SHIMA SEIKI

Ever Onward

Annual Report 2011

Year Ended March 31, 2011

Ever Onward

Shima Seiki's corporate motto, "Ever Onward," embodies the Company's historic drive to be the "world's first."

The Company was established in 1962 by Masahiro Shima, our current president, to surmount the difficulties of fully automating glove knitting machines. After extensive trial and error, his zeal and creativity were rewarded with the world's first fully automated glove knitting machine. This desire to provide highly advanced products at affordable prices is a spirit that pervades the Company to this day.

Shima Seiki's history of technological innovation continued from that point, punctuated by the development and sales of industry-leading computerized flat knitting machines and design systems. In the 1990s, Shima Seiki developed WHOLEGARMENT® flat knitting machines, which in their originality had an impact on the knitwear industry judged comparable to the advances of the Industrial Revolution.

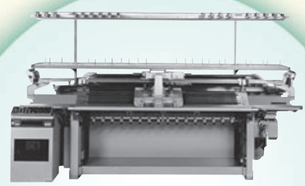
The high quality and superior cost performance of the Shima Seiki brand have become bywords among customers throughout the world, in advanced nations and emerging markets alike. Through its continued development of ingenious products and proposal of its Total Fashion System with the design system at its core, Shima Seiki will continue shaping the clothing culture and contributing to the development of client industries well into the future.

1964

Fully automated glove knitting machine

World's first fully automated glove knitting machine capable of knitting an entire glove, from fingertips to wrist

1962
SHIMA SEIKI MFG., LTD., established



1978

SNC computerized jacquard flat knitting machine

Fresh ideas double the functions at half the price

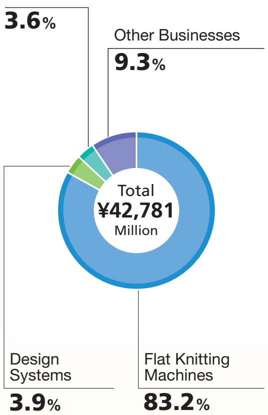
1981

SDS®-1000 design system

Computer graphics radically boost knit programming speed

1971
Full model lineup displayed at ITMA exhibition in Paris

Segment Information



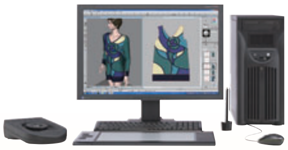
Flat Knitting Machine Segment

Shima Seiki's core business is the manufacture and sales 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 SIG® series, expressive over multicolored designs and patterns; and the NSSG® and SSR®, which deliver outstanding cost performance and gain overwhelming support from customers.

NSSG®

Design System Segment

This segment handles the manufacture and sales of design systems that support production in the knitwear and apparel industries, as well as automatic fabric cutting machines and printing systems. Through design systems that deliver virtual samples and 3D simulations, our workflows greatly reduce customer burden and costs. We are extending this segment's offerings into different industries, as well.



SDS®-ONE APEX3

Glove and Sock Knitting Machine Segment

In this segment, which showcases the technological developments that hark back to the Company's origins, we manufacture and sell machines for knitting gloves and socks. By deploying advanced technologies to make 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 design systems and participates in such businesses as spinning high-end cashmere yarn and manufacturing and selling knitwear.

1990
Headquarters building completed

2010

SSR® computerized flat knitting machine

Strategic model featuring high quality and superb cost performance

2008
Sales of computerized flat knitting machines reach 100,000 units

2000

SDS®-ONE design system

Total support, from planning and design to production and sales promotion

1995

SWG® series WHOLEGARMENT® flat knitting machine

Computerized flat knitting machine to create seam-free knitwear dubbed the "magic of the Orient"

2002
Fashion show held to promote WHOLEGARMENT®

1982
Knit Design Center
(currently, the Total Design Center)
opened

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Markets by Geographical Region

Southeast Asia

In China, the world's leading knitwear production location, the turnabout in demand from manually operated machines to computerized flat knitting machines is intensifying as a result of escalating personnel costs. Against the backdrop of the China plus one movement, capital investment in computerized flat knitting machines in Asian markets outside China is also expanding.

Europe

In Italy, a leading source of cutting-edge fashion, there has been an increase in manufacturers shifting toward wide-variety/small-lot and high-end production, and WHOLEGARMENT® flat knitting machines are proving instrumental in these strategies. For volume-zone products, the trend is toward a return of production to Eastern Europe from China.

Middle East

The knitting industry is reviving in Turkey, where production is geared toward Europe. Companies in this region are boosting productivity and targeting high-value-added merchandise to differentiate their output from Chinese knitwear.

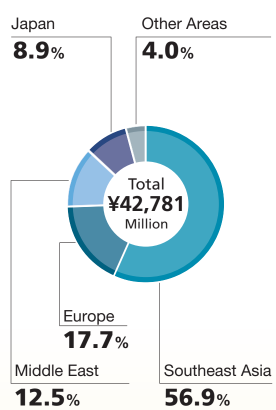
Other Areas

The United States, the world's largest market for knitwear, depends on imports from China for the majority of its products. On the other hand, demand for computerized flat knitting machines in Brazil and other South American countries is growing to meet rising internal demand for knitwear.

Japan

With overseas imports accounting for a high percentage of sales, growth in Japan's knitwear industry remains stagnant, although a return to domestic production is becoming evident in some sectors.

Sales by geographical region



Forward-looking statements:

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

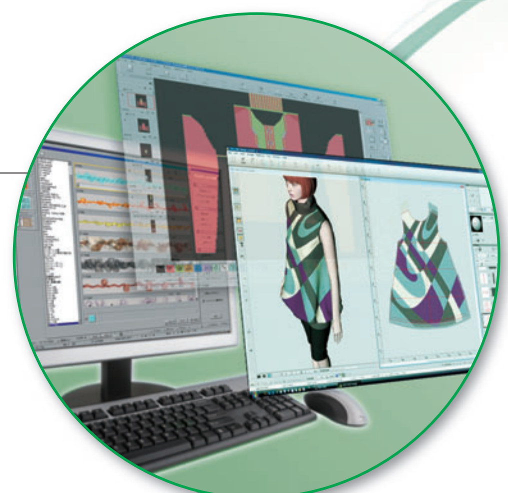
Proposing Total Solutions through a Diverse Lineup

In its ongoing quest to deliver top-level performance and economic value, Shima Seiki's approach to product development combines sophisticated technologies with a wealth of expertise.

Our lineup of computerized flat knitting machines ranges from the conventional models that have become an industry benchmark to machines featuring the most advanced technology for producing high-value-added products. Linking these machines with our design systems delivers a major boost to production efficiency.

Design System

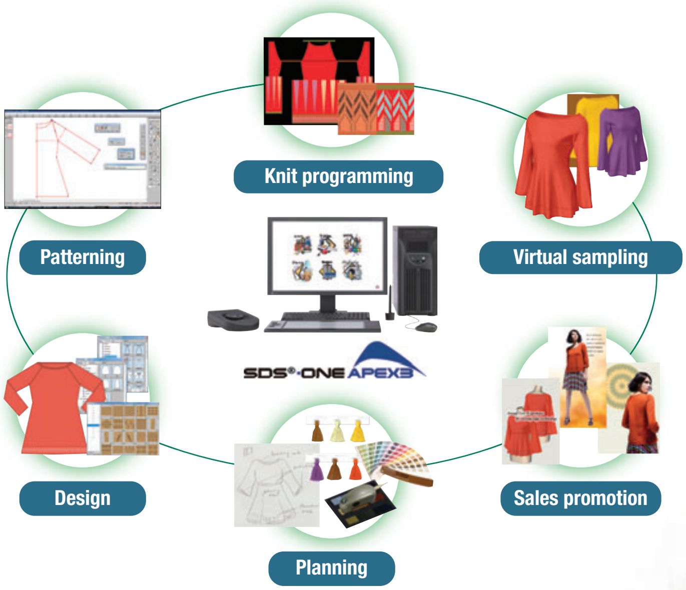
Ensuring an Efficient Workflow with a Host of Easy-to-Use Functions



Our all-in-one design systems feature design tools that incorporate practically all the functions needed for production in the apparel and fashion industries.

A simulation function allows designs to be verified on-screen, eliminating the step of producing actual samples by instead using 3D imagery to envision the final product. Knit programming data is also generated automatically along with the design, which shortens the interval between product planning and production, slashing both time and cost requirements.

This approach toward proposing total packages comprising hardware, software and know-how has made us the undisputed leader among the world's flat knitting machine manufacturers. At the same time, we are dedicating a comprehensive effort to revitalizing the apparel and fashion industries.



Advanced Technology Machine

Leading the Industry through Unmatched Creativity and Technical Superiority

Manufacturers of high-end products in such countries as Italy and Japan are the sales targets for our technologically advanced machines, centering on WHOLEGARMENT® flat knitting machines. In recent years, attention has also focused on these products from knitwear manufacturers in the China and Hong Kong markets who are pursuing high-end, value-added products as part of their differentiation strategies.

As WHOLEGARMENT® products are knitted as whole, three-dimensional items, they are lightweight, provide superior comfort and conform attractively to the shape of the body—features that make them popular with designers around the world. Unlike conventional knitwear, WHOLEGARMENT® products dispense with cutting and sewing processes, eliminating fabric loss. This saves resources, energy and time. Linking these machines with design systems enables quick-response, on-demand production of a wide variety of products in small lots within consumer markets.

We also offer a number of distinctive products, such as MACH2®SIG® intarsia flat knitting machines, which produce fine, sophisticated designs, achieving high speed and efficiency. We have assembled our portfolio to meet precisely the needs of customers throughout the world who demand quality.

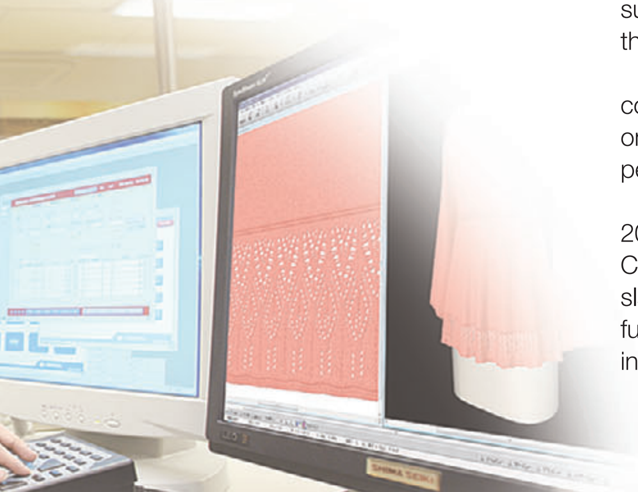
Global Standard Machine

An Extensive Product Lineup Constituting a Global Benchmark in Flat Knitting Machines

Shima Seiki offers various models that are regarded as global benchmarks for their ability to produce mainstream items. This extensive lineup includes the economical, high-quality NSIG® intarsia flat knitting machine and the NSSG®, which targets high levels of productivity. With computerized flat knitting machines that meet the diverse needs of our customers, we have earned broad-based support from knitwear manufacturers from China and other countries throughout the world.

Furthermore, most of our models utilize DSCS®, the world's first digital stitch control device, which contributes to the stable quality of knitwear. This device is one of the secrets behind the ability of our flat knitting machines to excel in both performance and quality.

Our new SSR® model, which launched during the fiscal year ended March 31, 2011, mainly targets the strong demand for computerized flat knitting machines in China, but the model is also attracting attention in other emerging markets that are slated for growth. Going forward, we will continue offering machines with high functionality and superior cost performance, as we strive to support the knitwear industry through an extended lineup of products.



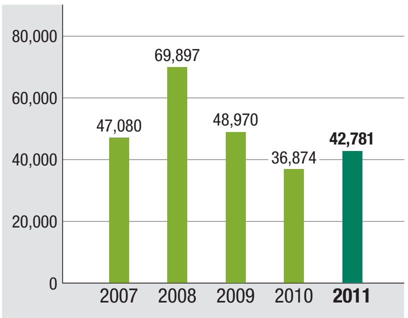
Financial Highlights

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

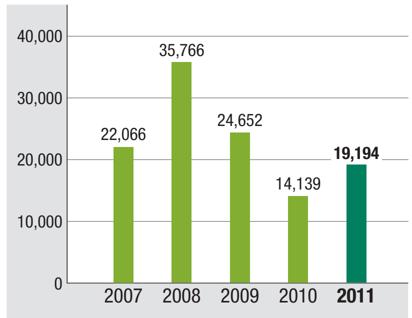
	2011	2010	2009	2008	2007		2011	2011
For the Year:		Millions of yen				Percent change 2010/2011	Thousands of U.S. dollars	Thousands of euros
Net sales	**¥42,781**	¥36,874	¥48,970	¥69,897	¥47,080	16.0%	**$514,504**	**€363,877**
Gross profit	**19,194**	14,139	24,652	35,766	22,066	35.8	**230,836**	**163,256**
Operating income	**5,908**	651	8,528	16,214	7,709	807.2	**71,052**	**50,251**
Income (loss) before income taxes and minority interests	**1,092**	(1,042)	4,057	18,168	6,183	—	**13,133**	**9,288**
Net income (loss)	**770**	(1,885)	1,766	9,959	3,114	—	**9,260**	**6,549**
At Year-End:		Millions of yen				Percent change 2010/2011	Thousands of U.S. dollars	Thousands of euros
Total assets	**¥113,951**	¥110,063	¥119,778	¥133,746	¥129,161	3.5%	**$1,370,427**	**€969,218**
Net assets	**86,591**	87,473	91,064	101,647	92,810	(1.0)	**1,041,383**	**736,506**
Per Share Data:		Yen				Percent change 2010/2011	U.S. dollars	Euros
Net income (loss)	**¥22.26**	¥(54.52)	¥49.88	¥276.13	¥86.17	—	**$0.27**	**€0.19**
Cash dividends applicable to the year	**35.00**	30.00	40.00	55.00	37.50	16.7%	**0.42**	**0.30**
Net assets	**2,502.27**	2,529.67	2,633.55	2,677.47	2,546.71	(1.1)	**30.09**	**21.28**
Ratios:		%						
ROA	**0.7%**	(1.6)%	1.4%	7.6%	2.6%			
ROE	**0.8**	(2.0)	1.9	10.6	3.4			

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥83.15=US$1 and ¥117.57=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2011.

