



Integrated Report  
2023

**Ever**  
**Onward**

**SHIMA SEIKI**

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## About SHIMA SEIKI



### Key Points



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We explain what kind of company SHIMA SEIKI is to our stakeholders by introducing the history of our company since its foundation, as well as the current issues and future outlook in “Message from Top Management.”

## Value Creation Story: Aims of SHIMA SEIKI



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To help you gain a deeper understanding of the future vision of Shima Seiki, we present our value creation story in the “Value Creation Model” section and talk about the exhibition ITMA 2023 in which we participated with a new concept “SHIMA SEIKI Reborn” in the “Special Features” section.

### Editorial Policy

This Integrated Report was created to provide our stakeholders with an easy-to-understand description of our future vision and initiatives regarding our medium- to long-term business strategy and solutions to sustainability issues.

Reporting period : April 1, 2022 to March 31, 2023

### Activity Feeds



Facebook



Instagram  
@shimaseiki.official



Instagram  
@wholegarment\_official



Instagram  
@virtualsample



YouTube

Please find links to all our social media feeds at the foot of our website.  
<https://www.shimaseiki.com/>



**Business Strategy**



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We introduce our company's products and services offered to society by each segment. We discuss our business strategies to become an indispensable company to society.

**Value Creation Base**



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This section describes our ESG initiatives and topics relating to our goal of becoming an indispensable company to society.

**Financial and Non-Financial Data**



Financial and Non-Financial Summary ..... 61  
 Corporate and Stock Information ..... 63

This section includes financial and non-financial data, as well as corporate and stock information.

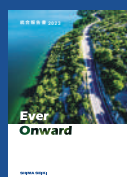
**Communication Tools**

These communication tools are found on the Investor Relations page of our website under HOME > IR Library. <https://www.shimaseiki.com/ire/library/>



▶ **Integrated Report**

This Integrated Report makes integrated information disclosure by providing financial information, including our business performance, and describing our ESG (Environmental, Social, and Governance) initiatives to equip stakeholders with an understanding of the Company's medium- to long-term growth and future vision, as well as the value creation process to realize those goals.



▶ **Shareholder Newsletters**

We provide our shareholders with semi-annual business reports, our latest news, recent initiatives, etc. (Only in Japanese)



▶ **Annual Securities Report / Quarterly Securities Report**

These reports contain our quarterly financial information.

▶ **Results Briefing Materials**

Presentation slides that outline quarterly financial information (simplified version for 1st and 3rd quarters). Performance information is expressed using diagrams and photographs.



**By further strengthening existing businesses and creating new business opportunities, we will carve out a new future together with our stakeholders.**

**Mitsuhiro Shima, President**

**Looking Back on the Fiscal Year Ended March 31, 2023 and Looking Forward to the Future**

The fiscal year ended March 31, 2023 was a year of multiple challenges, including the lockdown in Shanghai, difficulties in procuring parts due to the prolonged situation in Ukraine, and soaring resource prices. As a result, we posted a deficit for the fourth consecutive year in what were disappointing operating results, which was a cause of great concern to our stakeholders.

While economic conditions in Japan and overseas showed signs of a gradual recovery, the apparel and fashion industry, which is the Company's business domain, continues to experience significant fluctuations in the supply and demand balance, which is one of the factors putting pressure on our management. During the COVID-19 pandemic, consumption behavior was sluggish, and product inventories accumulated. However, as consumption behavior picks up in line with the

subsiding of the pandemic, we now find that inventories are rapidly declining and becoming scarce. This long-continued market disruption has slowed capital investment by apparel manufacturers globally and has had a significant impact on our operating results.

In such an environment, the Company has been working as a whole to focus on recovering our operating results. As a result, in the first quarter of the fiscal year ending March 31, 2024, we achieved profitability for the first time since the third quarter of the fiscal year ended March 31, 2019, and we believe that capital investment is on a gradual return in line with the recovery in demand for the apparel and fashion industry. We are not, of course, in a position where we can be optimistic, but in order to utilize the hardships we have experienced for the future, we believe that it is essential that we reinvent ourselves and provide customers with a new added value that has not previously existed.

At ITMA 2023, the international textile and garment technology exhibition held in Milan, Italy, in June 2023, we exhibited new models and prototypes of machines such



## MESSAGE FROM TOP MANAGEMENT

as conventional machines and glove knitting machines, including the SWG®-XR WHOLEGARMENT® flat knitting machine equipped with the latest functions, and we displayed a full lineup of next-generation flat knitting machines. We are confident that this industry-changing announcement enabled customers who visited our exhibition booth to recognize new possibilities for the future.

Looking at the current economic situation, the outlook for the future remains uncertain due partly to the slump in the real estate market in China, which is a major market for our Company, weighing heavily on economic recovery. Under these circumstances, while paying close attention to market trends in China, Southeast Asia, Europe, and elsewhere, in addition to increasing sales of WHOLEGARMENT® flat knitting machines, we aim to achieve a recovery in our business performance by expanding proposal activities for products and services that support sustainable manufacturing, including through the expansion of our solution-based business, to customers and industries around the world.

**Through Industrial Innovation,  
We Aim to Lead Our Customers to Success  
and Achieve Sustainable Growth**

Currently, with an estimated production of 80 billion apparel and fashion products worldwide, we are at a time when the entire supply chain must ask itself, "Do we really need such a large number of products on a planet with a population of 8 billion people?" In reality, a business model which creates an oversupply of products causes serious problems, including excessive waste and incineration. This not only poses risks to the viability of the business but also has a negative impact on the environment.

On the other hand, initiatives that give consideration to people and the global environment have become important in recent years on a global scale, and business activities that include sustainability have become essential for the age to come. Against the backdrop of life after the pandemic,



the apparel and fashion industry is facing questions over its traditional mass production business model, and there has been a rapid increase in people's awareness of reconsidering the current situation. This growing understanding of supply chain reform is proving to be a tailwind for establishing the "timely and optimal production" model we advocate, and we believe that it will promote sustainable growth into the future. It is not easy to transform existing business models. Still, we need to propose solutions that will move the entire supply chain in a better direction, not only by developing flat knitting machines and systems but also from product planning to manufacturing, sales, and recycling. We believe it is our mission and responsibility to contribute to "what our image should look like" in the new era.

Under these circumstances, knitwear made from WHOLEGARMENT® flat knitting machines, which we developed in 1995, is produced as a complete piece three-dimensionally, so there is no waste of raw materials such as cutting loss or seam allowances, and it is also possible for the yarn to be unraveled and reused. In addition, by combining this with the SDS®-ONE APEX design system series, it is possible to realize digitization, mass customization, and just-in-time production. This will contribute to truly sustainable manufacturing that can provide customers with what they really want at the time they need it. Furthermore, the APEXFiz® software subscription service has the advantage of allowing design work to be done regardless of the place, while also leading to proposals for diverse, new workstyles. Going forward, in addition to the TOTAL FASHION SYSTEM® that we have been advocating, we will strengthen proposals for digital data services and the further digital transformation (DX) of the industry with the aim of achieving manufacturing that is speedy, smart, and environmentally friendly. As we bring about industry innovation, we will lead our customers' businesses to success and also achieve sustainable growth as a company.

We also regard the development of materials such as yarns and fibers, the starting point for the apparel and fashion

industry, as one of our medium- to long-term challenges. We are developing yarnbank®, an online library that supports everything from searching for yarn and materials to downloading digital data. This application is contributing to more efficient product planning and sustainable manufacturing. In addition, we have launched BLUEKNIT as a platform to supply zero-waste knit products and are promoting initiatives aimed at realizing next-generation factories and regional revitalization of knitwear production areas in Japan.

Although we are only halfway towards realizing the sustainable society we envisage, we must continue to strengthen our industrial innovation initiatives while placing greater emphasis on the speed of our progress. While aiming to improve short-term profitability from a big-picture perspective, we will also focus on establishing a medium- to long-term growth model.

### **Proposing Solutions for Building a Strong Business Structure and Expanding Business Domains**

In recent years, as the business environment in the apparel and fashion industry has experienced rapid change, the Company has focused on structural reforms aimed at improving profitability. In particular, we are strengthening our initiatives in stable parts procurement, production and shipping. By further deepening our relationships of trust with suppliers and promoting the digitization of communication, we are realizing stable procurement and production systems, which will lead to thorough cost reductions.

Under the "Ever Onward 2023" Medium-Term Management Plan covering the three years from FY2021 to FY2023, we are making steady progress with challenges that include "shifting business structure to combination of [WHOLEGARMENT®] and [solution-based business]," as well as "speeding up product development and time-to-market to meet the needs of customers," and "business development in new areas."

However, the global economic situation remains unstable, and as a result of the careful consideration of our management goals, we have decided to revise our Medium-Term Management Plan based on the outlook that the business environment will continue to be more severe than expected. The management environment for the apparel and fashion industry as a whole continues to be difficult, but in order to escape from the current situation, we are developing a business centered on measures under the two pillars of "strengthening proposals for solutions that incorporate digital data," and "reducing costs through stable production and shipping." We are determined to achieve profitability in the fiscal year ending March 31, 2024.

Additionally, in domains other than the apparel and fashion

industry, we are also progressing with product development aimed at developing new markets. For us, the potential to expand into other industries is limitless, and we will expand our proposal activities for the use of flat knitting machines and automated cutting machines for various industries and markets, including the automobile, industrial materials, and medical fields.

Furthermore, in recent years, we have engaged in initiatives to contribute to the apparel and fashion industry in the field of materials such as fibers. Currently, approximately 70% of the fiber materials used by the apparel and fashion industry are derived from fossil fuels, but there are moves to reduce this figure as much as possible. Based on such trends of the times, we are taking on the challenge of developing new business, led by our young employees. Although the business scale is currently limited, we have seen the emergence of several businesses with future potential, one of which is business related to materials such as yarn, for which I personally have high expectations. In this way, we would like to build a resource circulation system from the field of materials to loss-free manufacturing using WHOLEGARMENT® through to final recycling, and connect this to proposals for solutions.

**Promoting Growth Strategies and Sustainable Management Utilizing Our Strengths**

As I have already mentioned, the perspective of sustainability will be an essential factor in the coming era, and the shift to sustainable manufacturing in the apparel and fashion industry is accelerating as environmental awareness increases. In addition, as competing manufacturers emerge from overseas, including China, the Company needs to move more quickly than before to transform our business model and further increase our competitiveness with competing manufacturers around the world.

Until now, the Company has created the world's first products through manufacturing that pursues advanced technological capabilities, quality, and distinction. Going forward, we would like to make a vision for the entire supply chain leveraging the strengths we have cultivated and contribute to creating new business models. Our mainstay product, WHOLEGARMENT® flat knitting machine, does not waste raw materials and does not require post-processing such as cutting or sewing, therefore resulting in less labor, time, and energy consumption. It also enables "timely and optimal production" and realizes environmentally friendly manufacturing in all aspects. In addition, from the perspective of building a resource recycling-based industry, the manufacturing that we propose through [WHOLEGARMENT®] x [solution-based business] can maximize the management efficiency of our customers and create new

profit opportunities.

However, in order to realize structural reform throughout the industry, there are many issues that need to be addressed immediately, and we cannot accomplish this alone. We believe that we must take the lead through our initiatives while involving the industry as a whole, including by proactively disseminating information to those in the supply chain and further deepening relationships with manufacturers of fibers and other materials. Although these initiatives are more low-key activities, we are confident that they will realize sustainable growth for the entire supply chain and lead to sustainable manufacturing that is considerate of the global environment.

**Supporting Employees' Growth and Job Satisfaction, and Fostering a Corporate Culture that Encourages Them to Take on Challenges**

We believe that increasing employees' growth and job satisfaction, and creating a corporate culture that encourages them to engage in prompt decision-making and take on the new innovation challenges is essential for strengthening our management capabilities and achieving sustainable growth. In recent years, people's values and the structure of society have been undergoing significant changes, partly due to diverse workstyles brought by rapid globalization and digitization, as well as the increasingly severe shortage of human resources due to the low birthrate and aging population. In order to respond flexibly to the increasingly sophisticated and complex economic and social environment, we are focusing on developing and utilizing human resources who can respond quickly to diversifying values. We aim to be an organization where people of all generations can play an active role. To realize this, we will enhance the in-house exchanges and training systems that support the growth of each and every employee, promote diversity that will create new added value, and create an environment that supports these initiatives. I also believe that it is the duty of management, myself included, to actively encourage communication across all job levels, and provide support for new challenges while providing a variety of options.

We will continue in our aim to further strengthen existing business and create new business opportunities through a variety of initiatives. Although there are still high hurdles to overcome, we are determined to contribute to creating a better society and environment by leveraging the spirit of "Ever Onward - Limitless Progress," and the experience and know-how we have developed over the years. We would like to carve out a future filled with hope together with all of our stakeholders, and to this end, I sincerely ask for your continued support.

## Ever Onward – Limitless Progress

We strive to become an indispensable company to society through sustainable business development. We do this under the motto of Ever Onward – Limitless Progress with “Love,” “Creativity,” and “Passion” as our mantras.

### The three mantras

#### Love

We contribute to society through our creative craftsmanship, which is friendly to both people and the environment. We strive to contribute to society through love for our work, people, country, community, and the earth.



#### Creativity

We aim to create the world's firsts through our finely honed sensitivity and sense of creativity.



#### Passion

We tackle new challenges with passion and chart our own future course by putting our all into our products and services.







創愛  
造氣

## Love, Passion, Creativity

Shima Seiki, founded through the development of the fully automated glove knitting machine, established its corporate philosophy as “Ever Onward – Limitless Progress,” and has always aimed to develop new technologies and continued to make sustained efforts and challenge in unknown territories. We will continue to evolve into a **“problem-solving company”** that contributes to the development of the apparel and fashion industry, and we will furthermore leverage the strengths we have developed over the years in our aim to evolve into a **“sensitivity- and information-based company”** that contributes to the growth of other industries.

# History of SHIMA SEIKI

## 1960's

1962

- Founded SHIMA SEIKI MFG. in Tebira, Wakayama City
- Developed the world's first fully automated glove knitting machine (initial type)

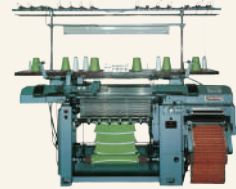
1964

- Developed the fully automated glove knitting machine (square fingertip type)



1967

- Developed the world's first fully automated full fashion collar knitting machine "FAC"
- Entered into the flat knitting machine industry



1968

- Constructed a new the headquarters



## 1980's

1981

- Developed the Shimatronic® design system "SDS®-1000"



1985

- Founded the first overseas subsidiary, SHIMA SEIKI EUROPE LTD. (in the U.K.)

1986

- Founded SHIMA SEIKI U.S.A. INC. (in the U.S.)

1988

- Developed the second generation computerized flat knitting machine "SES®"

## 1990's

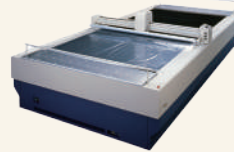
1990

- Listed on the second section of the Osaka Stock Exchange
- Completed the headquarters building



1991

- Developed automated multi-ply fabric cutting machine "P-CAM®"



1992

- Listed on the first section of the Osaka Stock Exchange

1995

- Developed the world's first completely seam-free-type computerized flat knitting machine, "SWG®" and "WHOLEGARMENT® flat knitting machine"

## 2000's

2000

- Released the innovative new design system, "SDS®-ONE"



2002

- Obtained the ISO 9001 certification related to designing and manufacturing the apparel design system

2006

- Founded SHIMA SEIKI WIN WIN LTD. (in Hong Kong, China)
- Founded SHIMA-ORSI S.R.L (in Italy)
- Developed the computerized flat knitting machine "SSG®" series and "SIG®" series

2007

- Developed the design system "SDS® - ONE APEX," which enabled three-dimensional expression



## 2010's

2010

- Developed the computerized flat knitting machine "SSR®" series

2011

- Developed the world's first computerized flat knitting machine, "SWG®-FIRST®154," which allows shaping in 21-gauge

2012

- Developed automated cutting machine "P-CAM®120C" that can handle industrial materials



2015

- Launched the world's flat knitting machine, beds equipped with
- The headquarters certification

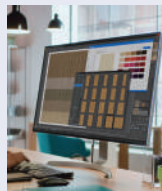
## 2020's

2020

- Launched the world's first yarn search service, "yarnbank®"

2021

- Launched the design software subscription service "APEXFiz®"



2022

- Developed WHOLEGARMENT® flat knitting machine "SWG®-XR," which has become a new flagship model
- Launched the online service, "SHIMA Datamall™"



plant in and relocated to Sakata, Wakayama City

## 1970's

1970

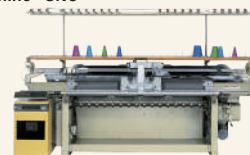
- Developed fully automated seamless glove knitting machine "SFG®"

1971

- Debuted in the international exhibition ITMA
- Initiated full-fledged exporting in response to international recognition

1978

- Developed Shimatronic® computer-controlled flat knitting machine "SNC"



Founder  
Masahiro  
Shima



1996

- Listed on the first section of the Tokyo Stock Exchange

1997

- Developed the world's first SlideNeedle®-equipped WHOLEGARMENT® flat knitting machine, "SWG®-FIRST"



- Developed the ultra-high-speed WHOLEGARMENT® flat knitting machine "MACH2®" series
- Awarded the Okochi Memorial Foundation's 53rd Production Special Prize



The Evolution  
from Glove to  
WHOLEGARMENT®

first WHOLEGARMENT® "MACH2®XS," with four movable sinkers obtained the ISO 14001



2016

- Received the Prime Minister's Award for Contributions to Greening Efforts

2017

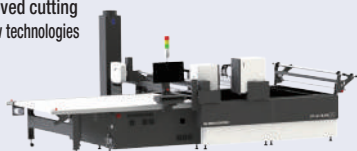
- Mitsuhiro Shima assumed the position of President and Representative Director
- Opened the SHIMA KIDS LAND as an in-house nursery school

2019

- Launched the design system "SDS®- ONE APEX4"

2023

- Developed automated cutting machine "P-CAM®R," which realized improved cutting quality using new technologies



- Developed fully automated pile glove knitting machine "SPG®R" equipped with the latest functions

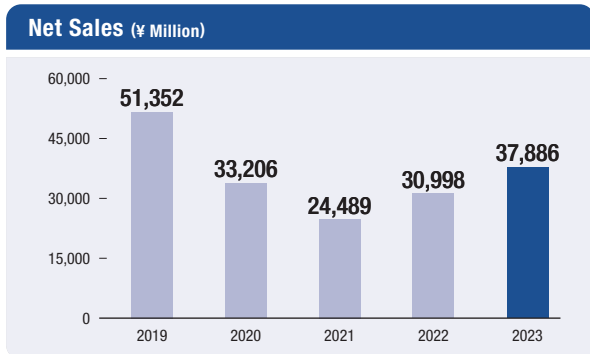


- Masahiro Shima retired from the position of Chairman of the Board

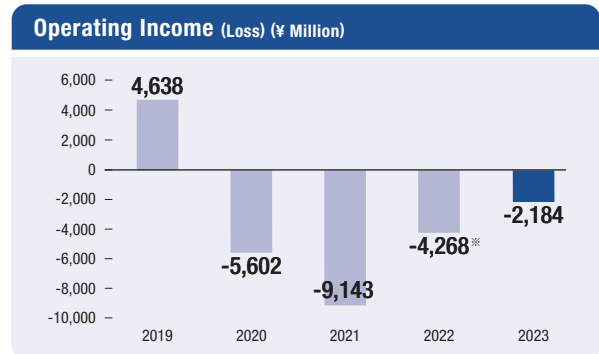
# Financial Highlights

The Company's financial performance over the past five years is as follows.

\*Years ended March 31

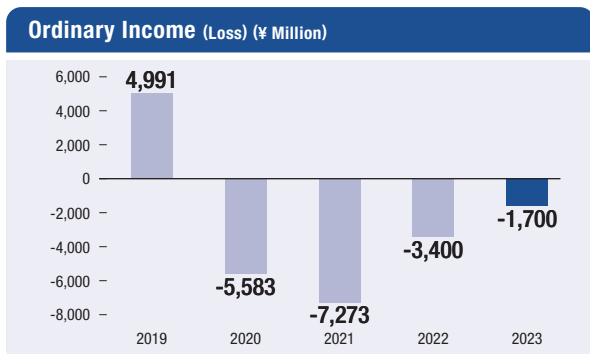


Net sales in the flat knitting machine segment were up more than 20% year on year due to brisk capital investment mainly in the European market.

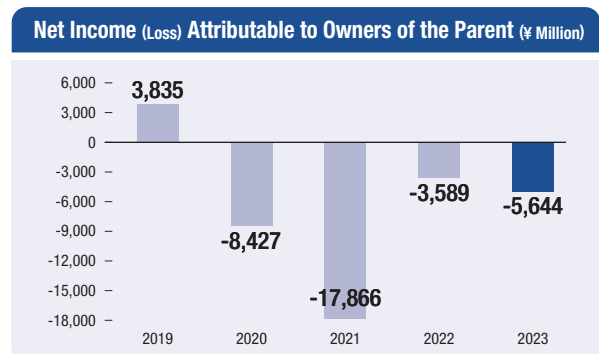


As a result of improved factory operation capacity and continued efforts to reduce costs, gross profit margin showed a recovery trend and operating loss improved compared with the previous fiscal year.

