NIKKO ANNUAL REPORT 2003

nikko

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Contents

~PROFILE of NIKKO~

Key Concept

NIKKO's oval shape in brown as a symbol expresses 'Earth' and 'Ware'. 'Earth' brought up human beings, and 'Ware' is what our remote ancestors created by being attached to the earth.

The oval shape is derived from a conception of tableware that a round shape always be seen at an angle in our daily life. We borrow, through the history of mankind, an oval shape to expect human communications of heart and mind which are hardly embodied in words.

The oval shape symbolizes NIKKO continuously moving on toward a perfect circle and round.

TABLETOP DIVISION

In 1905, in the city of kanazawa, production of semi-porcelain dinnerware was attempted for the first time in Japan. Nihon Koshitsu Toki Co., Ltd. Was established in 1908 by the former feudal lord family, Maeda and some prominent members of community.

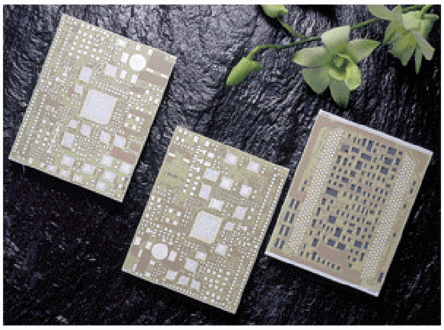
As a pioneer in the manufacture of semi-porcelain dinnerware, the company started in 1917 operations in Pusan, Korea to further upscale its production. Experiencing the ordeal of World War II, the company's technology, fostered by its long course of history, came into bloom in the early sixties. In 1961, the company moved its head office and plant to the present location to set the integrated production line with modern equipment and facilities, securing a position as a leading semi-porcelain dinnerware maker. Anticipating the trend of the times, the company has developed a various kinds of materials such as fine bone china, fine vitrified china, fine porcelain, oven ware and decoration tile helped by its innovative technology. Entering successfully into the hotel and restaurant ware market in the 80's was another stride of the company. Continuous development of products always satisfies various requirements of hoteliers and caterers in the world.

In an attempt to expand its global business, established in 1968 were Nikko Ceramics, Inc. in New York, a joint-venture factory in 1973 in Malaysia and another joint venture in 1991 in Thailand. The company freshened up in 1983 under the name of NIKKO COMPANY.

During the recent several years, NIKKO has dramatically been spreading out its reputation for manufacturing technology into the field of OEM trade. Discerning the rapidly changing market, NIKKO always makes efforts to stay in the course of a company to sell overall performances both in product quality and services.

ELECTRO-CERAMICS DIVISION

Based on this long experience in ceramics technology, Nikko has established in 1982 an Electro-Ceramics Division to make a start with alumina substrates and hybrid IC. This was to take the lead in the electronics industry with a three-step development of core products meeting an increasing demand form the market.



A gas-firing kiln for large-sized alumina substrates was put into practical use for the first time in the industry. Then, thick film substrates enabled a successful application of precision printing technique onto electronic circuit, which was helped by the peculiar know-how cultivated for many years in the ceramics manufacturing. Hybrid IC has followed with flexible production on a basis of ‘customized development’ policy to meet various demands for mainly industrial devices from time to time.

Another successful production in 1992 was of multi-layered substrates, and complete packages of product line-ups were placed in the broad market inclusive of U.S.A. Dielectric ceramic compositions in 1996 and multi-layer piezo ceramic transformers are another remarkable development, and of wide application to today’s personal computers, cellular or mobile phones and many more of electronic units.

With a background of the down-sizing and high-functioning trend, Nikko positively discerns the move of the electronics field expected to grow with speed especially in the field of communication apparatus, in contrast to the tableware division making a strenuous efforts in the crucial market status.

HOUSING & ENVIRONMENTAL EQUIPMENT DIVISION

The division has started with an applied study of organic materials for Fiberglass-Reinforced-Plastics (FRP) , while both Tableware division and Electro-Ceramics Division are based on inorganic materials.

Established of the division in 1962 was on the opportunity of newly developed FRP bath-tubs being recognized to be in the product range authorized by Tokyo Gas Co., Ltd. Its FRP factory was set up in 1966 near Tokyo to produce environmental equipment such as single bath-tubs, bathroom units, septic tanks and water treatment facilities.