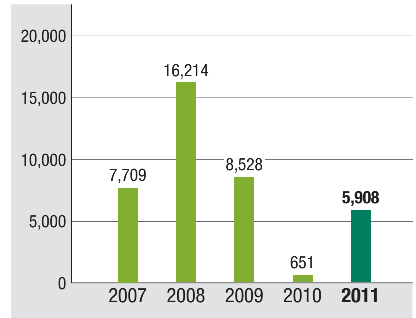
Net sales (¥ Million)



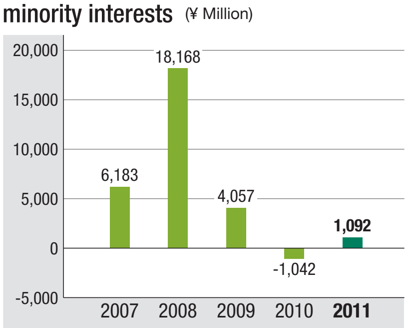
Gross profit (¥ Million)



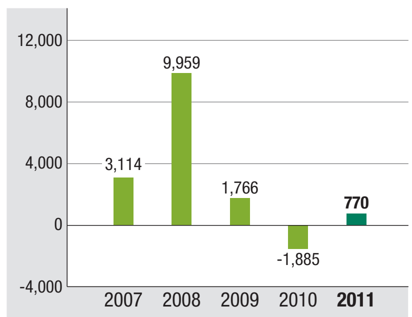
Operating income (¥ Million)



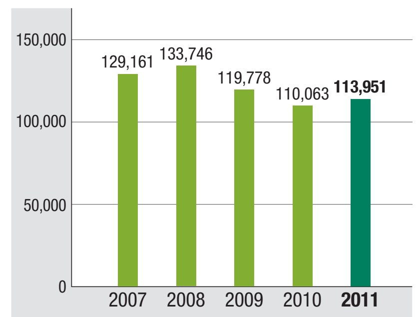
Income before income taxes and minority interests (¥ Million)



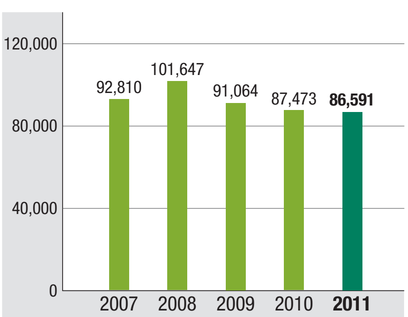
Net income (¥ Million)



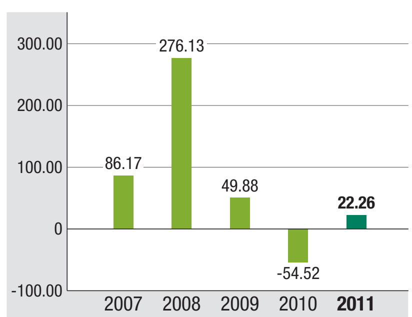
Total assets (¥ Million)



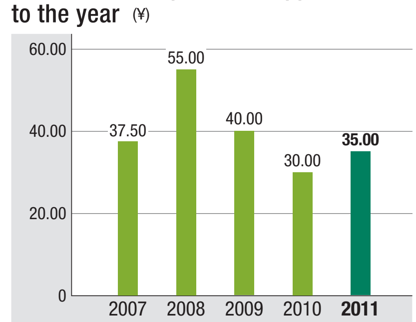
Net assets (¥ Million)



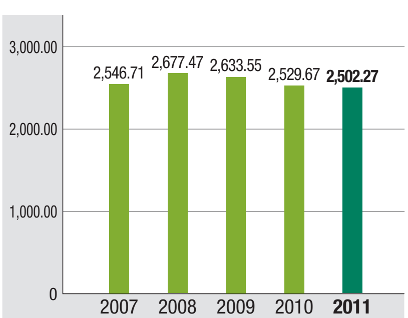
Net income per share (¥)



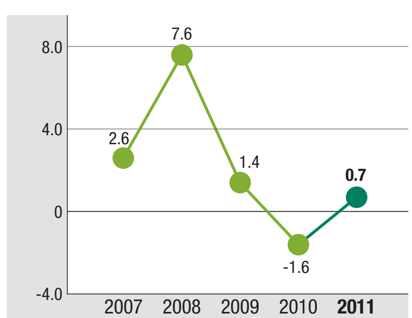
Cash dividends per share applicable to the year (¥)



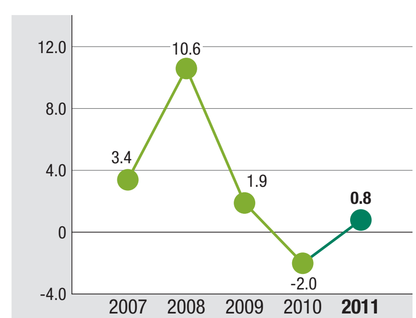
Net assets per share (¥)



ROA (%)



ROE (%)

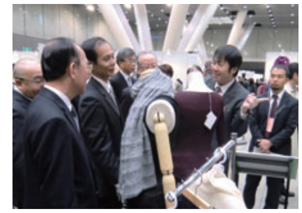


We launched a new model to garner a larger market share in China and concentrated on sales in emerging country markets.

During the fiscal year under review (April 1, 2010, to March 31, 2011), the global economy was, as a whole, in a recovery phase, and apparel consumption remained firm. These circumstances led to brisk capital investment in computerized flat knitting machines in various regions, particularly in our mainstay markets of China and Hong Kong. Shima Seiki took advantage of this favorable climate to introduce new models, expand sales in its major markets and cultivate demand in emerging country markets. Sales and income grew as a result. We plan to continue introducing new high-value-added products in the upcoming fiscal year, and will strengthen our marketing strategies for various world markets.

Masahiro Shima
President

Established the Company in 1962. He led the design and development of many products and, as the top management of the Company, helped the Company grow to become the leading company in the industry.



Q Please provide an overview of the market and your operating performance during the year under review.

A Personal consumption rebounded on a global scale, leading to recovery in our own operating performance.

During the year, the overall economy showed signs of a broad-based recovery. High growth in emerging markets, centered on China, boosted the global economy, and higher exports by advanced countries in Europe and the United States encouraged improvements in corporate performance. In line with this economic rebound, apparel consumption expanded steadily, prompting production increases in the major knitwear producing regions.

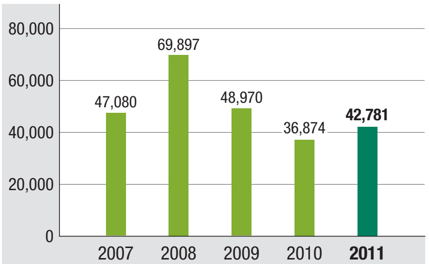
Against this backdrop, capital investment in computerized flat knitting machines continued to increase throughout the world, resulting in brisk demand for Shima Seiki's products. Business conditions remained difficult, however, owing to ongoing yen appreciation and intensifying price competition with other manufacturers, which affected unit sales prices. We launched a new model, the SSR®, in February 2011. Sales got off to a good start, notably in China, and we expect the full impact of this launch to become evident in our operating performance for the fiscal year ending March 31, 2012.

As a result of the above, during the consolidated fiscal year under review, net sales came to ¥42,781 million, up 16.0% year on year.

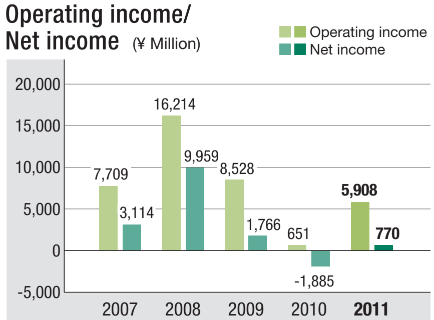
The profit situation improved substantially from the previous year. Operating income benefited from the rise in net sales, thorough cost reductions and higher production efficiencies owing to increased unit production. These developments pushed up our gross profit ratio, and cost-cutting efforts caused our SG&A ratio to decrease. As a result, operating income ballooned 807.2%, or ¥5,257 million, to ¥5,908 million. Several negative factors were present, as well, however. The Company was buffeted by exchange rate fluctuations stemming from the yen's appreciation, resulting in exchange losses—a consolidated non-operating expense—of ¥3,552 million. Furthermore, we recorded an extraordinary loss owing to a loss on valuation of investments in securities. This culminated in net income of ¥770 million, marking a ¥2,655 million improvement from the preceding fiscal year.

The Great East Japan Earthquake affected our ability to procure certain parts in the marketplace. We responded by shifting to other suppliers in some cases and internalizing certain other processes. Consequently, the impact on our production was limited, and the calamity had no direct effect on our performance for the year under review.

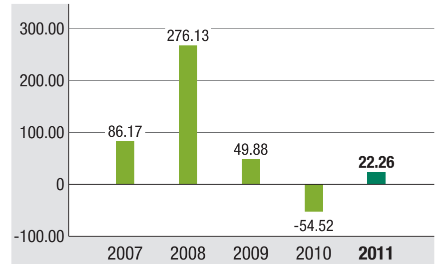
Net sales (¥ Million)



Operating income/ Net income (¥ Million)



Net income per share (¥)



Exhibition in Bangladesh


Initial SSR® shipments


MACH2®X WHOLEGARMENT® flat knitting machine

Q Please outline the trends in the global knitwear industry.

A Growing final product demand pushed up capital investment in various parts of the world.

Global demand for apparel increased as consumption recovered in Europe and the United States and economic development persisted in emerging markets. In China, which has grown to become the knitting factory to the world, general consumers are also exhibiting an enthusiastic appetite for consumption, turning this into a principal consumer market as well.

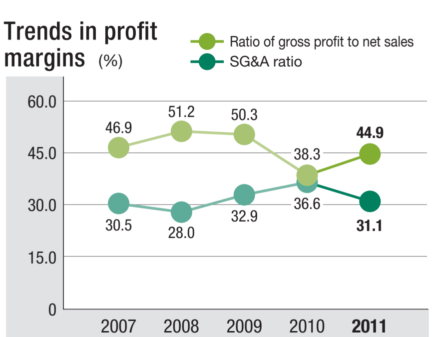
Amid this growing demand for knitwear products, rising wages and a dearth of young workers in China is accelerating the transition from manually operated machines to computerized flat knitting machines. Meanwhile, in the interest of diversifying their regions of production, the ongoing trend among prominent knitwear manufacturers is to shift production to Asia's emerging markets, such as Cambodia, Indonesia and Bangladesh. We have also seen a return from China to Turkey, which produces knitwear for the European market.

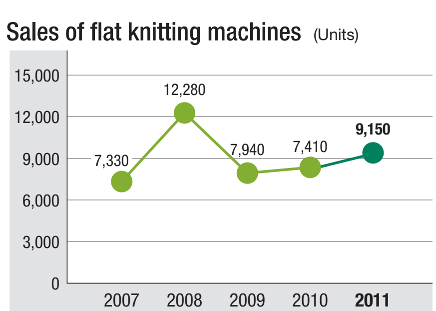
We view the trend toward greater dispersion of manufacturing locations and away from overconcentration in China as a positive development, as it allows us to leverage our global sales network. The expansion of domestic consumer markets within emerging countries is driving demand for capital investment in the knitwear industry, providing us with an opportunity to increase sales. To take full advantage of this new demand, we have introduced measures to reinforce our emerging market support structure. (Please see the special feature beginning on page 13 for details on world markets.)

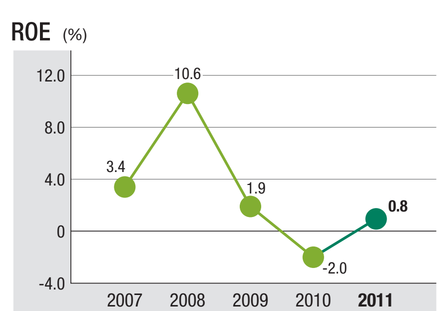
Q Please describe your initiatives during the year.

A We rounded out our offerings of strategic and technologically advanced machines to meet specific needs throughout the world.

Shima Seiki leveraged its comprehensive capabilities as a leading manufacturer to mount a sales development initiative to meet specific, diverse needs of markets in different parts of the world. For China and other mass production regions, we introduced the strategic SSR®, a computerized flat knitting machine that delivers high cost performance. In Europe and other places where local production for the local market and highly varied,







Personal exhibition in Dongguan, China

Technology workshop in Turkey

small-lot production is the norm, we concentrated on our technologically advanced WHOLEGARMENT® flat knitting machines.

The SSR® is a cutting-edge machine that we introduced to take advantage of a demand surge in the Chinese market to increase our market share, as producers in this country transition to computerized flat knitting machines. Users of this machine give it high marks for its lower cost and increased productivity. We are working to boost sales in emerging markets other than China by emphasizing the productivity increases that are available by linking our machines with design systems.

Our proposal-based marketing approach for WHOLEGARMENT® flat knitting machines continues to be successful. We expanded sales in the leading fashion market of Italy by applying this approach on the MACH2®X, which creates ultrafine-gauge, high-quality knitwear products.

Meanwhile in the Middle East, we are working to increase sales by responding carefully to replacement demand for computerized flat knitting machines in Turkey. Furthermore, we are aggressively cultivating emerging markets in Asia that have become a focus of manufacturers' China plus one strategies.

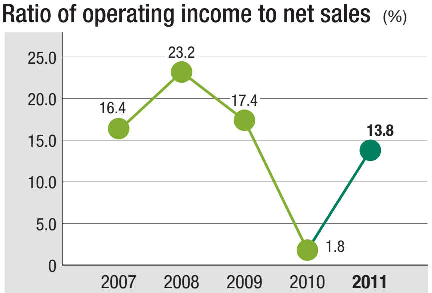
Q What is the Company's position on shareholder dividends?

A We paid a dividend of ¥35.00 per share, up ¥5.00 from the preceding fiscal year.

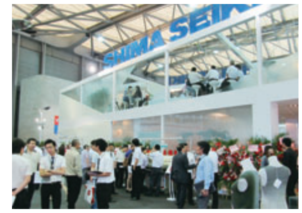
As initially forecast, the Company paid a year-end dividend of ¥17.50 per share. Including interim dividends paid, this brought dividends per share for the full fiscal year to ¥35.00, up ¥5.00 from the preceding term.

We anticipate an interim dividend of ¥17.50 for the upcoming fiscal year. As a year-end dividend, we plan to award a commemorative dividend of ¥5.00 per share to mark the 50th anniversary in February 2012 of the Company's founding and show our appreciation to shareholders. This will bring year-end dividends to ¥22.50 per share and the total for the year to ¥40.00 per share. We consider the return of profits to shareholders to be a top management responsibility. Going forward, we will continue striving to ensure stable dividends and enhance shareholder value.

Ratio of operating income to net sales (%)



Cash dividends per share applicable to the year (¥)



ShanghaiTex 2011

Q Please explain how you counter the risk of earthquakes and other natural disasters.

A Among our other efforts, we are stepping up measures to diversify parts suppliers.

As a result of the recent Great East Japan Earthquake, parts procurement issues were particularly evident within the automotive industry. The effect on Shima Seiki, which has a high internal production ratio, was relatively slight, but to hedge against the risk of future disasters, we are stepping up efforts to diversify our parts suppliers. In particular, we are considering overseas procurement, and we are paying careful attention to quality as we cultivate new purchasing partners.

At the present, we are not considering shifting our production overseas, as we have extensive quality assurance processes in place, as well as accumulated technical know-how. Moving ahead, we will pursue measures to make our headquarters facility more earthquake resistant, and we will continue taking advantage of the integration at headquarters of our research, development and production functions. In this manner, we plan to continue responding flexibly to customer needs.

Q Can you describe your initiatives and earnings forecast for the next fiscal year?

A We will endeavor to clearly differentiate ourselves from competitors and describe a growth trajectory.

We see several sources of future concern for the global economy, such as the potential impact of higher crude oil prices stemming from political unrest in the Middle East and North Africa. On the other hand, we expect high rates of economic growth to continue in emerging markets. Overall, we anticipate a gradual ongoing recovery. Economic conditions in Japan are likely to worsen, however, as the aftereffects of the Great East Japan Earthquake continue to affect the country in a variety of ways.

Against this backdrop, in the upcoming year we will hold two exhibitions to demonstrate our comprehensive capabilities to customers throughout the world. At ShanghaiTex, which took place in June, we exhibited our SDS®-ONE APEX3, a next-generation design system that should enable us to differentiate ourselves from Chinese manufacturers of flat knitting machines by demonstrating our development capabilities. At the exhibition we proposed an even greater number of sophisticated total solutions than we have in the past. We will also take part in the ITMA exhibition, which will take place in Barcelona, Spain, in September, and we plan to unveil a new, high-value-added product there. To reach our performance targets, we will continue launching new products, making aggressive capital investments to allow this.