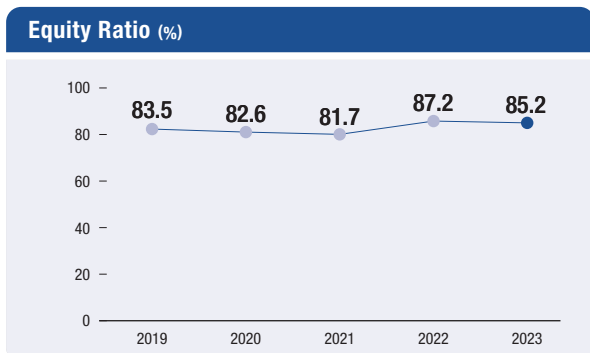
\*Please refer to "Financial and Non-Financial Summary" on page 61 for numerical changes for the fiscal year ended March 31, 2022.



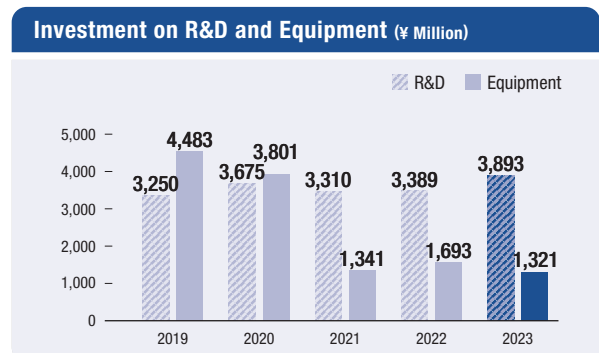
Ordinary loss improved compared with the previous fiscal year as did operating income (loss).



A significant loss was recorded as an impairment loss of fixed assets, loss on valuation of shares of subsidiaries and associates, and other items were treated as extraordinary losses.



The amount of equity decreased by ¥2,693 million compared to the end of the previous fiscal year to ¥86,068 million, and the equity ratio decreased by 2.0 percentage points from the previous fiscal year.



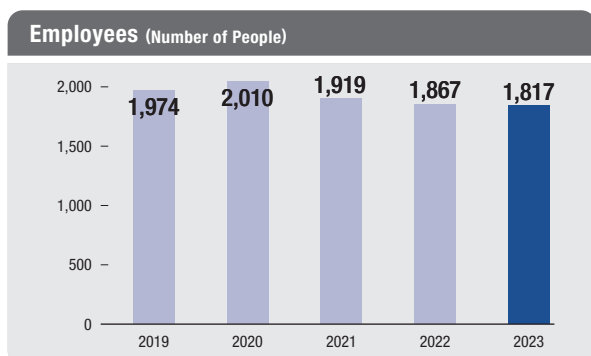
We accelerated R&D investment for future growth. As for investment in equipment, we made the minimum necessary investment for the fiscal year under review.

# Non-Financial Highlights

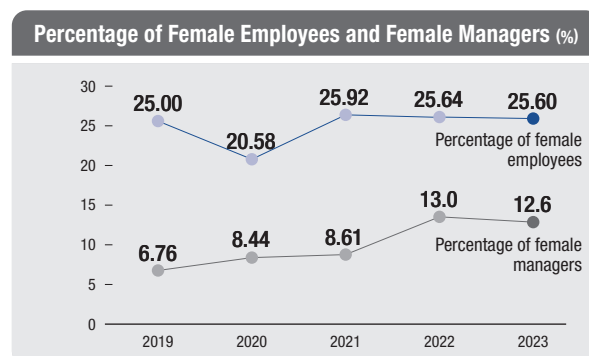
The Company's non-financial results are as follows.

We will continue our efforts to become an indispensable company to society.

\*Years ended March 31

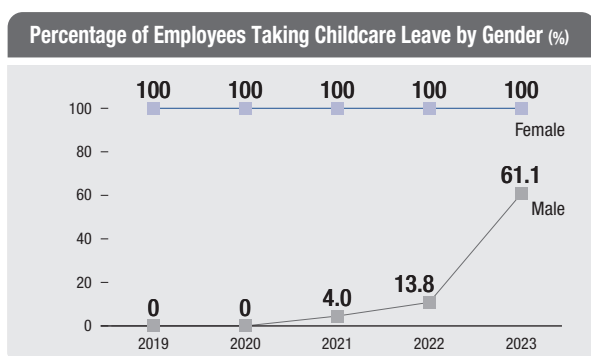


The number of employees has been decreasing due to a decrease in the number of newly hired employees, as well as an increase in the number of employees reaching retirement age.

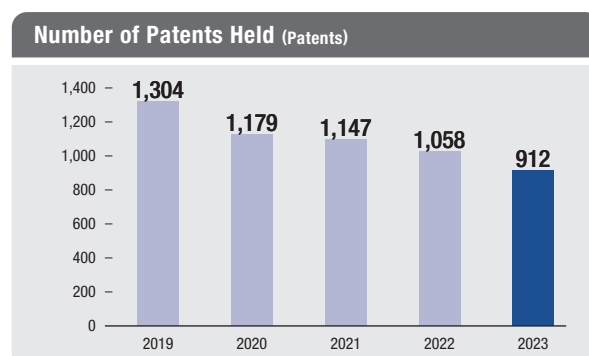


Although the percentage of females in managerial positions is still at 12.6%, we are aiming to increase it to 30% by 2030, enhancing the opportunities in which female employees can actively participate.

(The percentage of female managers for 2022 is as of April 1, 2022)

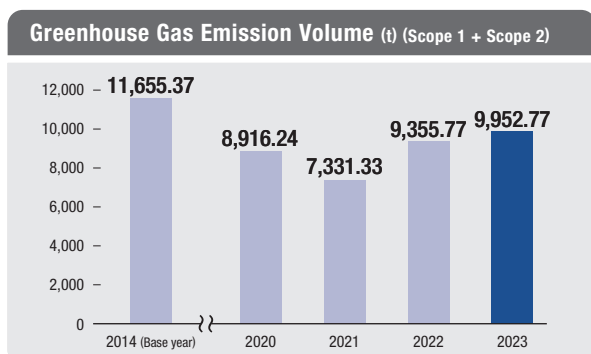


As a result of efforts to improve the percentage of employees taking childcare leave by building an environment where employees can take childcare leave without hesitation and dissemination activities within the Company, the percentage of male employees taking childcare leave increased significantly from the fiscal year ended March 31, 2022.



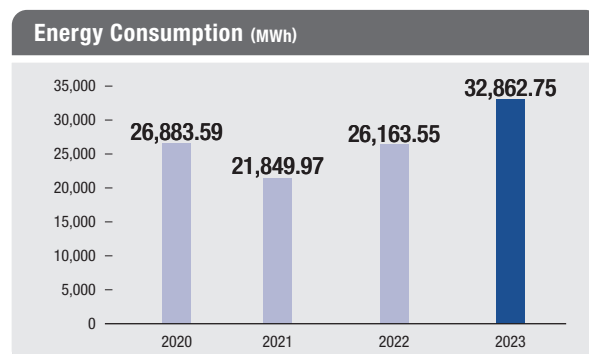
The number of patents held is declining due to carefully selected patent applications, increased know-how protection, stocktaking of patents held, etc.

(The data for the fiscal year ended March 31, 2023 is presented)



With the goal of reducing GHG emissions by 30% in FY2030 from the base year, we will continue to contribute to the reduction of our environmental impact.

(From this report, GHG emission volume is calculated including that of domestic consolidated subsidiaries.)



As net sales and production volume increased, energy consumption has also increased. We are making efforts to produce in an energy-saving manner in the future.

(From this report, energy consumption is calculated including that of domestic consolidated subsidiaries.)



**We will strive to achieve a recovery in our operating results with the aim of restoring our Company to profitability in the fiscal year ending March 31, 2024.**

**Takashi Nanki**

Chief IR Officer in charge of Accounting and Finance Division, Administrative Division and the Physical Distribution Division

**Seeing Signs of Recovery in Operating Results in FY2022**

As a result of the slump in the apparel and fashion industry over the past few years, the Company has remained in a deficit for four years. In response, we are striving to restore our operating results by returning to the basics of management, introducing high-value-added products to the market, and continuing to reduce costs, under the slogan “Reborn: SHIMA SEKI MFG., LTD.”

Regarding our operating results for the fiscal year ended March 31, 2023, sales of flat knitting machines, our mainstay product, grew 32.4% year on year, while in the field of design systems, we saw an increase in the number of license contracts for “APEXFiz<sup>®</sup>” software subscription service, and we believe that we are seeing signs of recovery in operating results. In addition, the gross profit margin recovered due to improved factory operation capacity as we found the means to procure parts, which had been an issue, and continued efforts to reduce costs. Meanwhile, although we recorded an extraordinary loss, including an impairment loss of fixed assets and loss on valuation of shares of subsidiaries and associates, this enabled us to clear unrealized losses, which has led to an improvement in our financial position from FY2023 onwards.

**Aiming for a Recovery in Operating Results by Further Accelerating an Improvement in Income and Expenditure**

In FY2023, inquiries about our products have been on the

increase, and production is also progressing steadily. Although we have been impacted by the increases in parts and materials costs and energy costs, we are working to pass these increases onto prices with the understanding of our customers.

In terms of global market conditions, recovery in China, the largest market for WHOLEGARMENT<sup>®</sup> flat knitting machines, has been slower than expected. While some regions, including Italy, Turkey, and Bangladesh, are performing well, this is not enough to offset the downturn in the China market.

Although the global economic situation remains difficult, we aim to achieve sustainable growth by continuing to develop a highly profitable business leveraging our proven track record as a leading company in the flat knitting machine industry and the advantage of our sound financial base. We will therefore make a capital investment to develop new products and increase production capacity, and proactively invest in M&A and new business creation aimed at acquiring new profit opportunities.

On the other hand, our Company’s challenges include the dominance of mass-produced, mass-consumed fast fashion, and the decline in unit sales prices of knitting machines due to the rise of competing manufacturers in China. As a result, on the financial side, there has been a downtrend in capital efficiency due to the longer receivables turnover period, and the current challenge is to reduce the cash conversion cycle (the number of days from purchasing to manufacturing, sales, and collection).

In order to achieve a recovery in operating results, we are sharing the mindset of “corporate renaissance” throughout the Company, and are working with a sense of speed to reform and revive our business. With regard to our mainstay flat knitting machine business, we are transitioning from conventional computerized flat knitting machines to a

business structure centered on WHOLEGARMENT® flat knitting machines.

Specifically, we aim to improve the average unit sales price, which is in a downtrend, by introducing new models to the market, including the next-generation SWG®-XR WHOLEGARMENT® flat knitting machine, and providing customers with higher value-added products. Additionally, we will focus on reviewing our cost structure by continuing to promote factory automation, and the improvement of production efficiency including appropriate allocation of personnel, and reductions in procurement costs. We will also promote operational efficiency in back-office departments, including through the use of IT, which will lead to cost reductions.

### **Aiming for Further Sales Expansion While Maintaining Profitability in the First Quarter**

In light of the recent business environment, we have made partial revisions to our Medium-Term Management Plan. Although we are endeavoring to achieve a recovery in our operating results, including through new product launches, the market environment remains difficult. In addition, we anticipate that competition with manufacturers in China will become even more severe, and that the business environment will continue to be challenging against the backdrop of soaring raw material and resource prices. As a result, we decided to review and revise our management targets.

In FY2023, inquiries about our products have been on the rise, and shipments are proceeding smoothly in light of the resolution of the shortage of procured parts. As a result, we achieved profitability in the first quarter. Going forward, we will aim to achieve the revised plan by maintaining this situation and developing even more proactive proposal activities.

In the flat knitting machine business, we are planning to participate in an exhibition in Shanghai, China, in November 2023, and we aim to differentiate ourselves from other companies through sales of WHOLEGARMENT® flat knitting machines, centered on “SWG®-XR.” We expect to see the results from the fourth quarter of FY2023 onwards. In addition, we expect that capital investment for conventional computerized flat knitting machines will proceed steadily in markets such as Bangladesh and Vietnam, and we will aim to secure sales in these markets as well.

In the design system segment, we will further promote solution proposals centered on 3D design systems and design software. With the goal of “taking on the challenge of creating the world’s best cutting technology,” we expect to expand sales of “P-CAM®” automated cutting machines by developing applications with the aim of penetrating into a wide range of industries, including automobile and industrial material fields. Until now, sales have mainly been to domestic customers, however the introduction of new products is enabling us to demonstrate our competitiveness in global markets, and we will therefore actively engage in overseas expansion.

Through the initiatives described above, we will steadily

implement our Medium-Term Management Plan with the aim of achieving our management targets. With regard to shareholder returns, we intend to continue paying a minimum level of dividends from the perspective of continuing stable dividend payments. For FY2023, we plan to pay an interim dividend of 5 yen per share. We will announce the year-end dividend as soon as it has been decided.

### **Leveraging Our Sound Financial Base to Invest in Growth**

We believe that more effective use of capital is an issue for achieving sustainable growth over the medium to long term. Although a stable financial base is our strength, going forward it will be important to establish a foundation for growth by increasing capital efficiency. We will strive to build the optimal capital structure, through the use of interest-bearing debt, and will invest in R&D and M&A, which are essential for growth. In particular, as competition with manufacturers in China is expected to intensify in the future, increasing the speed of new product development is an important challenge. Continuing our endeavor to become an “indispensable company to society” will lead to a recovery in profitability.

The main focus of our capital investment for FY2023, which is expected to be 3.4 billion yen, will be on improving the productivity of WHOLEGARMENT® flat knitting machines. In addition, we will proactively invest in factory automation, labor savings, and manpower savings. We will also promote DX by making company-wide investments in information technology. Since many operations at factories require human labor, we believe that promoting automation will further improve efficiency and enable us to allocate human capital in new business fields. We also believe in the importance of environmental investment, and we will steadily expand our renewable energy facilities to achieve our established targets by 2030. We believe that this will further reduce our environmental impact.

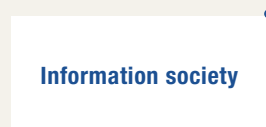
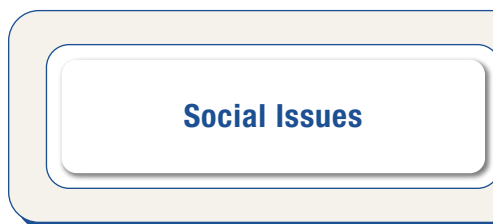
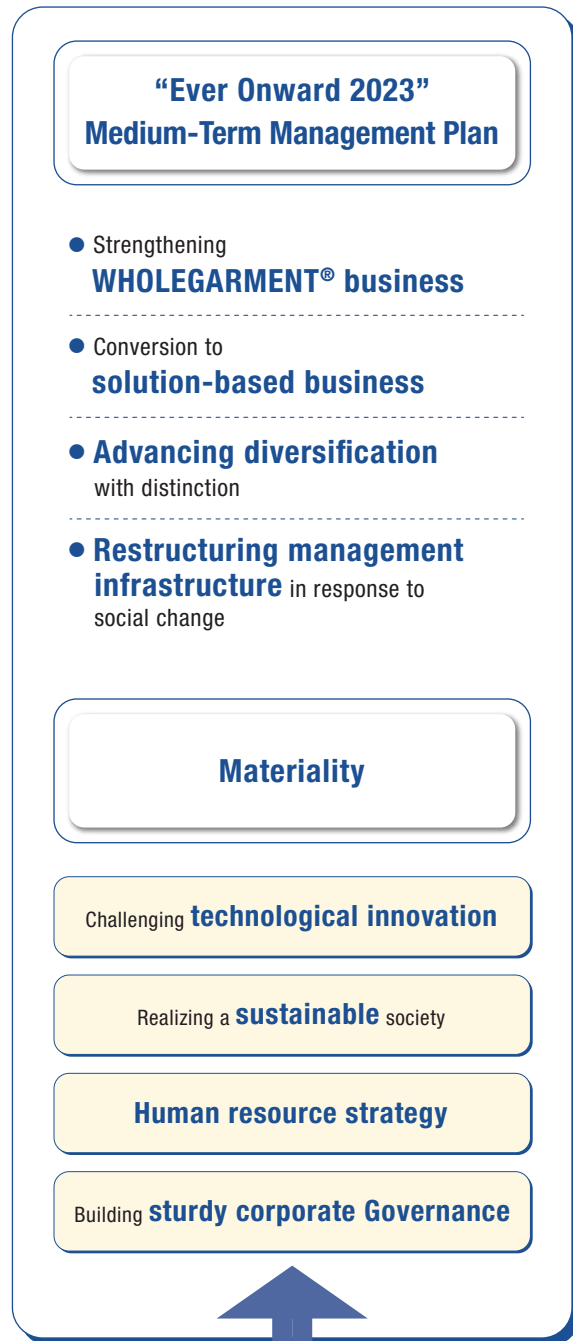
We must also invest in the development of human resources that will create new value for the next generation and be responsible for further growth. With an emphasis on human capital management, we will focus on investments aimed at securing and developing human resources. As part of this, in addition to hiring new graduates, we will also expand mid-career recruitment of highly skilled human resources with skills and experience.

At the same time, it is important to create a pleasant working environment, and we intend to support the diverse workstyles of our employees, including through the establishment of satellite offices. We will also proceed with a sweeping review of our personnel evaluation system, and will utilize an internal recruitment system aimed at promoting organizational revitalization and creating a rewarding workplace.

The Company’s operating results have remained severe, with deficits for four years. In light of having restored the Company to profitability in the first quarter of FY2023, we aim to further accelerate this momentum and improve our operating results. We sincerely ask for the continued understanding and support of our stakeholders.

# The Shima Seiki Value Creation Model

We continue to challenge unknown territory toward the solution of social issues based on Ever Onward - Limitless Progress.





**Conversion to solution-based business**

We aim to solve social issues by using our technology capabilities and hardware and software know-how to build platforms, systems, and frameworks for our customers to satisfy consumers.

**Existing Business**



Flat knitting machines



Automatic fabric cutting machines



Design systems



Glove and sock knitting machines

**New Business Development**



**BLUEKNIT®**  
BLUEKNIT



APEXFiz®



SHIMA Datamall™



yarnbank®

**Appeal to customers and industries**



Apparel and fashion



Healthcare



Automotive



Home furnishings and interiors



Sports and outdoors



Industrial materials



Aerospace

**Return to consumers**

**Timely and optimal production**

Produce the required amount only as needed, and ensure that consumers can get what they want when they want it as well.

**Secondary distribution of fashion products**

Consumers can feel they are helping the environment and use fashion products more effectively.

**A game changer for the industry**

Consumers can benefit from the cost advantage of reduced wasteful practices in manufacturing.

**Contributing to other industries**

Contribute not only to the fashion industry, but also to an affluent society, which in turn enriches consumers' lives.

**Solving social issues**

Environmental pollution  
Resource depletion

Population decline in  
developed countries

Workstyle reform

Strengthening of  
international  
competitiveness

# Shima Seiki's Materiality

## Materiality

In order to become an indispensable company to society, Shima Seiki will contribute to the solution of social and environmental issues through our business and pursue both social and economic value to achieve sustainable growth and improve medium- to long-term corporate value. Based on this vision and management direction, we investigated and analyzed SDGs and ESG investing (investing prioritizing environmental, social, and governance factors), as well as other prominent social and

environmental issues and management challenges facing our Company. Taking into account the rapidly changing management environment, accelerating innovation, and global trends, we classified our materiality into the four categories of technology, environment, human resources, and governance, which have high degrees of importance for both stakeholders and our business, and set themes in each category.



## Materiality Specification Process

### 1 Reference indexes at the time of materiality specification

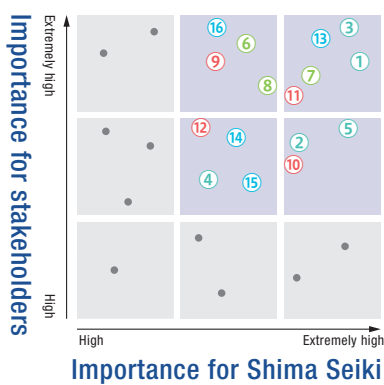
- 17 goals and 169 targets of the SDGs, ESG perspective
- Social issues; company issues



| Materiality                                 | Relevance to Shima Seiki's vision   | Shima Seiki's activity content   |
|---|---|--|
| <b>Technology</b>                           | Development of original technologies that are the world's first                         | Development of new products and services; reinforcing functions of existing products   |
| <b>Challenging technological innovation</b> | Productivity improvement through better efficiency                                      | Automation and labor-saving through the utilization of digital tools   |
|   | Building a manufacturing platform through digitization                                  | Expansion of the solution-based business that encompasses Shima Seiki products   |
|   | Response to cutting-edge technologies   | Development of products compatible with the latest technologies such as AI; making internal systems more resilient               |
|   | Creation of added-value clothing  | Development of new knitting methods and high-added-value yarn  |
| <b>Environment</b>                          | Environmental preservation  | Optimization of the manufacturing process of our products  |
| <b>Realizing a sustainable society</b>      | Supply of products and services with little environmental load                          | Reducing wasteful practices in the fashion industry  |
|   | Shift to timely and optimal production  | Proposal of solutions centered on WHOLEGARMENT® flat knitting machines   |
| <b>Human Resources</b>                      | Building a workplace environment in which employees can play an active role sustainably | Raising of mandatory retirement age; implementation of diverse workstyles  |
| <b>Human resource strategy</b>              | Promotion of diversity  | Promotion of active participation of women, mid-career employees, foreign nationals, etc.  |
|   | Development of innovative human resources   | Support for new business startups; flexible employment system; enhancement of in-house education                                 |
|   | Promotion of employee workstyle reform  | Increasing workstyle options and emphasis on work-life balance   |
| <b>Governance</b>                           | Strengthening of the effectiveness of the Board of Directors                            | Division of roles of company management and business execution   |
| <b>Building sturdy corporate governance</b> | Strengthening of risk management setup  | Management of business risk countermeasures; operation of business continuity plans (BCP); strengthening of information security |
|   | Promotion of compliance   | Strengthening of awareness-raising activities in the Compliance Committee  |
|   | Strengthening of investor relations and publicity setup                                 | Online meetings and briefings with individuals and institutional investors; local community contribution activities              |

**2 Assessment of importance**

**Materiality analysis**



**External Environment and Social Issues by Materiality**

- Technology**
  - 1 : Decline in distribution volumes due to a production structure review in the apparel industry
  - 2 : Decline of working population due to low birthrate and aging in Japan
  - 3 : Wasteful consumption of goods, resources, and labor in the apparel industry; more efficiency
  - 4 : Appearance of new technologies, such as artificial intelligence (AI); higher speed and upgrading of communication technology
  - 5 : Development of similarly designed clothing from multiple brands
- Human Resources**
  - 9 : Advance of low birthrate and aging in Japan  
Health problems; medical care and nursing care problems; longer healthy lives
  - 10 : Accelerated social advancement of women and elderly  
Increase in world population  
Increase of poverty and inequalities in developing countries
  - 11 : Expansion of problem-solving-type industries and services  
Problem of work substitution due to the appearance of AI technology
  - 12 : Diversification of workstyles
- Environment**
  - 6 : Emergence of environmental problems, such as global warming, abnormal weather conditions, energy consumption, and water resource pollution
  - 7 : Worldwide CO<sub>2</sub> emissions of 2.1 billion tons a year by the apparel industry
  - 8 : Increase of made-to-order production and customized sales; increasing interest in ethical consumption
- Governance**
  - 13 : Moves to strengthen governance setup; review of market division
  - 14 : Business risk disclosure; risk of natural disasters, etc.  
Risk of leakage of personal information, customer information, know-how, etc.
  - 15 : Frequent occurrence of corporate scandals
  - 16 : Increased importance of communication with stakeholders

**3 In-House Hearings**

The specified materiality was shared in the company, and hearings were held in related departments and divisions to check appropriateness and activity content. As a result, the content was further polished.