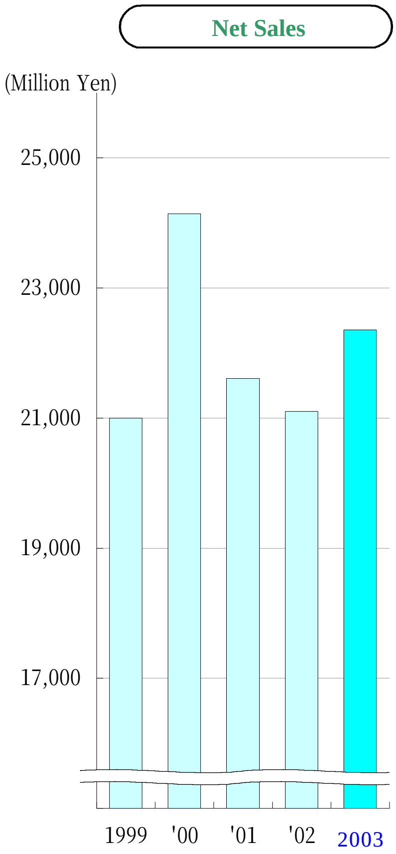
Not later than any other brand, Nikko introduced high-leveled technology for FRP press-forming method when others still applied a manual forming method, and its production capacity of septic tanks has reached a top in the industry.

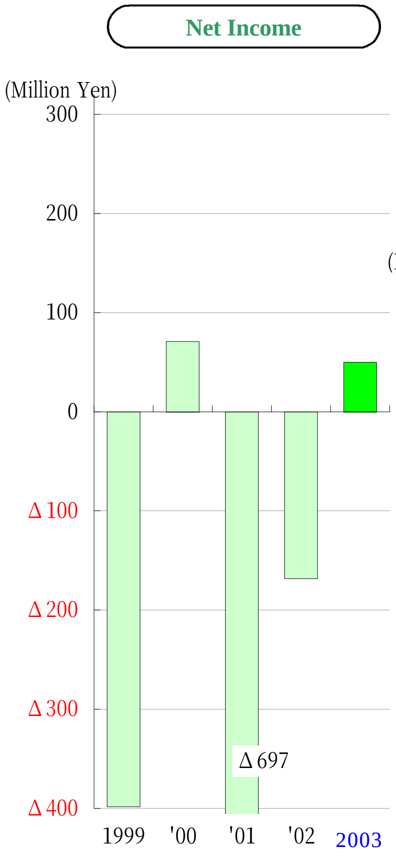
In the marketing aspect, a wide network system of sales is spread throughout the nation together with some showrooms as well. Close services and market exploration are efficiently performed to lead new developments.

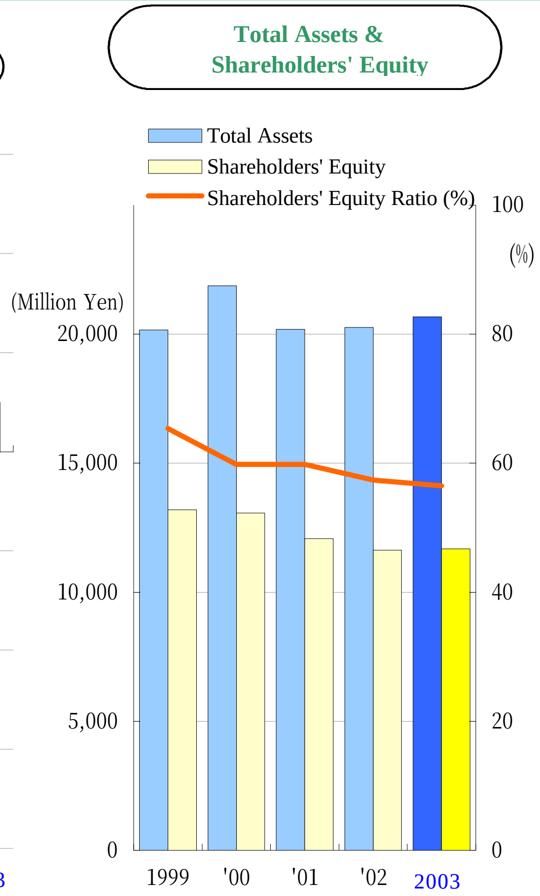
Nikko always takes the position that product development be done from the viewpoint of amenities in a human life and global protection of environment.

Financial Highlights

NIKKO COMPANY
Consolidated Data







	Millions of yen (except per share amounts and %)					Thousands of U. S. dollar (except per share amounts)
Consolidated Data	1999	2000	2001	2002	2003	2003
Net Sales	21,000	24,143	21,611	21,100	22,354	156,067
Net Income	(398)	71	(697)	(168)	50	463
Total Assets	20,169	21,876	20,186	20,265	20,677	190,054
Shareholders' Equity	13,193	13,074	12,078	11,632	11,676	107,324
Shareholders' Equity Ratio (%)	65.4	59.8	59.8	57.4	56.5	
Return on Shareholders' Equity (%)	(3.0)	0.5	(5.5)	(1.4)	0.4	
Number of Shares	17,072,000	17,072,000	17,072,000	17,072,000	17,072,000	
Per Share of Common Stock	Yen					U. S. dollar
Net Income	(23.32)	4.17	(40.86)	(9.93)	3.01	0.028
Shareholders' Equity	772.95	766.13	707.58	701.96	684.77	6.294
Cash Dividends	10.00	10.00	4.00	8.00	8.00	0.074

Note: ¥108.80 = U.S.$1.00; See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2003 and 2002