In sales, we will reinforce our marketing strategies, tailoring them to meet the needs of various markets throughout the world. In our core markets of China and Hong Kong, we will focus on expanding sales of the SSR® to increase our market share. In Italy and other parts of Europe, we will endeavor to further increase sales of our WHOLEGARMENT® flat knitting machines. In Japan, we will pursue sales activities designed to build closer ties with manufacturing regions through initiatives such as holding private showings. In business related to design systems, we plan to demonstrate the broad-based appeal of the SDS®-ONE APEX3 by energetically cultivating new demand, as well as demand for upgrades, even to manufacturers outside the knitting industry.

On the financial front, we will introduce thorough measures to offset exchange rate fluctuations,


SDS®-ONE APEX3

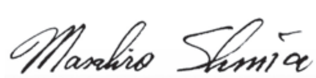

Order Knit Fair in Japan

strengthening our ability to respond to yen appreciation. In addition to increasing our risk hedge through forward foreign exchange contracts on receivables denominated in foreign currencies, we will seek to liquiditize receivables, introducing this measure only after carefully studying its cost effectiveness.

Managing accounts receivable recovery risk is one issue we face when cultivating new customers in world markets. We are addressing the issue of receivables recovery by reinforcing a system linking our Administration Department at headquarters and our sales subsidiaries.

By making steady progress in these initiatives, for the fiscal year ending March 31, 2012, we forecast net sales of ¥55.0 billion, up 28.6% from the year under review; operating income of ¥8.0 billion, up 35.4%; and net income of ¥5.0 billion, up 549.5%. Our assumed exchange rates for the year are ¥83 to the U.S. dollar and ¥115 to the euro. We have not incorporated into our forecasts any impact from the Great East Japan Earthquake, which at this stage we believe to be limited.

As a leading company in its industry, Shima Seiki intends to offer high-value-added products backed by advanced technological skills. We plan to continue our growth, helping to invigorate the market while at the same time introducing extensive reductions in administrative and other costs. Accordingly, I ask you to focus on the Group's success from a medium- to long-term perspective.

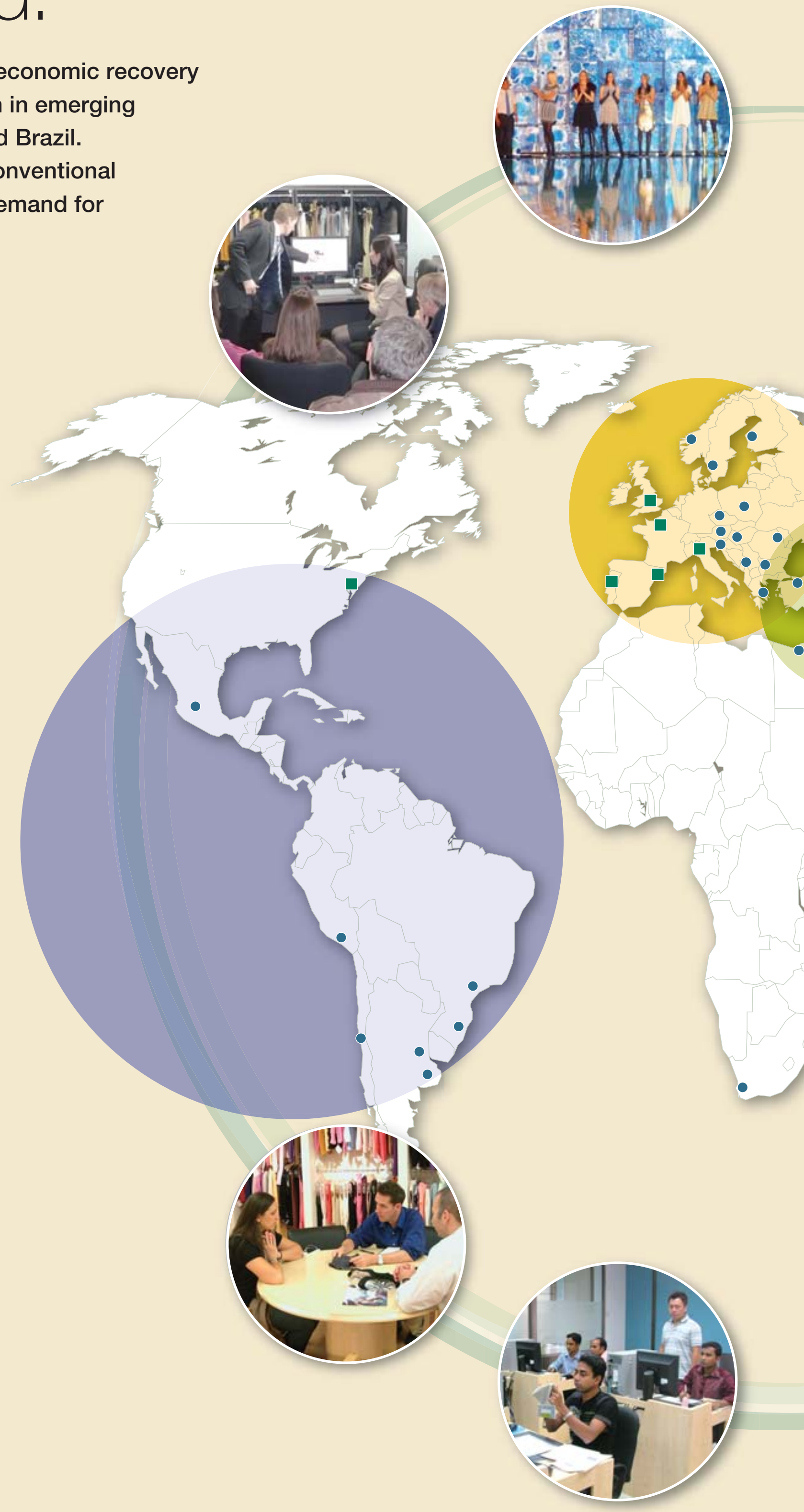


Masahiro Shima, President

Activity in the knitwear industry is brisk, with apparel demand growing throughout the world.

Apparel consumption is rising on a global basis, buoyed by economic recovery in advanced countries and triggered by economic expansion in emerging markets with growing populations, including China, India and Brazil.

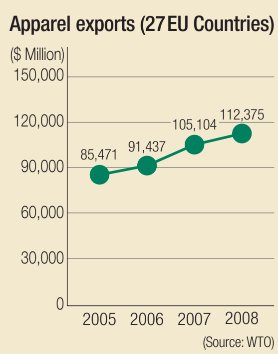
As a result, the knitwear industry is expanding outside conventional production centers such as China and Turkey, pushing up demand for Shima Seiki's products.



Europe

High-End Market Rebounds, Manufacture of Mass-Market Products in Eastern Europe Increases

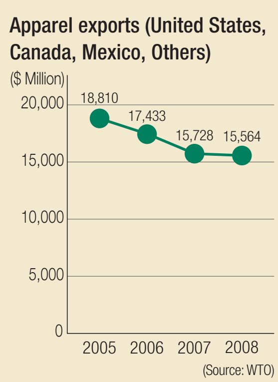
Despite economic stagnation in the European Union stemming from the Greek financial crisis, the fashion industry is experiencing a rebound in knitwear production, which had slumped in the wake of the Lehman Brothers collapse. Notably, production of WHOLEGARMENT® and other high-end products in Italy grew. Among mass-produced items, as well, rising wages in China and moves to offset the risk of lengthening delivery times prompted a production shift to Eastern Europe.



America

North American Knitwear Consumption Firm, Production Developing in Latin America

Economic recovery is driving firm consumption of knitwear in the United States, the world's leading consumer, but the country relies on imports from China and Southeast Asia for most of these products. To support weak production bases in the region, some apparel manufacturers have begun shifting production to Central America, which is nearer the market where it is consumed. Meanwhile, knitwear production for domestic markets is expanding in Brazil and Argentina.



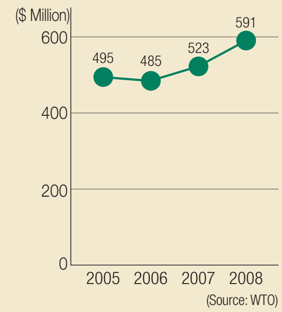
Japan

Rebound in Domestic Production of Mass-Market Products, as Well as High-End Apparel

Over the past several years, Japanese apparel manufacturers have tended to order high-volume products in large lots from China and Southeast Asia, while making highly varied, small-lot, high-end products in Japan. Faced with varying lead times and other overseas production issues, recently the manufacture of mass-market products in Japan has rebounded.

Also, whereas in the past manufacturers produced knitwear under the consignees brand through OEM agreements, a growing number of knitwear manufacturers have begun handling the entire process, from design to production.

Apparel exports (Japan)



Asia

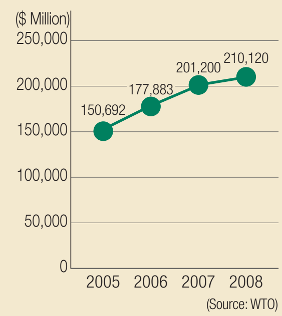
Ongoing Knitwear Industry Expansion, with Production Regions Growing Multipolar

China has developed as a production base in tandem with expansion in the apparel market. Meanwhile, the country's economic growth is boosting domestic demand as well, prompting a surge in knitwear production for its own market. Also, a number of manufacturers have begun concentrating on the production of high-end products to cater to country's growing affluent class.

However, as it has become more difficult to secure labor in China's coastal region, where the knitwear industry is concentrated, production has begun shifting to the country's interior.

Meanwhile, to reduce the risk of overconcentrating production in China, some apparel manufacturers in advanced countries have begun diversifying their production centers among emerging markets. Accordingly, Cambodia, Indonesia, Bangladesh and other emerging countries in Asia have become beneficiaries of China plus one initiatives.

Apparel exports (China, Hong Kong, India, Bangladesh, Others)

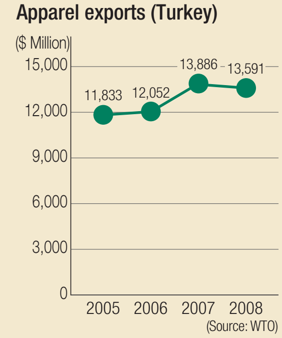


Middle East

Growing Focus on Quality, as Region Establishes Itself as a Production Center of Apparel for Europe and Russia

Turkey has emerged as the Middle East center of knitwear production destined for Europe and Russia. Among Turkey's advantages in the knitwear industry are its good access to European markets, high-quality knitwear production systems and technical expertise. In line with the ongoing maturity of the country's knitwear industry, it is expected to deliver higher-value-added products, as well as growing efficiency.

Apparel exports (Turkey)



World Market Report

Developing Sales Strategies Tailored to the Market Characteristics of Individual Countries

We conduct sales activities to match the characteristics and customer needs of the markets that have been our mainstays to date, such as China, Italy and Turkey, as well as Asian and other emerging country markets. In the process, we are strengthening our initiatives targeting our next phase of growth.

With Apparel Demand Continuing to Grow, Knitwear Manufacturers Investing Aggressively in Automation

China is the world's leading apparel manufacturing base, and the majority of knitwear is said to originate there. But the country's knitwear industry has begun to diversify. Prominent knitwear manufacturers that aim for global markets recognize the need to respond quickly and deliver high-quality products. On the other hand, knitwear manufacturers who excel at meeting domestic demand are working to differentiate themselves by establishing their own brands.

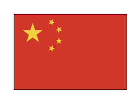
Knitwear factories face rising labor costs and a shortage of young workers. At the same time, economic recovery is prompting a rise in global demand for apparel. Under these circumstances, knitwear manufacturers are in the process of shifting production from labor-intensive manually operated flat knitting machines to computerized machines, which offer automated, highly efficient production.

In response to these needs, Shima Seiki developed the SSR®. In addition to delivering high efficiency, stability and durability, we have lowered costs on this groundbreaking new model, which has earned high marks among China's knitwear manufacturers. Meanwhile, our MACH2®SIG®, an intarsia flat knitting machine, is popular among manufacturers striving to differentiate themselves through high-value-added craftsmanship.

While our flat knitting machines remain technically superior to those being offered by many Chinese manufacturers, these companies are adopting sales strategies that take advantage of Chinese government policies favoring local producers, exacerbating the competitive situation. Given these circumstances, we are concentrating on proposals and sales activities that leverage our direct sales coverage and on responding swiftly to market changes. We are also cultivating markets in the country's interior, holding individual shows and enhancing our after-service follow-up activities. Through these sales efforts, we aim to boost our share of the Chinese market.

SHIMA SEIKI (HONG KONG) LTD.
Atsushi Kitamura
Assistant to CEO, Planning Division Manager

China



SHIMA SEIKI ITALIA S.p.A.
Nobuyuki Sasamoto
President

Italy

Introduction of WHOLEGARMENT® Knitting Machines Continues in Line with Favorable Conditions in High-End Markets

Recent years have seen a marked polarization in the Italian fashion market, into high-end luxury versus fast fashion. This has prompted brand-name manufacturers to concentrate on knitwear, driving aggressive capital investment.

Against this backdrop, sales of our computerized flat knitting machines grew solidly, with the MACH2® series of WHOLEGARMENT® flat knitting machines delivering particularly favorable results. As the MACH2® series offers more than double the productivity of conventional knitting machines, it has enabled users to produce more elaborate knitwear that was not economically viable in the past. Given high manufacturing wages and the difficulties of securing sufficient personnel, the MACH2® series is proving a boon to Italian manufacturers, as it allows them to produce high-quality products efficiently.

We have also continued to propose the use of design systems, which shorten sample production times and lower costs, outside the field of knitwear. Going forward, we will strive to boost sales further by encouraging the use of Total Fashion System that combine flat knitting machines and design systems.

Vigorous Capital Investment Thanks to Resurgence of Europe-Bound Production

Turkey has a long history of knitwear production, and the industry is technically sophisticated. The country is also blessed with an excellent location for this business, which has fostered its emergence as a hub of production for Europe. Production for the Russian market has also grown in recent years.

Turkey's knitwear industry is in a period of shift in emphasis from quantity to quality. With European apparel manufacturers demanding highly varied, small-lot production and short cycle times, high-value-added products and increased productivity are taking on greater importance. These conditions support capital investment in our computerized flat knitting machines. As a result, our orders have moved out of a temporary slump and are again into favorable territory. We have seen a particular increase in customers' appreciation of NSSG® for its high productivity and strong cost performance.

The Turkish government has set up a preferred investment program for textiles, which is designated as a core industry. This system, which encourages banks and other financial institutions to be proactive in textile industry financing, is bottoming out and energizing the overall sector. For its part, Shima Seiki will reinforce its support efforts, providing the technical support to harness the efficiencies of computerized flat knitting machines.

Overseas Sales Division, Asia & Middle East Group
Motofumi Nakanishi
Assistant Manager

Turkey

SHIMA SEIKI KOREA INC.
Katsuhiro Ogawa
Representative Director

South Korea

Shift to WHOLEGARMENT® Offsetting Decline in Linking Technicians

In South Korea, with its bitterly cold winters, knitwear is as much an element of essential clothing as it is fashion wear. The country's knitwear industry tends to concentrate in the vicinity of Seoul, which is at the forefront of fashion.

