SHIMA SEIKI

50th Anniversary

Ever Onward

Annual Report 2012 Year Ended March 31, 2012

Ever Onward

Shima Seiki has celebrated its 50th anniversary of establishment. Based on our corporate motto, “Ever Onward,” we will continue our drive to deliver innovative, “world’s first” technologies.

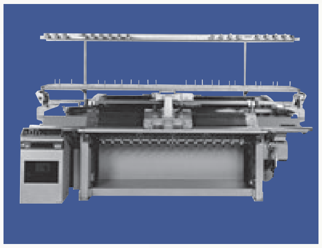
The Company was established in 1962 by Masahiro Shima, our current president, to develop the world’s first fully automated glove knitting machine. Since that time, Shima Seiki has retained its corporate spirit that seeks to offer highly advanced products at affordable prices, and we have led the industry in providing numerous world-first and unique products and technologies, including computerized flat knitting machines and design systems. The impact on the global knitwear industry of WHOLEGARMENT® flat knitting machines, which we developed in the 1990s, was comparable to the advances made during the Industrial Revolution. Going forward, Shima Seiki looks forward to helping to shape clothing culture through technological innovations and contributing to the development of the knitwear and apparel industries.

Factory at the time of establishment

Fully Automated Glove Knitting Machine

World’s first

Introduction of the world’s first glove knitting machine, which eliminated the need to stitch together the separate parts. Revolutionized manufacturing processes, which until then had relied on manual operations.



SNC Computerized Jacquard Flat Knitting Machine

World’s first

Computerized control of processes from needle movement and yarn selection to production management. Dramatically reduced production times.

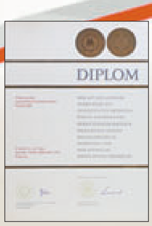
SES® Series Computerized Flat Knitting Machine

Long-seller

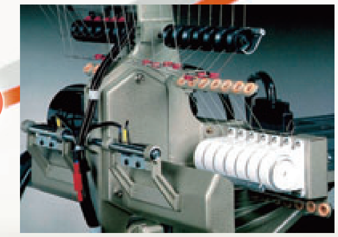
Second-generation flat knitting machine delivering high quality, speed and compactness. Developed in anticipation of customer needs, and a long-selling product.

Completion of headquarters building

Cumulative Unit Sales of Knitting Machines



Gold medal received at an industrial fair in Leipzig, Germany



Digital Stitch Control System (DSCS®)

World’s first

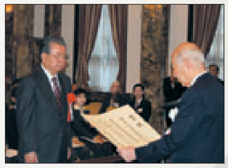
The world’s first digital stitch control device. Controlled dimensional variations in knitwear length to ±1%, contributing greatly to high and stable quality.

1962 1972 1982 1992

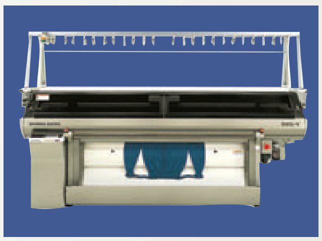
SDS®-ONE Design System

World's first

An all-in-one system connecting the entire production process. Substantially reduced pattern generation time and enabled efficient production.



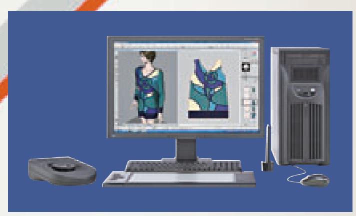
Receiving the Okochi Memorial Grand Production Prize



SWG® Series WHOLEGARMENT® Computerized Flat Knitting Machine

World's first

For the first time in the world, allowed for entirely seam-free knitwear. Heralded as an invention comparable to the advances made during the Industrial Revolution, completely changed the landscape of the knitwear industry.



SDS®-ONE APEX3 3D Design System

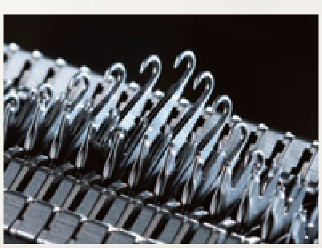
World's first

Unique

A major advance in realistic 3D simulation. Enables visual communication in place of physical samples.

Receiving the Jubilee Award from the Textile Institute of the United Kingdom

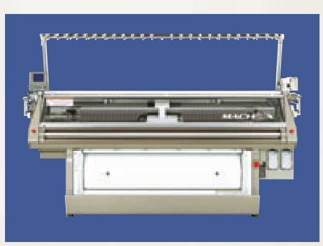
Receiving the Intellectual Property Award from the Ministry of Economy, Trade and Industry



SlideNeedle

World's first

Revolutionized the knitting needle mechanism, which had gone unchanged for the past 150 years. Allowed for the production of high-quality knitted fabric employing an entirely new knitting method.



MACH2®X WHOLEGARMENT® Flat Knitting Machine

World's first

Unique

Achieves extraordinary knitting speed of more than twice that of conventional machines. An essential element of the business model of production in consumer markets.

2002

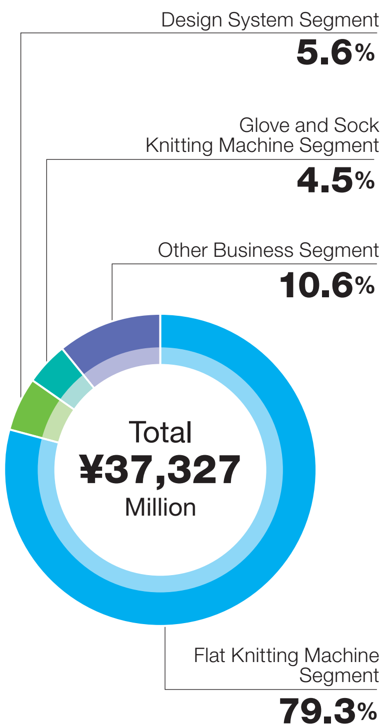
2012

Contents

Forward-looking statements:

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

Business Segments



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.

Design System Segment

This segment provides the design systems that support manufacturing in the knitwear and apparel industries. With workflows that employ virtual samples and 3D simulations, our systems realize shorter lead times and cost reductions. We are extending the compatibility of our systems to a variety of fields. The segment also handles the manufacture and sales of automatic fabric cutting machines and printing machines.

Glove and Sock Knitting Machine Segment

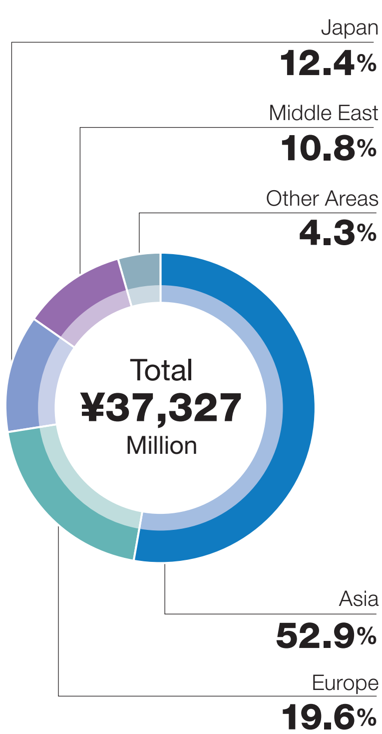
In this segment, which showcases the technological developments that hark back to the Company's origins, we manufacture and sell machines for knitting gloves and socks. By deploying advanced technologies to make finer-gauge products, we are enhancing our offerings in such high-value-added fields as healthcare.

Other Business Segment

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

Markets by Geographical Region

Sales by geographical region



Asia

In China, the world's leading knitwear production location, production is growing more automated as a result of escalating personnel costs. In addition, there is a rising impetus toward investment in computerized flat knitting machines in countries surrounding China (China plus one).

Europe

In Italy, the source of numerous fashion brands, the introduction of WHOLEGARMENT® flat knitting machines is increasing, as they facilitate widely varied, small-lot production and quick response. Eastern European countries are a new focus of manufacturing bases for mass-merchandised products.

Middle East

The knitwear industry is recovering in Turkey, which is a source of apparel production for Europe and Russia. Demand is also growing in the region for high-value-added merchandise to differentiate its output from Chinese knitwear, as well as for increased productivity.

Other Areas

Imports from China and other countries account for the majority of sales in the United States, the world's leading knitwear consumer. In Brazil, however, production is increasing to meet internal demand, spurring growth in demand for highly productive WHOLEGARMENT® flat knitting machines.

Japan

The Japanese knitwear market is characterized by a high percentage of imports, and domestic producers are struggling. Nevertheless, some sectors are seeing a return of production to Japan.

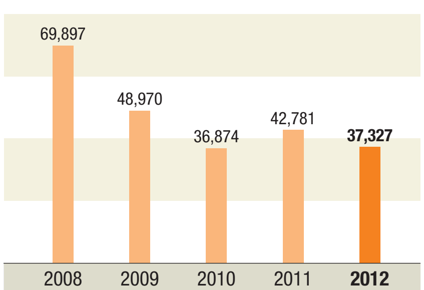
Financial Highlights

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

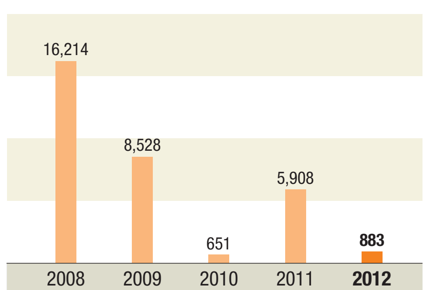
	2012	2011	2010	2009	2008		2012	2012
For the Year:			Millions of yen			Percent change 2011 / 2012	Thousands of U.S. dollars	Thousands of euros
Net sales	**¥37,327**	¥42,781	¥36,874	¥48,970	¥69,897	(12.7)%	**$454,155**	**€339,954**
Gross profit	**14,432**	19,194	14,139	24,652	35,766	(24.8)	**175,593**	**131,439**
Operating income	**883**	5,908	651	8,528	16,214	(85.0)	**10,743**	**8,042**
Income (loss) before income taxes and minority interests	**(537)**	1,092	(1,042)	4,057	18,168	–	**(6,534)**	**(4,891)**
Net income (loss)	**(642)**	770	(1,885)	1,766	9,959	–	**(7,811)**	**(5,847)**
At Year-End:			Millions of yen			Percent change 2011 / 2012	Thousands of U.S. dollars	Thousands of euros
Total assets	**¥106,863**	¥113,951	¥110,063	¥119,778	¥133,746	(6.2)%	**$1,300,195**	**€973,251**
Net assets	**84,167**	86,591	87,473	91,064	101,647	(2.8)	**1,024,054**	**766,548**
Per Share Data:			Yen			Percent change 2011 / 2012	U.S. dollars	Euros
Net income (loss)	**¥(18.60)**	¥22.26	¥(54.52)	¥49.88	¥276.13	–	**$(0.23)**	**€(0.17)**
Cash dividends applicable to the year	**40.00**	35.00	30.00	40.00	55.00	14.3%	**0.49**	**0.36**
Net assets	**2,454.07**	2,502.27	2,529.67	2,633.55	2,677.47	(1.9)	**29.86**	**22.35**
Ratios:			%					
ROA	**(0.6)%**	0.7%	(1.6)%	1.4%	7.6%			
ROE	**(0.8)**	0.8	(2.0)	1.9	10.6			
Equity ratio	**78.6**	75.9	79.5	76.0	73.2			
Overseas sales ratio	**87.6**	91.1	91.6	91.0	94.1			

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥82.19=US$1 and ¥109.80=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2012.