ASSETS	Thousands of yen 2003	Thousands of yen 2002	Thousands of U. S. dollar 2003
Current Assets:			
Cash and time deposits	¥3,907,319	¥3,069,281	$35,912
Notes and accounts receivable:			
Trade	4,953,425	4,906,391	45,527
Subsidiaries and affiliates	100,336	116,540	922
Allowance for doubtful accounts	(52,987)	(86,668)	(487)
Inventories	5,135,873	5,392,320	47,204
Deferred tax assets	408,231	254,276	3,752
Prepaid expenses and other current assets	153,368	110,163	1,409
Total current assets	14,605,567	13,762,306	134,242
Investments and Other Assets:			
Investment securities	806,100	780,936	7,409
Investment in and advances to subsidiaries and affiliates	194,115	194,115	1,784
Deferred tax assets	229,948	408,669	2,113
Other	306,018	391,801	2,812
Allowance for doubtful accounts	(29,454)	(73,865)	(270)
Total investments and other assets	1,506,728	1,701,657	13,848
Property, plant and equipment, at cost:			
Land	1,052,526	1,052,526	9,673
Buildings	5,739,851	5,757,988	52,755
Machinery and equipment	8,168,694	7,988,371	75,079
Construction in progress	30,404	59,319	279
Accumulated depreciation	(10,466,271)	(10,105,860)	(96,197)
Net property, plant and equipment	4,525,205	4,752,345	41,591
Intangible Assets and other	40,379	49,459	371
Total Assets	¥20,677,880	¥20,265,769	$190,054

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2003 and 2002

LIABILITIES AND SHAREHOLDERS' EQUITY	Thousands of yen 2003	2002	Thousands of U. S. dollar 2003
Current liabilities:			
Notes and accounts payable:			
Trade	¥3,941,024	¥3,746,292	$36,222
Subsidiaries and affiliates	331,523	265,844	3,047
Other	65,185	67,157	599
Short-term borrowings	2,924,553	2,992,054	26,880
Construction notes payable	75,460	54,119	693
Accrued expenses	623,587	588,045	5,731
Accrued income taxes	46,154	34,527	424
Other	529,205	603,330	4,864
Total current liabilities	8,536,694	8,351,371	78,462
Long-term liabilities:			
Accrued directors' and statutory auditors' retirement benefits	86,642	80,040	796
Allowance for operating loss of subsidiaries	52,000	52,000	477
Liabilities for retirement benefits	228,765	73,171	2,102
Other	96,920	68,222	890
Total long-term liabilities	464,328	273,433	4,267
Minority Interests	—	8,246	—
Shareholders' Equity:			
Common stock, ￥50 par value per share Authorized-60,000,000 shares; Issued-17,072,000 shares in 2003 and 17,072,000 shares in 2002	2,800,000	2,800,000	25,735
Additional paid-in capital (Capital reserve)	3,240,208	3,239,912	29,781
Retained earnings	5,847,118	5,929,229	53,741
Unrealized profit (Loss) on securiteis	(84,966)	(97,967)	(780)
Adjustment on foreign currency statement translation	(120,944)	(125,680)	(1,111)
Treasury stocks 19,866 shares in 2003 and 500,281 shares in 2002	(4,557)	(112,774)	(41)
Total shareholders' equity	11,676,857	11,632,718	107,324
Total Liabilities and Shareholders' Equity	¥20,677,880	¥20,265,769	$190,054

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Income

NIKKO COMPANY
Years ended October 31, 2003 and 2002

	Thousands of yen		Thousands of U. S. dollar
	2003	2002	2003
Net Sales	¥22,354,069	¥21,100,238	$205,460
Cost of Sales	16,980,163	16,241,721	156,067
Gross profit	5,373,905	4,858,517	49,392
Selling, General and Administrative Expenses	5,061,227	5,086,003	46,518
Operating income	312,678	(227,485)	2,873
Other (Income) Expenses:			
Interest expenses	47,220	56,654	434
Interest and dividend income	(691)	(4,308)	(6)
(Gain) on sale or loss on disposal of property, net	10,824	28,001	99
Other, net	152,571	51,805	1,402
Income before taxes	102,753	(359,639)	944
Income and enterprise tax	46,366	36,567	426
Income taxes adjustment (by tax effect accounting)	14,305	(227,578)	131
Income taxes	60,672	(191,010)	557
Minority interest in net income of Consolidated Subsidiaries	(8,309)	—	(76)
Net income	¥50,390	¥(168,628)	$463

	Yen	Yen	U. S. dollar
	2003	2002	2003
Amounts Per Share of Common Stock:			
Net Income	3.01	(9.93)	$0.028
Cash dividends	8.00	8.00	0.074