South Korea also has a falling birthrate, and the knitwear industry faces a shortage of workers who are skilled in the painstaking process of linking (sewing). Given this challenge, WHOLEGARMENT® is growing in popularity because it creates complete garments, and we expect this trend to continue. Furthermore, WHOLEGARMENT® knitwear is considered fashionable, and features prominently in brands found in top-end department stores. To accelerate sales of our WHOLEGARMENT® flat knitting machines, we are holding showings targeting apparel manufacturers through tie-ups with our customers.

Overseas Sales Division, Asia & Middle East Group
Hiroyuki Yamamoto
Assistant Manager

Bangladesh

Growing Demand for Computerized Flat Knitting Machines, as Production Shifts from China

Long a production center for cotton textiles, Bangladesh is gaining favor as a destination for China plus one strategies. Backed by an abundant and inexpensive workforce, the country's textile industry has enjoyed nearly a decade of rapid growth, and in terms of value it is one of the world's leading exporters of textiles.

Moreover, Bangladesh's textile industry is expected to continue growing over the long term, as the country has many young people who aspire to work in textiles, which is a core industry. Currently, the majority of knitwear factories in the country run on manually operated flat knitting machines. As demand for higher productivity rises, we anticipate major potential demand for a shift to computerized flat knitting machines. In response to this mounting demand, we opened a showroom in the capital of Dhaka in 2009, and we have begun providing technical guidance on our products.

Brazil

Robust Future Expansion Expected in Knitwear Industry with a Short History

Domestic production meets most of the knitwear demand of Brazil's 200-million-strong population, and production is concentrated in the southeastern part of the country, which has cool winter weather.

From Brazil's growing middle-income population, demand for high-value-added products is growing, and many of our computerized flat knitting machines are in operation in the country's knitwear industry. Moreover, recent shortages of people skilled in sewing have driven the introduction of WHOLEGARMENT® flat knitting machines, which obviate the need for linking. Shima Seiki's current initiatives in the country involve boosting the technical skills of its local distributors and proactive efforts to introduce leading-edge technologies. In this manner, we are contributing to development of the country's knitwear industry.

Overseas Sales Division, Europe & America Group
Akira Uchiyama
Chief

New Model: SSR® Earns Rave Reviews for Cost Performance and Quality

In October 2010, we unveiled our new cutting-edge SSR®, designed to meet demand spurred by China's ongoing shift from manually operated flat knitting machines to computerized models. Thanks to excellent cost performance, orders for the new model have exceeded our initial forecasts.

Resurgent consumption in Europe and the United States, plus expanding personal consumption in emerging markets, is driving global demand growth for knitwear products. Furthermore, the knitwear industries in China and other emerging markets are shifting rapidly to the use of computerized flat knitting machines.

We introduced the SSR® to meet these needs for automation and boost our market share. Designed to deliver solid cost performance, the SSR® racked up orders that far exceeded our initial expectations; we are making unprecedented increases in production capacity to satisfy this demand.

When developing the SSR®, we closely examined each of several thousand parts, starting with their materials, making them more compact and revising production methods. As a result, we succeeded in shortening assembly time to 60% of that needed for previous models. This combination of improvements lowered our costs, while retaining the same high levels of quality and durability and delivering space and energy savings.

Customers praised the SSR®, which represents an accumulation of Shima Seiki technologies and know-how, for its substantial productivity increases.

Feature 1

High quality

Our DSCS® (Digital Stitch Control System), the world's first device of this sort, has been supported from our customers for more than 25 years after the development, helping us overcome issues involving yarn tension, as well as a host of other challenges and contributing to the stable quality of knitwear products.

Feature 2

Lower cost

At the assembly stage, we began using insets rather than the screws used previously. The cumulative effect of small improvements such as this was to reduce assembly time significantly, helping to lower costs. This assembly efficiency derives from our ability to develop products in a comprehensive manner in our own facilities at headquarters, taking into account all steps from the design stage to manufacture.

Feature 3

Space saving

The model's compactness contributes to higher levels of operability and working efficiency. Customers can use space more efficiently by placing more units in the same production area. The smaller machine means that transportation costs are lower, as well. Also, being more lightweight enables smooth operations on higher floors of a factory.

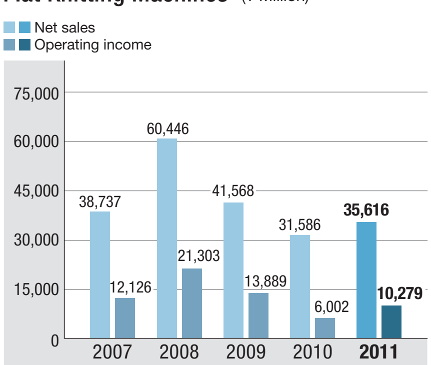
Overview and Outlook

The Shima Seiki Group comprises four segments. Our mainstay Flat Knitting Machine segment, which accounts for more than 80% of net sales, engages in the development, manufacture and sales of computerized flat knitting machines.

In addition to design systems, the Design System segment is involved in the development, manufacture and sales of automatic fabric cutting machines and printing systems, while the Glove and Sock Knitting Machine segment conducts these activities for glove knitting machines and sock knitting machines. The Other Business segment sells maintenance parts for the Company's products and participates in such businesses as spinning cashmere yarn and selling knitwear.

Flat Knitting Machine Segment

Flat Knitting Machines (¥ Million)



Overview of the Year under Review

During the year, the global economy rebounded, prompting a recovery in demand for apparel. Manufacturers in the world's major knitwear-producing regions boosted their production volumes accordingly, and the Group's core business, the Flat Knitting Machine segment, benefited from capital investment in its computerized flat knitting machines, which offer high productivity.

In the mainstay Chinese market, against a background of rising wages and a shortage of young workers, demand rose sharply for computerized flat knitting machines to replace manually operated machines. In this environment, we launched the SSR® in February 2011. Orders surged for this new model, which features superior productivity and high cost performance.

In the Middle East, production expanded in Turkey, which serves as a base for knitwear product exports to Europe and Russia. This situation invigorated capital investment demand for computerized flat knitting machines, pushing up sales substantially year on year.

In Europe, we continued to make steady inroads in Italy through our proposal-based marketing initiatives, focusing on the top-end MACH2®X, which facilitates stylish, quality, high-speed knitting for WHOLEGARMENT®.

Production volumes in the emerging markets of Asia rose, owing to robust exports to Europe and the United States, prompting an increase in capital investment in computerized flat knitting machines. In South America, we made progress in Brazil in the introduction of WHOLEGARMENT® flat knitting machines, which obviate the need for cutting and sewing processes. Market conditions in Japan remained lackluster, but sales rebounded as some production shifted from China to Japan.

In the Chinese and Hong Kong markets, sales were up year on year, but these markets accounted for a smaller percentage of net sales. By contrast, Turkey and Asian emerging markets made up a larger share. This situation points to the diversification of sales regions, alleviating overconcentration on the China and Hong Kong markets—previously a point of concern.

As a result, sales in the Flat Knitting Machine segment grew 12.8% during the year, to ¥35,616 million.

Outlook for the Next Fiscal Year

We anticipate the ongoing introduction of computerized flat knitting machines in the emerging markets of Asia, including our mainstay Chinese and Hong Kong markets, owing these machines' contribution to high productivity and labor savings in this center of knitwear production. In the China market, which is expected to continue growing, we expect severe competition for market share from Chinese manufacturers of flat knitting machines, as well as from European manufacturers. To emerge victorious from this struggle, we are working to expand sales of our new model, the SSR®, which delivers superior cost performance. Aiming to acquire an overwhelming market share, we will work to differentiate ourselves from competitors on the strength of our products, our sales strategies and our technical support. In Asia's emerging markets, which are fast becoming second only to China as a major knitwear producing region, we aim to raise our share of sales by concentrating on the SSR®.

WHOLEGARMENT® knitwear worn in spaceship

In addition to Europe, Turkey is increasingly a base of production for exports to Russia, prompting demand for higher-added-value products and greater production efficiency. In an environment of high motivation toward capital investment, we will strive to increase sales by concentrating on the NSSG®, which enables manufacturers to respond quickly to demand. As a result, we expect sales in this region to continue expanding, as they did during the year under review.

In Europe, the MACH2®X WHOLEGARMENT® flat knitting machine, which facilitates quality knitwear production, is gaining acceptance in the advanced fashion market of Italy. By reinforcing our proposal-based marketing efforts going forward, we plan to push up sales by highlighting the merits of linking our knitting machines with SDS®-ONE APEX3 design systems.

We expect difficult market conditions to persist in the Japanese market. Our sales activities will look to cement our ties in producing regions through private showings, and we will seek to invigorate the market through the extension of our proposal-based business model focusing on WHOLEGARMENT® flat knitting machines.

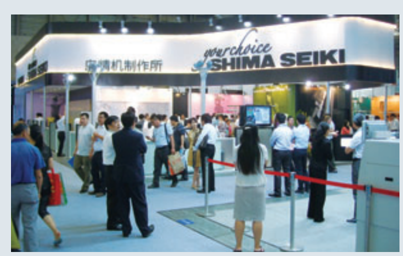
By implementing these measures, we forecast net sales for the segment of ¥47.8 billion, up 34.2% compared with the year under review.

TOPICS

ITMA ASIA + CITME 2010

Participation in ITMA ASIA + CITME 2010, One of the World's Largest Textile Machinery Exhibitions

Shima Seiki took part in ITMA ASIA + CITME 2010, held in Shanghai from June 22–26, 2010. Themed "Solutions for Diversity," our booth demonstrated how we propose solutions to the wide-ranging needs of our customers, formulate detailed sales policies for each model and showcase the superiority of our products.

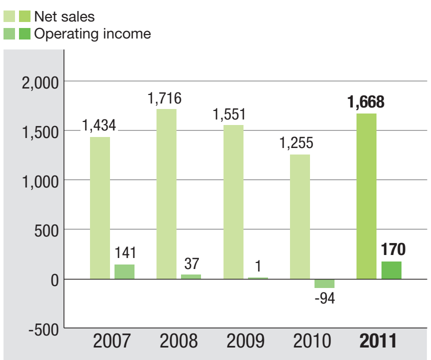


We put a range of products on display, from our best-selling NSSG® and NSIG® models to such leading-edge computerized flat knitting machines as the MACH2®SIG® and MACH2®X, as well as the SDS®-ONE APEX design system. This extensive lineup showcased our comprehensive capabilities, a point of appeal that is possible only from a leading manufacturer. One particularly popular section of our booth featured an exhibit demonstrating the ability to search for and download knit samples on line. In all, more than 2,000 people visited our booth.

The exhibition was noteworthy for the number of top corporate executives who visited us, the increasing number of new customers and the presence of knitwear manufacturers from China's interior region. New business inquiries focused on best-selling machines, but we also saw an increase related to WHOLEGARMENT® flat knitting machines, reflecting China's expanding market for luxury goods. In addition to customers in China's coastal region, we plan to work energetically to expand our sales routes in the country's interior region, where we have received new inquiries.

Design System Segment

Design Systems (¥ Million)



Overview of the Year under Review

During the year, sales in the Design System segment were firm, centering on the SDS®-ONE apparel design system, which provides total support for high-quality, stylish manufacturing. Overseas sales expanded for design systems in combination with computerized flat knitting machines. We also revamped our sales structure in Japan, redoubling our efforts to sell design systems, and promoted sales of equipment for upgrades. Owing to these factors, the Design System segment posted a 32.9% increase in net sales, to ¥1,668 million.

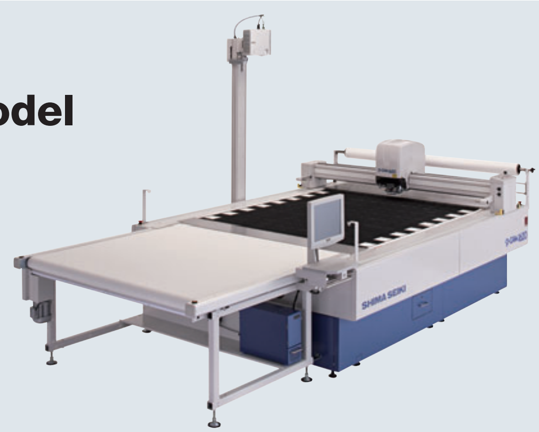
Outlook for the Next Fiscal Year

In the next fiscal year, in Japan and overseas we will step up our efforts to propose manufacturing systems that leverage the 3D virtual simulation function of the SDS®-ONE APEX3, our next-generation design system, which greatly reduces sample production costs and lead times. Notably, manufacturers in China and Hong Kong have shown interest in shifting to the SPA business model, which takes into account processes from planning to sales, and we will concentrate our sales efforts on these companies. We will also cultivate demand among manufacturers in other industries, in an effort to expand our user base. Through these initiatives, we aim to increase sales 19.9% in the next fiscal year, to ¥2.0 billion.

TOPICS

The New P-CAM® Model

Launch of New High-Performance Model of Automatic Fabric Cutting Machine



In the Design System segment, during the year we augmented the P-CAM® series of automatic fabric cutting machines—which earn high marks for their high levels of efficiency, productivity and product quality by launching our new P-CAM®1620 model. As well as strong cost performance, the new model reflects market demand through its compact size and power requirements, which have been reduced to half that of previous models. An optional projector and high-performance camera improve pattern recognition, giving a major boost to precision and operability.

We are mounting an aggressive campaign to show the model at textile machinery exhibitions in Japan and are working to boost orders through private showings in individual textile-producing regions. In addition to knitwear manufacturers, we are focusing on a proactive sales campaign to cultivate new customers among manufacturers of apparel and sewn products, as well as in the automotive, industrial materials and furniture industries.

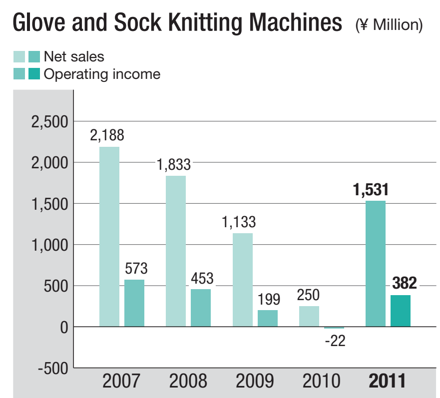
Glove and Sock Knitting Machine Segment

Overview of the Year under Review

The Glove and Sock Knitting Machine segment benefited from increased capital investment by prominent manufacturers for Asia's emerging markets. Users of our products take advantage of the fine-gauged machines that we offer, which are capable of extremely fine knitting, to differentiate the gloves they produce, and they give high ratings to the durability and stability of our products. This response led to a major recovery in segment performance, with net sales surging 513.1% year on year, to ¥1,531 million.

Outlook for the Next Fiscal Year

For the next fiscal year, we have secured ongoing orders with leading manufacturers. The competitive environment in the Glove and Sock Knitting Machine segment is becoming more severe, as knitting machine manufacturers from China and South Korea enter the market. We will respond by clearly outlining the competitive superiority of our products, highlighting their durability, productivity and stable quality. As a result, we forecast a 4.5% increase in segment net sales, to ¥1.6 billion.



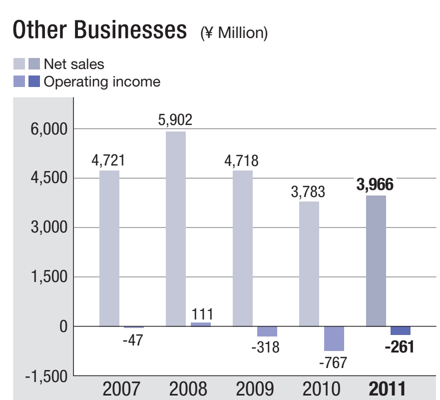
Other Business Segment

Overview of the Year under Review

The Other Business segment enjoyed favorable performance, as sales of maintenance parts and services grew in line with higher sales in the Flat Knitting Machine segment. The segment also recorded year-on-year increases in sales of cashmere yarn and other textile materials manufactured by TOYOBOSHI KOGYO CO., LTD., as well as WHOLEGARMENT® and other knitwear products in Japan and the United States. As a result, the Other Business segment generated net sales of ¥3,966 million, up 4.8% from the preceding fiscal year.

