

Ever Onward

Annual Report 2017

Year Ended March 31, 2017

A Leading Flat Knitting Machine Company Creating a Variety of Knitwear

Flat knitting machines are used to produce highly designable knitwear. Shima Seiki leads user industries and continuously takes on challenges to develop new technologies as a computerized flat knitting machine manufacturer.



Knit one-piece made on the WHOLEGARMENT® flat knitting machine

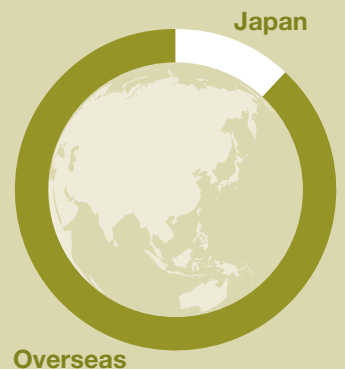


The Merits of Knitwear

Knitwear is apparel or material made from loop-knitted fabric. It is elastic, soft to the touch, breathable and available in a rich variety of colors. Using the appropriate material, knit can be worn all year regardless of the season.

Shima Seiki's Unique Feature **1**
Over 85% of Sales are Overseas

From Italy, the center of the fashion industry, to China and Hong Kong, the world's largest knitwear manufacturing base, to ASEAN and other countries in South Asia, which are currently attracting attention as a new knitwear manufacturing base, Shima Seiki is earning accolades around the world.

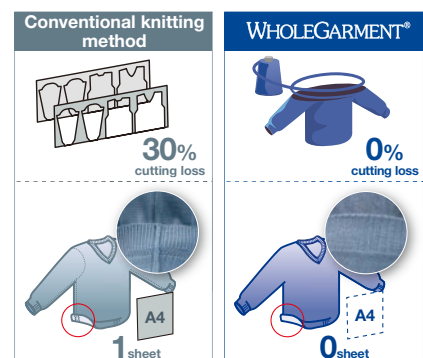


Shima Seiki Helping to Resolve Social Issues

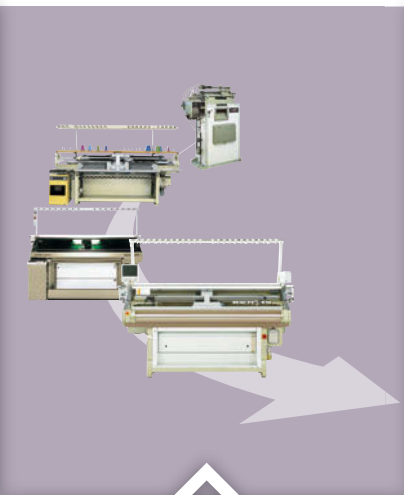
Contributing to Environmental Preservation

Reducing Cutting Losses Substantially Compared with Conventional Flat Knitting Machines

Shima Seiki's proprietary developed WHOLEGARMENT® flat knitting machines produce complete pieces, eliminating the need for post-processes such as cutting and sewing that are required with general flat knitting machines. Accordingly, these machines can reduce losses from seam allowance and save the approximately 30% of materials that conventional machines discard as waste. Less energy is therefore needed to process the waste, lowering energy requirements and CO₂ emissions. Also, the necessary number of pieces can be produced as needed, minimizing the need to dispose of unsold products.



With conventional knitting methods, the cutting and sewing of pieces leads to cutting losses and seam allowances.



Shima Seiki's Unique Feature **3**
Domestic Integrated Production System Provides Japanese Quality

All production is conducted at our headquarters factory in Japan. From parts to assembly, integrated production facilitates the efficient creation of a wide range of products and ensures quality products that are durable and stable. We are highly trusted by customers around the world.



Shima Seiki's Unique Feature **5**
Proactive Development in Areas Other than Apparel

Centered on the design system business, we make a wide range of proposals in areas other than apparel, including for the SDS®-ONE APEX3 and P-CAM® automatic fabric cutting machines. We provide various industries with high-performance and high-quality manufacturing equipment.

Shima Seiki's Unique Feature **2**
Ongoing Technological Innovation for Half a Century

Shima Seiki was established over 50 years ago as a manufacturer of glove knitting machines and continues to contribute to the global knitting and apparel industries through technological innovations as a comprehensive mechatronics company fusing mechanical and electronic technologies.



Shima Seiki's Unique Feature **4**
WHOLEGARMENT®, the Forefront of Flat Knitting Machines

WHOLEGARMENT® flat knitting machines, which create complete pieces of seamfree knitwear, are unique products developed by Shima Seiki. In addition to being highly designable and realizing a comfortable fit, WHOLEGARMENT® knitwear conserve resources by eliminating cutting losses and seam allowances. WHOLEGARMENT® knitwear contribute significantly to the resolution of issues related to the global shortage of skilled sewing technicians.



Improving the Working Environment

Freeing Workers from Arduous Linking Work

Flat knitting machines used for mass production knit individual pieces—such as the front and back body panels and the sleeves—that are then sewn together on machines. The pieces are then matched together using the linking process, aligning the individual seams. The linking process is manual, requiring workers to insert their needles in each seam. The work is also highly detailed and tiring on the eyes when done for long periods of time—so much so that workers who handle this task are said to retire from it in their 20s.

Shima Seiki's WHOLEGARMENT® flat knitting machines, on the other hand, produce completely seamfree pieces as entire garments, eliminating the arduous task of linking and helping to improve working environments.



Linking work

Supporting the Development of the Global Knitwear Industry

Shima Seiki is a global company in the sense that more than 85% of sales are in overseas markets. We have sales and service bases in the world's key knitwear-producing regions and design centers in major consumer regions, enabling us to respond swiftly to global design trends. We support the development of the global knitwear industry by carefully assisting local knitwear manufacturers.



SHIMA SEIKI ITALIA S.p.A holds fashion show at 10th anniversary event

Europe 12% [Sales ¥7.3 billion]

Regions of Local Production for the Local Market
Mass-Production Regions

Fiscal year ended March 31, 2017
Total net sales

Europe

Asia

Market Trends	Regions of Local Production for the Local Market	Mass-Production Regions	Mass-Production Regions	Regions of Local Production for the Local Market
Market Characteristics	<p>Italy</p> <ul style="list-style-type: none"> Center of the global fashion industry Knitwear production rebounding <p>United Kingdom, Spain</p> <ul style="list-style-type: none"> Returning to domestic production <p>Eastern European Countries</p> <ul style="list-style-type: none"> Base of production for mass-merchandised products 		<p>China</p> <ul style="list-style-type: none"> World's largest base for knitwear production Rapidly growing domestic consumer demand for high-end apparel Rising demand for use in shoe material <p>Bangladesh, ASEAN countries</p> <ul style="list-style-type: none"> Production base for the European and U.S. apparel markets Active shift in production from China 	
Shima Seiki's Measures and Strategies	<ul style="list-style-type: none"> In Italy, the United Kingdom and other countries, we propose the use of WHOLEGARMENT® flat knitting machines and design systems for local production for the local market. 		<ul style="list-style-type: none"> China an important target for WHOLEGARMENT® flat knitting machines Support for a shift toward design proposal-based, high-added-value offerings Provision of business expertise Also, reinforcement for cultivating local human resources 	

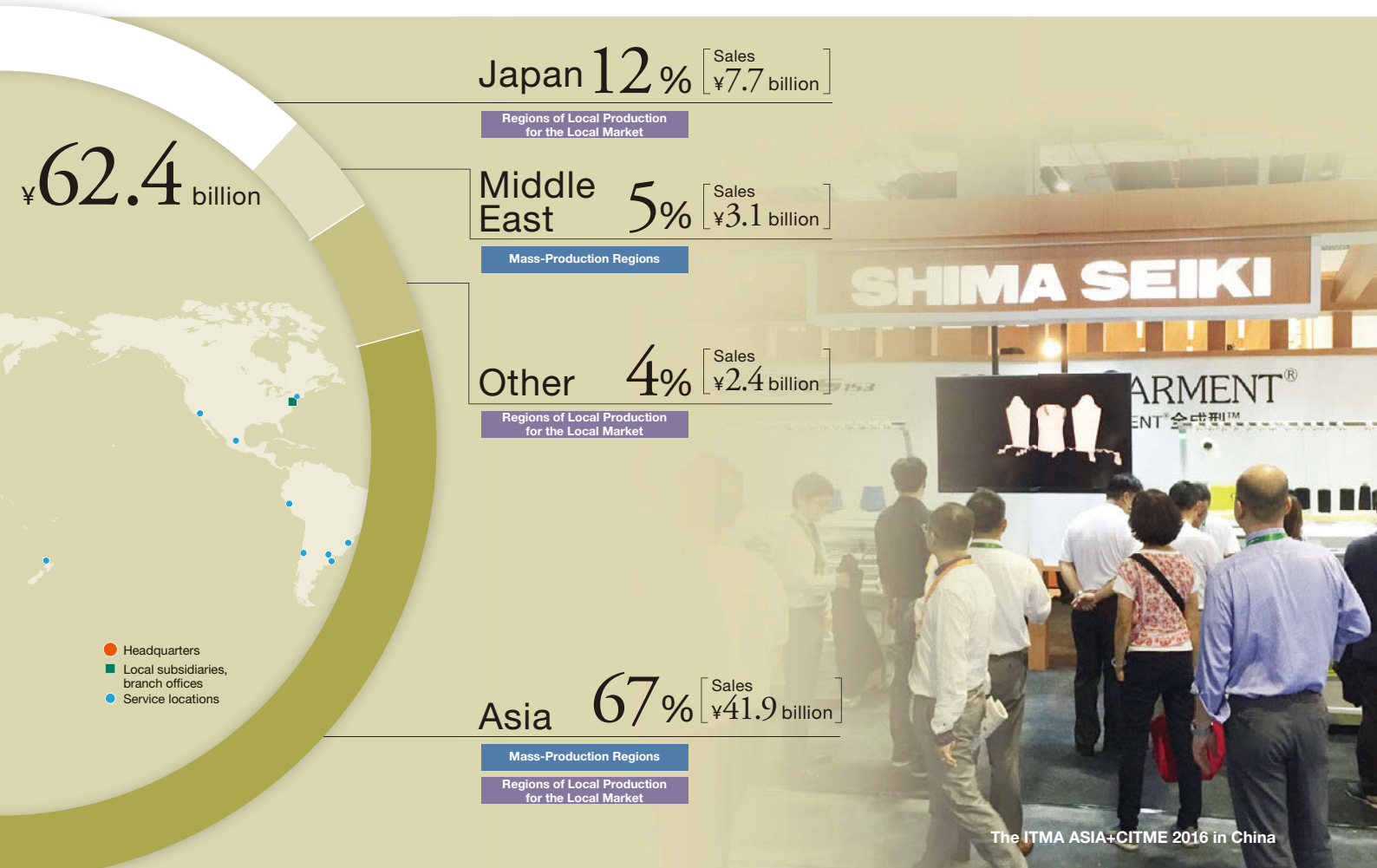
Trends in the World's Two Largest Markets (See pages 13–14 for details.)

Regions of Local Production for the Local Market

Markets for flat knitting machines that produce highly original, high-quality apparel

Mass-Production Regions

Markets for flat knitting machines that are suited for mass production, mainly for export



Japan

Regions of Local Production for the Local Market

- Return to domestic knitwear production
- Use of design systems in different industries, including automotive, furniture, aerospace and industrial materials

- Utilization of a close-knit domestic network
- Proposing local production for the local market using WHOLEGARMENT® flat knitting machines and design systems

Middle East

Mass-Production Regions

- Turkey**
- Easy access to the European and Russian markets
 - Vigorous knitwear industry

- Proposing flat knitting machines for mass production
- Proposing WHOLEGARMENT® flat knitting machines
- Supporting productivity increases

Other

Regions of Local Production for the Local Market

- North America**
- Mostly an import market, but local production opportunities on the rise
- Brazil**
- Penetration of WHOLEGARMENT® flat knitting machines targeting internal demand

- Disseminating information from the design center of New York
- Gathering information on worldwide knitwear trends
- Creating a structure to support domestic production

Financial Highlights

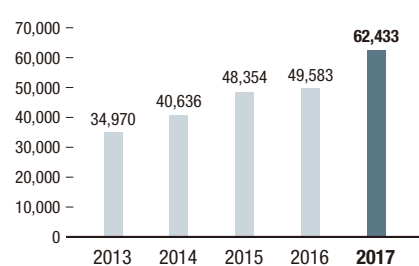
SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

Years ended March 31

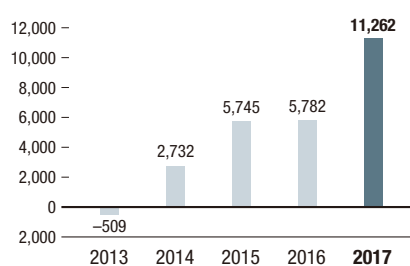
	2008	2009	2010	2011	2012	2013
For the Year:	Millions of yen					
Net sales	¥69,897	¥48,970	¥36,874	¥42,781	¥37,327	¥34,970
Gross profit	35,766	24,652	14,139	19,194	14,432	12,212
Operating income (loss)	16,214	8,528	651	5,908	883	(509)
Income (loss) before income taxes and minority interests	18,168	4,057	(1,042)	1,092	(537)	3,363
Net income (loss) attributable to owners of the parent	9,959	1,766	(1,885)	770	(642)	1,754
At Year-End:	Millions of yen					
Total assets	¥133,746	¥119,778	¥110,063	¥113,951	¥106,863	¥112,089
Net assets	101,647	91,064	87,473	86,591	84,167	87,382
Per Share Data:	Yen					
Net income (loss)	¥276.13	¥49.88	¥(54.52)	¥22.26	¥(18.60)	¥51.26
Cash dividends applicable to the year	55.00	40.00	30.00	35.00	40.00	25.00
Net assets	2,677.47	2,633.55	2,529.67	2,502.27	2,454.07	2,547.88
Ratios:	%					
ROA	7.6%	1.4%	(1.6)%	0.7%	(0.6)%	1.6%
ROE	10.6	1.9	(2.0)	0.8	(0.8)	2.0
Equity ratio	73.2	76.0	79.5	75.9	78.6	77.8
Overseas sales ratio	94.1	91.0	91.6	91.1	87.6	84.7

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥112.19=US\$1 and ¥119.79=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2017.

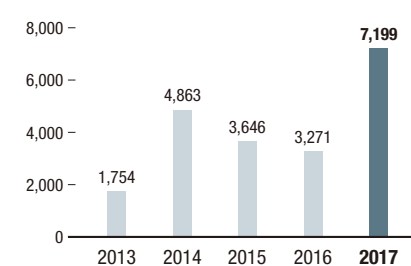
Net sales (¥ Million)



Operating income (loss) (¥ Million)

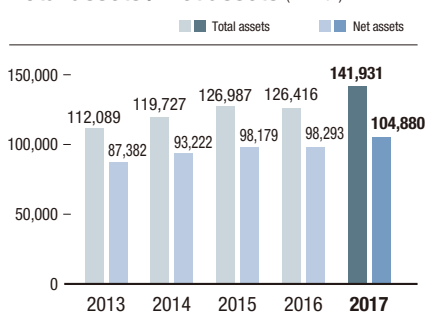


Net income attributable to owners of the parent (¥ Million)

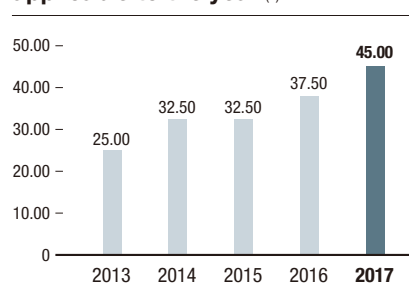


2014	2015	2016	2017	2016 ▶ 2017	2017	2017
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥40,636	¥48,354	¥49,583	¥62,433	25.9%	\$556,494	€521,187
17,269	21,866	23,345	29,048	24.4	258,918	242,491
2,732	5,745	5,782	11,262	94.8	100,383	94,015
7,230	7,006	4,803	9,979	107.8	88,947	83,304
4,863	3,646	3,271	7,199	120.0	64,168	60,097
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥119,727	¥126,987	¥126,416	¥141,931	12.3%	\$1,265,095	€1,184,832
93,222	98,179	98,293	104,880	6.7	934,843	875,532
				Percent change	U.S. dollars	Euros
¥142.13	¥106.54	¥95.61	¥209.97	119.6%	\$1.87	€1.75
32.50	32.50	37.50	45.00	20.0	0.40	0.38
2,718.57	2,863.49	2,867.00	3,039.66	6.0	27.09	25.37
4.2%	3.0%	2.6%	5.4%			
5.4	3.8	3.3	7.1			
77.7	77.2	77.6	73.8			
83.6	84.1	83.5	87.6			

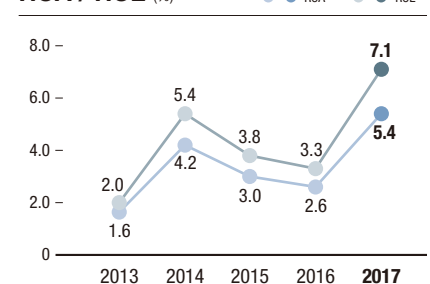
Total assets / Net assets (¥ Million)



Cash dividends per share applicable to the year (¥)



ROA / ROE (%)



We achieved substantial increases in sales and income, thanks to robust performance from the Flat Knitting Machine Segment. We aim to accelerate this growth under our new management structure.