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

NIKKO COMPANY

Years ended October 31, 2003 and 2002

	Number of shares of common stock (thousands)	Thousands of yen		
		Common stock	Capital surplus	Retained earnings
Balance, October 31, 2002	17,072	¥2,800,000	¥3,239,912	¥5,929,229
Net income for the year	—	—	—	50,390
Cash dividends	—	—	—	(132,501)
Gain on sale of treasury stock	—	—	296	—
Balance, October 31, 2003	17,072	¥2,800,000	¥3,240,208	¥5,847,118

	Thousands of U. S. dollars		
	Common stock	Capital surplus	Retained earnings
Balance, October 31, 2002	$22,932	$26,534	$48,126
Net income for the year	—	—	463
Cash dividends	—	—	(1,217)
Gain on sales of treasury stock	—	2	—
Balance, October 31, 2003	$25,735	$29,781	$53,741

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

NIKKO COMPANY
Years ended October 31, 2003 and 2002

	Thousands of yen		Thousands of U. S. dollar
	2003	2002	2003
Cash Flows from Operating Activities:			
Income before income taxes	¥102,753	¥(359,639)	$944
Depreciation	512,268	553,135	4,708
Provision for doubtful receivables	(78,092)	57,010	(717)
Provision for bonus	7,000	(3,000)	64
Liability for employee's retirement benefits	155,594	60,772	1,430
Interest and dividend income	(691)	(4,308)	(6)
Loss on disposal of property	10,824	28,001	99
Loss (Gain) on sales of investments in securities	(5,357)	7,663	(49)
Loss (Gain) on devaluation of investments in securities	38,433	4,500	353
Equity in loss of unconsolidated subsidiaries and affiliates	—	52,000	—
Loss (Gain) on sales of golf club membership	2,400	—	22
Interest expenses	47,220	56,654	434
(Increase) Decrease in notes and accounts receivables	(34,653)	(410,887)	(318)
(Increase) Decrease in receivables	(11,399)	175,856	(104)
(Increase) Decrease in inventories	256,446	315,901	2,357
(Increase) Decrease in payables	281,751	592,258	2,589
	1,284,497	1,125,919	11,806
Receipt of interest and dividend income	691	4,308	6
Payment of interest expenses	(47,220)	(55,812)	(434)
Payment of income taxes	(34,739)	(21,728)	(319)
Refunded of income taxes	—	130,028	—
Cash Flows from Operating Activities	¥1,203,228	¥1,182,714	$11,059
Cash Flows from Investing Activities:			
Acquisition of investments in securities	(56,229)	(53,453)	(516)
Proceeds from sales of investments in securities	21,450	70,019	197
Acquisition of investments in affiliates	(2,319)	—	(21)
Acquisition of property, plant and equipment	(286,660)	(244,570)	(2,634)
Other	45,918	115,867	422
Cash Flows from Investing Activities	¥(277,840)	¥(112,138)	$(2,553)
Cash Flows from Financing Activities:			
Borrowing short-term bank loans-net	(67,501)	(238,003)	(620)
Acquisition of treasury stocks	(3,986)	(112,160)	(36)
Proceeds from treasury stocks	112,500	—	1,034
Payments of cash dividends	(132,606)	(69,525)	(1,218)
Cash Flows from Operating Activities	¥(91,593)	¥(419,689)	$(841)
Exchange difference of cash and cash equivalents	4,736	1,607	43
Net increase (decrease) in cash	838,530	652,494	7,707
Cash at beginning of period	3,003,559	2,351,065	27,606
Cash at end of period	¥3,842,090	¥3,003,559	$35,313

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

NIKKO COMPANY

1. Basis of Presenting Consolidated Financial Statements

(1) Accounting Principles and Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nikko Company (the "Company") and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Japanese Commercial Code and other countries' regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Accounting Standards.
Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan.
The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.
Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥108.80=U.S.$1 the approximate rate of exchange at October 31, 2003, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

(2) Scope of Consolidation

The Company had 2 subsidiaries as at October 31, 2003 and October 31, 2002. The consolidated financial statements include the accounts of the Company and 2 of its subsidiaries. The major consolidated subsidiaries are listed below:

	As at October 31, 2003	
	Equity ownership percentage, including indirect ownership	Capital stock (thousands)
Nikko Ceramics, Inc.	100.00 %	$4,000
Nikko Hanbai Co., Ltd.	94.03 %	¥470,000

(3) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

The cost of investments in the common stock of consolidated subsidiaries is eliminated with the underlying equity in net assets of such subsidiaries. The material difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiary is deferred and amortized over a reasonable period within 5 years on a straight-line basis.

(4) Investments in Unconsolidated Subsidiaries and Affiliates

At October 31, 2003, the Company had 4 affiliates. They have not been accounted for by the equity method for the following reasons: insignificant amount of net income and retained earnings. The investments in affiliates are stated at cost.

2. Summary of Significant Accounting Policies

(1) Valuation of Securities
The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair market value with any changes in unrealized gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. The cost of securities sold is determined by the moving average method.