Outlook for the Next Fiscal Year

In the next term, we expect sales in the Other Business segment to fall 9.2%, to ¥3.6 billion.



R&D Activities

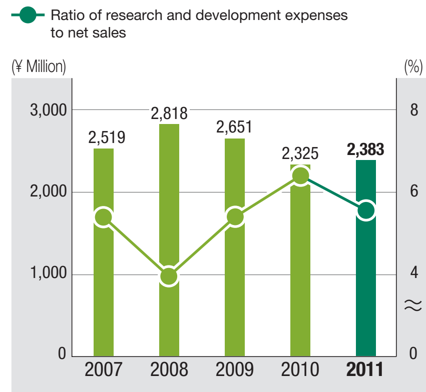
All Processes Developed through a Consistent Philosophy

Since the time of our establishment, we have sought to deliver unique technological developments based upon creativity. We have remained true to our founder's slogan, "Create that which does not exist," developing all our own product hardware and software on this basis.

The technology development divisions are overseen by the Development Headquarters. The Mechatronic Development Division handles the development of knitting machines and other products, as well as control devices, and the Graphic System Development Division develops design systems. Under this organization, the entire technological development process, from circuit board design to software development, is conducted under a consistent philosophy. Furthermore, communication between the technology development divisions and Production Headquarters ensures that development results can be commercialized swiftly.

We target annual R&D expenditure equivalent to around 5% of net sales. During year under review, this expenditure amounted to ¥2.3 billion, for an R&D expense ratio of 5.6%. We will continue mounting vigorous R&D efforts aimed at generating attractive products that contribute to long-term growth.

Research and development expenses



Intellectual Property Initiatives

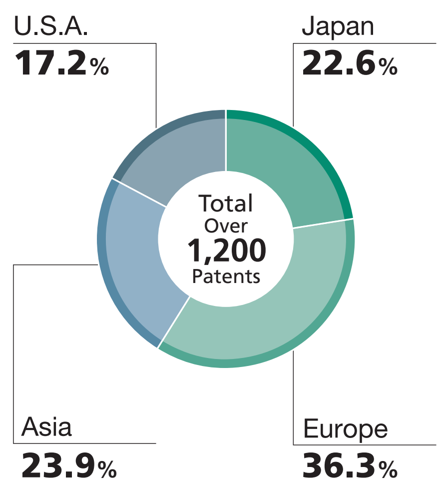
Protecting Our Broad-Ranging R&D Successes

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.

The Company currently holds more than 1,200 patents in Japan and other countries. One characteristic of our intellectual property strategy is covering a broad range of technologies—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 know-how and take advantage of our intellectual property.

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 reinforce our intellectual property activities even further, we plan to also file patents covering related technologies.

Patents by region (2010)



Patents in Europe and Asia include only the following countries and regions.

Europe: Germany, U.K., France, Italy, Spain
Asia: China, South Korea, Taiwan

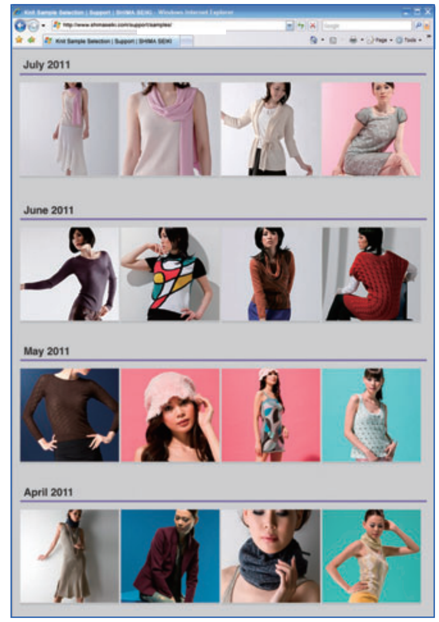
Making Plans and Proposals

Supporting Customers' Manufacturing Efforts

We provide customers with design proposals aimed at helping customers use our flat knitting machines to best advantage and suggest efficient business models employing design systems.

The Total Design Center at our headquarters in Wakayama develops several dozen new designs each week. These are distributed on line to design centers in China, Europe and the United States, as well as at sales bases for incorporation into customer proposals. In an unusual initiative for a machine manufacturer, we also hold fashion shows to introduce leading-edge knitwear designs.

Our newest design system that employs 3D software, the SDS® -ONE APEX3, enables even novice operators to take advantage of professional know-how. In the future, we will work aggressively to broaden the appeal of this system by expanding our sales efforts outside the knitwear industry, such as to manufacturers of other textiles, towels and the like.



Knit samples (web)

Manufacturing Focuses

A Production System That Delivers High-Quality Products

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 manually conducting particularly detailed operations that machines cannot handle. This level of precision clearly sets us apart from our competitors.

Our factory promotes original MQC (Market-in, Quality, Cost) 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 February 2011, we achieved our highest level of daily output to date, centering on SSR® . From the second half of the fiscal year ending March 31, 2012, we will increase our production of WHOLEGARMENT® flat knitting machines, balancing these with mass-market models to match market needs.


The advanced skills


Production line for flat knitting machines

Basic Policies and Systems

The Shima Seiki Group considers strengthening corporate governance important from the standpoint of efficient, sound, transparent and stakeholder-oriented management. Accordingly, we are striving to enhance our governance systems.

As a company with corporate auditors, we have formulated a framework for appropriate and effective corporate governance through the full functioning of a Board of Directors system and a Board of Corporate Auditors system. We also ensure that corporate auditors, 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 10 directors, meets at least once each month to resolve important management issues and supervise the execution of business. During the year ended March 31, 2011, the Board of Directors met 19 times.

Corporate Auditors, Board of Corporate Auditors

The Board of Corporate Auditors comprises four corporate auditors, including two outside auditors, and they monitor the execution of duties by directors and audit the appropriateness of management. The advice that outside auditors provide from their specialist backgrounds—one auditor is an attorney and another is a certified tax accountant—acts as a check on directors' activities. During the year, the Board of Corporate Auditors met nine times.

Internal Auditing Division

The Internal Auditing Division comprises three members, who conduct internal audits throughout the Company's business operations as well as internal control audits that cover the status of compliance and risk management and financial reporting.

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

We established a Committee for the Promotion of the Internal Control System and formulated and strive on an ongoing basis to enhance Basic Policies Related to Improvement of the Internal Control System.

In addition, we have established a Compliance Committee, a Risk Management Committee and an Information Security Committee. Through the activities of these bodies, we endeavor to reinforce our internal control.

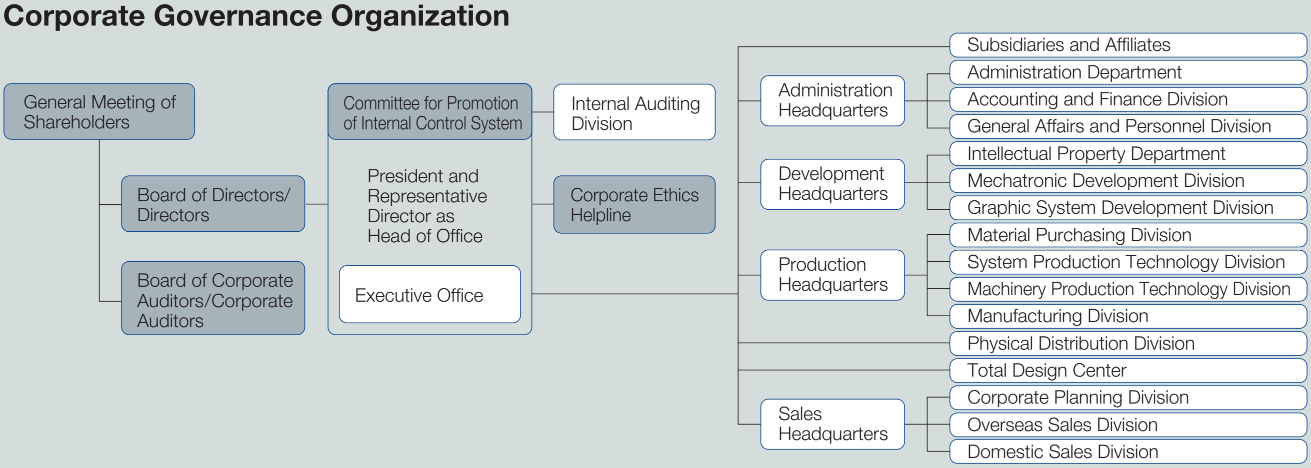
With regard to internal control over financial reporting, we have constructed a system to promote fair and impartial disclosure.

Compliance Initiatives

The Shima Seiki Group formulated the Shima Seiki Group Code of Conduct. The General Rules 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.

We have formulated a Compliance Program centered on the Compliance Committee, conducted regular checks on compliance status, and entrenched compliance systematically through induction courses, distribution of case studies and other initiatives.

Corporate Governance Organization



Board of Directors and Corporate Auditors

President

Masahiro Shima
General Manager of Sales Headquarters

Senior Managing Directors

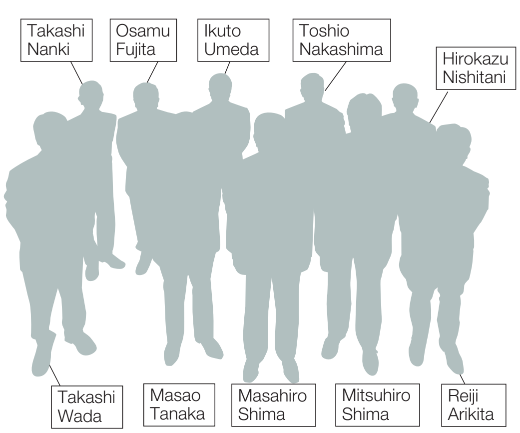
Masao Tanaka
General Manager of Administration Headquarters, concurrently overseeing Internal Auditing Division and Physical Distribution Division

Mitsuhiro Shima
General Manager of Production Headquarters, concurrently overseeing Machinery Production Technology Division and Total Design Center

Managing Directors

Takashi Wada
General Manager of Manufacturing Division, concurrently overseeing System Production Technology Division

Reiji Arikita
General Manager of Development Headquarters



Directors

Ikuto Umeda
CEO of SHIMA SEIKI (HONG KONG) LTD.

Osamu Fujita
General Manager of General Affairs and Personnel Division

Toshio Nakashima
General Manager of Overseas Sales Division, concurrently overseeing Domestic Sales Division and Corporate Planning Division

Takashi Nanki
General Manager of Accounting and Finance Division, concurrently overseeing Administration Department

Hirokazu Nishitani
General Manager of Material Purchasing Division

Corporate Auditors

Shojiro Katagiri
Standing Corporate Auditor

Mitsunori Ueda
Standing Corporate Auditor

Yuuki Matoba
Corporate Auditor

Masatoshi Yasugi
Corporate Auditor

(As of June 29, 2011)

Masatoshi Yasugi | Mitsunori Ueda | Shojiro Katagiri | Yuuki Matoba

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Five-Year Financial Summary

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

	2011	2010	2009	2008	2007	2011
For the Year:			Millions of yen			Thousands of U.S. dollars
Net sales	**¥42,781**	¥36,874	¥48,970	¥69,897	¥47,080	**$514,504**
Cost of sales	**23,587**	22,735	24,318	34,131	25,014	**283,668**
Gross profit	**19,194**	14,139	24,652	35,766	22,066	**230,836**
Selling, general and administrative expenses	**13,286**	13,488	16,124	19,552	14,357	**159,784**
Operating income	**5,908**	651	8,528	16,214	7,709	**71,052**
Income (loss) before income taxes and minority interests	**1,092**	(1,042)	4,057	18,168	6,183	**13,133**
Net income (loss)	**770**	(1,885)	1,766	9,959	3,114	**9,260**
Net cash provided by operating activities	**3,504**	6,746	1,978	21,747	10,691	**42,141**
Net cash provided by (used in) investing activities	**(1,834)**	(2,759)	70	(3,321)	(16,223)	**(22,057)**
Net cash provided by (used in) financing activities	**1,297**	(6,682)	(4,294)	(10,883)	12,226	**15,598**
Capital investment	**1,587**	2,154	4,147	2,496	1,753	**19,086**
Depreciation and amortization	**1,696**	2,164	2,358	2,454	1,542	**20,397**
Research and development expenses	**2,383**	2,325	2,651	2,818	2,519	**28,659**
At Year-End:			Millions of yen			Thousands of U.S. dollars
Total assets	**¥113,951**	¥110,063	¥119,778	¥133,746	¥129,161	**$1,370,427**
Net assets	**86,591**	87,473	91,064	101,647	92,810	**1,041,383**
Per Share Data:			Yen			U.S. dollars
Net income (loss)	**¥22.26**	¥(54.52)	¥49.88	¥276.13	¥86.17	**$0.27**
Cash dividends applicable to the year	**35.00**	30.00	40.00	55.00	37.50	**0.42**
Net assets	**2,502.27**	2,529.67	2,633.55	2,677.47	2,546.71	**30.09**
Ratios:			%			
Ratio of operating income to net sales	**13.8%**	1.8%	17.4%	23.2%	16.4%	
ROA	**0.7**	(1.6)	1.4	7.6	2.6	
ROE	**0.8**	(2.0)	1.9	10.6	3.4	
Equity ratio	**75.9**	79.5	76.0	73.2	69.2	

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥83.15=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2011.

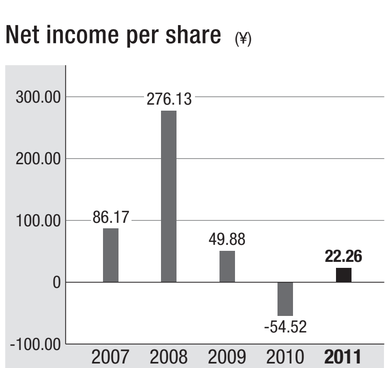
Overview

During the consolidated fiscal year under review, strong growth in emerging markets, centered on China, boosted the global economy, and higher exports from advanced countries in Europe and the United States encouraged improvements in corporate performance. However, several factors cloud the economic horizon. Several European countries face debt problems for which no early resolution appears likely, and political unrest in the Middle East and North Africa may prompt a rise in crude oil prices. The Japanese economy experienced a gradual recovery, as a rise in exports spurred corporate capital investment. At the same time, ongoing yen appreciation and stock market sluggishness weighed down economic activity and remained causes of uncertainty. Furthermore, the Great East Japan Earthquake struck on March 11, causing massive damage in Japan's Tohoku and Kanto regions and triggering fears of major potential impact on the Japanese economy.

The management environment for the Shima Seiki Group benefited from a rebound in apparel consumption in Europe and the United States, as well as increased consumption in emerging markets. The world's major knitwear manufacturing regions increased production volumes in response, driving up capital investment. Against this backdrop, the Company enjoyed robust demand for its products in the key markets of China, Hong Kong, Italy and Turkey, as well as other Asian emerging markets—leading to a turnaround in operating performance. Operating conditions remained problematic, however, as on the other hand the impact of yen appreciation and increasingly stringent price competition from rival manufacturers forced down unit selling prices.