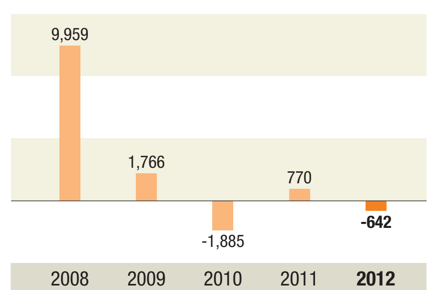
Net sales (¥ Million)



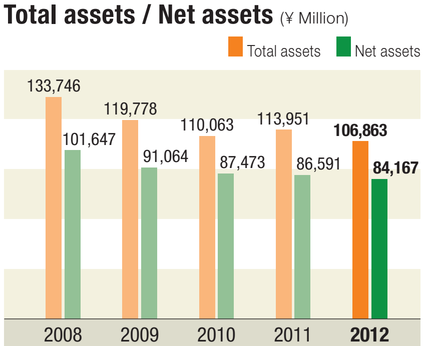
Operating income (¥ Million)



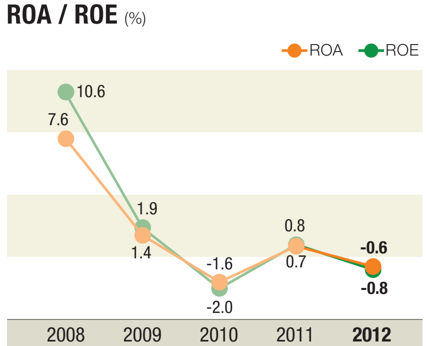
Net income (¥ Million)



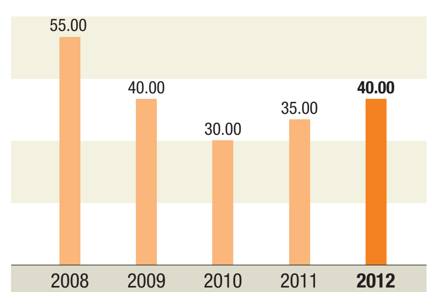
Total assets / Net assets (¥ Million)



ROA / ROE (%)



Cash dividends per share applicable to the year (¥)



Sales and income were down significantly, but we will do our utmost to stage a recovery.

During the fiscal year under review (April 1, 2011, to March 31, 2012), the Group's overall management environment was difficult, as capital investment in major knitwear producing regions was sluggish, due to such factors as lackluster apparel spending in Europe and the United States. Furthermore, yen appreciation and stiff price competition put downward pressure on selling prices, prompting year-on-year decreases in sales and income. Although the outlook for the operating environment in the upcoming fiscal year remains uncertain, we aim to stage a recovery in our operating results through proactive sales and proposal activities to meet market needs throughout the world.

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 How was the market environment and operating performance during the year under review?

A We faced a number of setbacks, which had problematic implications for both sales and income.

During the year, capital investment throughout the industrial sector decreased, owing to a growing economic malaise stemming from such factors as a delayed recovery in the U.S. employment situation and increasingly serious financial problems in Europe. During the first quarter, Shima Seiki enjoyed higher sales in China and other key markets. From the second quarter, however, growing European financial concerns caused customers to sharply reduce their capital investments. Furthermore, selling prices dropped due to yen appreciation and increasingly stringent competition. Consequently, consolidated net sales fell 12.7% during the year, to ¥37,327 million.

Operating income plunged 85.0%, to ¥883 million, as profitability fell owing to the combination of lower sales and a decline in selling prices, and ongoing yen appreciation prompted exchange losses of ¥1,794 million. As a result, the Company posted a net loss of ¥642 million, compared with net income of ¥770 million in the preceding fiscal year.

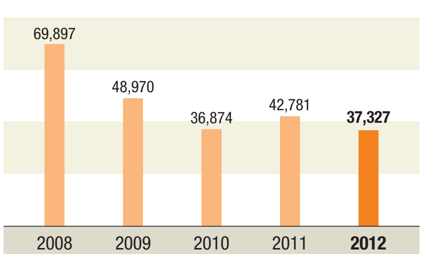
Although the year delivered extremely problematic operating performance, it also produced some seeds of future success. One such example was increased sales of the SSR®, a strategic model that we launched at the end of the preceding fiscal year. Although orders were lackluster in the second half, a sharp increase in SSR® sales prompted a year-on-year increase in unit sales of flat knitting machines during the year. Targeting China and other emerging markets, the model accurately met customers' needs and, we believe, led to steady increases in our market share and brand-building.

In WHOLEGARMENT® flat knitting machines and the SDS®-ONE APEX3 design system (APEX3), which remained our mainstay pillar of future growth, unit sales increased. We had solid success in introducing the APEX3 to the industries outside of flat knitting, including textiles, circular knitting, lace and embroidery.

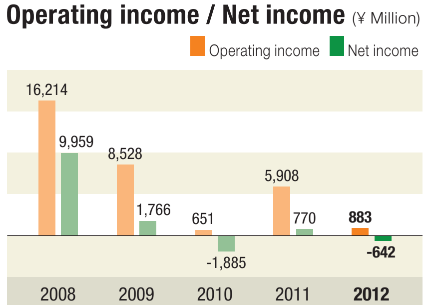
From the upcoming fiscal year, we will continue to proactively promote this sort of sales strategy as we make a full-fledged effort to achieve a turnaround in operating performance.

SDS®-ONE APEX3

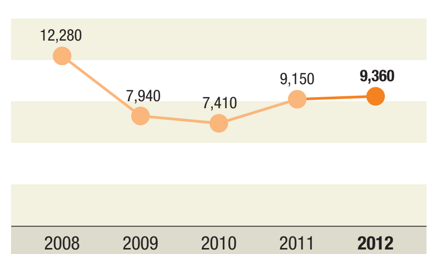
Net sales (¥ Million)



Operating income / Net income (¥ Million)



Sales of flat knitting machines (Units)




Exhibition in Bangladesh


Private showing in Brazil

Q Please describe global trends in the knitwear industry.

A The industry is undergoing a structural shift, diversifying away from a concentration on China.

Global production of knitwear products remains centered on China. Looking at our own sales, despite the decrease from the second quarter, the markets of China and Hong Kong account for more than one-third of our sales. However, China's position as the "workshop of the world" is gradually deteriorating, as economic growth and a low birthrate is giving rise to higher wages and a dearth of young workers. During the past few years, major European and U.S. apparel companies have been pursuing a "China plus one" strategy, the "one" being a country nearby China. This tendency toward a shift in production in other countries is accelerating, prompting a structural move away from the conventional concentration on China.

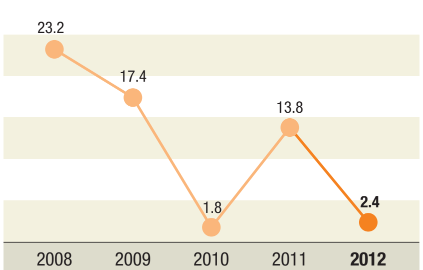
At the same time, however, China's economic development is causing domestic demand for apparel to increase. Particularly in the vicinity of Shanghai, knitwear manufacturers targeting the domestic market and adopting an SPA model (which integrates into processes from planning through sales at a single company) have begun making aggressive capital investments. Shima Seiki believes that manufacturers focused on domestic demand have a great deal of future potential.

The knitwear industry in Turkey, a center of production serving Europe and Russia, is being reinvigorated by a return of production from China. We anticipate additional increases in demand for upgrades to computerized flat knitting machines from this market, which aims to differentiate its products from Chinese knitwear through highly efficient production and high-value-added output.

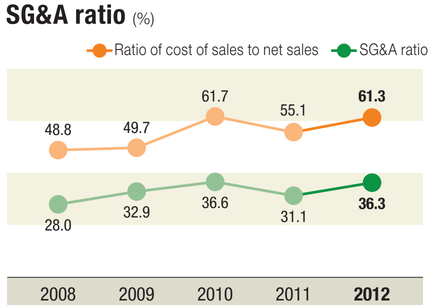
In other emerging markets, attention is focusing on the rapidly growing markets of Cambodia, Bangladesh and Indonesia, which are benefiting from the production shift from China. We also see Eastern Europe as a promising market for computerized flat knitting machines. This region is emerging as a center for the manufacture of volume-zone products for European apparel customers. Furthermore, expectations are high for Brazil, a new market where knitwear production is growing to meet increases in internal demand stemming from the country's economic growth.

Looking at markets in advanced countries, apparel manufacturers in Europe—particularly in Italy—are newly adopting a business style focusing on production in the consumer market. Accordingly, we believe this region exhibits growing potential demand for WHOLEGARMENT® flat knitting machines, which facilitate highly varied, small-lot production and quick responsiveness.

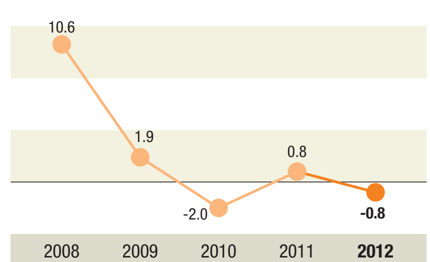
Ratio of operating income to net sales (%)



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



ROE (%)



Q Please explain some of your key initiatives during the year.

