



Annual Report 2005
Year Ended March 31, 2005

*Ever
Onward*



Ten  *Years*
WHOLEGARMENT® A DECADE OF INNOVATION



Financial Highlights

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005, 2004 and 2003

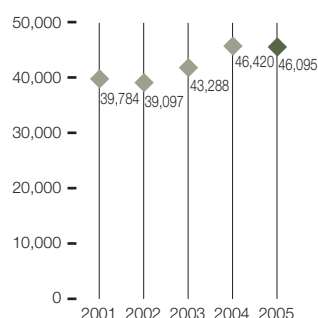
	Millions of yen			Thousands of U.S. dollars	Thousands of euros
	2005	2004	2003	2005	2005
For the Year:					
Net sales	¥46,095	¥46,420	¥43,288	\$429,230	€331,953
Operating income	9,258	10,972	8,847	86,209	66,671
Income before income taxes and minority interests	9,518	9,520	8,801	88,630	68,544
Net income	5,930	5,624	4,878	55,219	42,705
At Year-End:					
Total assets	¥107,234	¥102,853	¥96,220	\$998,547	€772,245
Shareholders' equity	92,115	87,903	84,419	857,761	663,366
Per Share Data:					
	Yen			U.S. dollars	Euros
Net income	¥159.97	¥150.64	¥129.61	\$1.49	€1.15
Cash dividends applicable to the year	37.50	37.50	35.00	0.35	0.27
Shareholders' equity	2,510.71	2,391.63	2,280.85	23.38	18.08

Notes: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥107.39=US\$1 and ¥138.86=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2005.

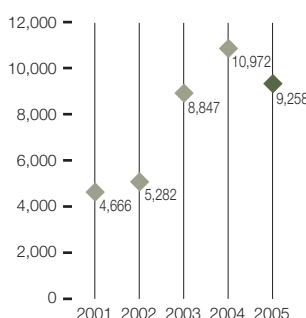
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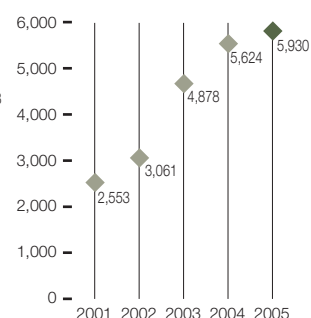
Net Sales
(¥ Million)



Operating income
(¥ Million)

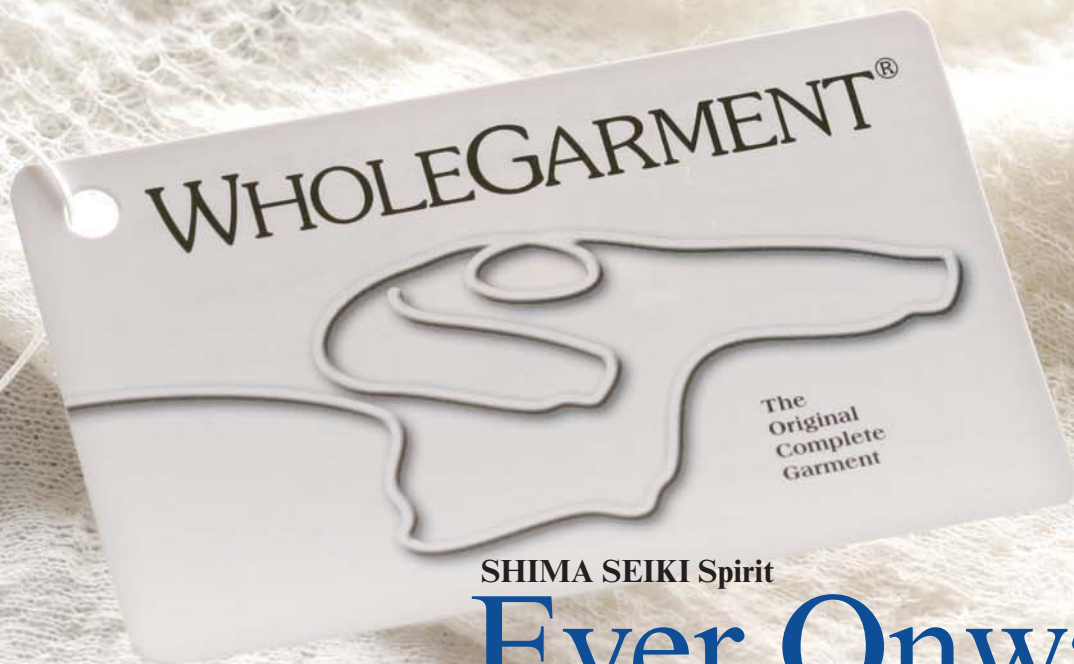


Net income
(¥ Million)



Forward-looking statements:

Statements contained in this report regarding the Company's plans, strategies, and expectations for future performance fall into the category of "forward-looking statements," which are based on information available to the Company's management at the time of writing. They are therefore subject to a number of uncertainties and unknowable factors, and actual results may thus differ substantially from those projected.



SHIMA SEIKI Spirit
Ever Onward

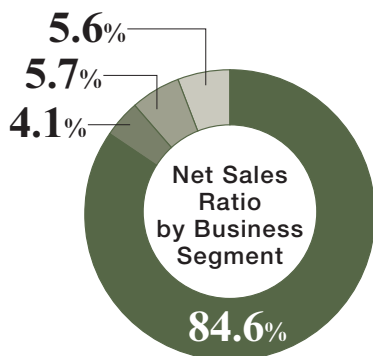
Based on our corporate motto, “Ever Onward,” Shima Seiki has been continually developing new technology from the customers’ point of view, and offering products with the finest functionality at competitive prices. Shima Seiki will continue to introduce future innovations as a comprehensive mechatronics company.

Corporate Profile

Shima Seiki was incorporated in Wakayama* city in 1962 by the current president Masahiro Shima when he was 24 years old, with a challenge to fully automate the glove knitting machine. The young Shima and his founding members were in high spirits developing revolutionary products. The first target was set to “develop the world’s first fully automated glove knitting machine,” which was achieved 3 years later in 1965. Using this achievement as a foothold, the team went on to develop the “fully automated collar knitting machine” in 1967. Numerous technical issues were overcome with a view to revolutionize “apparel knitting machines,” and the company was set on a growth track.

In 1978, Shima Seiki presented the “computerized flat knitting machine” ahead of its time, receiving high praise from the apparel industry worldwide. In 1995, the Company presented the “WHOLEGARMENT® (seamless knitwear) flat knitting machine,” completely overturning longstanding assumptions in the knitting industry. Shima Seiki is proud to have the world No. 1 market share position in computerized flat knitting machines. The Company always develops new technology from the customers’ point of view, and in recent years, it has been assisting its customers with a total solution from the design system at its core coupled with know-how and design. In 2005, a major fashion show will be held to celebrate the 10 year anniversary of the WHOLEGARMENT®, in Wakayama city where the Company’s headquarters is located.

*See page 38 for details.



Flatbed knitting machines

Conventional flat knitting machines and WHOLEGARMENT® flat knitting machines



Design system

The total design system SDS®-ONE that combines hardware and software in one

Glove/sock knitting machines

Other business

- Components & maintenance
- Elastic yarn
- Hotel operation

Revolutionary Knitting Technology, WHOLEGARMENT®

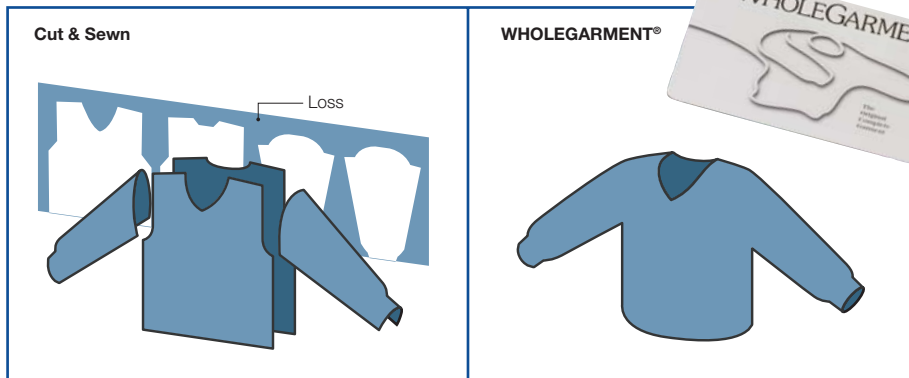
“WHOLEGARMENT® flat knitting machine” brings the knitting industry’s dream to reality Revolutionary “seamless knitwear”

The WHOLEGARMENT® flat knitting machine, developed by Shima Seiki, has overturned the previous assumption that “knitwear is to be made from separately knitted parts being sewn together.” The

three-dimensional stereoscopic knitting, made possible by the world’s first SlideNeedle®, enables “knitwear without any seams (i.e. seamless knitwear).” WHOLEGARMENT® gives a natural fit

and lightweight feel to knitwear products, which had not been possible previously, and it also enhances elasticity and durability. Because it is seamless, the designer’s image is recreated perfectly in the finished product, creating beautiful silhouettes and naturally flowing drapes. In other words, the WHOLEGARMENT® enables the production of knitwear with more advanced designs. From the producer’s point of view, the WHOLEGARMENT® significantly reduces the cost and shortens the lead-time, by eliminating the cutting and sewing process, thus saving labor and time, as well as the material loss from the cutting process. WHOLEGARMENT® has brought a revolution to the knitting industry and expanded the horizon of knitwear. Shima Seiki continues to offer and expand the WHOLEGARMENT® as its central product in the flat knitting machine business.

Difference between WHOLEGARMENT® and cut & sewn



A knitted garment is typically made from separate parts, such as body panels and sleeves, which are knitted separately. These are then cut along the pattern, and finally sewn together in a detailed sewing process. In sharp contrast, “WHOLEGARMENT® (seamless knitwear)” has made it possible to knit a whole garment in one piece stereoscopically on the knitting machine using three-dimensional knitting.

Assisting the production in the consuming regions Creating a new “knowledge-intensive industry”

Currently, the knitting industry in developed countries is overwhelmed by imports from countries where production cost is low. Japan is one such example, where the knitwear import rate exceeds 90%. However, with WHOLEGARMENT®, which does not require labor-intensive cutting and sewing processes, knitwear can be produced in developed countries, i.e. in the consuming regions. Or rather, the advantage of

WHOLEGARMENT® flat knitting machines can only be fully realized by production in the consuming regions. If “popular lines” can be produced near the end-users, closely reflecting the changes in market trends, then the risks of excess inventory, out-of-stock, and dead stocks can be dealt with accordingly. In addition, the WHOLEGARMENT® flat knitting machines truthfully reproduce the designer’s images, so high-value

added products can be made available for the market. This is why WHOLEGARMENT® can be an effective means to revive the knitting industry in the developed countries, namely, the consuming regions. It also promotes the creation of a new “knowledge-intensive industry” rather than “labor-intensive” ones.

The 10-year history of WHOLEGARMENT® and the present

In 1995, an announcement was made at the ITMA International Textile Machinery Exhibition in Milan, which overturned the previous concepts of knitting industry.

WHOLEGARMENT®, the new technology developed by Shima Seiki, finally achieved “seam-less knitwear.”

It was a historical event which heralded the advent of a new era in the knitting industry. 10 years have passed since then, and WHOLEGARMENT® continues to evolve to be the total system which turns the designer’s inspiration into knitwear and brings numerous advantages to the consumers.



1995 Shima Seiki presents the SWG series, the world’s first fully-seamless computerized flat knitting machine, at the 12th ITMA Exhibition in Milan, shocking the knitting industry.



What professionals say about WHOLEGARMENT®

Q1 Reasons for WHOLEGARMENT® **Q2** What the end-user is thought **Q3** Shima Seiki, WHOLEGARMENT® and the future



BENETTON GROUP

ALDO PESSATO
Production Director Castrette Branch



CRUCIANI

SAURO GERNINI
Production Director

A1 At first we introduced WHOLEGARMENT® technology, because, for such a large market as ours, we needed to keep pace with increasing demand and, at the same time, to be able to give innovative products to maintain this market (mostly consists of young people).

This is, definitely, one of the advantages of WG, but there are the others we discovered with its use.

First of all, consistent reduction of labor cost because no stitching is needed, and then, three dimensional structures reached without any help of sewing. These garments are much easier and more comfortable to wear.

A2 To tell the truth, short time passed before the consumers could be able to recognize WHOLEGARMENT®. Once a consumer tries the lightness and wearability of these items he or she becomes a repeater. They now ask for this technology and are able to recognize it.

A3 We wish it would develop more and more, as it is in Shima Seiki's attitude. And our hope is to be constantly informed by our interface with Shima Seiki as it happens at present.

A1 We were looking for something new, a new technology enabling us to produce garments which could meet our customers necessities of perfect look and smoothness. We accepted the suggestion of Shima Seiki, being our long-established supplier knowing our needs.

So we discovered this new technology, and many advantages it allows. First of all the wearability, but also the opportunity of quick response towards the market, not to say a big opportunity to save money of yarn and stitching.

A2 We provide up-to-date product to consumer. Our customers soon appreciated the advantages of WHOLEGARMENT®, for its fitting and comfort offered by absence of sewed margins (which traditional knitting does not offer). So they can now recognize it and ask for it.

A3 In my opinion the most important thing to completely exploit this technology is its know-how. We hope we could go on having it through Milan Design Center with all of its services.