Under these circumstances, the Company posted consolidated net sales of ¥42,781 million during the fiscal year ended March 31, 2011, up 16.0% from the preceding fiscal year. Profits improved dramatically, with consolidated operating income surging ¥5,257 million—up 807.2% year on year—to ¥5,908 million, and consolidated net income amounting to ¥770 million, up ¥2,655 million.

Shima Seiki treats return of profits to shareholders as a priority management issue. With regard to profit distribution, the Company strives to maintain long-term stable dividends, taking into account business performance during the year, forecasts for future profits and business expansion for the future, as well as to raise stock value per share. For the year under review, in line with our initial forecast we awarded a year-end cash dividend of ¥17.50 per share. Combined with an interim dividend of ¥17.50 per share, this brought dividends for the year to ¥35.00 per share, up ¥5.00 compared with the preceding term. Consolidated earnings per share improved significantly, from a negative ¥54.52 in the preceding term to a positive ¥22.26 for the year under review.



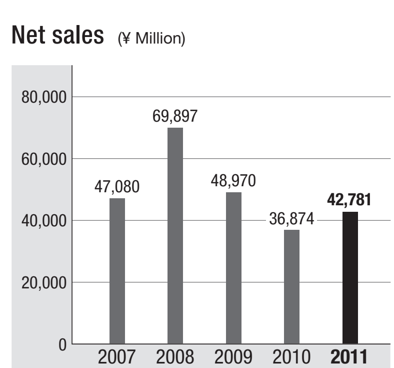
Net Sales

Shima Seiki's consolidated net sales rose 16.0% from the previous year, to ¥42,781 million.

The Company's core business of flat knitting machines benefited from a recovery in apparel demand, as producers in the world's major knitwear manufacturing regions increased their capital investment in computerized flat knitting machines to expand production. The shift to computerized flat knitting machines from manually operated machines in China, our mainstay market, accelerated owing to rising wages and a shortage of young workers. To meet this need for automation and boost our share of the market, we launched the SSR® in February 2011. This new model, which is well regarded for its high productivity and excellent cost performance, contributed to orders and sales. In the Middle East, production returned from China to Turkey, which is growing increasingly competitive as a base of knitwear exports to Europe and Russia. Manufacturers in Turkey upgraded their equipment to handle increased production volumes, resulting in substantially higher sales for Shima Seiki. In Europe, sales in Italy were strong, focusing on the MACH2®X, which facilitates stylish, quality, high-speed knitting for WHOLEGARMENT®. Capital investment also increased in Brazil, India, South Korea and other Asian emerging markets.

In the Design System segment, overseas sales expanded for the SDS®-ONE apparel design system, which connects with computerized flat knitting machines. In Japan, we stepped up our sales promotion efforts, which resulted in higher sales.

Sales in the Glove and Sock Knitting Machine segment rebounded strongly, bolstered by higher



capital investment from emerging markets in Asia.

Overall, overseas net sales grew 15.4%, to ¥38,977 million, accounting for 91.1% of net sales, down 0.5 percentage point from the preceding fiscal year. By geographical region, net sales consisted of 56.9% to Southeast Asia (compared with 64.1% during the previous year), 17.7% to Europe (19.5%), 12.5% to the Middle East (4.9%) and 4.0% to other areas (3.1%). This represents a major increase in sales to the Middle East, concentrated on Turkey.

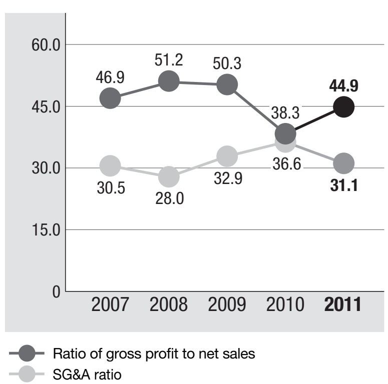
In the Japanese market, owing to a partial production shift from China, sales grew 22.7% year on year, to ¥3,804 million.

Cost of Sales and SG&A Expenses

Unit selling prices on our mainstay machines declined, owing to the impact of yen appreciation and severe competition. We overcame the burden of fixed costs through higher sales, thoroughgoing efforts to reduce costs and increasing the number of units produced, lowering our percentage of manufacturing costs. Cost of sales amounted to ¥23,587 million, and gross profit rose 35.8%, to ¥19,194 million. The ratio of gross profit to net sales increased 6.6 percentage points, to 44.9%.

Selling, general and administrative (SG&A) expenses fell 1.5% from the preceding term, to ¥13,286 million, as we curtailed administrative and personnel expenses and owing to a drop in the provision of allowance for doubtful accounts. As a result of these efforts, coupled with higher sales, the SG&A ratio improved 5.5 percentage points, to 31.1%.

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



Operating Income

Operating income soared 807.2%, to ¥5,908 million. The primary reasons for this increase were the 16.0% year-on-year rise in net sales, a higher ratio of gross profit to net sales and a lower SG&A ratio. As a result, the ratio of operating income to net sales was 13.8%, a sharp recovery from the previous year's 1.8%.

By segment, operating income in the Flat Knitting Machine segment amounted to ¥10,279 million, up 71.3%. In the Design System segment, operating income was ¥170 million, up from an operating loss of ¥94 million in the preceding term. The figure for the Glove and Sock Knitting Machine segment was ¥382 million, up from a ¥22 million operating loss. In the Other Business segment, we recorded an operating loss of ¥261 million, compared with a loss of ¥767 million in the preceding term.

Other Income and Expenses

Other expenses exceeded other income, leading to net other expenses of ¥4,816 million, compared with ¥1,693 million in the preceding term. Rapid yen appreciation resulted in exchange losses of ¥3,552 million, stemming from such factors as loss on valuation of receivables denominated in foreign currencies, and the Company posted a ¥1,605 million loss on valuation of investments in securities, causing net other expenses to expand ¥3,123 million during the year.

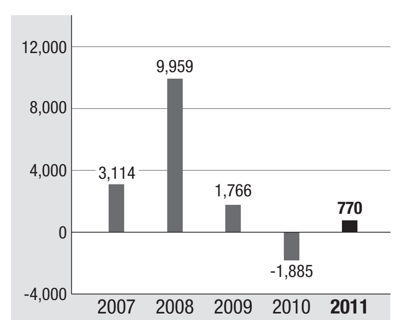
Net Income

Consolidated income before income taxes and minority interests was ¥1,092 million, compared with a loss of ¥1,042 million in this category during the previous fiscal year.

Corporate income, residential and enterprise taxes totaled ¥592 million, up ¥138 million, and corporate income tax adjustments for the period under review were a negative ¥270 million, compared with a positive adjustment of ¥389 million in the previous term. As a result, the Company's tax burden after the application of tax effect accounting fell ¥521 million from the previous term, to ¥322 million.

As a result of the above factors, consolidated net income for the year amounted to ¥770 million, up from a net loss of ¥1,885 million.

Net income (¥ Million)



Liquidity and Capital Resources

Cash and cash equivalents were ¥18,078 million as of March 31, 2011, up ¥1,760 million from a year earlier. Operating and financing activities provided cash in excess of the cash used in investing activities.

Net cash provided by operating activities was ¥3,504 million, compared with ¥6,746 million in the previous year. Principal uses of cash included a ¥3,568 million increase in trade receivables, compared with a ¥904 million decrease in the preceding term, and inventories increased ¥3,554 million, compared with a ¥64 million decrease. Meanwhile, an increase in trade payables provided ¥2,798 million, compared with a ¥502 million decrease in the previous year.

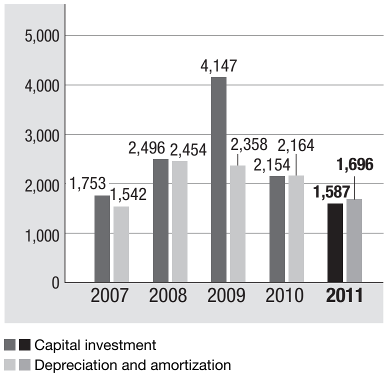
Net cash used in investing activities amounted to ¥1,834 million, compared with ¥2,759 million in the previous year. Major factors included ¥850 million in purchases of property, plant and equipment, compared with ¥1,491 million, and ¥427 million in purchases of investments in securities, compared with ¥986 million.

Net cash provided by financing activities amounted to ¥1,297 million, compared with ¥6,682 million used in these activities in the previous year. Uses of cash included ¥1,940 million for the redemption of convertible bonds and ¥950 million in cash dividends paid, compared with ¥1,210 million. Providing cash was a ¥3,857 million net increase in short-term loans, compared with a net decrease of ¥4,471 million in the previous term.

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 75.9% and 391.3%, 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 high-profit-potential marketing capabilities to secure the working funds and funds for capital investment required for stable growth.

Capital investment/ Depreciation and amortization (¥ Million)



Assets, Liabilities and Net Assets

Consolidated total assets as of March 31, 2011, were ¥113,951 million, up ¥3,888 million from a year earlier.

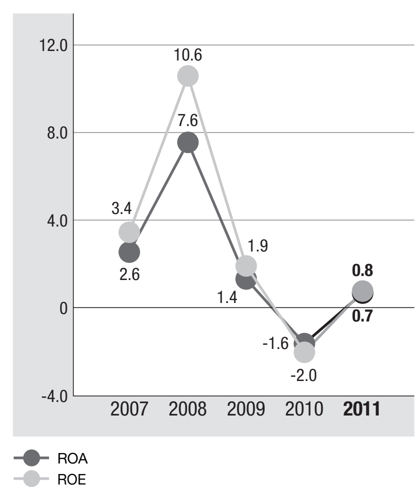
In terms of short-term assets and liabilities, current assets rose 9.3%, or ¥6,387 million, to ¥75,247 million. Major reasons included a ¥1,760 million increase in cash and cash equivalents and ¥2,722 million rise in inventories. Current liabilities expanded 19.6%, or ¥3,151 million, to ¥19,228 million. Increases included a ¥3,855 million rise in short-term loans and ¥1,243 million higher trade accounts and notes payable. The primary downward factor was ¥1,942 million from the redemption of convertible bonds.

With regard to long-term assets and liabilities, long-term assets decreased 6.1% year on year, or ¥2,499 million, to ¥38,704 million, due principally to the amortization of goodwill. Meanwhile, long-term liabilities increased 24.8%, or ¥1,619 million, to ¥8,132 million, principally owing to a ¥1.5 billion increase in long-term debt.

Net assets eased 1.0%, or ¥882 million, to ¥86,591 million, primarily affected by foreign currency translation adjustments. As a result, the shareholders' equity ratio fell 3.6 percentage points from the end of the previous fiscal year, to 75.9%.

Return on assets rose from a negative 1.6% to a positive 0.7%. Return on equity likewise improved from a negative 2.0% to a positive 0.8%.

ROA/ROE (%)



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, which recognizes the possibility of an outbreak of these risks, strives to prevent the outbreak of risks and employ proper countermeasures. Statements regarding the future are decisions made by the Group as of the end of the fiscal year ended March 31, 2011.

(1) Risks of dependency on particular overseas markets

Overseas sales account for more than 90% of the Group's total sales, with sales to China and Hong Kong accounting for the majority of overseas sales. There is a concern over economic and political changes, including competition with other knitting machine manufacturers, changes in monetary policies and tax systems, and trade friction with other regions in this market, 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

Since the Group sells products worldwide, some transactions are conducted in denominations other than yen. Although the Group employs forward exchange contracts and other hedges to minimize foreign exchange risks, it is possible that sales activities may not be conducted as planned as a result of declining price competitiveness and loss on valuation of receivables denominated in foreign currencies stemming from the appreciation of the yen. Since such situations could easily occur, sharp fluctuations in exchange rates could affect the performance and financial position of the Group.

(3) Risks associated with credit and accounts receivable recovery

The Group conducts direct sales in the Chinese, Hong Kong and the European markets, which represent major markets in terms of the Group's global sales strategy. This enables the Group to implement comprehensive global sales and marketing strategies by properly managing customer credit to maintain a balance between receivables recovery risks and sales. As the role of the precise handling of credit in consolidated business operations gains even greater significance, performance, changes in credit standing and country risks of each customer 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 completely protect the Group's proprietary technology 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 imitation products, and the 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 and around Wakayama Prefecture, which may involve a long halt in production, could affect the performance and financial position of the Group.

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

The Group's deployment of business encompasses not only Japan but spans the entire world. Therefore, the areas where the Group conducts business pose the following inherent risks that 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. Moreover, department and discount store sales tend to be influenced by individual apparel preferences and fashion trends. 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 affect the performance and financial position of the Group.

(8) Procurement of materials affected by the Great East Japan Earthquake

The Great East Japan Earthquake that occurred in March 2011 may be detrimental to the procurement of some materials. The Material Purchasing Division has taken the lead in offering solutions to the situation but materials procurement may be adversely affected by concerns of unstable electric power supply and the commitment to reconstruction.

Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥18,078**	¥16,318	**$217,414**
Time deposits	**1,889**	1,144	**22,718**
Short-term investments (Note 4)	**1,535**	1,400	**18,461**
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	**605**	368	**7,276**
Other	**33,210**	33,288	**399,399**
Inventories (Note 5)	**18,774**	16,052	**225,785**
Deferred tax assets (Note 11)	**2,358**	1,959	**28,358**
Prepaid expenses and other current assets	**1,293**	1,202	**15,550**
Less: allowance for doubtful accounts	**(2,495)**	(2,871)	**(30,006)**
Total current assets	**75,247**	68,860	**904,955**
Investments and other assets:			
Investments in unconsolidated subsidiaries	**159**	290	**1,912**
Investments in securities (Note 4)	**7,036**	7,288	**84,618**
Long-term loans receivable	**25**	25	**301**
Deferred tax assets (Note 11)	**1,499**	2,060	**18,028**
Goodwill	**5,421**	6,763	**65,195**
Other	**5,693**	5,934	**68,467**
Less: allowance for doubtful accounts	**(1,847)**	(2,253)	**(22,213)**
Total investments and other assets	**17,986**	20,107	**216,308**
Property, plant and equipment:			
Land	**11,000**	10,993	**132,291**
Buildings and structures	**22,439**	22,376	**269,862**
Machinery and equipment	**5,208**	5,014	**62,634**
Tools, furniture and fixtures	**6,828**	6,696	**82,116**
Leased assets	**1,476**	1,135	**17,751**
Construction in progress	**81**	126	**974**
	47,032	46,340	**565,628**
Less: accumulated depreciation	**(26,314)**	(25,244)	**(316,464)**
Property, plant and equipment, net	**20,718**	21,096	**249,164**
Total assets	**¥113,951**	¥110,063	**$1,370,427**

