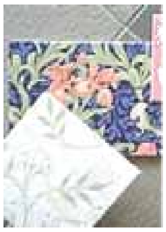
ANNUAL REPORT







2005

NIKKO

since 1908

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.

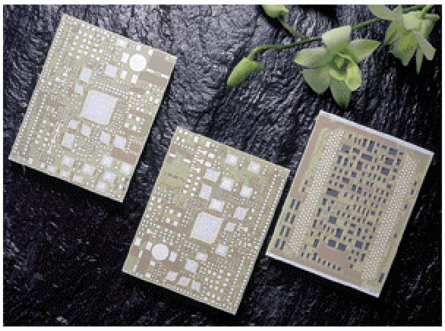
As a pioneer in the manufacture of semi-porcelain dinnerware, the company started in 1917 operations in Pusan, Korea to further upscale its production. Experiencing the ordeal of World War II, the company's technology, fostered by its long course of history, came into bloom in the early sixties. In 1961, 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.

【Wind turbine system】

NIKKO has performed establishment in installation, as its new business footing, of over 1,000 units through out the nation in a surge of global interest in the preservation of the earth environment.

NIKKO in consistency develops, produces and sells all of the necessary parts such as blade controllers and dynamos for the NIKKO wind turbine systems.

Applied to the manufacture of blades is the F.R.P. production technology of Housing & Environmental Equipment division at the Saitama factory, and to the manufacture of controllers and dynamos is the advanced technology of Electro-Ceramics division.
In addition to the range from a compact type of 200W model to a grid interconnected system type of 4KW model with saleable electricity, NIKKO has newly developed to launch a 10KW model into the market.

NIKKO is expected to achieve further growth in contribution to the global protection of environment in the future.

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.

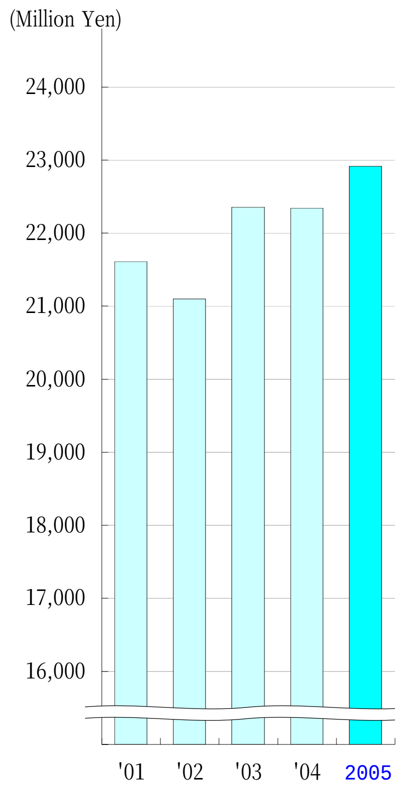
In the marketing aspect, a wide network system of sales is spread throughout the nation together with some showrooms as well. Close services and market exploration are efficiently performed to lead new developments.