Highly praised by the fashion industries around the world

Expectation of the "future of knitwear"

Shima Seiki has been providing information to the world by participating at major exhibitions in various countries and establishing a design center in Milan in 2001. As a result, the superior appeal and strong potentials of the WHOLEGARMENT® are now widely recognized, and major apparel companies

both in Japan and abroad are in the process of fully adopting it.

The fact that more than half the sales of Shima Seiki's WHOLEGARMENT® flat knitting machines goes to Italy, the center of the world's fashion, confirms its high appreciation. The expectation is ever growing from two aspects, the appeal that

brings in new value to fashion, and high productivity. Shima Seiki will continue to respond to the expectations of the fashion industry, and to produce revolutionary proposals based on its unique technological ability and flexible imagination.



1997 Shima Seiki develops the SWG-FIRST® series, the computerized flat knitting machine with newly developed SlideNeedle® on board, receiving high praise as the flat knitting machine for the 21st century.



1999 Shima Seiki exhibits the full line-up of the time at the 13th ITMA Exhibition in Paris, receiving high acclaim internationally.



2000 Shima Seiki releases SDS®-ONE, a new all-in-one design system, which broadens the scope of expression of WHOLEGARMENT®.

Communicating the WHOLEGARMENT®'s appeal to arouse potential needs

“Total Design Center” communicates design information and know-how.

The “Total Design Center” in the headquarters is the base for sending out information to customers around the world to assist them in creating items of even higher-value with WHOLEGARMENT®. Exclusive

designers are planning and producing a staggering 60 items of WHOLEGARMENT® samples every week. Shima Seiki displays these samples at the show room in its headquarters, as well as distributing the design data to its

communication bases in Milan, Tokyo, and Osaka, for presentation to apparel companies around the world.

The “Total Design Center” also provides proprietary training courses for the design system SDS®-ONE and WHOLEGARMENT® flat knitting machines for designers of the customers, in order to assist them with the design and production which takes full advantage of WHOLEGARMENT®. In addition, the Company has started to supply design source to stimulate designers’ creativity with their own development of software. Shima Seiki will continue with such efforts in order to stimulate the market.



We conducted trainings for a total of 600 users in fiscal year 2005. More than 30% of them came from abroad.

Unlimited possibilities created by WHOLEGARMENT®

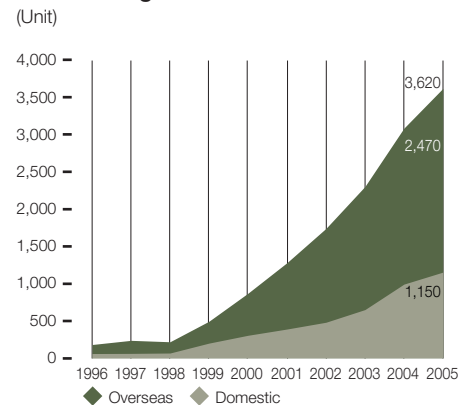
Creation of a new market, tapping into the vast potential market with its superior functions

As of March 31, 2005, Shima Seiki has shipped a total of 3,620 WHOLEGARMENT® flat knitting machines (1,150 machines in Japan and 2,470 abroad). The products created by these machines are estimated to account for less than 1% of all knitwear in distribution worldwide at the moment, but WHOLEGARMENT® has the potential to increase this ratio to 50%, depending on future development.

In addition, WHOLEGARMENT® technology is progressing day by day, which in turn creates unprecedented products and new markets. For example,

the WHOLEGARMENT® flat knitting machine, which can knit thin garments, has made it possible to produce spring and summer clothing and dresses which had been difficult markets to break into for knitwear. A new business is evolving as well, such as the “Fashion Factory Boutique (FFB),” where made-to-order knitwear is created for the customer there and then, fusing the production and sales. Shima Seiki will continue to re-structure the knitting industry focusing on the consuming regions, via its WHOLEGARMENT® which has full of potential.

Total Number of WHOLEGARMENT® flat knitting machines for Sale



2000 “Communication Space” showrooms in Tokyo and Osaka were opened, as the place to offer information and to be in contact with customers.



2001 A design center is established in Milan, Italy, as the fashion information communication base.



2002 Shima Seiki holds a WHOLEGARMENT® fashion show in Wakayama, Japan, with 700 guests including customers and fashion leaders in Japan and abroad, and receives high acclaim.

The All-In-One Knitting and Communication System that directly turns the designer's concepts into products

SDS®-ONE is the "All-In-One" apparel design tool that directly turns the designer's concepts and ideas into products with its superior operability to support efficient manufacturing of high-quality products. All information that is necessary for apparel production, from product planning, designing, sample production, manufacturing, through to product promotion, is integrated in one.

One of the greatest advantages of SDS®-ONE is the "virtual sample production." Production of samples, that is time-consuming by the conventional method, is carried out on the system. Product image is created on the system with a wide spectrum of functions, thus skipping the process of creating real samples. Moreover, repeated simulation is possible as many times as required, which achieves significant reduction in the lead time and efficient and accurate product deliberation.



Planning new knit products.



Machinery making knit products.

Flow of the virtual sample production by SDS®-ONE

Pattern making

Three-dimensional patterns are generated speedily.



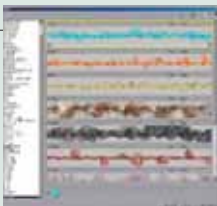
Knit Design Tool

The database that holds abundant structure patterns enables the simulation of varied knit patterns.



Yarn Design

With the functions such as "yarn twisting" and "existing yarn scanning," yarns are generated virtually that realistically express even the feel of the texture.



Loop simulation

Images that are almost indistinguishable to that of real knit are generated for instantaneous evaluation on the system, without actual sample-making. This contributes to a significant reduction in cost and time.



Apparel Design

Automated pattern generation enables speedy creation of patterns such as kaleidoscopic patterns without restrictions. Data can be fed into the on-demand printing system to be printed directly onto the knitwear.



KnitCAD

The abundant know-how and knitting techniques of the WHOLEGARMENT® enable the programming of stereoscopic silhouettes with ease. The data is directly converted for the knitting machines to produce the knitwear.



Completed product simulation

A pre-production sample of the final product is generated as a realistic image. Then, the WHOLEGARMENT® flat knitting machine produces knitwear exactly to this image without any delay.



2003

Shima Seiki develops i-DSCS (Digital Stitch Control System with Intelligence), enabling the supply control of even finer yarns.



2004

Shima Seiki presents SWG021, and 041, a compact WHOLEGARMENT® knitting machine for knitting small items and accessories.

and 2005

Shima Seiki holds a fashion show in July with 2,000 guests from various countries to celebrate 10 years of WHOLEGARMENT®.

This period (March 2005 period) saw some major changes, including the soaring demand for the flat knitting machine in Hong Kong and China against the backdrop of the removal of import quotas for knitwear products for Europe and the US. In this climate, the Shima Seiki group continued to develop its business based on a growth strategy from the previous period, with two objectives in mind, namely, “market penetration and sales expansion for the **WHOLEGARMENT®** flat knitting machine in the consuming regions (Japan, Europe, the US, etc.)” and “market share increase in the conventional models in the producing regions (China, Turkey, etc.)”



Masahiro Shima, President

To Our Shareholders and Friends

Business achievement of this period

sales decreased slightly, but the current net income reached a record-high

The market for knitwear flat knitting machines, the Company's flagship products, can be roughly divided into two, which are the "apparel producing region market" such as China and Turkey, and the "apparel consuming region market" led by Japan, Europe and the US.

Looking back on the current period (March 2005 period), in overseas markets, the sales decreased slightly in Europe, one of the "consuming region markets." However, the unit sales of conventional flat knitting machines soared in China and Hong Kong, the major "producing region market," against the backdrop of the removal of import quotas for knitwear for Europe and the US. As a result, the overseas sales as a whole increased to ¥40,268 million (up by 5.5% year-on-year).

In the domestic market, on the other hand, the fall in consumer demand dampened capital investment by the apparel industry, and the domestic sales fell substantially to ¥5,827 million (down by 29.3%).

As a result, the consolidated sales amount for 2005 was ¥46,095 million (down by 0.7% year-on-year), and operating income was ¥9,258 million

(down by 15.6% year-on-year) due to the lowered gross profit rate.

However, the current net income was a record-high at ¥5,930 million (up by 5.4% year-on-year) due to the reduction in the extraordinary loss, which was ¥864 million in the previous period, and others.

Financial results and dividend

active distribution of dividend based on the concept of a "stable dividend"

Shima Seiki considers the return of its profits to its shareholders as one of its most important objectives, and aims to achieve a long-term stable dividend. At the same time, investments in equipment as well as research and development, which are necessary for the future growth of the business, are not overlooked. The Company will continue to set the dividend, taking into consideration the future investment plan and the revenue outlook.

Although the operating income for this period decreased, the ordinary dividend was paid at ¥20 per share as planned along with the basic policy of a stable dividend distribution. Added to the interim dividend payment of ¥17.50 per share, which had already been paid, the dividend for the full business year achieved ¥37.50 per share.

Growth strategy for the future

"Increase in market share in the producing region markets" and "market penetration and sales increase in consuming region markets"

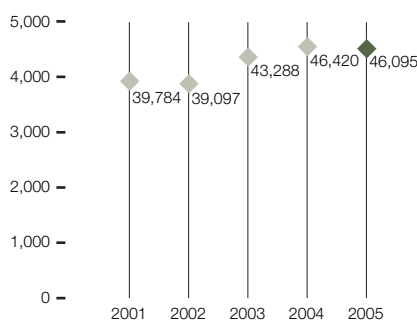
Shima Seiki's growth strategy has two objectives in mind. These are "to increase market share of conventional models in the producing region markets (i.e. China and Turkey)" and "to penetrate markets and increase sales of WHOLEGARMENT® flat knitting machines in the consuming region markets (i.e. Japan, Europe, and the US)."

Concerning the former goal, first of all, the demand for computerized flat knitting machines is soaring in Asia which has become a major producing region in the world. China, especially, is regarded as the biggest large-scale market, although the ratio of computerization in knitwear production in the country is still only a few percent. Hence a huge demand is expected in the future. An increased market share in this region is an essential element of the future growth scenario for the Company.

In the "apparel consuming region markets" such as Europe, the US and Japan, on the other hand, the import ratio of knitwear product is ever on the increase. Given this factor, Shima Seiki will continue to promote to the apparel industry the advantages of the "Total Knitting System," which enables efficient

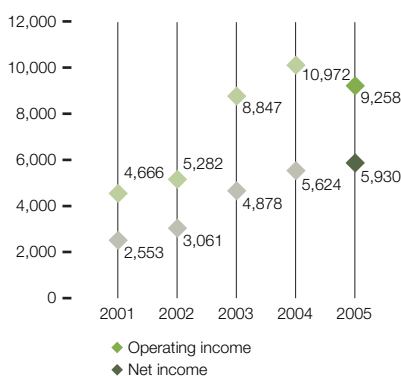
Net sales

(¥ Million)



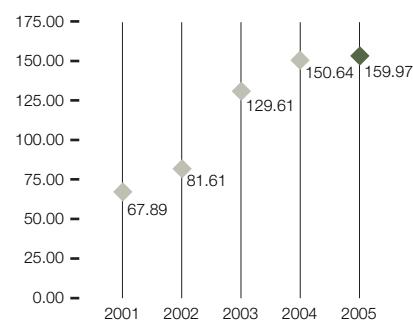
Operating income/Net income

(¥ Million)



Net income per share

(¥)



production of high value-added items from samples through to final products based on our design system, in order to increase sales of WHOLEGARMENT® flat knitting machines and the design system for enhanced profitability.

Towards a “knowledge-intensive industry”

timely and high value-added production

The most significant advantage of Shima Seiki’s “Total Knitting System” is its capability to create high quality “virtual samples.” Most processes of the actual sample production can be simulated on the computer, including the selection of the type and color of yarn, knitting technique, etc. Furthermore, the advanced graphic functions can recreate even the shading of each loop. Conventionally, sample production required substantial time and energy, which presented a bottleneck in apparel product development. With Shima Seiki’s virtual sample system, this cumbersome process, which takes 3 or 4 weeks involving a number of people, can be completed in a couple of hours by just one operator. In addition, the design data of the virtual sample is simultaneously converted for knitting data, which can be fed to the WHOLEGARMENT® flat knitting machine for production, so the lead time from planning to production is shortened tremendously.

These advantages display their greatest force in the production in the “consuming regions.” In other words, if manufacturers in the consuming regions, who are in the position to detect even the smallest changes in consumer requirements, can make the most of the system, then products which closely mirror those requirements can be developed promptly and at low cost beyond comparison. The risk of dead stock and out of stock will be reduced, and multi-product/small-lot production becomes easier. When Shima Seiki presented this “Total Knitting System,” it was highly regarded by industry participants that “the System has the potential to revolutionize the industry

structure of the world’s apparel industry, including distribution, and the production of a new knowledge-intensive industry.

Cultivation of new markets

the US, kids, and sports

Alongside market penetration and sales expansion in the consuming regions, cultivation of new markets is expected for the WHOLEGARMENT® flat knitting machine. For example, in the US, cotton clothing is often worn directly on the skin, so the comfortable feel of WHOLEGARMENT® offers a big advantage. Efforts are being made in the sample production for men’s and children’s clothing. Especially for clothing for children who are smaller and whose skin is more sensitive, WHOLEGARMENT® is attracting attention from the viewpoint of universal design for its comfortable feel and light weight. The potential need for “seamless” clothing is believed to be immense.