(2) Inventories
Inventories held by the Company and the domestic consolidated subsidiary are stated at cost. Cost is determined by the periodic average method for finished goods and goods in process, by the moving average method for raw materials and supplies, and by the specific identification method for construction in process. Inventories held by the overseas consolidated subsidiary are valued at lower cost, which is determined by the FIFO method.

(3) Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment except for buildings of the Company is computed on the declining-balance method and depreciation of buildings is computed on the straight-line method, at rates based on the estimated useful lives of the assets. Depreciation of property, plant and equipment of the domestic consolidated subsidiary is computed on the declining-balance method and buildings (except for structures attached to the buildings) acquired on and after April 1, 1998 have been depreciated by the straight-line method. The estimated useful lives are based on the prescribed by the Japanese income tax laws. The overseas consolidated subsidiary has computed by the straight-line method. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(4) Foreign Currency Translation
Foreign currency amounts except for those covered by forward exchange contracts are translated into Japanese yen on the basis of the rates of exchange in effect at the balance sheet date for monetary current assets and current liabilities, and at historical rates for other assets and liabilities unless they have accrued significant exchange losses. Foreign currency amounts covered by forward exchange contracts are translated into Japanese yen at the relevant contract rates. Historical rates are used for translation of income and expenses.

(5) Recognition of Income Taxes
The Companies adopted deferred tax accounting, whereby tax effects on temporary differences are adequately reflected and recognized as additions to or deductions from "Income Taxes" in the accompanying Consolidated Statements of Income.

(6) Translation of Foreign Currency Financial Statements
(Accounts of Overseas Subsidiaries and Affiliates)
Financial statements of foreign subsidiary is translated into Japanese yen at the current exchange rates as of the balance sheet date for all balance sheet accounts except for shareholders' equity accounts, which is translated at the historical exchange rate. The annual average rate is used for revenue and expense accounts.

(7) Amortization
The amortization of intangible assets of the Company and the domestic consolidated subsidiary are computed by the straight-line method, at rates based on the prescribed by the Japanese income tax laws. the overseas consolidated subsidiary has computed by the straight-line method.

(8) Derivatives
Derivatives are valued at fair value if hedging accounting is not appropriate or where there is no hedging designation, and the gains or losses on derivatives are recognized in the current earnings. Certain transactions classified as hedging transactions such as commodity swap are accounted for under a deferral method, whereby unrealized gains or losses on hedging instruments are carried as assets or liabilities on the balance sheet until the gains and losses on the hedged items are realized.

(9) Accounting for Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(10) Net Income and Dividends per Share

"Net income per share" of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the Consolidated Statements of Income represent dividends declared as applicable to the respective year, rather than those paid in each year.

(11) Cash Equivalents

Cash Equivalents are short-term investments that are readily convertible into cash and that are exposed to in significant risk of changes in value. Cash equivalents include time deposits and investment trusts that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(12) Allowance for Doubtful Accounts

Allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus an amount for receivables other than doubtful receivables calculated using historical write-off experience from certain prior periods.

(13) Shareholders' Equity

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount stated in the statutory financial statements of the Company. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, a semi-annual interim dividend payment may be made by resolution of the Board of Directors subject to certain limitations imposed by the Commercial Code.

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(14) Research and Development Costs

Expenses relating to research and development activities are charged to income as incurred. Such research and development expenses were included in cost of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income and amounted to ¥136,520 thousand ($1,254 thousand) and ¥154,394 thousand ($1,253 thousand) for the years ended October 31, 2003 and 2002, respectively.

3. Short-term Bank Loans

Short-term bank loans of subsidiaries are secured by the Company, at an annual weighted average interest rate of 1.93 at October 31, 2003.and 1.88 at October 31, 2002.

	Thousands of yen		Thousands of U.S. dollars
	2003	2002	2003
Short-term bank loans	¥2,924,553	¥2,992,054	$26,880

4. Pledged Assets

The carrying amounts of assets pledged as fixed collateral at October 31, 2003 and 2002, the Company had no liabilities.

	Thousands of yen		Thousands of U.S. dollars
	2003	2002	2003
Property, plant and equipment – net of accumulated depreciation	¥248,755	¥257,714	$2,286

5. Contingent Liabilities

As at October 31, 2003, contingent liabilities in respect of trade notes discounted in ordinary course of business, guarantees of indebtedness of employees, and guarantees of subscription or that of reservation amounted to ¥252,746thousand ($2,323thousand) and ¥11,690thousand ($107thousand), ¥61,045thousand ($561thousand), respectively. As at October 31, 2002, they amounted to ¥323,923thousand ($2,629thousand) and ¥10,967thousand ($89thousand), ¥48,671thousand ($395thousand), respectively.