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

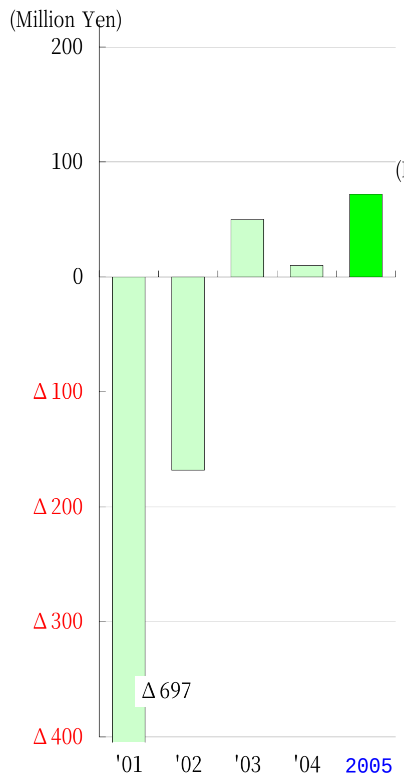
Financial Highlights

NIKKO COMPANY
Consolidated Data

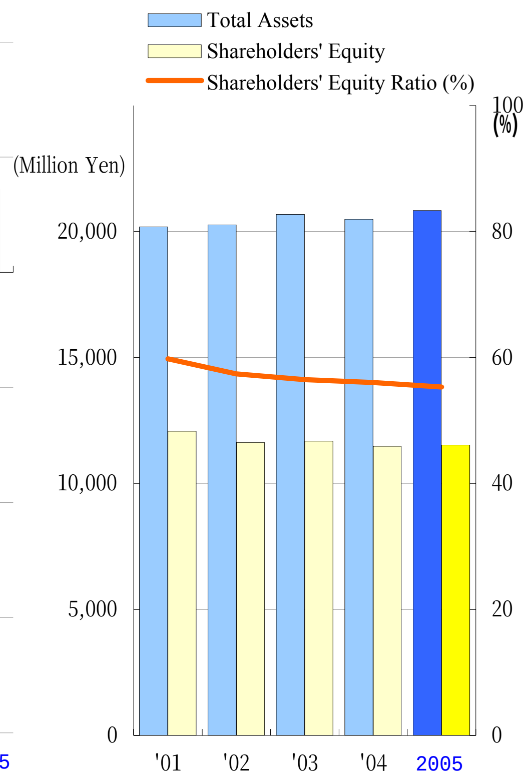
Net Sales



Net Income



Total Assets & Shareholders' Equity



Consolidated Data	Millions of yen (except per share amounts and %) 2001	2002	2003	2004	2005	Thousands of U. S. dollar (except per share amounts) 2005
Net Sales	21,611	21,100	22,354	22,344	22,918	198,003
Net Income	(697)	(168)	50	1	72	629
Total Assets	20,186	20,265	20,677	20,490	20,833	179,989
Shareholders' Equity	12,078	11,632	11,676	11,473	11,527	99,588
Shareholders' Equity Ratio (%)	59.8	57.4	56.5	56.0	55.3	
Return on Shareholders' Equity (%)	(5.5)	(1.4)	0.4	0.0	0.6	
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	(40.86)	(9.93)	3.01	0.08	4.35	0.038
Shareholders' Equity	707.58	701.96	684.77	680.94	682.83	5.899
Cash Dividends	4.00	8.00	8.00	6.00	6.00	0.052

Note: ¥115.75 = U.S.$1.00; See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2005 and 2004

ASSETS	Thousands of yen 2005	Thousands of yen 2004	Thousands of U. S. dollar 2005
Current Assets:			
Cash and time deposits	¥4,516,995	¥3,378,282	$39,023
Marketing securities	2,000	4,000	17
Notes and accounts receivable:			
Trade	4,468,078	4,965,794	38,601
Subsidiaries and affiliates	92,326	92,037	797
Allowance for doubtful accounts	(42,659)	(53,433)	(368)
Inventories	4,867,313	5,408,479	42,050
Deferred tax assets	819,993	408,155	7,084
Prepaid expenses and other current assets	164,496	271,721	1,421
Total current assets	14,888,544	14,475,035	128,626
Investments and Other Assets:			
Investment securities	893,189	857,579	7,716
Investment in and advances to subsidiaries and affiliates	199,642	199,642	1,724
Deferred tax assets	221,218	249,382	1,911
Other	439,937	323,725	3,800
Allowance for doubtful accounts	(34,944)	(35,231)	(301)
Total investments and other assets	1,719,042	1,595,099	14,851
Property, plant and equipment, at cost:			
Land	1,048,339	1,052,526	9,056
Buildings	5,799,749	5,769,740	50,105
Machinery and equipment	7,995,388	7,970,317	69,074
Construction in progress	22,306	23,953	192
Accumulated depreciation	(10,664,222)	(10,428,952)	(92,131)
Net property, plant and equipment	4,201,561	4,387,585	36,298
Intangible Assets and other	24,685	32,813	213
Total Assets	¥20,833,834	¥20,490,533	$179,989