On June 28, 2017, at a Board of Directors meeting following the 56th General Ordinary Meeting of Shareholders, Masahiro Shima was appointed chairman and representative director, and Mitsuhiro Shima assumed the post of president and representative director.

By transitioning from one to two representative directors, the Company is further reinforcing and enhancing its management structure in the aim of augmenting corporate value. We ask for your further support going forward.



Masahiro Shima
Chairman

Mitsuhiro Shima
President

Ever Onward — Limitless Progress

The Company was established in 1962 by Masahiro Shima to surmount the difficulties of the world's first fully automated glove knitting machine.

With “Ever Onward—Limitless Progress” as our corporate motto, we are constantly working to develop new technologies, unstinting in our efforts and continuously taking on challenges in unknown areas.

Since the time of our establishment, we have remained a step ahead of the needs of the time, developing a number of flat knitting machines and design systems and growing to become the world's leading manufacturer in these areas. In the 1990s, we succeeded in developing the WHOLEGARMENT® flat knitting machine for completely seamfree clothing, heralded as being comparable to the advances made during the Industrial Revolution.

Going forward, we will continue taking on the challenge of developing new technologies. Through a business model based on planning and proposals, we aim to contribute to the development of the apparel industry and other user segments.

Q₁

Please explain some of the Company's major initiatives and business performance in the fiscal year ended March 31, 2017.

A₁

Net sales and operating income grew substantially, amid an environment of yen appreciation.

The fiscal year ended March 31, 2017, was the second year since the announcement of our medium-term management plan, “Ever Onward 2017.” During the year, the Shima Seiki Group strove to develop products and provide services to match the needs of individual markets in response to the requests of various customers in Japan and regions around the world. We also developed proposal-based marketing tailored to our customers' needs. In our core business, the Flat Knitting Machine Segment, sales rose sharply from the fourth quarter of the fiscal year ended March 31, 2016. We maintained this high rate of orders during the year under review, bolstering overall performance.

As a result, consolidated net sales rose 25.9%, to ¥62,433 million. On the profit front, although we recorded around ¥2,000 million in foreign exchange losses associated with yen appreciation, the gross profit ratio rose in line with sales growth, and costs fell as the capacity utilization rate of our factories increased. Accordingly, performance in each of our income categories essentially doubled year on year, with operating income surging 94.8%, to ¥11,262 million; ordinary income up 121.6%, to ¥10,043 million and net income attributable to owners of the parent expanding 120.0%, to ¥7,199 million.

We effectively achieved the objectives of Ever Onward 2017, our medium-term management plan, in its second year. We expect this favorable growth to continue in the next fiscal year and beyond, enabling us to make a further leap forward.

Profile of Mitsuhiro Shima, President and Representative Director



March 1987	Joined the Company
March 1998	General Manager of System Development Division
June 2002	Director, General Manager of System Development Division
June 2006	Director in charge of Control System Development Division and Intellectual Property Department, General Manager of Graphic System Development Division
June 2007	Executive Director in charge of Control System Development Division, Intellectual Property Department and Total Design Center, General Manager of Graphic System Development Division
June 2010	Executive Director in charge of Machinery Production Technology Division, Material Purchasing Division and Total Design Center, Director of Production Headquarters
June 2011	Senior Executive Director in charge of Machinery Production Technology Division and Total Design Center, Director of Production Headquarters
June 2012	Executive Vice President in charge of Corporate Planning Division and Total Design Center, Deputy Director of Sales Headquarters
March 2013	Executive Vice President, Deputy Director of Sales Headquarters
April 2015	Executive Vice President, Deputy Director of Sales Headquarters, in charge of Corporate Planning Division
June 2017	President, Representative Director, Director of Sales Headquarters, in charge of Corporate Planning Division (incumbent)

Message from Top Management



Q₂

Would you describe conditions by business segment?

A₂

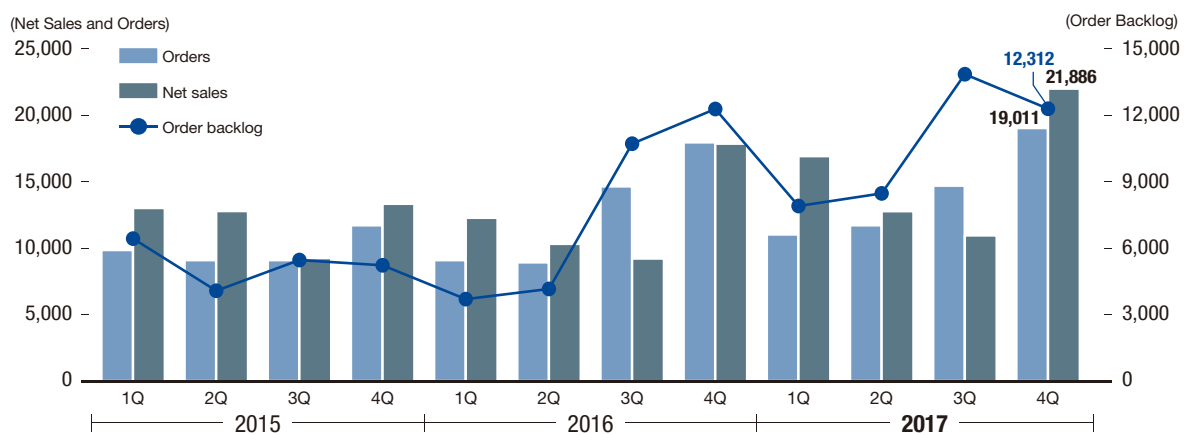
Capital investment grew more vigorous in ASEAN countries and the Chinese market, and sales of flat knitting machines increased.

In the Flat Knitting Machine Segment, as in the previous fiscal year sales increased in Bangladesh, as well as Vietnam and other ASEAN countries, which serve as production bases for the European and U.S. apparel markets. In the Chinese market, too, in line with expanding domestic consumer needs for high-quality apparel, knitwear manufacturers that previously concentrated on OEM production for European and U.S. apparel manufacturers have begun making a strategic transition toward more planning- and proposal-based, high-value-added offerings targeting the domestic market. Accordingly, capital investment grew more vigorous, leading to higher sales. Also pushing up sales in the Chinese market was new and expanding demand for use of our products in the production of shoes. In other parts of Asia, sales continued to grow in the South Korean market, where last fiscal year we introduced the MACH2[®]XS, our newest-model WHOLEGARMENT[®] flat knitting machine.

In the European market, continuing on from last fiscal year we saw a recovery in Italy, the center of the global fashion industry. In addition to our MACH2[®]XS WHOLEGARMENT[®] flat knitting machine, during the year we experienced solid sales centered on high-end models, such as the SRY[®] and the SIR[®].

In the Design System Segment, the SDS[®]-ONE APEX3 saw greater utilization as a design tool, in addition to being used in knit programming. Nevertheless, sales were down due to a sluggish domestic apparel market in Japan. In the previous fiscal year, we increased the number of model variations for our P-CAM[®] automatic fabric

Net Sales, Orders and the Order Backlog, by Quarter (Millions of yen)



(Consolidated fiscal years ended March 31)



cutting machine to the needs of different industries. As a result, sales routes continued to expand into the automotive, furniture, industrial materials and other sectors.

Q₃

Please outline some of your key initiatives and business outlook for the fiscal year ending March 31, 2018.

A₃

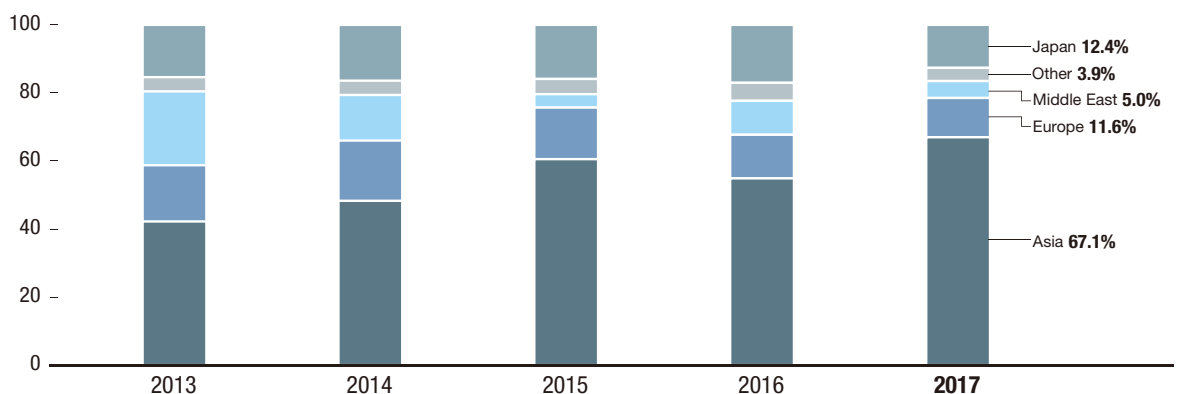
We will connect the changes occurring in the Chinese market, as it moves toward higher value, to increased sales of WHOLEGARMENT® flat knitting machines.

Currently, thanks to large-scale orders for computerized flat knitting machines from Bangladesh and the ASEAN countries, which serve as a production base for the European and U.S. apparel markets, our factories continue to operate at full capacity. We are working to further reinforce our production structure, as we expect this robust demand to continue.

In June 2016, we opened the International Knitting Design Center of Shanghai Institute of Visual Arts in Shanghai, China. Going forward, this center will disseminate information on high-value-added manufacturing, provide the business expertise we have amassed and strengthen our efforts to cultivate human resources locally. (See page 20 for details.)

From next fiscal year, we will position China as a key market for WHOLEGARMENT® flat knitting machines. We will make proactive proposals targeting forward-looking customers who are shifting their business models toward high-value-added products for their domestic market, rather than on OEM production designed for the European and U.S. apparel markets.

Composition of Sales by Region (%)



(Consolidated fiscal years ended March 31)

Message from Top Management



In the Design System Segment, we will continue active marketing activities in Japan and overseas for the SDS®-ONE APEX3, which forms the core of the TOTAL FASHION SYSTEM®, and step up proposals targeting different sectors. For the P-CAM®, whose sales have grown primarily in Japan, we will engage in full-fledged overseas development through such measures as expanding our overseas service centers. Furthermore, we will concentrate on new fields with the Shima KnitPLM®, a new solution for optimizing manufacturing supply chains, and staf®, our web service that supports originality in manufacturing through content provision. Through efforts such as these to link the Flat Knitting Machine and Design System segments, we are aiming for further growth.

As a result of these initiatives, for the next fiscal year we forecast consolidated net sales of ¥73.0 billion,

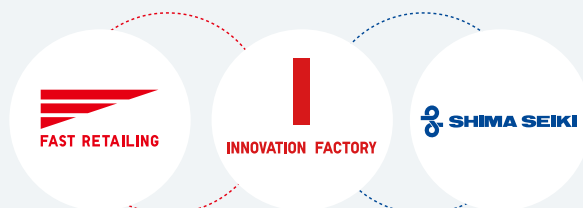
TOPICS

Collaborating with FAST RETAILING to Accelerate the Global Rollout of WHOLEGARMENT®

Starting INNOVATION FACTORY as a Joint Venture Company

In October 2016, Shima Seiki subsidiary Innovation Factory Co., Ltd., began anew as a joint venture company through a capital infusion from Fast Retailing Co., Ltd., which offers such brands as UNIQLO.

Our relationship with Fast Retailing dates back to the 1990s, when our customers began conducting transactions with Fast Retailing. Innovation Factory now produces high-quality, high-value-added knitwear products for the Fast Retailing group, centering on the UNIQLO business.



Innovation Factory

Taking WHOLEGARMENT® Worldwide through Cooperation between Our Companies

Innovation Factory manufactures some of the women's knitwear products sold under the Uniqlo U line, which launched in autumn 2016.

Going forward, by combining Fast Retailing's expertise in planning, marketing and sales with our own state-of-the-art technologies, we aim to create a business model for next-generation knitwear production centered on WHOLEGARMENT®, with Innovation Factory serving as the "mother factory" for the production of breakthrough knitwear products.

We plan to strengthen our alliance with the Fast Retailing Group, which is developing operations worldwide in the business model of SPA (Specialty store retailer of Private label Apparel). In the process, we will increase awareness of WHOLEGARMENT®, which should expand the WHOLEGARMENT® flat knitting machine segment.



operating income of ¥15.0 billion, ordinary income of ¥15.0 billion and net income attributable to owners of the parent of ¥10.0 billion.

Q₄

What is your message to shareholders and investors?

A₄

**Under our new management structure,
we aim to bring the entire Company to a new stage of growth.**

Shima Seiki positions the return of profits to shareholders as its topmost management priority. For the year under review, we awarded shareholder dividends of ¥45.00 per share, comprising an interim dividend of ¥20.00 and a year-end dividend of ¥25.00, including a ¥2.50 dividend that we had anticipated to commemorate our 55th anniversary of establishment.

The upcoming fiscal year will be the final fiscal year for our medium-term management plan, Ever Onward 2017. We will remain proactive in making proposals that are closely tailored to the needs of customers in individual countries and regions.

In making high-value-added manufacturing proposals to our customers, we will link WHOLEGARMENT® flat knitting machines, which produce high-quality knitwear products one item at a time, with design systems, which dramatically shorten the planning process and realize manufacturing that conforms to market needs. As a result, we will foster a transformation away from a uniformly labor-intensive industry to a model of local production for the local market that responds to consumer needs swiftly and in a timely manner.

In recent years, South Korea has epitomized this market transformation. Consumers in this market demand the value offered by WHOLEGARMENT® products with their superior designs. Leveraging WHOLEGARMENT® flat knitting machines for innovative and creative manufacturing is a competitive advantage for apparel manufacturers in this market, which leads to further market invigoration, creating a virtuous cycle. (See page 15 for details.)

As this new sort of business model of local production for the local market gains traction, we will proactively make proposals aimed at sparking new innovation in the Chinese market, which is undergoing a qualitative shift, and throughout the markets of the world. We also aim to transform manufacturing in a variety of fields in addition to the knitwear industry, including apparel, textiles, sundry items and furniture.

Based on our new management structure, we will reinforce our management foundations through our medium-term management plan, and we aim to propel the entire Company toward a new stage of growth. We ask our shareholders and investors for your warm understanding and support as we undertake these initiatives.

Masahiro Shima

Masahiro Shima,
Chairman

Mitsuhiro Shima

Mitsuhiro Shima,
President

Responding to Demand in the World's Top Two Markets with Unique Products and Services

Shima Seiki provides products suited to the stable production of apparel, for which consumption is increasing. In addition, we offer a range of products to meet production needs in consumer regions that are forecast to expand. Thus our global development involves a lineup of high-quality products suited to needs in a variety of markets.

Market Demand

Responding to Demand

Areas of Local Production for the Local Market



Abundant design variations

Quick-response production in consumer regions (to enable repeat orders)

On-demand production of volumes required to meet orders

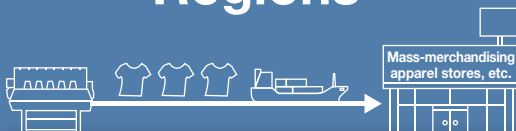
Representative markets Italy, the United States, Japan, parts of China

Proposing Unique Products and Designs Together

Areas of local production for the local market call for highly original, high-quality apparel, and such needs are expected to grow.

- Propose high-quality knitwear production by combining WHOLEGARMENT® flat knitting machines and design systems
- Propose new types of production and distribution making use of e-commerce
- Exchange information and make proposals at local design centers
- Cultivate technicians (locally and by hosting in Japan)

Mass-Production Regions



Growing apparel demand as the global economy expands

Consumer needs focused on cost performance

Demand for stable, high-volume production

Representative markets Bangladesh, ASEAN countries, Turkey, China

Making Combination Proposals of Products and Services Suited to Mass Production

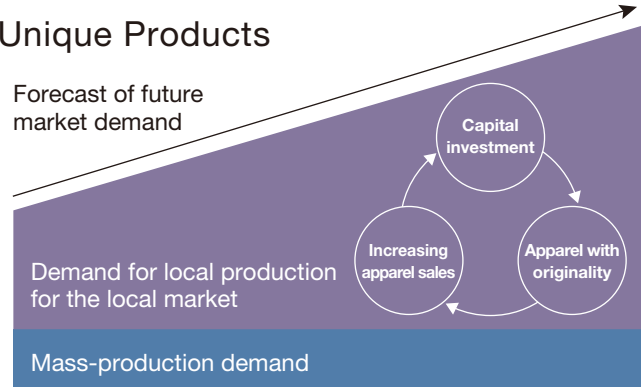
Mass-producing regions that concentrate on exports require machines that can steadily produce high-quality products.

