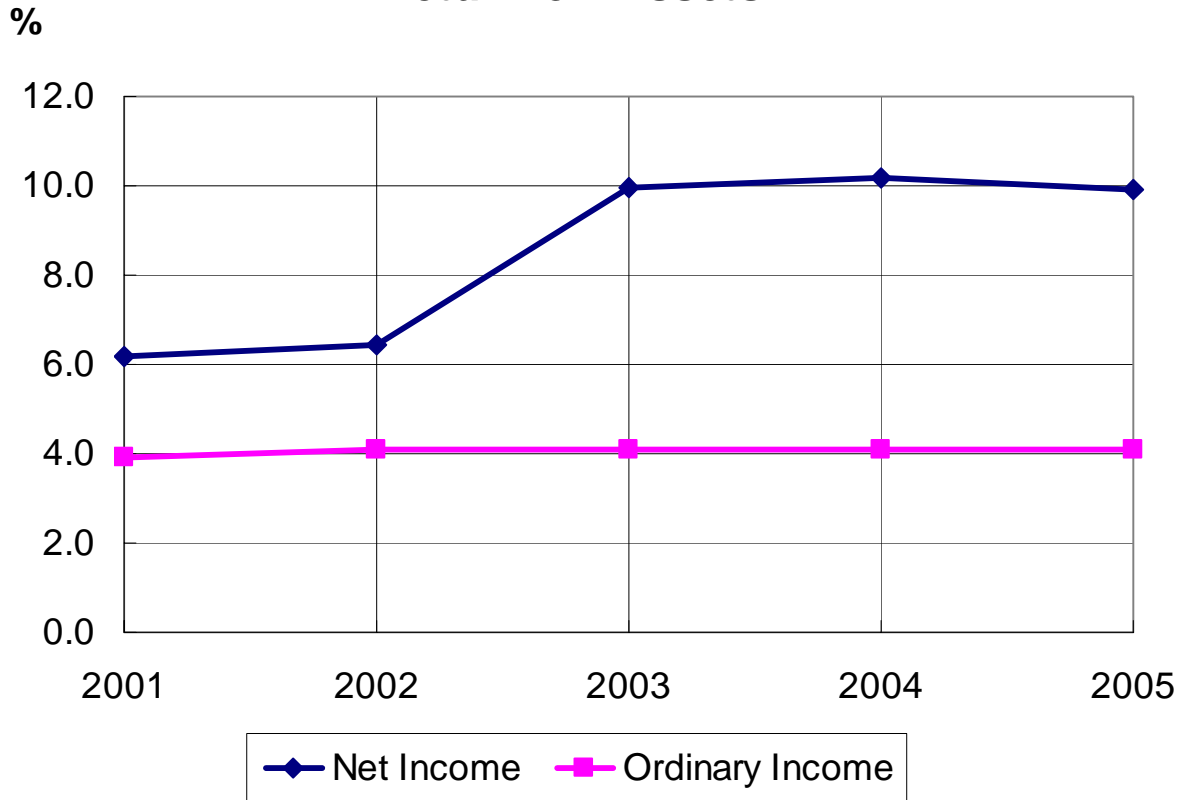
Million yen



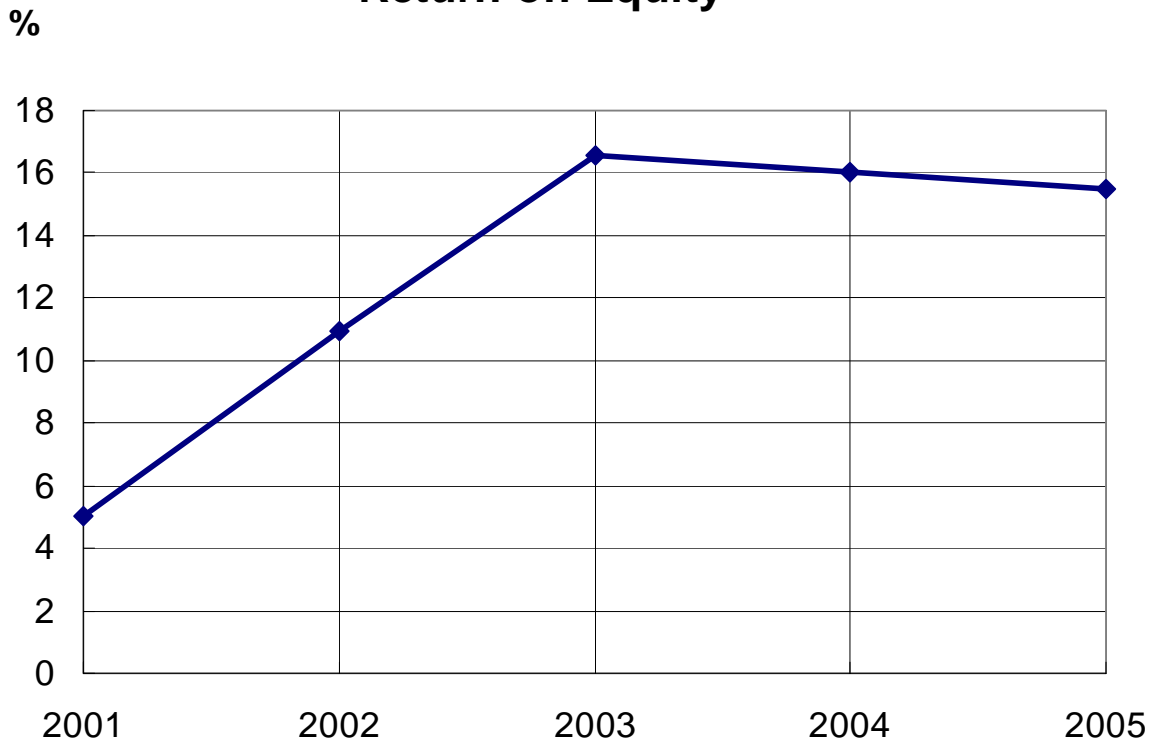
## Equity / Assets



### Return on Assets



### Return on Equity



**Contact**

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