**4 Approval by Management**

The Executive Committee heard an explanation of the content and confirmed the materiality that Shima Seiki should address.

| Results until September 2023   | Relation to the medium-term management plan   | Relevant SDGs |
|--|---|---------------|
| <ul style="list-style-type: none"> <li>• Development and announcement of SWG®-XR</li> <li>• Development and announcement of P-CAM® R</li> <li>• Development and announcement of SPG®-R</li> <li>• Established SHIMA Datamall™ online service</li> </ul>  | <ul style="list-style-type: none"> <li>Strengthening WHOLEGARMENT® business</li> <li>Conversion to solution-based business</li> <li>Advancing diversification with distinction</li> </ul>   |               |
| <ul style="list-style-type: none"> <li>• Established the Sustainability Management Division and the Sustainability Committee</li> <li>• Expressed support for TCFD</li> <li>• Participation in Wakayama Prefecture's "Kigyo no Mori" (corporate forest) activities</li> </ul>                        | <ul style="list-style-type: none"> <li>Strengthening WHOLEGARMENT® business</li> <li>Conversion to solution-based business</li> </ul>   |               |
| <ul style="list-style-type: none"> <li>• Promotion of projects for the active participation of women</li> <li>• COVID-19 vaccination in the workplace</li> <li>• Implemented IT and DX human resource development training</li> <li>• Promotion of the program for finding new businesses</li> </ul> | <ul style="list-style-type: none"> <li>Strengthening WHOLEGARMENT® business</li> <li>Conversion to solution-based business</li> <li>Advancing diversification with distinction</li> <li>Restructuring management infrastructure in response to social change</li> </ul> |               |
| <ul style="list-style-type: none"> <li>• Initiatives to strengthen the effectiveness of the Board of Directors</li> <li>• Review of executive officer system</li> <li>• Promotion of compliance</li> <li>• Strengthening of risk management setup</li> </ul>   | <ul style="list-style-type: none"> <li>Restructuring management infrastructure in response to social change</li> </ul>  |               |

# Ever Onward 2023 Medium-Term Management Plan FY2021-FY2023



Please visit our website for details.

On May 10, 2023, in order to respond to the Company's issues and the rapidly changing management environment, we decided to revise the management targets in the Ever Onward 2023, our Medium-Term Management Plan, covering the three years from FY2021 to FY2023. With "Reform" and "Revival" as its keywords, the plan seeks to create a flow of change throughout the industry and restore the company to profitability.

Corporate philosophy / Mission

## Ever Onward – limitless progress

We strive to become an indispensable company to society through sustainable business development. We do this under the motto of "Ever Onward" with "Love," "Creativity," and "Passion" as our mantra.

### Keywords

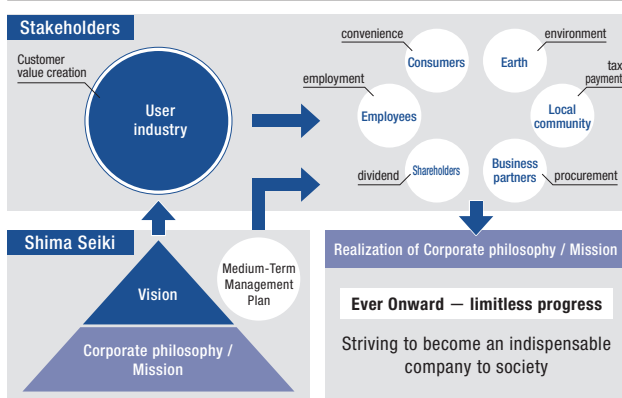
#### Reform and Revival

Corporate renaissance by transforming the mindset and speed of each and every employee

### Our vision for where we stand in 10 years' time

- Shima Seiki has evolved into a "problem-solving company" that contributes to the growth of the fashion industry through our widely adopted creative technology.
- Shima Seiki has evolved into a "sensitivity- and information-based company" that contributes to the growth of other industries by leveraging its strengths developed in the fashion industry.

### Conceptual Diagram of Medium-Term Management Plan



### Management Targets

| (billion JPY)    | FY2017 Result | FY2020 Result | FY2023 Target | Percent change 2020 to 2023 |
|------------------|---------------|---------------|---------------|-----------------------------|
| Net sales        | 71.8          | 24.4          | 43.0          | +76%                        |
| Operating income | 14.9          | -9.1          | 1.0           | -                           |
| Ordinary income  | 15.5          | -7.2          | 1.7           | -                           |
| Net income       | 11.2          | -17.8         | 1.2           | -                           |

### Market Trend and Priority Measures of Medium-Term Management Plan

|              |  |   |  |
|--------------|--|---|--|
| Market Trend | Needs for new value-added creativity in fashion  | Accelerated DX in the industry with environmental consideration in mind   | Industry instability due to the spread of COVID-19             |
| Our Strength | Track record of WHOLEGARMENT® business that enables us to differentiate from competitors | Broad product lineup and know-how that connects the industry supply chain | Financial strength that enables new business creation          |
| Measures     | Shifting core business from shaping machine to WHOLEGARMENT®                             | Focusing on shifting to solution-based business                           | Executing aggressive investments for business diversification  |
| Outcome      | Establishment of absolute positioning in the flat knitting industry                      | Expansion of business fields into the entire fashion industry             | Improvement of financial stability by business diversification |

### Initiatives for the Realization of a Sustainable Society

Advancing our initiatives on mainly 9 issues for the 2030 target



## Four Priority Measures for Achieving the Targets in the Medium-Term Management Plan

In the fiscal year ended March 31, 2023, we recorded a deficit for the fourth consecutive year, but in the fiscal year ending March 31, 2024, the final year of the “Ever Onward 2023” medium-term management plan, we aim to return to profitability. In order to achieve this and further growth in the future, we will further strengthen initiatives in line with the four priority measures.

### 1 : Strengthening WHOLEGARMENT® business

- WHOLEGARMENT®-centered business structure that differentiates from competitors

Main progress results

- Development, announcement, and launch of new SWG®-XR model
- Enhanced the production system for WHOLEGARMENT® flat knitting machines

### 3 : Advancing diversification with distinction

- Rectifying overdependence on the flat knitting machine segment and establishing a stable profit structure

Main progress results

- Developed knitting machines for industrial materials and announced at exhibitions
- Development, announcement, and launch of P-CAM® R automated cutting machine
- Release of SATC®90 automated towel cutting machine
- Strengthened initiatives in the materials field

### 2 : Conversion to solution-based business

- Shift of profit structure from product sales to sales of value-added solution

Main progress results

- Release of APEXFiz® PGM
- Launched SHIMA Datamall™ service

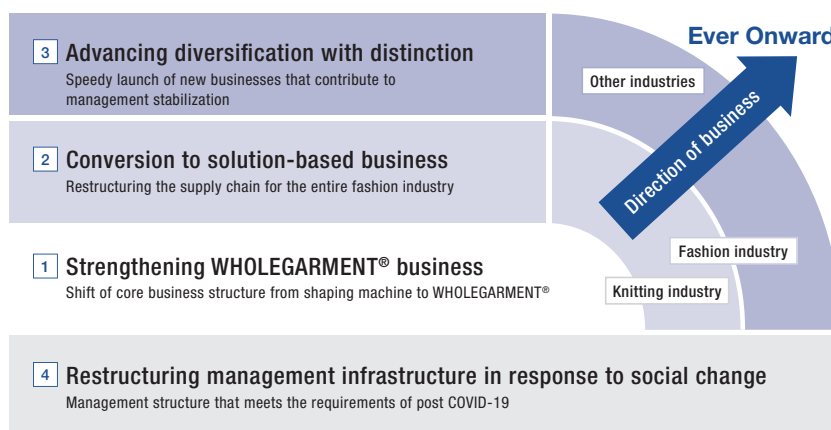
### 4 : Restructuring management infrastructure in response to social change

- Advancement of management infrastructure necessary for the execution of these measures

Main progress results

- Established the Sustainability Management Division and formulated the basic policy
- Established the Sustainability Committee
- Expressed support for TCFD
- Appointed new executive officers
- Expansion of the internal recruitment system, mobility of human resources and placing the right person in the right place

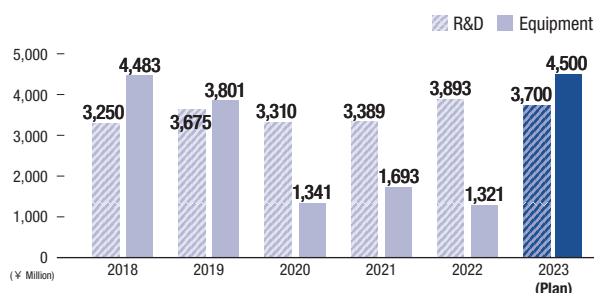
## Priority Measures and Business Domains of Medium-Term Management Plan



## Investment Plan

Continuation of aggressive investment from a mid- to long-term perspective

- Continuation of high-level R&D investment
- Advancement of automation for increased production capabilities
- Personnel training from a company-wide perspective, investment in human resources from mid- to long-term
- Setting investment credit limit of 2 billion JPY for reinforcing existing business and creation of new business
- Reinforcing environmental investment





# Announcing new models based on the concept

## “— SHIMA SEIKI *Reborn* —”

The Company was reborn at the 19th “ITMA,” an international textile machinery exhibition, with the concept of “R” as our theme under our corporate philosophy of “Ever Onward - Limitless Progress,” and we were able to bring far greater elation and excitement to visitors at this exhibition than at exhibitions held in recent years. Our exhibition concept was “— SHIMA SEIKI Reborn —.” The letter “R,” which is at the core of our concept, stands for “reborn,” and represents a return to our roots and a renewal of our passion and determination for innovation.



08 — 14  
JUNE 2023

FIERA MILANO RHO  
MILAN . ITALY  
[www.itma.com](http://www.itma.com)

After the ITMA exhibition was first held in 1951, there was a long period when the demand was for exhibitions of new models only. However, regulations were relaxed after a certain time, and the excitement of seeing a brand-new machine for the first time became a thing of the past.

As a result, our exhibits continue to have a great impact on visitors and deliver an element of surprise with announcements of new technology in addition to new technologies that bring unprecedented innovation to the industry.

ITMA is the world's most influential exhibition of the latest technology in textiles and garments, and this year's "ITMA 2023" was held in Milan, Italy.

ITMA, which is part of CEMATEX, is an event with valuable opportunity held in Europe once every four years that brings global industry players together and showcases the latest textile and garment processing technology, machinery, and materials, creates and promotes collaborative relationships, and builds partnerships.



**We exhibited eight new models, including the WHOLEGARMENT® flat knitting machine equipped with the latest features.**

Eight of the nine models we exhibited at this most recent exhibition were new models or prototypes. We have developed a full lineup of next-generation machines, including the SWG®-XR WHOLEGARMENT® flat knitting machine equipped with the latest features, the SES®-R shaping machine based on the traditional SES® series, and the “R” series consisting of the SFG®-R and the SPG®-R glove knitting machines.

Furthermore, we exhibited over 300 samples and a new version of APEXFiz®, and presented new proposals including for various website services, resulting in the exhibition center being filled with sounds of surprise and excitement from customers.



# Development x Production Strategy

We constantly challenge ourselves to develop new technologies, and work to create products and services that can bring major innovations in the fashion industry, and other industries as well.

## Developing products that solve social issues

Since our present development system was established, our development teams have been working to develop flat knitting machines that clearly demonstrate the concepts from the intended knit products, and glove and sock knitting machines and automated cutting machines that boast the world's best technologies to best meet customers' needs.

With our design system as its core, the WHOLEGARMENT® flat knitting machine achieves the "five right things" production: right time, right place, right product, right price, and right quantity, which reduces the amount of unsold and discarded clothing, and in turn, will lead to a reduction in environmental impact and to decarbonization.

## Development policy

Against the backdrop of the COVID-19 pandemic, the fashion industry is reviewing its current mass production business model, and rapidly stepping up initiatives with an awareness of sustainability. As the reduction of the environmental impact has become an important issue globally, the Company sees this as an opportunity to establish the "five right things" model that we have advocated since early on. In addition to developing WHOLEGARMENT® flat knitting machines and design systems, we also propose solutions that focus on the entire supply chain, and promote sustainable manufacturing that realizes sustainable consumption and production.

Furthermore, in response to market changes, we focused on developing solutions that consistently support the entire supply chain from the development and planning of samples using sustainable materials to production and sales.

As outlined above, since our establishment, we have pursued what our customers expect from us, and we have worked on R&D to create products and know-how in line with our corporate motto "Ever Onward - Limitless Progress" and under our goal to conduct unique technological development based on creativity.

## Advantages of integrated production

### Speedy development and production system

To create market-oriented products incorporating user feedback as much as possible, it is essential to grasp customers' needs directly and quickly. At Shima Seiki, we provide a one-stop service from product planning and development to production, manufacturing, sales, and after-sales service at our headquarters. This generates our

greatest strength, which is our ability to advance our business while simultaneously solving the problems in development and production procedures as well as problems in sales and after-sales service procedures faced by our customers.

### Streamlining development and mass production through repeated design reviews

The majority of problems that occur between development departments and production departments are due to a lack of communication and information sharing between the two sides. To resolve this situation, in April 2020, we set up a department specializing in mass production design in the production departments, and conduct frequent design reviews with

the development departments at the prototype stage until we are satisfied. Once this mass production framework is entered, by having processes like revision of drawings performed at the production departments, the development departments are freed up for new innovation, and work hours will be shortened as well, leading to cost reduction.

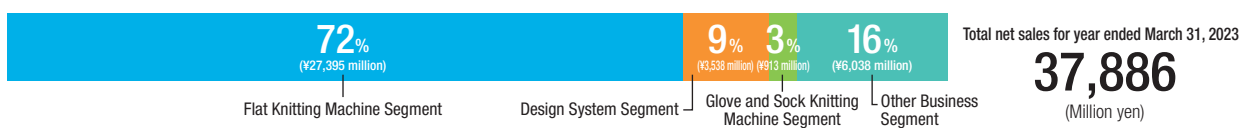
### Increasing mobility for human resources

At Shima Seiki, the average age of our employees has been increasing. While older engineers have skills and experience, they are less likely to innovate compared to young engineers. In the future, we will further

encourage the communication between older and younger engineers, and look to increase the number of young development engineers in particular.



## Development strategy for each segment



### Flat Knitting Machine Segment



In the flat knitting machine field, our core business, we have developed our new flagship machine, the “SWG®-XR,” to achieve the strengthening of the WHOLEGARMENT® business. As product diversity increases, we will not only improve productivity, but will also take WHOLEGARMENT® to a new stage by diversifying WHOLEGARMENT® products to eliminate restrictions, and achieving all-season compatibility.

### Design System Segment



In the field of “APEXFiz®” design software, we developed virtual fashion shows and cross-reality technology to utilize high-definition virtual samples for sales promotions. In the “P-CAM®” automated cutting machine series, we developed the P-CAM® R, which is a renewal of the basic design of our conventional machines based on the concept of “taking on the challenge of creating the world’s best cutting technology,” and by using IoT, we have been able to visualize the operating status of the machines, improve user operability, and simplify maintenance.

### Glove and Sock Knitting Machine Segment



With glove and sock knitting machines, we developed the “SPG®-R” fully automated pile glove knitting machine, which is a new model aimed at further improving product appeal. This machine is equipped with many advanced features, including a new electronic selective sinker system and an auto yarn carrier to achieve excellent performance, and ease of use for customers has been incomparably improved in areas such as ease of maintenance and greater knitting efficiency.

### Solution-based Business



In order to consistently support the entire supply chain from the development and planning of samples using sustainable materials to production and sales, we focused on developing solutions that can promote sustainable manufacturing. With the “SDS®-ONE APEX” design system series at its core, we have combined online services for yarn data and various digital data, including yarnbank® and SHIMA DatamallTM, and are working on proposals aimed at solving customer issues.

## Intellectual property policy

Under our intellectual property strategy, we hold numerous patents relating to a wide range of technologies including knitting technologies, mechanisms and control of flat knitting machines, and design systems. In addition, we hold patents as well as copyrights to the knitting programs that we provide to customers through design systems and at user sites. These intellectual property rights enable customers to use our products with confidence, and we will respond appropriately to infringement of these rights by protecting them, for our benefit and the benefit of customers. Intellectual property rights strategies including the protection

of knitting programs will become even more important in the future.

In recent years, in addition to innovation within single specialized technologies, there has been an increasing trend toward the creation of new technologies through fusion with technology from other fields. As one of the related initiatives, we hold in-house seminars as appropriate on intellectual property rights, contracts, and other matters, not only for development staff, but also for the sales and administrative departments.

# Flat Knitting Machine Segment

## Business Outline

Shima Seiki's core business is the manufacture and sale of computerized flat knitting machines, for which we boast industry-leading technological prowess. This segment provides an extensive range of products developed using proprietary technologies, such as SWG®-XR and MACH2® XS WHOLEGARMENT® flat knitting machines, which produce complete pieces three-dimensionally; the N.SRY® and N.SVR® SP, which facilitate unprecedented patterns and designs including inlay knitting and shoe applications, and N.SVR® and N.SSR® used for volume zone production in the Asian market, etc.



## Overview of the Year under Review and Outlook for the Next Fiscal Year

As for our core flat knitting machine segment, in Europe, the Italian market, which specializes in developing high-value-added products, has seen increased capital investment with the resumption of economic activity and moves to develop proprietary products at famous brands. Accordingly, demand has increased, centered on WHOLEGARMENT® flat knitting machines and computerized shaping machine capable of producing advanced designs. In the Turkish market in the Middle East, sales increased for computerized flat knitting machines due to brisk capital investment to meet orders from European and Japanese fast fashion apparel companies.

In the Asian region, our mainstay Chinese market saw a significant stagnation in business activity and investment in production facilities due to disruption in the supply chain associated with the zero-COVID policy such as lockdowns in Shanghai. Accordingly, sales mainly of WHOLEGARMENT® flat knitting machines were sluggish. On the other hand, sales of "N.SVR®" with high production efficiency increased in step with the growing demand for renewal of facilities at Southeast Asian production sites of major Hong Kong customers. In addition, in Bangladesh and other countries that have production sites of knits for developed countries, sales increased due to increased capital investment owing to the rebound of orders received from major apparel companies.

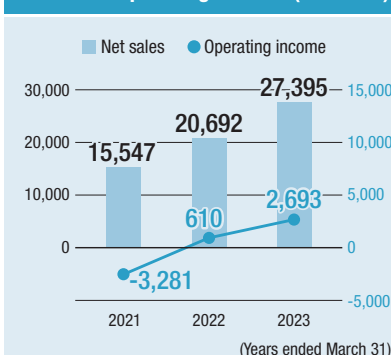
In the Japanese domestic market, unit sales of WHOLEGARMENT® flat knitting machines decreased compared with the previous fiscal year, while demand mainly for computerized shaping machine increased.

Consequently, net sales in the flat knitting machine segment in the fiscal year under review were ¥27,395 million (up 32.4% year on year), and segment income (operating income) amounted to ¥2,693 million (up 341.5% year on year).

During the fiscal year under review, some orders have not been recorded due to shortages of parts and materials. However, the situation has now improved and we have almost no orders for which we are unable to confirm delivery dates. Starting from the fiscal year ended March 31, 2023, there has been strong interest from customers in the Italian and Turkish markets, with net sales expected to grow. On the other hand, our sales plan for the Chinese market is uncertain as we expect that the stagnation in business activity and investment in production facilities will continue.

Given these circumstances, we plan to achieve net sales of ¥31,850 million for the fiscal year ending March 31, 2024.

### Net Sales/Operating Income (¥ Million)



## Lineup

### WHOLEGARMENT® Flat Knitting Machine



The WHOLEGARMENT® flat knitting machine was developed in 1995. The entire piece of knitwear is knitted in three-dimensional shaping through programs that use the design system “SDS®-ONE APEX” series. We can not only realize advanced designs and comfort, but also eliminate raw material waste as there are no cutting losses and the necessity of seam allowance.