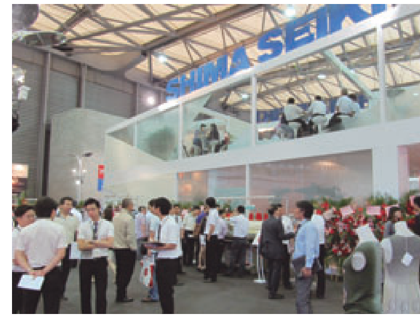
A We pushed ahead with proposals to meet the needs and conditions in individual regions of the world.

In the Chinese market, where the apparel industry is in the midst of structural change, we concentrated on expanding sales of the SSR® and exhibited at ShanghaiTex in June 2011. In addition to the high efficiency, stability and durability of our products, we appealed comprehensive strength, including design proposals and support services at this exhibition. We countered the emergence of Chinese manufacturers of flat knitting machines by making a strong appeal to Shima Seiki's overwhelming superiority.

In Turkey, the second most important emerging market for Shima Seiki after China, we sought to respond carefully to replacement demand for computerized flat knitting machines. Our sales efforts centered on the NSSG®, which offers high production efficiency and superior cost performance. We also conducted proactive sales activities in the expanding markets of Cambodia, Bangladesh and Eastern Europe, as well as South Korea, Russia and other countries.

In September 2011, we took part in the ITMA exhibition, which is one of the industry's largest, held in Barcelona. Under the theme of "Solutions for Diversity," we offered proposals suited to the needs of individual countries and regions. Many customers gave particularly high marks to our innovative proposals linking WHOLEGARMENT® flat knitting machines and APEX3. Although these efforts did not lead to orders during the year under review, owing to worsening economic conditions in Europe, we believe that our proposals aroused potential demand that will result in sales in future fiscal years.

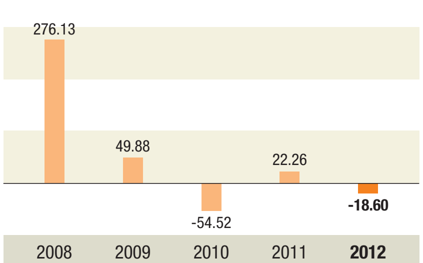
In the Design System Segment, we concentrated on expanding sales of our mainstay product, the APEX3. In Japan, we made an active effort to conduct private showings and boosted sales in the textiles, textile printing and circular knitting industries. We also held private showings of our P-CAM® automatic fabric cutting machines. Through sales activities such as these that aim to forge closer ties with the manufacturing regions, we succeeded in doubling unit sales, as well as expanding our sales routes into new industry segments, such as automotive interiors and furniture.



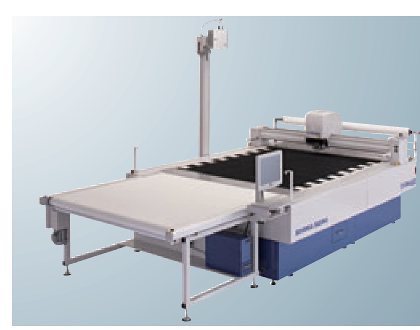
ShanghaiTex 2011

ITMA 2011

Net income per share (¥)



Cash dividends per share applicable to the year (¥)



P-CAM® automatic fabric cutting machine

WHOLEGARMENT® flat knitting machines

Q What are your future growth strategies?

A We are targeting new growth centered on WHOLEGARMENT® flat knitting machines and APEX3.

Our future growth strategies will center on boosting sales of WHOLEGARMENT® flat knitting machines.

The benefit of WHOLEGARMENT® flat knitting machines is that they ease bottlenecks in the knitwear production process caused by linking, leading to the shift from a labor-intensive industry. At the present, such countries as China face rising personnel costs and shortages of workers. As WHOLEGARMENT® flat knitting machines can help to alleviate these problems, we believe that potential demand exists not only in advanced countries, but also will grow in China and other emerging markets.

The use of WHOLEGARMENT® flat knitting machines allows the production of seamless knitwear products; they also allow for the creation of new types of knitwear products that have loops of differing sizes even within the same garment. In addition to product quality and attractiveness, they facilitate highly varied, small-lot production, which has in the past been cost-prohibitive. For these reasons, we believe that over the long term demand will increase in various parts of the world. In line with this conviction, during the year we set up a new factory dedicated to the highly efficient production of WHOLEGARMENT® flat knitting machines.

Our second point of focus, following WHOLEGARMENT® flat knitting machines, will be the APEX3 design system. This system addresses one of the bottlenecks in apparel production: the creation of physical samples (see page11). By creating high-quality virtual samples, the APEX3 greatly reduces the time and cost required for the planning process and allows for the planning of highly creative products. By enhancing the links between the APEX3 and WHOLEGARMENT® flat knitting machines, we are changing the essence of the apparel business and contributing to the realization of a manufacturing process that is closely attuned to market needs.

We will also pursue applications for the APEX3 outside the knitwear industry. By mounting an aggressive effort to promote sales that allow customers to incorporate the system in plans across a broad cross-section of the apparel industry—including circular knitting, textiles, textile printing, towels and embroidery simulation—we expect these systems to evolve into a pillar of business on a par with flat knitting machines.

Q What was your dividend for the year under review?

A We paid a dividend of ¥40.00 per share, including a commemorative dividend of ¥5.00.

Shima Seiki treats return of profits to shareholders as a priority management issue. In line with our initial plans, we awarded a year-end dividend of ¥17.50 per share. We augmented this with a ¥5.00 dividend to mark the 50th anniversary of the Company's establishment in February 2012 and in appreciation of ongoing support of our shareholders. Including the interim dividend of ¥17.50 per share, total dividends for the year amounted to ¥40.00.

Despite the ongoing difficulties of our operating environment, we plan to maintain stable dividends and strive to enhance shareholder value.

Q What are your strategies and outlook for business performance in the upcoming fiscal year?

A We will strengthen our proposals tailored to individual countries and regions in an effort to turn performance around.

In the fiscal year ending March 31, 2013, we will strive to develop our business by remaining keenly aware of market trends in regions throughout the world.

In advanced-country markets, we will step up our efforts to cultivate demand with an extensive lineup of WHOLEGARMENT® flat knitting machines. Meanwhile, in emerging markets where we built up brand awareness through SSR® during the year, we will reinforce sales activities at local subsidiaries and in collaboration with sales outlets. By augmenting our technical and service support offerings, we aim to steadily enhance our position in these markets. In the Design System Segment, we will also focus our attention on markets outside the knitwear sector, using the APEX3 as the core for expanded high-value-added business proposals.

To hedge the risk of yen appreciation against the U.S. dollar and the euro, which had a major impact on our profits during the year under review, we will enter foreign exchange contracts and liquidize receivables. We will also seek to minimize the ongoing effects of exchange rate fluctuations through measures to increase our overseas parts procurement ratio.

As a result of these strategies, during the year ending March 31, 2013, on a consolidated basis we aim to generate net sales of ¥43.0 billion, operating income of ¥3.0 billion and net income of ¥2.0 billion. Our assumed exchange rates for the year are ¥81 to the U.S. dollar and ¥107 to the euro.


Technology workshops in emerging markets

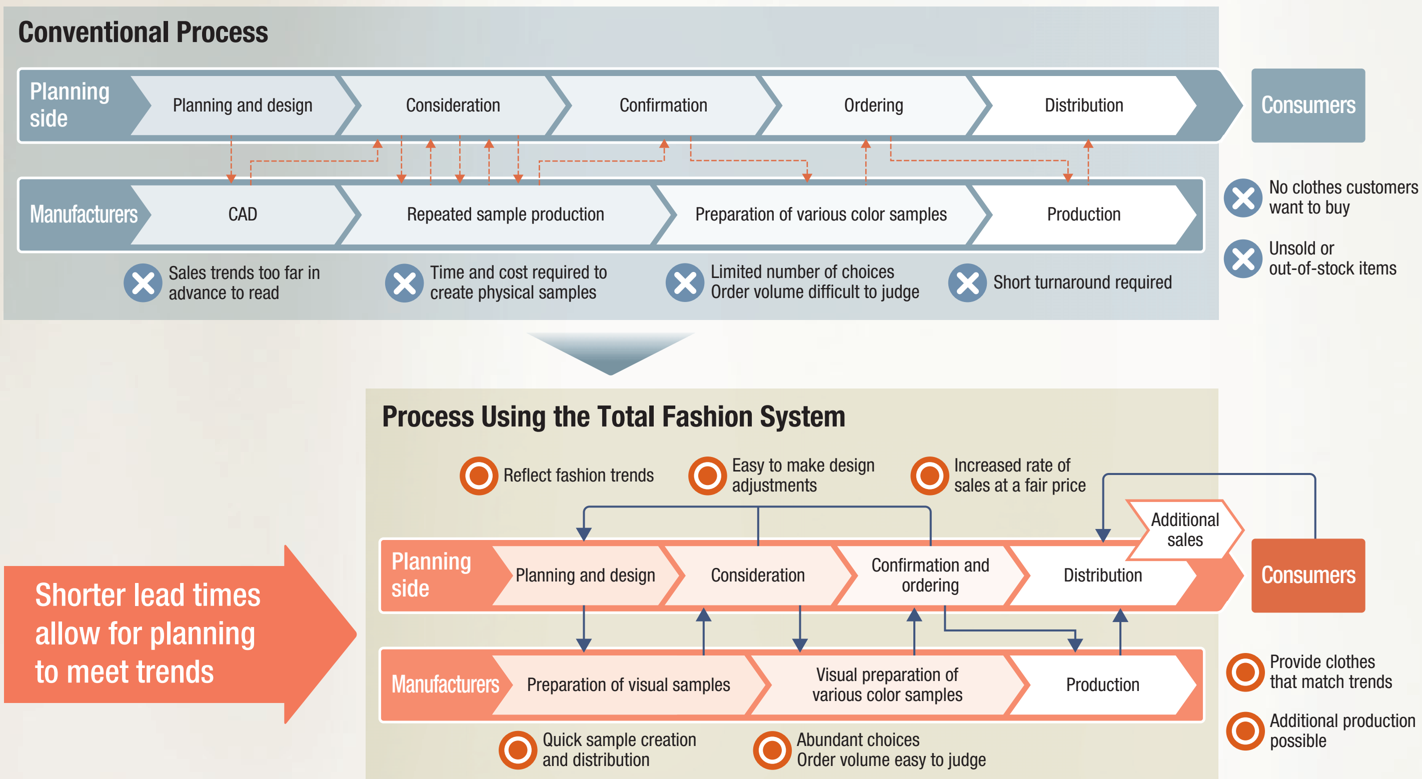
Although we expect the operating environment to remain uncertain, we intend to mount a recovery in operating performance by proposing products and services that are optimally suited to the market needs of individual countries and regions, thereby reinvigorating the global apparel industry.