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2005 and 2004

LIABILITIES AND SHAREHOLDERS' EQUITY	Thousands of yen 2005	Thousands of yen 2004	Thousands of U. S. dollar 2005
Current liabilities:			
Notes and accounts payable:			
Trade	¥3,856,882	¥4,323,476	$33,320
Subsidiaries and affiliates	584,714	480,118	5,051
Other	51,984	39,668	449
Short-term borrowings	2,280,000	2,060,000	19,697
Construction notes payable	21,096	138,111	182
Accrued expenses	651,503	646,129	5,628
Accrued income taxes	428,311	18,363	3,700
Other	682,565	627,433	5,896
Total current liabilities	8,557,057	8,333,300	73,923
Long-term liabilities:			
Accrued directors' and statutory auditors' retirement benefits	55,649	51,850	480
Allowance for operating loss of subsidiaries	27,000	52,000	233
Liabilities for retirement benefits	589,844	399,908	5,095
Other	76,883	179,632	664
Total long-term liabilities	749,377	683,391	6,474
Minority Interests	—	—	—
Shareholders' Equity:			
Common stock, ¥ 50 par value per share Authorized-60,000,000 shares; Issued-17,072,000 shares in 2005 and 17,072,000 shares in 2004	2,800,000	2,800,000	24,190
Additional paid-in capital (Capital reserve)	3,240,208	3,240,208	27,990
Retained earnings	5,684,125	5,712,106	49,106
Unrealized profit (Loss) on securities	119,260	(56,368)	1,030
Adjustment on foreign currency statement translation	(156,863)	(137,475)	(1,355)
Treasury stocks 401,140 shares in 2005 and 221,953 shares in 2004	(159,331)	(84,630)	(1,376)
Total shareholders' equity	11,527,399	11,473,841	99,588
Total Liabilities, Minority Interests and Shareholders' Equity	¥20,833,834	¥20,490,533	$179,989

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Income

NIKKO COMPANY

Years ended October 31, 2005 and 2004

	Thousands of yen		Thousands of U. S. dollar
	2005	2004	2005
Net Sales	¥22,918,918	¥22,344,580	$198,003
Cost of Sales	17,268,541	17,000,627	149,188
Gross profit	5,650,377	5,343,952	48,815
Selling, General and Administrative Expenses	5,434,780	5,265,703	46,952
Operating income	215,597	78,249	1,862
Other (Income) Expenses:			
Interest expenses	21,024	32,333	181
Interest and dividend income	(1,627)	(5,434)	(14)
(Gain) on sale or loss on disposal of property, net	19,772	32,492	170
Other, net	191,760	15,619	1,656
Income before taxes	(15,332)	3,238	(132)
Income and enterprise tax	414,037	40,547	3,576
Income taxes adjustment (by tax effect accounting)	(502,180)	(38,624)	(4,338)
Income taxes	(88,142)	1,923	(761)
Net income	¥72,810	¥1,315	$629

	Yen	Yen	U. S. dollar
	2005	2004	2005
Amounts Per Share of Common Stock:			
Net Income	¥4.35	¥0.08	$0.038
Cash dividends	6.00	6.00	0.052

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

NIKKO COMPANY

Years ended October 31, 2005 and 2004

	Number of shares of common stock (thousands)	Thousands of yen		
		Common stock	Capital surplus	Retained earnings
Balance, October 31, 2004	17,072	¥2,800,000	¥3,240,208	¥5,712,106
Net income for the year	—	—	—	72,810
Cash dividends	—	—	—	(100,792)
Balance, October 31, 2005	17,072	¥2,800,000	¥3,240,208	¥5,684,125

	Thousands of U. S. dollars		
	Common stock	Capital surplus	Retained earnings
Balance, October 31, 2004	$26,370	$30,516	$53,796
Net income for the year	—	—	629
Cash dividends	—	—	(870)
Balance, October 31, 2005	$24,190	$27,990	$49,106