WHOLEGARMENT® also shows promise in sporting clothes. Seamless and exact fit to the bodyline is suitable for sporting clothes where great flexibility is required. The feature can be further enhanced by utilizing sweat-absorbent material. When the advantages of WHOLEGARMENT® are recognized in this area, it will be sure to boost the sales of the Company.

Outlook for the next period

The March 2006 period will be another marker in the future growth of the Company. In July, a major “Fashion Show” will be held to celebrate the 10 year anniversary of the release of the WHOLEGARMENT® flat knitting machine in Wakayama city, where the headquarters of the Company is located, and a number of fashion industry participants both from abroad, (e.g. Italy) and Japan are invited. In November, the Company will be exhibiting at the IKME Exhibition in Milan. Shima Seiki will



continue to promote the attraction of WHOLEGARMENT® and bring forward advanced know-how.

The amount of sales in the March 2006 period is expected to be a record-setting ¥47,000 million. However, due to factors such as increased sales administrative expenses and treatment for impairment, the operating income is expected to be ¥9,000 million, and the current net income to be ¥5,000 million, a slight decrease compared to the current period. The main factors influencing sales administrative expenses are increased advertising expenses for participating in exhibitions and increased research and development expenses, both of which are essential strategic investments for future market expansion. In addition, the March 2006 period is the year when the accounting for impairment of assets is conducted in Japan, and Shima Seiki will also carry out accounting treatment for impairment of land and building assets for consolidated subsidiaries.

Shima Seiki will continue with its efforts to expand demand and reduce costs to improve business achievement and secure stable profitability in order to meet shareholders’ expectations. Your future support and continued interest in our Company is highly valued.

Masahiro Shima
Masahiro Shima, President

Mid-Term Management Plan

As the leading company in the flat knitting machines industry, Shima Seiki will aim to increase its market share by promoting product development that suits product groups and sales regions, and by strengthening its sales structure. At the same time, Shima Seiki will endeavor to reduce costs and improve risk management in order to maintain stable growth.

1 Suggest the creation of attractive items with WHOLEGARMENT®, and promote sales expansion and penetration in the consuming regions

A shift to producing high value-added items continues in areas such as Europe and Japan. In these consuming regions of developed countries, Shima Seiki aims to establish a “knowledge-intensive production system” utilizing the WHOLEGARMENT® (seamless knitwear) flat knitting machines. Users will be informed of the primary advantages of WHOLEGARMENT®, such as high value-added and superior fashion capabilities, quick responsiveness that is suitable for production in consuming regions. Furthermore, Shima

Seiki will differentiate itself clearly from its competitors by offering not only hardware but also software, know-how, and design information, to further expand its sales.



4 Cultivation of new markets by high value-added products utilizing glove and sock knitting machines

Not limited to the conventional fields of general work gloves and thermal gloves, Shima Seiki will continue to develop new applications such as gloves for precision manufacturing and medical usage as well as products with high fashion capabilities. The Company will pursue sales expansion by suggesting to the user industries the know-how to produce high value-added gloves and socks.

2 Expansion of market share of the conventional flat knitting machine in large-scale markets

In regions where production and export of volume zone products are on the increase, sales competition is intensifying for the conventional models. In these large-scale markets, Shima Seiki will continue to improve the functionality and operability of its products, as well as enhancing the software, and strengthening its user support structure. The Company will continue with its efforts to increase market share and cultivate new markets by improving productivity of knitwear and suggesting

production know-how for attractive products to its users.



NewSES123SI

5 Establishment of a high margin earnings structure

Reduction of production costs shall be further pursued by structural review from the development and design stage onwards. At the same time, improvement in rate of return shall be aimed for by shifting more towards high value-added products. Improvement in production efficiency as well as efficiency in indirect business shall be promoted across the group to enhance cost competitiveness, thus strengthening the high margin earning structure.

3 Active proposal of total business models, which fully utilizes the design system

Shima Seiki will continue to improve the functionality and operability of the SDS®-ONE, and make a vigorous suggestion that it is the “visual communication tool” that contributes to increased profitability for the user company. Furthermore, comprehensive planning and proposals will be implemented with this all-inclusive system from patterning on the knitting machine, pattern production, through to graphic functions. Shima Seiki will continue to promote the sales of the SDS®-ONE as a comprehensive solution to the business

issues of the knitwear and apparel industry both in Japan and abroad, such as market-in, multi-product/small-lot production, quick response, etc.



SDS®-ONE

6 Enhancement of risk management system

Shima Seiki will actively hedge risks by foreign currency exchange contracts and liquidation of trade receivables, etc. to reduce possible impacts from exchange rate fluctuations. At the same time, the Company aims to manage risks in a balanced manner by closely monitoring industry trends in each country and region as well as the business performance and credit standings of overseas agents.

Operational Review

Flat knitting machine business

Products: Conventional flat knitting machines and WHOLEGARMENT® flat knitting machines

Record number of sales for the third consecutive year

In the core business of the Company, the flat knitting machine business, the total number of sales of both conventional and WHOLEGARMENT® flat knitting machines reached 7,340 units for the year, setting a record for the third consecutive year.

The demand for the conventional flat knitting machine grew significantly in Asia, which has established itself as a major producing region for knitwear. The number of sales soared in Hong Kong where capital investments have been stimulated by the removal of the import quotas. As a result, the number of sales of conventional flat knitting machines rose by 27.8% year-on-year to 6,725 units.

As for the WHOLEGARMENT® flat knitting machines, the number of sales increased overseas, mainly in consuming regions such as Italy and the US. However, the demand in Japan fell due to adverse weather, which depressed capital investments by the flat knitting machine users. As a result, the overall number of sales of the WHOLEGARMENT® flat knitting machines was 615 units, a decrease of 16.4% from the previous period.

The overall amount of sales of the flat knitting machines for this period was ¥38,979 million (up by 6% year-on-year), of which overseas sales accounted for ¥36,104 million (up by 13.4%) and domestic ¥2,875 million (down by 41.8%).

In the conventional flat knitting machine business, the Company will strive to enhance the functionality of the world standard SES series. A new model has been released in this series, with intarsia knitting function to respond to fashion trends. This model has been achieving satisfactory results, and the Company will continue to promote its sales expansion. In the WHOLEGARMENT® flat knitting machine business, the Company will offer proactive suggestions not only in the lady's apparel market, but also in new markets, such as men's, kids' and sports clothing markets.

overseas, utilizing the SDS®-ONE (see page 6 for details) that links design and planning directly with manufacturing, distribution and retailing on the network. The advanced functionality and superior operability of SDS®-ONE is highly appraised in the knitting and apparel industries, and sales remained strong abroad, led by Italy. However, the domestic sales fell slightly from the previous period due to depressed capital investment by users. As a result, the total amount of sales of the design system business for this period was ¥1,896 million (down by 2.7% year-on-year).

SDS®-ONE is not just limited to knitwear but is also capable of generating rich and varied patterns for embroidery and prints. Shima Seiki will promote the SDS®-ONE to its customers, together with flat knitting machine, on-demand printing system, and computerized cutting system as a "total fashion system" to further expand sales. The system will be continually upgraded to improve its user-friendliness and enhance power of expression.

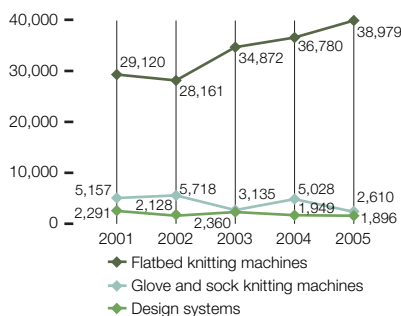
Design System Business

Product: The total design system SDS®-ONE that combines hardware and software in one

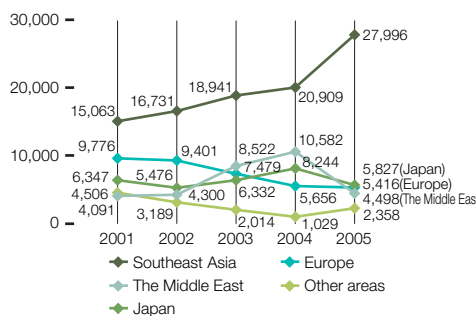
For "high value-added manufacturing" in the apparel consuming regions around the world

In the design system business, Shima Seiki has recommended high value-added manufacturing mainly in the apparel consuming regions both in Japan and

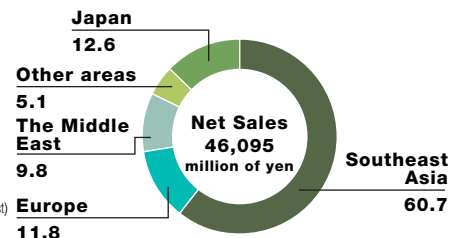
Net Sales by Business Segment
(¥ million)



Net Sales by Region
(¥ million)



Ratio of Net Sales by Region
(%)



Significant countries or areas belonging to each area are as follows.
 Europe : Italy, Spain, U.K.
 The Middle East : Turkey, Syria
 Southeast Asia : China, Korea, Taiwan
 Other areas : Brazil, U.S.A.



Glove and sock knitting machine business and other businesses

Products: Glove knitting machine, sock knitting machine, and miscellaneous maintenance parts for the Company's machinery.

The sales of glove and sock knitting machines fell significantly

In the glove and sock knitting machine business, sales in the major export destinations, namely Korea and China, dropped considerably, partly because of the impact of counterfeit machines in the producing regions of work gloves in China. As a result, the overall amount of sales was ¥2,610 million (down by 48.1% year-on-year). In response to this situation, Shima Seiki is pioneering new markets by promoting production of higher added-value items, utilizing finer gauge and new materials.

The sales from "other businesses," mainly sales of maintenance parts for the Company's machinery, was ¥2,610 million (down by 2.0% year-on-year).

Review of the "consuming region markets" – Europe, the US, Japan, etc. –

Sales grew in both Italy and the US, but fell significantly in Japan

In Italy, one of the "consuming region markets," the sales of WHOLEGARMENT® flat knitting machines showed an increase, supported by the upgrading of the Company's Design Center in Milan. However, in the European market as a whole, sales softened slightly to ¥5,416 million (down by 4.3% year-on-year). In other regions, mainly in North America, some knitwear manufacturers made a large investment in WHOLEGARMENT® flat knitting machines, which boosted sales significantly to ¥2,358 million (up by 129.4% year-on-year).

In Japan, the high value-added WHOLEGARMENT® products are gaining recognition, but sales fell by 29.3% year-on-year due to a decline in capital investment by users.

Review of the "producing region markets" – Asia, Middle East, etc. –

Sales soared in Hong Kong, but fell in Turkey

Almost 70% of the overseas sales of the flat knitting machines are in Asia. In China, one of the large-scale clothing producing regions, capital investment remained strong, supported by the lifting of import quotas, and the sales of flat knitting machines saw a considerable increase especially in Hong Kong. As a

result, sales in South East Asia reached ¥27,996 million.

In the Middle East, Turkey, which accounts for the majority of the Company's sales in this region, recorded a rapid increase in sales over the last two years (March 2003 and March 2004 periods) supported by knitwear exports to Russia and strong domestic demand. However, as it entered an adjustment phase, user companies held back on capital investment, and the amount of sales in the Middle East for this period was ¥4,498 million, a considerable decline compared to the previous period.

Meanwhile, collection of account receivables, countermeasures for prolonged receivables, and credit management of agents has become an issue in Turkey and China, so the Corporate Administration Department was created in June 2004 to strengthen the management controls. (See page 13 for details.)

T o p i c s

Milan Design Center renewal

Milan Design Center was renewed in September 2004. Shima Seiki, the Italian agency and local design company work together to propose exclusive higher value-added designs through an integration of Italian sophisticated sensitivity and accumulated know-how of our Total Design Center, for enhancing the sales expansion of WHOLEGARMENT®.



The 55th Pitti Immagine Filati

Preview showing of the 2005/2006 fall-winter yarn knitwear collections held in Florence, Italy in July 2004. Shima Seiki exhibited diversified samples of WHOLEGARMENT® as well as proposed schemes that could reduce the time and cost for sample production by a successfully SDS®-ONE demonstration.



JAPAN CREATION 2005

8th Trade Fair of Total Fabrics and Textile Goods - the biggest comprehensive textile fair in Asia focusing on fabrics and textiles – held at Tokyo Big Site in December 2004. Shima Seiki presented both a WHOLEGARMENT® flat knitting machine and a new mode of an existing machine series, and demonstrated diverse and richness of expressiveness showing the collaborative effort of hardware, software and know-how.



New products in the current period.

- SWG-X, 8 gauge version

This is the flagship model of the WHOLEGARMENT® flat knitting machine 8 gauge version. This machine enables the high-quality middle-gauge knitting which enhances the unique feel of WHOLEGARMENT® and the texture of yarn. In addition, it comes standard with i-DSCS (Digital Stitch Control System with Intelligence) which enables both special yarn knitting and fast knitting.

- SES122Si and SES123Si

Two new models have been developed in the world standard SES series. These models come equipped with the improved light-weight and compact intarsia carriers, which improves productivity. In addition, these models enable even more colorful and varied pattern knitting, whilst reducing noise levels.

- SWG041

This is a compact WHOLEGARMENT® knitting machine of 16-inch knitting width with our proprietary SlideNeedle® derived from our WHOLEGARMENT® knitting machines “SWG-FIRST” and “SWG-X.” This product further expands the three-dimensional knitting variation for producing small fashion accessories.