Masahiro Shima

Masahiro Shima, President

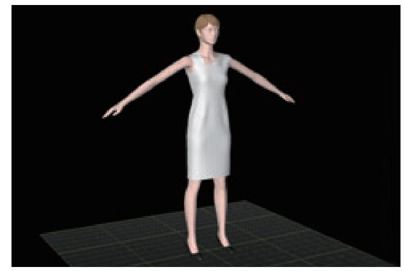
Total Fashion System Revolutionizing the Apparel Industry

One bottleneck in the process of producing apparel items is creating physical samples, which requires a significant amount of time, as well as cost. To alleviate this problem, Shima Seiki has introduced the SDS®-ONE APEX3 design system (APEX3). In addition, through proposals using the Total Fashion System, which links the APEX3 with computerized flat knitting machines and other equipment, Shima Seiki is fostering innovation in the apparel industry.



Total Fashion System advantages

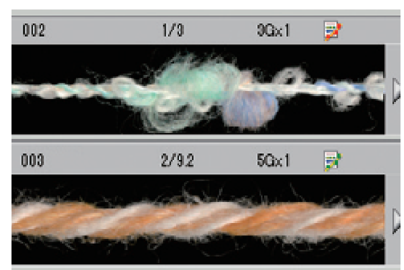
Creates High-Quality Virtual Samples in a Short Amount of Time



The APEX3 automatically creates a three-dimensional image of a product, simply by inputting the dimensional values of the design specifications. A 3D model can be clad with apparel including patterns and color designs to generate digital data samples in a short period of time.

Using virtual samples to confirm on screen how the finished product will look and its appearance when worn greatly simplifies the process of making revisions or redoing the entire product. This approach does not require materials in the way that creating a physical sample would, so operators can revise plans and designs at will until the result is satisfactory. As virtual samples dramatically reduce the time required for the planning process, products can be introduced in a timely manner that more closely matches current trends and market needs.

Facilitates Communications by Transmitting Realistic Samples



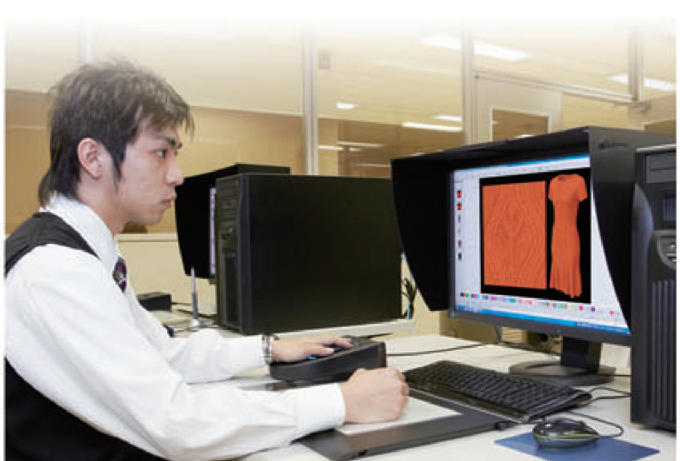
The APEX3 generates highly realistic virtual samples. High-resolution data on actual yarns that is stored in the database is used to knit the sample on-screen, enhancing the sense of reality and creating a virtual product that compares favorable with its physical rendition. Even the aspect of the knitted fabric and the nap of the yarn are portrayed. It is also possible to populate the database with a host of up-to-date elements.

Also, because the data is digital, it can be easily transmitted. Designs can be sent over a network and confirmed in real time or presented in remote regions. Using high-quality virtual samples in this way facilitates smooth communications.

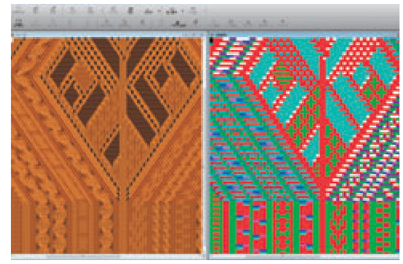
Expands the Scope of Planning through Diverse Simulations

One major advantage of virtual samples is their ease of simulation. Our database contains more than 1,000 types of knitting design patterns and includes PANTONE® color guides, which are in common use worldwide. As a result, colors and patterns can be selected and adjusted freely, confirming the overall product image via a variety of simulations.

Styles, silhouettes and differences in texture resulting from changes in gauge can be easily simulated on-screen. This comparison of various ideas in meticulous detail, which would be difficult to achieve with physical samples, greatly enhances product planning and proposal capabilities.



Smoothly Links the Design and Production Processes



APEX3 design data includes knit programming data for Shima Seiki's knitting machines. This means that once data is transferred to our knitting CAD software, it is automatically programmed, and products can be generated without any loss of time.

Colors, designs and sizes can be revised swiftly to reflect market requirements, and it is possible to respond to detailed requests, such as for additional orders. Our Total Fashion System facilitates the timely planning and provision of merchandise that the market demands, when it is required.

Enables Innovation through Links with WHOLEGARMENT® Flat Knitting Machines

In the Total Fashion System, it is most effective when APEX3 and WHOLEGARMENT® flat knitting machines are used in combination. By integrating WHOLEGARMENT® flat knitting machines—which render unnecessary the process of linking apparel torso components with sleeves—with the APEX3 results in a production process that requires minimum lead time.

These attributes suit for the knitwear industries of advanced countries. Rather than following the traditional model of labor-intensive mass production in emerging markets, our Total Fashion System facilitates the production of high-value-added products in small, diverse lots within the region of consumption and in swift response to the market requirements of that region.

Completing a New Factory Dedicated to WHOLEGARMENT® Flat Knitting Machines

Given the rising labor costs and shortage of workers that China is facing, coupled with high materials costs, we expect demand for WHOLEGARMENT® flat knitting machines to rise. To meet this anticipated demand, we have constructed a new factory within our headquarters site that is dedicated to the assembly of WHOLEGARMENT® flat knitting machines. The plant went into operation in February 2012.

Presenting the Total Fashion System to more than 150 customers at the new plant's unveiling ceremony

Commencing Development of Our Own Brand, “SAMAND’OR”

To put our Total Fashion System into operation as an actual business model, in March 2012 we launched our own brand, “SAMAND'OR.” We aim to use this brand to demonstrate knitwear’s full appeal, providing the market with apparel the likes of which have never been seen before.

Coinciding with this launch, we opened a direct retail shop for SAMAND'OR in the Takashimaya department store in Nihonbashi, Tokyo. In addition to selling off-the-shelf products, this shop takes custom orders that feature the link between our design system and flat knitting machines, showcasing our innovations in the apparel business.

Design Systems Changing the Apparel Industry

Creating physical samples is a bottleneck process throughout the apparel industry, but APEX3 helps to ease this obstruction by generating high-quality virtual samples. Accordingly, our system has the potential to revolutionize not only the knitwear industry, but the apparel and fashion industries as well. We are working to introduce the APEX3 in a wide variety of industries, including textiles and textile printing.

Overview and Outlook

The Shima Seiki Group comprises four business segments. Our core Flat Knitting Machine Segment, which accounts for around 80% of net sales, engages in the development, manufacture and sales of computerized flat knitting machines.

Flat Knitting Machine Segment

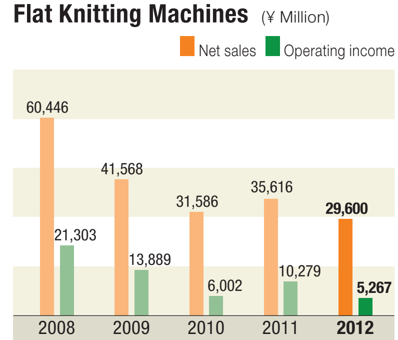
Overview of the Year under Review

During the first quarter, demand in our mainstay markets of China and Hong Kong increased for our computerized flat knitting machines, which offer high productivity. Sales grew, centered on the SSR®, which features superior productivity and cost performance. However, from the second quarter knitwear orders from European and U.S. apparel manufacturers dropped precipitously as the European financial crisis unfolded. Facing an increasingly uncertain future and the effects of tighter financial policies, export-oriented knitwear manufacturers, in particular, cut back significantly on capital investment. As a result, even during the fourth quarter we did not benefit from the rebound in capital expenditure that has been typical of previous years. The effects of these trends rippled outward into Turkey—which supplies knitwear to Europe and Russia—and to emerging knitwear production regions in Asia, causing capital investment to slump from the second quarter.

Looking at Italy of the European market, first-quarter sales were robust, centered on WHOLEGARMENT® flat knitting machines as the core of local production for the local market. As in other regions, however, sales began to decelerate in the second quarter, affected by the economic malaise. Conversely, sales were up year on year in Japan, which accounts for a small percentage of the Group's total net sales, owing to a partial shift of production from China.

As a result, sales in the Flat Knitting Machine Segment decreased 16.9% during the year, to ¥29,600 million.

Flat Knitting Machines (¥ Million)



Outlook for the Next Fiscal Year

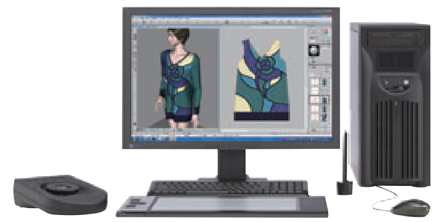
In the Chinese and Hong Kong markets, we aim to differentiate Shima Seiki's comprehensive strength—leveraging the high-end technological capabilities and expertise we have accumulated to provide solutions that make production processes more efficient and deliver higher-value-added products—from Chinese manufacturers of flat knitting machines that have emerged in recent years, and boost our market share. Also, in the countries around China, where demand for production facilities is expected to continue growing, we will enhance our sales network and support structure to increase market penetration. In Turkey, apparel production for the Russian market and to satisfy internal demand is favorable. We will work to further increase sales of computerized flat knitting machines by developing proposals that meet customers' needs to improve quality and achieve design diversity. In Europe, we expect the economic doldrums to persist into the upcoming fiscal year. Even so, we will endeavor to boost sales by concentrating on highly brand-conscious Italy, focusing on WHOLEGARMENT® flat knitting machines that allow the production of high-quality and fashionable knitwear.

