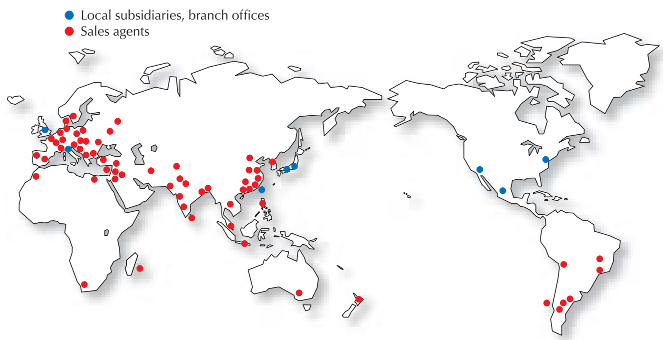
SHIMA SEIKI

WHOLEGARMENT®

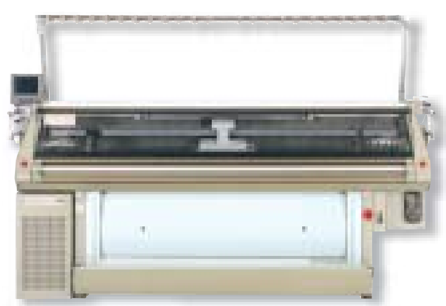
Annual Report 2004

REVOLUTIONIZING THE KNIT INDUSTRY

Global Network

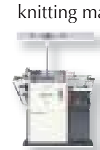


79.3%
Flatbed knitting machines



4.2%
Design systems

10.8%
Glove/sock knitting machines



5.7%
Other businesses

- Components & maintenance
- Elastic yarn
- Hotel operation

"Ever Onward"

Shima Seiki, founded in 1961, is based in Wakayama City, a provincial city in western Japan. Today it stands at the forefront of knitting-machine manufacturers, with global market shares of above 60% for computerized flatbed knitting machines and of more than 80% for glove knitting machines.

Since successfully achieving the automation of the glove knitting machine, Shima Seiki has constantly taken on the challenge of satisfying the ever-increasing diversity and individuality of consumer needs by producing attractive items. For this it always adopts the perspectives of its customers and is guided by its "Ever Onward" management philosophy. In this way it has evolved into an integrated mechatronics company that blends state-of-the-art hardware and the finest software. Through the creation of innovative products that lead the apparel and fashion industry worldwide, Shima Seiki is proud to be making a major contribution to the invigoration of the entire industry and to the molding of a new "clothing culture."

Our spirit of advancing beyond the bounds of existing technologies is by no means confined to the fashion industry. Taking advantage of our globally unique technologies and abundant creativity, it also is the basis of our vigorous progress in a variety of fields ranging from industrial design to broadcasting, printing, and architecture.

Contents

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.

WHOLEGARMENT®

A world leader that proposes a new business model for manufacturing

WHOLEGARMENT®, hailed as a knitting revolution, is a computerized flatbed knitting machine that produces each garment in one entire piece. It embodies epoch-making 3-D technology for the fashion industry, enabling all the knitting of a garment to be completed in a single process, without any sewing together of the body and sleeves.

This one-piece manufacture not only reduces losses of materials and personnel costs, but also gives the wearer a natural fit and a lighter feel, and enables garments to be given a more beautiful finish. This makes it possible to produce items of apparel that have great fit and feel and are highly stylish, but can be produced at low cost. The merits of WHOLEGARMENT® are increasingly widely recognized not only among manufacturers but also consumers, with the result that the number of machines in use is rising rapidly, particularly in industrialized regions such as Europe, North America, and Japan, the principal consumption areas.

The spread of WHOLEGARMENT® has hastened the switch of manufacturing to a knowledge-intensive type in which numerous varieties of knitwear can be produced in small quantities, and in which producers are positioned for a quick response. This continues to offer to the world an unprecedented business model for goods manufacturing.

By throwing our full energies into the development of this unique technology and the pursuit of self-innovation, we at Shima Seiki are seeking to improve our business performance still further and to enhance enterprise value.

I wish to express my thanks to our shareholders and investors for their support, and my hopes that it will continue.

Masahiro Shima

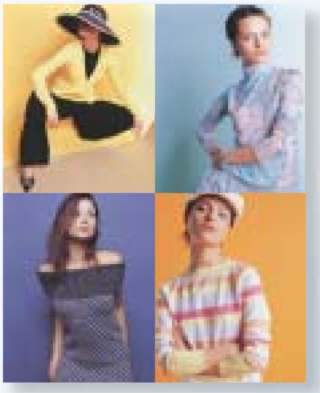
Masahiro Shima, President

Revolutionizing the knitting industry

— With our unique, innovative technology for seamless knitting

A whole garment without a single seam has a number of unprecedented advantages.

First, there are advantages on the production side. Not only is the time required for making seams eliminated, but cut loss when cutting the parts of garments is substantially reduced. Second, there are the advantages to consumers. They can enjoy a natural fit and feel, as well as a sense of lightness, that are not found in apparel made by conventional means. In addition, there are advantages for the apparel industry as a whole. Being able to manufacture garments with high-value-added designs but at low cost enables producers to compete with cheap imported merchandise. What is more, companies can satisfy the demands of an era that requires the production of numerous varieties of merchandise in small quantities, and the ability to respond quickly.

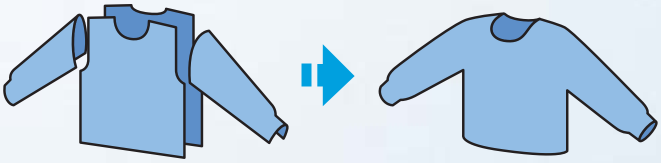


Features of WHOLEGARMENT®

- Soft and Light
- Elasticity
- Beautiful Silhouette
- Size and Taste of Each Person
- Timely Production of the Right Stuff
- Production in Consuming Region
- Minimum Yarn
- Resource Saving
- Ecology Items

The WHOLEGARMENT® Innovation

WHOLEGARMENT® knitwear can be made as one entire piece, without any seams. Conventional knitwear requires that the body and sleeves be knitted separately, and then sewn together afterward.



The Total Design Center

— Creating products based on a knowledge-intensive model

The Total Design Center sends out a varied array of information in real time. This ranges from information on the development of as many as 60 original knit samples per week, to details of ways of manufacturing new items of apparel with the use of information technology.

By using state-of-the-art design systems, the Center is able to provide samples from which the potential of WHOLEGARMENT® can be freely evoked. It also makes extensive use of its capabilities as a base for providing user training for the use of flatbed knitting machines and design systems, and for making presentations and engaging in sales promotion to manufacturers and apparel producers.

In recent years the Center's importance has been growing still further as a base for Shima Seiki's high-value-added strategy, including as a venue for the planning and conduct of the most up-to-date WHOLEGARMENT® fashion shows.

Designing samples

Manufacturing of WHOLEGARMENT® samples

Training users

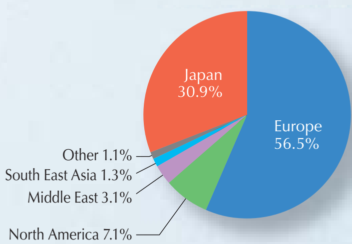
The Shima brand, recognized worldwide

— WholeGarment® machine orders surged 37.5% year-on-year

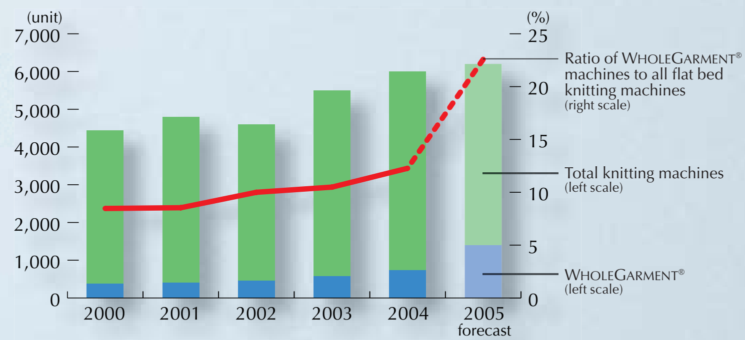
Shima Seiki attracted worldwide acclaim for the development of the CG system in the 1980s. Since then its Total Knitting System, which combines shaping, integral knitting, and CAD/CAM into an integrated whole, has been a focus of the attention of apparel and knitwear manufacturers worldwide.

Today, with its large shares of world markets and its revolutionary technologies symbolized by WholeGarment®, Shima Seiki maintains a very prominent profile in the global fashion industry.

Regional breakdown of WholeGarment® machines sales
(as a percentage of total sales)



Ratio of unit sales of WholeGarment® machines to all flatbed knitting machines



Continuous progress in seamless knitting technology

— Promising applications for non-knit products

WholeGarment® still has huge potential, with not even a tenth of its capabilities yet tapped. Shima Seiki will continue to devote its energy to improving peripheral equipment, such as systems for making print patterns, that can bring out the possibilities of WholeGarment®; to upgrading related software linked with design systems; and to fulfilling its duty to the fashion industry to train and nurture WholeGarment® creators.