6. Retirement Plans and Severance Indemnities

(1) The Company and its domestic consolidated subsidiaries have defined benefit plans, tax-qualified pension plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of October 31, 2003 and 2002 for the Company's and the consolidated subsidiaries' defined benefit plans

(2) Components of accrued pension and severance costs as of October 31, 2003 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollar
	2003	2002	2003
Retirement benefit obligation at end of year	¥(2,952,278)	¥(2,752,704)	$(27,134)
Plan assets	1,362,549	1,424,083	12,523
Unfunded retirement benefit obligation	(1,589,729)	(1,328,620)	(14,611)
Unrecognized net retirement benefit obligation at transition	820,739	889,134	7,543
Unrecognized actuarial loss	540,224	366,315	4,965
Unrecognized prior service cost	—	—	—
Net amount recognized on the balance sheet	(228,765)	(73,171)	(2,102)
Prepaid pension expenses	—	—	—
Accrued retirement benefits	(228,765)	(73,171)	(2,102)

A consolidated subsidiary use the simplified method.

(3) Components of retirement benefit expenses for the year ended October 31, 2003 and 2002 are as follows

	Thousands of yen		Thousands of U.S. dollar
	2003	2002	2003
Service cost	¥192,405	¥174,776	$1,768
Interest cost	56,670	83,210	520
Expected return on plan assets	(26,273)	(39,742)	(241)
Amortization of transition obligation	64,169	64,169	589
Amortization of actual loss	29,042	11,240	266
Amortization of prior service cost	17,347	7,576	159
Retirement benefit expenses	333,362	301,231	3,063

Retirement expenses under the simplified method are included in service cost.

(4) Assumptions used for calculation of retirement benefits for the year ended October 31, 2003 and 2002 are as follows:

	2003	2002
Method of attributing the project benefits to periods of service	Straight-line method	
Discount rate	2.5 %	3.0 %
Expected return on plan assets	2.0 %	3.0 %
Amortization period of unrecognized actuarial gains or losses	13 years	
Amortization period of net transition obligation	15 years	

7. Deferred Tax

Deferred tax assets and liabilities (both current and non-current) consisted of the following elements:

	Thousands of yen		Thousands of U.S. dollar
	2003	2002	2003
Deferred tax assets:			
Allowance for bonuses not deductible until paid	¥143,676	¥112,477	$1,320
Allowance for doubtful accounts	37,148	33,280	341
Loss on valuation of inventories	286,362	236,309	2,632
Accrued directors' and statutory auditors' retirement benefits	35,003	32,816	321
Liabilities for retirement benefits	92,421	30,000	849
Loss on valuation of investments in memberships	18,499	24,419	170
Allowance for operating loss of subsidiaries	21,008	21,320	193
Unrealized loss on securities	57,595	68,070	529
Unrealized intercompany profit of inventory	41,539	—	381
Tax loss carried forward	488,245	741,387	4,487
Other	70,209	62,844	645
Subtotal	1,291,708	1,362,927	11,872
Allowance for valuation	(644,927)	(690,883)	(5,927)
Net deferred tax assets	¥646,781	¥672,044	$5,944
Deferred tax liabilities:			
Deferred gains on sales of property	(8,600)	(9,097)	(79)
Net deferred tax liabilities	¥(8,600)	¥(9,097)	$(79)

Reconciliation of actual tax rate is shown below:	
Effective statutory tax rate	41.0%
Adjustments:	
Entertainment expenses and other not deductible	25.3%
Dividends income and other not taxable	(1.0)%
Taxation on per capita basis	33.1%
Valuation allowance change	(65.1)%
Loss of subsidiaries	96.0%
Unrealized intercompany profit of inventory	(46.1)%
Unrecognized deferred income taxes at subsidiaries	(17.7)%
Elimination of loss on devaluation of investment securities	(7.8)%
Changes in tax rate	3.3%
Other factor	(1.8)%
Actual tax rate	59.0%

No information for differences between the statutory income tax rate and the effective income tax rate is required for the years ended October 31, 2002, as loss before income taxes and minority interests was reported for the year.

The statutory tax rate used for calculation of deferred income tax assets and liabilities was 41% for the year ended October 31, 2003. Effective for the year commencing on November 1, 2004, or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred tax assets and liabilities, the Company and consolidated domestic subsidiaries used the statutory tax rates of 41.0% and 40.4% for current items and non-current items, respectively, at October 31, 2003.

As the result of the change in the statutory tax rates, deferred income tax assets decreased by ¥4,270thousand ($39thousand), income taxes-deferred increased by ¥3,415thousand ($31thousand) and net unrealized holding losses on securities increased by ¥855thousand ($7thousand) compared with what would have been recorded under the previous local tax law

8. Accounting for Leases

The following pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended October 31, 2003 and 2002, was as follows.