For the Japanese market, we will reinforce detailed technical services and proposals based on a new business model that centers on WHOLEGARMENT® flat knitting machines.

By implementing these measures, we forecast net sales for the segment of ¥34.2 billion, up 15.5% compared with the year under review.

Design System Segment

Overview of the Year under Review



Owing to our proactive proposal of innovative business models employing virtual samples, sales of our SDS®-ONE APEX3 design system increased. In addition to the flat knitting industry, we generated sales in the textiles, textile printing and circular knitting industries.

For P-CAM® automatic fabric cutting machines, we conducted private showings as part of our sales activities to foster close relations with producing regions. Sales increased as a result, particularly in Japan, and we expanded our sales routes into new industries, such as automotive interiors and furniture.

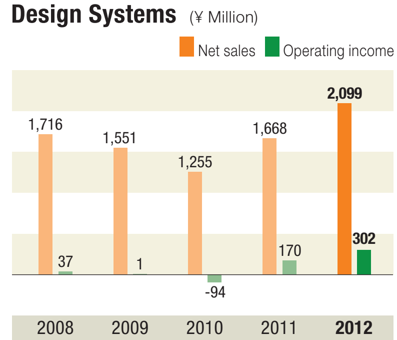
Consequently, sales from the Design System Segment rose 25.9%, to ¥2,099 million.

Outlook for the Next Fiscal Year

In the upcoming fiscal year, we plan to propose manufacturing that uses the SDS®-ONE APEX3 to shorten lead times substantially. We also intend to cultivate new demand by extending our sales activities to customers in other sectors. Through detailed sales activities, we aim to increase sales further for P-CAM® automatic fabric cutting machines, which continue to sell favorably in the Japanese market.

Through these initiatives, we anticipate Design System Segment sales of ¥3.2 billion, up 52.5% year on year.

Design Systems (¥ Million)



TOPICS Exhibiting at ITMA, the World's Largest Textile Machinery Exhibition

Proposing Diverse Solutions to Meet the Needs of Individual Countries and Regions

We took part in the ITMA exhibition, held in Barcelona, Spain, in September 2011. Responding to the structural shift of apparel production away from its concentration in China, our booth—themed "Solutions for Diversity"—showcased the development of diverse proposals tailored to regional characteristics and customer demand.

We concentrated specifically on innovative proposals targeting the apparel industries of Europe and other advanced markets. At the SDS®-ONE APEX3 corner of our booth, we demonstrated our newly developed software, which incorporates the know-how of experienced technicians, and produced virtual samples. We also demonstrated business trends involving the highly efficient production of high-value-added products in consuming regions through our Total Fashion System, which links the SDS®-ONE APEX3 and WHOLEGARMENT® flat knitting machines.

Glove and Sock Knitting Machine Segment

Overview of the Year under Review

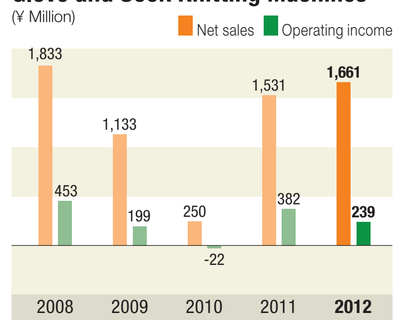
In the Glove and Sock Knitting Machine Segment, we experienced increasingly stringent competition from inexpensive machines made in China and South Korea, so have been compelled to lower selling prices. However, durability of our machines and final product quality earned high marks in the emerging markets of Asia, and capital investment continued apace. As a result, sales in the Glove and Sock Knitting Machine Segment grew 8.5%, to ¥1,661 million.

Outlook for the Next Fiscal Year

While we expect stiff competition to continue into the next fiscal year, we anticipate solid demand, centering on Asia's emerging markets. We intend to ensure sales in these regions by supporting the development of high-value-added products that leverage the functionality, durability and high productivity of our machines.

In the upcoming fiscal year, we anticipate sales of ¥1.6 billion in the Glove and Sock Knitting Machine Segment, down 3.7% from the year under review.

Glove and Sock Knitting Machines



Other Business Segment

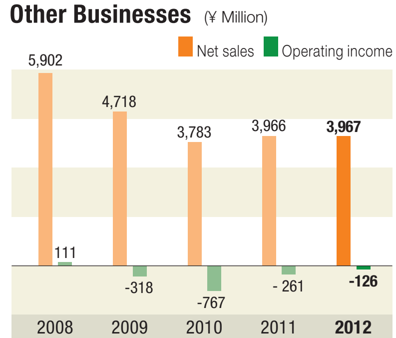
Overview of the Year under Review

In tandem with lower sales in the Flat Knitting Machine Segment, the Other Business Segment's sales of maintenance parts and repair and maintenance services declined. The segment also recorded year-on-year decreases in sales of cashmere yarn and other spinning operations. At the same time, however, sales of knitwear products in Japan and the United States increased, owing to enhanced sales efforts on WHOLEGARMENT® products. Consequently, the sales in the Other Business Segment were flat year on year, at ¥3,967 million.

Outlook for the Next Fiscal Year

We anticipate a 0.8% increase in sales, to ¥4.0 billion, in the Other Business Segment in the upcoming fiscal year.

Other Businesses (¥ Million)



R&D Activities

Companywide R&D Structure Working Together to Meet Customers' Needs

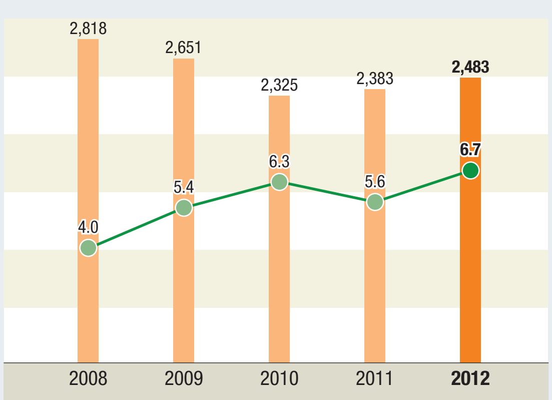
Since the time of our establishment, we have remained true to our founder's slogan, "Create that which does not exist." Seeking to deliver unique technological developments based upon creativity, we develop all our own product hardware and software on this basis.

Our technology development divisions comprise the Mechatronic Development Division, which designs knitting machines, fabric cutting machines and other equipment and develops control devices, and the Graphic System Development Division, which develops design systems. This structure enables us to maintain consistency from circuit board design to software development. We have also created a system that links R&D to our production and sales divisions, enabling us to quickly develop products that meet customers' needs. During the year under review, we participated in the ITMA exhibition, which is held once every four years. We unveiled a number of new products at this trade show, which proved very successful.

Each year, we aim to invest around 5% of net sales in R&D, and during the year under review, R&D expenditure amounted to ¥2.4 billion, or 6.7% of net sales. We will continue our aggressive R&D activities, aimed at generating attractive products.

Research and development expenses (¥ Million)

Ratio of research and development expenses to net sales (%)



Intellectual Property Initiatives

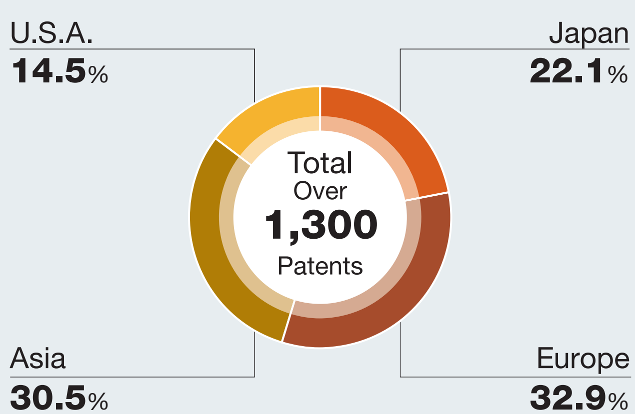
Promoting Strategic Initiatives to Protect and Leverage our R&D Successes

We have placed 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 technologies and expertise that we have accumulated to date are stored in a database, allowing them to be shared throughout the Company.

The Company currently holds more than 1,300 patents in Japan and other countries, and particularly in recent years we have stepped up our efforts to reinforce protection of our intellectual property in Asia. We continue working to acquire patents across 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 with our intellectual property.

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

Patents by region (2011)



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

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

Basic Policies and Systems

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

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 supervise the execution of business. During the year ended March 31, 2012, 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 13 times.

Internal Auditing Division

The Company has established an Internal Auditing Division to perform internal audits throughout the Company's business operations, as well as to conduct internal control audits to determine the status of compliance, risk management and financial reporting, based on an annual audit plan.

Accounting Audits

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

Internal Control System

Recognizing the importance of creating and operating an internal control system, we have formulated Basic Policies Related to Improvement of the Internal Control System and are enhancing internal control accordingly. In addition to the Committee for the Promotion of the Internal Control System, we have established a Compliance Committee, a Risk Management Committee and an Information Security Committee as part of our initiatives to enhance internal controls.

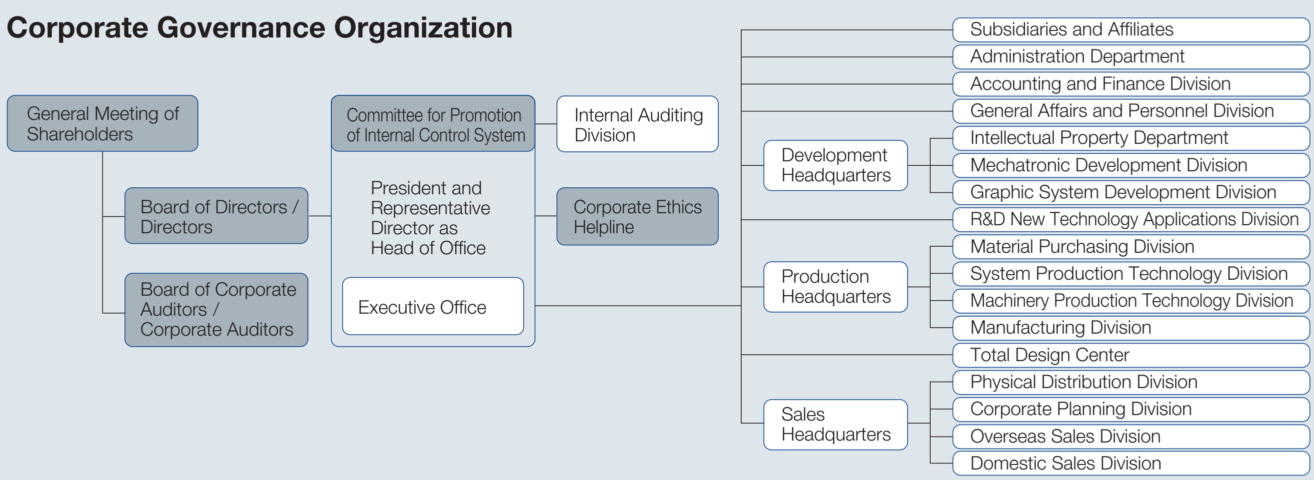
With regard to internal control over financial reporting, as well, we have systems in place to promote fair and impartial disclosure, thereby ensuring the reliability of financial reporting.