In addition, Shima Seiki will continue to listen closely to the views that the Total Design Center receives from user companies and consumers, reflecting these in its ongoing improvements to current models of flatbed knitting machines and glove knitting machines.

To Our Stockholders

Sales and profit growth achieved through comprehensive strengths with WHOLEGARMENT® at the core

Record highs for both operating income and net income

In overseas markets we achieved brisk year-on-year sales growth in all regions. Within East Asia, which accounts for the majority of overseas sales, in Hong Kong and China there was a high degree of motivation towards capital investment to meet robust export and domestic demand, while in the Middle East there was very strong demand in Turkey for conventional computerized flatbed knitting machines, particularly in the first half. In spite of a slip-page in the European market, overseas sales rose by 3.3% from the previous year.

In the domestic market, meanwhile, acclaim for the high-value-added WHOLEGARMENT® continued to mount, and there was a steady increase in investment for domestic production by our customers. As a result, domestic sales leapt by 30.2% year-on-year, demonstrating a very clear recovery trend.

In consequence, consolidated net sales for the year rose by 7.2%, to ¥46,420 million (US$439 million). Mean-while profits benefited not only from this sales growth, but also from a rise in capacity utilization accompanying the increase in production, and from further progress with cost-cutting. In consequence, both operating income and net income reached record highs, the former rising by 24.0%, to ¥10,972 million (US$104 million), and the latter by 15.3%, to ¥5,624 million (US$53 million).

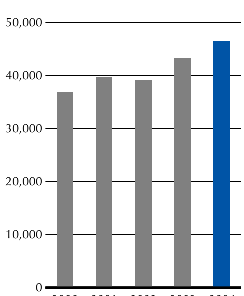
Financial Highlights

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries

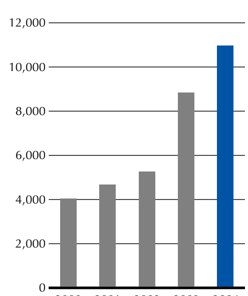
Years ended March 31, 2004, 2003 and 2002	Millions of yen			Thousands of U.S. dollars	Thousands of euros
	2004	2003	2002	2004	2004
For the Year:					
Net sales	46,420	43,288	39,097	439,417	360,432
Operating income	10,972	8,847	5,282	103,862	85,193
Income before income taxes and minority interests	9,520	8,801	5,212	90,117	73,919
Net income	5,624	4,878	3,061	53,237	43,668
At Year-End:					
Total assets	102,853	96,220	92,549	973,618	798,610
Shareholders' equity	87,903	84,419	81,735	832,100	682,530
Per Share Data:	Yen			U.S. dollars	Euros
Net income	150.64	129.61	81.61	1.43	1.17
Cash dividends applicable to the year	37.50	35.00	30.00	0.35	0.29
Shareholders' equity	2,391.63	2,280.85	2,190.16	22.64	18.57

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥105.64=US$1 and ¥128.79=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2004.

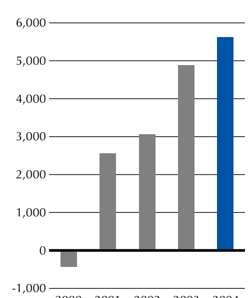
Net sales
(¥ Million)



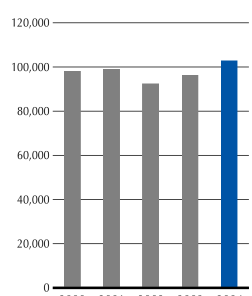
Operating income
(¥ Million)



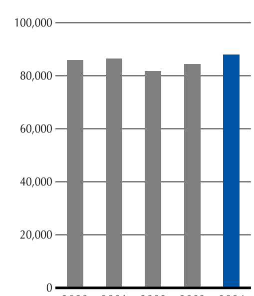
Net income (loss)
(¥ Million)



Total assets
(¥ Million)



Shareholders' equity
(¥ Million)



The merits of WHOLEGARMENT® are spreading in Japan and overseas

Unit sales of flatbed knitting machines reached 6,000, marking a record high for the second successive year. In addition to robust sales of conventional models in large-scale markets such as Turkey, Hong Kong and China, sales of WHOLEGARMENT® were also brisk. WHOLEGARMENT® models accounted for 736 (398 overseas and 338 within Japan) of total unit sales of flatbed knitting machines, indicating how their use is spreading very strongly in the domestic market, despite the larger sales that have been achieved in overseas markets hitherto. After being buffeted by cheap imported products, the Japanese market is bringing manufacturing back home again through the use of WHOLEGARMENT®. In Europe, sales have been increasing further since the International Knitwear Machinery Exhibition (IKME) held in October 2003, particularly in Italy. As a result of these developments, WHOLEGARMENT® has been gaining recognition not only in the apparel and sewing industries, but also among consumers.

I feel that the superiority of WHOLEGARMENT®, not only for minimizing cut loss but also for the creation of attractive fashions, is now widely known. To accelerate its spread still further in the future we will be taking steps such as undertaking development in a way that integrates hardware and software, accumulating and supplying our unique know-how, and nurturing WHOLEGARMENT® creators.

Advancing vigorously into new fields such as glove knitting machines with advanced functional capabilities

The Company will continue to concentrate management resources on spreading the use and increasing sales of WHOLEGARMENT® in consuming regions and on expanding market shares of conventional models of flatbed knitting machines in large-scale markets. We will also launch actively into new fields in which we foresee an extensive need for our products, including through the deployment for multipurpose uses of our New SFG18 Gauge ultrafine-gauge glove knitting machine, the first of its kind in the world.

By taking full advantage of our comprehensive strengths in providing hardware, software, and even design ideas in an integrated manner, we will continue to widen the scope of our business activities.

Enhancing the propriety of corporate governance

Shima Seiki is building a structure to enable it to conduct appropriate and effective corporate governance by making optimum use of the functions of the system of board of directors, the system of corporate auditors, and other systems. The aim is to accelerate management decision-making and ensure efficient business execution. We also regard corporate governance as a key condition for the conduct of management in a way that gives importance to the best interests of our shareholders and other stakeholders. For this purpose we use earnings per share as the principal management indicator to target. During the fiscal year under review, as a result of our efforts both to boost earnings and reduce costs, we exceeded our target of ¥150 for this indicator, attaining ¥150.64. To continue to return profit to our shareholders, we have set our immediate target at the even higher level of ¥200.

Leveraging our design proposal capabilities and extensive expertise, we are combining cutting-edge technologies with superior software to be a total mechatronics enterprise in the spirit of our motto "Ever Onward."

Medium-Term Management Plan

Strengthening the software and support structure, and accelerating WholeGarment® sales
Shima Seiki, more than 80% of whose sales are overseas, is implementing a medium to long-term management strategy based on the following six cornerstones.

Support for the manufacture of attractive merchandise, and help for the invigoration of user industries

Ever since its foundation, Shima Seiki has considered its primary mission as being to contribute to the invigoration of the entire knitwear/apparel industry by supplying products with the most advanced functions at economical prices. Today, even after having grown into a global company, it remains steadfast in that commitment. To fulfill that mission, Shima Seiki will support the manufacture of attractive merchandise through its advanced technical capabilities, symbolized by WholeGarment®, and its solutions capabilities.

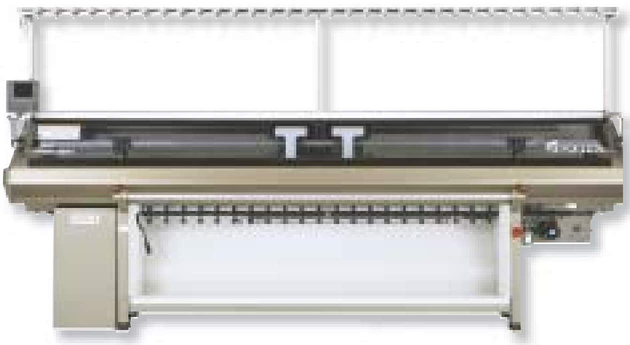
Industrialized countries are currently the major consuming regions and have substantial requirements for higher-value-added products. It is to those countries that Shima Seiki will step up its activities for both increasing sales and making planning proposals.

Increase in market share in the computerized flatbed knitting machine industry

To boost market share still further as the industry leader, Shima Seiki will enhance its product development, sales structure, and user-support structure for each product group and sales region, covering the entire world. With respect to industrialized countries it will support the building of production structures localized in those consuming areas, centered on WholeGarment® flatbed knitting machines. In East Asia and the Middle East, where sales are principally of conventional models, the Company will cultivate new markets and increase market share by enhancing knitting productivity and proposing know-how for the manufacture of attractive products.