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 7)	**¥5,694**	¥1,839	**$68,479**
Current portion of long-term debt (Note 7)	**—**	2,942	**—**
Lease obligations	**221**	168	**2,658**
Trade accounts and notes payable	**7,047**	5,804	**84,750**
Accrued expenses	**1,171**	1,142	**14,083**
Accrued income taxes	**479**	237	**5,761**
Other current liabilities	**4,616**	3,945	**55,514**
Total current liabilities	**19,228**	16,077	**231,245**
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	**4,500**	3,000	**54,119**
Lease obligations	**915**	794	**11,004**
Allowance for retirement benefits (Note 8)	**1,418**	1,542	**17,053**
Deferred tax liabilities for land revaluation (Note 6)	**33**	33	**397**
Allowance for directors' and statutory auditors' retirement benefits	**1,085**	1,144	**13,049**
Other long-term liabilities	**181**	—	**2,177**
Total long-term liabilities	**8,132**	6,513	**97,799**
Contingent liabilities (Note 9)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2011 — 36,600,000 shares			
2010 — 36,600,000 shares	**14,860**	14,860	**178,713**
Capital surplus	**21,724**	21,724	**261,263**
Retained earnings	**68,235**	68,416	**820,625**
Treasury stock, at cost			
2011 — 2,024,738 shares			
2010 — 2,023,379 shares	**(6,401)**	(6,398)	**(76,981)**
Total shareholders' equity	**98,418**	98,602	**1,183,620**
Accumulated other comprehensive income:			
Net unrealized holding loss on securities	**(457)**	(1,061)	**(5,496)**
Land revaluation difference (Note 6)	**(7,433)**	(7,433)	**(89,393)**
Foreign currency translation adjustments	**(4,011)**	(2,640)	**(48,238)**
Total accumulated other comprehensive income	**(11,901)**	(11,134)	**(143,127)**
Stock acquisition rights (Note 14)	**63**	—	**758**
Minority interests	**11**	5	**132**
Total net assets	**86,591**	87,473	**1,041,383**
Total liabilities and net assets	**¥113,951**	¥110,063	**$1,370,427**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Net sales	**¥42,781**	¥36,874	**$514,504**
Cost of sales	**23,587**	22,735	**283,668**
Gross profit	**19,194**	14,139	**230,836**
Selling, general and administrative expenses (Note 12)	**13,286**	13,488	**159,784**
Operating income	**5,908**	651	**71,052**
Other income (expenses):			
Interest and dividend income	**480**	534	**5,773**
Interest expense	**(101)**	(118)	**(1,215)**
Foreign exchange losses	**(3,552)**	(1,243)	**(42,718)**
Loss on valuation of investments in securities	**(1,605)**	(26)	**(19,302)**
Other, net	**(38)**	(840)	**(457)**
Income (loss) before income taxes and minority interests	**1,092**	(1,042)	**13,133**
Income taxes (Note 11)**:**			
Current	**592**	454	**7,120**
Deferred	**(270)**	389	**(3,247)**
	322	843	**3,873**
Income (loss) before minority interests	**770**	(1,885)	**9,260**
Minority interests in gain of consolidated subsidiaries	**0**	0	**0**
Net income (loss)	**¥770**	¥(1,885)	**$9,260**

	Yen		U.S. dollars
Per share:			
Net income (loss)	**¥22.26**	¥(54.52)	**$0.27**
Diluted net income	**—**	—	**—**
Cash dividends applicable to the year	**35.00**	30.00	**0.42**

See the accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars
	2011	**2011**
Income before minority interests	**¥770**	**$9,260**
Other comprehensive income:		
Net unrealized holding gain on securities	**605**	**7,276**
Foreign currency translation adjustments	**(1,372)**	**(16,500)**
Total other comprehensive income	**(767)**	**(9,224)**
Total comprehensive income	**¥3**	**$36**
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	**¥3**	**$36**
Comprehensive income attributable to minority interests	**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, 2011 and 2010

	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 (loss) on securities	Land revaluation difference	Foreign currency translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2009	36,600	¥14,860	¥21,724	¥71,511	¥(6,395)	¥(1,210)	¥(7,433)	¥(1,993)	—	—	¥91,064
Net loss	—	—	—	(1,885)	—	—	—	—	—	—	(1,885)
Cash dividends	—	—	—	(1,210)	—	—	—	—	—	—	(1,210)
Purchases of treasury stock	—	—	—	—	(3)	—	—	—	—	—	(3)
Other changes, net	—	—	—	—	—	149	—	(647)	—	¥5	(493)
Balance at March 31, 2010	36,600	14,860	21,724	68,416	(6,398)	(1,061)	(7,433)	(2,640)	—	5	87,473
Net income	**—**	**—**	**—**	**770**	**—**	**—**	**—**	**—**	**—**	**—**	**770**
Cash dividends	**—**	**—**	**—**	**(951)**	**—**	**—**	**—**	**—**	**—**	**—**	**(951)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(3)**	**—**	**—**	**—**	**—**	**—**	**(3)**
Disposal of treasury stock	**—**	**—**	**—**	**(0)**	**0**	**—**	**—**	**—**	**—**	**—**	**0**
Other changes, net	**—**	**—**	**—**	**—**	**—**	**604**	**—**	**(1,371)**	**¥63**	**6**	**(698)**
Balance at March 31, 2011	**36,600**	**¥14,860**	**¥21,724**	**¥68,235**	**¥(6,401)**	**¥(457)**	**¥(7,433)**	**¥(4,011)**	**¥63**	**¥11**	**¥86,591**

	Thousands of U.S. dollars									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Land revaluation difference	Foreign currency translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2010	$178,713	$261,263	$822,802	$(76,945)	$(12,760)	$(89,393)	$(31,750)	—	$60	$1,051,990
Net income	**—**	**—**	**9,260**	**—**	**—**	**—**	**—**	**—**	**—**	**9,260**
Cash dividends	**—**	**—**	**(11,437)**	**—**	**—**	**—**	**—**	**—**	**—**	**(11,437)**
Purchases of treasury stock	**—**	**—**	**—**	**(36)**	**—**	**—**	**—**	**—**	**—**	**(36)**
Disposal of treasury stock	**—**	**—**	**(0)**	**0**	**—**	**—**	**—**	**—**	**—**	**0**
Other changes, net	**—**	**—**	**—**	**—**	**7,264**	**—**	**(16,488)**	**$758**	**72**	**(8,394)**
Balance at March 31, 2011	**$178,713**	**$261,263**	**$820,625**	**$(76,981)**	**$(5,496)**	**$(89,393)**	**$(48,238)**	**$758**	**$132**	**$1,041,383**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥1,092**	¥(1,042)	**$13,133**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**1,696**	2,164	**20,397**
Amortization of goodwill	**744**	2,015	**8,948**
Increase (decrease) in allowance for doubtful accounts	**(429)**	212	**(5,159)**
Increase in allowance for losses on guarantees	**244**	25	**2,934**
Decrease in allowance for retirement benefits	**(90)**	(126)	**(1,082)**
Increase (decrease) in allowance for directors' and statutory auditors' retirement benefits	**(60)**	11	**(722)**
Interest and dividend income	**(480)**	(534)	**(5,773)**
Interest expense	**101**	118	**1,215**
Foreign exchange loss	**2,168**	1,024	**26,073**
Loss on valuation of investments in securities	**1,605**	—	**19,302**
Loss on sales and disposal of property, plant and equipment, net	**19**	37	**228**
Gain on disposition of foreign currency translation adjustment	**—**	(459)	**—**
Decrease (increase) in trade receivables	**(3,568)**	904	**(42,910)**
Decrease (increase) in inventories	**(3,554)**	64	**(42,742)**
Increase (decrease) in trade payables	**2,798**	(502)	**33,650**
Other	**1,082**	488	**13,013**
Subtotal	**3,368**	4,399	**40,505**
Interest and dividend income received	**495**	539	**5,953**
Interest expense paid	**(96)**	(127)	**(1,154)**
Income taxes refund (paid)	**(263)**	1,955	**(3,163)**
Other	**—**	(20)	**—**
Net cash provided by operating activities	**3,504**	6,746	**42,141**
Cash flows from investing activities:			
Increase in time deposits, net	**(236)**	(763)	**(2,838)**
Purchases of short-term investments	**(1,996)**	(3,898)	**(24,005)**
Proceeds from sales of short-term investments	**1,907**	2,902	**22,934**
Purchases of property, plant and equipment	**(850)**	(1,491)	**(10,222)**
Proceeds from sales of property, plant and equipment	**16**	456	**192**
Purchases of investments in securities	**(427)**	(986)	**(5,135)**
Proceeds from sales of investments in securities	**36**	348	**433**
Payments for acquisition of subsidiaries	**—**	(80)	**—**
Proceeds from liquidation of an unconsolidated subsidiary	**—**	590	**—**
Extension in loans receivable	**—**	(25)	**—**
Collection in loans receivable	**—**	95	**—**
Other	**(284)**	93	**(3,416)**
Net cash used in investing activities	**(1,834)**	(2,759)	**(22,057)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	**3,857**	(4,471)	**46,386**
Proceeds from long-term loans	**1,500**	3,000	**18,040**
Repayment of long-term loans	**(1,000)**	(3,000)	**(12,027)**
Purchases of treasury stock	**(3)**	(4)	**(36)**
Proceeds from sales of treasury stock	**0**	0	**0**
Cash dividends paid	**(950)**	(1,210)	**(11,425)**
Payments for purchasing redemption of convertible bonds	**—**	(851)	**—**
Redemption of convertible bonds	**(1,940)**	—	**(23,331)**
Other	**(167)**	(146)	**(2,009)**
Net cash provided by (used in) financing activities	**1,297**	(6,682)	**15,598**
Effect of exchange rate changes on cash and cash equivalents	**(1,207)**	(298)	**(14,516)**
Net increase (decrease) in cash and cash equivalents	**1,760**	(2,993)	**21,166**
Cash and cash equivalents at beginning of year	**16,318**	19,311	**196,248**
Cash and cash equivalents at end of year	**¥18,078**	¥16,318	**$217,414**

See the accompanying notes to the consolidated financial statements.

1. Basis of presenting consolidated financial statements

SHIMA SEIKI MFG., LTD. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in Japan's Companies Act and the Financial Instruments and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different in several respects as to the accounting and disclosure requirements of International Accounting Standards.

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

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its significant subsidiaries, which were filed with the Director of Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan.

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the exchange rate prevailing at March 31, 2011, which was ¥83.15 to US$1. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

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

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

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

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

(b) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates. Resulting translation gains or losses are charged to income in the year in which they are incurred, except for those arising from forward foreign exchange contracts pertaining to monetary assets, which are deferred and amortized over the periods of the respective contracts. 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 loss on securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the average method.

(e) Inventories

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)

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

The Company and certain consolidated subsidiaries have retirement benefit plans for their employees. Such benefits are provided through the unfunded lump-sum severance indemnity plan and the funded noncontributory pension plan. The amount of retirement benefits are determined on the basis of length of service, basic salary and certain other factors at the time of termination of employment. Allowance for retirement benefits has been provided for employees' retirement benefits, based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the balance sheet date.

The prior service cost for the pension plan is amortized over 10 years by the straight-line method.

The actuarial gains and losses recognized in the fiscal year under review are amortized over 10 years by the straight-line method from the year subsequent to the year in which such gains and losses are incurred.

(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, 2010 since the Company posted a net loss per share and for the year ended March 31, 2011 since there are no residual securities with dilutive effect upon exercise into common stock.

(n) Accounting standard for presentation of comprehensive income

Effective the year ended March 31, 2011, the Company has applied the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25; issued June 30, 2010).

Comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Loss before minority interests	¥(1,885)
Other comprehensive income:	
Net unrealized holding gain on securities	149
Foreign currency translation adjustments	(646)
Total other comprehensive income	(497)
Total comprehensive income	¥(2,382)
Comprehensive income attributable to:	
Comprehensive income attributable to owners of the parent	¥(2,383)
Comprehensive income attributable to minority interests	1

3. Changes in accounting policies

Adoption of Partial Amendments to Accounting Standard for Asset Retirement Obligations and Guidance on Accounting Standard for Asset Retirement Obligations

Effective the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18; issued March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21; issued March 31, 2008) .

As a result, the effect of this adoption for the year ended March 31, 2011 was to decrease operating income by ¥9 million ($108 thousand) and income before income taxes and minority interests by ¥135 million ($1,623 thousand).

4. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2011 and 2010 were as follows:

	Millions of yen		
	2011		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	**¥309**	**¥339**	**¥30**
Other	**36**	**46**	**10**
Subtotal	**¥345**	**¥385**	**¥40**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**¥2,131**	**¥2,040**	**¥(91)**
Bond	**1,000**	**973**	**(27)**
Other	**4,809**	**4,151**	**(658)**
Subtotal	**¥7,940**	**¥7,164**	**¥(776)**
Total	**¥8,285**	**¥7,549**	**¥(736)**

	Millions of yen		
	2010		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥609	¥745	¥136
Other	36	47	11
Subtotal	¥645	¥792	¥147
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥3,430	¥2,126	¥(1,304)
Bond	1,000	960	(40)
Other	3,593	3,008	(585)
Subtotal	¥8,023	¥6,094	¥(1,929)
Total	¥8,668	¥6,886	¥(1,782)

	Thousands of U.S. dollars		
	2011		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	**$3,716**	**$4,077**	**$361**
Other	**433**	**553**	**120**
Subtotal	**$4,149**	**$4,630**	**$481**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**$25,628**	**$24,534**	**$(1,094)**
Bond	**12,027**	**11,702**	**(325)**
Other	**57,835**	**49,922**	**(7,913)**
Subtotal	**$95,490**	**$86,158**	**$(9,332)**
Total	**$99,639**	**$90,788**	**$(8,851)**

Other securities without quoted market prices at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2011	2010	2011
Held-to-maturity securities	**¥626**	¥399	**$7,529**
Other securities	**396**	1,403	**4,762**
	¥1,022	¥1,802	**$12,291**

5. Inventories

Inventories at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished goods	**¥12,986**	¥10,716	**$156,176**
Work in process	**981**	1,024	**11,798**
Raw materials	**4,465**	4,001	**53,698**
Supplies and others	**342**	311	**4,113**
	¥18,774	¥16,052	**$225,785**

6. Land revaluation

Under the "Law of Land Revaluation," the Company elected to make a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation difference represents the net unrealized depreciation of land values and is stated, net of income taxes, as a component of net assets. There was no effect on the statement of income. The details of the one-time revaluation for land remaining as of March 31, 2011 were as follows:

Land before revaluation	¥15,902 million
Land after revaluation	¥8,502 million
Land revaluation difference	¥7,433 million (net of deferred tax liabilities of ¥33 million)

7. Short-term loans and long-term debt

Short-term loans at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Average rate of 0.31% unsecured loans from banks	**¥5,694**	¥1,839	**$68,479**

Long-term debt at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Average rate of 0.78% unsecured loans from banks	**¥4,500**	¥4,000	**$54,119**
Zero coupon convertible bonds due November 26, 2010	**—**	1,942	**—**
Less current portion	**—**	(2,942)	**—**
	¥4,500	¥3,000	**$54,119**

The aggregate annual maturities of long-term debt at March 31, 2011 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2012	**—**	**—**
2013	**¥3,000**	**$36,079**
2014	**1,500**	**18,040**
2015	**—**	**—**
2016	**—**	**—**
Thereafter	**—**	**—**
Total	**¥4,500**	**$54,119**

8. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2011 and 2010 consisted of the following:

Retirement benefit obligation at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Projected benefit obligation	**¥(4,917)**	¥(4,999)	**$(59,134)**
Fair value of plan assets	**4,322**	4,164	**51,979**
Benefit obligation in excess of plan assets	**(595)**	(835)	**(7,155)**
Unrecognized prior service cost	**5**	—	**60**
Unrecognized actuarial gain	**42**	187	**505**
Net retirement benefit obligation	**(548)**	(648)	**(6,590)**
Prepaid pension cost	**870**	894	**10,463**
Allowance for retirement benefits	**¥(1,418)**	¥(1,542)	**$(17,053)**

Components of net periodic benefit cost for the years ended March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Service cost	**¥275**	¥283	**$3,307**
Interest cost	**98**	97	**1,179**
Expected return on plan assets	**(48)**	(43)	**(577)**
Amortization:			
Prior service cost	**1**	—	**12**
Actuarial loss	**36**	59	**433**
Net periodic benefit cost	**¥362**	¥396	**$4,354**

Assumption used in the accounting for the defined benefit plans for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Method of attributing benefit to periods of service	**Straight-line method**	Straight-line method
Discount rate	**2.0%**	2.0%
Expected rate of return on fund assets	**1.15%**	1.15%
Amortization period for prior service cost	**10 years**	—
Amortization period for actuarial gain (loss)	**10 years**	10 years

9. Contingent liabilities

Contingent liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Guarantees of customers' loans and lease obligations	**¥2,160**	¥2,688	**$25,977**

10. Derivatives

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

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

There are no derivative instruments outstanding to which hedge accounting is not applied at March 31, 2011 and 2010.