- Make production proposals of best-selling machines suited for mass production
- Make capital investment proposals tailored to production plans
- Expand the service network to facilitate various types of maintenance
- Cultivate technicians (locally and by hosting in Japan)

Accelerating Market Transformation with Unique Products

Our WHOLEGARMENT® flat knitting machines and design systems offer unique functions that competitors cannot match. Once customers introduce our machines, they earn accolades for the originality of the apparel they produce and their sales increase, accelerating future capital investment. For instance, our pioneering customers in China, sometimes referred to as the “workshop of the world,” are working to produce high-value-added products for the country’s domestic market, as well as meeting conventional mass-production demand.

Forecast of future market demand



Corresponding Product Examples

Corresponding Product Examples

By combining WHOLEGARMENT® flat knitting machines, which produce high-quality, seamfree knitwear products with beautiful silhouettes, with high-precision design systems enables the production of highly original apparel in a short period of time.

Providing content through our staf® web service also supports highly original manufacturing.



MACH2®XS



SDS®-ONE APEX3

Best-Seller Machines Featuring Superior Durability and Productivity

We offer products capable of mass-producing high-quality knitwear. Stable operation curtails costs, leading to the production of apparel with high cost performance.

Also, making use of the IoT technologies through Shima KnitPLM® boosts productivity through production that optimizes production planning, management and monitoring.



SSR®



SVR®

HANBO TEXTILE CO.

SHIMA SEIKI

Cultivating the High-End Market with WHOLEGARMENT® Inlay Knitting — HANBO TEXTILE CO.

In South Korea, sales of WHOLEGARMENT® flat knitting machines are increasing, as a growing number of companies work to differentiate their products. In this section, we hear from HANBO TEXTILE, which is growing rapidly through its use of WHOLEGARMENT® flat knitting machines.

“WHOLEGARMENT® is art. We get numerous repeat requests on the strength of our design.”

Receiving Numerous Orders from South Korea’s Leading Knitwear Brands

In 2005, I saw a WHOLEGARMENT® flat knitting machine for the first time, sensed the wealth of possibilities it offered and wanted to introduce one. We finally bought one of the machines in 2010, and by around 2013 we started using the characteristics of WHOLEGARMENT® flat knitting machines to develop our business.

When the MACH2®XS was unveiled in 2015, we were quick to install it. We have worked to maximize the potential of these machines under the slogan “WHOLEGARMENT® is art,” and orders have increased as a result. Awareness of WHOLEGARMENT® has grown, and we are currently receiving numerous orders for consigned production from apparel brands. We have delivered many orders for South Korea’s leading knitwear brands.

An Excellent Response to the Combination of WHOLEGARMENT® and Inlay Knitting

Most South Korea knitwear manufacturers are OEM manufacturers, knitting in accordance with apparel companies’ instructions. While we are also an OEM manufacturer, our approach is different. Based on the design screens provided by the apparel company, we consider how we can add value to the knitting. We produce samples and offer our own proposals. As a result, orders have increased.

We were the first in South Korea to adopt WHOLEGARMENT® inlay knitting. We registered this original knitting under the trademark “Inlayment,” which has been well received from high-end brands.



Youn-Sung Park, President, HANBO TEXTILE CO.



HANBO TEXTILE CO.

A South Korean OEM manufacturer of knitwear, established in 1985. The company introduced its first Shima Seiki flat knitting machine in 1997. In recent years, HANBO TEXTILE has leveraged the benefits of WHOLEGARMENT® to expand its operating performance with a new business model.

In South Korea, it is common to produce goods in “factory condominiums” that are home to multiple factories.



Also emphasizing knitting machine maintenance to ensure full production capabilities.

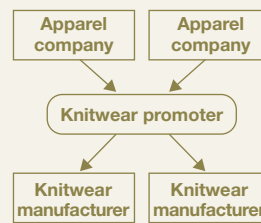
Using knit programming to achieve the image envisioned by the designer.



Characteristics of the South Korean Apparel Market

The majority of knitwear products produced in South Korea are sold domestically. As in other countries, general apparel is affected by business trends. However, in South Korea demand from wealthy customers for high-end products is firm, so is relatively impervious to such fluctuations.

Also, South Korea has the business category of “knitwear promoter.” These companies serve an intermediary role, receiving work from apparel companies and passing it on to knitwear manufacturers.



Boosting Performance by Leveraging the Strengths of WHOLEGARMENT®

The advantages of WHOLEGARMENT® from the production side are that it allows us to respond quickly to repeat orders. We start with small-lot production. When the products sell, we receive repeat orders, resulting in a large production volume. WHOLEGARMENT® makes this approach possible.

For apparel companies, the advantages include low inventory risk and the ability to respond in a short period of time. For these reasons, we are assigned more orders, and the WHOLEGARMENT® brand value increases.

From Direct Orders from Leading Apparel Manufacturers to Setting Our Sights on Exports to Europe and the United States

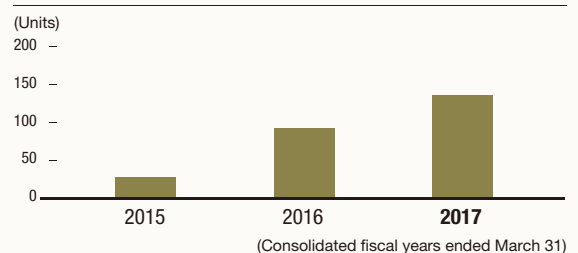
In South Korea, transactions are typically brokered via “knitwear promoters,” but we have been increasing our number of direct transactions with leading domestic apparel companies. Drawing on this experience, we have begun thinking about increasing exports to Europe and the United States in the future. To take on the challenge of the global market, we are considering making use of the SDS®-ONE APEX3 design system’s highly detailed virtual samples, and we aim to advance in step with Shima Seiki.

I am grateful to Shima Seiki for having created WHOLEGARMENT®. In appreciation, I will continue taking up the challenge of popularizing WHOLEGARMENT® from South Korea.

Shima Seiki’s Initiatives in the South Korean Market

Taking market characteristics into consideration, our activities in the South Korean market involve reinforcing our proposals, not just to knitwear manufacturers, but also to apparel manufacturers, knitwear promoters and companies handling post-processing. As a result, the background of how customers have utilized WHOLEGARMENT® to create altogether new value-added products has contributed to sales growth. Unit sales of WHOLEGARMENT® flat knitting machines in South Korea have been growing since around 2015, when we launched the MACH2®XS. In the year ended March 31, 2017, unit sales surged by some 50% year on year.

Unit sales of WHOLEGARMENT® flat knitting machines in South Korea



Washing and ironing also involve important know-how.



Inlayment®

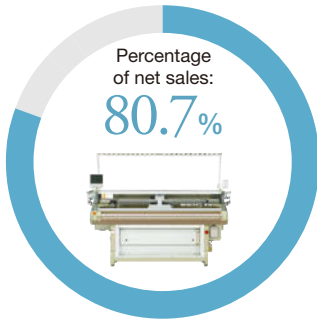
WHOLE GARMENT® X Inlay knitting

Aggressively developing “Inlayment” as a registered trademark.

Concentrating on employee training, providing robust welfare.



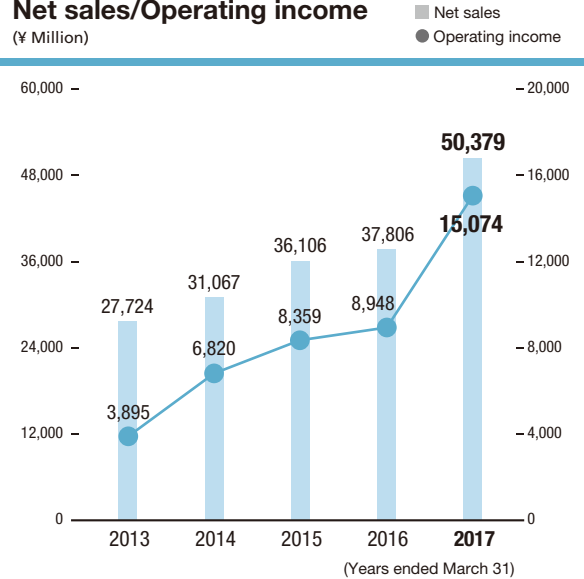
Overview and Outlook



Flat Knitting Machine Segment

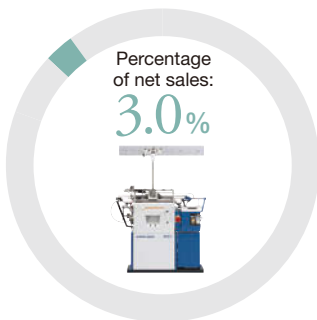
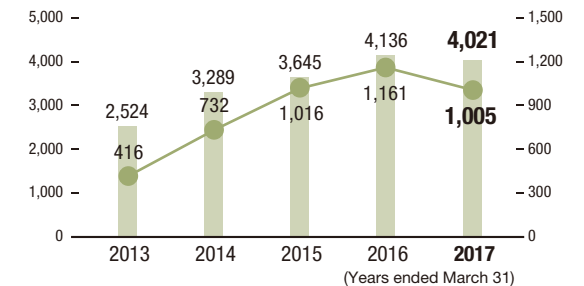
Shima Seiki's core business is the manufacture and sale of computerized flat knitting machines, for which the Company boasts industry-leading technological prowess. This segment provides an extensive range of products developed using proprietary technologies, such as **WHOLEGARMENT®** flat knitting machines, which produce complete pieces three dimensionally; the **SRY®**, which enables the production of a new knitted fabric with less elasticity; the **SSR®**, which offers superior cost performance; and the **SVR®**, which facilitates high-speed knitting.

Net sales/Operating income (¥ Million)



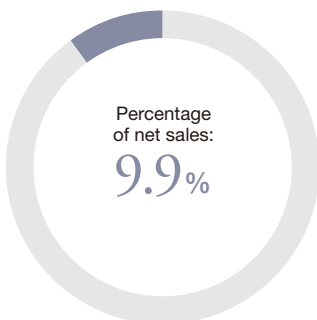
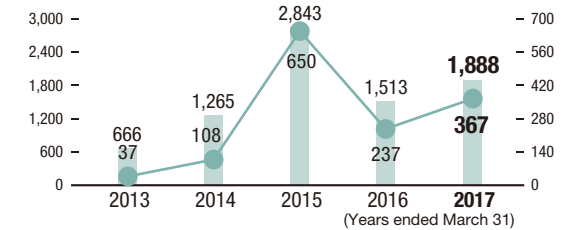
Design System Segment

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 that enable diverse designs while realizing shorter lead times and cost reductions. We are striving proactively to make inroads into other fields, through such products as automatic fabric cutting machines.



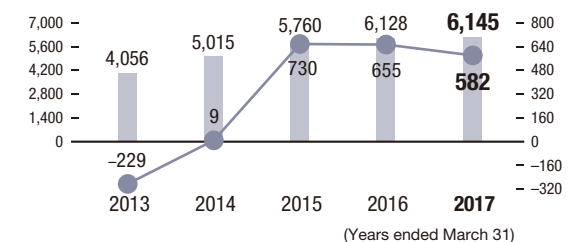
Glove and Sock Knitting Machine Segment

In this segment, we manufacture and sell machines for knitting gloves and socks, the origin of our technological development. By advancing finer-gauge products, we are enhancing our offerings in such high-value-added fields as healthcare.



Other Business Segment

This segment maintains, repairs and sells maintenance parts for the Company's knitting machines and systems and participates in such businesses as spinning high-end cashmere yarn and manufacturing and selling knitwear.



Overview of the Year under Review

In Asian markets, sales expanded, centered on the SSR® and the SVR®, thanks to active capital investment throughout the year in Bangladesh and ASEAN countries. Sales also increased in China, due to a growing transition to an approach based on proposing plans and expanding demand for the use of our products in the production of shoe fabrics. South Korea, as well, saw an acceleration in the introduction of MACH2®XS WHOLEGARMENT® flat knitting machines.

In advanced countries, sales of the MACH2®XS, SRY® and SIR® increased in Italy, which is a core European market.

In Turkey in the Middle East, on the other hand, although sales centered on the SVR® were favorable in the first half, political unrest led to a sharp decline in orders from Europe in the second half, leading to a decrease for the year as a whole.

Adoption of the MACH2®XS has been advancing due to vigorous capital investment in the Japanese market over the past few years, but sales were down year on year.

As a result, sales in the Flat Knitting Machine Segment rose 33.3%, to ¥50,379 million.

Sales of the SDS®-ONE APEX3, which is being adopted by a wide range of sectors outside the knitting industry, dipped due to a downturn in Japan's domestic apparel market. Extending the model value chain for P-CAM® automatic fabric cutting machines, we are expanding our sales route into such fields as automotive interiors, furniture and industrial materials, leading to an uptick in sales.

As a result of these factors, overall sales in the Design System Segment decreased 2.8% year on year, to ¥4,021 million.

Sales in this segment expanded, mainly of high-value-added models for use in such fields as precision manufacturing, as capital investment levels by large-scale customers that had fallen in the previous fiscal year rebounded.

As a result, sales in the Glove and Sock Knitting Machine Segment rose 24.8%, to ¥1,888 million.

This segment experienced an increase in sales of maintenance parts and after-sales services in line with higher unit sales of flat knitting machines, but sales of cashmere yarn were down slightly.

As a consequence, sales in the Other Business Segment were essentially flat, growing 0.3% year on year, to ¥6,145 million.

Outlook for the Next Fiscal Year

In Bangladesh and ASEAN countries, in the upcoming fiscal year we anticipate continued expansion, due to large production volumes using computerized flat knitting machines. We are reinforcing our production structure by starting up operations at a new factory in order to respond to flourishing demand, mainly for the SSR® and the SVR®. In China, where capital investment rebounded during the year under review, we will step up our proposals for high-performance models, including WHOLEGARMENT® flat knitting machines. These efforts will focus on companies that are shifting their business models toward the production of high-value-added products for the domestic market. We will also proactively make proposals in response to emerging demand for use in sports shoes, a category that is expanding in China.

In Europe, the United States, Japan and other advanced countries, we will position the MACH2®XS WHOLEGARMENT® flat knitting machine as a strategic model, strengthening our proposals linked with design systems as local production for local markets.

As a result of these initiatives, in the upcoming fiscal year we anticipate sales from the Flat Knitting Machine Segment of ¥59,260 million, up 17.6% from the year under review.

With TOTAL FASHION SYSTEM® at the core, we will continue to engage proactively in proposal-making activities in Japan and overseas for use of the SDS®-ONE APEX3 in a wide range of fields extending outside the knitwear and apparel industries. Also for P-CAM®, whose sales growth to date has been mostly in Japan, we will begin full-fledged efforts to develop business overseas, including through the expansion of overseas service locations.

Through these efforts, we expect sales to grow 27.8% in the next fiscal year, to ¥5,140 million.

We will continue making proposals carefully tailored to customers in Japan and overseas, particularly for high-value-added products, as we work to spark demand and expand sales further.

Through these initiatives, we anticipate an 11.3% increase in sales, to ¥2,100 million.

We will continue to develop the same activities in the Other Business Segment as in the next fiscal year under review.

Accordingly, we expect sales to increase 5.8%, to ¥6,500 million.

Topics 2017 (April 1, 2016 to March 31, 2017)

Exhibitions

We exhibited at ITMA ASIA + CITME 2016 and had solid response in terms of expanding our business opportunities.



Great Success at the Largest-Scale Exhibition to Date

In October 2016, Shima Seiki exhibited at ITMA ASIA + CITME 2016, a textile machinery exhibition held in Shanghai, China.

Visitors from all over the world, principally in Asia, attended this ITMA ASIA exhibition, which featured booths by more than 1,600 companies.

Focusing its attention on China, where apparel demand is changing in line with economic growth, Shima Seiki brought to the fore its high-value-added products, including the MACH2[®]XS, the newest-model

WHOLEGARMENT[®] flat knitting machine; the SRY[®], which enables the knitting of inlay patterns; and the SDS[®]-ONE APEX3 design system.

Responding to New Customer Needs

Due to a changing market composition, China's knitwear production industry faces an increasing need to reduce labor, move to higher-added-value products and address environmental concerns. A growing number of our customers are moving from one of OEM production to take on challenges as SPA (Specialty store retailer of Private label Apparel), in which companies are involved from the planning through to the sales stages.

In response to these needs, our booth demonstrated the Shima Knit PLM[®], which optimizes the manufacturing supply chain by making visible each of the processes in knitwear production. We also introduced our staf[®] Web service and proposed total solutions centering on the SDS[®]-ONE APEX3, attracting numerous visitors.

We also fielded numerous customer inquiries aimed at achieving higher-value-added products with WHOLEGARMENT[®] flat knitting machines. During the five days of the exhibition, we felt we achieved a solid response in terms of expanding our business opportunities.



Exhibitions

Shima Seiki Products on Display in the Intel Booth at an Exhibition for Japanese and U.S. Retailers



At the National Retail Federation Retail's Big Show 2017 (NRF), a retailer-oriented exhibition held in New York, the United States, in January 2017, our products were on display in Intel Corporation's booth. A semiconductor manufacturer with the world's largest share of the market for computer processors, Intel used our products as a case study of operational innovations at stores.