The WholeGarment® flatbed knitting machine is steadily becoming recognized for attributes such as its high value-added, its superior fashion capabilities, and its quick response. Shima Seiki will continue its efforts to expand sales of the SDS®-ONE design system and peripherals such as print systems, and provide them together with design information, so as to increase product differentiation with competitors and generate more sales.

In addition, the Company aims to create new market segments through the application of WholeGarment® technology. With the newly developed SWG021, it can cope with all merchandise categories, ranging from gloves and socks to clothing trimmings and accessories.



Proactive proposal of design systems to the knitwear/ apparel and related industries

Based on computer graphics hardware and software technologies developed over many years, Shima Seiki provides design systems as visual communication tools that contribute to the earnings of user industries. By means of tireless R&D activity and feedback from users, the functionality and operability of these design systems are being improved constantly.

By harnessing its ability to undertake the consistent development of hardware and software, Shima Seiki will continue to work hard to increase sales of these systems as business solutions suited for market-in, multi-product/small-lot production, and as design tools with advanced functional capabilities and excellent cost performance.

Expansion of market for glove/sock knitting machines

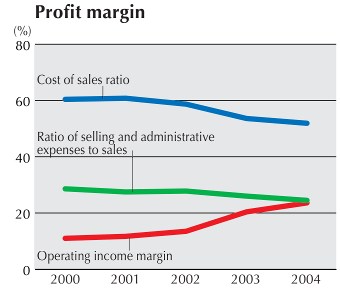
Shima Seiki's glove knitting machines have a share of over 80% of the world market, and benefit from positive factors such as the expansion of demand for local consumption in the East Asian region, brisk sales to Europe and the United States, and growth in demand for sock knitting machines for five-toe socks. However, the business environment throughout the industry is such that capital investment tends to come in waves.

In addition to taking steps to enhance capabilities in the traditional fields of ordinary protective and thermal gloves, Shima Seiki is also providing know-how for the manufacture of new value-added gloves/socks. Examples are the enhancement of the functionality of manufactured products by the creation of fine-gauged gloves and the application of coatings to enable their use in precision manufacturing and healthcare.

Building of a high-margin earnings structure

To continue to increase margins, the Company is conducting in-depth reviews right from the development and design stages, endeavoring to widen profit margins by lowering production costs and shifting towards more high-value-added content in its products. Also, steps are being taken to improve production efficiency at all group companies and raise the efficiency of indirect business, thereby enhancing cost-competitiveness and strengthening the high-margin earnings structure.

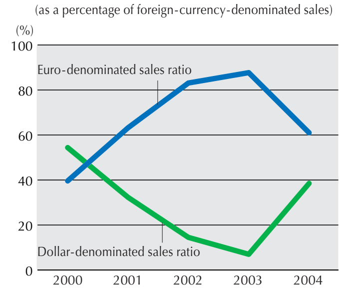
Profit margin



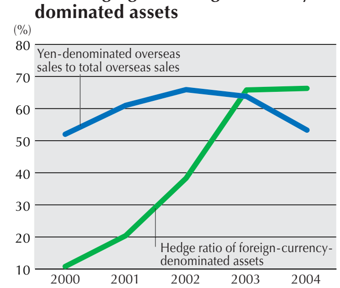
Enhancement of risk management

With respect to foreign exchange risk, the impact of fluctuations in exchange rates is being reduced by increasing the proportion of yen-denominated transactions. The risk is also being actively hedged by increasing the liquidity of trade receivables and using exchange contracts. Credit risk is addressed by diversifying sales risk in developing countries, and the Company has positioned itself to respond swiftly by monitoring trends in the business performance of overseas agencies, industry trends in countries and regions, and the credit standing of users.

Breakdown of foreign-currency-denominated sales
(as a percentage of foreign-currency-denominated sales)



Yen-domominated overseas sales and hedging for foreign currency-dominated assets



Review of Operations

Strong performance by flatbed knitting machine business, and substantial sales growth in glove/sock knitting machine business

Flatbed knitting machines

In the flatbed knitting machine business, the Company's core business, the high-value-added content is being accentuated by bringing unique features of WHOLEGARMENT® to the fore and by putting forward a diversity of planning proposals. During the year under review the Company contributed to enhancement of the supply-chain-management structure of the knitwear manufacturers, and its ability to increase diffusion through the market was strengthened by accumulating attractive new samples and by providing total support up to the design and data stages.

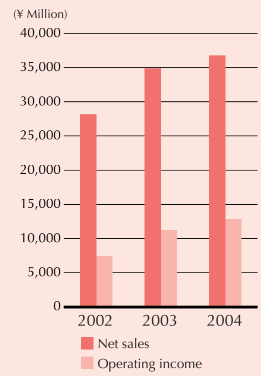
In consequence, WHOLEGARMENT® firmly established its reputation as a best-selling brand, and in line with its increased sales it became more widely used in manufacturing products under the principal brands, particularly among major apparel manufacturers. There were also signs that it was evolving in a new direction, namely by being brought into use by the sewing and other industries.

Overseas, in East Asian markets, which account for more than half all overseas sales of flatbed knitting machines, sales increased for the second straight year. This was because Hong Kong is undertaking vigorous capital investment as a production base for sales to Europe and North America, while in mainland China both exports and domestic demand expanded. In the Middle East, sales to Turkey remained at a high level, primarily of conventional models. In the European market, during the first half there was a fall in demand owing to factors such as an increase in apparel imports and the shift of production bases. However, at the International Knitwear Machinery Exhibition (IKME) held in Milan last year, WHOLEGARMENT® attracted widespread attention among exhibition visitors, with the result that demand recovered during the second half, particularly in Italy.

Within Japan, by spurring the return to domestic production and seeking to invigorate the industry, a cooperative business structure was created with other companies such as apparel manufacturers, trading companies, knitwear makers, and spinning companies. In each producing area there was a spread in the production of unique products using WHOLEGARMENT®, and brand recognition grew not only among outlets such as department stores, boutiques and specialty stores, but also among consumers. As a result of this, unit sales of WHOLEGARMENT® flatbed knitting machines doubled from the previous year, and domestic sales recorded a substantial year-on-year rise.

Shima Seiki's overall flatbed knitting machine business posted higher sales than in the previous year, when record-high unit sales were achieved. Total sales amounted to ¥36,780 million (US$348 million), up by 5.5%, and operating income was ¥12,812 million (US$121 million), representing an increase of 14.1%.

Net sales & operating income

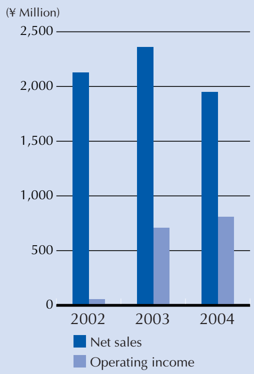


SWG021 WHOLEGARMENT® computerized flat knitting machine

FIRST® Next-Generation computerized flat knitting machine

Design systems

Net sales & operating income



SDS®-ONE, the core product in Shima Seiki's design system and related business, is a design and communication tool for apparel manufacturers and knitwear makers. By enabling fashion design decisions made at the planning stage to be conveyed surely but speedily to the production, distribution, and sales stages, the efficiency of the apparel supply chain is enhanced. Its "All-in-One" package includes Shima Seiki's KnitPaint program, which has become the industry standard, automatic programming software, PGM software to facilitate patterning, and textile software. Its usability is outstanding.

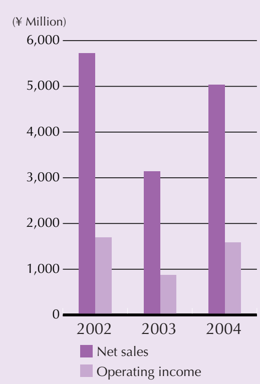
Considerable energy was devoted to sales promotion during the year, with the result that the Company was able to maintain sales in the domestic market at around their year-earlier level. Performance was somewhat lackluster overseas, however, with the result that design system and related business as a whole suffered a 17.4% decline in total sales, to ¥1,949 million (US$18 million). Nevertheless, operating income totaled ¥809 million (US$8 million), representing a rise of 13.8%.

Shimatronic Apparel Design System

Glove/sock knitting machines

In the glove/sock knitting machine business, Korea, China and other countries in the East Asian market experienced robust demand from Europe and North America, while in the Middle East there was an increase in investment in sock knitting machines for five-toe socks in Turkey. In consequence, overseas sales recorded substantial growth. Sales in the domestic market also grew, owing to factors such as an increase in demand for coated gloves. Total sales came to ¥5,028 million (US$48 million), up by 60.4%, and operating income was ¥1,586 million (US$15 million), up by 82.5%.

Net sales & operating income



Computerized sock knitting machine

Other businesses

Other businesses principally comprise sales of components. In this segment, net sales were ¥2,663 million (US$25 million), down by 8.8%, and operating income was ¥402 million (US$4 million), representing an increase of 16.6%.