In addition, delivery can be made in a shorter period of time than before, because sewing processes are not necessary. This enables us to respond to the need to replenish inventory considerably faster, and create a new business model that meets the demands of society, such as timely and optimal-volume local production for local consumption.

### Shaping Machine



N.SVR®

In 1978, we developed computer-controlled automated flat knitting machines that cover all knits. At the time, we were among the first to realize the digital revolution in the knitting industry. Currently, the range of patterns and designs that can be knitted has expanded significantly, and the machine is now multi-functional for a wide variety of applications.



N.SIR®123SP

This machine is a global standard for computerized shaping machine with intarsia capability. Even if multiple colors are used, the machine can produce a beautiful pattern with few irregularities. This machine does not pass the yarn to the reverse side, but knits it so that it folds over at the point where the colors switch, minimizing yarn loss by eliminating yarn crossing.

## Growth Strategy

We will commence full-fledged sales of “SWG®-XR” which was released last year, and offer “i-DYCS®” which has been developed as an option to realize further diversified, multicolored, and efficiency-enhanced WHOLEGARMENT® products. This “i-DYCS®” is capable of using 44 colors at maximum and handling a wide range of colors and patterns.

WHOLEGARMENT® flat knitting machine is undergoing further improvements to enable it to do what conventional machines could not do, based on the concept of diversification, all-season compatibility, silhouette, and efficiency. In this way, we are striving to make it the best in the world. We presented multiple prototypes of new models at the ITMA exhibition, the largest exhibition for textile machinery, held in June 2023. We are committed to achieving mass production as soon as possible and linking this to sales.

We will work to anticipate the needs of society and respond to the demands of the industry and social issues more than ever before. In so doing, we will strengthen our efforts to collect information regarding models and functions needed and promote company-wide development.

### New Models Newly Released

In the ITMA exhibition held in June 2023, we announced three new technologies for the WHOLEGARMENT® flat knitting machine and two of those for the computerized shaping machine .

“SWG®-XR,” the new model of the WHOLEGARMENT® flat knitting machines, has the following new functions:

- 1 : Automated detection of needle defects
- 2 : 22G ultra-fine-gauge knitting machine
- 3 : Automated processing of end yarn

Exhibited “SES®-R” (prototype), a new model of the computerized shaping machine

- 1 : Renewed the internal mechanism to enable the knitting of diverse super three-dimensional patterns
- 2 : Renewed loop pressers to achieve higher accuracy and efficiency of inlays and inverse plating

# Design System Segment

## Business Outline

This segment provides design systems to support production in apparel and a variety of other industries. Our design systems employ high-definition virtual samples and 3D simulations as well as programming for flat knitting machines, which have enabled diverse designs, while at the same time realizing shorter lead times and cost reductions. In addition to the hardware-based “SDS®-ONE APEX4” design system, we have developed the APEXFiz® subscription-type software for design systems. In the field of automated cutting machines, we have developed “Shima Cutting Solutions,” which saves labor before and after the cutting process, and are working to have them penetrate into other industries, including automobile and industrial material fields.

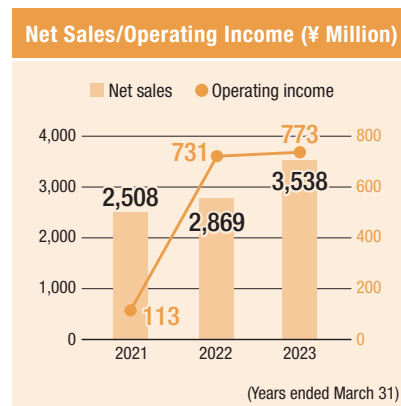


## Overview of the Year under Review and Outlook for the Next Fiscal Year

The number of license contracts for APEXFiz® has increased, focusing on Western and Japanese fashion brands. Sales of the automated cutting machine, P-CAM®, also increased mainly in overseas markets. Consequently, net sales in the design system segment in the fiscal year under review were ¥3,538 million (up 23.3% year on year), and segment income (operating income) amounted to ¥773 million (up 5.8% year on year).

Sales of the APEX series are expected to grow together with the sales growth in flat knitting machines. In addition, the number of APEXFiz® contracts has been continuing to grow steadily mainly in Europe, the U.S. and Japan, leading to stable improvement in profitability.

Sales of automated cutting machines are expected to grow as sales of them in the domestic market have been favorable.



## Lineup

### Design Systems



The "SDS®-ONE APEX" series are 3D design systems equipped with software specialized in not only knitting programming and pattern CAD for knitting machines but also textile design for textiles, printings, etc., as well as simulation. The systems allow customers to plan and design, explore color schemes, carry out realistic fabric simulations, and produce high-definition 3D virtual samples.

We offer not only all-in-one hardware but also the design software lineup from which customers can choose the right ones that meet their needs.

### Automated Cutting Machines



The automated cutting machine (NC cutting machine) "P-CAM®" series covers various cutting applications including single-ply cutting to multiply cutting with a choice of stacking thicknesses, and is capable of cutting materials in various fields, ranging from fabrics for apparel and fashion to materials such as carbon fiber, various industrial materials, and leather. In addition, the cutting method can be selected from a reciprocating knife, round-blade cutter, and ultrasonic vibration mechanism, according to the items and operation processes. Therefore, the series allows customers in each industry to build consistent CAD/CAM production systems through linkage with design systems.

## Growth Strategy

In selling our design systems, we will carry out proactive sales expansion activities for the software subscription service "APEXFiz®," in addition to conventional hardware. We will also propose and offer to the apparel industry our "Total Fashion System®" which is comprised of these design systems and software as well as the WHOLEGARMENT® flat knitting machines, peripheral services, etc. We will eliminate inefficiencies from the fashion supply chain and contribute to sustainability by digitizing and accelerating the highest quality product development process.

Moreover, armed with our high-definition virtual samples, we will also proactively launch services such as partnerships and collaborations in the metaverse and virtual realms. We will contribute more than ever to the digitization of manufacturing through, for example, the development of services that enable communication in metaverses and sales

promotion tools that utilize XR (cross reality; a term collectively referring to VR (virtual reality), AR (augmented reality), MR (mixed reality), and SR (substitutional reality)).

For the automated cutting machine "P-CAM®" series, we will focus on proposal activities in the global market to achieve the No. 1 share, centering on sales of the new flagship model "P-CAM® R," the cutting accuracy and productivity of which have significantly improved. We will also maintain the top share in the domestic market, aiming to design user-friendly machines that solve issues of customers, such as towel cutting machines.

In addition, we will improve conventional machines by achieving their energy and production efficiencies so that we can contribute to manufacturing with higher efficiency, productivity, and quality.

# Glove and Sock Knitting Machine Segment

## Business Outline

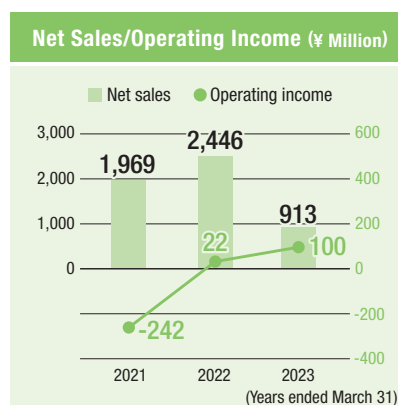
We pioneered the technology, durability and solid productivity of glove knitting machines and sock knitting machines, which are the origin of our technological development, through a series of improvements. Consequently, the number of users of them has increased all over the world.

Currently, in addition to improving the functionalities, we are enhancing our offerings in high-value-added fields such as healthcare and outdoor applications by advancing finer-gauge products (to enable knitting of finer yarns).



## Overview of the Year under Review and Outlook for the Next Fiscal Year

As capital investment by major users in Japan and overseas has run its course, net sales in the glove and sock knitting machine segment in the fiscal year under review were ¥913 million (down 62.6% year on year) and segment income (operating income) amounted to ¥100 million (up 342.3% year on year). As capital investment by major users in Japan and overseas finished their rounds in the fiscal year under review, we expect that the market will continue to be stagnant in the following fiscal year. Accordingly, sales for the fiscal year ending March 31, 2024 are expected to be ¥950 million.



## Lineup

### Glove Knitting Machine (SFG®)



Starting with the development of automated glove knitting machines in the early 1960s, computer-controlled "SFG®" has become the best-selling glove knitting machine. Through the development of ultra-fine gauge knitting machines, specialized pile glove knitting machines, etc., we aim to offer a wide variety of gloves and achieve the highest efficiency.

### Sock Knitting Machine (SPF®-W)



We developed this product as a machine specialized in five-toe socks with a heel form. Conventionally, one unit on each side was needed to knit a pair of socks. However, we made improvements so that socks for both feet can be knitted on one machine. It is of course economically beneficial and realizes space-saving in plants. The product has advantages in areas such as sports and health, too, and therefore, will contribute significantly to market expansion.

## Growth Strategy

We will aim to start full-fledged sales of the fully automated pile glove knitting machine, "SPG®-R," which is a new model developed with the aim of further enhancing the product appeal. One of the concepts for "SPG®-R" is the ease of use of the machine, and we have made improvements so that towels (pile) can be weaved more easily and precisely.

In addition, while previously, major customers were mainly engaged in the manufacture of work gloves and other similar gloves, we mounted many latest

functions on the product to enable a wide variety of applications. With an eye on the entry of the product into new fields such as apparel, we will further improve it to enable stable and highly efficient production of fashionable products, leading to proposals for a wide range of users. With the goal of returning to the top of the world, the entire company will work together as one.



# Solution-based Business

## Business Outline

We have also focused on developing solutions that promote sustainable manufacturing by consistently supporting the entire supply chain, which encompasses everything from the development and planning of samples

that use sustainable materials to production and sales. We are committed to offering solutions unique to Shima Seiki based on our core technologies accumulated in the knit and other textile fields.

## Lineup

### SHIMA Datamall™



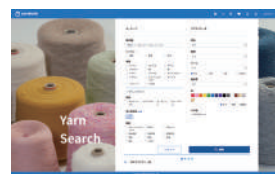
It is an online service (launched in June 2022) that enables searching, viewing, and purchasing of various digital data that is useful for planning, producing, and selling fashion items. It will realize a shift to sustainable manufacturing by strongly supporting the introduction of DX in manufacturing through the operational efficiency improvement of users of our 3D design system “SDS® - ONE APEX” series and flat knitting machines.

### APEXFiz®



While maintaining the strengths of the design system “SDS®-ONE APEX” series, the service was developed as a software subscription service capable of responding to diverse work styles. In addition to the nine products in the lineup including “APEXFiz® PGM,” a wide range of options are available to allow customization according to customer needs.

### yarnbank®



It was released as the world’s first online service that allows users to search, browse, and download yarn data. Downloaded yarn digital data can be used to produce virtual samples on the “SDS®-ONE APEX” series design system. It digitally connects the entire supply chain, including yarn manufacturers, apparel companies, and knitwear manufacturers, achieving digital transformation (DX).

## Topic

### BLUEKNIT®

Based on the four future perspectives, namely eco-friendliness, physical and mental well-being, producer support, and consideration for ethical society, we will develop the service as a platform that provides knits with zero waste, facing up to the issue of “recycling.”

The service will handle all sorts of knits that are produced with sustainable materials, promoting timely and optimal-volume production and leading to sales. Furthermore, it will contribute to the realization of a recycling-based society by offering an integrated process in which products after use are bought back, resold, and recycled.



## -Sustainability of SHIMA SEIKI-



### All about “manufacturing” at SHIMA SEIKI is to create the environment and future.

**In order to become an “indispensable company to society,” we will contribute to the sustainable development of society and the preservation of the global environment, and realize the enhancement of corporate value.**

We view sustainability as an “important initiative to meet social demands and improve corporate value.” Based on this concept, we established the Sustainability Management Division and formulated the “Basic Policy on Sustainability” and the “Policy on Human Rights” in July 2021. Reflecting the growing awareness of the environment, there

has been an accelerating shift toward sustainable manufacturing in the apparel and fashion industry as well. We will work to solve various issues that exist in each process of our supply chain by offering a variety of solutions.

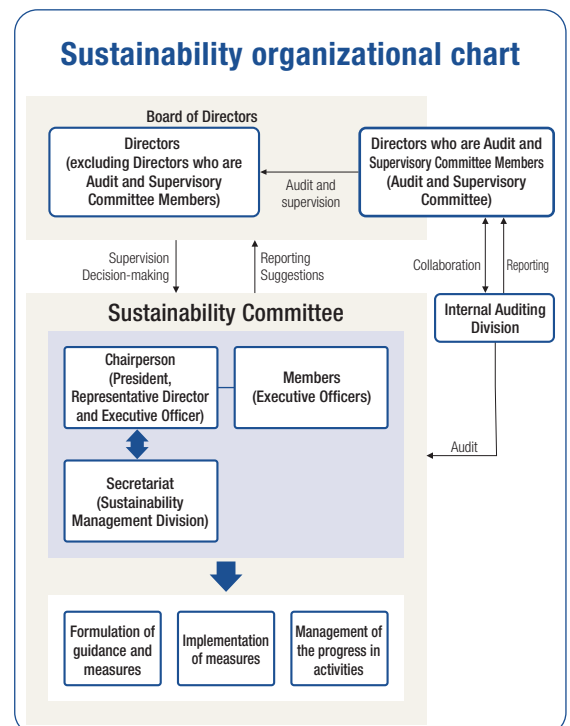
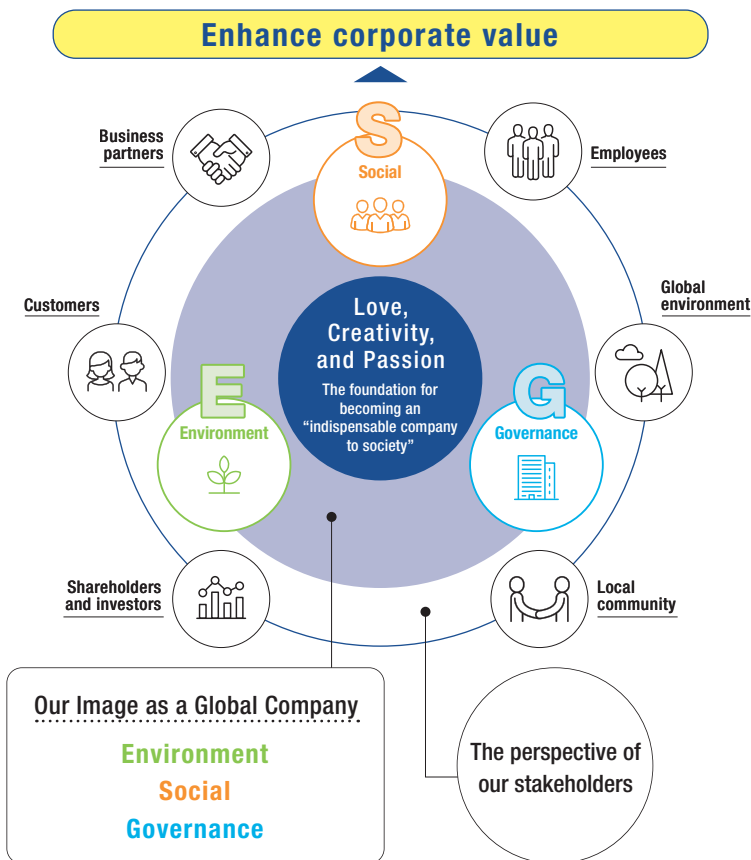
### The Shima Seiki Group’s Basic Policy on Sustainability

- 1 We will contribute to the sustainable development of society by generating new value through the provision of products and services that help resolve environmental and social problems.
- 2 We endeavor to maintain the global environment by understanding the significance of environmental protection and the maintenance of biodiversity and promoting environmental load reduction, such as by reducing greenhouse gas emissions and preventing pollution, the sustainable procurement of materials, the proper management of chemical substances contained in our products, and the efficient and cyclical use of resources.

- 3 With a view to realizing a society in which the dignity of all people tied in any way to our business is protected, we endeavor to prevent the violation of human rights by taking appropriate actions to address the impact of our business activities on human rights and the risks that such activities pose in this respect.
- 4 We endeavor to create a climate in which each individual can fully demonstrate their personal individuality, sensitivity, and creativity while respecting diversity regardless of race, nationality, sex, age, and other backgrounds and cultivating and utilizing human resources as a source for the creation of new value.

- 5 We will comply with laws, regulations, and social norms, and engage in fair and responsible business activities in collaboration with our stakeholders.





We will fulfill our responsibilities as a corporation from the viewpoints of our stakeholders to enhance our corporate value by, for example, establishing our image as a global company (Governance), contributing to a sustainable society (Social), and considering the global environment (Environment).

# Environmental Initiatives

In addition to creating products that solve environmental problems, the Company is also manufacturing products with an awareness of sustainability.

## Basic Ideas on Environment

In order to maintain our irreplaceable global environment, we will conduct environmental conservation activities through our business. We believe that one of our missions is to reduce the environmental impact caused by the disposal of inventory losses in the apparel industry. We will use our creativities to promote corporate activities while taking into account global

environmental issues.

SHIMA SEIKI Group has formulated its Environmental Conduct Guidelines, and all employees actively work to ensure the systemic and efficient operation of the guidelines and continuously improve their effectiveness.

## Environmental Management System

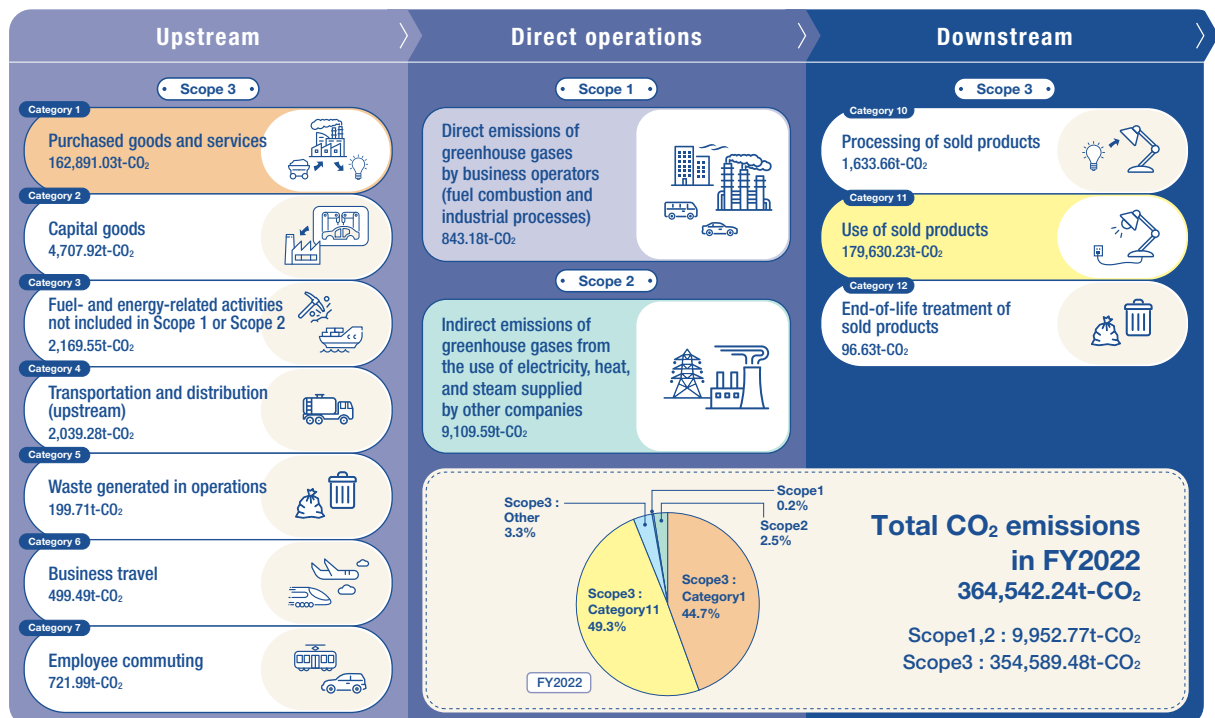
We acquired third-party certification under ISO 14001 from an external certification body for all corporate operations related to all products we design, manufacture, and sell. (Certification acquired on October 1, 2015.) Management indicators include reductions of various environmental impacts, factory greening efforts, and the promotion of

renewable energy usage as well as the provision of WHOLEGARMENT® flat knitting machines, design systems, and other environmentally-conscious products. We will contribute to global environmental conservation through our business activities.

## Greenhouse Gas Emissions

We are working to reduce greenhouse gas emissions. With regard to Scopes 1 and 2, we promote the reduction of energy consumption and the introduction of renewable energy. As for Scope 3, we prioritize the reduction of “emissions

from purchased goods and services (Category 1)” and “emissions from the use of sold products (Category 11)” with high emission rates, and thereby aim to reduce greenhouse gas emissions throughout the supply chain.



### Shift to Renewable Energy

We were among the first to promote the use of renewable energy and installed large-scale photovoltaic power generating systems starting in 2002. Photovoltaic power generating systems with a total output of approximately 2,180 kW for the entire Group are currently in operation. Together with our efforts to reduce energy consumption, we are undertaking activities to achieve the target of 30% renewable energy use by 2030. In the fiscal year ended March 31, 2023, our photovoltaic power generating systems generated 2,265 MWh of electricity annually.



### Environmental Education Activities

#### Awareness-raising for All Employees through Internal Newsletters

We share environment-related information every month through internal newsletters delivered to all employees. To date, themes that lead to sustainable activities not confined to environment-related information have been covered, such as “climate change,” “supply chain management,” “circular economy,” and “business and human rights.” We will continue to encourage employees to understand the importance of such themes and take their own actions through environmental education.

#### SDGs Training Program for New Employees

The training program for new employees began in 2021. Starting from the basics of the SDGs, employees will learn about the SDGs for society and companies, and the SDGs for Shima Seiki. We aim to develop human resources who will be able to think and implement the SDGs as their own cause and lead Shima Seiki’s future.