11. Income taxes

The Company and its consolidated subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a normal effective statutory tax rate of approximately 40.4% for the years ended March 31, 2011 and 2010.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets:			
Allowance for doubtful accounts	**¥1,483**	¥2,000	**$17,835**
Tax loss carryforwards	**1,420**	523	**17,078**
Allowance for directors' and statutory auditors' retirement benefits	**439**	463	**5,280**
Tax credit for research and development cost	**424**	209	**5,099**
Loss on valuation of investments in securities	**350**	—	**4,209**
Impairment loss on fixed assets	**323**	329	**3,884**
Unrealized holding loss on securities	**310**	721	**3,728**
Accrued bonuses to employees	**298**	268	**3,584**
Allowance for losses on guarantees	**262**	165	**3,151**
Allowance for retirement benefits	**195**	224	**2,345**
Intercompany profit	**107**	196	**1,287**
Other	**452**	243	**5,436**
Total gross deferred tax assets	**6,063**	5,341	**72,916**
Less valuation allowance	**(1,797)**	(857)	**(21,611)**
Net deferred tax assets	**4,266**	4,484	**51,305**
Deferred tax liabilities:			
Adjustment for allowance for doubtful accounts	**(352)**	(422)	**(4,233)**
Asset retirement obligation	**(19)**	—	**(229)**
Tax deductible reserves	**—**	(14)	**—**
Other	**(38)**	(29)	**(457)**
Total gross deferred tax liabilities	**(409)**	(465)	**(4,919)**
Net deferred tax assets	**¥3,857**	¥4,019	**$46,386**

12. Research and development costs

Research and development costs charged to income were ¥2,383 million ($28,659 thousand) and ¥2,325 million for the years ended March 31, 2011 and 2010, respectively.

13. Lease

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.

Total lease payments under financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees were ¥608 million ($7,312 thousand) and ¥703 million for the years ended March 31, 2011 and 2010, respectively.

Proforma information of leased assets under financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees on an "as if capitalized" basis for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011			**2011**
	Acquisition cost	Accumulated depreciation	Net leased assets	Net leased assets
Machinery and equipment	**¥3,506**	**¥2,413**	**¥1,093**	**$13,145**
Tools, furniture and fixtures	**92**	**83**	**9**	**108**
Total	**¥3,598**	**¥2,496**	**¥1,102**	**$13,253**

	Millions of yen		
	2010		
	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery and equipment	¥4,360	¥2,698	¥1,662
Tools, furniture and fixtures	92	60	32
Total	¥4,452	¥2,758	¥1,694

Obligations under such financial leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Due within one year	**¥474**	¥596	**$5,701**
Due after one year	**647**	1,121	**7,781**
Total	**¥1,121**	¥1,717	**$13,482**

Depreciation expense and imputed interest expense for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Depreciation expense	**¥592**	¥684	**$7,120**
Imputed interest expense	**¥13**	¥18	**$156**

14. Stock option plan

The stock options as of March 31, 2011 were as follows:

Stock options	Persons granted	Number of options	Date of grant
2010 stock option	8 Directors 61 Employees 10 Directors and employees of subsidiaries	397,000 shares	August 4, 2010

Exercise price	Service period covered	Exercise period
¥2,241 ($26.95)	From August 4, 2010 to July 20, 2012	From July 21, 2012 to July 20, 2017

15. Segment information

(Additional information)

Effective the year ended March 31, 2011, the Company has applied the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17; revised March 27, 2009) and the "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20; issued March 21, 2008).

(1) 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 Machines", "Design Systems" and "Glove and Sock Knitting Machines" 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 and computerized semi-jacquard flat knitting machines. The Design System segment includes computer graphic apparel design systems, knitting CAD systems and apparel CAD/CAM systems. The Glove and Sock Knitting Machine segment consists of computerized seamless glove and sock knitting machines.

(2) 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.

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

Informations related to the reportable segments of the Company and its consolidated subsidiaries for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen					
	2011					
	Flat Knitting Machines	Design Systems	Glove and Sock Knitting Machines	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**¥35,616**	**¥1,668**	**¥1,531**	**¥38,815**	**¥3,966**	**¥42,781**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**35,616**	**1,668**	**1,531**	**38,815**	**3,966**	**42,781**
Operating expenses	**25,337**	**1,498**	**1,149**	**27,984**	**4,227**	**32,211**
Segment profit (loss)	**¥10,279**	**¥170**	**¥382**	**¥10,831**	**¥(261)**	**¥10,570**
Segment Assets:	**¥68,729**	**¥2,118**	**¥1,216**	**¥72,063**	**¥6,077**	**¥78,140**
Others:						
Depreciation	**¥968**	**¥21**	**¥33**	**¥1,022**	**¥150**	**¥1,172**
Amortization of goodwill	**625**	**16**	**0**	**641**	**103**	**744**
Increase in property, plant, equipment and intangible assets	**1,156**	**15**	**43**	**1,214**	**122**	**1,336**

	Millions of yen					
	2010					
	Flat Knitting Machines	Design Systems	Glove and Sock Knitting Machines	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥31,586	¥1,255	¥250	¥33,091	¥3,783	¥36,874
Intersegment sales	—	—	—	—	—	—
Total sales	31,586	1,255	250	33,091	3,783	36,874
Operating expenses	25,584	1,349	272	27,205	4,550	31,755
Segment profit (loss)	¥6,002	¥(94)	¥(22)	¥5,886	¥(767)	¥5,119
Segment Assets:	¥66,689	¥1,946	¥318	¥68,953	¥6,367	¥75,320
Others:						
Depreciation	¥1,282	¥42	¥10	¥1,334	¥231	¥1,565
Amortization of goodwill	1,769	39	0	1,808	207	2,015
Increase in property, plant, equipment and intangible assets	1,072	25	3	1,100	230	1,330

	Thousands of U.S. dollars					
	2011					
	Flat Knitting Machines	Design Systems	Glove and Sock Knitting Machines	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**$428,334**	**$20,060**	**$18,413**	**$466,807**	**$47,697**	**$514,504**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**428,334**	**20,060**	**18,413**	**466,807**	**47,697**	**514,504**
Operating expenses	**304,714**	**18,015**	**13,819**	**336,548**	**50,836**	**387,384**
Segment profit (loss)	**$123,620**	**$2,045**	**$4,594**	**130,259**	**$(3,139)**	**$127,120**
Segment Assets:	**$826,566**	**$25,472**	**$14,624**	**$866,662**	**$73,085**	**$939,747**
Others:						
Depreciation	**$11,642**	**$252**	**$397**	**$12,291**	**$1,804**	**$14,095**
Amortization of goodwill	**7,517**	**192**	**0**	**7,709**	**1,239**	**8,948**
Increase in property, plant, equipment and intangible assets	**13,903**	**180**	**517**	**14,600**	**1,467**	**16,067**

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.

(4) 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
	2011	2010	**2011**
Reportable segments total	**¥38,815**	¥33,091	**$466,807**
Other sales	**3,966**	3,783	**47,697**
Net sales in the consolidated statements of income	**¥42,781**	¥36,874	**$514,504**

Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Reportable segments total	**¥10,831**	¥5,886	**$130,259**
Other income (loss)	**(261)**	(767)	**(3,139)**
Corporate expenses	**(4,662)**	(4,468)	**(56,068)**
Operating income in the consolidated statements of income	**¥5,908**	¥651	**$71,052**

Note: Corporate expenses are mainly general and administrative expenses and research and development expenses not attribute to any reportable segments.

Segment assets

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Reportable segments total	**¥72,063**	¥68,953	**$866,662**
Other assets	**6,077**	6,367	**73,085**
Company-wide assets	**35,811**	34,743	**430,680**
Total assets in the consolidated balance sheets	**¥113,951**	¥110,063	**$1,370,427**

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							
	Reportable segments total		Other		Adjustment		The amount in the consolidated financial statements	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Depreciation	**¥1,022**	¥1,334	**¥150**	¥231	**¥524**	¥599	**¥1,696**	¥2,164
Amortization of goodwill	**641**	1,808	**103**	207	**—**	—	**744**	2,015
Increase in property, plant, equipment and intangible assets	**1,214**	1,100	**122**	230	**251**	824	**1,587**	2,154

	Thousands of U.S. dollars			
	2011			
	Reportable segments total	Other	Adjustment	The amount in the consolidated financial statements
Depreciation	**$12,291**	**$1,804**	**$6,302**	**$20,397**
Amortization of goodwill	**7,709**	**1,239**	**—**	**8,948**
Increase in property, plant, equipment and intangible assets	**14,600**	**1,467**	**3,019**	**19,086**

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 any reportable segments.

(Related information)

(1) Information about geographical region

Information about geographical region of the Company and its consolidated subsidiaries for the year ended March 31, 2011 was as follows:

	Millions of yen					
	2011					
	Japan	Europe	Middle East	Southeast Asia	Other	Total
Sales to customers	**¥3,804**	**¥7,575**	**¥5,363**	**¥24,324**	**¥1,715**	**¥42,781**

	Thousands of U.S. dollars					
	2011					
	Japan	Europe	Middle East	Southeast Asia	Other	Total
Sales to customers	**$45,749**	**$91,100**	**$64,498**	**$292,532**	**$20,625**	**$514,504**

(2) Geographical segment information

Geographical segment information of the Company and its consolidated subsidiaries for the year ended March 31, 2010 was as follows:

	Millions of yen						
	2010						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥12,487	¥16,775	¥7,099	¥513	¥36,874	—	¥36,874
Intersegment sales	17,900	394	1	44	18,339	¥(18,339)	—
Total	30,387	17,169	7,100	557	55,213	(18,339)	36,874
Operating costs and expenses	24,435	16,234	7,625	1,041	49,335	(13,112)	36,223
Operating income (loss)	¥5,952	¥935	¥(525)	¥(484)	¥5,878	¥(5,227)	¥651
Assets	¥67,739	¥20,823	¥14,465	¥554	¥103,581	¥6,482	¥110,063

Note: Significant countries or areas belonging to each segment are as follows:
Europe: U.K., Italy, Spain
Southeast Asia: China
North America: U.S.A.

16. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 29, 2011.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥605	$7,276

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in net assets, and cash flows for the years ended March 31, 2011 and 2010, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Osaka, Japan
June 29, 2011

Ohtemae Audit Co.

Ohtemae Audit Corporation

Corporate Data

Corporate Information (As of March 31, 2011)

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 1,730 Non-consolidated 1,191		
URL	Corporate Information	http://www.shimaseiki.com	
	IR Information	http://www.shimaseiki.co.jp/ire/ire.html	
Consolidated Subsidiaries	SHIMA FINE PRESS CO., LTD. TSM Industrial CO., LTD. KAINAN SEIMITSU CO., LTD. TOYOBOSHI KOGYO CO., LTD. TSUKADA SHIMA SEIKI CO., LTD.	SHIMA SEIKI EUROPE LTD. SHIMA SEIKI U.S.A. INC. SHIMA SEIKI (HONG KONG) LTD. SHIMA SEIKI ITALIA S.p.A. SHIMA SEIKI WIN WIN SHANGHAI LTD.	SHIMA SEIKI SPAIN, S.A.U. SHIMA SEIKI WIN WIN DONGGUAN LTD. SHIMA SEIKI (THAILAND) CO., LTD.

Investor Information (As of March 31, 2011)

Accounting Year-End	March 31
Month of General Shareholders' Meeting	June
Authorized Common Stocks	142,000,000
Issued Common Stocks	36,600,000
Number of Shareholders	18,131
Stock Exchange Listing	The First Section of the Tokyo Stock Exchange The First Section of the Osaka Securities Exchange
Auditing Corporation	Ohtemae Audit Corporation

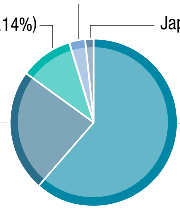
Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Masahiro Shima	3,670	10.61
Mitsuhiro Shima	1,825	5.28
Japan Trustee Services Bank, Ltd. (Trust Account)	1,451	4.20
The Kiyo Bank, Ltd.	1,310	3.79
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,056	3.06
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.55
Wajima Kosan Co., Ltd.	850	2.46
Shima Seiki Employees Shareholding Association	766	2.22
The Senshu Ikeda Bank, Ltd.	700	2.02
Hiromi Goto	697	2.02

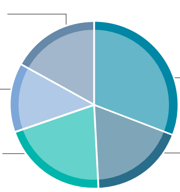
Notes: 1. The Company, which owns 2,024 thousand shares of treasury stock, or 5.53% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company' s holdings of treasury shares.
2. Holdings of less than 1,000 shares have been omitted.

Stock Ownership

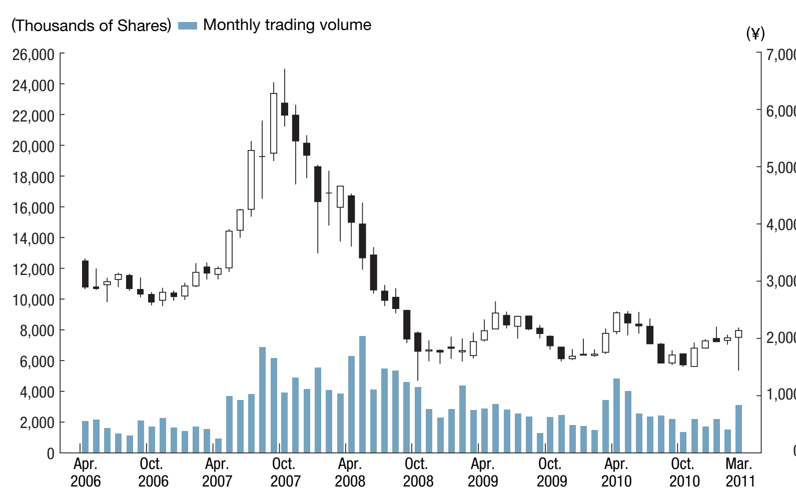
Shareholders breakdown by type



Shareholders breakdown by number of shares held



Share Price and Trading Volume on the Osaka Securities Exchange



SHIMA SEIKI MFG., LTD.

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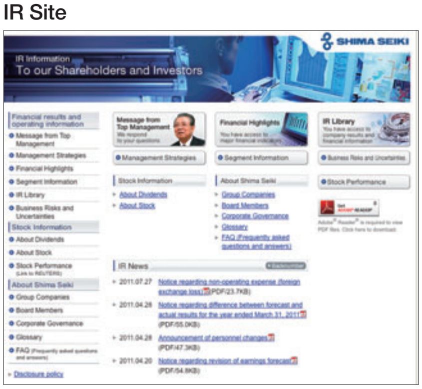
IR Site



Shima Seiki posts IR information on the website indicated below.
In addition to updates on operating performance,
the site includes a glossary, FAQ and a host of other content.
Please feel free to have a look.

http://www.shimaseiki.co.jp/ire/ire.html

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