Board of Directors and Corporate Auditors

(Back row, from left) Ikuto Umeda, Osamu Fujita, Toshiaki Morita, Mitsuhiro Shima, Akifumi Goto, Takashi Wada, Shojiro Katagiri
(Front row, from left) Minoru Kyotani, Masahiro Shima, Masao Tanaka, Kouichi Iwakura

President
Masahiro Shima

Managing Director
Masao Tanaka
General Manager of Accounting Division

Directors
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

Standing Corporate Auditors
Osamu Okawa
Toshiyuki Okidono

Corporate Auditor
Yuuki Matoba

(As of June 29, 2004)

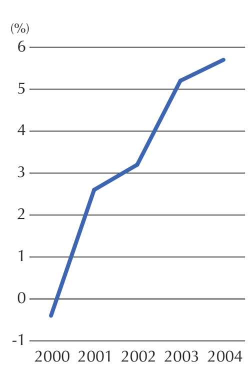
Five-Year Financial Summary

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

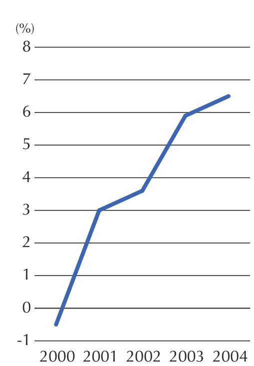
	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	**2004**
For the Year:						
Net sales	**¥46,420**	¥43,288	¥39,097	¥39,784	¥36,807	**$439,417**
Cost of sales	**24,074**	23,200	22,939	24,208	22,220	**227,887**
Gross profit	**22,346**	20,088	16,158	15,576	14,587	**211,530**
Selling, general and administrative expenses	**11,374**	11,241	10,876	10,910	10,543	**107,668**
Operating income	**10,972**	8,847	5,282	4,666	4,044	**103,862**
Income (loss) before income taxes and minority interests	**9,520**	8,801	5,212	4,314	(521)	**90,117**
Net income (loss)	**5,624**	4,878	3,061	2,553	(434)	**53,237**
Depreciation and amortization	**1,021**	1,031	1,088	1,199	1,343	**9,665**
At year-End:						
Total assets	**102,853**	96,220	92,549	99,068	98,046	**973,618**
Shareholders' equity	**87,903**	84,419	81,735	86,557	85,958	**832,100**
Per Share Data (in yen and U.S. dollars)**:**						
Net income (loss)	**¥ 150.64**	¥ 129.61	¥ 81.61	¥ 67.89	¥ (11.14)	**$ 1.43**
Cash dividends applicable to the year	**37.50**	35.00	30.00	30.00	35.00	**0.35**
Shareholders' equity	**2,391.63**	2,280.85	2,190.16	2,302.05	2,286.12	**22.64**
Ratios:						
Return on assets	**5.7%**	5.2%	3.2%	2.6%	(0.4)%	
Return on equity	**6.5**	5.9	3.6	3.0	(0.5)	
Equity ratio	**85.5**	87.7	88.3	87.4	87.7	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥105.64=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.

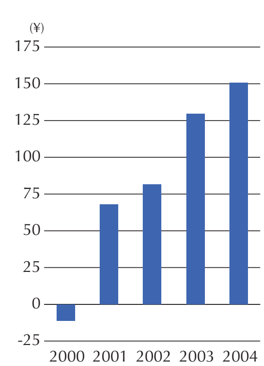
ROA



ROE

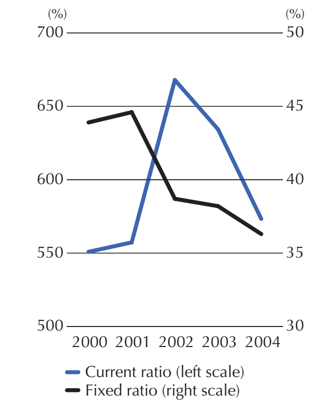


Net income (loss) per share

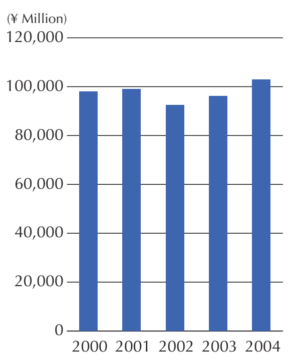


Management's Discussion and Analysis

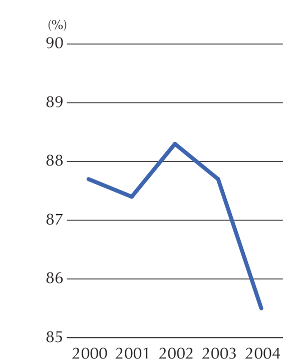
Current ratio / Fixed ratio



Total assets



Equity ratio



Operating Environment and Financial Strategy

Key aspects of the world economy during the year under review included a robust performance by the U.S. economy and a modest recovery trend in Europe, led by external demand. This was paralleled by sustained high economic growth in East Asia, with the continued vigor of the Chinese economy playing the pivotal role. The Japanese economy moved into an improvement phase characterized by an upturn in corporate earnings powered by capital investment spending.

Against this backdrop, the Shima Seiki Group took various steps to strengthen its position within the global apparel/fashion industry. Most notably it concentrated management resources to assure the increased spread and growth in sales of WHOLEGARMENT® (for knitting garments in a single piece without seams) flatbed knitting machines within consuming areas, and to increase market share with respect to conventional flatbed knitting machines in major markets.

In overseas markets we achieved brisk year-on-year sales growth in all regions. Within East Asia, which accounts for the majority of overseas sales, robust export and domestic demand in Hong Kong and China gave rise to strong motivation to implement capital investment, while in the Middle East, which in recent years has become a major market, there was very strong demand in Turkey for conventional computerized flatbed knitting machines, particularly in the first half. In spite of a decline in sales in the European market, overseas sales rose by 3.3% from the previous year, to ¥38,176 million (US$361,378 thousand).

In the domestic market, conditions for our user industries remained difficult as a result of competition from imported knitwear goods. However, the reputation of our high-value-added WHOLEGARMENT® models continued to mount, and as a result of a steady increase in investment for domestic production by our customers, domestic net sales rose by 30.2% year-on-year, to ¥8,244 million (US$78,039 thousand), bringing the recovery trend into sharp relief.

Given this operating environment, we have laid down a financial policy of increasing earnings per share (EPS) — the key management indicator we are targeting — with the aim of increasing enterprise value and maintaining stable operations, and of returning profit to shareholders in a manner that corresponds with earnings. During the fiscal year under review we exceeded our initial target of ¥150, attaining ¥150.64 (US$1.43). That was attributable to the success of a vigorous and effective sales strategy and of our efforts to reduce costs, and also to our measures to address the impact of exchange rates. To continue to return profit to our shareholders we will maintain our current course of efficient business expansion, and to that end will continue to use consolidated EPS as our key management indicator. We have set our immediate target at the unprecedentedly high level of at least ¥200.

Liquidity and Capital Resources

Financial position

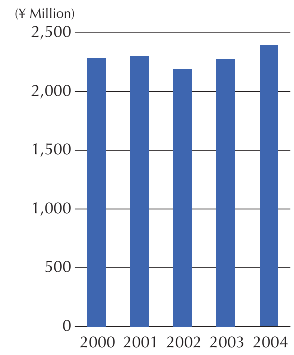
Consolidated total assets at March 31, 2004, were up by ¥6,633 million from the previous year, at ¥102,853 million (US$973,618 thousand). From the standpoint of current assets and liabilities, current assets rose by 11.0%, or ¥7,014 million, as a result of increases in trade receivables. That increase in receivables was impacted by the growth in sales to the Middle East, mainland China and Hong Kong, all of which were scenes of substantial capital investment. Meanwhile current liabilities grew by 22.8% year-on-year, by ¥2,296 million. In spite of an increase in short-term borrowings there was only a small rise in trade payables. As a result of these developments, the current ratio fell below its year-earlier level, to 573.3%, but nevertheless remained well above the 200% level necessary for ensuring stability.

With respect to non-current assets and long-term liabilities, on the asset side there was a small change in property, plant and equipment, investments and other assets, which declined by ¥381 million from the previous year. However, reflecting the upturn in share prices, investment securities increased by ¥305 million as a result of posting a valuation gain. Long-term liabilities rose by ¥879 million, owing to provision for an allowance for directors' retirement benefits.

Shareholders' equity increased by ¥3,484 million from the previous year, to ¥87,903 million (US$832,100 thousand). This rise was attributable mainly to an increase in retained earnings reflecting the substantial profit growth, and the rebound in the stock markets also gave rise to gains in the valuation of securities holdings. On the other hand, factors reducing shareholders' equity included an increase in purchases of Company shares for the purpose of enhancing enterprise value, and an increase in foreign currency translation adjustments as a result of the appreciation of the yen up to the end of the fiscal year. In consequence, the total shareholders' equity ratio edged down from 87.7% to 85.5%, primarily as a result of the increase in Company shares purchases, but there was a year-on-year improvement from 22.2% to 21.0% in the fixed assets ratio: the ratio of the source of equipment funds to shareholders' equity. This demonstrates increasing financial stability.