SWG-X



SES123Si



SWG041



“Corporate Administration Department” has been newly established to strengthen the credit control system.

The Company established the “Corporate Administration Department” on June 10, 2004 with a view to further strengthen the management infrastructure. This department takes decisions and sets directions concerning important issues in sales policy, such as account receivables control and credit control for clients and agents in order to facilitate smooth circulation of cash-flows. The department also manages subsidiaries across-the-board.

In this period, the Corporate Administration Department maintained a watch on domestic and international market trends and customer information, as well as pursuing the liquidation and off-balance sheet accounting of receivables with leasing companies and banks. As a result, it controlled receivables (down by 1,456 million yen from the previous quarter), reduced turnover period (up by 0.3 month from the previous period), and improved cash-flow from operating activities (up by 1,820 million yen from the previous period, liquidation of receivables 5,424 million yen). It also strived to improve the trade receivables control system, and promoted active exchange of opinions concerning the management stabilization of the affiliated companies, and collected relevant information.

Construction of the new factory “FA (Factory Amenity) No.2” started.

On March 14, 2005, the construction of the new factory “FA (Factory Amenity) No.2” began on the same grounds as the headquarters. The new factory will establish the flexible production system for the main products, such as the WHOLEGARMENT® flat knitting machines and computerized flat knitting machines. The new factory is a steel framed one-story building with a main floor area of 5,925.39 m².

The construction is expected to be completed by December 2005. The new factory is environmentally-friendly in various aspects. The utilization of natural lighting through the ceiling, coupled with the inverter lighting and variable photochromatic sensors, reduces the electricity consumption for lighting by 40 to 50% compared to the previous lighting. The introduction of inverter air-conditioning and heat-exchange pumps cuts the running cost by 35% per annum. Furthermore, the new solar power generation device with a 610kW output capacity will be added to the existing facility, making it the largest of its type among private-sector corporations in Japan.



R&D Report

Research and Development policy

Shima Seiki has since its incorporation produced original and innovative products with its corporate philosophy of “unique technological development based upon creativity.” By combining internally developed advanced technology as an integrated mechatronics company with abundant and flexible ideas, Shima Seiki has brought a high level of satisfaction to its customers. The history of Shima Seiki is also a history of relentless technological development. With innovative product advancement that peers into the future needs of the industry, such as WHOLEGARMENT® (seamless) flat knitting machine, SlideNeedle®, etc.,

Shima Seiki has continually opened up new possibilities and contributed to the development of the client industries.

Based on another corporate philosophy, to “create it by yourself if not available,” Shima Seiki has developed most of the hardware and software for its knitting machines and design systems in-house. Products are created in-house from parts, due to the ease of attaining quality control, accumulation of technical know-how, and strict quality maintenance. As a result, the ratio of in-house procurement of parts is 75%. The research and development budget has been around 5% of net sales.



Research and Development Divisions, and their activities

Research and development activities are conducted in four divisions.

- **Mechatronic Development Division:** Designs and develops flat knitting machines and glove and sock knitting machines.
- **Control System Development Division:** Develops control devices for the

products.

- **Graphic System Development Division:** Develops electronics devices.
- **Total Design Center:** Plans and develops the software and know-how for the products.

Research and Development during the current period

A summary of the main research and development activities during the current period is as follows.

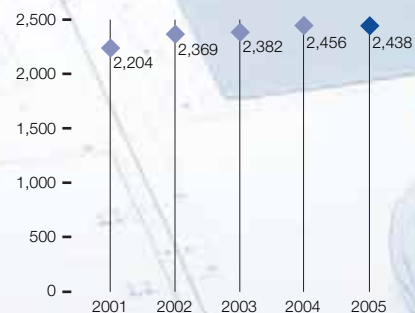
In Shima Seiki's core business of flat knitting machines, efforts have been made to expand the functional variation of the WHOLEGARMENT® flat knitting machine to support the creation of attractive knitwear and the production in consuming regions by being responsive. Further development has also been made in original samples. As well, two new models have been added to the world standard SES series, thus raising the added value even further. A new compact WHOLEGARMENT® flat knitting machine has been developed which is suitable for knitting small fashion accessories.

In the design system related business, improvement has been made in the

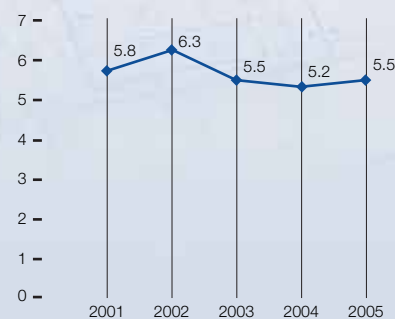
SDS®-ONE system, a communication tool in the knit apparel industry. By interlocking with intarsia knitting of the SES series flat knitting machines, the loop simulation function has been enhanced to assist design sample production, and significant time and cost savings have been achieved by creating virtual samples.

In the glove and sock knitting machine business, the super fine 18 gauge model (compared to the conventional 15 gauge model), the first of its kind in the world, has been added to the SFG series, the original glove knitting machine which was Shima Seiki's starting point for incorporation. Commercial production of the 18 gauge model has expanded the application into coated gloves for medical and household use, as well as gloves for precision work, and fashion use.

Research and development expenses
(¥ Million)



The ratio of research and development budget to net sales (%)



Risk information and countermeasures

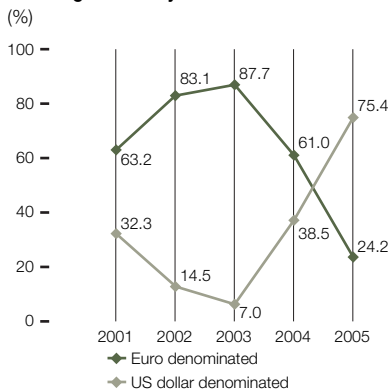
The risks which may potentially have an effect on the operating results and financial standing of the Group, and the countermeasures are as follows.

1. The risk of currency exchange rate fluctuations and the countermeasure

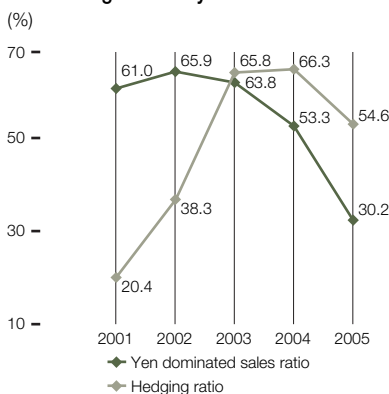
As the Group sells products worldwide, some of the transactions are foreign currency denominated. Hence there is a risk that acute fluctuation in exchange rates may have adverse effects on the business achievement and financial standing of the Group.

The countermeasure is to negotiate during the sales to have the transaction in yen in principle; however, in cases where trading is in a foreign currency, forward exchange contracts are taken out via banks as a means of hedging the risk.

Changes in the ratio of euro-denominated and US dollar-denominated trading of all foreign currency denominated sales (%)



Changes in the ratio of yen denominated sales of all overseas sales, and the hedging ratio in the foreign currency denominated receivables (%)



2. Dependency risk on particular business partners and the countermeasure

There is a high dependency on a small number of overseas agents who control the main sales territories, such as Hong Kong, China, Turkey and Italy. Hence a downturn in the financial standing of these agents which may be caused by changes in the economic situation, etc., could possibly have an adverse effect on the business achievement and financial standing of the Group.

Countermeasures for this risk are to gather market and customer information in each country, and to provide more information and advice to sales departments. As for Turkey and China, provision of financial support is also being considered.

3. Dependency risk on particular overseas market and the countermeasure

The ratio of export sales of the Group is high at 87.4%. Especially, the sales to Southeast Asia accounts for 69.5% of the total export sales. Therefore, economic and political changes in this region could have an adverse effect on the business achievement and financial standing of the Group.

As a countermeasure, efforts are being made to develop high-value added products such as WHOLEGARMENT® flat knitting machines in order to increase the sales ratio in markets in consuming regions such as Japan and Italy.

4. Consequential risk of social and institutional changes and natural disasters, etc. in the business areas and the countermeasure

The areas where the Group conducts business contain inherent risks of stagnant demand, regulatory changes, social turmoil due to terrorism, war,

political upheaval, deteriorating civil order, and natural disaster, etc.

In particular, the management and production functions of the Company are concentrated in Wakayama prefecture, Japan, where the headquarters are located. As a measure to deal with the risk of earthquakes, the buildings are regularly inspected for their earthquake-resistance capacity, and measures are taken as necessary. As well, the Disaster Prevention Committee is in place under the direct command of the President, as the earthquake disaster management organization.

5. Consequential risk due to changes in consumer apparel spending and unseasonable weather, and the countermeasure

There is a risk that changes in consumer mind and fashion trends, and unseasonable weather such as heat waves, warm winters, wind and flood damages, etc., may have an adverse effect on the business achievement and financial standing of the Group.

As a countermeasure, the Company recommends to its clients the production of high-value added and attractive products utilizing WHOLEGARMENT® and flexible and speedy production to respond to changes in consumption trends.

6. Issues of protecting intellectual property and the countermeasure

In some countries and regions, it is difficult to completely protect some of the Company's unique technology and know-how, and it may not be possible to effectively prevent a third party from illegally using the Company's intellectual property and producing imitation products.

As a countermeasure, surveillance is increased against patent violation, led by the Intellectual Property Department. When a violation is detected, measures are taken, including legal action.

Approach to the environment and safety

Summary of environmental conservation activities in production

The Company's factory is certified as a type 1 designated energy management factory, and it aims to reduce by more than 1% of its energy consumption per annum, as part of countermeasures against global warming. Most of the energy used by the Company is electric, and efforts are being made to reduce electricity consumption, led by the Energy Conservation Committee. In particular, a thermal-storage air conditioning system ("Eco Ice") has been installed, more inverters are used in lighting fixtures, waste heat from machine tools is recycled, and the installation of photovoltaic generation is also being pursued. The electricity generated by the photovoltaic generator was 520kW in 2004 (equivalent to 3% of all electricity consumed). This is expected to be boosted to 1,130kW (equivalent to 7% of all electricity consumed) in December 2005 when the new factory is completed and operational.

As for industrial waste, sorting before disposal is promoted, and efforts are being made to reduce the final disposal amount. For example, expanded polystyrene is treated by a dedicated machine to reduce its volume prior to recycling.

Collection of used flat knitting machines

Used and redundant flat knitting machines both in Japan and overseas are 100% recovered by the Company and its overseas agents. Some models are overhauled and sold as re-conditioned machines.

Compliance with the European Environmental Standards

The compliance with the "Restriction of Hazardous Substances Directive (RoHS)," a European Environmental Standard, has been completed for all products produced by the Company. Our products are free of all 6 designated chemical substances including lead. As for procured items, some are yet to comply with the Directive; however, a shift to compliant products is in progress and it is expected to be completed by the end of December 2005.

Consideration of workplace safety

Health and safety measures are taken to ensure that each employee can perform

his/her work at an optimal level in a safe working environment. Concerning the work environment, a "Safety and Health Committee" is in place, which meets once a month to discuss specific measures to eradicate work-related accidents and to maintain the good health of employees. Other organizations in the Company include a "Disaster Prevention Committee" to coordinate restoration measures in case of earthquakes and accidents, etc., and a "Corporate Fire Brigade" in case of fires.

Product design with consideration for safety

All products of the Company are in compliance with the CE Marking Directive (a safety standard required for designated products sold within the EU). For example, protective covers are fitted to the moving parts of the knitting machine to prevent the user from touching them. These covers cannot be removed without a special tool, and the machine is designed to pause when the cover is lifted. When the Company becomes aware of any unsafe usage by customers, for example, the knitting machine is altered so that the machine can be operated with the cover lifted, then the Company draws the customer's attention and requests that consideration be given to safe working practices.



Photovoltaic Generation Systems



Board of Directors and Corporate Auditors



President

Masahiro Shima

Managing Director

Masao Tanaka
General Manager of Accounting Division

Director

Kouichi Iwakura
General Manager of Corporate Administration Department

Minoru Kyotani
General Manager of Machinery Production
Technology Division

Toshiaki Morita
General Manager of Material Purchasing Division

Takashi Wada
General Manager of Manufacturing Division

Akifumi Goto
General Manager of Sales Marketing Division & Total
Design Center

Mitsuhiro Shima
General Manager of Graphic System Development Division

Shojiro Katagiri
General Manager of Corporate Planning Division

Ikuto Umeda
General Manager of Export Division

Osamu Fujita
General Manager of General Affairs Division

Corporate Auditor

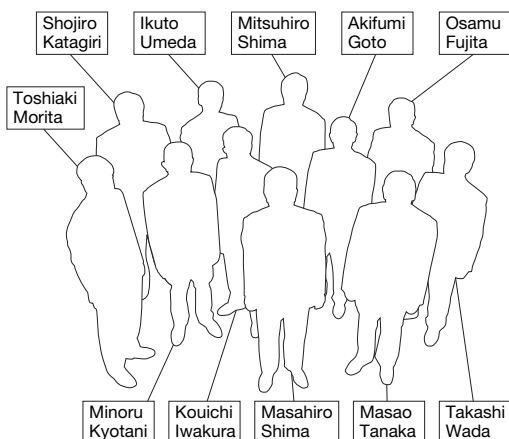
Osamu Okawa
Standing Corporate Auditor

Toshiyuki Okidono
Standing Corporate Auditor

Yuuki Matoba
Corporate Auditor

Masatoshi Yasugi
Corporate Auditor

(As of June 29, 2005)



Corporate Governance

The Company believes the “enhancement of corporate governance” is a critical factor in promoting efficient, sound, and transparent management, as well as in conducting management with a high regard for stakeholders’ interests, such as shareholders’.