Efforts toward Compliance

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

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

Corporate Governance Organization



President

Masahiro Shima
Director of Sales Headquarters

Executive Vice President

Mitsuhiro Shima
Deputy Director of Sales Headquarters, concurrently overseeing Corporate Planning Division and Total Design Center

Executive Directors

Takashi Wada
Director of Production Headquarters, concurrently overseeing Machinery Production Technology Division, Manufacturing Division and System Production Technology Division

Reiji Arikita
Director of Development Headquarters, concurrently overseeing R&D New Technology Applications Division

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 Physical Distribution Division

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

Hirokazu Nishitani
General Manager of Material Purchasing Division

Kiyokata Nishikawa
General Manager of Sales Headquarters

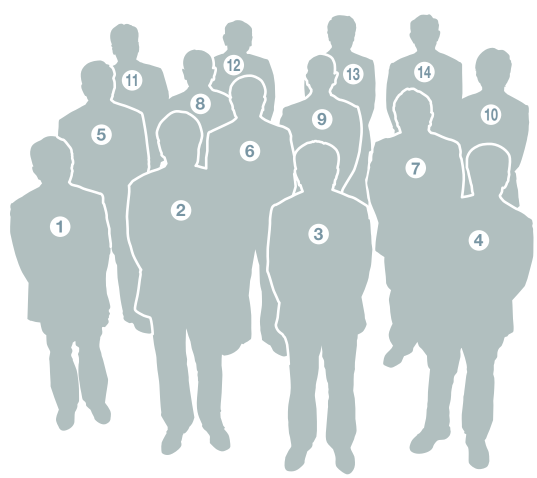
Corporate Auditors

Mitsunori Ueda
Standing Corporate Auditor

Masao Tanaka
Standing Corporate Auditor

Yuuki Matoba
Corporate Auditor

Daisuke Shinkawa
Corporate Auditor



1. Reiji Arikita
2. Mitsuhiro Shima
3. Masahiro Shima
4. Takashi Wada
5. Toshio Nakashima
6. Ikuto Umeda
7. Osamu Fujita
8. Hirokazu Nishitani
9. Takashi Nanki
10. Kiyokata Nishikawa
11. Daisuke Shinkawa
12. Masao Tanaka
13. Mitsunori Ueda
14. Yuuki Matoba

Financial Section

Five-Year Financial Summary

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

	2012	2011	2010	2009	2008	**2012**
For the Year:			Millions of yen			Thousands of U.S. dollars
Net sales	**¥37,327**	¥42,781	¥36,874	¥48,970	¥69,897	**$454,155**
Cost of sales	**22,895**	23,587	22,735	24,318	34,131	**278,562**
Gross profit	**14,432**	19,194	14,139	24,652	35,766	**175,593**
Selling, general and administrative expenses	**13,549**	13,286	13,488	16,124	19,552	**164,850**
Operating income	**883**	5,908	651	8,528	16,214	**10,743**
Income (loss) before income taxes and minority interests	**(537)**	1,092	(1,042)	4,057	18,168	**(6,534)**
Net income (loss)	**(642)**	770	(1,885)	1,766	9,959	**(7,811)**
Net cash provided by (used in) operating activities	**(2,094)**	3,504	6,746	1,978	21,747	**(25,478)**
Net cash provided by (used in) investing activities	**532**	(1,834)	(2,759)	70	(3,321)	**6,473**
Net cash provided by (used in) financing activities	**(1,929)**	1,297	(6,682)	(4,294)	(10,883)	**(23,470)**
Capital investment	**2,275**	1,587	2,154	4,147	2,496	**27,680**
Depreciation and amortization	**1,809**	1,696	2,164	2,358	2,454	**22,010**
Research and development expenses	**2,483**	2,383	2,325	2,651	2,818	**30,210**
At Year-End:			Millions of yen			Thousands of U.S. dollars
Total assets	**¥106,863**	¥113,951	¥110,063	¥119,778	¥133,746	**$1,300,195**
Net assets	**84,167**	86,591	87,473	91,064	101,647	**1,024,054**
Per Share Data:			Yen			U.S. dollars
Net income (loss)	**¥(18.60)**	¥22.26	¥(54.52)	¥49.88	¥276.13	**$(0.23)**
Cash dividends applicable to the year	**40.00**	35.00	30.00	40.00	55.00	**0.49**
Net assets	**2,454.07**	2,502.27	2,529.67	2,633.55	2,677.47	**29.86**
Ratios:			%			
Ratio of operating income to net sales	**2.4%**	13.8%	1.8%	17.4%	23.2%	
ROA	**(0.6)**	0.7	(1.6)	1.4	7.6	
ROE	**(0.8)**	0.8	(2.0)	1.9	10.6	
Equity ratio	**78.6**	75.9	79.5	76.0	73.2	

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥82.19=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2012.

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

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

Overview

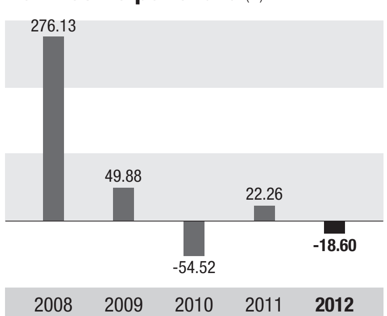
During the consolidated fiscal year under review, the overall economic situation remained problematic. European sovereign debt crisis prompted economic malaise in advanced countries, which rippled outward into emerging markets in the form of a slowdown in growth. Although the Japanese economy shook off the negative effects of the Great East Japan Earthquake, exports were sluggish, owing to global economic deceleration. These factors, as well as the impact of yen appreciation, hampered the Japanese economy's ability to stage a full recovery.

Against this backdrop, the Shima Seiki Group focused on responding swiftly to the needs of customers in Japan and overseas by developing and selling products that contribute to higher levels of productivity and high-quality manufacturing. Given the problematic state of the management environment, however, although consumption in emerging markets expanded, apparel consumption was lackluster in Europe and the United States. Production in the world's knitwear manufacturing regions consequently declined, leading to stagnant capital investment. Furthermore, product prices fell, due to the impact of yen appreciation and increasingly stringent price competition among rival manufacturers.

Under these circumstances, the Company posted consolidated net sales of ¥37,327 million during the fiscal year ended March 31, 2012, down 12.7% from the preceding fiscal year. Profits fell as a result of lower net sales, as well as a decline in selling prices, which drove down the gross profit ratio, and the SG&A ratio climbed. Consequently, operating income dropped 85.0%, to ¥883 million. Protracted yen appreciation led to foreign exchange losses of ¥1,794 million. As a result, the Group posted a net loss for the year of ¥642 million, compared with net income of ¥770 million in the preceding fiscal year.

Shima Seiki treats the return of profits to shareholders as a priority management issue. With regard to profit distribution, the Company strives to maintain long-term stable dividends, taking into account business performance during the year, forecasts for future profits and business expansion for the future, as it works to raise stock value per share. During the year, consolidated earnings per share fell from ¥22.26 in the preceding term to a negative ¥18.60 during the year under review. Nevertheless, in line with our initial forecast we awarded a year-end cash dividend of ¥17.50 per share as a regular dividend, plus a commemorative dividend of ¥5.00 per share to mark the 50th anniversary of the Company's founding, as well as a year-end dividend of ¥22.50 per share. Combined with an interim dividend of ¥17.50 per share, this brought dividends for the year to ¥40.00 per share.

Net income per share (¥)



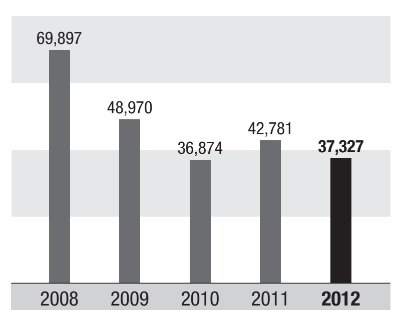
Net Sales

Shima Seiki's consolidated net sales fell 12.7% from the previous year, to ¥37,327 million.

Within the Shima Seiki Group's core business of flat knitting machines, in the pivotal Chinese market demand rose for computerized flat knitting machines, which offer high productivity. These sales increased in the first quarter, centering on the SSR®, which launched in the preceding fiscal year. However, the European sovereign debt crisis gained momentum as we entered the second quarter, causing orders from European and U.S. apparel manufacturers to plummet compared with typical levels. Affected by this situation, uncertainty about the future spread into the Chinese market. Furthermore, financial tightening prompted export-oriented knitwear manufacturers, in particular, to sharply reduce capital investment, which remained in the doldrums through the end of the fiscal year. Amid these conditions, from the second quarter sales also languished in Turkey, which is a point of production for Europe and Russia, as well as in Asian emerging markets and other knitwear producing regions. Within Europe as well, sales in Italy expanded in the first quarter, centered on WHOLEGARMENT® flat knitting machines for high-value-added local production for the local market. As in other regions, however, sales fell off from the second quarter, owing to sluggish economic conditions.

In the Design System Segment, sales of the SDS®-ONE APEX3 increased. By facilitating proposal-based sales, which boosts business efficiency using virtual samples, this model is proving popular even outside the existing flat knitting market, with sales

Net sales (¥ Million)



extending to the textiles, textile printing, circular knitting and other industries. We also increased sales for the P-CAM® automatic fabric cutting machine and expanded our sales routes outside the apparel industry, notably in the Japanese market, into automotive interior products, furniture and other industries.