Return on assets (the ratio of net income to total capital employed) rose from 5.2% to 5.7%, and ROE (the ratio of net income to total shareholders' equity) increased from 5.9% to 6.5%. This was due to improvements in two components of these indicators, namely the turnover of total capital, which indicates asset efficiency, and the sales margin, a good indicator of profitability. The turnover of total capital rose by 0.01 to 0.47, while the sales margin was up by 0.8 of a point, to 12.1%.

Shareholders' equity per share



Cash flows

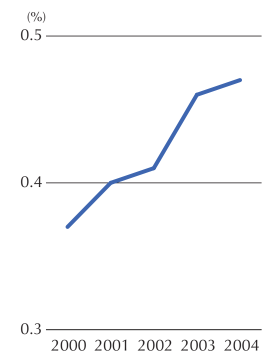
The balance of cash and cash equivalents at the end of the fiscal year stood at ¥7,269 million (US$68,809 thousand), representing a decline of ¥2,698 million from the previous fiscal year-end. The principal cause of this was a net outflow of cash from operating activities.

The main factor causing this decline in cash flow from operating activities was an increase in trade receivables of ¥8,910 million from the previous year-end. This was too large to be offset by the increase in income before income taxes and the decline in inventories. There was an increase in the allowance for doubtful accounts in parallel with the sharp rise in trade receivables, but the substantial increase in the amount of income taxes paid also had an impact, causing a net outflow of ¥1,208 million (US$11,435 thousand), compared with a net inflow of ¥4,885 million for the previous year.

Net cash used in investing activities decreased by ¥1,103 million, to ¥817 million (US$7,734 thousand). This was because in spite of an increase in acquisitions of property, plant and equipment, purchases of investment securities were curbed, and securities were sold.

Net cash used in financing activities declined by ¥1,339 million from the previous year, to ¥639 million (US$6,049 thousand). This was attributable principally to the fact that fund-raising by means of short-term borrowings substantially offset ongoing purchases of Company shares for the purpose of enhancing enterprise value, and an increase of ¥7.5 per share in the cash dividend.

Total assets turnover



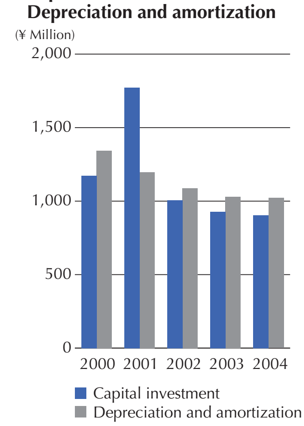
Results of Operations

Net sales

Consolidated net sales increased by 7.2% from the previous year, to ¥46,420 million (US$439,417 thousand), owing to growth in sales of mainstay flatbed knitting machines both within Japan and overseas, and to higher sales of glove/sock knitting machines, primarily overseas. Of particular note is that domestic sales recorded a sharp increase of 30.2%, or ¥8,244 million (US$78,039 thousand), because of the steady spread in the use of WHOLEGARMENT®. We attribute this to the fact that WHOLEGARMENT® began to assert itself as the impetus for bringing about a switch in the knitting/fashion industry from a labor-intensive to knowledge-intensive industry, in line with Company policy. In overseas markets, demand for conventional computerized flatbed knitting machines remain buoyant, and sales were especially favorable in Hong Kong, mainland China and Turkey, where there is growing enthusiasm for capital investment. As a result, sales rose by 3.3% year-on-year, to ¥38,176 million (US$361,378 thousand).

On a segment basis, net sales in the flatbed knitting machine segment totaled ¥36,780 million (up by 5.5% year-on-year), in the design system segment they were ¥1,949 million (down by 17.4%), in the glove/sock knitting machine segment they were ¥5,028 million (up by 60.4%), and in other businesses they were ¥2,663 million (down by 8.8%). In addition to mainstay flatbed knitting machines, sales of glove/sock knitting machines were also strong, bolstered by brisk sales in overseas markets.

Capital investment / Depreciation and amortization

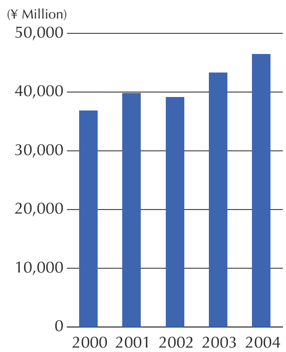


Cost of sales and SG&A expenses

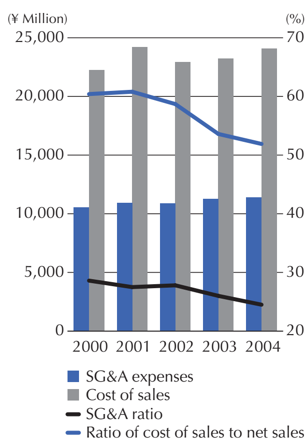
The cost of sales totaled ¥24,074 million (US$227,887 thousand), which represented an increase of 3.8% from the previous year. However, as a result of cost-cutting measures and a rise in the capacity utilization ratio as production increased, the ratio of cost of sales to sales declined by 1.7 points from the previous year, to 51.9%.

Selling, general and administrative expenses totaled ¥11,374 million (US$107,668 thousand), representing a modest rise of 1.2%. Freight and packing costs rose sharply as a result of the sales growth, and R&D expenses also increased, but Company-wide cost-saving measures were implemented. As a result, the ratio of selling, general and administrative expenses to sales fell by 1.5 points from the previous year, to 24.5%.

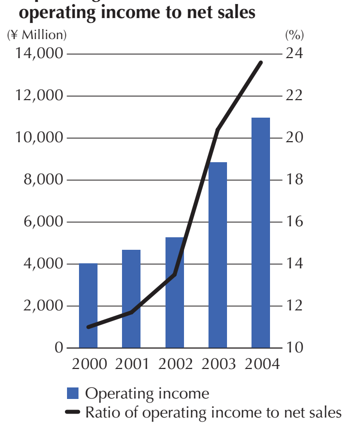
Net sales



SG&A expenses / Cost of sales



Operating income / Ratio of operating income to net sales



Operating income

As described above, the Company posted a 24.0% increase in operating income, to ¥10,972 million (US$103,862 thousand), which was an all-time high. This was achieved as a result not only of sales growth, but also of cuts in cost of sales and in selling, general and administrative expenses. The operating income ratio consequently reached the high level of 23.6%.

Operations by segment

Within the flatbed knitting machine segment, domestic sales totaled ¥4,943 million (US$46,791 thousand), and overseas sales totaled ¥31,837 million (US$301,373 thousand). That domestic sales figure represented a substantial year-on-year increase of 54.7%, attributable to the fact that the reputation of WHOLEGARMENT® began to entrench itself firmly, and there was a sharp increase in the number of units installed by domestic apparel manufacturers, trading companies, knitwear manufacturers, and others. As a result, unit sales almost doubled from the previous year, to 338. Overseas sales remained close to their year-earlier level, rising by 0.5%, but that figure conceals the fact that the global market was polarized into two segments: on the one hand Europe, where sales growth leveled off, and on the other hand the East Asian region (Hong Kong and mainland China), and the Middle East, particularly Turkey, where sales of conventional models remained at a high level. As a result of these developments, the flatbed knitting machine segment generated sales of ¥36,780 million (US$348,164 thousand), with operating income of ¥12,812 million (US$121,280 thousand), up by 14.1% year-on-year. The operating income ratio was 34.8%, up by 2.6 percentage points from the previous year.

In the design system segment, sales declined by ¥411 million, to ¥1,949 million (US$18,449 thousand). Emphasis was placed on marketing SDS®-ONE, a communication tool for the knitwear/apparel industry incorporating the “All-in-One” development concept, gaining it a strong reputation for its excellent functionality and operability. Sales in the domestic market stayed at around their year-earlier level, but lack of progress in widening use of the system in overseas markets led to the overall sales decline. Nevertheless, operating income rose by 13.9%, to ¥809 million (US$7,658 thousand), and the operating income ratio was 41.5%, exceeding the relevant ratio (operating income as a percentage of sales) in the flatbed knitting machine segment.

In the glove/sock knitting machine segment, net sales registered a substantial increase of 60.4% year-on-year, to ¥5,028 million (US$47,596 thousand). In overseas markets sales were up by 55.6%, as manufacturers in countries such as Korea, China and Turkey engaged in vigorous capital investment to position themselves to meet demand from Europe and North America. Domestically there was brisk demand for coated gloves for use in such fields as healthcare and precision manufacturing, leading to a doubling of sales. As a net result of these developments, operating income rose by 82.5%, to ¥1,586 million (US$15,014 thousand), and the operating income ratio reached 31.5%, which was 3.8 points higher than in the previous year.

In the other businesses segment, principally comprising the sale of components, sales fell by 8.8%, to ¥2,663 million (US$25,208 thousand), while operating income rose by 16.5%, to ¥402 million (US$3,805 thousand). The operating income ratio was 15.1%.