At the exhibition, we showed how connecting our WHOLEGARMENT[®] flat knitting machine with a design system could achieve innovative on-demand production of apparel. The demonstration proved highly popular. Learning from this experience, we also exhibited our products at the Intel booth at RETAILTECH JAPAN 2017, a retailer-oriented exhibition held in Tokyo in March 2017. Visitors from designer brands were particularly interested in seeing how they might turn in-store, order-made sales into a business. The exhibition was thus a success in leading potential customers to consider specific business models. We demonstrated the appeal of our products to companies in the retail sector and other fields.



The NRF exhibition (New York)



RETAILTECH JAPAN 2017 (Tokyo)

Society's Assessment

Shima Seiki's Fully Automated Flat Knitting Machine Selected as One of the Top 100 Innovations in Postwar Japan



The Japan Institute of Invention and Innovation selected Shima Seiki's fully automated flat knitting machine as one of the top 100 innovations in postwar Japan.

The society chose 100 key innovations from a variety of fields, representative Japanese inventions that had contributed to the development of industry in postwar Japan, including the endoscope, instant ramen noodles, the shinkansen, the Walkman and the Washlet. Shima Seiki laid the foundations for the Company's growth when it developed technology used in its fully automated glove knitting machine to create the SNC, a computerized flat knitting machine, in 1978. We have continued to advance from that point through to the development of our current leading-edge model, the MACH2®XS.

Going forward, as well, Shima Seiki will continue to take a global lead with innovative technologies.



SNC (left) and MACH2®XS (right)

Human Resource Development

The International Knitting Design Center of Shanghai Institute of Visual Arts Opens Promoting Human Resource Development to Invigorate Internal Demand in China and Other Countries



In June 2016, we opened the International Knitting Design Center of Shanghai Institute of Visual Arts on the outskirts of Shanghai to cultivate human resources and product development.

In 2013, the Shanghai Institute of Visual Arts is a comprehensive design school that became independent from Fudan University, a distinguished Shanghai institution. The institute has in place 10 computerized flat knitting machines, mostly WHOLEGARMENT® flat knitting machines, which it uses for collaborative industry-academia projects. In addition to cultivating human resources for the development of new materials and products, the center will serve as a venue for customer training.

Numerous business partners from China, Taiwan and Hong Kong attended the opening ceremony. We believe the center's operation will help cultivate the human resources needed to meet internal demand growth in the region, as well as help to invigorate new manufacturing.



CSR

In-House Daycare Center Shima Kids' Land Opens, Supporting Child-Rearing by Employees



April 2017 marked the opening of Shima Kids' Land, an in-house daycare center located within the Company's head office site.

Plants around the building accentuate the four seasons, and its roof is equipped with solar panels. The floor inside the center is heated, and consideration has been given to safety, with safety equipment installed to prevent injuries.

By creating an environment where employees raising children can feel safe leaving their children as they work, we are striving to help our employees develop their capabilities and further their careers, ensuring that we retain excellent human resources. We look forward to expanding our business over the long term.



The Foundations Supporting Growth

For the Development and Continuity of Business

Research and Development Activities

Since our establishment, in line with our corporate motto “Ever Onward—Limitless Progress.” and under our goal to conduct unique technological development based on creativity, we have worked to internally develop hardware and software. We continue to conduct research and development to build up our expertise and create products that prioritize the perspective of our customers.

During the fiscal year under review, research and development activities involved bolstering model variations of flat knitting machines tailored to the needs of specific regions, while improving product quality and production efficiency, such as by sharing parts and automating assembly work.

The latest model added to our lineup of WHOLEGARMENT® flat knitting machines is 15-gauge small hook type MACH2®XS. Not only does this machine expand the range of gauges, but the fine-gauged machines enable us to ensure consistent quality.

In the fashion industry, the cycle time of launching products is shortening, and priority is being placed on conducting processes swiftly and without waste, from marketing and product planning through production and sales. We continue to develop Shima KnitPLM®, the production management system that enables the visualization of all processes.

In addition, given the recent trends of wearing athletic wear as everyday wear, we focused on sports-related sample proposals and material development.

In the fashion industry, we launched a new web service, staf®. This service includes fashion archives and information on trends for the past 50 years, as well as an extensive volume of fashion-related content. We developed this ground-breaking service to support creation that is truly original.

For the P-CAM® series automatic cutting machine, which is being adopted outside of the apparel industry, we went beyond cutting machine development and boosted development leading to labor-saving and improved productivity in the process that surround the cutting process—spreading, labeling, and pick-and-place operations. We did so to establish the Total Cutting Solution and expand machine variation.

The P-LAB® series, announced this fiscal year, is an automatic labeling machine that prints labels with the size, serial number and other information necessary for pick-and-place operations, and automatically affixes it to the material that is being cut. Affixing labels to the optimal spot based on data reduces errors when sorting pieces to be cut.

In addition, the newly developed automatic spreading machine P-SPR®2 spreads and cuts material to the desired

length, and automatically stacks the indicated number of pieces with a high level of precision. By continuing product development to meet customers’ needs, in addition to improving performance, we will work to penetrate various industries such as aerospace, automotive, and industrial materials.

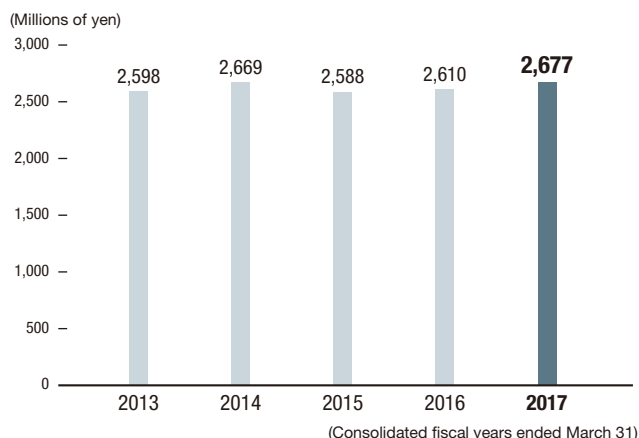


SVR®123SP

P-LAB®

P-SPR®2

Research and Development Expenses



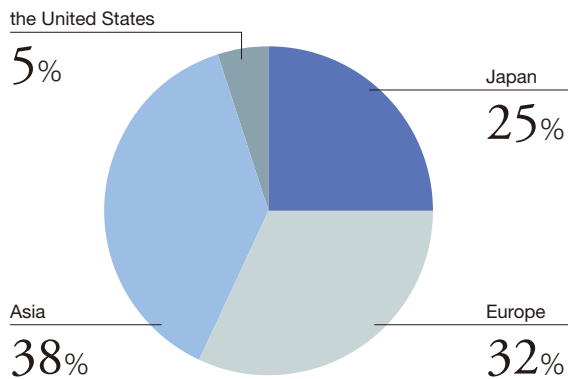
Intellectual Property Activities

We have created the Intellectual Property Department within our Development Headquarters to protect and leverage the intellectual property that results from our R&D successes and is the source of our growth potential.

Currently, Shima Seiki has over 1,500 patents worldwide. One characteristic of our intellectual property strategy is that we cover a broad range of technologies—patenting not only technical patents on flat knitting machines, but also knitting and design technologies. We believe that another important intellectual property strategy lies in protecting and distinguishing items made by the manufacturers who make use of our products and expertise with our intellectual property rights.

In addition to our recent development successes, the technologies and know-how we have accumulated to date are stored in a database, allowing them to be shared throughout the Company. To further reinforce our intellectual property activities, we plan to also file patents covering related technologies.

Ratio of Patents by Region (FY2016)



Production Management Activities

Around 75% of the parts for our products are manufactured in-house.

This approach allows us to develop new products flexibly in response to market needs and ensure that our products undergo thorough quality assurance. Our production processes employ state-of-the-art machine tools, with skilled engineers whose expertise has been honed through practice manually conducting particularly detailed operations that machines cannot handle. This level of precision clearly sets us apart from our competitors.

Our factory promotes original Market-in, Quality, Cost (MQC) activities to raise productivity. To enhance the environmental consciousness of our manufacturing activities, we have also installed a solar power generation system in our factory.

In 2016, we installed vertical articulated robots to our assembly process, and are pushing forward with both streamlining operations via automation and ensuring consistent product quality.



Techniques of a skilled engineer



Production lines with vertical articulated robots

Business Continuity Plan (BCP) Activities

Shima Seiki is establishing a system that, in the event of a major natural disaster or accident, enables it to meet its responsibility of supplying products to customers with minimal

interruptions to business activities while ensuring the safety of employees, their families, and Shima Seiki's stakeholders.

We identify potential emergency scenarios to prepare in for the rapid resumption of business. In the event a real disaster were to occur, we will establish Crisis Management Headquarters to respond swiftly based on our business continuity plan.



Environmental Activities

Shima Seiki engages in environmentally conscious business activities through the promotion of energy conservation in production divisions and the introduction of large-scale solar power generation systems.

Based on ISO 14001 certification we acquired in 2015, management indicators at headquarters include reductions of various environmental impacts, factory greening efforts, and the promotion of renewable energy usage, as well as the development and provision of environmentally conscious products including WHOLEGARMENT® flat knitting machines and design systems.

Based on our corporate philosophy of "good products are created in good environments," we have been working to green our factories over the years. We are preserving about 30% of our factory floor as green space, as well as planting trees in nearby areas. These efforts were recognized, and in 2016 our headquarters factory won the 2016 Prime Minister's Award for Outstanding Contributions to the National Greening Campaign efforts.



Corporate Governance (As of March 31, 2017)

Basic Policies and Systems

The Shima Seiki Group considers strengthening corporate governance an important management issue from the standpoint of increasing efficient, sound, transparent and stakeholder-oriented management.

As a company with an Audit & Supervisory Board, we have formulated a framework for appropriate and effective corporate governance through the full functioning of a Board of Directors system and an Audit & Supervisory Board system. We also ensure that Audit & Supervisory Board members, the Internal Auditing Division and the accounting auditor are able to cooperate on audits, while at the same time maintaining their independence.

Governance Structure

Directors, Board of Directors

The Board of Directors, comprising 12 directors, meets at least once each month to supervise the execution of business.

This includes two outside directors in an attempt to strengthen the management structure through an external perspective. During the year ended March 31, 2017, the Board of Directors met 14 times.

Audit & Supervisory Board Members, Audit & Supervisory Board

The Audit & Supervisory Board comprises four members, including two outside members, and they monitor the execution of duties by directors and audit the appropriateness of management. The advice that outside Audit & Supervisory Board members provide from their specialist backgrounds—one is an attorney and another is a certified public accountant and tax attorney—acts as an audit on directors’ activities. During the year, the Audit & Supervisory Board met 12 times.

Internal Auditing System

The Company has established an Internal Auditing Division to perform internal audits throughout the Company’s business

operations, as well as to conduct internal control audits to determine the status of compliance, risk management and financial reporting, based on an annual audit plan.

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.

Internal Control System

Recognizing the importance of creating and operating an internal control system to realizing our corporate philosophy and targets, we have formulated and are pursuing Basic Policies Related to Improvement of the Internal Control System. In addition to the Committee for the Promotion of the Internal Control System, we have established a Compliance Committee, a Risk Management Committee and an Information Security Committee in an effort to enhance internal controls.

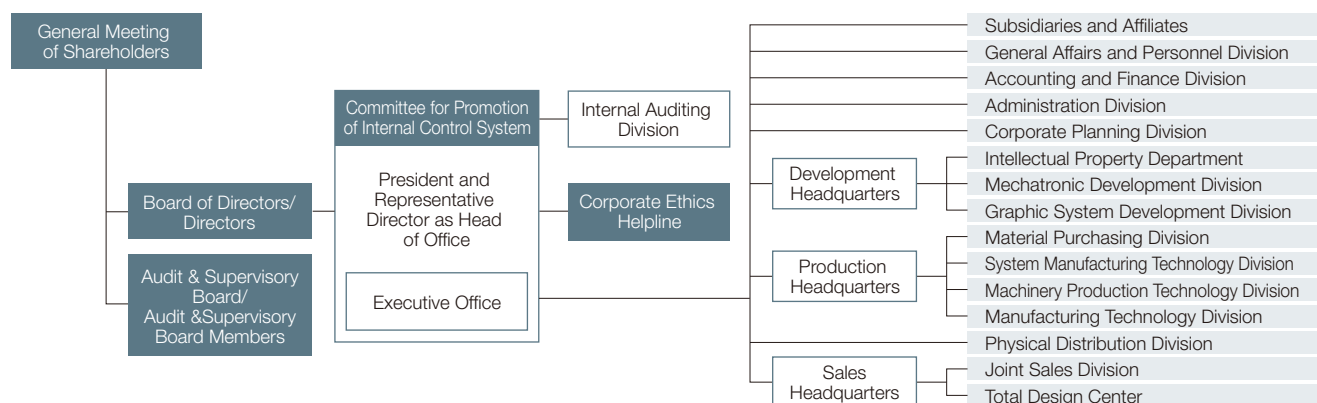
With regard to internal control over financial reporting, as well, we have systems in place to promote fair and impartial disclosure, thereby ensuring the reliability of financial reporting.

Efforts toward Compliance

The General Rules of the Shima Seiki Group Code of Conduct pledge the Company’s resolution to comply with laws and regulations and corporate ethical standards, and we strive to comply with related statutes and respect social norms. To achieve these objectives, we have formed a Compliance Committee, which conducts regular checks on compliance status and entrenches systematic compliance through induction courses.

We also have put in place and operate internal and external Corporate Ethics Helplines to communicate information concerning legal or human rights violations or other serious misconduct.

Corporate Governance Organization



Ensuring the Effectiveness of the Board of Directors

To facilitate an effective and efficient Board of Directors function, the board comprises an appropriate amount of directors numbering 15 people or less in consideration of ensuring diversity and a balance of knowledge, experience, skills and specialization throughout the entire Board of Directors.

Furthermore, outside directors meet the criteria set forth by the Company relating to independence and are appointed based on a variety of perspectives, including those who possess a wide range of knowledge and abundant experience pertaining to corporate management, legal affairs, finance, accounting and other accomplishments in their former and current positions.

A questionnaire was distributed to directors and members of the Audit and Supervisory Board who used a graded evaluation and comments to evaluate the effectiveness of the Board of Directors. The results were analyzed and assessed by the Board of Directors.

Evaluation results indicated that the Board was generally functioning appropriately, and that appropriate supervision was being conducted via deliberation and discussion. Accordingly, overall Board of Directors was assessed as ensuring effectiveness.

Strategic Shareholdings

Shima Seiki engages in strategic shareholdings when they are determined to contribute to the Company's sustainable growth and enhance corporate value over the medium to long term through importance to the business or trade relation maintenance, enhancement or cooperation.

Furthermore, the Board of Directors verifies the necessity of shareholdings with respect to important strategic shareholdings. With regard to the execution of voting rights involved with strategic shareholdings, proposals are carefully examined and executed appropriately after

determining whether or not they contribute to an increase in shareholder value.

Transactions Between Related Parties

In the event of transactions conducted with Shima Seiki directors, legal entities materially controlled by Shima Seiki directors or major shareholders, the matter is referred to the Board of Directors in advance to obtain approval.

Policies and Procedures for Determining Director Remuneration

Director remuneration comprises fixed remuneration and a director bonus linked to performance in the applicable fiscal year. Stock options are also incorporated into remuneration to function as incentive remuneration.

Moreover, outside director remuneration is fixed remuneration based on consideration for the director's role and independence.

Director remuneration is approved by the General Meeting of Shareholders and passed by resolution by the Board of Directors. When the Board of Directors passes a resolution pertaining to remuneration, the opinions of outside directors are sought to heighten the objectivity of these decisions.

Director and Auditor Training

The Board of Directors is encouraged to make an effort to study and acquire the knowledge necessary for directors and auditors to appropriately fulfill the roles and responsibilities expected of them and to update such knowledge appropriately. To this end, training opportunities are provided and arranged, and all required expenses are provided by the Company.

In addition, outside directors and outside auditors are provided with opportunities including business briefings to facilitate an even deeper understanding of Shima Seiki's operations.

Outside Director and Outside Auditor Main Activities and Reason for Appointment

Category Name	Board of Directors (Met 14 times)	The Audit & Supervisory Board (Met 12 times)	Reason for appointment
Outside Director Yoshio Ichiryu	Attended 13 times	—	Appointed as an outside director for his abundant experience in the areas of economics and industrial policy, as well as a wide range of experience and insight into overall management as a corporate manager.
Outside Director Rieko Zamma	Attended 11 times (All meetings since being appointed)	—	Appointed as an outside director for her abundant experience as a producer involved in event planning and public relations strategy, as well as a wide range of experience and insight into overall management as a corporate manager.
Outside Auditor Daisuke Shinkawa	Attended 13 times	Attended 12 times	Appointed as an outside auditor for his abundant experience as a certified public accountant and tax attorney who is expected to contribute to maintaining the health of Company management through auditing, mainly from the perspective of accounting and tax affairs.
Outside Auditor Sachiko Nomura	Attended 14 times	Attended 12 times	Appointed as an outside auditor for her abundant experience as an attorney who is expected to contribute to maintaining the health of Company management through auditing, mainly from the perspective of legal affairs.