The Company holds the Board of Directors’ meetings more than once a month to discuss statutory matters and other critical management issues, and decides upon management policies. The Board of Directors in principle is composed of a requisite minimum number of members in order to maintain an accurate understanding of business and to facilitate the Board with prompt and flexible management decisions.

The Board currently has 11 directors. The Company does not appoint outside board members.

As well, the Company adopts an auditing system. The four auditors, comprising two full-time auditors and two outside auditors (part-time), attend every board meeting and other important meetings, and they actively collect information by reviewing important documents, inspecting subsidiaries, and holding individual interviews with directors, etc.

Furthermore, the Internal Auditing Division (three members) is in place for improved internal control. The Internal Auditing Division maintains a close cooperation with the auditors by holding

regular meetings, while valuing their respective independence, and conducts efficient internal audits based on the audit plan.

The Company appoints Ohtemae Audit Corporation as its accounting auditor. The effectiveness of audit is secured by undergoing regular accounting audits and taking measures as necessary to deal with the points raised during the auditing process.

As above, the Company maintains the structure to ensure appropriate and sufficient governance comprehensively by close cooperation with the auditors, Internal Auditing Division, and the accounting auditors.

Shima Seiki receives the “Design Excellent Company Award.”

In March 2005, Shima Seiki was awarded the “Design Excellent Company Award” by the Japan Industrial Design Promotion Organization. This award was granted in appreciation for the high-quality products and services, such as “WHOLEGARMENT® flat knitting

machine,” which Shima Seiki offers with its outstanding capacity for development with high creativity, and for the company’s approach where management themselves recognize the importance of design and take an active part.



“Design Excellent Company Award” presentation ceremony
The President is in second row, fourth from the left.

Shima Seiki receives the “Kansai Zaikai Seminar Award 2005, Grand Prix”

In February 2005, Shima Seiki was awarded the first grand prix of the “Kansai Zaikai Seminar Award,” which was established by the Kansai Economic Federation and the Kansai Association of Corporate Executives. Shima Seiki’s contribution to the improved

competitiveness of the domestic knitting industry through its revolutionary and original product development, as well as its contribution as a global bluechip company to the improvement of the image of Wakayama city and the Kansai region was highly praised.



“Kansai Zaikai Seminar Award 2005, Grand Prix” presentation ceremony

Financial Section



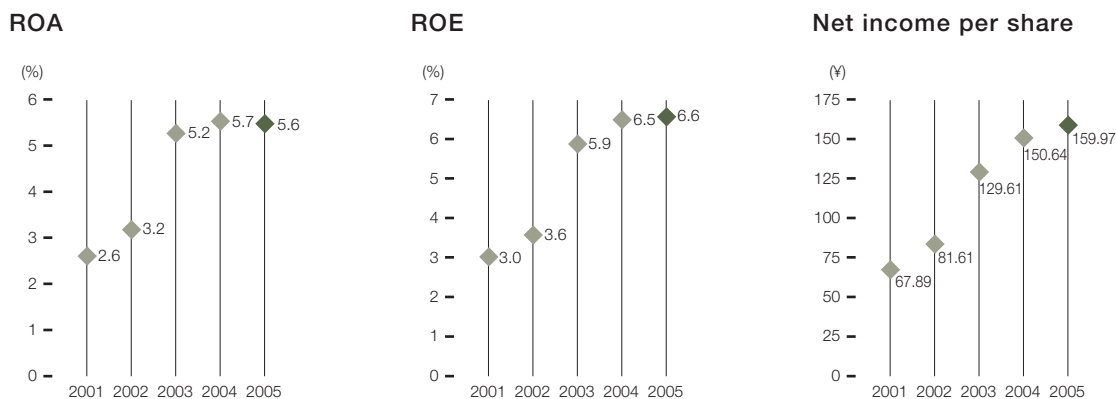
20	Five-Year Financial Summary
21	Financial Review
25	Consolidated Balance Sheets
27	Consolidated Statements of Income
28	Consolidated Statements of Shareholders' Equity
29	Consolidated Statements of Cash Flows
30	Notes to the Consolidated Financial Statements
37	Report of Independent Certified Public Accountants

Five-Year Financial Summary

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
Years ended March 31

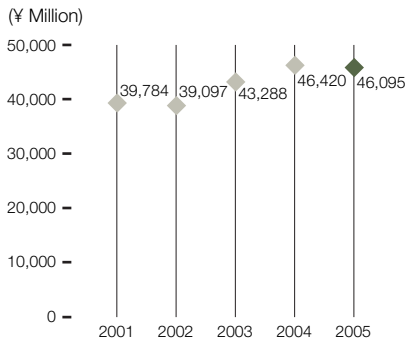
	Millions of yen					Thousands of U.S. dollars
	2005	2004	2003	2002	2001	2005
For the Year:						
Net sales	¥46,095	¥46,420	¥43,288	¥39,097	¥39,784	\$429,230
Cost of sales	25,277	24,074	23,200	22,939	24,208	235,376
Gross profit	20,818	22,346	20,088	16,158	15,576	193,854
Selling, general and administrative expenses ...	11,560	11,374	11,241	10,876	10,910	107,645
Operating income	9,258	10,972	8,847	5,282	4,666	86,209
Income before income taxes and minority interests ..	9,518	9,520	8,801	5,212	4,314	88,630
Net income	5,930	5,624	4,878	3,061	2,553	55,219
Depreciation and amortization	997	1,021	1,031	1,088	1,199	9,284
At Year-End:						
Total assets	107,234	102,853	96,220	92,549	99,068	998,547
Shareholders' equity	92,115	87,903	84,419	81,735	86,557	857,761
Per Share Data (in yen and U.S. dollars):						
Net income	¥159.97	¥150.64	¥129.61	¥81.61	¥67.89	\$1.49
Cash dividends applicable to the year	37.50	37.50	35.00	30.00	30.00	0.35
Shareholders' equity	2,510.71	2,391.63	2,280.85	2,190.16	2,302.05	23.38
Ratios:						
Return on assets	5.6%	5.7%	5.2%	3.2%	2.6%	
Return on equity	6.6%	6.5%	5.9%	3.6%	3.0%	
Equity ratio	85.9%	85.5%	87.7%	88.3%	87.4%	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107.39=US\$1, the exchange rate at 31st March, 2005.

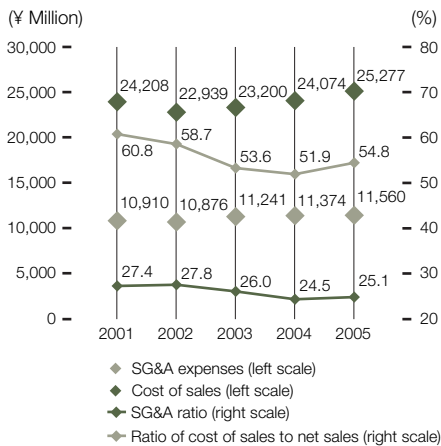


Financial Review

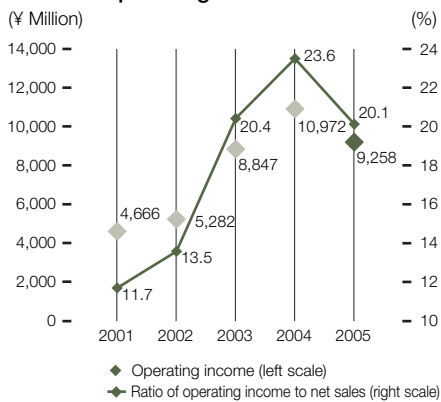
Net sales



SG&A expenses / SG&A ratio / Cost of sales / Ratio of cost of sales to net sales



Operating income / Ratio of operating income to net sales



Overview

Reflecting on the economic climate during the consolidated fiscal year under review, the United States and China, both of which had been leading the world economy, saw their growth trend pace down due to oil price hikes and actions taken to control investments; on domestic fronts, on the other hand, improved corporate profits boosted capital investment and the employment environment was also robust, but the Japanese economy is in a “level-off” with its consumer spending still remaining unpredictable.

Given this situation, the Shima Seiki Group operated actively in the global apparel/fashion industry on the basis of its growth strategy that incorporates two target areas: “spread and growth in sales of WHOLEGARMENT® flatbed knitting machines within consuming regions (*i.e.*, such as Japan, and Europe and North America)” and “market share increase with respect to conventional flatbed knitting machines in producing regions (*i.e.*, such as China and Turkey)”.

In overseas markets, the Asian region gained even greater importance as Hong Kong and mainland China, both being major production areas, continued to have strong momentum for capital investment, with our sales growth in Hong Kong being particularly significant. Looking at Europe, sales resulted in a slight decrease although we did experience a turnaround in Italy, our main market. In Turkey in the Middle East, which became a major market as a result of rapid growth during the previous year, sales declined sharply as the market showed an increasing trend of correcting itself. In the domestic market, our user industries were situated in a very severe business environment with a high percentage share of imported knitwear goods remaining unchanged; although the reputation of our high-value-added WHOLEGARMENT® models heightened, this did not lead to expanded capital investment.

While, as a result of these developments, consolidated sales for the year under review declined by ¥325 million year on year (0.7%) to ¥46,095 million, consolidated net income increased by ¥306 million year on year (5.4%) to ¥5,930 million, achieving a record high.

With a view to increasing our enterprise value and maintaining stable operations, as well as to returning profit to shareholders in a manner that corresponds with earnings, we use earnings per share (EPS) as our key management indicator and have set our immediate target at achieving a figure of at least ¥200. As a result of our aggressive efforts in implementing our sales strategy, group-wide cost reduction and measures to address the impact of exchange rates, the consolidated EPS for the year under review marked ¥159.97.

Net Sales

Consolidated net sales for the fiscal year under review totaled ¥46,095 million (down by 0.7% year-on-year).

Overseas sales generated ¥40,268 million, up by 5.5% year-on-year. The principal reason for this profit increase was the enthusiasm for capital investment in computerized flatbed knitting machines in the Asian markets; also coupled with the removal of import quotas, this led to a significant boost in sales in Hong Kong, a production base for Europe and North America. Following rapid growth in the previous consolidated fiscal year, sales in Turkey, a Middle Eastern market, dropped this time around as the market correction phase persisted. As to other overseas sales, the showings of the European market were almost unchanged from the previous year, and the U.S. sales grew thanks to large-scale investment in WHOLEGARMENT® flatbed knitting machines.

As a result, the ratio of overseas sales to overall consolidated sales was 87.4% (up by 5.2 points year-on-year). The breakdown of overseas sales by geographical area is: 69.5% in Southeast Asia, 13.4% in Europe, 11.2% in the Middle East, and 5.9% in other regions.

Domestic sales generated ¥5,827 million, down by 29.3% year-on-year. This is attributable, despite the fact that WHOLEGARMENT® models became better-reputed in storefronts, to stagnant demand for new capital investment for reasons of the hot summer and warm winter, as well as a successive series of typhoons and earthquakes etc.

Net Sales by Segment

On a segment basis, sales amounted to ¥38,979 million in the flatbed knitting machine segment (up by 6.0% year-on-year), ¥1,896 million in the design system segment (down by 2.7% year-on-year), ¥2,610 million in the glove/sock knitting machine segment (down

by 48.1% year-on-year), and ¥2,610 million in the other business segment (down by 2.0% year-on-year).

Flatbed Knitting Machine Segment

In the flatbed knitting machine segment, we registered ¥38,979 million in sales, a year-on-year increase of 6.0%, and ¥12,228 million in operating income, a year-on-year decrease of 4.6%, and 31.4% in operating income ratio, a year-on-year decrease of 3.4 points.

Overseas sales totaled ¥36,104 million, up by 13.4% from the previous year. This resulted from positive sales of conventional flatbed knitting machines in the Asian markets that have become a producing region for the knitwear market, and also from positive sales of WHOLEGARMENT® flatbed knitting machines in Italy and the United States, both of which are clothing material consuming regions.

Domestic sales totaled ¥2,875 million, down by 41.8% from the previous year. This sales decrease is attributable mainly to the fact that a drop in consumption and demand in Japan for climatic reasons etc. weakened user demand for capital investment in, most notably, WHOLEGARMENT® flatbed knitting machines.

The operating income ratio dropped, despite our successful actions to cut production costs by improving the capacity utilization ratio and taking cost-cutting measures following increased flatbed knitting machine production, because it was affected considerably by the price falls as a result of competition in Hong Kong and mainland China, decreased sales of WHOLEGARMENT® flatbed knitting machines as well as by the drop in sales of high-margin products marketed in Turkey.

Design System Segment

In the design system segment, we registered ¥1,896 million in sales, a year-on-year decrease of 2.7%, ¥699 million in operating income, a year-on-year decrease of 13.6%, and 36.9% in operating income ratio, a year-on-year decrease of 4.6 points. This is because user demand for new capital investment was lackluster in the domestic market, though we fared well in the overseas markets, Italy being the most representative of them, as a result of our aggressive sales activities emphasizing a design system called “SDS®-ONE” (please refer to page 6).