In terms of geographical area, the parent company accounted for an overwhelmingly large 96.3% of sales, the sales of European subsidiaries totaled ¥798 million (US$7,554 thousand), and the sales of subsidiaries in North America totaled ¥920 million (US$8,709 thousand), both lower than in the previous year. The situation was similar in the case of the operating income/loss account, and in North America an operating loss was recorded.

Other income and expenses

Other expenses exceeded other income by ¥1,452 million (US$13,745 thousand), a total that represented a ¥1,406 million rise from the previous year. The principal reason for this was that owing to the sharp appreciation of the yen up to the end of the term there was an exchange loss of ¥891 million (US$8,434 thousand), compared with an exchange gain in the previous year. The Company made provision to the allowance for directors’ retirement benefits. The stock-market recovery meant, however, that the Company did not record a valuation loss on securities holdings, unlike in the previous year.

Net income

As a result of all of the factors set out above, net income increased by 15.3% from the previous year, to ¥5,624 million (US$53,237 thousand), a record high. In consequence, the sales margin rose to 12.1% and earnings per share was ¥150.64 (US$1.43), exceeding the Company's ¥150 target.

Outlook

The economic outlook will be colored by the apparent robustness of the U.S. economy and by expectations of continuing strong growth in East Asia, although inflation and other risks are causes for concern. In the Japanese economy, in spite of the recovery trend, the outlook remains uncertain, given such factors as the strength of the yen and the stagnant environment for incomes and employment.

Amid this economic environment, in overseas markets the status of Hong Kong, mainland China and Turkey as large-scale production bases will continue to grow in importance in the current term, and they are expected to continue to perform strongly. In the European market, which is suited for production for local consumption within the region, we will continue to take vigorous advantage of the success at the IKME exhibition, and devote attention to ensuring the full-scale spread of our WHOLEGARMENT® flatbed knitting machines. Through this, we hope to move into at least a modest recovery trend. Potential causes of uncertainty include the overheating of capital investment in China and the trend of investment sentiment in Turkey.

In the domestic market, apparel and knitwear manufacturers and trading companies' textile business divisions are building collaborative structures and creating new business models through which the use of domestic production capacity is being fostered by the use of WHOLEGARMENT® as the nucleus. Backed by the momentum of industry trends such as this, we will pursue increasing sales of WHOLEGARMENT®.

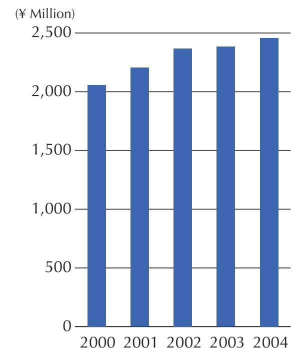
In addition, we aim to promote sales of the newly developed SWG021 in a broad range of industries, and we will develop New SFG18 Gauge, the world's first ultrafine-gauge glove knitting machine, for multiple applications.

We will also address the increase in sales receivables, which in the year under review exerted a major impact on our financial balance. We will do so by formulating risk-avoidance measures, such as by increasing the liquidity of receivables through asset securitization measures and issuing guidance to overseas agents regarding the balance of trade receivables. We will also increase the degree of differentiation from our competitors by providing products with more advanced functional capabilities. Other focuses of attention will include the continuation of risk hedging based on our exchange risk management system, which is designed to address the high ratio of overseas sales, and the reduction of production costs by means of ongoing group-wide rationalization, efficiency enhancement, and productivity improvements. Through these measures we will devote our entire energies to further improving business performance and securing stable profits.

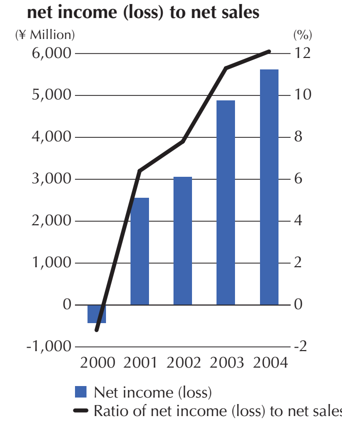
For the fiscal year ending March 31, 2005, we are projecting net sales of ¥48.5 billion, operating income of ¥11.5 billion, and net income of ¥6.5 billion.

These projections are premised on an exchange rate of ¥105 against the U.S. dollar and of ¥128 against the euro.

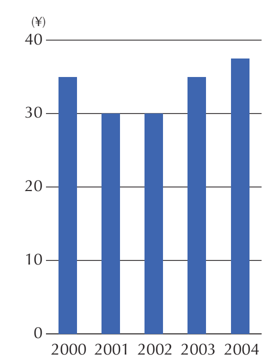
Research and development expenses



Net income (loss) / Ratio of net income (loss) to net sales



Cash dividends per share



Consolidated Balance Sheets

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 7,269**	¥ 9,967	**$ 68,809**
Time deposits	**923**	207	**8,737**
Short-term investments (Note 4)	**200**	200	**1,893**
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	**210**	282	**1,988**
Other	**51,352**	42,424	**486,103**
Inventories (Note 5)	**10,324**	10,411	**97,728**
Deferred tax assets (Note 12)	**1,261**	752	**11,937**
Prepaid expenses and other current assets	**1,059**	871	**10,025**
Less: allowance for doubtful accounts	**(1,644)**	(1,174)	**(15,562)**
Total current assets	**70,954**	63,940	**671,658**
Investments and other assets:			
Investments in unconsolidated subsidiaries and an affiliate	**1,775**	1,782	**16,802**
Investments in securities (Note 4)	**4,553**	4,241	**43,099**
Long-term loans receivable	**304**	329	**2,878**
Deferred tax assets (Note 12)	**860**	746	**8,141**
Deferred tax assets for land revaluation (Note 6)	**4,518**	4,530	**42,768**
Other	**2,316**	2,945	**21,924**
Less: allowance for doubtful accounts	**(898)**	(1,060)	**(8,501)**
Total investments and other assets	**13,428**	13,513	**127,111**
Property, plant and equipment:			
Land	**10,389**	10,265	**98,344**
Buildings and structures	**19,349**	19,208	**183,160**
Machinery and equipment	**3,653**	3,788	**34,580**
Tools, furniture and fixtures	**5,345**	5,463	**50,596**
Construction in progress	**30**	32	**284**
	38,766	38,756	**366,964**
Less: accumulated depreciation	**(20,295)**	(19,989)	**(192,115)**
Property, plant and equipment, net	**18,471**	18,767	**174,849**
Total assets	**¥102,853**	¥96,220	**$973,618**

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 7)	**¥ 1,720**	¥ 20	**$ 16,282**
Trade accounts and notes payable:			
Unconsolidated subsidiaries	**21**	18	**199**
Other	**4,742**	4,504	**44,888**
Accrued expenses	**1,035**	865	**9,797**
Accrued income taxes	**2,956**	2,411	**27,982**
Other current liabilities	**1,903**	2,263	**18,014**
Total current liabilities	**12,377**	10,081	**117,162**
Long-term liabilities:			
Allowance for retirement benefits (Note 8)	**1,498**	1,542	**14,180**
Allowance for directors' and statutory auditors' retirement benefits	**921**	—	**8,718**
Long-term loans (Note 7)	**2**	—	**19**
Total long-term liabilities	**2,421**	1,542	**22,917**
Minority interests	**152**	178	**1,439**
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock:			
Authorized— 142,000,000 shares			
Issued— 37,600,000 shares	**14,860**	14,860	**140,666**
Capital surplus	**21,724**	21,724	**205,642**
Retained earnings (Notes 11 and 16)	**60,409**	56,241	**571,838**
Land revaluation difference (Note 6)	**(6,658)**	(6,675)	**(63,025)**
Net unrealized holding gain (loss) on securities	**240**	(165)	**2,272**
Foreign currency translation adjustments	**(236)**	(85)	**(2,234)**
Treasury stock, at cost			
(869,820 shares in 2004 and 610,610 shares in 2003)	**(2,436)**	(1,481)	**(23,059)**
Total shareholders' equity	**87,903**	84,419	**832,100**
Total liabilities and shareholders' equity	**¥102,853**	¥96,220	**$973,618**

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Net sales	**¥46,420**	¥43,288	**$439,417**
Cost of sales	**24,074**	23,200	**227,887**
Gross profit	**22,346**	20,088	**211,530**
Selling, general and administrative expenses (Note 13)	**11,374**	11,241	**107,668**
Operating income	**10,972**	8,847	**103,862**
Other income (expenses):			
Interest and dividend income	**252**	240	**2,385**
Interest expense	**(4)**	(37)	**(38)**
Other, net	**(1,700)**	(249)	**(16,092)**
Income before income taxes and minority interests	**9,520**	8,801	**90,117**
Income taxes (Note 12)**:**			
Current	**4,810**	3,656	**45,532**
Deferred	**(903)**	289	**(8,548)**
	3,907	3,945	**36,984**
Income before minority interests	**5,613**	4,856	**53,133**
Minority interests in losses of consolidated subsidiaries	**11**	22	**104**
Net income	**¥ 5,624**	¥ 4,878	**$ 53,237**