### Factory Greening

Our belief that “good products come from a good environment” is expressed through our measures to make the areas around the factory greener. We have been actively involved in making areas green since we relocated our Head Office to Wakayama. We have now made approximately 30% of the site a green area, planting approximately 13,000 trees, exceeding the standards of the Factory Location Act and contributing to CO2 reduction. We have also provided a portion of the plant site as walkways to create an environment where local residents can enjoy the trees. In recognition of these comprehensive factory greening efforts and our contribution to the community, we received the 2016 Prime Minister’s Award for Contributions to Greening Efforts.



# Response to TCFD Recommendations

Upon recognizing the impact of climate change on our future sustainable growth, the Company endorsed the “Task Force on Climate-related Financial Disclosures (TCFD)” in June 2022. Based on the recommendations of the TCFD, we are working under the following framework.



## 1 Governance

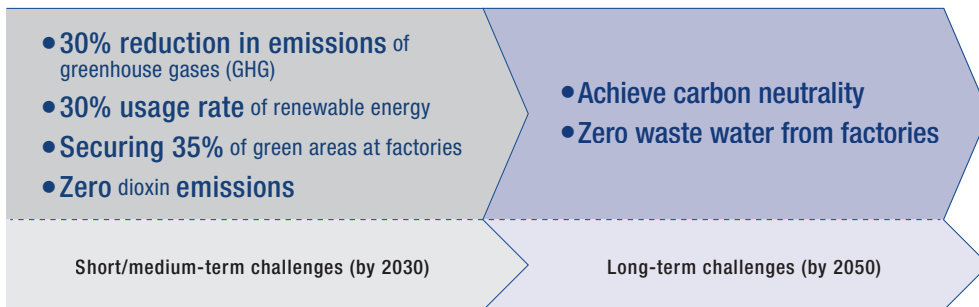
As a company with social responsibilities, we have established a dedicated division, the Sustainability Management Division, in July 2021, to demonstrate our commitment to ESG and SDGs. Under the overall direction of the President, Representative Director and Executive Officer, this division coordinates the direction of the Company and uniformly disseminates it internally and externally. In addition, we have

newly established a Sustainability Committee, chaired by the President, Representative Director and Executive Officer, and composed of Executive Officers, etc., to consider responses to various issues related to climate change, implement measures, and manage the progress of activities. “The Board of Directors” receives reports, deliberates, supervises, and makes decisions on important policies and matters.

## 2 Strategies

The Company will contribute to reducing the environmental impact of apparel products and other products throughout their life cycles through value creation activities using our products and services, starting with

our WHOLEGARMENT® flat knitting machines which are the knitting technology we possess and Total Fashion System® centered on a design system.



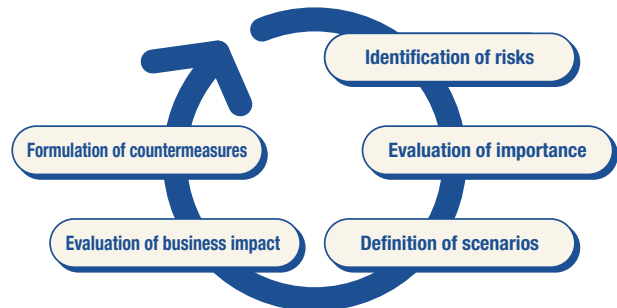
## 3 Risk Management

### Identification and evaluation process

The Company will identify social issues related to its business activities, evaluate their importance, verify their validity, and ultimately have them approved by the Board of Directors .

### Management process

With regards to the status and progress of response to risk concerning climate change issues of the Company’s businesses, they are managed by relevant divisions and committees, and regularly monitored by the Sustainability Management Division.



## 4 Targets

We conducted a scenario analysis, and based on the results, we have set the GHG emission reduction target as net zero Scope 1 and Scope 2 emissions in 2050 to reduce the risks associated with climate change. To achieve the target, we have also set the GHG emission reduction target in

2030 as the reduction of emissions by 30% compared to the FY2013 levels. Starting from the fiscal year under review, we have also calculated all the Scope 3 emissions to be reduced. We are pushing forward with setting specific targets in reference to information related to various initiatives.

| Category         |   | Climate change item   | Risk  | Opportunity   | Evaluation  | Measures   |
|------------------|---|---|---|---|---|--|
| Transition risks | Policy and legal regulation   | Introduction and rise of carbon tax   | Increase in procurement costs due to price pass-through of carbon tax                                   | Energy saving<br>Reduction of the impact on energy procurement costs due to early decarbonization response  | Medium  | Reduce CO <sub>2</sub> emissions in production activities  |
|                  |   |   | Increase in operating costs due to increases in fuel and electricity costs, and other costs             |   |   | Promote the efficient implementation of renewable energy   |
|                  |   | Energy saving, strengthened decarbonization regulations, and the achievement of emission reduction targets    | Increase in facility costs due to upgrading to energy-saving and renewable energy-compatible facilities | Reduction of emissions through the promotion of energy saving and renewable energy  | Medium  | Promote the efficient implementation of renewable energy   |
|                  |   |   | Increase in expenses due to purchase of emission rights for emissions that cannot be reduced            |   |   | Reduce CO <sub>2</sub> emissions in production activities<br>Further advance measures to eliminate the need to purchase emission rights  |
|                  |   | Tighter regulations on recycling and waste with an awareness of the circular economy                          | Increase in costs due to the use of materials that can be recycled                                      | Lower carbon used in and reduction of emissions from materials thanks to the use of recycled materials  | Medium  | Efforts to maintain and improve machine performance by using parts made of a single material and to increase the number of parts by using them in multiple locations, thereby reducing their price |
|                  |   |   | Increase in expenses related to collection, reuse, etc. of materials to be recycled                     |   |   | Improvement of collection and reuse efficiency by using the same type of materials   |
|                  | Technology  | Dissemination of low-carbon emission technologies   | Increase in costs due to switching to low-carbon and environmentally-conscious materials                | Expansion of opportunities through businesses related to products that contribute to low carbonization and environmental consciousness<br>Expansion of business opportunities through early development and provision to the market | Medium  | Promote energy-saving design for products  |
|                  |   |   | Increase in costs of R&D for low-carbon materials and technologies                                      |   |   | Actively collaborate with research institutes and companies to improve production efficiency and create other new technologies   |
|                  | Market  | Changes in consumption behavior due to global warming   | Decrease in clothing purchases  | Expansion of business profits through the creation of new added value   | Large   | Propose all-season knitted products with features that go beyond cold protection   |
|                  |   | Changes in consumer preferences toward environmental issues   | Challenges in the fashion industry affect consumer choice   | Creation of new business opportunities adjusted to consumer preferences   |   | Provide new products and services that contribute to the production of knitted products suitable for timely and optimal-volume production  |
| Reputation       | Negative response from stakeholders regarding climate change response | Criticism toward companies not responding to climate change and decline in evaluation of investment decisions | Improvement of corporate evaluation by demonstrating environmental initiatives                          | Small   | Enhance information disclosure and strengthen communication |  |
| Physical risks   | Acute   | Intensification of extreme weather  | Reduced manufacturing capacity due to disasters hitting supply chains                                   | Enhancing resilience by dual sourcing and establishing supply chain BCP   | Large   | Diversify products and parts procurement source (purchase from multiple suppliers)   |
|                  |   |   | Increase in damage such as shutdowns and equipment damage caused by natural disasters                   | Reduction of restoration costs by strengthening the BCP system and preparing flood prevention measures  |   | Improve drainage facilities, etc. to reduce damage from floods<br>The ultimate goal is to pass on technology to permit consignment production  |
|                  | Chronic   | Increase in average temperature   | Increase in cooling costs to maintain the working environment and processing accuracy                   | Introduction of energy-saving equipment and development of new business areas using materials that are not affected by environmental temperatures   | Small   | Promote the efficient implementation of renewable energy<br>Research of new materials and processing methods   |

# Human Resource Strategy – Interaction with Employees

Shima Seiki's  
Vision

In order to meet the expectations of the fashion industry and society as a whole and contribute to the realization of a sustainable society, we aim to foster an environment where diverse talents can respect each other and play an active role. and where we will create new innovations.

## Basic Ideas on Human Resource Strategy

Since its foundation, the Company has been creating innovations by allowing all of our employees to shape its future by aiming to make it “an indispensable company to society,” under the corporate philosophy “Ever Onward.” We have overcome all sorts of difficulties we faced by constantly returning to the starting point and continuing to look forward and move on.

We are looking for people who resonate with our corporate philosophy and who are willing to improve themselves and walk with us; and at the same time, working to create an organizational culture where each and every one of our employees can feel a sense of job satisfaction and their growth as well as an organizational environment in which all generations can play an active role.

## Three Priority Measures in Human Resource Strategy

### Measures

1

**“Hiring and Developing Human Resources” Who Will Support the Future of Shima Seiki**

### Changes in the Business Environment and Measures

The social environment surrounding our company continues to change rapidly, as exemplified by the diversifying business models and consumer behavior as well as the rapid digitization.

In order to keep up with such changes, we believe it important for us to change agilely, centering on “brand-new SHIMA SEIKI.” With the aim of looking to the future of Shima Seiki and realizing its desired vision, we will promote the strengthening of our human resource base by hiring diverse talents and developing human resources who can learn and act on their own.

2

**“Active Participation by Diverse Talents” Who Create Innovations**

Under the circumstances where international competitions intensify and social demands diversify, it has become increasingly important to create an organization that draws on diversity in conducting business, when trying to develop business sustainably and retain competitive advantages.

The Company recognizes that a diverse set of values and expertise are indispensable for the strengthening of management capabilities and innovations. In order to create new added value through collaboration derived from the utilization of individual abilities, we are focusing on the promotion of diversity and the establishment of an environment to support the realization of the foregoing.

3

**“Establishment of Internal Environment” Where Everyone Can Feel a Sense of Job Satisfaction and Peace of Mind**

Working styles and lifestyles have changed dramatically in the wake of the COVID-19 pandemic, and in addition, the mobility of human resources is also becoming more active.

We are working to create a safe internal environment where each and every one of our employees can work with peace of mind so that they can demonstrate their abilities to the maximum extent. In order to allow them to do so, we believe that they need to have fulfilling lives with a good work-life balance. Therefore, we are actively promoting efforts to realize a balance of work and life.

1

**“Hiring and Developing Human Resources” Who Will Support the Future of Shima Seiki**

We are looking for talented people who can learn a lot through repeated challenges and failures as well as look forward and move toward new value creation to join us. We promote the recruitment of human resources and the development of their careers by seeking talents who enjoy a rapidly changing social environment and are flexible, speedy, and self-motivated.

**Priority Initiatives**

**Hiring Diverse Human Resources**

We believe that the development of the organization and the creation of new values are greatly influenced by the group chemistry generated by a mix of different people with diverse experiences and values, as well as mutual respect

and stimulation. Our basic policy is to hire human resources who can play an active role in our company regardless of their age, gender, nationalities, and other factors and promote diversification of human resources.

**Cultivating the Habit of Autonomous Learning of Human Resources**

In order for us to respond to a rapidly changing social environment and aim to develop business sustainably, we believe it is important that each and every one of our employees learn autonomously and take on challenges to achieve high goals. To back up such individual growth, we are working to provide extensive training programs. At the same time,

from a viewpoint of utilizing human resources, we continuously offer internal job openings that allow employees to take on the challenges of the work they wish to do through self-nomination. By so doing, we are pushing forward with the creation of an organization in which all generations can play an active role.

**Examples of Activities**

**Employment records over the past five years (cumulative)**

Recruitment of new graduates and mid-career hires during 2019 and 2023 \*as of the end of July 2023

| University graduates<br>(71 persons) |               | High School Graduates<br>(68 persons) |               | Mid-career hires<br>(40 persons) |              |
|--------------------------------------|---------------|---------------------------------------|---------------|----------------------------------|--------------|
| Male                                 | Female        | Male                                  | Female        | Male                             | Female       |
| 56<br>persons                        | 15<br>persons | 41<br>persons                         | 27<br>persons | 36<br>persons                    | 4<br>persons |

**Hiring and developing IT and DX human resources**

- Actively hiring IT and DX human resources who can create new business models
- We started providing programming training in 2019 to foster more IT and DX human resources. Over 260 employees have participated in the training to date and have been transferred to different departments according to their competence.

**Continuous development of next-generation management personnel**

We have established requirements for our management leaders, and are actively promoting the development of the next generation of human resources through initiatives such as selective training, etc. At the same time, we identify candidates, devise development measures, and create a system for training them.

**Human resource development programs**

We provide rank-specific training, as well as basic training for businesspersons and language training to allow them to demonstrate their abilities as a global enterprise. We also provide life-planning training to design careers toward mandatory retirement and reemployment.

**Internal recruitment system**

This program offers the benefit of seizing opportunities and positively broadening employees' experience. In addition, we are also committed to developing interests in work outside their own division and the habit of thinking about what they are lacking to do the work they want to do and learning autonomously among our employees.

2

“Active Participation by Diverse Talents” Who Create Innovations

Amidst the current situation where the environment is changing rapidly, with the aim of ensuring competitiveness from a global perspective, we strive to build a system that can accept diversity. In the belief that promoting human resources with diverse values and expertise allows us to increase flexibility and have possibilities for creating new value, we are creating an environment where individual performance can be demonstrated to the maximum extent.

Promoting Diversity & Inclusion (D&I)

We consider diverse values and expertise as essential for strengthening management capabilities and innovations. Therefore, we have been actively hiring diverse human resources regardless of gender, nationality, age, and whether they are new graduates or mid-career hires, and promoting them based on their abilities and aptitudes. In addition, we are working to create an environment in which each and every one of our

employees can demonstrate their performance to the maximum extent by, for example, establishing an in-house nursery school and promoting working from home.

We will continue to further strengthen our efforts to create an environment where employees can respect each other and work vibrantly.

Ratio of female employees **25.6%**  
Ratio of female managers **12.6%**

Ratio of mid-career hires **21.0%**  
Ratio of employees of foreign nationals **0.9%**

|   |        |                   |
|---|--------|-------------------|
| Ratio of employees taking childcare leave       | Male   | <b>61.1%</b>      |
|   | Female | <b>100%</b>       |
| Average number of days of childcare leave taken | Male   | <b>87.7 days</b>  |
|   | Female | <b>349.7 days</b> |

\* All figures are as of the end of March 2023

Initiatives to Promote D&I

Promotion of active participation of women

We are working to create an environment in which human resource development and flexible work styles can be implemented on an ongoing basis. These efforts include the establishment of a project team for promoting the active participation of women, holding roundtable talks and lectures involving female directors, discussions towards creating an environment friendly to female employees, and providing a forum for direct suggestions to officers.



In-house nursery school established

In 2017, we established an in-house nursery school called Shima Kids' Land to upgrade our working environment for balancing work and family. As of the end of March 2023, a cumulative total of 149 children of employees have made use of this program.

Recruiting foreign nationals toward globalization

In order to increase international competitiveness, we actively hire foreign nationals and aim to develop a workforce capable of responding to diverse needs and playing an active role on the global stage.

Employment of people with disabilities

In addition to having achieved the statutory employment rate, we are working towards creating a working environment where a diverse and skilled workforce can play an active role in, for example, production and manufacturing operations and operations that utilize programming skills.



3

**“Establishment of Internal Environment”  
Where Everyone Can Feel a Sense of  
Job Satisfaction and Peace of Mind**

We believe that the securing of the safety of our employees and the maintenance and improvement of their physical and mental health are the sources of our sustainable growth and innovation creation. Therefore, we prioritize our employees' work-life balance, striving to cultivate a working environment where everyone can thrive. Our goal is to allow each employee to experience both job satisfaction and fulfillment in their personal lives.

**Health & Safety and Disaster Prevention Initiatives**

We have established the Health and Safety Committee; and under the basic policy of “securing safety and health of all employees,” we strive to not only promote the health of employees through health and safety activities but also eliminate industrial accidents and accidents during commuting. At the same time, we are working to improve the labor productivity.

In addition, in terms of measures for disaster prevention, we have established the Disaster Prevention Committee to consider how we can secure the safety of all employees, their families, and relevant persons. In addition, we formulate a business continuity plan (BCP) as well. Through these and other efforts, we are working to establish a system that will enable us to resume business operations as quickly as possible.

**Initiatives to Promote Work-Life Balance**

We have established systems in which employees can select their work style from various options to strike a balance between work and life. We provide systems for childcare leave, nursing care leave, shorter working hours, etc., which can be

used by everyone when necessary, to help individuals strike a work-life balance. In addition, we are promoting more efficient work styles and actively working to reduce overtime work.

**Examples of Activities**

**Promotion of physical and mental health practices**

We ensure that health checkups and stress checks are implemented for all employees. We also notify the results to the employees themselves, and industrial physicians will provide interviews and guidance when necessary.

**Promotion of paid leave acquisition**

We provide an environment that facilitates the acquisition of paid leave by not only ensuring that employees can perform their obligations to take annual paid leave for five days, but also setting the date on which all employees take paid leave and introducing the system for taking paid leave on an hourly basis.

**Systems under which employees can select work styles from various options**

In response to diversifying work styles, we have established systems under which employees can select their own work styles. These systems include working from home, reinstatement, and shorter working hours until the time when children enter the third grade of elementary school which goes beyond the statutory requirement.

**Topic on Human Resource Strategy**

**Program for Finding New Businesses**

Under the Program for Finding New Businesses which started in 2020, employees mainly of younger generations have been taking on challenges to develop various businesses. Under the theme of “solving social issues,” this program has been functioning as a framework to strengthen our solutions businesses, while fostering independent human resources.

**<Examples of Activities>**

In the business of developing and selling yarn for knitting, we have released “REPAC™,” which is a paper yarn derived from milk packaging. Paper yarn is created by cutting Japanese paper into thin strands and has been attracting attention as a highly functional and eco-friendly material.



# Interaction with Shareholders and Investors

This section introduces our stance toward shareholders and investors and examples of our initiatives.

## Basic Ideas

Our IR activities intently focus on communication with our shareholders and investors. To facilitate communication, we deliver a shareholder newsletter “To Our Shareholders” twice a year, which includes the latest corporate activities and a business report by top management for that fiscal year. This Integrated Report includes our financial information and non-financial information such as ESG initiatives and describes stories

for our Company’s medium- to long-term growth. In addition, we hold regular meetings with investors to help them make investment decisions in us. We are making various efforts to become a company that is supported by shareholders and investors going forward.

## Shareholder Returns

### Policy on profit return

Shima Seiki considers profit return to shareholders as one of its highest management priorities. Our fundamental policy is to continue providing stable dividends over the long term in line with sustainable business expansion.

On this basis, we strive to allocate profits in a balanced manner, maintaining investment for long-term growth and internal reserves for future business expansion.

### Guidance on shareholder returns (three years from FY2021)

#### Consolidated payout target ratio of 30%

We endeavor to achieve a surplus and execute a consolidated payout target ratio of 30% for shareholder returns. We will also strive to increase capital efficiency through measures such as purchasing treasury stock in a timely and expeditious manner by taking into consideration such factors as our share price level, cash position, and market environment.

## Policy on Dialogues with Investors

The Company promotes constructive dialogues with shareholders and investors in order to achieve sustainable growth and improve medium- to long-term corporate value.

- 1 Based on the disclosure policy, the Company’s spokespeople related to IR are the Company president, the director in charge of accounting and finance, the person responsible for information disclosure (the director in charge of general affairs and personnel), and the person responsible for IR. To make it easier for external parties to understand, the director in charge of accounting and finance has been clearly positioned as the role responsible for IR since June 28, 2023.
- 2 The General Affairs and Personnel Division, which is the division in charge of IR, appropriately cooperates with the Accounting and Finance Division, promotes IR activities based on collaboration with related divisions, and supports the management team’s dialogues with shareholders and investors.
- 3 For IR activities, the Company provides individual meetings and conference calls with shareholders and investors outside the quiet periods, financial results briefings (after end-of-term and second-quarter announcement of financial results) for analysts and investors, and company information sessions for individual investors. We also deliver easier-to-understand information in various forms, such as web pages and disclosure materials, to promote dialogues with shareholders and investors.
- 4 For opinions and requests that were ascertained through dialogues, we strive to provide feedback to the management team and related divisions and share information as necessary.
- 5 For insider information, appropriate management is conducted based on regulations to prevent insider trading.
- 6 The topics of dialogues with shareholders and investors include how we interact with shareholders and investors, advantages of the business models and products, changes in the market and competitive environments, and growth strategy based on the medium-term management plan. Each meeting is attended by relevant personnel (the president, the director responsible for IR, or the person in charge of IR), depending on the purpose of the meeting, the severity of the topics, and other factors. Resources the discussions rely on, including the medium-term management plans, integrated reports, and results briefing materials, are disclosed in the IR section of our website.

## IR Calendar (April 2022 to March 2023)

|   | Apr  | May | Jun | Jul             | Aug | Sep | Oct   | Nov | Dec | Jan                | Feb | Mar |
|---|--|-----|-----|-----------------|-----|-----|---|-----|-----|--------------------|-----|-----|
| Announcement of Financial Results             | ● Full year  |     |     | ● First quarter |     |     | ● Second quarter  |     |     | ● Third quarter    |     |     |
| Payment of Dividends                          | ● Year-end   |     |     |                 |     |     | ● Interim   |     |     |                    |     |     |
| General Meeting of Shareholders               | ● Delivery of notice of Ordinary General Meeting of Shareholders<br>● The Ordinary General Meeting of Shareholders |     |     |                 |     |     |   |     |     |                    |     |     |
| Annual (Quarterly) Securities Report          | ● Annual Securities Report<br>● Quarterly Report   |     |     |                 |     |     | ● Quarterly Report  |     |     | ● Quarterly Report |     |     |
| Shareholder Newsletters and Integrated Report | ● Shareholder Newsletter   |     |     |                 |     |     | ● Integrated Report<br>● Shareholder Newsletters (mid-term) |     |     |                    |     |     |

### General Meeting of Shareholders

The meeting is held in June every year for shareholders with voting rights as at the end of March. This year's meeting was the first one under the electronic provisioning system, but the full set of notice documents was delivered at this time to avoid confusion. As the COVID-19 pandemic still poses significant challenges, the exercise of voting rights has been carried out smoothly not only by attending the meeting, but also by exercising voting rights in writing and electronic form. To prevent the spread of infectious diseases, the annual factory tour has been suspended, but instead, we reported our activities in the ITMA exhibition held in June 2023 and showcased some samples.