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

NIKKO COMPANY
Years ended October 31, 2005 and 2004

	Thousands of yen		Thousands of U. S. dollar
	2005	2004	2005
Cash Flows from Operating Activities:			
Income (Loss) before income taxes	¥(15,332)	¥3,238	$(132)
Depreciation	492,055	476,665	4,251
Allowance for doubtful receivables	(11,060)	6,223	(95)
Allowance for bonus	1,500	—	12
Allowance for investment for subsidiaries	50,000	—	431
Allowance for operating loss of subsidiaries	(25,000)	—	(215)
Liability for employee's retirement benefits	189,936	171,142	1,640
Interest and dividend income	(1,627)	(5,434)	(14)
Loss on disposal of property	22,499	32,492	194
Loss (Gain) on sales of investments in securities	(81,380)	9	(703)
Loss (Gain) on devaluation of investments in securities	100,343	—	866
Loss (Gain) on devaluation of golf club membership	1,240	—	10
Loss (Gain) on sales of other memberships	2,500	2,510	21
Loss (Gain) from valuation of derivative instruments	(254,642)	—	(2,199)
Interest expenses	21,024	32,333	181
(Increase) Decrease in notes and accounts receivables	505,750	(200)	4,369
(Increase) Decrease in receivables	181,226	74,393	1,565
(Increase) Decrease in inventories	541,165	(272,605)	4,675
(Increase) Decrease in payables	(361,998)	455,586	(3,127)
	1,358,199	976,355	11,733
Receipt of interest and dividend income	1,627	5,434	14
Payment of interest expenses	(21,024)	(32,333)	(181)
Payment of income taxes	(39,534)	(68,338)	(341)
Cash Flows from Operating Activities	¥1,299,268	¥881,118	$11,224
Cash Flows from Investing Activities:			
Acquisition of investments in securities	(3,859)	(13,217)	(33)
Proceeds from sales of investments in securities	241,420	67	2,085
Acquisition of investments in affiliates	(527)	(583)	(4)
Acquisition of property, plant and equipment	(415,125)	(333,317)	(3,586)
Other	(207,629)	26,678	(1,793)
Cash Flows from Investing Activities	¥(385,721)	¥(320,372)	$(3,332)
Cash Flows from Financing Activities:			
Borrowing short-term bank loans-net	220,000	(864,553)	1,900
Acquisition of treasury stocks	(74,701)	(72,568)	(645)
Payments of cash dividends	(100,753)	(136,140)	(870)
Cash Flows from Operating Activities	¥44,544	¥(1,073,261)	$384
Exchange difference of cash and cash equivalents	(19,387)	(16,530)	(167)
Net increase (decrease) in cash	938,704	(529,047)	8,109
Cash at beginning of period	3,313,043	3,842,090	28,622
Cash at end of period	¥4,251,747	¥3,313,043	$36,732

See Notes to the Consolidated Financial Statements.

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 ¥115.75=U.S.$1 the approximate rate of exchange at October 31, 2005, 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, 2005 and 2004. 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, 2005	
	Equity ownership percentage, including indirect ownership	Capital stock (thousands)
Nikko Ceramics, Inc.	100.00 %	$4,000
Nikko Hanbai Co., Ltd.	94.85 %	¥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, 2005, the Company had 5 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.
As at October 31, 2005, hedge accounting is discontinued because it is determined that the certain transactions classified as hedging transactions such as commodity swap no longer qualifies as hedge accounting.
As at October 31, 2004, that 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 ¥202,083 thousand ($1,745 thousand) and ¥199,791 thousand ($1,881 thousand) for the years ended October 31, 2005 and 2004, 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 1.61% at October 31, 2005.and 1.59% at October 31, 2004.

	Thousands of yen		Thousands of U.S. dollars
	2005	2004	2005
Short-term bank loans	¥2,280,000	¥2,060,000	$19,697

4. Pledged Assets

The carrying amounts of assets pledged as fixed collateral at October 31, 2005 and 2004, the Company had no liabilities.

	Thousands of yen		Thousands of U.S. dollars
	2005	2004	2005
Property, plant and equipment – net of accumulated depreciation	¥229,967	¥239,704	$1,986

5. Contingent Liabilities

As at October 31, 2005, 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 ¥110,363thousand ($953thousand) and ¥10,328thousand ($89thousand), ¥57,500thousand ($496thousand), respectively. As at October 31, 2004, they amounted to ¥130,000thousand ($1,224thousand) and ¥11,433thousand ($107thousand), ¥25,552thousand ($240thousand), 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, 2005 and 2004 for the Company's and the consolidated subsidiaries' defined benefit plans

(2) Components of accrued pension and severance costs as of October 31, 2005 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollar
	2005	2004	2005
Retirement benefit obligation at end of year	¥(3,213,007)	¥(3,294,596)	$(27,758)
Plan assets	1,648,094	1,411,461	14,238
Unfunded retirement benefit obligation	(1,564,912)	(1,883,135)	(13,519)
Unrecognized net retirement benefit obligation at transition	683,949	752,344	5,908
Unrecognized actuarial loss	291,118	730,883	2,515
Unrecognized prior service cost	—	—	—
Net amount recognized on the balance sheet	(589,844)	(399,908)	(5,095)
Prepaid pension expenses	—	—	—
Accrued retirement benefits	(589,844)	(399,908)	(5,095)

A consolidated subsidiary use the simplified method.