The Foundations Supporting Growth

Dialogue with Shareholders and Investors

General Meeting of Shareholders

As Shima Seiki's highest decision-making body, the General Meeting of Shareholders determines important matters and reports consolidated financial statements. Regarding the exercising of voting rights, execution is possible via the Internet using personal computers or smartphones.

After the general meeting, a factory tour is conducted in an effort to deepen shareholders' understanding of our business.



Headquarters factory tour after the General Meeting of Shareholders

Briefing for Individual Investors

Shima Seiki conducts briefings for individual investors to ensure as many individual investors as possible understand our business activities and policies.

In the fiscal year under review, a briefing was held in August in Osaka and attended by a large number of individual investors. We will continue to promote efforts aimed at promoting an understanding of our business, increasing visibility, and expanding awareness of the Company.



Briefing for individual investors (Osaka)

Results Briefings

Results briefings for securities analysts and institutional investors are held in Tokyo twice each year to announce interim and full-year results.

The president attends the results briefings to explain our performance results, outlook, and future vision in an attempt to communicate with institutional investors.

In June 2017, we visited institutional investors in Europe, and explained our overall management.



Results Briefing (Tokyo)

Utilization of IR Media

We fully utilize a variety of IR media to provide our shareholders and investors with a deeper understanding of our field of business and operating performance, including publishing annual reports and the shareholder newsletter "To Our Shareholders," distributing shareholder questionnaires, and promptly disclosing information on the IR pages of our corporate website.

We renewed our IR website in May 2017, and are working to further strengthen our information disclosure.



Shareholder newsletter, "To Our Shareholders"

Directors and Audit & Supervisory Board Members

(As of June 28, 2017)

Directors

**Chairman,
Representative Director**
Masahiro Shima



**President,
Representative Director**
Mitsuhiro Shima



Director of Sales Headquarters
in charge of Corporate Planning
Division

Executive Director
Takashi Wada



Director of Production Headquarters,
in charge of Machinery Production
Technology Division, Manufacturing
Technology Division and System
Manufacturing Technology Division

Executive Director
Reiji Arikita



Director of Development
Headquarters

Executive Director
Ikuto Umeda



Deputy Director of Sales
Headquarters, CEO of SHIMA
SEIKI (HONG KONG) LTD.

Director
Osamu Fujita



General Manager of General
Affairs and Personnel Division

Director
Toshio Nakashima



General Manager of
Total Design Center

Director
Takashi Nanki



General Manager of Accounting
and Finance Division, in charge
of the Administration Division and
Physical Distribution Division

Director
Hirokazu Nishitani



General Manager of
Material Purchasing Division

Director
Kiyokata Nishikawa



General Manager of
Joint Sales Division

Message from Outside Director Yoshio Ichiryu

The most important focus of this past year has been cultivating the Company's successor. This process involves risk management with respect to business continuity, and I believe we have put in place a structure to ensure sustainable growth into the future. As Shima Seiki aims for further growth on a global stage going forward, it is important for the Company to adopt a broader management perspective, such as through the promotion of diversity. I have many years of experience working in government institutions, and as a management consultant I have consulted with numerous companies. Draw on the experience and expertise I have gained, I will continue working to identify issues and offer proposals aimed at enabling Shima Seiki to be active on the world stage.

Outside Director

Yoshio Ichiryu



President & CEO,
Ichiryu Associates, Inc.

Outside Director

Rieko Zamma



CEO, CANDID PRODUCE, Inc.

Audit & Supervisory Board Members

**Standing Audit &
Supervisory Board Member**
Mitsunori Ueda



**Standing Audit &
Supervisory Board Member**
Masao Tanaka



**Outside Audit &
Supervisory Board Member**

Daisuke Shinkawa



Representative Partner,
HOKUTO tax accountant office

**Outside Audit &
Supervisory Board Member**

Sachiko Nomura



Partner Attorney,
DOJIMA LAW OFFICE

A close-up photograph of a hand holding a black pen, pointing at a financial chart on a document. The chart features a grid with horizontal bars in various colors (blue, green, red, purple). The background is a blurred office setting with a window showing a building outside.

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Five-Year Financial Summary

Five-Year Financial Summary

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

	2017	2016	2015	2014	2013	2017
For the Year:	Millions of yen					Thousands of U.S. dollars
Net sales	¥62,433	¥49,583	¥48,354	¥40,636	¥34,970	\$556,494
Cost of sales	33,385	26,238	26,488	23,367	22,758	297,576
Gross profit	29,048	23,345	21,866	17,269	12,212	258,918
Selling, general and administrative expenses	17,786	17,563	16,121	14,537	12,721	158,535
Operating income (loss)	11,262	5,782	5,745	2,732	(509)	100,383
Income before income taxes and minority interests	9,979	4,803	7,006	7,230	3,363	88,947
Net income attributable to owners of the parent	7,199	3,271	3,646	4,863	1,754	64,168
Net cash provided by (used in) operating activities	6,989	1,257	(1,957)	(2,401)	3,614	62,296
Net cash provided by (used in) investing activities	(1,242)	(2,350)	2,288	(367)	(3,218)	(11,071)
Net cash provided by (used in) financing activities	2,470	(1,776)	(1,966)	(1,597)	227	22,016
Capital investment	3,559	2,128	2,108	1,360	934	31,723
Depreciation and amortization	1,833	1,590	1,614	1,594	1,661	16,338
Research and development expenses	2,677	2,610	2,588	2,669	2,598	23,861
At Year-End:	Millions of yen					Thousands of U.S. dollars
Total assets	¥141,931	¥126,416	¥126,987	¥119,727	¥112,089	\$1,265,095
Net assets	104,880	98,293	98,179	93,222	87,382	934,843
Per Share Data:	Yen					U.S. dollars
Net income	¥209.97	¥95.61	¥106.54	¥142.13	¥51.26	\$1.87
Cash dividends applicable to the year	45.00	37.50	32.50	32.50	25.00	0.40
Net assets	3,039.66	2,867.00	2,863.49	2,718.57	2,547.88	27.09
Ratios:	%					
Ratio of operating income to net sales	18.0%	11.7%	11.9%	6.7%	(1.5)%	
ROA	5.4	2.6	3.0	4.2	1.6	
ROE	7.1	3.3	3.8	5.4	2.0	
Equity ratio	73.8	77.6	77.2	77.7	77.8	

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥112.19=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2017.

Management's Discussion and Analysis (MD&A) of Financial Conditions and Results of Operations

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

Overview

During the fiscal year under review, the economy continued its modest recovery. Although uncertainties arose surrounding the policies of the new U.S. administration, the overall economy was robust, buoyed by an improved employment environment and expansion in personal consumption, with limited impact from the UK decision to exit the European Union. China's economy continued to bottom out, supported by government policies. The Japanese economy continued to experience a modest recovery, spurred by improvements in the employment situation and a rebound in personal consumption.

Amid these conditions, the Shima Seiki Group worked to ascertain the various needs of customers in Japan and overseas and focused on proposal-based marketing activities tailored to manufacturing regions.

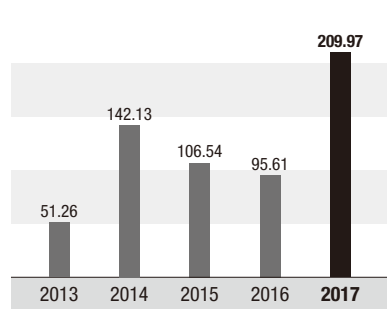
Although affected by yen appreciation during the year under review, sales expanded substantially, benefiting from increased sales of mainstay computerized flat knitting machines, particularly in Asian markets. Conversely sales were down slightly in the design system business, which has enjoyed steady growth in recent years. Sales in the Glove and Sock Knitting Machine Segment were in a recovery phase, while sales in the Other Business Segment were robust.

As a result, the Company posted consolidated net sales of ¥62,433 million for the fiscal year ended March 31, 2017, up 25.9% from the preceding fiscal year.

Yen appreciation affected the Company on the profit front, but the effect of higher net sales caused operating income to surge 94.8%, to ¥11,262 million. Despite the emergence of a ¥1,930 million foreign exchange loss as a non-operating expense, net income attributable to owners of the parent expanded 120.0%, to ¥7,199 million.

Shima Seiki treats the return of profits to shareholders as a priority management issue. With regard to profit distribution, the Company strives to maintain long-term stable dividends based on improved performance, taking into account forecasts for future profits

Net income per share (¥)



and business expansion with the belief it should engage in raising stock value per share. During the year, consolidated earnings per share (EPS) climbed to ¥209.97, from ¥95.61 in the previous year. We awarded dividends for the year of ¥45.00 per share, comprising a year-end dividend of ¥25.00, which included a commemorative dividend of ¥2.50 in recognition of the Company's 55th anniversary of establishment, and an interim dividend of ¥20.00.

Net Sales

Consolidated net sales rose 25.9%, to ¥62,433 million.

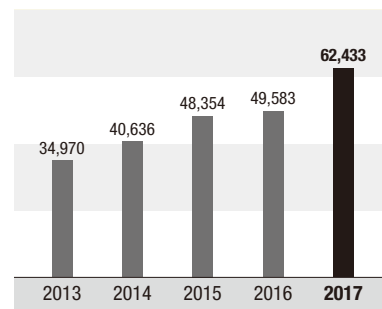
In the Company's core Flat Knitting Machine Segment, sales in the mainstay Asian market were vigorous throughout the year, as customers in ASEAN countries and Bangladesh made capital investments in highly productive computerized flat knitting machines. Sales expansion also centered on the SSR®, which offers superb cost performance, and the SVR®, which enables further high-speed knitting. In line with growing apparel consumption in China, the market is shifting from OEM production to a proposal-based, high-value-added business model. In this market, sales increased thanks to the introduction of WHOLEGARMENT® flat knitting machines and the expanded use of computerized flat knitting machines in the new domain of producing shoes. In South Korea, sales accelerated as we introduced the new MACH2®XS model of WHOLEGARMENT® flat knitting machines.

Italy is a core advanced-country market, and the MACH2®XS was well received at the ITMA exhibition, which took place in Milan in November 2015. Also contributing to sales growth were the SRY®, which enables the composition of novel and diverse knitted fabrics, and the SIR®, which facilitates multicolor knitting.

In the Middle East, capital investment for the production of European apparel expanded in Turkey in the first half of the year, but political unrest caused sales to falter in the second half.

In Japan, adoption of the MACH2®XS moved forward, but sales of computerized flat knitting machines were down year on year.

Net sales (¥ Million)



Consequently, sales in the Flat Knitting Machine Segment grew 33.3%, to ¥50,379 million.

In the Design System Segment, we proactively developed proposal-based marketing aimed at innovations to improve the efficiency of production and distribution centered on the SDS®-ONE APEX3, which is now used in a wide range of industries other than the knitting industry for textiles, interior items, furniture and sundry goods. However, sales were down slightly due to a sluggish Japanese apparel market during the year.

Sales of P-CAM® automatic fabric cutting machines edged up as a result of expanded model variations and sales to a wide range of non-apparel industries, including automotive interiors, furniture and industrial materials. These efforts resulted in Design System Segment sales of ¥4,021 million, down 2.8%.

Sales in the Glove and Sock Knitting Machine Segment grew 24.8% year on year, to ¥1,888 million, recovering due to a rebound in capital investment by large-scale customers, which had been lackluster in the preceding year.

In the Other Business Segment, sales of service parts and knitted products caused sales to edge up 0.3%, to ¥6,145 million.

Overall, overseas net sales rose 32.1%, to ¥54,689 million, accounting for 87.6% of net sales, a 4.1-percentage-point increase. By geographical region, 67.1% of net sales were generated in Asia (compared with 55.2% during the previous year), 11.6% in Europe (12.9%), 5.0% in the Middle East (10.0%) and 3.8% in other areas (5.3%), with Asia constituting a rising percentage of sales.

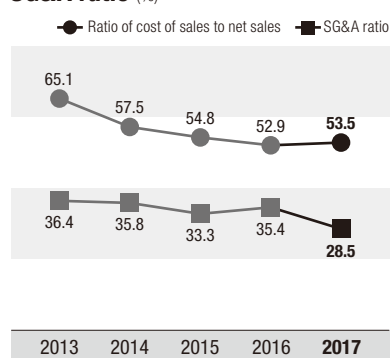
In the Japanese market, sales fell 5.5%, to ¥7,744 million, with the Flat Knitting Machine Segment and the Design System Segment being particularly affected by a lackluster domestic market for apparel.

Cost of Sales and SG&A Expenses

In line with higher net sales, cost of sales amounted to ¥33,385 million, and gross profit grew 24.4%, to ¥29,048 million. The gross profit ratio rose 0.6 percentage point, to 53.5%.

Selling, general and administrative (SG&A) expenses increased 1.3%, to ¥17,786 million,

Ratio of cost of sales to net sales/
SG&A ratio (%)



despite a decrease in the provision for doubtful accounts, owing to higher sales commissions and labor costs. Due to the sharp rise in sales, however, the SG&A expense ratio fell 6.9 percentage points, to 28.5%.

Operating Income

Although the gross profit ratio fell, operating income surged 94.8%, to ¥11,262 million, due to higher sales.

By business segment, operating income in the Flat Knitting Machine Segment came to ¥15,074 million, up 68.5% year on year; ¥1,005 million in the Design System Segment, down 13.4%; ¥367 million in the Glove and Sock Knitting Machine Segment, up 54.8%; and ¥582 million in the Other Business Segment, down 11.1% compared to the previous term.

Other Income and Expenses

Other income was lower than other expenses, leading to net other losses of ¥1,283 million, compared with net other losses of ¥979 million in the previous year. This was due to the recording of a ¥1,930 million foreign exchange loss stemming from yen appreciation and due to such factors as a loss on valuation of receivables denominated in foreign currencies.

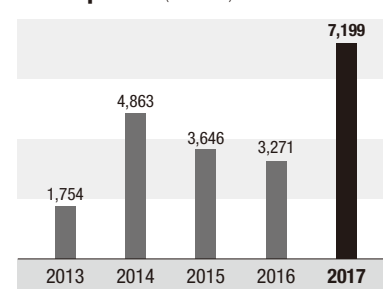
Net Income Attributable to Owners of the Parent

Income before income taxes was ¥9,979 million, compared to ¥4,803 million in the previous year.

Corporate income, residential and enterprise taxes totaled ¥2,084 million, representing an increase of ¥236 million from a year earlier. Corporate income tax adjustments for the period under review were ¥696 million, compared with a negative ¥316 million in the previous year. As a result, the Company's tax burden after the application of tax effect accounting increased ¥1,248 million from the previous fiscal year, to ¥2,780 million.

Owing to the above factors, consolidated net income attributable to owners of the parent for the Shima Seiki Group during the fiscal year under review came to ¥7,199 million, up 120.0% compared to the preceding fiscal term.

Net income attributable to owners
of the parent (¥ Million)



Liquidity and Capital Resources

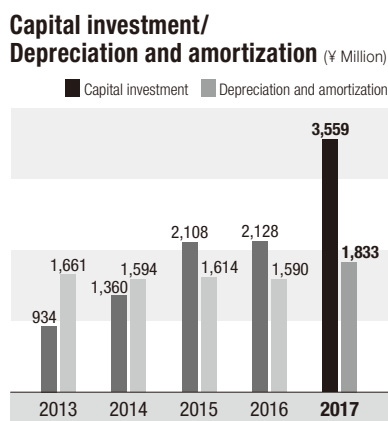
Cash and cash equivalents were ¥18,286 million as of March 31, 2017, up sharply from one year earlier. Net cash provided by operating activities was ¥6,989 million. Although an increase in trade receivables used cash, substantial cash was provided by income before income taxes of ¥9,979 million. Other sources of cash included an increase in trade payables and a decrease in inventories.

Net cash used in investing activities amounted to ¥1,242 million. Sources of cash included proceeds from the withdrawal of time deposits and the redemption of investments in securities, while cash was used for purchases of property, plant and equipment and for purchases of investments in securities.

Net cash provided by financing activities was ¥2,470 million. The main uses of cash in this category were for the payment of dividends and the repayment of finance lease obligations, while net increases in short-term loans provided cash.

The Shima Seiki Group's funding activities combine various procurement methods, including cash flows from operating activities and loans from financial institutions, in an effort to secure low-cost, stable capital in response to uses of funds required to pursue the Group's objectives. At fiscal year-end, the equity ratio and current ratio, indicators of a company's margin of safety, were 73.8% and 325.8%, respectively, implying an extremely good financial position.

The Shima Seiki Group will continue to ensure its solid position as a global leading company into the future, firmly believing that it can procure adequate capital by leveraging its healthy financial position and vigorous sales efforts and by maintaining stable growth to secure the working funds and funds for capital investment required for stable growth.