## Shareholder Benefits

To express our appreciation for the support of our shareholders, we offer WHOLEGARMENT® products rich in originality and products sold at food and beverage facilities directly managed by us, etc., as shareholder benefits.

### 1. Eligible shareholders

Shareholders holding 100 shares (1 unit) or more, listed or recorded on our shareholders register as of March 31 and September 30 of each year.

### 2. Time of delivery

Considering the preparation of the benefits, the delivery of the products will be around October for the period ending March 31, and early December for the period ending September 30.

### 3. Criteria

The following criteria have been set according to the number of shares held.

(1) 100 shares or more but less than 1,000 shares (2) 1,000 shares or more but less than 3,000 shares (3) 3,000 shares or more

### ● Long-term shareholder benefit program

Shareholders who are listed or recorded on the Company's shareholders' register as of the end of September of each year as shareholders holding 1,000 shares or more and have held such shares for over three years (shareholders who have been listed or recorded at least seven consecutive times on the shareholders' register as of September 30 and March 31 under the same shareholder number) will receive the Company's original calendar under the long-term benefit program in addition to the current shareholder benefit program.



For details, please refer to the QR code here.

### ● Shareholder benefits (past rewards)

#### Benefits for the period ended September 30, 2022

Shareholders at the end of September received a complimentary discount coupon for the "Auberge de South Terrace" operated by the Company's group company in Nanki-Shirahama.



### ● Auberge de South Terrace

Location : 2998-10, Shirahama-cho, Nishimuro-gun, Wakayama Prefecture  
T E L : +81-739-42-4555  
U R L : <https://www.southterrace.co.jp/>



#### Benefits for the period ended March 31, 2023

Shareholders at the end of March were able to select the original products from our catalog according to their number of shares held.



# Supply Chain Management – Interaction with Suppliers

## Basic Ideas

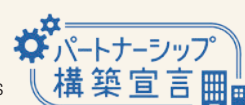
Recently, more and more interests have focused on legal compliance, respect for human rights, and global environmental conservation throughout the supply chain in the process of creating products and services. In response to such a trend, we work with suppliers to engage in responsible procurement activities so that our entire supply chain can fulfill social responsibilities. With the recognition that raw material or component suppliers are important business partners, we conduct fair and impartial transactions with them to build trusted relationships, and enable collaboration and mutual growth to increase added-values across the supply chain.

The Company countenances the Council on Promoting Partnership Building for Cultivating the Future and has announced the Declaration of Partnership Building\* to promote building partnerships with suppliers

aiming at coexistence and coprosperity with them.

### \*Declaration of Partnership Building

This framework encourages companies of any size to declare as a purchaser how the company conducts its trades. The declaration includes a set of key initiatives for coexistence, coprosperity, and new collaboration across the supply chain and compliance with the promotion standards.



## Basic Policy on Material Procurement

To ensure responsible procurement in the supply chain, the Company has established the Basic Policy on Material Procurement. Based on this policy, we maintain a high level of product quality and safety while building trusted partnerships and long-lasting collaborative relationships with suppliers and aiming to realize a sustainable society.

### Basic Policy on Material Procurement

1. Comply with laws, regulations, and social norms.
2. Deal fairly and impartially.
3. Build win-win relationships with suppliers.
4. Collaborate with suppliers in terms of cost and technology.
5. Ensure procurement with less environmental load.

## Building Trusted Relationships with Suppliers

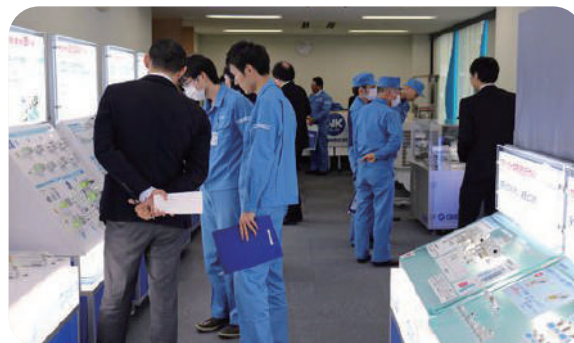
Realizing that building trusted relationships with suppliers, critical partners for our procurement, is one of our top priorities, we hold sessions to explain our procurement policy to existing suppliers. We

share our policy and vision with the suppliers and take collaborative action to develop deeper mutual understanding and enable close communication.

### Communication with suppliers

#### Internal shows and seminars

We invite suppliers to hold product shows or seminars at our premises. This helps the material procurement and other related divisions gather information and improve technology. Our employees of related departments and divisions also visit suppliers and hold technical exchange sessions to solve issues or problems with each other and ensure stable quality and continuous supply.



## Sharing Social Responsibilities with Suppliers

According to the Shima Seiki Group Code of Conduct and the Basic Policy on Material Procurement, we work with our suppliers to maintain a responsible supply chain. When conducting business with suppliers, we encourage them to understand the Basic Policy on Material Procurement and share the awareness that we have of social responsibilities. New

suppliers are determined through a fair and equitable evaluation and selection process based on criteria regarding legal compliance, environmental and human rights considerations, good quality and lead times, and sound business fundamentals.

### Initiatives for respecting human rights

- Eliminate all forms of discrimination.
- Remove child labor and forced labor.
- Prohibit various types of harassment.
- Manage working hours and pay wages properly.
- Exercise human rights due diligence.
- Interact with stakeholders.

### Compliance

- Conduct proper business with suppliers.
- Promote fair and free trade.
- Ensure legitimate import/export and other transactions.
- Protect intellectual property and other rights.
- Support global environment protection.
- Take a firm stand against anti-social forces.

For details about "Initiatives for respecting human rights" and "Compliance," please refer to the QR code here.



# Interaction with Customers

## Basic Ideas

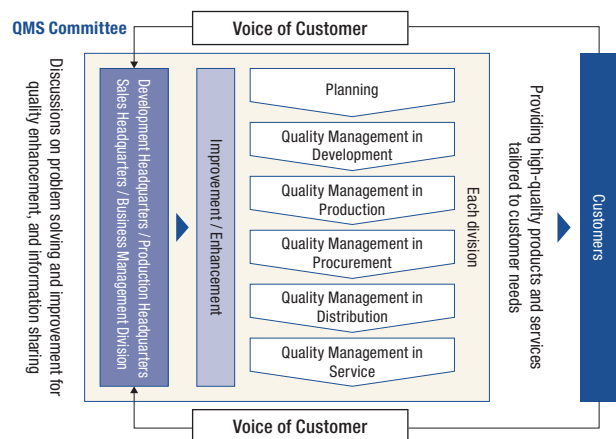
Guided by the corporate philosophy “Ever Onward - Limitless Progress,” we strive to be creative to proactively identify users’ needs and develop and deliver attractive products and services. The Shima Seiki Spirit “providing products with the highest functionality at economical prices” underpins our initiatives to enable complete quality control

and management of products and improve customer satisfaction. Comprehensive after-sales services are also provided so that customers who purchased our products can continue to use them safely with a sense of security. The services include not only maintenance and inspection but also support by engineers from domestic and global sites .

## Quality Management System

To perform thorough quality control, we established a quality management system to earn the trust of our customers. The system enables us to maintain and improve quality and deliver safe and secure products to customers.

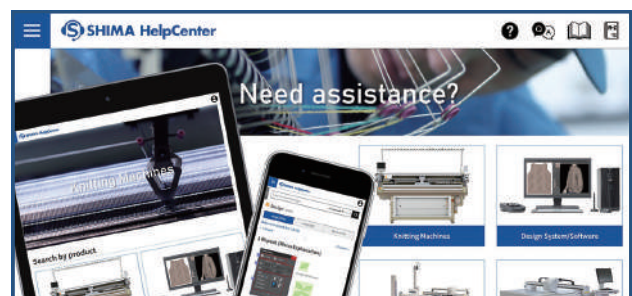
The QMS (Quality Management System) Committee selects support members from various departments and divisions to continuously improve information sharing and problem-solving for customers. We aim to improve quality and develop and deliver customer-oriented attractive products. In addition, we enable stable and accelerated production by streamlining production processes and establishing traceability through systematization.



## Structure to Provide After-Sales Services

The Company commits to serving customers even after selling products. Various after-sales services are offered to customers in Japan and other countries as per their needs. Our headquarters provide training facilities where experienced professionals support customers so that everyone can get the most out of our products’ functionality.

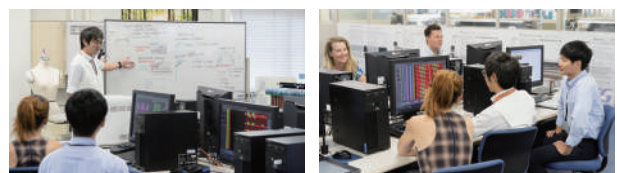
Additionally, SHIMA HelpCenter, a comprehensive customer support website, started in July 2023. This center integrates help, FAQs, operation manuals, and other resources for our products and provides a smart way for customers to solve their questions or problems anytime and anywhere.



## Training for Engineers

We provide technician training for engineers in Japan and overseas. Customers can select from various plans, from basic to advanced courses, depending on their levels, needs, and experience. To help customers deepen their understanding, the training sessions use Shima Seiki-developed unique teaching materials with plenty of videos and other visualized resources. The sessions are available in English, Chinese, and other multiple languages. We also operate an e-learning system called SHIMANAVI® to offer a wide range of courses in line with

customer needs. Customers can take courses flexibly from anywhere at their own pace.



# Interaction with Local Communities

## Basic Ideas

The Shima Seiki Group is engaged in business activities that benefit society, such as by developing useful products, and it also actively engages in social contribution activities as a corporate citizen. Focusing on collaboration with

local communities and performing activities in a broad range of fields, we aim to realize a sustainable society, improve corporate value, and strive to become an “indispensable company to society.”

### Interaction with Future Generations

The Company operates the Fusion Museum for children, who are in charge of the future, to learn the mechanisms and history of machines. We hope this museum provides a space for younger generations to experience the fun of manufacturing and to “dream,” evoking creativity and curiosity through feelings of “Why?.” A number of knitting machines and design systems are on display, including the world’s first sock knitting machine and the world’s fastest flat knitting machine. This museum explains the history of knitting and knitting machines and disseminates the history as a valuable heritage. Additionally, the museum provides visitors with the experience of directly using the design system and experience-type WHOLEGARMENT® flat knitting machine to manufacture items such as scarves and cushion covers.

#### Basic information

- Location / FORTE WAJIMA 3rd floor, 2-1 Honmachi, Wakayama City
- Hours of operation / 10:00 a.m. to 7:00 p.m.
- Holiday closures / January 1st to 3rd
- Admission / Free ● TEL / +81-73-488-1962



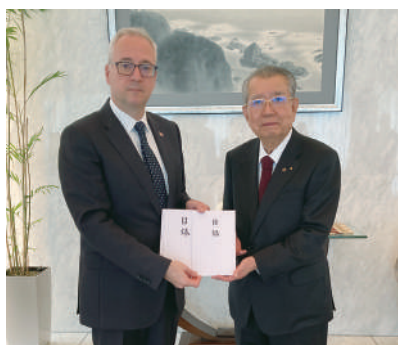
▲The world’s oldest sock knitting machine (devised by William Lee)



▲“Amita-kun,” an experience-type WHOLEGARMENT® flat knitting machine

### Donations for Earthquake-Stricken Areas in Turkey and Syria

In February 2023, a major earthquake centered in southeastern Turkey caused extensive damage. The Company has built a deep relationship with the Republic of Turkey over the years through the sale of computerized flat knitting machines. With the relationship, our company, it’s employees, and the labor union all provided donations to relieve the victims and support the soonest possible restoration and recovery of the affected areas.



Masahiro Shima, an Honorary Consul General of the Republic of Turkey in Wakayama, handed over the donations to the Turkish ambassador to Japan.

### Forest Conservation Activities

#### Foster a local natural environment

The Company has participated in the Wakayama Prefecture’s “Kigyo no Mori” (corporate forest) program since December 2019 and signed agreements with the prefecture and local governments. Over the next 10 years, we will engage in forest preservation activities, such as planting and thinning, at the forest named “Shima Seiki Amano no Satoyama” in Katsuragi Town, Wakayama Prefecture.



# Corporate Governance

The Company commits to fostering trust with various stakeholders including shareholders, customers, business partners, local communities, and employees, and endeavors to achieve sustainable growth and improve medium- to long-term corporate value.

## Basic Policies and Systems

Shima Seiki recognizes enhancing corporate governance as one of the most critical issues. We will improve management efficiency, soundness, and transparency while at the same time conducting management that emphasizes the interests of stakeholders such as

shareholders, customers, business partners, and employees. By fully utilizing the functions of the Board of Directors and the Audit and Supervisory Committee, we will strive to build a system that enables proper and efficient corporate governance.

## Governance Structure

### Board of Directors

The Board of Directors consists of nine members, including four outside directors (as of June 28, 2023), and, as a general rule, meets at least once each month, flexibly as needed, to deliberate on matters stipulated by law and important management matters, determine management policies, and supervise the execution of business.

During the year ended March 31, 2023, the Board of Directors held 13 meetings and implemented one deemed resolution in writing under Article 370 of the Companies Act. The Board of Directors has active discussions regarding resolutions on important management strategies and business policies, status reporting and policy decisions on the “Ever Onward 2023” medium-term management plan and business/sales activities, policy decisions on sustainability, the examination of business risks, and reporting on the evaluation of Board of Directors effectiveness and reviews on issues.

### Accounting Audits

The Company has appointed Ohtemae Audit Corporation as its accounting auditor. Regular accounting audits and internal control audits of the Company by the auditing firm enhance the effectiveness of the audit system.

### Audit and Supervisory Committee

The Audit and Supervisory Committee consists of one director who is a Standing Audit and Supervisory Committee Member and two Audit and Supervisory Committee Members (outside directors) with specialized knowledge, such as on legal affairs or finance and accounting. The Committee meets monthly as a general rule and at any time as needed.

During the year ended March 31, 2023, the Audit and Supervisory Committee held 13 meetings. The members of the Committee have discussions from their professional and objective views, with the agenda including resolutions, deliberations, and reports on significant matters related to audits.

### Internal Auditing Division

Aiming at enhanced internal control, the Company has the Internal Auditing Division, consisting of three members, to conduct internal audits and internal control evaluations efficiently according to the audit plan. The Division reports the results to the president and other directors, feeds them to relevant divisions, and then checks how improvements are made. The Division also has regular meetings with the Audit and Supervisory Committee and the accounting auditor to report the results of internal audits and ensure that all parties' opinions and suggestions are reflected in the audit operations.

## Internal Control System

Shima Seiki is promoting initiatives on the basis of our recognition that the building of an internal control system is an essential condition for not simply compliance with laws and regulations but also, through revision of our current operations as a whole and building of a sturdy corporate structure, the realization of our corporate philosophy and targets. To improve internal control effectiveness, we have introduced the Internal Reporting System (Corporate Ethics Helplines). We also have formulated the Basic Policies Related to Improvement of the Internal Control System and conduct pertinent reviews of the content in consideration of such factors as legal

revisions, changes in institutional design, and the progress of initiatives.

In order to ensure the effective functioning of internal control, we have established the Compliance Committee, the Risk Management Committee, and the Information Security Committee. Through the activities of these bodies, we endeavor to reinforce our internal control.

Regarding internal control over financial reporting, from the perspective of protecting investors, we have constructed a setup to rationally ensure the reliability of financial reporting and to promote fair and impartial disclosure.





## Risk Management

Shima Seiki has identified risks that occur or may occur in the future, relating to our operations as a whole. Regarding the prevention and management of these identified risks, we have stipulated risk management regulations as a basic framework to make an appropriate response. With these regulations as our supreme model of risk management, we endeavor to conduct corporate operations properly and smoothly.

The Risk Management Committee, which is established based on the risk

management regulations the Company defined, specifies and analyzes risks that should be subject to Group-wide management, discusses countermeasures, and builds a setup to continuously monitor the risks. In addition, we have established a risk management setup to launch the Crisis Management Headquarters headed by the president, make a swift and appropriate response, prevent the impact from expanding, and minimize the damage in the event of an unforeseen situation.

### Response to a possible disaster

Considering the impact of a large-scale earthquake to be an important risk, Shima Seiki has formulated a business continuity plan (BCP).

Our basic policy is to fulfill our social responsibility and ensure social trust in us. Accordingly, we prioritize the safety of employees and stakeholders, and we have a system in place to enable us to make an appropriate response when a problem that should be disclosed to customers occurs.

### Disaster prevention setup

Shima Seiki has established the Disaster Prevention Committee consisting of members from different divisions, subsidiaries and affiliates. The Committee meets every month to discuss disaster preventive measures, ensure preparation, and perform awareness-building activities.

We also have established a setup in case of a major disaster or accident so that we can launch the Crisis Management Headquarters and take immediate action to protect the safety of employees, their families, and other related people and swiftly resume our business operations.

### Disaster prevention drills

Shima Seiki implements disaster prevention drills every year with the aim of confirming initial response, evacuation, and relief. These annual drills assume that a large-scale earthquake has struck and a tsunami warning issued. As a result, in the event of an emergency, employees would be able to take appropriate action themselves without waiting for instructions.

Training on critical care and drills on firefighting and safety confirmation are also provided regularly as part of activities to help employees raise their awareness of disaster prevention.

## Business and Other Risks

Our Group identifies major matters that we think may become potential risk factors in operating the businesses and have an impact on operating results and financial positions as follows. These risks do not encompass all risks, and our Group may be affected in the future by unexpected risks and other risks whose impact is considered immaterial as of now.

Our Group recognizes the potential for the occurrence of these risks and strives to avoid the occurrence and take appropriate responses at the time of occurrence. Matters about the future among these descriptions were determined by the Company as of the end of the consolidated fiscal year ended March 31, 2023.

## 1 Risk on changes in the market environment and competitive situation

If Japanese and overseas knit-goods manufacturers, which are our main customers, are affected by some factors including changing consumers' lifestyles and their consumption practices, raised awareness of sustainability or other environmental issues, stagnant economic activities, and mild winter or different unseasonable weather, the manufacturers may significantly reduce investments in equipment such as flat knitting machines.

In industries where our Group operates, customer needs are changing fast, and thus competitors are developing innovative technologies rapidly.

Material procurement is also subject to risks such as supply chain disruptions and higher fuel costs caused by international trade issues and global infection pandemics. This has a potential impact on our Group's operating results and financial conditions. (Details are described in "⑨ Risks including natural disasters, international conflicts, accidents, and spread of infections," ② Impact on production.")

As the Company has increasingly signed significant contracts with customers and business partners, compensation problems may arise when confidential information is leaked, or a difference of opinion turns into a patent infringement claim. Such problems can affect our operating results and financial positions. (Details are described in "⑤ Problems on the strategy for protection of intellectual property" and "⑧ Risk on

information security.")

If the Company fails to adapt to these environmental changes and loses its competitive edge, it could severely impact our operating results and financial conditions.

In response to these business risks, we are constantly striving to improve the attractiveness of our products and services. For example, we proactively propose timely and optimal-volume production corresponding to changes in demand in the consuming regions with the use of the WHOLEGARMENT® flat knitting machines and design systems.

We also ensure close communication with customers and business partners to catch potential needs precisely. This helps us establish innovative business models that can solve issues in the apparel and fashion industry and enables our Group to create new business values and business areas, such as encouraging the adoption of knit in non-apparel industries.

In the ever-changing business environment, the Group aims to continuously increase its corporate value. To enable this, we thoroughly reconsider our management infrastructure and internal systems, and every employee works together to maintain and enhance a proper risk management system.

## 2 Impact of changes in social systems in areas where businesses are operated

The supply chain has been globalized in the apparel industry according to the advancement of globalization of the economy. In the case that trade friction between consuming countries and producing countries evolved into trade issues, the trend in capital investment is also significantly affected.

The Company pays close attention to and endeavors to appropriately deal with trends in economic measures, including the rise in reciprocal tariffs and restrictions on the export of technologies triggered by trade

friction between the U.S. and China. However, the introduction of and changes in regulations imposed by each country's government and international frameworks could have an impact on operating results and the financial conditions of our Group. Therefore, we are building a system to understand local developments early and immediately take action, using the network of local subsidiaries and distribution agencies located in countries across the world.

## 3 Fluctuations in exchange rates

In our Group, the ratio of overseas sales remains at around 80% and such transactions are made in foreign currencies as well as JPY. Therefore, rapid fluctuations in exchange rates could have an impact on the operating results and financial positions of our Group.

Accordingly, our Group hedges risks on trade receivables in foreign currencies among trade receivables with forward exchange contracts as described in the notes to the consolidated financial statements (derivative transactions).

#### 4 Risks on credit and collection of trade receivables

Trade receivables consist mostly of those related to the flat knitting machine business. It can take a long time for many users from purchasing materials to eventually selling products, and so it also takes a long time to collect trade receivables. This is a business practice peculiar to the industry. Therefore, our Group directly strengthens the management of credit to users in the main regions. In the Asian market, both wheels of global apparel and knitted product manufacturers have performed large-scale production in recent years, and the transaction amount per company also shows an upward trend. To reduce the risk

on collection, our group executes liquidation of receivables, establishes collaterals, promotes lease transactions, and purchases trade insurance policies. Additionally, our Group builds a system to promote payments by the due date by installing PMS (password management system) in flat knitting machines. Our Group also takes countermeasures for actual delays in collection, including the conservative posting of the provision of reserves based on the actual collection rate and the estimated collectability of individual cases.