	Yen		U.S. dollars
Per share:			
Net income	**¥150.64**	¥129.61	**$1.43**
Cash dividends applicable to the year	**37.50**	35.00	**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, 2004 and 2003

	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, 2002	37,600	¥14,860	¥21,724	¥52,514	¥(6,528)	¥(262)	¥ 59	¥ (632)
Net income	—	—	—	4,878	—	—	—	—
Cash dividends	—	—	—	(1,120)	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(31)	—	—	—	—
Land revaluation difference	—	—	—	—	(147)	—	—	—
Net unrealized holding gain on securities	—	—	—	—	—	97	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	(144)	—
Increase in treasury stock	—	—	—	—	—	—	—	(849)
Balance at March 31, 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)**

	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, 2003	$140,666	$205,642	$532,384	$(63,186)	$(1,562)	$ (805)	$(14,019)
Net income	—	—	**53,237**	—	—	—	—
Cash dividends	—	—	**(13,130)**	—	—	—	—
Bonuses to directors and statutory auditors	—	—	**(492)**	—	—	—	—
Land revaluation difference	—	—	**(161)**	**161**	—	—	—
Net unrealized holding gain on securities	—	—	—	—	**3,834**	—	—
Foreign currency translation adjustments	—	—	—	—	—	**(1,429)**	—
Increase in treasury stock	—	—	—	—	—	—	**(9,040)**
Balance at March 31, 2004	**$140,666**	**$205,642**	**$571,838**	**$(63,025)**	**$ 2,272**	**$(2,234)**	**$(23,059)**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥9,520**	¥ 8,801	**$90,117**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**1,021**	1,031	**9,665**
Increase in allowance for doubtful accounts	**322**	48	**3,048**
Increase (decrease) in allowance for retirement benefits	**(45)**	71	**(426)**
Increase in allowance for directors' and statutory auditors' retirement benefits	**921**	—	**8,718**
Interest and dividend income	**(252)**	(240)	**(2,385)**
Interest expense	**4**	37	**38**
Foreign currency exchange loss	**61**	30	**577**
Loss on sales and disposal of property, plant and equipment, net	**57**	39	**540**
Increase in trade receivables	**(8,910)**	(4,078)	**(84,343)**
Decrease (increase) in inventories	**117**	(192)	**1,108**
Increase in trade payables	**405**	205	**3,834**
Other	**(409)**	519	**(3,872)**
Subtotal	**2,812**	6,271	**26,619**
Interest and dividend income received	**251**	244	**2,376**
Interest expense paid	**(10)**	(37)	**(95)**
Income taxes paid	**(4,261)**	(2,801)	**(40,335)**
Net cash provided by (used in) operating activities	**(1,208)**	3,677	**(11,435)**
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	**(716)**	309	**(6,778)**
Purchases of short-term investments	**(3,670)**	(3,200)	**(34,741)**
Proceeds from sales of short-term investments	**3,670**	3,160	**34,741**
Purchases of property, plant and equipment	**(1,037)**	(767)	**(9,816)**
Proceeds from sales of property, plant and equipment	**102**	6	**966**
Purchases of investments in securities	**(200)**	(1,571)	**(1,893)**
Proceeds from sales of investments in securities	**591**	23	**5,594**
Decrease (increase) in long-term loans receivable, net	**85**	(57)	**805**
Other	**358**	177	**3,388**
Net cash used in investing activities	**(817)**	(1,920)	**(7,734)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	**1,700**	(10)	**16,092**
Increase (decrease) in long-term loans, net	**3**	(1)	**28**
Purchases of treasury stock	**(955)**	(849)	**(9,040)**
Cash dividends paid	**(1,387)**	(1,118)	**(13,129)**
Net cash used in financing activities	**(639)**	(1,978)	**(6,049)**
Effect of exchange rate changes on cash and cash equivalents	**(34)**	(59)	**(322)**
Net decrease in cash and cash equivalents	**(2,698)**	(280)	**(25,540)**
Cash and cash equivalents at beginning of year	**9,967**	10,247	**94,349**
Cash and cash equivalents at end of year	**¥7,269**	¥ 9,967	**$68,809**

See the accompanying notes to the consolidated financial statements.

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, 2004, which was ¥105.64 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, 2004.

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. Accounting change

Through the year ended March 31, 2003, the Company accounted for directors' and statutory auditors' retirement benefits on a cash basis. Commencing in the year ended March 31, 2004, the Company changed its method of accounting for directors' and statutory auditors' retirement benefits from the cash basis to an accrual basis. Under the new accrual method, the Company records the amount that is required by the internal regulations at the end of the fiscal year.

The Company believes that this change provides a better matching of costs and revenues over the period of service.

The portion of the accrual relating to the year of change, amounting to ¥171 million, has been included in selling, general and administrative expenses and the portion relating to the prior period, amounting to ¥749 million, has been included in other expenses in the year ended March 31, 2004.

The effects of this change for the year ended March 31, 2004 were to decrease operating income by ¥171 million and to decrease income before income taxes and minority interests by ¥921 million.

4. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2004 and 2003 were as follows:

	Millions of yen		
	2004		
	Acquisition costs	Amount recorded in the balance sheet	Difference
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)
Debt securities	—	—	—
Other	275	234	(41)
Subtotal	862	656	(206)
Total	¥2,109	¥2,512	¥403

	Millions of yen		
	2003		
	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥ 153	¥ 203	¥ 50
Other	50	50	0
Subtotal	¥ 203	¥ 253	¥ 50
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥1,396	¥1,151	¥(245)
Debt securities	149	147	(2)
Other	729	649	(80)
Subtotal	¥2,274	¥1,947	¥(327)
Total	¥2,477	¥2,200	¥(277)

	Thousands of U.S. dollars		
	2004		
	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	$10,403	$15,969	$ 5,566
Other	1,401	1,600	199
Subtotal	$11,804	$17,569	$ 5,765
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	$ 5,557	$ 3,995	$(1,562)
Debt securities	—	—	—
Other	2,603	2,215	(388)
Subtotal	$ 8,160	$ 6,210	$(1,950)
Total	$19,964	$23,779	$ 3,815

Other securities without quoted market prices at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2004	2003	2004
Held-to-maturity securities:			
Debt securities	¥ 200	¥ 200	$ 1,893
Other securities:			
Unlisted equity securities	¥2,041	¥2,041	$19,320

5. Inventories

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods	¥ 6,339	¥ 6,641	$60,005
Work in process	813	794	7,696
Raw materials	2,587	2,370	24,489
Supplies and others	585	606	5,538
	¥10,324	¥10,411	$97,728

6. 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, 2004 were as follows.

Land before revaluation	¥21,116 million
Land after revaluation	¥ 9,940 million
Land revaluation difference	¥ 6,658 million (net of deferred tax assets of ¥4,518 million)

7. Short-term loans and long-term loans

Short-term loans and long-term loans at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term loans:			
0.46% to 2.06% unsecured loans from banks	¥1,720	¥20	$16,282
Long-term loans:			
1.9% unsecured loan from bank	¥ 3	—	$ 28
Less: current portion	(1)	—	(9)
	¥ 2	—	$ 19

8. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2004 and 2003 consisted of the following:

Retirement benefit obligation at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥(3,945)**	¥(3,794)	**$(37,344)**
Fair value of plan assets	**2,245**	1,822	**21,252**
Benefit obligation in excess of plan assets	**(1,700)**	(1,972)	**(16,092)**
Unrecognized actuarial loss	**202**	430	**1,912**
Obligation recognized in the consolidated balance sheets	**(1,498)**	(1,542)	**(14,180)**
Allowance for retirement benefits	**¥(1,498)**	¥(1,542)	**$(14,180)**

Components of net periodic benefit cost for the year ended March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥217**	¥203	**$2,054**
Interest cost	**95**	86	**899**
Expected return on plan assets	**(21)**	(20)	**(198)**
Amortization:			
Actuarial loss	**43**	19	**407**
Net periodic benefit cost	**¥334**	¥288	**$3,162**

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2004 and 2003 is as follows:

	2004	2003
Method of attributing benefit to periods of service	**straight-line basis**	straight-line basis
Discount rate	**2.5%**	2.5%
Expected rate of return on fund assets	**1.15%**	1.15%
Amortization period for actuarial gain (loss)	**10years**	10years

9. Contingent liabilities

Contingent liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Trade notes discounted	**¥ 7,025**	¥3,133	**$ 66,499**
Guarantees of customers' loans and lease obligations	**5,312**	4,750	**50,284**
	¥12,337	¥7,883	**$116,783**

10. 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 the derivatives positions outstanding at March 31, 2004 and 2003.