Glove/Sock Knitting Machine Segment

In the glove/sock knitting machine segment, we registered ¥2,610 million in sales, a year-on-year decrease of 48.1%, ¥787 million in operating income, a year-on-year decrease of 50.4%, and 30.2% in operating income ratio, a year-on-year decrease of 1.3 points. The principal reason for the profit decrease was a sharp decline in sales in South Korea and China, our major export destinations, which was affected also by copycat machines sold in the Chinese market.

Other Business Segment

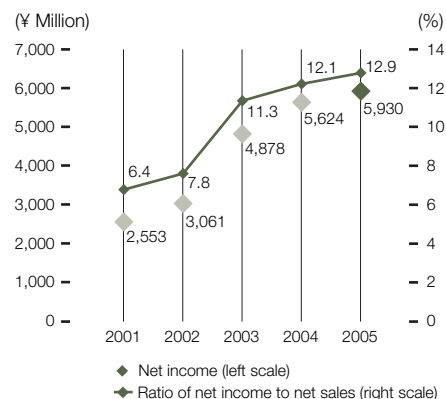
As to the other business segment which consists mostly of the sale of components, we registered ¥2,610 million in sales, a year-on-year decrease of 2.0%, ¥265 million in operating income, a year-on-year decrease of 34.1%, and 10.2% in operating income ratio, a year-on-year decrease of 4.9 points.

Cost of Sales and SG&A Expenses

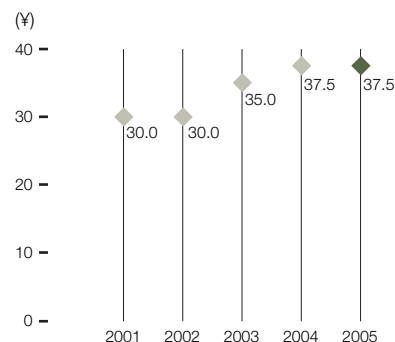
Cost of sales increased by 5.0% in comparison to the previous year, to ¥25,277 million, with the ratio of cost of sales to sales of 54.8%, up by 2.9 points from the previous year. This was caused mainly by the increased ratio of cost of sales to sales in the flatbed knitting machine segment.

Selling, general and administrative (SG&A) expenses increased by 1.6% in comparison to the previous year, to ¥11,560 million, with the ratio of SG&A expenses to sales of 25.1%, up by 0.6 points from the previous year. Main causes include a rise in selling expenses, such as in sales commissions, allowance for doubtful accounts, and freight and packing costs, as well as increased taxes and public dues due to the introduction of the pro forma standard taxation system for enterprise tax.

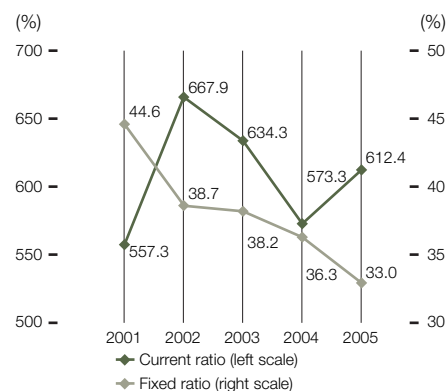
Net income / Ratio of net income to net sales



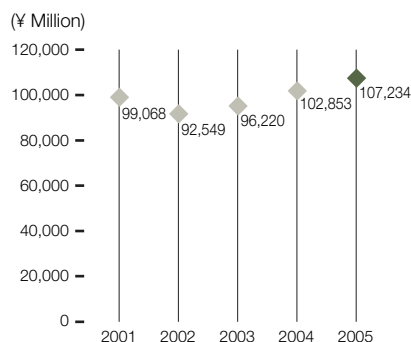
Cash dividends per share



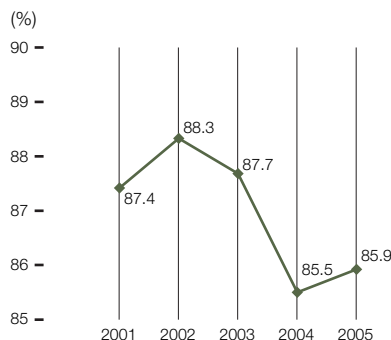
Current ratio / Fixed ratio



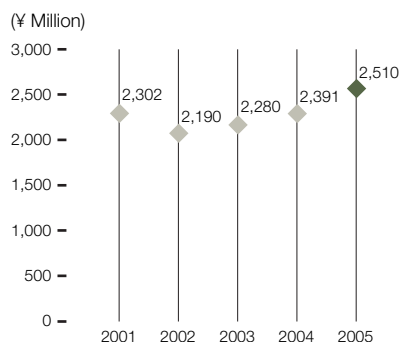
Total assets



Equity ratio



Shareholders' Equity per share



Operating Income

Operating income dropped by 15.6% year on year, to ¥9,258 million. This drop was caused mainly by a 2.9-point rise from the previous year in ratio of cost of sales to sales and by a 0.6-point rise in ratio of SG&A expenses to sales.

The operational segment that contributed most negatively to the profit decrease was ¥799 million in net amount of decrease in the glove/sock knitting machine segment (down by 50.4% year-on-year); this is followed by ¥584 million in net amount of decrease in the flatbed knitting machine segment (down by 4.6% year-on-year), ¥137 million in net amount of decrease in the other business segment (down by 34.1% year-on-year), and ¥110 million in net amount of decrease in the design system segment (down by 13.6% year-on-year).

Other Income and Expenses

Other income exceeded other expenses by ¥260 million and increased by ¥1,712 million in comparison to the previous year. The main reasons for the increase were: there was no provision made for the fiscal year under review to the allowance for directors' and statutory auditors' retirement benefits, in contrast to ¥749 million having been allocated for the previous year to this item; exchange losses dropped by ¥712 million relative to the previous year, and; capital gains from investments in securities increased by ¥167 million relative to the previous year.

Net Income

Consolidated income before income taxes and minority interests for the fiscal year under review was ¥9,518 million, a slight drop from the previous year. We paid ¥2,740 million in corporate income tax, residential tax and enterprise tax, which is ¥2,070 million less than the previous year (down by 43.0% year-on-year). The corporate income tax adjustments amounted to ¥814 million, an increase of ¥1,717 million from the previous year when they were negative ¥903 million; as a result, our tax payment decreased by ¥353 million to ¥3,554 million after the application of deferred tax accounting. This made the rate of our tax payment for corporate income tax etc. 37.3% after the application of deferred tax accounting, a figure below our effective statutory tax rate of 40.4%. The difference between the rate of our tax payment for corporate income tax etc. and our effective tax rate is attributable mainly to tax benefits, including tax credits for experiment and research expenses. The minority interests resulted in ¥34 million in profits, which is an increase of ¥45 million in comparison to the previous fiscal year.

As a result of the above, Shima Seiki Group's consolidated net income totaled ¥5,930 million (up by 5.4% year-on-year), marking a record high.

Liquidity and Capital Resources

Cash and cash equivalents as of the end of the fiscal year under review increased by ¥1,729 million from the end of the previous consolidated fiscal year, to ¥8,998 million. This increase was due mainly to the fact that cash flows from operating activities provided net cash income.

Having been negative with ¥1,208 million for the previous consolidated fiscal year, cash flows from operating activities for the consolidated year under review resulted in ¥3,347 million in profits. The main reason for this income increase is because, by liquidating accounts receivable or making efforts to collect them promptly, we curbed the amount of accounts receivable to ¥3,951 million, a reduction of ¥4,959 million in comparison to the year-earlier level (down by 44.3% year-on-year).

Cash flows from investing activities amounted to negative ¥819 million (up by 0.2% year-on-year). This is attributable to the fact that, notably, we purchased ¥1,318-million's worth of property, plant and equipment, which was an increase of ¥281 million from the previous year (up by 27.1% year-on-year), while we sold investments in securities in the amount of ¥421 million (down by 28.8% year-on-year).

Cash flows from financing activities amounted to negative ¥825 million (up by 29.1% year-on-year). This is because we purchased treasury stock in the amount of ¥247 million (down by 74.1% year-on-year) in a continued attempt from the previous year to increase our enterprise value, paid ¥1,377 million in cash dividends (down by 0.7% year-on-year),

and also raised capital by means of short-term loans in the amount of ¥800 million in net increase (down by 52.9% year-on-year).

Assets, Liabilities and Shareholders' Equity

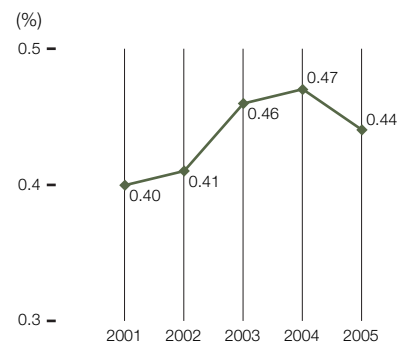
Total consolidated assets at the end of March 2005 grew by ¥4,381 million in comparison to the year-earlier level, to ¥107,234 million. In terms of short-term assets and liabilities, current assets increased by ¥5,908 million, which represents a 8.3% increase from the previous year. This was mainly caused by an increase of ¥4,020 million in trade accounts and notes receivable (up by 7.8% year-on-year) and an increase of ¥1,729 million in cash and deposits (up by 23.8% year-on-year), as a result of expanded sales in China, Hong Kong and the United States where there is robust demand for capital investment. On the other hand, current liabilities increased by 1.4% or ¥174 million in comparison to the previous year. The main reason is because, while short-term loans are up by ¥800 million and trade accounts and notes payable increased by ¥667 million, accrued income taxes decreased by ¥1,571 million. This decrease in accrued income taxes is attributable mainly to the poor profitability in the latter half of the year. As a result, the current ratio is 612.4%, which is 39.1 points higher the year-earlier figure; this means that we are successfully maintaining the state of having a current ratio well above 200%, the figure considered necessary to ensure soundness.

Of the changes that occurred to long-term assets and liabilities, property, plant and equipment decreased from the previous year by a small margin of ¥266 million, to ¥18,205 million (down by 1.4% year-on-year), while investments and other assets decreased by ¥1,261 million from the previous year, to ¥12,167 million (down by 9.4% year-on-year), both of which are on the assets side. This was caused mainly by the fact that, among other factors, we registered ¥3,485 million in deferred tax assets for land revaluation, which reflects a decrease of ¥1,033 million as a result of the sale of land having been revalued in the past, and also registered ¥4,250 million in investments in securities, which reflects a decrease by ¥303 million as a result of their sale etc. Total long-term liabilities amounted to ¥2,384 million, a decrease of ¥37 million in comparison to the previous year (down by 1.5% year-on-year).

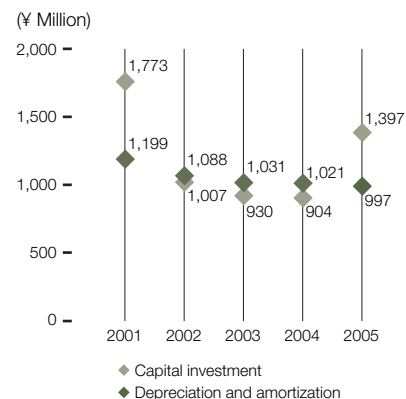
Shareholders' equity increased by ¥4,212 million from the end of the previous fiscal year, to ¥92,115 million (up by 4.8% year-on-year). One factor that made a positive contribution to the equity is the achievement of ¥5,930 million in net income, and factors that made a negative contribution to the equity include the payment of cash dividends in the amount of ¥1,377 million and the additional purchase of treasury stock in the amount of ¥247 million, which we made in order to improve our enterprise value. As a result, the equity-to-assets ratio was improved to mark 85.9% by rising by 0.4 points in comparison to the previous year, and the ratio of fixed assets to equity capital, which represents a proportion of shareholders' equity to sources of capital in fixed assets, decreased by 3.3 points to an improved figure of 33.0%, whereby we have successfully augmented our financial stability.

While our ROA (return on assets) dropped slightly from the previous fiscal year with 5.6%, our ROE (return on equity) marked a slight improvement from 6.5% to 6.6%.