	Thousands of yen		Thousands of U.S. dollars
	2003	2002	2003
Acquisition cost			
Machinery and equipment	¥544,333	¥540,645	$5,003
Other assets	646,777	572,312	5,944
	¥1,191,110	¥1,112,957	$10,947
Accumulated depreciation			
Machinery and equipment	¥232,441	¥156,403	$2,136
Other assets	378,354	264,686	3,477
	¥610,796	¥421,090	$5,613
Net book value			
Machinery and equipment	¥311,891	¥384,241	$2,866
Other assets	268,422	307,625	2,467
	¥580,314	¥691,867	$5,333

Obligations under finance leases as of October 31,2003 and 2002, are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥213,571	¥191,307	$1,962
Due after one year	392,683	521,388	3,609
	¥606,254	¥712,696	$5,572

The imputed interest expenses portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expenses and interest expenses under finance leases as of 2003 and 2002, were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease expenses for the year	¥231,846	¥252,998	$2,130
Depreciation expense	209,442	233,589	1,925
Interest expense	27,511	26,274	252

Depreciation expenses and interest expense, which are not reflected in the accompanying consolidated statement of income, computed by the straight-line method and the interest method.

9. Investments

In accordance with the accounting standard for financial instruments, investment securities include equity securities, bonds and other, of which the aggregate cost, gross unrealized gains/losses and fair value pertaining to available-for-sale securities and held-to-maturities at October 31, 2003 and 2002 were as follows.

Available-for-sale securities

Securities with book values exceeding

Thousands of yen		
2003		
Acquisition cost	Book value	Difference
¥323,383	¥344,073	¥20,689

Thousands of U.S. dollars		
2003		
Acquisition cost	Book value	Difference
$2,972	$3,162	$190

Other securities

Thousands of yen		
2003		
Acquisition cost	Book value	Difference
¥509,811	¥346,558	¥(163,252)

Thousands of U.S. dollars		
2003		
Acquisition cost	Book value	Difference
$4,685	$3,185	$(1,500)

Available-for-sale securities

Securities with book values exceeding

Thousands of yen		
2002		
Acquisition cost	Book value	Difference
¥51,855	¥56,873	¥5,017

Other securities

Thousands of yen		
2002		
Acquisition cost	Book value	Difference
¥794,003	¥622,959	¥(171,044)

The sales amounts of available-for-sale securities sold, gains and losses, in the years ended October 31, 2003 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	2002	2003
Sales amount	¥21,450	¥70,019	$197
Gains	5,897	11,736	54
Losses	539	19,399	4

Available-for-sale securities whose fair value is not readily available as of October 31, 2003 and 2002 comprise following:

	Thousands of yen		Thousands of U.S. dollars
	2003	2002	2003
Unlisted stocks	¥109,468	¥97,103	$1,006
Others	6,000	4,000	55
Total	115,468	101,103	1,061

The carrying values of debt securities by contractual maturities classified as available-for-sale and held-to-maturity for the years subsequent to October 31, 2003 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	2002	2003
Within one year	—	—	—
Over 1 year but within 5 years	¥6,000	¥4,000	$55
Over 5 years but within 10 years	—	—	—
Over 10 years	—	—	—

10. Segment Information

(1) Industry Segment Information
The Companies operate principally in the following three industrial segments:

Tabletop	Fine bone china, Fine vitrified china, Fine porcelain, Oven ware
Electro-Ceramics	Alumina substrates, Hybrid IC, LTCC substrates, Dielectric ceramics, Wind turbine
Housing & Environmental Equipment	FRP bath-tubs, Bathroom units, Septic tanks, Water treatment facilities, Tiles

The segment information of the Companies ended October 31, 2003 and 2002 are presented below:

	Thousands of yen					
	2003					
	Tabletop	Electro-Ceramics	Housing & Environmental Equipment	Total	Eliminations/ Corporate	Consolidated
Sales:						
Sales to customers	¥5,986,954	¥5,084,236	¥11,282,878	¥22,354,069	—	¥22,354,069
Intersegment sales	—	—	—	—	—	—
Total sales	5,986,954	5,084,236	11,282,878	22,354,069	—	22,354,069
Operating expenses	6,184,737	4,826,602	10,520,745	21,532,085	509,305	22,041,390
Operating income (loss)	(197,783)	257,634	762,132	821,983	(509,305)	312,678
Total assets:	¥7,010,361	¥4,067,499	¥4,977,225	¥16,055,087	¥4,622,793	¥20,677,880
Depreciation:	112,919	254,189	136,788	503,896	8,867	512,763
Capital expenditure:	104,116	149,268	60,939	314,323	6,268	320,592

	Thousands of U.S. dollars					
	2003					
	Tabletop	Electro-Ceramics	Housing & Environmental Equipment	Total	Eliminations/ Corporate	Consolidated
Sales:						
Sales to customers	$55,027	$46,730	$103,702	$205,460	—	$205,460
Intersegment sales	—	—	—	—	—	—
Total sales	55,027	46,730	103,702	205,460	—	205,460
Operating expenses	56,845	44,362	96,698	197,905	4,681	202,586
Operating income (loss)	(1,817)	2,367	7,004	7,554	(4,681)	2,873
Total assets:	$64,433	$37,385	$45,746	$147,565	$42,488	$190,054
Depreciation:	1,037	2,336	1,257	4,631	81	4,712
Capital expenditure:	956	1,371	560	2,889	57	2,946