(3) Components of retirement benefit expenses for the year ended October 31, 2005 and 2004 are as follows

	Thousands of yen		Thousands of U.S. dollar
	2005	2004	2005
Service cost	¥186,529	¥178,008	$1,611
Interest cost	63,142	70,585	545
Expected return on plan assets	(27,069)	(26,273)	(233)
Amortization of transition obligation	64,169	64,169	554
Amortization of actual loss	62,755	44,654	542
Amortization of prior service cost	13,651	14,886	117
Retirement benefit expenses	363,178	346,030	3,137

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, 2005 and 2004 are as follows:

	2005	2004
Method of attributing the project benefits to periods of service	Straight-line method	
Discount rate	2.0 %	2.0 %
Expected return on plan assets	2.0 %	2.0 %
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
	2005	2004	2005
Deferred tax assets:			
Allowance for bonuses not deductible until paid	¥168,670	¥168,775	$1,457
Allowance for doubtful accounts	37,603	35,976	324
Loss on valuation of inventories	326,968	339,371	2,824
Loss on disposal of inventories	186,264	—	1,609
Accrued directors' and statutory auditors' retirement benefits	22,482	20,947	194
Liabilities for retirement benefits	238,297	161,562	2,058
Loss on valuation of investments in memberships	21,024	19,513	181
Allowance for operating loss of subsidiaries	10,908	21,008	94
Unrealized loss on securities	42,420	38,258	366
Unrealized intercompany profit of inventory	225,055	8,070	1,944
Tax loss carried forward	523,147	507,438	4,519
Other	87,692	51,929	757
Subtotal	1,890,535	1,372,851	16,332
Allowance for valuation	(761,273)	(707,076)	(6,576)
Net deferred tax assets	¥1,129,261	¥665,775	$9,756
Deferred tax liabilities:			
Unrealized profit on securities	(80,175)	—	(692)
Deferred gains on sales of property	(7,873)	(8,237)	(68)
Net deferred tax liabilities	¥(88,048)	¥(8,237)	$(760)

The reconciliation of the statutory tax rate to the income tax rate reflected in the Consolidated Statements of Income for the year ended October 31, 2005 is not shown since the operating result for the year was a loss before provision for income taxes.

The reconciliation for the year ended October 31, 2004 is as follows:

	2004
Reconciliation of actual tax rate is shown below:	
Effective statutory tax rate	40.4%
Adjustments:	
Entertainment expenses and other not deductible	843.7%
Dividends income and other not taxable	(51.2)%
Taxation on per capita basis	1,070.2%
Valuation allowance change	—
Loss of subsidiaries	4,069.0%
Unrealized intercompany profit of inventory	—
Tax recognition on intercompany profit of inventory	1,374.3%
Unrecognized deferred income taxes at subsidiaries	—
Elimination of loss on devaluation of investment securities	(7,938.7)%
Changes in tax rate	—
Other factor	651.7%
Actual tax rate	59.4%

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, 2005 and 2004, was as follows.

	Thousands of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition cost			
Machinery and equipment	¥564,205	¥559,073	$4,874
Other assets	230,669	630,342	1,992
	¥794,874	¥1,189,415	$6,867
Accumulated depreciation			
Machinery and equipment	¥352,038	¥310,951	$3,041
Other assets	141,170	446,133	1,219
	¥493,208	¥757,085	$4,260
Net book value			
Machinery and equipment	¥212,166	¥248,121	$1,832
Other assets	89,499	184,208	773
	¥301,666	¥432,330	$2,756

Obligations under finance leases as of October 31,2005 and 2004, are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥132,391	¥188,652	$1,143
Due after one year	186,700	267,781	1,612
	¥319,092	¥456,434	$2,756

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 2005 and 2004, were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2005	2004	2005
Lease expenses for the year	¥213,639	¥245,860	$1,845
Depreciation expense	192,438	222,653	1,662
Interest expense	15,932	21,370	137

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, 2005 and 2004 were as follows.