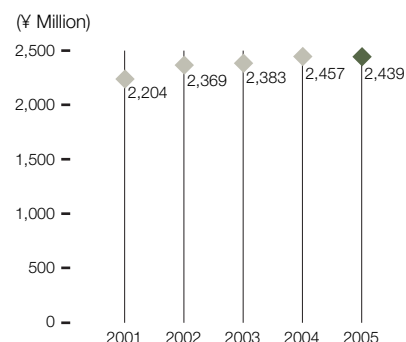
Total assets turnover



Capital investment / Depreciation and amortization



Research and development expenses



Consolidated Balance Sheets

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥8,998	¥7,269	\$83,788
Time deposits	1,190	923	11,081
Short-term investments (Note 3)	220	200	2,049
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	38	210	354
Other	55,544	51,352	517,218
Inventories (Note 4)	10,934	10,324	101,816
Deferred tax assets (Note 11)	1,452	1,261	13,521
Prepaid expenses and other current assets	739	1,059	6,881
Less: allowance for doubtful accounts	(2,253)	(1,644)	(20,980)
Total current assets	76,862	70,954	715,728
Investments and other assets:			
Investments in unconsolidated subsidiaries and an affiliate	1,773	1,775	16,510
Investments in securities (Note 3)	4,250	4,553	39,575
Long-term loans receivable	258	304	2,402
Deferred tax assets (Note 11)	945	860	8,800
Deferred tax assets for land revaluation (Note 5)	3,485	4,518	32,452
Other	2,431	2,316	22,637
Less: allowance for doubtful accounts	(975)	(898)	(9,079)
Total investments and other assets	12,167	13,428	113,297
Property, plant and equipment:			
Land	10,611	10,389	98,808
Buildings and structures	18,819	19,349	175,240
Machinery and equipment	3,607	3,653	33,588
Tools, furniture and fixtures	5,450	5,345	50,750
Construction in progress	86	30	800
	38,573	38,766	359,186
Less: accumulated depreciation	(20,368)	(20,295)	(189,664)
Property, plant and equipment, net	18,205	18,471	169,522
Total assets	¥107,234	¥102,853	\$998,547

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 6)	¥2,520	¥1,720	\$23,466
Trade accounts and notes payable:			
Unconsolidated subsidiaries	37	21	345
Other	5,393	4,742	50,219
Accrued expenses	1,001	1,035	9,321
Accrued income taxes	1,385	2,956	12,897
Other current liabilities	2,215	1,903	20,626
Total current liabilities	12,551	12,377	116,874
Long-term liabilities:			
Allowance for retirement benefits (Note 7)	1,498	1,498	13,949
Allowance for directors' and statutory auditors' retirement benefits	886	921	8,250
Long-term loans (Note 6)	—	2	—
Total long-term liabilities	2,384	2,421	22,199
Minority interests	184	152	1,713
Contingent liabilities (Note 8)			
Shareholders' equity:			
Common stock:			
Authorized— 142,000,000 shares			
Issued— 37,600,000 shares	14,860	14,860	138,374
Capital surplus	21,725	21,724	202,300
Retained earnings (Notes 10 and 15)	63,381	60,409	590,195
Land revaluation difference (Note 5)	(5,135)	(6,658)	(47,816)
Net unrealized holding gain on securities	155	240	1,443
Foreign currency translation adjustments	(190)	(236)	(1,770)
Treasury stock, at cost			
(934,443 shares in 2005 and 869,820 shares in 2004)	(2,681)	(2,436)	(24,965)
Total shareholders' equity	92,115	87,903	857,761
Total liabilities and shareholders' equity	¥107,234	¥102,853	\$998,547

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
 Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net sales	¥46,095	¥46,420	\$429,230
Cost of sales	25,277	24,074	235,376
Gross profit	20,818	22,346	193,854
Selling, general and administrative expenses (Note 12).....	11,560	11,374	107,645
Operating income	9,258	10,972	86,209
Other income (expenses):			
Interest and dividend income	333	252	3,101
Interest expense.....	(19)	(4)	(177)
Other, net	(54)	(1,700)	(503)
Income before income taxes and minority interests	9,518	9,520	88,630
Income taxes (Note 11):			
Current	2,740	4,810	25,514
Deferred	814	(903)	7,580
Income before minority interests	5,964	5,613	55,536
Minority interests in loss (gain) of consolidated subsidiaries	(34)	11	(317)
Net income	¥5,930	¥5,624	\$55,219
		Yen	U.S. dollars
Per share:			
Net income	¥159.97	¥150.64	\$1.49
Cash dividends applicable to the year	37.50	37.50	0.35

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Thousands		Millions of yen					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized holding gain (loss) on securities	Foreign currency translation adjustments	Treasury stock
Balance at April 1, 2003	37,600	¥14,860	¥21,724	¥56,241	¥(6,675)	¥(165)	¥(85)	¥(1,481)
Net income	—	—	—	5,624	—	—	—	—
Cash dividends	—	—	—	(1,387)	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(52)	—	—	—	—
Land revaluation difference	—	—	—	(17)	17	—	—	—
Net unrealized holding gain on securities	—	—	—	—	—	405	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	(151)	—
Increase in treasury stock	—	—	—	—	—	—	—	(955)
Balance at March 31, 2004	37,600	14,860	21,724	60,409	(6,658)	240	(236)	(2,436)
Net income	—	—	—	5,930	—	—	—	—
Cash dividends	—	—	—	(1,377)	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(58)	—	—	—	—
Land revaluation difference	—	—	—	(1,523)	1,523	—	—	—
Net unrealized holding loss on securities	—	—	—	—	—	(85)	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	46	—
Treasury stock	—	—	1	—	—	—	—	(245)
Balance at March 31, 2005	37,600	¥14,860	¥21,725	¥63,381	¥(5,135)	¥155	¥(190)	¥(2,681)

	Thousands of U.S. dollars							
	Common stock	Capital surplus	Retained earnings	Land revaluation difference	Net unrealized holding gain (loss) on securities	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2004	\$138,374	\$202,291	\$562,520	\$(61,998)	\$2,235	\$(2,198)	\$(22,684)	
Net income	—	—	55,219	—	—	—	—	
Cash dividends	—	—	(12,822)	—	—	—	—	
Bonuses to directors and statutory auditors	—	—	(540)	—	—	—	—	
Land revaluation difference	—	—	(14,182)	14,182	—	—	—	
Net unrealized holding loss on securities	—	—	—	—	(792)	—	—	
Foreign currency translation adjustments	—	—	—	—	—	428	—	
Treasury stock	—	9	—	—	—	—	(2,281)	
Balance at March 31, 2005	\$138,374	\$202,300	\$590,195	\$(47,816)	\$1,443	\$(1,770)	\$(24,965)	

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥9,518	¥9,520	\$88,630
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	997	1,021	9,284
Increase in allowance for doubtful accounts	690	322	6,425
Decrease in allowance for retirement benefits	(38)	(45)	(354)
Increase (decrease) in allowance for directors' and statutory auditors' retirement benefits	(35)	921	(326)
Interest and dividend income	(333)	(252)	(3,101)
Interest expense	19	4	177
Loss on sales and disposal of property, plant and equipment, net	60	57	559
Gain on sales of investment securities	(215)	—	(2,002)
Increase in trade receivables	(3,951)	(8,910)	(36,791)
Decrease (Increase) in inventories	(452)	117	(4,209)
Increase in trade payables	616	405	5,736
Other	547	(348)	5,094
Subtotal	7,423	2,812	69,122
Interest and dividend income received	327	251	3,045
Interest expense paid	(15)	(10)	(140)
Income taxes paid	(4,388)	(4,261)	(40,860)
Net cash provided by (used in) operating activities	3,347	(1,208)	31,167
Cash flows from investing activities:			
Increase in time deposits, net	(231)	(716)	(2,151)
Purchases of short-term investments	(4,019)	(3,670)	(37,424)
Proceeds from sales of short-term investments	4,085	3,670	38,039
Purchases of property, plant and equipment	(1,318)	(1,037)	(12,273)
Proceeds from sales of property, plant and equipment	590	102	5,494
Purchases of investments in securities	(1)	(200)	(9)
Proceeds from sales of investments in securities	421	591	3,920
Decrease in long-term loans receivable, net	48	85	447
Other	(394)	358	(3,669)
Net cash used in investing activities	(819)	(817)	(7,626)
Cash flows from financing activities:			
Increase in short-term loans, net	800	1,700	7,449
Increase (Decrease) in long-term loans, net	(3)	3	(28)
Purchases of treasury stock	(247)	(955)	(2,300)
Proceeds from sales of treasury stock	2	—	19
Cash dividends paid	(1,377)	(1,387)	(12,822)
Net cash used in financing activities	(825)	(639)	(7,682)
Effect of exchange rate changes on cash and cash equivalents	26	(34)	241
Net increase (decrease) in cash and cash equivalents	1,729	(2,698)	16,100
Cash and cash equivalents at beginning of year	7,269	9,967	67,688
Cash and cash equivalents at end of year	¥8,998	¥7,269	\$83,788

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

SHIMA SEIKI MFG., Ltd. (the “Company”) and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the “Code”) and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted and applied in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The Company’s foreign subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its significant subsidiaries (the “Group”), which were filed with the Director of Kanto Local Finance Bureau as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the exchange rate prevailing at March 31, 2005, which was ¥107.39 to US\$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions are eliminated.

Unconsolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in aggregate are not significant in relation to those of the consolidation with the Group.

Investments in unconsolidated subsidiaries and an affiliate are stated at cost, since those companies’ combined net income and retained earnings in aggregate are not significant in relation to those of consolidation with the Group.

(b) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates. Resulting translation gains or losses are charged to income in the year in which they are incurred, except for those arising from forward foreign exchange contracts pertaining to monetary assets, which are deferred and amortized over the periods of the respective contracts. Revenue and expenses are translated at the rates of exchange prevailing when transactions are recorded.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. Shareholders’ equity is translated at historical rates. Revenue and expenses accounts of foreign subsidiaries are translated at the exchange rates in effect at the respective balance sheet dates.

Translation adjustments resulting from translation of foreign currency financial statements are reported as “Foreign currency translation adjustments” in a separate component of the shareholders’ equity.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash in hands, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities within three months.

(d) Short-term investments and investments in securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of shareholders’ equity and is reflected as “Net unrealized holding gain (loss) on securities.” The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the average method.

(e) Inventories

Inventories are stated at the lower of cost or market. The cost of finished goods, work in process and raw materials is determined principally by the moving-average method. The cost of purchased goods held by foreign consolidated subsidiaries is determined by the specific method. The cost of supplies is determined by the first-in first-out method.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of the Company and domestic consolidated subsidiaries are computed principally by the declining-balance method based on the estimated useful lives of assets, except that the straight-line method is applied to buildings, but not to fixtures attached to the buildings, acquired after April 1, 1998. Depreciation of foreign consolidated subsidiaries are computed by the straight-line method on the estimated useful lives of assets.

The principal estimated useful lives are as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	3 to 12 years
Tools, furniture and fixtures	2 to 20 years

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. The allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries are calculated based on their past credit loss experience and on an estimate of the individual uncollectible amounts. The allowance for doubtful accounts of foreign consolidated subsidiaries is calculated based on an estimate of the individual uncollectible amounts.

(h) Allowance for retirement benefits

The Company and its certain domestic consolidated subsidiaries have retirement benefit plans for their employees. Such benefits are provided through the unfunded lump-sum severance indemnity plan and the funded noncontributory pension plan. The amount of retirement benefits are determined on the basis of length of service, basic salary and certain other factors at the time of termination of employment.

Allowance for retirement benefits has been provided for employees' retirement benefits, based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the balance sheet date. The actuarial gains and losses recognized in the fiscal year under review is being amortized over a ten-year period by the straight-line method from the year subsequent to the year in which such gains and losses are incurred.

(i) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer the ownership of the leased property to lessees are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are determined based on difference of between financial reporting and the tax basis of the assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(l) Derivatives and hedging activities

The Company and its consolidated subsidiaries have entered into derivatives transactions in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates.

Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates.

(m) Appropriation of retained earnings

Cash dividends, transfers to legal reserve and bonuses to directors and statutory auditors are recorded in the financial year in which a proposed appropriation of retained earnings is approved by shareholders.

(n) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding in each period. Diluted net income per share is not disclosed because there were no dilutive potential common shares that were outstanding during each of the two years in the period ended March 31, 2005.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of year.

3. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2005 and 2004 were as follows:

	Millions of yen		
	Acquisition costs	Amount recorded in the balance sheet	Difference
2005			
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥958	¥1,347	¥389
Other	50	50	0
Subtotal	¥1,008	¥1,397	¥389
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥681	¥548	¥(133)
Other	112	95	(17)
Subtotal	¥793	¥643	¥(150)
Total	¥1,801	¥2,040	¥239

	Millions of yen		
	Acquisition costs	Amount recorded in the balance sheet	Difference
2004			
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥1,099	¥1,687	¥588
Other	148	169	21
Subtotal	¥1,247	¥1,856	¥609
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥587	¥422	¥(165)
Other	275	234	(41)
Subtotal	¥862	¥656	¥(206)
Total	¥2,109	¥2,512	¥403

	Thousands of U.S. dollars		
	Acquisition costs	Amount recorded in the balance sheet	Difference
2005			
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	\$8,921	\$12,543	\$3,622
Other	466	466	0
Subtotal	\$9,387	\$13,009	\$3,622
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	\$6,341	\$5,103	\$(1,238)
Other	1,043	885	(158)
Subtotal	\$7,384	\$5,988	\$(1,396)
Total	\$16,771	\$18,997	\$2,226

Other securities without quoted market prices at March 31, 2005 and 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars		
	Amount recorded in the balance sheet	2005	2004	2005
Held-to-maturity securities				
Debt securities	¥220	¥200		\$2,049
Other securities				
Unlisted equity securities	2,210	2,041		20,578
Total	¥2,430	¥2,241		\$22,627

4. Inventories

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars	
	2005	2004	2005
Finished goods	¥6,996	¥6,339	\$65,146
Work in process	755	813	7,030
Raw materials	2,623	2,587	24,425
Supplies and others	560	585	5,215
Total	¥10,934	¥10,324	\$101,816

5. Land revaluation

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of their own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation difference represents the net unrealized depreciation of land values and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the statement of income. The details of the one-time revaluation for land remaining as of March 31, 2005 were as follows.

Land before revaluation	¥18,005 million
Land after revaluation	¥9,385 million
Land revaluation difference	¥5,135 million (net of deferred tax assets of ¥3,485 million)

At March 31, 2005, the carrying amount of the land after the above one time revaluation exceeded the estimated market value by ¥930 million (\$8,660 thousand).