#### 5 Problems with the strategy for protection of intellectual property

For some of our Group's own technologies and expertise, it may be impossible to gain complete protection based on intellectual property rights or it may gain limited protection mainly because of a lack of awareness of compliance by overseas competitors. Our Group's products, WHOLEGARMENT® flat knitting machines, in particular, are a block of advanced technologies. Our Group has established the Intellectual Property Development Team at the Development Headquarters to protect a wide range of technologies, including mechanics and control of flat knitting machines, knitting technologies, and design system-related technologies with intellectual property rights and differentiates itself from other companies. If counterfeit products were distributed due to infringement of patents, however, our Company's businesses would be significantly affected.

On the other hand, our Group's product development process ensures that we do not infringe on other companies' rights. However, if we are deemed to be infringing on another company's intellectual property rights, even due to a difference of opinion, it may hinder our

development and sales of products or cause us to bear significant liability for damages. If the use of third-party intellectual property rights currently licensed to us is suspended in the future, or if the terms and conditions are changed to an unfavorable level, this can affect our Group's operating results and financial positions.

Therefore, our Group has established a system to constantly monitor the infringement of patents by other companies, and additionally utilizes the information from local subsidiaries and agents in each country to attract attention and take legal procedures as needed. For the intellectual property of other companies, we conduct careful investigations and reviews across the product development phases. In case a company with a different opinion claims that we infringe on its intellectual property rights or the license terms are changed, our legal affairs division secures resources who can engage in negotiation for license terms or legal action to plead our innocence. The Company also works with experienced lawyers to enable appropriate responses to any kind of issue.

#### 6 Risk on human resources

Since the start of business, the Company has been highly appreciated in the industry by creating things that do not exist in the world and providing products with the highest functionality at economical prices. This is supported by human resources with a high degree of expertise, creativity, and uniqueness. We endeavor to continuously secure and develop human resources. However, the product development ability and product quality would be weakened if a succession of technologies or recruitment, or development of succeeding human resources did not

proceed as planned, or the human resources left us due to resignation, etc. Consequently, this could reduce business competitiveness, which might have an impact on operating results and the financial positions of our Group. Therefore, we proactively execute the succession of technologies, including an improvement in in-house training for junior employees, recommendations for taking skill examinations, and the expansion of OJT with experienced employees.

## 7 Risk on product liability

Our Group has established the Fundamental Quality and Environmental Policies and executes professional committee activities to increase product quality and customer satisfaction under the Shima Seiki Spirit: providing products with the highest functionality at economical prices.

However, defects in products could have an impact on the operating results and financial positions of our Group because of compensation for damage and the cost of correcting defects. Our Group purchases an insurance policy in preparation for product liabilities to reduce the risk.

## 8 Risk on information security

The information system is one of the significant factors for the Group. Human error, failures of devices, defects in services provided by third parties, including telecommunication carriers, as well as outside cyber attacks, unauthorized access, and infection by a computer virus could cause malfunctions and defects in the ICT systems. Such compromised systems, in turn, cause incorrect or delayed transaction processing, information leakage, or other failures, which could have an impact on

operating results and the financial positions of our Group. We have established an Information Security Policy to stipulate a code of conduct concerning the treatment of information for all officers and employees. In addition, it continuously conducts awareness-raising activities about physical and technical countermeasures for information security through the Information Security Committee.

## 9 Risks including natural disasters, international conflicts, accidents, and the spread of infections

Natural disasters, including earthquakes, typhoons, tsunamis, international conflicts, fires, power outages, the spread of infections (pandemic), and other events could have an impact on the business of the Company.

### 1 Impact on sales

Increasing risks in Asia, which is our major sales area (China, ASEAN member states including Vietnam, and Bangladesh), the European market mainly in Italy, and the Middle East market mainly in Turkey would hinder our ordinary sales activities, and if prolonged it would increase the impact on the operating results of our Company. This would also have an impact on the production activities of users, and then the risk of collection of trade receivables could be higher due to deteriorated cash management by users.

4 More details are available in "4 Risks on credit and collection of trade receivables."

### 2 Impact on production

In terms of production, it is assumed that the prolonged shutdown of suppliers would cause a shortage of components and force us to reduce production. This would have a significant impact on operating results and the financial condition of our Company. Therefore, our Group implements measures, including the securing of stock in an emergency and the construction of a stable supply system of components through purchases from several suppliers.

## 10 Overconcentration of production base

Our Company manufactures products intensively in Wakayama Prefecture, where the headquarters is located, and establishes an integrated system ranging from development to manufacturing to increase efficiency and cut costs. Therefore, natural disasters in the suburbs of Wakayama Prefecture, including large-scale earthquakes, wind and flood damage, accidental fires in the plants of our Company, and the spread of infection could result in the long-term shutdown of manufacturing lines. As we establish a daily production system, continuing any suspension of production would increase the impact. Therefore, the Company purchases insurance policies and develops a

business continuity plan so that any suspension period of operations can be minimized. Additionally, we implement countermeasures, such as seismic constructions for buildings, drills assuming emergencies, and the introduction of a safety confirmation system, aiming at establishing the system for early recovery. However, disasters with damage exceeding assumptions could have an impact on the continuation of business activities as a result of suspension of functions/destruction of equipment, suspended supply of infrastructures, and suspension of public transportation and communication tools.

### 11 Risk on pandemic of infection, etc.

If there is a spread of infection in the Company due to the global spread of a pandemic such as COVID-19, the suspension of business activities such as temporary suspension of plant operations could have an impact on operating results and the financial positions of our Group. We launched the Crisis Management Headquarters, headed by the president, and established a setup to put a priority on securing the

safety of employees while minimizing the impact on business, through the prohibition of non-essential meetings and business trips, suspension of acceptance of factory tours, strengthening of preventive measures (such as ensuring daily temperature checks, wearing of masks and sterilization of hands), telework, and workplace vaccination.

### 12 Risk on compliance

In performing business activities, the Group is subject to a wide variety of laws, regulations and rules. Material compliance violations like misconduct, including unintended violations, could deteriorate the public reputation of our Group and have a significant impact on business, including damage from suspension of transactions and lawsuits. We have established the Shima Seiki Group Code of Conduct

and complies with it, and set up the Compliance Committee for strengthening the compliance system and the Corporate Ethics Helplines as a window for whistleblowing and consultation regarding compliance and corporate ethics to prevent the impact of compliance violations from expanding.

### 13 Risk on sustainability issues

Stakeholders are becoming more interested in ESG-focused management and SDGs year by year, and measures for the realization of a sustainable society will become more significant in the future. In terms of the environment, the entire society, in addition to customers and suppliers, also demand us to reduce emissions of greenhouse gases toward a decarbonized society and to offer environmentally-conscious products and services from the perspective of global climate control.

Our Company complies with the requirements of environment-related regulations while it designs and develops products and services under an awareness of environmental load reduction by customers based on the operation of the environment management system. In terms of manufacturing, we are promoting the reduction of power usage and waste, as well as promoting recycling and effective use of resources, in order to control and reduce emissions of CO<sub>2</sub>.

However, amendments to or establishment of laws and regulations could increase expenses for compliance, and this could have an impact on

operating results and the financial condition of our Company. People are increasingly conscious of business and human rights regarding companies operating global businesses. These companies are required to react to requests from stakeholders for responding to human rights issues as well as conflict minerals and forced labor issues in the supply chain. The Company has established the Policy on Human Rights and endeavors to realize a workplace environment where the intrinsic diversity of every person is respected, and that is pleasant to work for everyone, with an aim to respect the human rights of all persons involved in business activities. However, if no adequate measures were taken by the Company and in the supply chain, operating results and the financial condition of our Company could be affected by the suspension of transactions, administrative penalties, and the loss of our social credibility and business opportunities. We will continue to propose sustainable manufacturing through products and services and solve social issues through corporate activities.

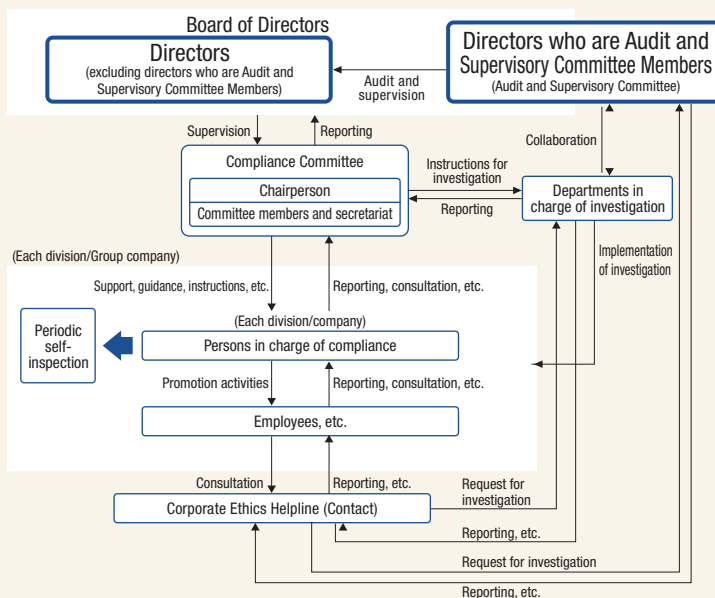
## Compliance Structure

Our Group formulated the Shima Seiki Group Code of Conduct in October 2006. The General Rules pledge the Company's resolution to comply with laws and regulations and corporate ethical standards, and ensure that each and every employee possesses high ethical standards and behaves in a sensible manner as a member of society.

With the Compliance Committee, which is set up to enhance compliance across our Group, we regularly check how compliance is working and provide training sessions and case studies to systematically entrench compliance and help all employees raise awareness.

In addition, Shima Seiki has introduced internal and external Corporate Ethics Helplines that employees can contact or report to when they find a legal violation or other severe situation or are subject to harassment, human rights infringement, or other acts against corporate ethics. The helplines enable us to immediately address and rectify issues and prevent recurrences.

### Compliance Organization



## Information Security

Considering confidential information and corporate assets as important resources, the Group manages them properly to ensure that its business operations can contribute to society.

### Basic Policy on Information Security

Recognizing the importance of information assets handled in business operations, such as customers' personal information, corporate information, confidential marketing information, and technological development information, Shima Seiki endeavors to ensure information security by implementing relevant protection measures.

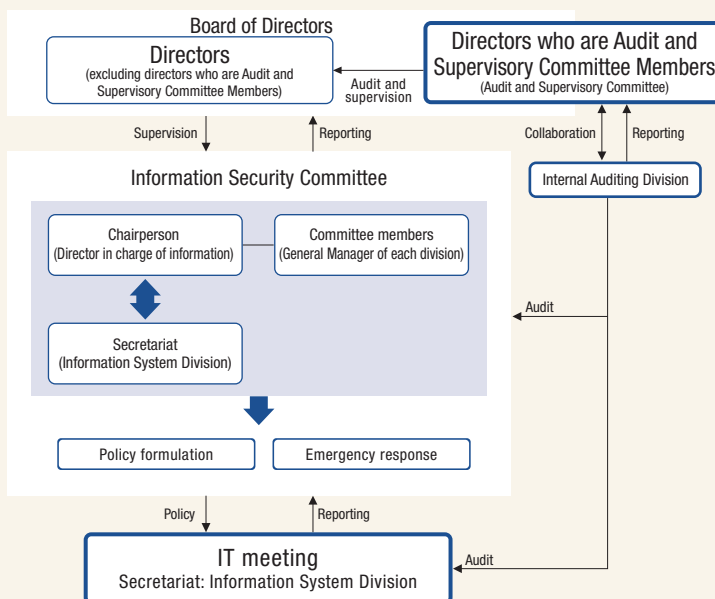
#### 1 Information security management

To maintain information assets at a high-security level, Shima Seiki repeatedly implements the information security management cycle of formulation → operation → evaluation → revision.










#### 2 Legal compliance

In handling information, Shima Seiki complies with laws, regulations, etc. relating to information security and takes account of standards and guidelines stipulated by administrative bodies and others.

### Information Security Organization



# Directors

|  | Name  | Attendance at Board of Directors in FY2022 | Business management Management strategy | R&D Innovation Production | IT DX | Sales Marketing | Internationality |
|--|---|--|---|---------------------------|-------|-----------------|------------------|
| <b>Directors</b>                               | <br>President, Representative Director and Executive Officer<br><b>Mitsuhiro Shima</b>   | 13 / 13                                    | ●                                       | ●                         | ●     | ●               | ●                |
|  | <br>Director, Executive Officer<br><b>Takashi Nanki</b>  | 13 / 13                                    | ●                                       |                           | ●     |                 |                  |
|  | <br>Director, Executive Officer<br><b>Akihiro Ohtani</b>   | 13 / 13                                    | ●                                       | ●                         | ●     |                 |                  |
|  | <br>Director, Executive Officer<br><b>Shosaku Kitagawa</b>  | 13 / 13                                    | ●                                       |                           | ●     |                 |                  |
|  | <br>Outside Director<br><b>Yoshio Ichiryu</b><br>Outside Independent   | 13 / 13                                    | ●                                       |                           |       |                 | ●                |
|  | <br>Outside Director<br><b>Rieko Zamma</b><br>Outside Independent  | 13 / 13                                    | ●                                       |                           |       | ●               |                  |
| <b>Audit and Supervisory Committee Members</b> | <br>Director (Standing Audit and Supervisory Committee Member)<br><b>Hisahito Totsui</b><br>Board of Directors 13 / 13<br>Audit and Supervisory Committee 13 / 13                        |  |   |                           |       |                 |                  |
|  | <br>Outside Director (Audit and Supervisory Committee Member)<br><b>Daisuke Shinkawa</b><br>Outside Independent<br>Board of Directors 13 / 13<br>Audit and Supervisory Committee 13 / 13 |  |   |                           |       |                 |                  |
|  | <br>Outside Director (Audit and Supervisory Committee Member)<br><b>Sachiko Nomura</b><br>Outside Independent<br>Board of Directors 13 / 13<br>Audit and Supervisory Committee 13 / 13   |  |   |                           |       |                 |                  |



| Finance and accounting<br>(Capital policy) | Legal affairs<br>Compliance<br>Risk management | Personnel affairs<br>Human resource<br>development | ESG<br>Sustainability | Reason for appointment   |
|--|--|--|-----------------------|--|
|  | ●  |  | ●                     | With a wide range of work experience as a person responsible for R&D, manufacturing, and sales, Mr. Mitsuhiro Shima has served as president and representative director since 2017 and has been engaged in the control of the Shima Seiki Group, including leading the establishment of the long-term vision and preparation of the medium-term management plan to make decisions regarding significant matters on the management and supervise the execution of operations.                       |
| ●  | ●  | ●  | ●                     | Serving as general manager of the Accounting and Finance Division, Mr. Takashi Nanki has a wealth of insights and actual results regarding the business management of our Group. He makes decisions regarding significant managerial matters, supervises the execution of operations from a financial perspective, and appropriately performs his duties and responsibilities as a director.   |
|  |  |  | ●                     | Having been engaged in the operations of the Development and Manufacturing divisions, Mr. Akihiro Ohtani has a wealth of experience and insights in areas ranging from product development to manufacturing. He now supervises the production and manufacturing departments as general manager of the Production Headquarters, makes decisions about important managerial matters, supervises the execution of operations as director, and appropriately performs his duties and responsibilities. |
| ●  | ●  | ●  | ●                     | Mr. Shosaku Kitagawa serves as the general manager of the Corporate Planning Division and is initiatively engaged in preparing the medium-term management plan. In addition to the financial viewpoint, he has a wealth of experience and general knowledge in the Corporate Planning Division as he has been in charge of the General Affairs and Personnel Division and Information System Division, etc., and appropriately performs his duties and responsibilities as a director.             |
|  | ●  | ●  | ●                     | Mr. Yoshio Ichiryu has a wealth of experience in the areas of economic and industrial policy, as well as a wide range of views and experience in general management as a business entrepreneur. From an objective standpoint independent of management, he contributes to securing the health and transparency of our management as a chairperson of the Nominating and Remuneration Committee.  |
|  |  | ●  | ●                     | Ms. Rieko Zamma has a wealth of experience in event planning and public relations strategy, as well as a wide range of views and experience in general management as a business entrepreneur. She also performs an appropriate role as an outside director in the supervision of the execution of operations from an objective standpoint independent of management.   |

|   |   |  |   |
|---|---|--|---|
| ● | ● |  | ● |
| ● |   |  | ● |
|   | ● |  | ● |

## Nominating and Remuneration Committee

As a voluntary advisory body of the Board of Directors, we established the Nominating and Remuneration Committee, which is chaired by an outside director and the majority of whose members are outside directors, to ensure the objectivity and transparency of nomination and remuneration. The Nominating and Remuneration Committee holds discussions and makes proposals to the Board of Directors about basic policy on appointing or dismissing officers, personnel and succession plan proposals, and basic policy and proposals for directors' remuneration.

The Nominating and Remuneration Committee held four meetings during the year ended March 31, 2023.

### Activities in FY2023

Major discussions

- The nomination of candidates for directors (excluding directors who are Audit and Supervisory Committee Members) and executive officers
- The appropriateness of remuneration for directors (excluding directors who are Audit and Supervisory Committee Members) and executive officers

### Policies and Procedures Applied When the Board of Directors Appoints and Dismisses Leading Managers and Nominates Director Candidates

We nominate candidates for the position of director (excluding directors who are Audit and Supervisory Committee Members) based on judgments regarding the overall balance of knowledge, experience, capability, and expertise required for directors to fulfill their duties and responsibilities effectively and the ideal balance between the diversity and size of the Board of Directors.

Regarding independent outside director candidates, we ensure that they meet standards relating to the independence of outside directors and include individuals with management experience.

To select director candidates, representative directors, and executive directors, the

Nominating and Remuneration Committee holds discussions regarding all relevant matters and reports to the Board of Directors, which then makes a final decision. Additionally, the Company obtains prior approval from the Audit and Supervisory Committee before selecting candidates for directors who also serve on the committee. When directors, representative directors, or executive directors violate laws and ordinances or the Company's Articles of Incorporation, or the Company otherwise discovers disqualifying factors associated with individuals serving in these positions that could damage its corporate value, the Nominating and Remuneration Committee holds discussions regarding potential dismissal.

### Policies and Procedures Applied When the Board of Directors Determines Remuneration for Executives and Directors (excluding directors who are Audit and Supervisory Committee Members)

We ensure that remuneration for directors (excluding directors who are Audit and Supervisory Committee Members) is commensurate with the roles and responsibilities of each director and have established a compensation system that enhances incentives for directors to achieve sustainable growth of our Company and increase corporate value over the medium-to-long-term. Accordingly, remuneration for these directors comprises basic remuneration and bonuses linked to performance in the corresponding fiscal year that are

offered as short-term incentives. Furthermore, we have incorporated into the compensation structure stock options that are intended to serve as medium-to-long-term incentives. Moreover, we have limited outside director compensation to basic remuneration out of consideration for their roles and independence. When making decisions regarding director remuneration, the Nominating and Remuneration Committee conducts discussions and submits a report to the Board of Directors, which then makes final judgments.

## Remuneration for Officers

### Basic policy on director remuneration

- 1 The remuneration shall be designed to motivate directors to achieve the Company's continuous growth and improve its medium-to-long-term corporate value.
- 2 The remuneration system shall be commensurate with each director's role and responsibilities, and ensure transparency and objectivity.
- 3 The remunerations shall be designed to contribute to securing talented human resources necessary to enhance corporate value.
- 4 The remuneration system shall be designed to share interests with shareholders.

### Remuneration structure of directors

The remuneration of executive directors consists of base remuneration, performance-linked bonuses, and share remuneration-type stock options. With respect to the composition ratio of remuneration, performance-linked bonuses may not be paid, and in principle, they shall not exceed the base remuneration. Typically, the share remuneration-type stock option shall be approximately 10 to 20% of the base remuneration.

Please refer to the 62nd Annual Securities Report (pages 46 to 47) for details on the remuneration paid to officers.



## Toward Building a Highly Transparent Governance System

In order to be a company that is trusted by stakeholders, the Shima Seiki Group is working to strengthen its corporate governance with the aim of increasing the transparency of the Board of Directors and the Audit and Supervisory Committee and enabling them to fully perform their functions. This time, we heard from three Audit and Supervisory Committee Members who play a core role in the audit system, about the issues and outlook for the governance system and their vision for the Shima Seiki Group.



Outside Director  
(Audit and Supervisory Committee Member)  
**Sachiko Nomura**

Director  
(Standing Audit and Supervisory Committee Member)  
**Hisahito Totsui**

Outside Director  
(Audit and Supervisory Committee Member)  
**Daisuke Shinkawa**

Please tell us your opinion of the Company's governance system, including its strengths and issues.

### Totsui

The Company has been working for the last several years on strengthening its governance system through a series of governance reforms, including the introduction of an executive officer system, the establishment of a Nominating and Remuneration Committee as a voluntary advisory body, and the transition to a company with an Audit and Supervisory Committee, and I feel that we are achieving results in terms of speeding up decision-making, improving management efficiency, and ensuring transparency and objectivity in personnel and remuneration decisions for directors.

In addition, we will strengthen collaboration among the Audit and Supervisory Committee, the accounting auditor, and the Internal Auditing Division, the so-called "three-way auditing," and as well as sharing audit plans, results, and issues, we are working to strengthen audit functions through initiatives that increase the effectiveness and efficiency of audits, such as adjusting the location and schedule of on-site inspections as necessary.