Available-for-sale securities

Securities with book values exceeding

Thousands of yen		
2005		
Acquisition cost	Book value	Difference
¥515,434	¥716,535	¥201,100

Thousands of U.S. dollars		
2005		
Acquisition cost	Book value	Difference
$4,453	$6,190	$1,737

Other securities

Thousands of yen		
2005		
Acquisition cost	Book value	Difference
¥65,285	¥63,620	¥(1,665)

Thousands of U.S. dollars		
2005		
Acquisition cost	Book value	Difference
$564	$549	$(14)

Available-for-sale securities

Securities with book values exceeding

Thousands of yen		
2004		
Acquisition cost	Book value	Difference
¥19,454	¥20,175	¥721

Other securities

Thousands of yen		
2004		
Acquisition cost	Book value	Difference
¥817,755	¥722,335	¥(95,419)

The sales amounts of available-for-sale securities sold, gains and losses, in the years ended October 31, 2005 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2005	2004	2005
Sales amount	¥245,420	¥67	$2,120
Gains	81,632	—	705
Losses	252	9	2

Available-for-sale securities whose fair value is not readily available as of October 31, 2005 and 2004 comprise following:

	Thousands of yen		Thousands of U.S. dollars
	2005	2004	2005
Unlisted stocks	¥113,033	¥113,068	$976
Others	2,000	6,000	17
Total	115,033	119,068	993

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, 2005 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2005	2004	2005
Within one year	¥2,000	¥4,000	$17
Over 1 year but within 5 years	—	2,000	—
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:

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

The segment information of the Companies ended October 31, 2005 and 2004 are presented below:

	Thousands of yen					
	2005					
	Housing & Environmental Equipment	Electro-Ceramics	Tabletop	Total	Eliminations/ Corporate	Consolidated
Sales:						
Sales to customers	¥11,610,333	¥5,090,372	¥6,218,213	¥22,918,918	—	¥22,918,918
Intersegment sales	—	—	—	—	—	—
Total sales	11,610,333	5,090,372	6,218,213	22,918,918	—	22,918,918
Operating expenses	10,726,879	5,146,180	6,250,696	22,123,756	579,565	22,703,321
Operating income (loss)	883,453	(55,808)	(32,482)	795,162	(579,565)	215,597
Total assets:	¥4,781,314	¥3,822,524	¥5,662,144	¥14,265,984	¥6,567,850	¥20,833,834
Depreciation:	104,909	256,735	94,973	456,618	6,171	462,790
Capital expenditure:	45,642	175,459	70,437	291,540	13,946	305,486

	Thousands of U.S. dollars					
	2005					
	Housing & Environmental Equipment	Electro-Ceramics	Tabletop	Total	Eliminations/ Corporate	Consolidated
Sales:						
Sales to customers	$100,305	$43,977	$53,721	$198,003	—	$198,003
Intersegment sales	—	—	—	—	—	—
Total sales	100,305	43,977	53,721	198,003	—	198,003
Operating expenses	92,672	44,459	54,001	191,133	5,007	196,141
Operating income (loss)	7,632	(482)	(280)	6,869	(5,007)	1,862
Total assets:	$41,307	$33,023	$48,917	$123,248	$56,741	$179,989
Depreciation:	906	2,218	820	3,944	53	3,998
Capital expenditure:	394	1,515	608	2,518	120	2,639

	Thousands of yen					
	2004					
	Housing & Environmental Equipment	Electro-Ceramics	Tabletop	Total	Eliminations/ Corporate	Consolidated
Sales:						
Sales to customers	¥11,314,828	¥5,274,152	¥5,755,600	¥22,344,580	—	¥22,344,580
Intersegment sales	—	—	—	—	—	—
Total sales	11,314,828	5,274,152	5,755,600	22,344,580	—	22,344,580
Operating expenses	10,558,569	5,157,548	5,969,096	21,685,215	581,116	22,266,331
Operating income (loss)	756,258	116,603	(213,496)	659,365	(581,116)	78,249
Total assets:	¥5,008,026	¥4,332,069	¥5,958,043	¥15,298,140	¥5,192,393	¥20,490,533
Depreciation:	118,330	252,219	94,520	465,070	5,970	471,040
Capital expenditure:	56,407	227,372	86,977	370,757	5,926	376,683