6. Short-term loans and long-term loans

Short-term loans and long-term loans at March 31, 2005 and 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars	
	2005	2004	2005
Short-term loans:			
0.32% to 2.13% unsecured loans from banks	¥2,520	¥1,720	\$23,466
Long-term loans:			
1.9% unsecured loans from bank	—	¥3	—
Less: current portion	—	(1)	—
Total	—	¥2	—

7. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2005 and 2004 consisted of the following:

Retirement benefit obligation at March 31, 2005 and 2004:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Projected benefit obligation	¥(4,303)	¥(3,945)	\$(40,069)
Fair value of plan assets	2,635	2,245	24,537
Benefit obligation in excess of plan assets	(1,668)	(1,700)	(15,532)
Unrecognized actuarial loss	343	202	3,194
Obligation recognized in the consolidated balance sheets	(1,325)	(1,498)	(12,338)
Prepaid pension cost	173	—	1,611
Allowance for retirement benefits	¥(1,498)	¥(1,498)	\$(13,949)

Components of net periodic benefit cost for the year ended March 31, 2005 and 2004:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Service cost	¥218	¥217	\$2,030
Interest cost	98	95	913
Expected return on plan assets	(25)	(21)	(233)
Amortization:			
Actuarial loss	25	43	233
Net periodic benefit cost	¥316	¥334	\$2,943

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2005 and 2004 is as follows:

	2005	2004
Method of attributing benefit to periods of service	straight-line basis	straight-line basis
Discount rate	2.0%	2.5%
Expected rate of return on fund assets	1.15%	1.15%
Amortization period for actuarial gain (loss)	10 years	10 years

8. Contingent liabilities

Contingent liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Trade notes discounted	¥2,310	¥7,025	\$21,510
Guarantees of customers' loans and lease obligations	6,633	5,312	61,766
	¥8,943	¥12,337	\$83,276

9. Derivatives

The Company and its consolidated subsidiaries are exposed to market risk arising from forward foreign exchange contracts. The Company and its consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these forward foreign exchange contract;

however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Summarized below are the contract amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2005 and 2004.

Currency—related transactions

	Millions of yen		
	Contract amounts	Fair value	Unrealized loss
	2005		
Forward foreign exchange contracts:			
Sell:			
Euro	¥8,236	¥8,484	¥(248)

	Millions of yen		
	Contract amounts	Fair value	Unrealized loss
	2004		
Forward foreign exchange contracts:			
Sell:			
Euro	¥2,188	¥2,275	¥(87)

	Thousands of U.S. dollars		
	Contract amounts	Fair value	Unrealized loss
	2005		
Forward foreign exchange contracts:			
Sell:			
Euro	\$76,692	\$79,002	\$(2,310)

10. Retained earnings

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until such reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2005 included the Company's legal reserve of ¥2,124 million (\$19,778 thousand).

11. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a normal effective statutory tax rates of approximately 40.4% for the years ended March 31, 2005 and 2004.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Allowance for doubtful accounts...	¥921	¥396	\$8,576
Allowance for retirement benefits ..	458	473	4,265
Allowance for directors' and statutory auditors' retirement benefits	358	373	3,334
Accrued bonuses to employees ...	287	288	2,673
Intercompany profit	199	220	1,853
Tax loss carryforwards	140	320	1,304
Accrued enterprise tax	129	278	1,201
Other.....	255	339	2,374
Total gross deferred tax assets..	2,747	2,687	25,580
Less valuation allowance	(190)	(337)	(1,769)
Net deferred tax assets	2,557	2,350	23,811
Deferred tax liabilities:			
Unrealized holding gain on securities.....	(106)	(163)	(987)
Tax deductible reserves.....	(33)	(31)	(307)
Other.....	(21)	(35)	(196)
Total gross deferred tax liabilities..	(160)	(229)	(1,490)
Net deferred tax assets.....	¥2,397	¥2,121	\$22,321

12. Research and development costs

Research and development costs charged to income were ¥2,439 million (\$2,712 thousand) and ¥2,457 million for the years ended March 31, 2005 and 2004, respectively.

13. Lease

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥727 million (\$6,770 thousand) and ¥710 million for the years ended March 31, 2005 and 2004, respectively.

14. Segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 was as follows:

	Millions of yen						
	2005						
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥38,979	¥1,896	¥2,610	¥2,610	¥46,095	—	¥46,095
Intersegment sales.....	—	—	—	—	—	—	—
Total.....	38,979	1,896	2,610	2,610	46,095	—	46,095
Operating costs and expenses	26,751	1,197	1,823	2,345	32,116	¥4,721	36,837
Operating income	¥12,228	¥699	¥787	¥265	¥13,979	¥(4,721)	¥9,258
Assets, depreciation and capital expenditures:							
Assets.....	¥74,845	¥4,022	¥2,888	¥4,166	¥85,921	¥21,313	¥107,234
Depreciation.....	515	11	26	39	591	406	997
Capital expenditures.....	1,002	27	50	80	1,159	238	1,397

Pro forma information of leased property under finance leases that are not deemed to transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005			2005
	Acquisition cost	Accumulated depreciation	Net leased property	Net leased property
Machinery and equipment ...	¥4,479	¥2,210	¥2,269	\$21,129
Tools, furniture and fixtures ..	184	91	93	866
Total	¥4,663	¥2,301	¥2,362	\$21,995
Millions of yen				
2004				
	Acquisition cost	Accumulated depreciation	Net leased property	
Machinery and equipment.....	¥4,476	¥2,354	¥2,122	
Tools, furniture and fixtures	209	104	105	
Total	¥4,685	¥2,458	¥2,227	

Obligations under such finance leases as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥634	¥649	\$5,904
Due after one year.....	1,768	1,633	16,463
Total	¥2,402	¥2,282	\$22,367

Depreciation expense and imputed interest expense for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation expense	¥679	¥656	\$6,323
Imputed interest expense.....	¥33	¥40	\$307

Millions of yen							
2004							
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥36,780	¥1,949	¥5,028	¥2,663	¥46,420	—	¥46,420
Intersegment sales	—	—	—	—	—	—	—
Total	36,780	1,949	5,028	2,663	46,420	—	46,420
Operating costs and expenses	23,968	1,140	3,442	2,261	30,811	¥4,637	35,448
Operating income	¥12,812	¥809	¥1,586	¥402	¥15,609	¥(4,637)	¥10,972
Assets, depreciation and capital expenditures:							
Assets	¥68,100	¥3,687	¥4,683	¥4,352	¥80,822	¥22,031	¥102,853
Depreciation	472	8	50	39	569	452	1,021
Capital expenditures	560	8	49	115	732	172	904

Thousands of U.S. dollars							
2005							
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	\$362,967	\$17,655	\$24,304	\$24,304	\$429,230	—	\$429,230
Intersegment sales	—	—	—	—	—	—	—
Total	362,967	17,655	24,304	24,304	429,230	—	429,230
Operating costs and expenses	249,102	11,146	16,976	21,836	299,060	\$43,961	343,021
Operating income	\$113,865	\$6,509	\$7,328	\$2,468	\$130,170	\$(43,961)	\$86,209
Assets, depreciation and capital expenditures:							
Assets	\$696,946	\$37,452	\$26,893	\$38,793	\$800,084	\$198,463	\$998,547
Depreciation	4,796	102	242	363	5,503	3,781	9,284
Capital expenditures	9,330	251	466	745	10,792	2,217	13,009

Note: Main products of each segment are as follows.

Flatbed knitting machines: Computerized flat knitting machine, computerized semi-jacquard flat knitting machine

Design systems: Computer graphic apparel design system, knitting CAD system, apparel CAD / CAM system

Glove and sock knitting machines: Computerized seamless glove and sock knitting machine

Other: Parts for flatbed knitting machines and design systems, yarn for glove knitting machines, machine repair and maintenance, hotel business

Geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 was as follows:

Millions of yen						
2005						
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	¥43,526	¥421	¥2,148	¥46,095	—	¥46,095
Intersegment sales	1,379	15	6	1,400	¥(1,400)	—
Total	44,905	436	2,154	47,495	(1,400)	46,095
Operating costs and expenses	31,207	532	1,828	33,567	3,270	36,837
Operating income (loss)	¥13,698	¥(96)	¥326	¥13,928	¥(4,670)	¥9,258
Assets	¥83,563	¥478	¥1,759	¥85,800	¥21,434	¥107,234
Millions of yen						
2004						
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	¥44,702	¥798	¥920	¥46,420	—	¥46,420
Intersegment sales	960	17	29	1,006	¥(1,006)	—
Total	45,662	815	949	47,426	(1,006)	46,420
Operating costs and expenses	30,068	762	1,016	31,846	3,602	35,448
Operating income (loss)	¥15,594	¥53	¥(67)	¥15,580	¥(4,608)	¥10,972
Assets	¥79,001	¥575	¥1,963	¥81,539	¥21,314	¥102,853

Thousands of U.S. dollars

	2005					Consolidated
	Japan	Europe	North America	Total	Corporate / elimination	
Sales and operating income:						
Sales to customers	\$405,308	\$3,920	\$20,002	\$429,230	—	\$429,230
Intersegment sales	12,841	140	56	13,037	\$(13,037)	—
Total	418,149	4,060	20,058	442,267	(13,037)	429,230
Operating costs and expenses	290,595	4,954	17,022	312,571	30,450	343,021
Operating income (loss)	\$127,554	\$(894)	\$3,036	\$129,696	\$(43,487)	\$86,209
Assets	\$778,126	\$4,451	\$16,380	\$798,957	\$199,590	\$998,547

Note: Significant country or area belonging to each segment is as follows.

Europe : U.K.

North America : U.S.A

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen				
	2005				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	¥5,416	¥4,498	¥27,996	¥2,358	¥40,268
Total sales					¥46,095
Ratio of overseas sales to total sales	11.8%	9.8%	60.7%	5.1%	87.4%

	Millions of yen				
	2004				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	¥5,656	¥10,582	¥20,909	¥1,029	¥38,176
Total sales					¥46,420
Ratio of overseas sales to total sales	12.2%	22.9%	45.0%	2.1%	82.2%

	Thousands of U.S. dollars				
	2005				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	\$50,433	\$41,885	\$260,695	\$21,957	\$374,970
Total sales					\$429,230
Ratio of overseas sales to total sales	11.8%	9.8%	60.7%	5.1%	87.4%

Note : Significant countries or areas belonging to each area are as follows.

Europe : Italy, Spain, U.K.

The Middle East : Turkey, Syria

Southeast Asia : China, Korea, Taiwan

Other areas : Brazil, U.S.A.

15. Subsequent events

Shareholders approved the following appropriation of retained earning at the annual meeting held on June 29, 2005.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥733	\$6,826
Bonuses to directors and statutory auditors	55	512

Report of Independent Certified Public Accountants

To the Board of Directors of
SHIMA SEIKI MFG., Ltd.

We have audited the accompanying consolidated balance sheets of SHIMA SEIKI MFG., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHIMA SEIKI MFG., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The United States dollar amounts shown in the accompanying consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 1.

Osaka, Japan
June 29, 2005

Ohtemae Audit Co.
Ohtemae Audit Corporation

Corporate Data

Corporate Information (As of March 31, 2005)

Company Name	SHIMA SEIKI MFG., LTD.
Headquarters	85 Sakata, Wakayama-city, Wakayama 641-8511, Japan Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267
Date of Establishment	February 4, 1962
Capital	¥14,859,800,000
Total Number of Employees	Consolidated 1,281 Non-consolidated 1,035
URL	http://www.shimaseiki.co.jp
Consolidated Subsidiaries	Shima Fine Press Co., Ltd. KNITMAC Co., Ltd. TSM Industrial Co., Ltd. Tsukada Shima Seiki Co., Ltd. Marquise Co., Ltd. Shima Seiki U.S.A. Inc. Shima Seiki Europe Ltd.

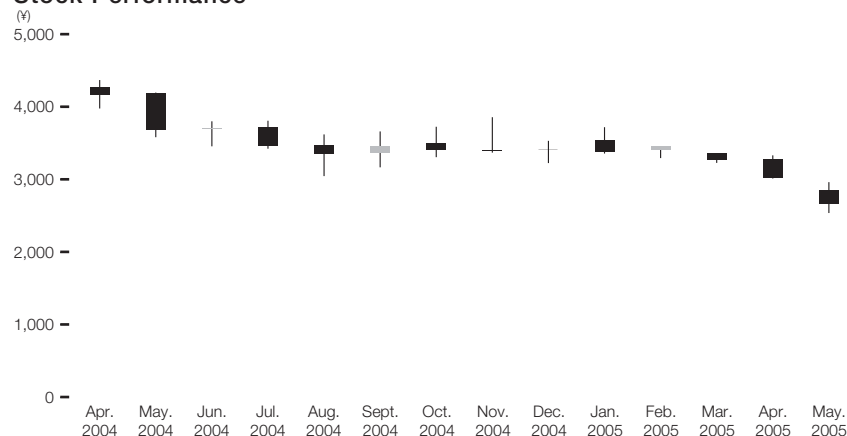


Head Office
Wakayama prefecture
A southern most prefecture on the main Honshu Island in Japan. The area enjoys a mild climate and abundant greenery. The headquarters of Shima Seiki is located in Wakayama city, the prefectural capital, which is close to southern Osaka where the textile industry once flourished.

Investor Information (As of March 31, 2005)

Accounting	Year-End March 31
Month of General Shareholders' Meeting	June
Authorized Common Stocks	142,000,000
Issued Common Stocks	37,600,000
Number of Shareholders	18,414
Stock Exchange Listing	The First Section of Tokyo Stock Exchange The First Section of Osaka Securities Exchange
Auditing Corporation	Ohtemae Audit Corporation

Stock Performance





SHIMA SEIKI MFG., LTD.

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