Assets, Liabilities and Net Assets

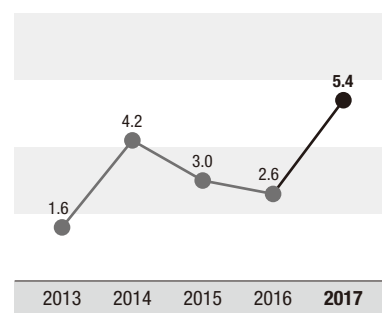
Consolidated total assets as of March 31, 2017, were ¥141,931 million, up ¥15,515 million from a year earlier. In terms of short-term assets and liabilities, current assets rose 17.5%, or ¥15,752 million, to ¥105,736 million. Major reasons for the increase were a ¥8,954 million increase in trade accounts and notes receivable and an ¥8,002 million expansion in cash and cash equivalents. Current liabilities, meanwhile, grew 66.0% or ¥12,902 million, to ¥32,451 million. This was primarily due to a ¥3,973 million net increase in short-term loans and a ¥5,000 million rise in the current portion of long-term debt.

With regard to long-term assets and liabilities, long-term assets decreased ¥237 million, or 0.7%, to ¥36,195 million. Long-term liabilities fell ¥3,974 million, or 46.3%, to ¥4,600 million.

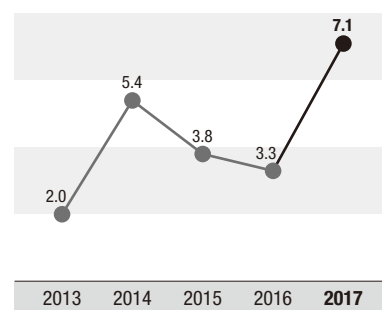
Net assets increased ¥6,587 million, or 6.7%, to ¥104,880 million, owing principally to higher retained earnings. As a result, the shareholders' equity ratio fell 3.8 percentage points from the preceding year-end, to 73.8%.

Return on assets rose from 2.6% to 5.4%. Return on equity also grew, from 3.3% to 7.1%.

ROA (%)



ROE (%)



Business Risks and Uncertainties

Business Risks and Uncertainties

The Group recognizes the following major items as possible risk factors in its operations, which may affect the management performance and financial position of the Group.

The Group strives to prevent manifestation of those risks and employ proper countermeasures. Forward-looking statements are decisions made by the Group as of the end of the current fiscal year.

(1) Risks of dependency on particular overseas markets

Overseas sales account for around 85% of the Group's total sales, with sales to the Asian markets, including Bangladesh, China and ASEAN countries, exceeding two-thirds of the total. There is a concern over economic and political changes in these markets, including competition with other flat knitting machine manufacturers, changes in monetary policies and tax systems, and trade friction with other regions, which could lead to a decline in orders, and thus affect the performance and financial position of the Group.

(2) Risks associated with fluctuations in currency exchange rates

As the Group sells products worldwide, some transactions are conducted in currencies other than yen. Although the Group employs forward exchange contracts and other hedges to minimize foreign exchange risks, appreciation of the yen could cause declining price competitiveness and loss on valuation of receivables denominated in foreign currencies. In such situations, sales activities may not be conducted as planned. Therefore, sharp fluctuations in exchange rates as such could affect the performance and financial position of the Group.

(3) Risks associated with credit and accounts receivable recovery

In line with its global sales strategy, the Group handles credit management of customers in two of its main markets of China and Europe on its own. This enables the Group to implement comprehensive global sales and marketing strategies by maintaining a balance between potential receivables recovery risks and sales. Proper credit management is gaining even greater significance for the Group's consolidated business operations. Changes in performance or credit standing of each customer, or manifestation of country risks could affect the performance and financial position of the Group.

(4) Risks associated with the protection of intellectual property rights

In some countries and regions, it is virtually impossible, or possible only to a limited extent, to protect the Group's proprietary technologies and know-how in terms of its intellectual property rights due to a lack of awareness concerning legal compliance. Consequently, the Group may

not be able to effectively prevent a third party from illegally using the Group's intellectual property rights and producing counterfeit products. Accompanying deterioration in sales and price competition could affect the performance and financial position of the Group.

(5) Risks associated with overconcentration of production on a particular production site

The Group promotes efficiency by concentrating its product production in Wakayama Prefecture, where the headquarters is located, to allow all operations, from development to manufacturing, to be integrated into one process. Therefore, natural disasters, such as a large earthquake in or around Wakayama Prefecture, could cause the extended suspension of production. Similarly, should the steady supply of electricity be disrupted, the Group's ability to meet its production plans would be hampered and the Group's performance and financial position could be affected.

(6) Risks associated with social and institutional changes in business areas

The Group operates its business not only in Japan but worldwide. It sees the following inherent risks in some countries and regions and they could affect the performance and financial position of the Group.

1. Stagnant demand resulting from deteriorating economic conditions
2. Unforeseen changes in laws and regulations
3. Social turmoil due to terrorism, war, political upheaval, deteriorating civil order, and other causes
4. Natural disasters including earthquakes

(7) Risks associated with changes in consumer apparel spending and unseasonable weather

The Group's products are sold primarily to apparel and knitwear manufacturers in Japan and overseas. Product sales of those manufacturers at department and discount stores tend to be influenced by individual apparel preferences and fashion trends. Moreover, unseasonable weather events, such as heat waves and warm winters, coupled with damage caused by strong winds and flooding, constitute another major factor that could influence market trends in the apparel industry, and thus they could affect the performance and financial position of the Group.

(8) Information system risk

Information systems are one of the important factors for the Company group. Human errors, failures in devices and defective services provided by third parties such as telecom carriers, as well as external cyber-attacks, unauthorized access and computer virus infections could cause malfunctions and defects in telecommunication systems. This could lead to problems such as errors and delays in the processing of transactions and information leakage, and have an impact on the business results and financial position of the Company group.

Consolidated Financial Statements

Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
ASSETS			
Current assets:			
Cash and time deposits (Note 3, 4)	¥19,161	¥11,159	\$170,790
Short-term investments in securities (Note 4, 5)	—	45	—
Trade notes and accounts receivable (Note 4)	67,268	58,314	599,590
Inventories (Note 6)	17,578	18,222	156,681
Deferred tax assets (Note 12)	1,537	1,678	13,700
Prepaid expenses and other current assets	2,036	2,416	18,148
Less: allowance for doubtful accounts	(1,844)	(1,850)	(16,436)
Total current assets	105,736	89,984	942,473
Investments and other assets:			
Investments in unconsolidated subsidiaries (Note 4)	589	321	5,250
Investments in securities (Note 4, 5)	7,492	6,789	66,780
Net defined benefit assets (Note 9)	779	694	6,943
Deferred tax assets (Note 12)	43	710	383
Goodwill	3,874	4,312	34,531
Other	3,181	7,332	28,354
Less: allowance for doubtful accounts	(1,584)	(4,169)	(14,119)
Total investments and other assets	14,374	15,989	128,122
Property, plant and equipment:			
Land (Note 7)	10,962	10,910	97,709
Buildings and structures	24,680	24,029	219,984
Machinery and equipment	6,081	6,054	54,203
Tools, furniture and fixtures	7,449	7,169	66,396
Leased assets	4,893	3,676	43,613
Construction in progress	58	317	517
	54,123	52,155	482,422
Less: accumulated depreciation	(32,302)	(31,712)	(287,922)
Property, plant and equipment, net	21,821	20,443	194,500
Total assets	¥141,931	¥126,416	\$1,265,095

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 4, 8)	¥9,975	¥6,002	\$88,912
Current portion of long-term debt (Note 4, 8)	5,000	—	44,567
Lease obligation	562	389	5,009
Trade notes and accounts payable (Note 4)	5,221	6,717	46,537
Electronically recorded obligations-operating (Note 4)	2,458	—	21,909
Accrued expenses	1,373	1,250	12,238
Accrued income taxes	2,120	1,073	18,897
Other current liabilities	5,742	4,118	51,181
Total current liabilities	32,451	19,549	289,250
Long-term liabilities:			
Long-term debt, less current portion (Note 4, 8)	—	5,000	—
Long-term accounts payable	1,051	1,051	9,368
Lease obligation	1,891	1,203	16,856
Deferred tax liabilities for land revaluation (Note 7)	23	24	205
Net defined benefit liability (Note 9)	922	976	8,218
Other long-term liabilities	713	320	6,355
Total long-term liabilities	4,600	8,574	41,002
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2017 — 36,600,000 shares			
2016 — 36,600,000 shares	14,860	14,860	132,454
Capital surplus	21,724	21,724	193,636
Retained earnings	80,480	75,135	717,354
Treasury stock, at cost			
2017 — 2,117,503 shares			
2016 — 2,382,183 shares	(6,140)	(6,908)	(54,728)
Total shareholders' equity	110,924	104,811	988,716
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	919	124	8,191
Land revaluation difference (Note 7)	(7,004)	(7,003)	(62,430)
Foreign currency translation adjustments	(250)	(29)	(2,228)
Remeasurements of defined benefit plans	226	200	2,015
Total accumulated other comprehensive income	(6,109)	(6,708)	(54,452)
Subscription rights to share (Note 14)	56	180	499
Non-controlling interests in consolidated subsidiaries	9	10	80
Total net assets	104,880	98,293	934,843
Total liabilities and net assets	¥141,931	¥126,416	\$1,265,095

See the accompanying notes to the consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net sales	¥62,433	¥49,583	\$556,494
Cost of sales	33,385	26,238	297,576
Gross profit	29,048	23,345	258,918
Selling, general and administrative expenses (Note 13)	17,786	17,563	158,535
Operating income	11,262	5,782	100,383
Other income (expenses):			
Interest and dividend income	518	613	4,617
Interest expense	(84)	(84)	(749)
Foreign exchange loss	(1,930)	(1,893)	(17,203)
Provision of allowance for doubtful accounts	(103)	(283)	(918)
Other, net	316	668	2,817
Income before income taxes	9,979	4,803	88,947
Income taxes (Note 12):			
Current	2,084	1,848	18,575
Deferred	696	(316)	6,204
	2,780	1,532	24,779
Net income	7,199	3,271	64,168
Net loss attributable to non-controlling interests	(0)	(0)	(0)
Net income attributable to owners of the parent	¥7,199	¥3,271	\$64,168
		Yen	U.S. dollars
Net income Per share:			
Basic	¥209.97	¥95.61	\$1.87
Diluted	209.68	—	1.87
Cash dividends applicable to the year	45.00	37.50	0.40

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income	¥7,199	¥3,271	\$64,168
Other comprehensive income (Note 15):			
Net unrealized holding gain (loss) on securities	795	(711)	7,086
Land revaluation difference	—	1	—
Foreign currency translation adjustments	(221)	(1,341)	(1,970)
Remeasurements of defined benefit plans	26	11	232
Total other comprehensive income	600	(2,040)	5,348
Comprehensive income	¥7,799	¥1,231	\$69,516
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥7,799	¥1,231	\$69,516
Comprehensive loss attributable to non-controlling interests	(0)	(0)	(0)

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

 SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
 Years ended March 31, 2017 and 2016

	Thousands	Millions of yen										
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2015 ···	36,600	¥14,860	¥21,724	¥72,976	¥(6,907)	¥836	¥(7,005)	¥1,312	¥189	¥180	¥14	¥98,179
Net income attributable to owners of the parent ·····	—	—	—	3,271	—	—	—	—	—	—	—	3,271
Cash dividends ·····	—	—	—	(1,112)	—	—	—	—	—	—	—	(1,112)
Purchases of treasury stock ···	—	—	—	—	(1)	—	—	—	—	—	—	(1)
Retirement of treasury stock ···	—	—	—	—	—	—	—	—	—	—	—	—
Change of scope of consolidation ·····	—	—	—	—	—	—	—	—	—	—	—	—
Other changes, net ·····	—	—	—	—	—	(711)	1	(1,341)	11	—	(4)	(2,044)
Balance at March 31, 2016 ···	36,600	¥14,860	¥21,724	¥75,135	¥(6,908)	¥125	¥(7,004)	¥(29)	¥200	¥180	¥10	¥98,293
Net income attributable to owners of the parent ·····	—	—	—	7,199	—	—	—	—	—	—	—	7,199
Cash dividends ·····	—	—	—	(1,454)	—	—	—	—	—	—	—	(1,454)
Purchases of treasury stock ···	—	—	—	—	(2)	—	—	—	—	—	—	(2)
Retirement of treasury stock ···	—	—	—	(51)	770	—	—	—	—	—	—	719
Change of scope of consolidation ·····	—	—	—	(349)	—	—	—	—	—	—	—	(349)
Other changes, net ·····	—	—	—	—	—	794	—	(221)	26	(124)	(1)	474
Balance at March 31, 2017 ···	36,600	¥14,860	¥21,724	¥80,480	¥(6,140)	¥919	¥(7,004)	¥(250)	¥226	¥56	¥9	¥104,880

	Thousands of U.S. dollars											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets	
Balance at March 31, 2016 ···	\$132,454	\$193,636	\$669,712	\$(61,574)	\$1,114	\$(62,430)	\$(258)	\$1,783	\$1,604	\$89	\$876,130	
Net income attributable to owners of the parent ·····	—	—	64,168	—	—	—	—	—	—	—	64,168	
Cash dividends ·····	—	—	(12,960)	—	—	—	—	—	—	—	(12,960)	
Purchases of treasury stock ···	—	—	—	(18)	—	—	—	—	—	—	(18)	
Retirement of treasury stock ···	—	—	(455)	6,864	—	—	—	—	—	—	6,409	
Change of scope of consolidation ·····	—	—	(3,111)	—	—	—	—	—	—	—	(3,111)	
Other changes, net ·····	—	—	—	—	7,077	—	(1,970)	232	(1,105)	(9)	4,225	
Balance at March 31, 2017 ···	\$132,454	\$193,636	\$717,354	\$(54,728)	\$8,191	\$(62,430)	\$(2,228)	\$2,015	\$499	\$80	\$934,843	

See the accompanying notes to the consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Cash Flows

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥9,979	¥4,803	\$88,947
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,833	1,590	16,338
Amortization of goodwill	399	441	3,556
Increase in allowance for doubtful accounts	804	2,053	7,166
Decrease in net defined benefit liability	(86)	(108)	(767)
Interest and dividend income	(519)	(613)	(4,626)
Interest expense	84	84	749
Foreign exchange loss	200	1,323	1,783
Loss on sales and disposal of property, plant and equipment, net	43	23	384
Gain on sale of investment in securities	(19)	—	(169)
Loss on revaluation of shares of subsidiaries and affiliates	43	—	384
Impairment loss	92	—	820
Gain on valuation of derivatives	(86)	(210)	(767)
Increase in trade receivables	(8,961)	(8,222)	(79,873)
Decrease (increase) in inventories	788	(155)	7,024
Increase in trade payables	1,382	1,642	12,318
Other	1,654	726	14,743
Subtotal	7,630	3,377	68,010
Interest and dividend income received	557	609	4,965
Interest expense paid	(69)	(84)	(615)
Income taxes paid	(1,129)	(2,645)	(10,064)
Net cash provided by operating activities	6,989	1,257	62,296
Cash flows from investing activities:			
Increase in time deposits, net	793	502	7,068
Purchases of property, plant and equipment	(1,913)	(1,420)	(17,051)
Proceeds from sales of property, plant and equipment	119	3	1,061
Purchases of investments in securities	(558)	(1,370)	(4,974)
Proceeds from sales and redemption of investments in securities	762	1,339	6,792
Payment for acquisition of subsidiaries and affiliated companies	(329)	(200)	(2,933)
Payment of long-term loans receivable	—	(450)	—
Other	(116)	(754)	(1,034)
Net cash used in investing activities	(1,242)	(2,350)	(11,071)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	3,714	(250)	33,105
Repayment of finance lease obligations	(384)	(413)	(3,423)
Purchases of treasury stock	(2)	(2)	(18)
Cash dividends paid	(1,453)	(1,111)	(12,951)
Proceeds from exercise of subscription rights to shares	595	—	5,303
Net cash provided by (used in) financing activities	2,470	(1,776)	22,016
Effect of exchange rate changes on cash and cash equivalents	172	(543)	1,533
Net increase (decrease) in cash and cash equivalents	8,389	(3,412)	74,774
Cash and cash equivalents at beginning of year	9,752	13,164	86,924
Increase in cash and cash equivalents from newly consolidated subsidiary	145	—	1,293
Cash and cash equivalents at end of year (Note 3)	¥18,286	¥9,752	\$162,991

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

SHIMA SEIKI MFG., LTD. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. Its overseas consolidated subsidiaries maintain their accounts and records in conformity with the requirements of their respective countries of domicile.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the exchange rate prevailing at March 31, 2017, which was ¥112.19 to US\$1. These convenience translations should not be construed as representations that the Japanese yen amounts have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Goodwill is amortized over 20 years by the straight-line method.

(b) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates. Resulting translation

gains or losses are charged to income in the year in which they are incurred, except for those arising from forward foreign exchange contracts pertaining to monetary assets, which are deferred and amortized over the periods of the respective contracts. Revenues and expenses are translated at the rates of exchange prevailing when transactions are recorded.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. The components of net assets are translated at historical rates. Revenue and expense accounts of foreign subsidiaries are translated at the average exchange rate during the year.

Translation adjustments resulting from translation of foreign currency financial statements are reported as "Foreign currency translation adjustments" in a separate component of net assets.