	Thousands of yen					
	2002					
	Tabletop	Electro-Ceramics	Housing & Environmental Equipment	Total	Eliminations/ Corporate	Consolidated
Sales:						
Sales to customers	¥6,387,015	¥4,431,125	¥10,282,097	¥21,100,238	—	¥21,100,238
Intersegment sales	—	—	—	—	—	—
Total sales	6,387,015	4,431,125	10,282,097	21,100,238	—	21,100,238
Operating expenses	6,573,363	4,435,404	9,808,804	20,817,572	510,152	21,327,724
Operating income (loss)	(186,348)	(4,278)	473,293	282,666	(510,152)	(227,485)
Total assets:	¥7,592,743	¥4,104,639	¥4,765,854	¥16,463,238	¥3,802,531	¥20,265,769
Depreciation:	97,840	292,610	158,433	548,883	7,343	556,227
Capital expenditure:	96,771	86,799	69,026	252,597	—	252,597

(2) Information by Geographic Segment
As more than 90% of the consolidated net sales for the two years in the period ended October 31, 2003 and 2002 were made in Japan, the disclosure of geographic segment information has been omitted.

(3) Export Sales and Sales by Overseas Subsidiaries
Export sales of the Companies (meaning the amounts of export made by the Company and its domestic subsidiaries plus the sales of overseas consolidated subsidiaries) ended October 31, 2003 and 2002 are presented below:

	Thousands of yen			
	2003			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,313,797	¥1,474,175	¥175,287	¥2,963,260
Net sales				22,354,069
Percentage of such sales against consolidated net sales	5.9%	6.6%	0.8%	13.3%

	Thousands of U.S. dollars			
	2003			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	$12,075	$13,549	$1,611	$27,235
Net sales				205,460

	Thousands of yen			
	2002			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,546,074	¥1,345,581	¥209,502	¥3,101,158
Net sales				21,100,238
Percentage of such sales against consolidated net sales	7.3%	6.4%	1.0%	14.7%

11. Derivative Financial Instruments

The Company have entered into forward exchange contracts with banks as hedges against receivables denominated in foreign currencies and into commodity swap with banks as hedges against purchase price of fuel. These derivative financial transactions are utilized solely for hedging purposes under the internal control rules and the supervision by the Board of Directors.
All derivative transactions outstanding were accounted for under hedge accounting in accordance with the accounting standard for financial instruments at October 31, 2003 and 2002. The effectiveness of a hedge is evaluated by confirming the relationship between the hedge contract and the transaction hedged by that contract.

12. Amounts Per Share Common Stock

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years.

Board of Directors and Statutory Auditors

NIKKO COMPANY
(As of January 29th, 2004)

President & Representative Director (CEO)
Akitoshi Sakai

Senior Managing Director
Akira Kamide

Directors

Yoshio Ikeno	(Electro-Ceramics Division, General Mnager)
Takeshi Kaneda	(Housing & Environmental Equipment Division, General Manager)
Katsuhiro Taka	(Tabletop Division, General Manager)
Yoshiaki Iwasaki	(Tabletop Division, Factory Manager)
Hisakazu Fujimoto	(Electro-Ceramics Division, Chief Operation Officer of Ceramic Buisiness Unit)
Hoshimitsu Takamori	(Electro-Ceramics Division, General Manager of Sales Department)
Kazuto Futamata	(Housing & Environmental Equipment Division, General Manager of Sales Department)
Shigekazu Kaneda	(Strategy Planning Division, General Manager)
Masatoshi Mitani	
Mitsuru Mitani	
Makoto Yoshida	

Standing Statutory Auditor
Hidemi Shimizu
Nanatoshi Okuda

Statutory Auditors
Shigeru Sawa
Takao Anzai

Corporate Data

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383 Ainoki-Machi, Matto-City,
Ishikawa-Prefecture 924-8686 Japan
Tel : 076-276-2121
Facsimile : 076-276-3309

Date of Establishment
5/1/1908

Show Room
Tokyo, Ohmiya, Matto, Tsukuba, New York

Factories
Matto Factory, Tsurugi Factory, Saitama Factory

Subsidiaries and Affiliates
Nikko Ceramics, Inc. (U.S.A.)
Nikko Hanbai Co., Ltd. (Japan)
N&I ASIA PTE LTD. (Singapore)
Nikko (ASIA) Co., LTD. (Thailand)
Oriental Ceramics, Sdn. Bhd. (Malaysia)
Nikko Service Co., Ltd. (Japan)

Japanese Stock Exchange
Nagoya Stock Exchange

Transfer Agent and Registrar
The Sumitomo Trust & Banking Co., Ltd.
5-33 Kitahama 4-chome, Chuo-ku, Osaka 541-0041
Japan

Annual General Meeting
The annual general meeting of shareholders
is held in January each year in Ishikawa-Prefecture

Auditors
AZSA & CO.

URL
http://www.nikko-company.co.jp/