Currency — related transactions

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

	Millions of yen		
	2003		
	Contract amounts	Fair value	Unrealized loss
Forward foreign exchange contracts:			
Sell:			
Euro	—	—	—

	Thousands of U.S. dollars		
	2004		
	Contract amounts	Fair value	Unrealized loss
Forward foreign exchange contracts:			
Sell:			
Euro	**$20,712**	**$21,536**	**$(824)**

11. 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, 2004 included the Company's legal reserve of ¥2,124 million ($20,106 thousand).

12. 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 41.7% for the years ended March 31, 2004 and 2003.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Allowance for retirement benefits	**¥ 473**	¥ 408	**$ 4,477**
Allowance for doubtful accounts	**396**	—	**3,748**
Allowance for directors' and statutory auditors' retirement benefits	**373**	—	**3,531**
Accrued bonuses to employees	**288**	223	**2,726**
Accrued enterprise tax	**278**	211	**2,632**
Tax loss carryforwards	**320**	354	**3,029**
Unrealized holding loss on securities	**—**	112	**—**
Intercompany profit	**220**	268	**2,083**
Other	**339**	238	**3,209**
Total gross deferred tax assets	**2,687**	1,814	**25,435**
Less valuation allowance	**(337)**	(266)	**(3,190)**
Net deferred tax assets	**2,350**	1,548	**22,245**
Deferred tax liabilities:			
Unrealized holding gain on securities	**(163)**	—	**(1,543)**
Tax deductible reserves	**(31)**	(23)	**(293)**
Other	**(35)**	(27)	**(331)**
Total gross deferred tax liabilities	**(229)**	(50)	**(2,167)**
Net deferred tax assets	**¥2,121**	¥1,498	**$20,078**

13. Research and development costs

Research and development costs charged to income were ¥2,457 million ($23,258 thousand) and ¥2,383 million for the years ended March 31, 2004 and 2003, respectively.

14. Lease

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥710 million ($6,721 thousand) and ¥670 million for the years ended March 31, 2004 and 2003, respectively.

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, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004			**2004**
	Acquisition cost	Accumulated depreciation	Net leased property	Net leased property
Machinery and equipment	**¥4,476**	**¥2,354**	**¥2,122**	**$20,087**
Tools, furniture and fixtures	**209**	**104**	**105**	**994**
Total	**¥4,685**	**¥2,458**	**¥2,227**	**$21,081**

	Millions of yen		
	2003		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥4,133	¥2,188	¥1,945
Tools, furniture and fixtures	175	116	59
Total	¥4,308	¥2,304	¥2,004

Obligations under such finance leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 649**	¥ 609	**$ 6,144**
Due after one year	**1,633**	1,464	**15,458**
Total	**¥2,282**	¥2,073	**$21,602**

Depreciation expense and imputed interest expense for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Depreciation expense	**¥656**	¥612	**$6,210**
Imputed interest expense	**¥ 40**	¥ 51	**$ 379**

15. Segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 was as follows:

	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**

	Millions of yen						
	2003						
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥34,872	¥2,360	¥3,135	¥2,921	¥43,288	—	¥43,288
Intersegment sales	—	—	—	—	—	—	—
Total	34,872	2,360	3,135	2,921	43,288	—	43,288
Operating costs and expenses	23,648	1,649	2,266	2,576	30,139	¥ 4,302	34,441
Operating income	¥11,224	¥ 711	¥ 869	¥ 345	¥13,149	¥ (4,302)	¥ 8,847
Assets, depreciation and capital expenditures:							
Assets	¥61,206	¥4,102	¥3,193	¥4,371	¥72,872	¥23,348	¥96,220
Depreciation	477	18	36	41	572	459	1,031
Capital expenditures	468	6	21	35	530	400	930

	Thousands of U.S. dollars						
	2004						
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**$348,164**	**$18,449**	**$47,596**	**$25,208**	**$439,417**	**—**	**$439,417**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**348,164**	**18,449**	**47,596**	**25,208**	**439,417**	**—**	**439,417**
Operating costs and expenses	**226,884**	**10,791**	**32,582**	**21,403**	**291,660**	**$ 43,895**	**335,555**
Operating income	**$121,280**	**$ 7,658**	**$15,014**	**$ 3,805**	**$147,757**	**$ (43,895)**	**$103,862**
Assets, depreciation and capital expenditures:							
Assets	**$644,642**	**$34,901**	**$44,330**	**$41,197**	**$765,070**	**$208,548**	**$973,618**
Depreciation	**4,468**	**76**	**473**	**369**	**5,386**	**4,279**	**9,665**
Capital expenditures	**5,301**	**76**	**464**	**1,088**	**6,929**	**1,628**	**8,557**

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, 2004 and 2003 was as follows:

	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**

	Millions of yen					
	2003					
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	¥40,486	¥1,221	¥1,581	¥43,288	—	¥43,288
Intersegment sales	1,521	—	7	1,528	¥ (1,528)	—
Total	42,007	1,221	1,588	44,816	(1,528)	43,288
Operating costs and expenses	29,012	1,086	1,654	31,752	2,689	34,441
Operating income (loss)	¥12,995	¥ 135	¥ (66)	¥13,064	¥ (4,217)	¥ 8,847
Assets	¥71,393	¥ 913	¥1,840	¥74,146	¥22,074	¥96,220

	Thousands of U.S. dollars					
	2004					
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	**$423,154**	**$7,554**	**$ 8,709**	**$439,417**	**—**	**$439,417**
Intersegment sales	**9,088**	**161**	**274**	**9,523**	**$ (9,523)**	**—**
Total	**432,242**	**7,715**	**8,983**	**448,940**	**(9,523)**	**439,417**
Operating costs and expenses	**284,627**	**7,213**	**9,618**	**301,458**	**34,097**	**335,555**
Operating income (loss)	**$147,615**	**$ 502**	**$ (635)**	**$147,482**	**$ (43,620)**	**$103,862**
Assets	**$747,832**	**$5,443**	**$18,582**	**$771,857**	**$201,761**	**$973,618**

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, 2004 and 2003 were as follows:

	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%**

	Millions of yen				
	2003				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	¥7,479	¥8,522	¥18,941	¥2,014	¥36,956
Total sales					¥43,288
Ratio of overseas sales to total sales	17.3%	19.7%	43.8%	4.6%	85.4%

	Thousands of U.S. dollars				
	2004				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	**$53,540**	**$100,170**	**$197,927**	**$9,741**	**$361,378**
Total sales					**$439,417**
Ratio of overseas sales to total sales	**12.2%**	**22.9%**	**45.0%**	**2.1%**	**82.2%**

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.

16. Subsequent events

Shareholders approved the following appropriation of retained earning at the annual meeting held on June 29, 2004.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥735	$6,958
Bonuses to directors and statutory auditors	55	521

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, 2004 and 2003, 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, 2004 and 2003, 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.

As described in Note 3, in the year ended March 31, 2004, the Company changed its method of accounting for directors' and statutory auditors' retirement benefits from the cash basis to accrual basis.

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.

Ohtemae Audit Co.

Ohtemae Audit Corporation

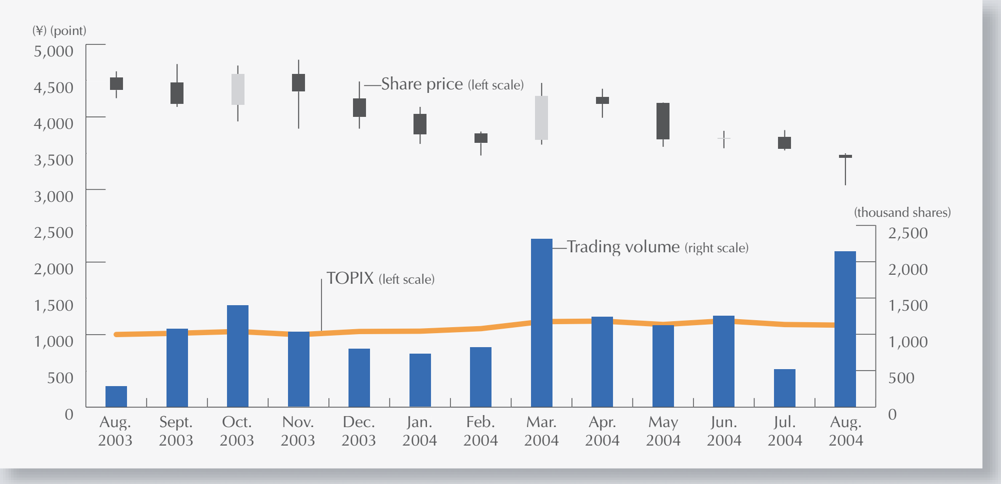
Osaka, Japan
June 29, 2004

Corporate Information (As of March 31, 2004)

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	1,021
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.

Investor Information (As of March 31, 2004)

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	14,969
Stock Exchange Listing	The First Section of Tokyo Stock Exchange The First Section of Osaka Securities Exchange
Auditing Corporation	Ohtemae Audit Corporation



SHIMA SEIKI

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