(c) Cash and cash equivalents

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

(d) Short-term investments and investments in securities

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

(e) Inventories

Finished goods, work in process and raw materials are stated at cost determined by the moving-average method (with book values written down on the balance sheet based on decreased profitability of assets).

Supplies are stated at cost determined by the first-in first-out method (with book values written down on the balance sheet based on decreased profitability of assets).

Purchased goods held by foreign consolidated subsidiaries are stated at cost determined by the specific method (with book values written down on the balance sheet based on decreased profitability of assets).

(f) Property, plant and equipment and depreciation (except for leased assets)

Notes to the Consolidated Financial Statements

Property, plant and equipment are stated at cost. Depreciation of the Company and its domestic consolidated subsidiaries is computed principally by the declining-balance method based on the estimated useful lives of assets, except that the straight-line method is applied to buildings, but not to fixtures attached to the buildings, acquired on or after April 1, 1998 and fixtures attached to the buildings and structures acquired on or after April 1, 2016. Depreciation of foreign consolidated subsidiaries is computed by the straight-line method on the estimated useful lives of assets.

The principal estimated useful lives are as follows:

Buildings and structures	3 to 60 years
Machinery and equipment	2 to 12 years
Tools, furniture and fixtures	2 to 20 years

(g) Leased assets

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees are accounted for in a similar way to purchases and depreciation for leased assets is computed under the straight-line method with zero residual value over the lease term.

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees, which commenced in fiscal years beginning prior to April 1, 2008, are accounted for in a similar way to operating leases.

(h) Allowance for doubtful accounts

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

(i) Retirement benefits

1. Periodic allocation methodology for the estimated retirement benefit amount

The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a straight-line basis.

2. Amortization of past service cost and actuarial gains/losses

Past service cost is primarily amortized on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

Net actuarial gain or loss is primarily amortized from the following year on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

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

(l) Derivatives and hedging activities

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

Derivatives are stated at fair value and changes in fair value are recognized as gains or losses, except they meet the criteria for deferral hedge accounting under which unrealized gains or losses are deferred as assets or liabilities. Forward foreign exchange contracts that meet certain hedging criteria are accounted for under the allocation method.

Also, if interest rate swap contracts are used for hedging and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(m) Per share information

Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding in each period.

Diluted net income per share is not presented for the year ended March 31, 2016 since there are no residual securities with dilutive effect upon exercise into common stock.

(Changes in accounting policies)

Effective from the consolidated fiscal year ended March 31, 2017, the company and domestic consolidated subsidiaries began applying the Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 (ASBJ Practical Issues Task Force No.32 of June 17, 2016) as a result of revisions to Japan's Corporate Tax Act. The solution was adopted to change from the declining-balance method to the straight-line method for the depreciation of fixtures attached to the buildings and structures acquired on or after April 1, 2016.

The effect of this change on the consolidated operating results for the ended March 31, 2017 was also immaterial.

3. Cash and deposits

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in cash and cash deposits in the consolidated balance sheets as of March 31, 2017 and 2016 is summarized as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Cash and time deposits	¥19,161	¥11,159	\$170,790
Time deposits with an original maturity in excess of three months included in cash and deposits	(875)	(1,407)	(7,799)
Cash and cash equivalents at end of year	¥18,286	¥9,752	\$162,991

4. Financial Instruments

(a) Policy for financial instruments

The Companies procure funds using bank borrowings and other debts for the business. The Company makes use of various derivative financial instruments in order to reduce the risk of fluctuations of foreign exchange rate in receivables and the risk of fluctuations of interest rate in payables. The Companies are not engaged in speculative transactions and use highly secure financial instruments. The Companies carry out financial instruments pursuant to internal regulations and the rules of Board of Directors.

(b) Nature of financial instruments and the risks and risk management

Trade receivables consist of notes and accounts receivable are exposed to customer credit risk. Trade receivables in foreign currency due to the global operation are exposed to risks of fluctuations of foreign currency exchange.

Notes and accounts payable are due within one year and a part of them in foreign currency associated with import of parts and accessories are exposed in risks of fluctuations of foreign currency exchange.

The Companies use borrowings and interest-bearing debt to procure funds for operating transactions due for a maximum of 8 months. The Companies hedges risk for long-term borrowings by using derivatives (interest rate swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

The Companies use foreign exchange forward contracts and foreign currency options to hedge the risk of foreign exchange fluctuations associated with receivables and payables denominated in foreign currencies. Certain overseas subsidiaries have capital-safe deposits including derivative instruments.

(c) Risk management of financial instruments

1. Credit risk management

The Companies conduct mitigation of collection risk in accordance with credit management in sales. Certain organization unit independent from sales division assesses the balances outstanding for customers and credit status of customers and manages collection dates.

In terms of loan receivable, the Companies assess financial conditions of debtors and review the loan terms periodically.

The Companies have derivative transactions only with counterparties rated highly.

2. Market risk management

The Companies hedge risks for exchange rate fluctuations monitored monthly by each currency and use interest swap contracts for borrowings.

Regarding securities, the Companies monitor the market price and financial condition of the issuer of securities, taking into account its relationship with the counterparties.

3. Liquidity risk in procurement of funds

The Companies manage to reduce liquidity risk by preparing cash flow projection in basis of financial reporting from each division and affiliates.

(d) Supplemental information on fair value of financial instruments

The Companies assess fair value of financial instruments based on market prices or on reasonable estimates when market prices are not available. These estimates including variable factors are subject to fluctuation due to change in underlying assumptions.

The contract amounts of the derivative transactions referred in Note 11. Derivative financial instruments below are not indicators of market risk associated with derivative transactions.

Notes to the Consolidated Financial Statements

(e) Fair value of financial instruments

Fair value and variance with carrying value presented in balance sheets are as follows. Fair values that are not determinable are not included in the following table.

	Millions of yen		
	2017		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	¥19,161	¥19,161	—
<2> Trade notes and accounts receivable	67,268	—	—
Less: allowance for doubtful accounts *1	(1,839)	—	—
	65,429	65,429	—
<3> Short-term investments in securities, investments in securities	5,310	5,310	—
<4> Trade notes and accounts payable	5,221	5,221	—
<5> Electronically recorded obligations-operating	2,458	2,458	—
<6> Short-term borrowings	9,975	9,975	—
<7> Long-term debt including long-term borrowings due within one year	5,000	5,000	—
<8> Derivative instruments *2	(44)	(44)	—

	Millions of yen		
	2016		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	¥11,159	¥11,159	—
<2> Trade notes and accounts receivable	58,314	—	—
Less: allowance for doubtful accounts *1	(1,663)	—	—
	56,651	56,651	—
<3> Short-term investments in securities, investments in securities	4,407	4,407	—
<4> Trade notes and accounts payable	6,717	6,717	—
<5> Electronically recorded obligations-operating	—	—	—
<6> Short-term borrowings	6,002	6,002	—
<7> Long-term debt including long-term borrowings due within one year	5,000	5,016	¥16
<8> Derivative instruments *2	(133)	(133)	—

	Thousands of U.S. dollars		
	2017		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	\$170,790	\$170,790	—
<2> Trade notes and accounts receivable	599,590	—	—
Less: allowance for doubtful accounts *1	(16,392)	—	—
	583,198	583,198	—
<3> Short-term investments in securities, investments in securities	47,330	47,330	—
<4> Trade notes and accounts payable	46,537	46,537	—
<5> Electronically recorded obligations-operating	21,909	21,909	—
<6> Short-term borrowings	88,912	88,912	—
<7> Long-term debt including long-term borrowings due within one year	44,567	44,567	—
<8> Derivative instruments *2	(392)	(392)	—

*1: The net amount of allowance for doubtful accounts is related on trade notes and accounts receivable.

*2: The net amount of the assets and liabilities is shown. If the net amount is a liability, it is written in parentheses ().

(Note1) Calculation method for the fair value of financial instruments, securities and derivative transactions

- <1> Cash and time deposits; Carrying amount approximates fair value due to the short maturities.
- <2> Trade notes and accounts receivable; The fair value is based on the discounted by the free rate to be applied to the periods of collection, assuming allowance for doubtful accounts as credit risks since it is difficult to value credit risks individually.
- <3> Short-term investments in securities, investments in securities; Fair value of equity securities are based on the prices quoted by financial institutions.
- <4> Trade notes and accounts payable; Carrying amount approximates fair value due to the short maturities.
- <5> Short-term borrowings; Carrying amount approximates fair value due to the short maturities.
- <6> Long-term debt; Fair value of long-term debt is calculated by discounting the sum of future principal and interest payments to present value at the rate expected in another loan with the same conditions.
- <7> Derivative instruments; Refer to Note 11 Derivative financial instruments.

(Note2) Fair values that are difficult to determine as of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity bonds	—	¥200	—
Unlisted equity securities	¥2,182	2,182	\$19,449
Shares of subsidiaries and affiliates	566	281	5,045
Investment in limited partnership	—	45	—

(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2017 and 2016

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2017)				
Cash and time deposits	¥19,161	—	—	—
Trade notes and accounts receivable	34,563	¥32,618	¥87	—
Investment securities				
Held-to-maturity securities				
— Bonds	—	—	—	—
Available-for-sale securities with maturity				
— Bonds	—	994	—	—
— Other investments	36	—	—	—
Total	¥53,760	¥33,612	¥87	—

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2016)				
Cash and time deposits	¥11,159	—	—	—
Trade notes and accounts receivable	26,745	¥31,569	¥0	—
Investment securities				
Held-to-maturity securities				
– Bonds	—	—	200	—
Available-for-sale securities with maturity				
– Bonds	—	1,068	—	—
– Other investments	45	36	—	—
Total	¥37,949	¥32,673	¥200	—

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2017)				
Cash and time deposits	\$170,790	—	—	—
Trade notes and accounts receivable	308,076	\$290,739	\$775	—
Investment securities				
Held-to-maturity securities				
– Bonds	—	—	—	—
Available-for-sale securities with maturity				
– Bonds	—	8,860	—	—
– Other investments	321	—	—	—
Total	\$479,187	\$299,599	\$775	—

5. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2017 and 2016 were as follows:

	Millions of yen		
	Acquisition cost	Amount recorded in the balance sheet	Difference
2017			

Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥2,570	¥3,783	¥1,213
Bonds	—	—	—
Other	—	—	—
Subtotal	¥2,570	¥3,783	¥1,213

Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥596	¥496	¥(100)
Bonds	1,000	994	(6)
Other	47	37	(10)
Subtotal	¥1,643	¥1,527	¥(116)
Total	¥4,213	¥5,310	¥1,097

	Millions of yen		
	Acquisition cost	Amount recorded in the balance sheet	Difference
(As of March 31, 2016)			
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥2,011	¥2,354	¥343
Bonds	1,066	1,068	2
Other	236	267	31
Subtotal	¥3,313	¥3,689	¥376
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥588	¥439	¥(149)
Bonds	—	—	—
Other	327	279	(48)
Subtotal	¥915	¥718	¥(197)
Total	¥4,228	¥4,407	¥179

	Thousands of U.S. dollars		
	Acquisition cost	Amount recorded in the balance sheet	Difference
(As of March 31, 2017)			
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	\$22,908	\$33,720	\$10,812
Bonds	—	—	—
Other	—	—	—
Subtotal	\$22,908	\$33,720	\$10,812
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	\$5,312	\$4,421	\$(891)
Bonds	8,913	8,860	(53)
Other	419	329	(90)
Subtotal	\$14,644	\$13,610	\$(1,034)
Total	\$37,552	\$47,330	\$9,778

Other securities without quoted market prices at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Held-to-maturity securities	—	¥200	—
Other securities	¥2,182	2,227	\$19,449
	¥2,182	¥2,427	\$19,449

6. Inventories

Inventories at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished goods	¥10,495	¥10,208	\$93,547
Work in process	5,454	1,130	48,614
Raw materials	1,322	6,605	11,784
Supplies and others	307	279	2,736
	¥17,578	¥18,222	\$156,681

Notes to the Consolidated Financial Statements

7. Land revaluation

On March 31, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the income tax effect on revaluation gain or loss, has been stated as a component of net assets, "Land revaluation difference." The income tax effect has been stated as a component of long-term liabilities, "Deferred tax liabilities for land revaluation." The fair value of the revalued land was less than its carrying value by ¥4,708 million (\$41,965 thousand) and ¥5,020 million at March 31, 2017 and 2016, respectively.

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Average rate of 0.47%			
unsecured loans from banks	¥9,975	¥6,002	\$88,912

Long-term debt at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Average rate of 0.55%			
unsecured loans from banks	¥5,000	¥5,000	\$44,567
Less current portion	(5,000)	(—)	(44,567)
	—	¥5,000	—

The aggregate annual maturities of long-term debt at March 31, 2017 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥5,000	\$44,567
2019	—	—
2020	—	—
2021	—	—
Thereafter	—	—
Total	¥5,000	\$44,567

9. Retirement benefits

Retirement benefits at March 31, 2017 and 2016 consisted of the following:

The Company and certain domestic consolidated subsidiaries have defined benefit corporate pension plan and unfunded retirement benefit plans for payments of employees' retirement.

The Group pays a pension or lump sum based on length of service and salary in the defined benefit corporate pension plan.

In unfunded retirement benefit plans, the Group pays a lump sum based on length of service and salary as a

retirement benefit.

Some consolidated subsidiaries adopt the simplified method for the calculation of net defined benefit liability and retirement benefit expenses.

Defined benefit plans, including a plan applying a simplified method

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance, beginning of year	¥6,039	¥6,062	\$53,828
Service cost	310	321	2,763
Interest cost	60	60	535
Actuarial loss (gain)	22	(118)	196
Benefit paid	(191)	(286)	(1,702)
Balance, end of year	¥6,240	¥6,039	\$55,620

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance, beginning of year	¥5,757	¥5,643	\$51,315
Expected return on plan assets	66	65	588
Actuarial gain (loss)	78	(55)	695
Contributions paid by the employer	320	317	2,852
Benefit paid	(125)	(213)	(1,114)
Balance, end of year	¥6,096	¥5,757	\$54,336

(3) Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	¥5,318	¥5,063	\$47,402
Plan assets	(6,096)	(5,757)	(54,336)
	(778)	(694)	(6,934)
Unfunded retirement benefit obligations	922	976	8,218
Total net liability for retirement benefits end of year	144	282	1,284
Net defined benefit liability	922	976	8,218
Net defined benefit assets	(778)	(694)	(6,934)
Total net liability for retirement benefits end of year	¥144	¥282	\$1,284

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥310	¥321	\$2,763
Interest cost	59	60	526
Expected return on plan assets	(66)	(65)	(588)
Net actuarial loss amortization	(18)	(53)	(161)
Past service costs amortization	1	1	9
Total retirement benefits costs	¥286	¥264	\$2,549

(5) Remeasurements of defined benefit plans (before tax effect deduction)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs	¥1	¥1	\$9
Actuarial gain and loss	37	9	330
Total balance end of year	¥38	¥10	\$339

(6) Remeasurements of defined benefit plans (before tax effect deduction)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs that are yet to be recognized	¥(2)	¥(2)	\$(18)
Actuarial gain and loss that are yet to be recognized	328	290	2,924
Total balance end of year	¥326	¥288	\$2,906

(7) Plan assets

<1> Plan assets at March 31, 2017 comprise:

Equity securities	14%
Bonds	14%
Insurance assets (General account)	69%
Other	3%
Total	100%

The above total includes 8% of the retirement benefit trusts of corporate pension plan.

<2> Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered to determine long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumption at March 31, 2017 (expressed as weighted averages) are as follows:

Discount rate	1.00%
Long-term expected rate of return	1.15%
Rate of increase in future compensation	2.24%

10. Contingent liabilities

Contingent liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Guarantees of customers' loans and lease obligations	¥2,765	¥1,888	\$24,646

11. Derivative financial instruments

The Company and its consolidated subsidiaries are exposed to market risk arising from changes in foreign currency exchange and interest rates over the international operations. The Company and certain consolidated subsidiaries have entered into various derivative transactions to reduce these risks by executing forward exchange contracts and currency option contracts based on cash flow management in foreign currencies. And also have entered into interest rate swap agreements for the purpose of managing the risk due to changes in the fair value of cash flow and debts resulting from arise in interest rate.

Certain overseas subsidiaries have capital-safe deposits including derivative instruments.

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2017 are as follows:

(a) Derivatives that do not meet the criteria for hedge accounting

	Millions of yen			
	2017			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Capital-safe deposit including derivative instrument	¥280	—	¥(44)	¥(44)
Total	¥280	—	¥(44)	¥(44)

	Thousands of U.S. dollars			
	2017			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Capital-safe deposit including derivative instrument	\$2,496	—	\$(392)	\$(392)
Total	\$2,496	—	\$(392)	\$(392)

Note 1: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.

2: Estimated fair value of derivative – embedded deposits is computed based on the value of the embedded derivatives included in compound financial instruments.