### Shinkawa

Moreover, the composition of the Company's Board of Directors has been rejuvenated compared to a few years ago, and I feel that we have created an environment in which we can review our Company from a new perspective. I believe that by enhancing corporate governance, we have built a system in which we have achieved greater management efficiency and improved soundness and transparency, and which simultaneously enables us to conduct management that emphasizes the interests of all stakeholders.

## Interview with Audit and Supervisory Committee Members

Totsui

On the other hand, I believe that future meetings of the Board of Directors will need to see more substantial discussions regarding the Company's medium- to long-term vision and future plans. In order to ensure the sustainable growth of our Company and enhancement of medium- to long-term corporate value, I feel that we must increase opportunities to discuss policies, strategies, and specific measures, including the future vision of existing business, the expansion of business and technological fields, human capital strategies, and initiatives in sustainability promotion issues.

Nomura

In addition to domestic sales offices and manufacturing subsidiaries, the Company has many sales subsidiaries overseas, so it is essential that we manage these appropriately and ensure smooth business operations. The strengths of our governance include the fact that we have a system in place to ensure appropriate risk management at our headquarters, including by dispatching officers from headquarters to each subsidiary and establishing regulations, and the fact that we have assigned multiple persons to the Internal Auditing Division, enabling the continuous auditing of domestic and overseas subsidiaries. I believe that we have established a comprehensive auditing system.

Going forward, I think it will become increasingly necessary to establish a system for closer communication with overseas subsidiaries so that information on matters such as local trends can be shared in a timely and appropriate manner.



**Outside Director**  
(Audit and Supervisory Committee Member)

**Daisuke Shinkawa**

Appointed as a Corporate Auditor of the Company in June 2012. Appointed as an Audit and Supervisory Committee Member in June 2020 following our Company's transition to a company with an Audit and Supervisory Committee. As a certified public accountant and certified tax accountant, he serves as a Representative Partner of HOKUTO tax accountant office.

**Please tell us about the role played by Audit and Supervisory Committee Members in a rapidly changing business environment.**

Shinkawa

In order to respond to the rapidly changing business environment, management strategies and business portfolios must be reviewed on a case-by-case basis, and the people responsible for these must also change. Human resource management that motivates the people who take on these responsibilities is also important.

As persons who are in a position to represent the common interests of all shareholders, outside directors are expected to play a role in supervising company management from an objective standpoint independent of business executors, and in supervising conflicts of interest between management or controlling shareholders and minority shareholders. Supervision also involves encouraging appropriate risk-taking. In the changing business environment, we would like to discuss sustainability strategies based on our corporate philosophy, medium- to long-term business plans and business portfolios, and human resource strategies to realize business plans.

Totsui

From a risk-taking perspective, the possibility of various risks materializing, including unexpected risks, seems to be higher than ever. On the other hand, if you are afraid of risks and do nothing, you cannot expect to see future business growth. As an Audit and Supervisory Committee Member, I continuously monitor whether or not the Group's risk management system is functioning sufficiently to support the various initiatives by executive divisions aimed at business growth, and I think it is important to ask executive divisions, from a third-party perspective, whether or not new risks have arisen due to changes in the environment, and, if so, whether or not a response is required.

Nomura

In order to ensure that the Company is not left behind due to an inability to respond to changes in the business environment, Audit and Supervisory Committee Members should understand the risks surrounding us and make recommendations, and when engaging in new business in response to changes in the environment, each Audit and Supervisory Committee Member should utilize their expertise to indicate problems and propose solutions to enable the business to proceed more smoothly.



**Outside Director**  
(Audit and Supervisory Committee Member)  
**Sachiko Nomura**

Appointed as an Audit and Supervisory Board Member of the Company in June 2015. Appointed as an Audit and Supervisory Committee Member in June 2020 following the Company's transition to a company with an Audit and Supervisory Committee. Worked as a lawyer at DOJIMA LAW OFFICE.

**What do you think  
about the Company's future vision and image?**

**Shinkawa**

Since the time of the Company's founding, our genetic makeup has been to firstly invent new machines from the perspective of preventing accidents involving getting caught in machinery, and from then on to continue to develop a series of innovative technologies that take into account social needs. I hope that we will continue to maintain our stance of always working to solve social issues going forward.

To achieve this, we must share issues throughout the Company, and ensure that each and every employee thinks for themselves, acts, confirms the results, and takes further action. Management needs to indicate these directions, create an environment, and oversee the results. I hope that we will continue to be an "indispensable company to society."

**Nomura**

In addition to manufacturing machines called knitting machines, by shortening the planning period for apparel products through the provision of software such as computer-based

design systems and virtual sampling using 3D simulation, we are proposing the creation of a system that realizes timely and optimal-volume production and reduces wasteful production and inventory. As well as proposing an environmentally friendly system such as this, we hope that our flat knitting machine technology for creating three-dimensional structures that we developed in the field of knit product manufacturing will be used not only in the apparel industry but also in a variety of other industries, including healthcare and sports, and that our products will spread throughout the world while building WIN-WIN relationships with customers and society.

**Totsui**

From the perspective of reducing the load on the global environment, we need to be a company that continues to take on challenges in order to make a significant contribution to solving the issue of mass production and mass disposal of clothing in the apparel and fashion industry.

In addition, we will not limit ourselves to existing business domains, but hope to grow into a company that can contribute to the solution of ever more diverse social issues by fully leveraging our technological development strengths and expanding our business domains, and continuing to produce environmentally friendly, attractive products and services as well as innovative solutions.



**Director**  
(Standing Audit and Supervisory Committee Member)  
**Hisahito Totsui**

Appointed as a Standing Audit and Supervisory Board Member of the Company in June 2018. Appointed as a Standing Audit and Supervisory Committee Member in June 2020 following our transition to a company with an Audit and Supervisory Committee. Has belonged to the Accounting and Finance Division for a long time, and also served as head of the Internal Auditing Division.

# Financial and Non-Financial Summary

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

## Financial Data

|  | 2014            | 2015    | 2016    | 2017    | 2018    | 2019    |
|--|-----------------|---------|---------|---------|---------|---------|
| <b>For the Year:</b>                                     | Millions of yen |         |         |         |         |         |
| Net sales  | ¥40,636         | ¥48,354 | ¥49,582 | ¥62,432 | ¥71,858 | ¥51,352 |
| Gross profit   | 17,269          | 21,865  | 23,345  | 29,048  | 33,438  | 23,155  |
| Operating income (loss)                                  | 2,731           | 5,745   | 5,781   | 11,262  | 14,905  | 4,638   |
| Income (loss) before income taxes and minority interests | 7,230           | 7,006   | 4,803   | 9,979   | 15,443  | 5,099   |
| Net income (loss) attributable to owners of the parent   | 4,863           | 3,645   | 3,271   | 7,198   | 11,279  | 3,835   |

|                     |                 |          |          |          |          |          |
|---------------------|-----------------|----------|----------|----------|----------|----------|
| <b>At Year-End:</b> | Millions of yen |          |          |          |          |          |
| Total assets        | ¥119,727        | ¥126,987 | ¥126,415 | ¥141,931 | ¥154,337 | ¥145,146 |
| Net assets          | 93,222          | 98,179   | 98,293   | 104,879  | 123,491  | 121,166  |

|                                       |          |          |          |          |          |          |
|---------------------------------------|----------|----------|----------|----------|----------|----------|
| <b>Per Share Data:</b>                | Yen      |          |          |          |          |          |
| Net income (loss)                     | ¥142.13  | ¥106.54  | ¥95.61   | ¥209.97  | ¥316.82  | ¥105.62  |
| Cash dividends applicable to the year | 32.50    | 32.50    | 37.50    | 45.00    | 60.00    | 55.00    |
| Net assets                            | 2,718.57 | 2,863.49 | 2,867.00 | 3,039.66 | 3,381.85 | 3,411.08 |

|                      |      |      |      |      |      |      |
|----------------------|------|------|------|------|------|------|
| <b>Ratios:</b>       | %    |      |      |      |      |      |
| ROA                  | 4.2% | 3.0% | 2.6% | 5.4% | 7.6% | 2.6% |
| ROE                  | 5.4  | 3.8  | 3.3  | 7.1  | 9.9  | 3.1  |
| Equity ratio         | 77.7 | 77.2 | 77.6 | 73.8 | 80.0 | 83.5 |
| Overseas sales ratio | 83.6 | 84.1 | 83.5 | 87.6 | 90.0 | 83.2 |

Notes: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥133.53=US\$1 and ¥145.72=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2023. The presentation classification of operating income (loss) has been revised since the fiscal year ended March 31, 2023 to a method where "gain on reversal of allowance for doubtful accounts" and "gain on reversal of provision for loss on guarantees," which were previously recorded in "non-operating income," are excluded from "selling, general and administrative expenses," which is the same classification as the amount provided for receivables based on transactions. To reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2022 were reclassified.

## Non-Financial Data

|   | 2018    | 2019    | 2020    | 2021    | 2022    | 2023           |
|---|---------|---------|---------|---------|---------|----------------|
| <b>Environment</b>                          |         |         |         |         |         |                |
| Water consumption (m <sup>3</sup> )         | 133,413 | 143,194 | 149,391 | 131,127 | 164,047 | <b>209,740</b> |
| Waste emission volume (t)                   | 1,972   | 1,817   | 1,316   | 908     | 1,051   | <b>1,459</b>   |
| Waste recycling rate (%)                    | 88      | 90      | 91      | 91      | 91      | <b>91</b>      |
| Photovoltaic power generation capacity (kw) | 1,380   | 1,380   | 1,380   | 1,660   | 1,660   | <b>1,660</b>   |

Note: The calculation method for water consumption has been changed since the fiscal year ended March 31, 2020.

| 2020      | 2021      | 2022      | 2023             | 2022 ▶ 2023    | 2023                      | 2023               |
|-----------|-----------|-----------|------------------|----------------|---------------------------|--------------------|
|           |           |           |                  | Percent change | Thousands of U.S. dollars | Thousands of euros |
| ¥33,206   | ¥24,489   | ¥30,998   | <b>¥37,886</b>   | 22.2%          | <b>\$283,727</b>          | <b>€259,992</b>    |
| 11,629    | 5,961     | 10,201    | <b>13,859</b>    | 35.9%          | <b>103,789</b>            | <b>95,107</b>      |
| (5,602)   | (9,143)   | (4,268)   | <b>(2,184)</b>   | -              | <b>(16,356)</b>           | <b>(14,988)</b>    |
| (6,552)   | (17,610)  | (3,368)   | <b>(5,137)</b>   | -              | <b>(38,471)</b>           | <b>(35,253)</b>    |
| (8,427)   | (17,866)  | (3,589)   | <b>(5,644)</b>   | -              | <b>(42,269)</b>           | <b>(38,732)</b>    |
|           |           |           |                  | Percent change | Thousands of U.S. dollars | Thousands of euros |
| ¥130,695  | ¥110,140  | ¥101,809  | <b>¥101,040</b>  | -0.8%          | <b>\$756,684</b>          | <b>€693,385</b>    |
| 107,950   | 90,036    | 88,795    | <b>86,107</b>    | -3.0%          | <b>644,851</b>            | <b>590,907</b>     |
|           |           |           |                  | Percent change | U.S. dollars              | Euros              |
| ¥(239.68) | ¥(517.71) | ¥(104.00) | <b>¥(163.54)</b> | -              | <b>\$(1.22)</b>           | <b>€(1.12)</b>     |
| 35.00     | 20.00     | 10.00     | <b>10.00</b>     | 0.0%           | <b>0.07</b>               | <b>0.07</b>        |
| 3,126.86  | 2,607.72  | 2,571.71  | <b>2,493.70</b>  | -3.0%          | <b>18.68</b>              | <b>17.11</b>       |
|           |           |           |                  |                |                           |                    |
| (6.1)%    | (14.8)%   | (3.4)%    | <b>(5.6)%</b>    |                |                           |                    |
| (7.4)     | (18.1)    | (4.0)     | <b>(6.5)</b>     |                |                           |                    |
| 82.6      | 81.7      | 87.2      | <b>85.2</b>      |                |                           |                    |
| 78.9      | 77.1      | 77.6      | <b>81.5</b>      |                |                           |                    |

|   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023          |
|---|--------|--------|--------|--------|--------|---------------|
| <b>Social and Governance</b>  |        |        |        |        |        |               |
| Rate of paid leave acquisition (%)  | 58.1   | 63.0   | 54.4   | 36.7   | 57.1   | <b>68.0</b>   |
| Employment rate of people with disabilities (%)                           | 1.82   | 1.75   | 1.85   | 1.87   | 2.04   | <b>2.31</b>   |
| Frequency rate of accidents resulting in lost work time (one day or more) | 0.35   | 0.00   | 0.33   | 0.00   | 0.00   | <b>1.05</b>   |
| Fusion Museum visitors (number of people)                                 | 21,100 | 22,475 | 18,773 | 14,438 | 13,079 | <b>18,396</b> |

# Corporate and Stock Information

## Corporate Information

|                              |  |                                  |   |
|------------------------------|--|----------------------------------|---|
| <b>Company Name</b>          | SHIMA SEIKI MFG., LTD.   | <b>Capital</b>                   | ¥14,859,800,000   |
| <b>Headquarters</b>          | 85 Sakata, Wakayama City, Wakayama 641-8511, Japan<br>Telephone: +81-73-471-0511<br>Facsimile: +81-73-474-8267 | <b>Total Number of Employees</b> | Consolidated 1,817 Non-consolidated 1,378   |
| <b>Date of Establishment</b> | February 4, 1962   | <b>U R L</b>                     | Corporate Information<br><a href="https://www.shimaseiki.com">https://www.shimaseiki.com</a><br>IR Information<br><a href="https://www.shimaseiki.com/ire/ire.html">https://www.shimaseiki.com/ire/ire.html</a> |

| Consolidated Subsidiaries | Company name                      | Location of headquarters        | Major business description  |
|---------------------------|-----------------------------------|---------------------------------|---|
|                           | SHIMA FINE PRESS CO., LTD.        | Wakayama City                   | Manufacture of parts for the Company's products   |
|                           | KAINAN SEIMITSU CO., LTD.         | Kainan City, Wakayama           | Manufacture of parts for the Company's products   |
|                           | TOYOBOSHI KOGYO CO., LTD.         | Tadaoka-cho, Senboku-gun, Osaka | Manufacture, sales, exports and imports of textile raw materials, and sales of flat knit products |
|                           | SHIMA SEIKI EUROPE LTD.           | United Kingdom                  | Sales of the Company's products   |
|                           | SHIMA SEIKI U.S.A. INC.           | U.S.A.                          | Sales of the Company's products   |
|                           | SHIMA SEIKI (HONG KONG) LTD.      | China                           | Sales of the Company's products   |
|                           | SHIMA SEIKI ITALIA S.p.A.         | Italy                           | Sales of the Company's products   |
|                           | SHIMA SEIKI WIN WIN SHANGHAI LTD. | China                           | Sales of the Company's products   |
|                           | SHIMA SEIKI SPAIN, S.A.U.         | Spain                           | Sales of the Company's products   |
|                           | SHIMA SEIKI WIN WIN DONGGUAN LTD. | China                           | Sales of the Company's products   |
|                           | SHIMA SEIKI (THAILAND) CO., LTD.  | Thailand                        | Sales of the Company's products   |
|                           | SHIMA SEIKI KOREA INC.            | Korea                           | Sales of the Company's products   |

## Directors and Audit and Supervisory Committee Members (As of June 28, 2023)

| Position  | Name             | Responsibility and significant concurrent positions  |
|---|------------------|--|
| President   | Mitsuhiro Shima  | Executive Officer, Director of Sales Headquarters, CEO of SHIMA SEIKI (HONG KONG) LTD., in charge of Internal Auditing Division and Sustainability Management Division |
| Director  | Takashi Nanki    | Executive Officer, responsible for IR, in charge of Accounting and Finance Division, Administrative Division, and Physical Distribution Division                       |
| Director  | Akihiro Ohtani   | Executive Officer, General Manager of Production Headquarters, in charge of Development Headquarters   |
| Director  | Shosaku Kitagawa | Executive Officer, General Manager of Corporate Planning Division, in charge of General Affairs and Personnel Division and Information System Division                 |
| Outside Director  | Yoshio Ichiryu   | President & CEO, Ichiryu Associates, Inc. / Newscaster   |
| Outside Director  | Rieko Zamma      | CEO, CANDID PRODUCE, Inc. / Producer   |
| Director<br>(Standing Audit and Supervisory Committee Member) | Hisahito Totsui  |  |
| Outside Director<br>(Audit and Supervisory Committee Member)  | Daisuke Shinkawa | Representative Partner, HOKUTO tax accountant office   |
| Outside Director<br>(Audit and Supervisory Committee Member)  | Sachiko Nomura   | Partner Attorney, DOJIMA LAW OFFICE  |

WHOLEGARMENT® is the name of a dedicated flat knitting machine equipped with SHIMA SEIKI's proprietary, the world's first seam-free knitting technology, and the knit products knitted with that flat knitting machine. SHIMA SEIKI, SWG, SWG-XR, MACH2, FIRST, SES, SSR, SVR, SRY, SFG, SPG, SPF, SDS, SDS-ONE, SDS-ONE APEX, APEXFiz, P-CAM, SlideNeedle, i-DYCS, SATC, REPAC, SHIMANAVI, SHIMA Datamall, yarnbank, BLUEKNIT, Shimatronic, TOTAL FASHION SYSTEM, and WHOLEGARMENT are either registered trademarks or trademarks of SHIMA SEIKI MFG., LTD.

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## Stock Information

### ▶ Stock Status (As of March 31, 2023)

- 1 : Authorized Common Shares.....142,000,000
- 2 : Issued Common Shares.....35,800,000
- 3 : Number of Shareholders.....15,014

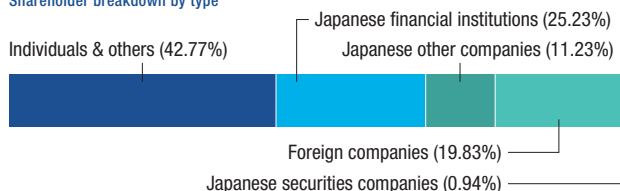
(Rounded down to the nearest thousand shares)

| 4 : Major Shareholders | Name   | Number of shares held (Thousands) | Percentage of shares held (%) |
|------------------------|--|-----------------------------------|-------------------------------|
|                        | The Master Trust Bank of Japan, Ltd. (Trust Account) | 3,957                             | 11.47                         |
|                        | Wajima Kosan Co., Ltd.                               | 3,001                             | 8.70                          |
|                        | The Kiyo Bank, Ltd.                                  | 1,387                             | 4.02                          |
|                        | Custody Bank of Japan, Ltd. (Trust Account)          | 1,237                             | 3.58                          |
|                        | Masahiro Shima                                       | 1,070                             | 3.10                          |
|                        | Mitsuhiro Shima                                      | 1,061                             | 3.08                          |
|                        | The Bank of Mitsubishi UFJ, Ltd.                     | 880                               | 2.55                          |
|                        | THE BANK OF NEW YORK MELLON 140044                   | 849                               | 2.46                          |
|                        | Wako LLC   | 780                               | 2.26                          |
|                        | Chikage Umeda  | 632                               | 1.83                          |

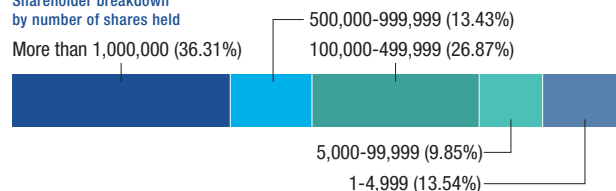
Notes 1. The Company holds 1,285 thousand shares of treasury stock. 2. Treasury stock is excluded from the calculation of the percentage of shares held.

### ▶ Stock Ownership

#### Shareholder breakdown by type



#### Shareholder breakdown by number of shares held



## Shareholders' Memo

|  |   |
|--|---|
| <b>Fiscal year</b>   | From April 1 to March 31 of next year   |
| <b>General Meeting of Shareholders</b>                     | Record Date: March 31 / Every year in June  |
| <b>Date of record for dividend</b>                         | Year-end dividend: March 31 / Interim dividend: September 30  |
| <b>Method of public notice</b>                             | Electronic public notice<br>Available on the Company's website ( <a href="https://www.shimaseiki.com/ire/ire.html">https://www.shimaseiki.com/ire/ire.html</a> )<br>However, the information will appear in the Nihon Keizai Shimbun in case electronic public notice is not possible due to unavoidable reasons. |
| <b>Transfer agent</b>                                      |   |
| <b>Account management institution for special accounts</b> | Mitsubishi UFJ Trust and Banking Corporation<br><br>Osaka Corporate Agency Division Mitsubishi UFJ Trust and Banking Corporation  |
| <b>Handling office</b>                                     | 3-6-3, Fushimimachi, Chuo-ku, Osaka /<br>Telephone :0120-094-777 (toll free/available in Japan only)  |

(Notice)

1. As a general rule, procedures such as a change of shareholder's address, and request for purchasing stocks are handled by the account management institution (securities company, etc.) where the shareholder has opened the account. Please contact your securities company, etc. for such issues. Please be aware that the transfer agent (Mitsubishi UFJ Trust and Banking Corporation) cannot handle such matters.
2. For procedures regarding the shares recorded in the special account, please contact the account management institution for special accounts (Mitsubishi UFJ Trust and Banking Corporation). Inquiries are also accepted at the head office and branch offices of Mitsubishi UFJ Trust and Banking Corporation across Japan.
3. Unreceived dividends will be paid at the head office and branch offices of Mitsubishi UFJ Trust and Banking Corporation.

**SHIMA SEIKI**

**SHIMA SEIKI MFG., LTD.**

<https://www.shimaseiki.com/>