(2) Information by Geographic Segment

As more than 90% of the consolidated net sales for the two years in the period ended October 31, 2005 and 2004 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, 2005 and 2004 are presented below:

	Thousands of yen			
	2005			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,480,989	¥1,038,909	¥156,353	¥2,676,251
Net sales				22,918,918
Percentage of such sales against consolidated net sales	6.5%	4.5%	0.7%	11.7%

	Thousands of U.S. dollars			
	2005			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	$12,794	$8,975	$1,350	$23,120
Net sales				198,003

	Thousands of yen			
	2004			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,249,769	¥1,323,253	¥136,469	¥2,709,492
Net sales				22,344,580
Percentage of such sales against consolidated net sales	5.9%	5.9%	0.6%	12.1%

11. Derivative Financial Instruments

The Company has entered into forward exchange contracts and currency swaps 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.
The following tables summarize market value information as of October 31, 2005 and 2004, of derivatives for which hedge accounting has not been applied.

Currency Related

	Thousands of yen			
	2005			
	Contract amount	Due after one year	Fair value	Unrealized Gain/(loss)
Foreign Exchange Forward Contracts: Selling U.S. dollar	194,934	—	206,145	(11,210)
Currency Swaps: U.S. dollar payment /Yen receipt	980,300	—	(4,524)	(4,524)

	Thousands of U.S. dollars			
	2005			
	Contract amount	Due after one year	Fair value	Unrealized Gain/(loss)
Foreign Exchange Forward Contracts: Selling U.S. dollar	1,684	—	1,780	(96)
Currency Swaps: U.S. dollar payment /Yen receipt	8,469	—	(39)	(39)

	Thousands of yen			
	2004			
	Contract amount	Due after one year	Fair value	Unrealized Gain/loss
Currency Swaps: U.S. dollar payment /Yen receipt	971,300	—	14,662	14,662

Commodity Related

	Thousands of yen			
	2005			
	Contract amount	Due after one year	Fair value	Unrealized Gain/(loss)
Oil Swap Contracts Receive floating/ Pay Fixed	351,490	249,697	285,040	285,040

	Thousands of U.S. dollars			
	2005			
	Contract amount	Due after one year	Fair value	Unrealized Gain/(loss)
Oil Swap Contracts Receive floating/ Pay Fixed	3,036	2,157	2,462	2,462

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 27th, 2006)

Chairman
Akitoshi Sakai

President & Representative Director (CEO)
Makoto Yoshida

Executive Managing Director

Takeshi Kaneda	(Housing & Environmental Equipment Division, General Manager)
Katsuhiro Taka	(Tabletop Division, General Manager)

Directors

Yoshiaki Iwasaki	(Tabletop Division, Head-Factory Manager)
Hisakazu Fujimoto	(Electro-Ceramics Division, General Manager)
Hoshimitsu Takamori	(Electro-Ceramics Division, Dupty General Manager)
Kazuto Futamata	(Housing & Environmental Equipment Division, Dupty General Manager, In charge of the sales activities of the entire company)
Shigekazu Kaneda	(Strategy Planning Division, General Manager)
Kazunori Tsuzuki	(Housing & Environmental Equipment Division, General Manager of Housing Equipment Division, Tsurugi-Factory Manager)
Toshio Shima	(Housing & Environmental Equipment Division, Technology&Development Manager, Environment Measurement Division Manager)
Nobuyasu Oda	(Housing & Environmental Equipment Division, Saitama-Factory Manager)
Kenji Kita	(Tabletop Division, Sales Division Manager)
Masatoshi Mitani	
Mitsuru Mitani	

Standing Statutory Auditor
Hidemi Shimizu
Nanatoshi Okuda

Statutory Auditors
Shigeru Sawa
Takao Anzai

Corporate Data

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

Date of Establishment
May 1st, 1908

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

Factories
Head 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/