Notes to the Consolidated Financial Statements

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen			
	2017			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Normal accounting method				
Foreign exchange contracts:				
Put US\$	¥224		¥(203)	
EUR	30		(12)	
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	14,771	¥2,088		
EUR	12,242	4,761		
KWR	2,488	960		
Interest rate swap contracts:				
To receive variable/to pay fixed..	¥1,500	—		

	Thousands of U.S. dollars			
	2017			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Normal accounting method				
Foreign exchange contracts:				
Put US\$	\$1,997		\$(1,809)	
EUR	267		(107)	
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	131,661	\$18,611		
EUR	109,118	42,437		
KWR	22,177	8,557		
Interest rate swap contracts:				
To receive variable/to pay fixed..	\$13,370	—		

- Note 1: Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed at Note 3.
- 2: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.
- 3: Since certain long-term debt for which the special treatment for interest swaps is used to hedge the variable risk of interest rates, the fair value of derivative financial instruments is included in the fair value of the long-term debt.

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2016 are as follows:

(a) Derivatives that do not meet the criteria for hedge accounting

	Millions of yen			
	2016			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Capital-safe deposit including derivative instrument	¥845	¥282	¥(133)	¥(133)
Total	¥845	¥282	¥(133)	¥(133)

- Note 1: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.
- 2: Estimated fair value of derivative – embedded deposits is computed based on the value of the embedded derivatives included in compound financial instruments.

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen			
	2016			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts:				
Put US\$	¥13,382	¥4,179		
EUR	8,086	2,660		
KWR	1,279	222		
Interest rate swap contracts:				
To receive variable/to pay fixed..	¥1,500	¥1,500		

Note 1: Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed at Note 3.

2: Since certain long-term debt for which the special treatment for interest swaps is used to hedge the variable risk of interest rates, the fair value of derivative financial instruments is included in the fair value of the long-term debt.

12. Income taxes

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 30.69% and 32.83% for the year ended March 31, 2017 and 2016.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Tax loss carryforwards	¥2,528	¥1,294	\$22,533
Allowance for doubtful accounts ..	945	786	8,423
Intercompany profit	692	707	6,168
Long - term liabilities	321	321	2,861
Loss on valuation of investments in securities	274	274	2,442
Accrued bonuses to employees ..	257	241	2,291
Impairment loss on fixed assets ..	197	197	1,756
Accrued enterprise tax	152	—	1,355
Allowance for losses on guarantees ..	147	148	1,310
Other	516	838	4,600
Total gross deferred tax assets ..	6,029	4,806	53,739
Less valuation allowance	(4,187)	(2,248)	(37,321)
Net deferred tax assets	1,842	2,558	16,418
Deferred tax liabilities:			
Unrealized holding gain on securities	(179)	(55)	(1,595)
Reserve for special depreciation ..	(38)	(47)	(339)
Asset retirement obligation	(6)	(7)	(53)
Other	(38)	(61)	(339)
Total gross deferred tax liabilities ..	(261)	(170)	(2,326)
Net deferred tax assets	¥1,581	¥2,388	\$14,092

13. Research and development costs

Research and development costs charged to income were ¥2,677 million (\$23,861 thousand) and ¥2,610 million for the years ended March 31, 2017 and 2016, respectively.

14. Stock option plan

As of March 31, 2017 and 2016, the Company has the following stock option programs.

Date of resolution	July 20, 2010
Type and number of eligible persons	[The Company] Director: 8 Employees: 62 [The Company's subsidiaries] Director and employees: 10
Class and number of shares to be granted	Common stock: 400,000 shares
Grant date	August 4, 2010
Vesting requirement	—
Vesting period	From August 4, 2010 to July 20, 2012
Exercise period	From July 21, 2012 to July 20, 2017

(a) Number and price information (As of March 31, 2017)

Date of resolution	July 20, 2010
Unvested stock options	
Outstanding as of March 31, 2016	—
Granted	—
Expired	—
Vested	—
Outstanding as of March 31, 2017	—
Vested stock options	
Outstanding as of March 31, 2016	384,000
Vested	—
Exercised	265,400
Expired	—
Outstanding as of March 31, 2017	118,600

	Yen
Date of resolution	July 20, 2010
Exercise price	¥ 2,241
Average stock price at exercise	¥ 3,765
Fair value at grant date	¥ 469.83

(b) Estimate of number of vested stock options

Number of options to expire in the future cannot be reasonably estimated. Accordingly, only the actual number of expired options is reflected.

Notes to the Consolidated Financial Statements

15. Comprehensive income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Net unrealized holdings gain on securities:			
Amount recognized in the period under review	¥899	¥(903)	\$8,013
Amount of recycling	(19)	149	(169)
Before income tax effect adjustments ..	918	(1,052)	8,182
Amount of income tax effect	123	(341)	1,096
Net unrealized holdings gain on securities	795	(711)	7,086
Land revaluation difference			
Amount recognized in the period under review	—	—	—
Amount of recycling	—	—	—
Before income tax effect adjustments ..	—	—	—
Amount of income tax effect	—	(1)	—
Land revaluation difference	—	1	—
Foreign currency translation adjustments:			
Amount recognized in the period under review	(221)	(1,341)	(1,970)
Amount of recycling	—	—	—
Before income tax effect adjustments ..	(221)	(1,341)	(1,970)
Amount of income tax effect	—	—	—
Foreign currency translation adjustments	(221)	(1,341)	(1,970)
Remeasurements of defined benefit plans			
Amount recognized in the period under review	55	63	490
Amount of recycling	17	53	151
Before income tax effect adjustments ..	38	10	339
Amount of income tax effect	12	(1)	107
Remeasurements of defined benefit plans	26	11	232
Total other comprehensive income	¥600	¥(2,040)	\$5,348

16. Segment information

(a) Outline of reportable segments

The Company's reportable segments are components for which separated financial information is available and subject to periodical reviews in order for the Company's Board of Directors to determine the distribution of management resources and evaluate performance.

The Company establishes Sales Headquarters, and it formulates comprehensive domestic and overseas strategies of its products and services and deploys its business activities.

Thus, the Company consists of segments by products and services, based on business units, and the "Flat Knitting Machine", "Design System" and "Glove and Sock Knitting Machine" are determined to be the reportable segments.

Our core products in the Flat Knitting Machine Segment are manufacturing and sales of computerized flat knitting machines. The Design System Segment includes computerized design systems and automatic fabric cutting machines. The Glove and Sock Knitting Machine Segment consists of computerized glove and sock knitting machines.

(b) Basis of calculation for amounts of sales, profit (loss), assets and other items by reportable segments

The accounting method for the reported operating segments is basically the same as those in note "2. Summary of significant accounting policies".

Segment profit (loss) is based on operating income.

(c) Information on amounts of sales, profit (loss), assets and other items by reportable segments

Information related to the reportable segments of the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016 were as follows:

Millions of yen						
2017						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥50,379	¥4,021	¥1,888	¥56,288	¥6,145	¥62,433
Inter-segment sales	—	—	—	—	—	—
Total sales	50,379	4,021	1,888	56,288	6,145	62,433
Operating expenses	35,305	3,016	1,521	39,842	5,563	45,405
Segment profit	¥15,074	¥1,005	¥367	¥16,446	¥582	¥17,028
Segment Assets:	¥106,056	¥4,762	¥1,649	¥112,467	¥8,952	¥121,419
Others:						
Capital expenditure	¥2,175	¥139	¥74	¥2,388	¥260	¥2,648
Depreciation	1,230	45	45	1,320	189	1,509
Amortization of goodwill	380	3	0	383	16	399

Millions of yen						
2016						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥37,806	¥4,136	¥1,513	¥43,455	¥6,128	¥49,583
Inter-segment sales	—	—	—	—	—	—
Total sales	37,806	4,136	1,513	43,455	6,128	49,583
Operating expenses	28,858	2,975	1,276	33,109	5,473	38,582
Segment profit	¥8,948	¥1,161	¥237	¥10,346	¥655	¥11,001
Segment Assets:	¥92,696	¥4,454	¥1,383	¥98,533	¥8,506	¥107,039
Others:						
Capital expenditure	¥1,300	¥56	¥42	¥1,398	¥152	¥1,550
Depreciation	1,052	45	35	1,132	159	1,291
Amortization of goodwill	421	3	0	424	17	441

Thousands of U.S. dollars						
2017						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	\$449,051	\$35,841	\$16,828	\$501,720	\$54,773	\$556,493
Inter-segment sales	—	—	—	—	—	—
Total sales	449,051	35,841	16,828	501,720	54,773	556,493
Operating expenses	314,690	26,883	13,557	355,130	49,585	404,715
Segment profit	\$134,361	\$8,958	\$3,271	\$146,590	\$5,188	\$151,778
Segment Assets:	\$945,325	\$42,446	\$14,698	\$1,002,469	\$79,793	\$1,082,262
Others:						
Capital expenditure	\$19,387	\$1,239	\$660	\$21,286	\$2,317	\$23,603
Depreciation	10,964	401	401	11,766	1,684	13,450
Amortization of goodwill	3,387	27	0	3,414	142	3,556

Note: The classification "Other" is the operating segment which is not included in the reportable segments. It mainly consists of parts for knitting machines and design systems, machines repair and maintenance.

Notes to the Consolidated Financial Statements

(d) Differences between total amounts for reportable segments and amounts in the consolidated financial statements

Sales to customers

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Reportable segments total	¥56,288	¥43,455	\$501,720
Other sales	6,145	6,128	54,773
Net sales in the consolidated statements of income	¥62,433	¥49,583	\$556,493

Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Reportable segments total	¥16,446	¥10,346	\$146,590
Other income	582	655	5,188
Corporate expenses	(5,766)	(5,219)	(51,395)
Operating income in the consolidated statements of income	¥11,262	¥5,782	\$100,383

Note: Corporate expenses are mainly general and administrative expenses and research and development expenses which are not attributable to the reportable segments.

Segment assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Reportable segments total	¥112,467	¥98,533	\$1,002,469
Other assets	8,952	8,506	79,793
Company-wide assets	20,512	19,377	182,833
Total assets in the consolidated balance sheets	¥141,931	¥126,416	\$1,265,095

Note: Company-wide assets mainly consist of managing cash surplus, long-term investment and assets associated with administrative divisions that are not allocated to reportable segments.

Others

	Millions of yen						The amount in the consolidated financial statements	
	Reportable segments total		Other		Adjustment		2017	2016
	2017	2016	2017	2016	2017	2016		
Capital expenditure	¥2,388	¥1,398	¥260	¥152	¥911	¥578	¥3,559	¥2,128
Depreciation	1,320	1,132	189	159	324	299	1,833	1,590
Amortization of goodwill	383	424	16	17	—	—	399	441

	Thousands of U.S. dollars			
	2017			
	Reportable segments total	Other	Adjustment	The amount in the consolidated financial statements
Capital expenditure	\$21,285	\$2,318	\$8,120	\$31,723
Depreciation	11,766	1,684	2,888	16,338
Amortization of goodwill	3,414	142	—	3,556

Note: The major portion of adjustment to depreciation and increase in property, plant, equipment and intangible assets mainly come from equipment related to administrative divisions that do not belong to the reportable segments.

(Related information)**Information about geographical region**

Information about geographical region of the Company and its consolidated subsidiaries for the year ended March 31, 2017 and 2016 were as follows:

	Millions of yen					
	2017					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	¥7,744	¥7,266	¥3,137	¥41,890	¥2,396	¥62,433

	Millions of yen					
	2016					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	¥8,192	¥6,392	¥4,975	¥27,383	¥2,641	¥49,583

	Thousands of U.S. dollars					
	2017					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	\$69,026	\$64,765	\$27,962	\$373,384	\$21,357	\$556,494

17. Subsequent events

Shareholders approved the following appropriation of retained earnings at the general meeting held on June 28, 2017.

	Millions of yen	Thousands of U.S. dollars
	Cash dividends	¥862

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S.dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Osaka, Japan
June 28, 2017

Ohtemae Audit Co.

Ohtemae Audit Corporation

Corporate Data (As of March 31, 2017)

Corporate Information

Company Name SHIMA SEIKI MFG., LTD.

Headquarters 85 Sakata, Wakayama City, Wakayama 641-8511, Japan
Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267

Date of Establishment February 4, 1962

Capital ¥14,859,800,000

Total Number of Employees Consolidated 1,859
Non-consolidated 1,274

URL Corporate Information <http://www.shimaseiki.com>
IR Information <http://www.shimaseiki.com/ire/ire.html>

Consolidated Subsidiaries

SHIMA FINE PRESS CO., LTD.	SHIMA SEIKI EUROPE LTD.	SHIMA SEIKI WIN WIN SHANGHAI LTD.
TSM Industrial CO., LTD.	SHIMA SEIKI U.S.A. INC.	SHIMA SEIKI SPAIN, S.A.U.
KAINAN SEIMITSU CO., LTD.	SHIMA SEIKI (HONG KONG) LTD.	SHIMA SEIKI WIN WIN DONGGUAN LTD.
TOYOBOSHI KOGYO CO., LTD.	SHIMA SEIKI ITALIA S.p.A.	SHIMA SEIKI (THAILAND) CO., LTD.
SHIMA CO., LTD.		SHIMA SEIKI KOREA INC.



Investor Information

Accounting Year-End March 31

Month of General Shareholders' Meeting June

Authorized Common Shares 142,000,000

Issued Common Shares 36,600,000

Number of Shareholders 12,846

Stock Exchange Listing The First Section of the Tokyo Stock Exchange

Auditing Corporation Ohtemae Audit Corporation

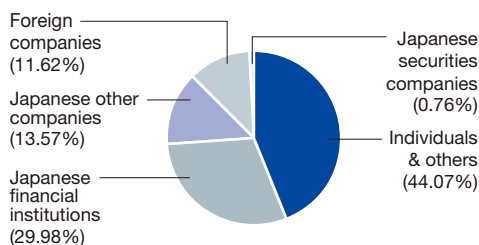
Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	4,020	11.66
Japan Trustee Services Bank, Ltd. (Trust Account)	2,371	6.88
The Master Trust Bank of Japan, Ltd.	1,757	5.10
The Kiyo Bank, Ltd.	1,472	4.27
Masahiro Shima	1,070	3.10
Mitsuhiro Shima	1,061	3.08
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.55
Wako LLC	780	2.26
The Senshu Ikeda Bank, Ltd.	700	2.03
Shima Seiki Employees Shareholding Association	673	1.95

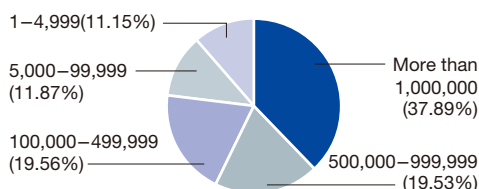
Notes: 1. The Company, which owns 2,117 thousand shares of treasury stock, or 5.79% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.
2. Holdings of less than 1,000 shares have been omitted.

Stock Ownership

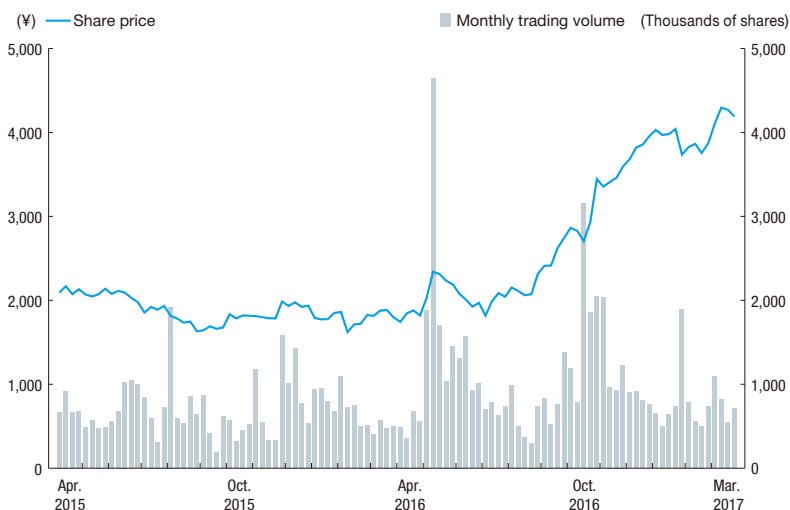
Shareholder breakdown by type



Shareholder breakdown by number of shares held



Share Price and Trading Volume

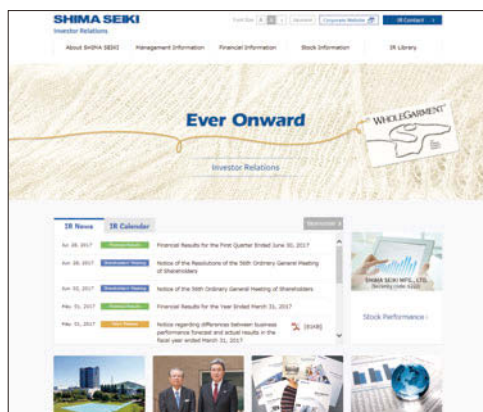


IR Site Update

<http://www.shimaseiki.com/ire/ire.html>

We have updated our IR site, which provides corporate information to shareholders and investors.

In updating the site, we have adopted a shareholder and investor perspective. We have expanded the site's content and upgraded its design to communicate Shima Seiki's business strategy and overview, as well as future initiatives, in an easy-to-understand manner.



Smartphone Access

If you have a smartphone that reads QR codes (two-dimensional bar codes), scan the image on the right for easy access to the site.



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