Sales in the Glove and Sock Knitting Machine Segment were affected by a decline in selling prices due to competition from inexpensive machines by Chinese and South Korean manufacturers. Even so, our products earn high praise for their durability and the stability of end-product quality that they provide, resulting in higher sales among the emerging markets of Asia, where capital investment continued to move forward.

Overall, overseas net sales slipped 16.1%, to ¥32,705 million, and overseas net sales accounted for 87.6% of net sales during the year, a 3.5-percentage-point decrease from the previous year. By geographical region, net sales consisted of 52.9% to Asia (compared with 56.9% during the previous year), 19.6% to Europe (17.7%), 10.8% to the Middle East (12.5%) and 4.3% to other areas (4.0%), indicating a decreasing weight in Asia.

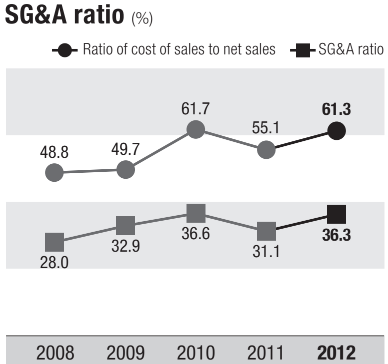
In the Japanese market, sales in the Flat Knitting Machine Segment benefited from the shift of some production from China, and Design System Segment sales were robust. As a result, domestic net sales were up 21.5%, to ¥4,622 million.

Cost of Sales and SG&A Expenses

The decline in net sales, as well as lower selling prices resulting from the impact of yen appreciation and severe competition, pushed up the percentage of manufacturing costs. Cost of sales came to ¥22,895 million, and the ratio of cost of sales to net sales increased 6.2 percentage points year on year, to 61.3%.

During the year, the Company incurred costs related to exhibiting at the world's largest international textile machinery exhibition, held once every four years, and posted research and development expenses, as well as a bad debt expense. As a result, selling, general and administrative (SG&A) expenses rose 2.0% from the preceding fiscal year, to ¥13,549 million. As net sales declined, this led to a 5.2-percentage-point increase in the SG&A ratio, to 36.3%.

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



Operating Income

Operating income was down sharply, falling 85.0%, to ¥883 million. The primary reason for this decline was the 12.7% year-on-year decrease in net sales. In addition, reduced selling prices on flat knitting machines and a fall in the number of units produced caused an increase in the ratio of cost of sales to net sales, as well as a higher SG&A ratio. As a result, the ratio of operating income to net sales was 2.4%, a significant fall compared from 13.8% in the preceding fiscal year.

By business segment, operating income in the Flat Knitting Machine Segment came to ¥5,267 million, down 48.8% year on year; ¥302 million in the Design System Segment, up 77.9%; and ¥239 million in the Glove and Sock Knitting Machine Segment, down 37.5%. The Other Business Segment posted an operating loss of ¥126 million, compared with an operating loss of ¥261 in the previous term.

Other Income and Expenses

Other expenses exceeded other income, leading to net other expenses of ¥1,420 million, compared with ¥4,816 million in the previous year. This result stemmed from such factors as a ¥1,794 million loss on valuation of receivables denominated in foreign currencies, due to yen appreciation.

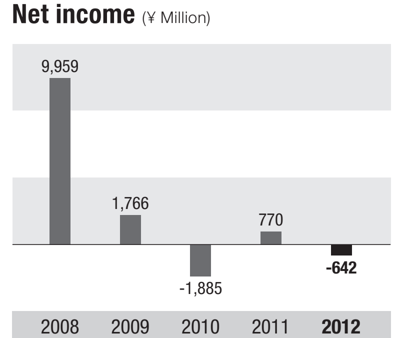
Net Income

Shima Seiki recorded a consolidated loss before income taxes and minority interests for the period under review of ¥537 million, against income of ¥1,092 million during the previous year.

Corporate income, residential and enterprise taxes totaled ¥114 million, representing a decrease of ¥478 million from a year earlier. Corporate income tax adjustments for the period under review were a negative ¥9 million, compared with a negative ¥270 million in the previous year. As a result, the Company's tax burden after the application of tax effect accounting declined ¥217 million, to ¥105 million.

Owing to the above factors, the consolidated net loss for the Shima Seiki Group during the current year amounted to ¥642 million, compared with consolidated net income of ¥770 million for the preceding fiscal term.

Net income (¥ Million)



Liquidity and Capital Resources

Cash and cash equivalents were ¥14,191 million as of March 31, 2012, down ¥3,887 million from one year earlier. Operating and financing activities used cash in an amount that exceed the cash provided by investing activities.

Net cash used in operating activities was ¥2,094 million, compared with ¥3,504 million provided in this category in the preceding fiscal year. The principal source of cash was a decrease in trade receivables, which provided ¥2,759 million, compared with an increase of ¥3,568 million in the preceding fiscal year. However, the decrease in trade payables used ¥2,751 million, compared with a ¥2,798 million increase in the preceding year, and an increase in inventories used ¥2,606 million, compared with ¥3,554 million in the preceding term.

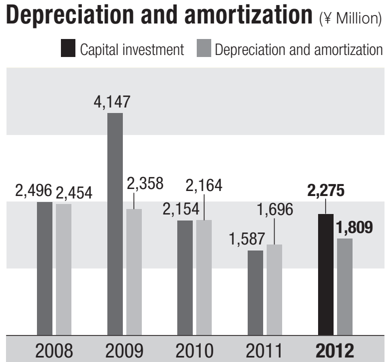
Net cash provided by investing activities amounted to ¥532 million, compared with ¥1,834 million used in these activities in the preceding fiscal year. Purchases of property, plant and equipment used ¥1,435 million, compared with ¥850 million in the previous fiscal year, and was the main use of cash. Proceeds from sales of short-term investments provided ¥1,415 million, compared with ¥1,907 million in the preceding term.

Net cash used in financing activities came to ¥1,929 million, compared with ¥1,297 million provided by these activities in the preceding year. Major uses of cash included cash dividends paid of ¥1,210 million, up from ¥950 million, and ¥489 million for purchases of treasury stock, compared with ¥3 million in the previous fiscal year.

The Shima Seiki Group's funding activities combine various procurement methods, including cash flows from operating activities, loans from financial institutions and the issuance of bonds, 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 78.6% and 389.4%, 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 through vigorous sales activities 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, 2012, were ¥106,863 million, down ¥7,088 million from a year earlier.

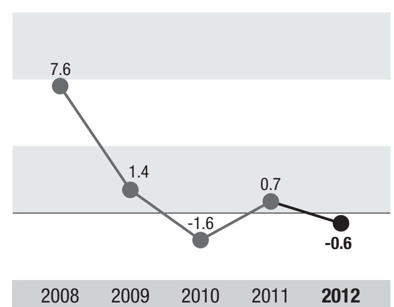
In terms of short-term assets and liabilities, current assets fell 10.3%, or ¥7,756 million, to ¥67,491 million. Major reasons were a ¥3,887 million decline in cash and cash equivalents, and a ¥3,957 million decrease in trade accounts and notes receivable. Current liabilities fell 9.9%, or ¥1,898 million, to ¥17,330 million. This was mainly due to a ¥2,752 million decrease in trade accounts and notes payable.

With regard to long-term assets and liabilities, long-term assets expanded ¥668 million, or 1.7%, to ¥39,372 million, due mostly to an increase in deferred tax assets. Meanwhile, long-term liabilities fell ¥2,766 million, or 34.0%, to ¥5,366 million. A ¥3.0 billion reduction in long-term debt was the primary reason.

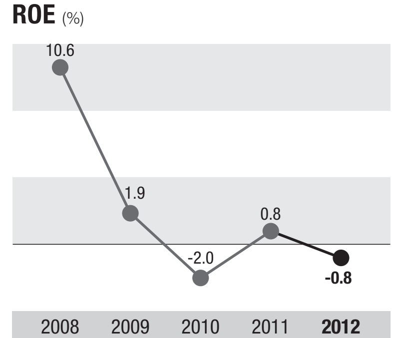
Net assets decreased ¥2,424 million, or 2.8%, to ¥84,167 million as of March 31, 2012, owing principally to lower retained earnings. As a result, the shareholders' equity ratio rose 2.7 percentage points from the preceding year-end, to 78.6%.

Return on assets fell from a positive 0.7% to a negative 0.6%. Return on equity likewise decreased, from 0.8% to a negative 0.8%.

ROA (%)



ROE (%)



Business Risks and Uncertainties

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

The Group, 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, 2012.

(1) Risks of dependency on particular overseas markets

Overseas sales account for around 90% of the Group's total sales, with sales to China and Hong Kong accounting for more than one-third of overseas sales. There is a concern over economic and political changes in this market, including competition with other knitting machine manufacturers, changes in monetary policies and tax systems, and trade friction with other regions, which could lead to a decline in orders, and thus affect the performance and financial position of the Group.

(2) Risks associated with fluctuations in currency exchange rates

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 or around Wakayama Prefecture, may involve a long halt in production. In addition, the Group's performance and financial position could be affected by disruptions in the steady supply of electricity, which could hamper the Group's ability to meet its production plans.

(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.

Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥14,191**	¥18,078	**$172,661**
Time deposits	**719**	1,889	**8,748**
Short-term investments (Note 4)	**618**	1,535	**7,519**
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	**914**	605	**11,121**
Other	**28,944**	33,210	**352,160**
Inventories (Note 5)	**20,885**	18,774	**254,106**
Deferred tax assets (Note 11)	**1,296**	2,358	**15,768**
Prepaid expenses and other current assets	**2,486**	1,293	**30,247**
Less: allowance for doubtful accounts	**(2,562)**	(2,495)	**(31,172)**
Total current assets	**67,491**	75,247	**821,158**
Investments and other assets:			
Investments in unconsolidated subsidiaries	**157**	159	**1,910**
Investments in securities (Note 4)	**7,130**	7,036	**86,750**
Long-term loans receivable	**—**	25	**—**
Deferred tax assets (Note 11)	**2,455**	1,499	**29,870**
Goodwill	**5,031**	5,421	**61,212**
Other	**5,079**	5,693	**61,796**
Less: allowance for doubtful accounts	**(1,421)**	(1,847)	**(17,289)**
Total investments and other assets	**18,431**	17,986	**224,249**
Property, plant and equipment:			
Land	**10,931**	11,000	**132,997**
Buildings and structures	**23,022**	22,439	**280,107**
Machinery and equipment	**5,504**	5,208	**66,967**
Tools, furniture and fixtures	**6,944**	6,828	**84,487**
Leased assets	**2,067**	1,476	**25,149**
Construction in progress	**37**	81	**450**
	48,505	47,032	**590,157**
Less: accumulated depreciation	**(27,564)**	(26,314)	**(335,369)**
Property, plant and equipment, net	**20,941**	20,718	**254,788**
Total assets	**¥106,863**	¥113,951	**$1,300,195**

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 7)	**¥5,701**	¥5,694	**$69,364**
Current portion of long-term debt (Note 7)	**3,000**	—	**36,501**
Lease obligations	**317**	221	**3,857**
Trade accounts and notes payable	**4,295**	7,047	**52,257**
Accrued expenses	**1,167**	1,171	**14,199**
Accrued income taxes	**67**	479	**815**
Other current liabilities	**2,783**	4,616	**33,860**
Total current liabilities	**17,330**	19,228	**210,853**
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	**1,500**	4,500	**18,250**
Lease obligations	**1,180**	915	**14,357**
Allowance for retirement benefits (Note 8)	**1,319**	1,418	**16,048**
Deferred tax liabilities for land revaluation (Note 6)	**29**	33	**353**
Allowance for directors' and statutory auditors' retirement benefits	**1,155**	1,085	**14,053**
Other long-term liabilities	**183**	181	**2,227**
Total long-term liabilities	**5,366**	8,132	**65,288**
Contingent liabilities (Note 9)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2012 — 36,600,000 shares			
2011 — 36,600,000 shares	**14,860**	14,860	**180,801**
Capital surplus	**21,724**	21,724	**264,314**
Retained earnings	**66,304**	68,235	**806,716**
Treasury stock, at cost			
2012 — 2,370,086 shares			
2011 — 2,024,738 shares	**(6,890)**	(6,401)	**(83,830)**
Total shareholders' equity	**95,998**	98,418	**1,168,001**
Accumulated other comprehensive income:			
Net unrealized holding loss on securities	**(340)**	(457)	**(4,137)**
Land revaluation difference (Note 6)	**(7,351)**	(7,433)	**(89,439)**
Foreign currency translation adjustments	**(4,305)**	(4,011)	**(52,378)**
Total accumulated other comprehensive income	**(11,996)**	(11,901)	**(145,954)**
Stock acquisition rights (Note 14)	**153**	63	**1,861**
Minority interests	**12**	11	**146**
Total net assets	**84,167**	86,591	**1,024,054**
Total liabilities and net assets	**¥106,863**	¥113,951	**$1,300,195**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Net sales	**¥37,327**	¥42,781	**$454,155**
Cost of sales	**22,895**	23,587	**278,562**
Gross profit	**14,432**	19,194	**175,593**
Selling, general and administrative expenses (Note 12)	**13,549**	13,286	**164,850**
Operating income	**883**	5,908	**10,743**
Other income (expenses):			
Interest and dividend income	**528**	480	**6,424**
Interest expense	**(57)**	(101)	**(694)**
Foreign exchange losses	**(1,794)**	(3,552)	**(21,827)**
Loss on valuation of investments in securities	**(52)**	(1,605)	**(633)**
Other, net	**(45)**	(38)	**(547)**
Income (loss) before income taxes and minority interests	**(537)**	1,092	**(6,534)**
Income taxes (Note 11)**:**			
Current	**114**	592	**1,387**
Deferred	**(9)**	(270)	**(110)**
	105	322	**1,277**
Income (loss) before minority interests	**(642)**	770	**(7,811)**
Minority interests in gain of consolidated subsidiaries	**0**	0	**0**
Net income (loss)	**¥(642)**	¥770	**$(7,811)**

	Yen		U.S. dollars
Per share:			
Net income (loss)	**¥(18.60)**	¥22.26	**$(0.23)**
Cash dividends applicable to the year	**40.00**	35.00	**0.49**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Income before minority interests	**¥(642)**	¥770	**$(7,811)**
Other comprehensive income (Note 15)**:**			
Net unrealized holding gain on securities	**117**	605	**1,423**
Land revaluation difference	**4**	—	**49**
Foreign currency translation adjustments	**(294)**	(1,372)	**(3,577)**
Total other comprehensive income	**(173)**	(767)	**(2,105)**
Total comprehensive income	**¥(815)**	¥3	**$(9,916)**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	**¥(815)**	¥3	**$(9,916)**
Comprehensive income attributable to minority interests	**0**	0	**0**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	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, 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
Net loss	—	—	—	(642)	—	—	—	—	—	—	(642)
Cash dividends	—	—	—	(1,210)	—	—	—	—	—	—	(1,210)
Purchases of treasury stock	—	—	—	—	(489)	—	—	—	—	—	(489)
Disposal of treasury stock	—	—	—	(0)	0	—	—	—	—	—	0
Reversal of land revaluation difference	—	—	—	(79)	—	—	—	—	—	—	(79)
Other changes, net	—	—	—	—	—	117	82	(294)	90	1	(4)
Balance at March 31, 2012	36,600	¥14,860	¥21,724	¥66,304	¥(6,890)	¥(340)	¥(7,351)	¥(4,305)	¥153	¥12	¥84,167

	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, 2011	$180,801	$264,314	$830,210	$(77,880)	$(5,560)	$(90,437)	$(48,801)	$766	$134	$1,053,547
Net loss	—	—	(7,811)	—	—	—	—	—	—	(7,811)
Cash dividends	—	—	(14,722)	—	—	—	—	—	—	(14,722)
Purchases of treasury stock	—	—	—	(5,950)	—	—	—	—	—	(5,950)
Disposal of treasury stock	—	—	(0)	0	—	—	—	—	—	0
Reversal of land revaluation difference	—	—	(961)	—	—	—	—	—	—	(961)
Other changes, net	—	—	—	—	1,423	998	(3,577)	1,095	12	(49)
Balance at March 31, 2012	$180,801	$264,314	$806,716	$(83,830)	$(4,137)	$(89,439)	$(52,378)	$1,861	$146	$1,024,054

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥(537)**	¥1,092	**$(6,534)**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**1,809**	1,696	**22,010**
Amortization of goodwill	**335**	744	**4,076**
Increase (decrease) in allowance for doubtful accounts	**159**	(429)	**1,934**
Increase in allowance for losses on guarantees	**73**	244	**888**
Decrease in allowance for retirement benefits	**(53)**	(90)	**(645)**
Increase (decrease) in allowance for directors' and statutory auditors' retirement benefits	**71**	(60)	**864**
Interest and dividend income	**(528)**	(480)	**(6,424)**
Interest expense	**57**	101	**694**
Foreign exchange loss	**1,705**	2,168	**20,744**
Loss on valuation of investments in securities	**52**	1,605	**633**
Loss on sales and disposal of property, plant and equipment, net	**17**	19	**207**
Impairment loss	**141**	—	**1,716**
Decrease (increase) in trade receivables	**2,759**	(3,568)	**33,568**
Increase in inventories	**(2,606)**	(3,554)	**(31,707)**
Increase (decrease) in trade payables	**(2,751)**	2,798	**(33,471)**
Other	**(2,707)**	1,082	**(32,936)**
Subtotal	**(2,004)**	3,368	**(24,383)**
Interest and dividend income received	**534**	495	**6,497**
Interest expense paid	**(75)**	(96)	**(912)**
Income taxes paid	**(549)**	(263)	**(6,680)**
Net cash provided by (used in) operating activities	**(2,094)**	3,504	**(25,478)**
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	**1,128**	(236)	**13,724**
Purchases of short-term investments	**(200)**	(1,996)	**(2,433)**
Proceeds from sales of short-term investments	**1,415**	1,907	**17,216**
Purchases of property, plant and equipment	**(1,435)**	(850)	**(17,460)**
Proceeds from sales of property, plant and equipment	**5**	16	**61**
Purchases of investments in securities	**(307)**	(427)	**(3,735)**
Proceeds from sales of investments in securities	**35**	36	**426**
Other	**(109)**	(284)	**(1,326)**
Net cash provided by (used in) investing activities	**532**	(1,834)	**6,473**
Cash flows from financing activities:			
Increase in short-term loans, net	**—**	3,857	**—**
Proceeds from long-term loans	**—**	1,500	**—**
Repayment of long-term loans	**—**	(1,000)	**—**
Purchases of treasury stock	**(489)**	(3)	**(5,950)**
Proceeds from sales of treasury stock	**0**	0	**0**
Cash dividends paid	**(1,210)**	(950)	**(14,722)**
Redemption of convertible bonds	**—**	(1,940)	**—**
Other	**(230)**	(167)	**(2,798)**
Net cash provided by (used in) financing activities	**(1,929)**	1,297	**(23,470)**
Effect of exchange rate changes on cash and cash equivalents	**(396)**	(1,207)	**(4,818)**
Net increase (decrease) in cash and cash equivalents	**(3,887)**	1,760	**(47,293)**
Cash and cash equivalents at beginning of year	**18,078**	16,318	**219,954**
Cash and cash equivalents at end of year	**¥14,191**	¥18,078	**$172,661**

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

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

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the exchange rate prevailing at March 31, 2012, which was ¥82.19 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 accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

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

(b) Translation of foreign currencies

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

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

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

(c) Cash and cash equivalents

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

(d) Short-term investments and investments in securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of net assets and is reflected as "Net unrealized holding 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, 2011 since there are no residual securities with dilutive effect upon exercise into common stock and for the year ended March 31, 2012 since the Company posted a net loss per share.

3. Supplementary information

Effective from April 1, 2011, the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (the "ASBJ") Statement No.24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, issued on December 4, 2009) have been applied for accounting changes and corrections of prior period errors.

4. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2012 and 2011 were as follows:

	Millions of yen		
	2012		
	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	**¥1,853**	**¥1,972**	**¥119**
Other	**136**	**147**	**11**
Subtotal	**¥1,989**	**¥2,119**	**¥130**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**¥592**	**¥509**	**¥(83)**
Bond	**1,000**	**980**	**(20)**
Other	**3,527**	**2,965**	**(562)**
Subtotal	**¥5,119**	**¥4,454**	**¥(665)**
Total	**¥7,108**	**¥6,573**	**¥(535)**

	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)

	Thousands of U.S. dollars		
	2012		
	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	**$22,545**	**$23,993**	**$1,448**
Other	**1,655**	**1,789**	**134**
Subtotal	**$24,200**	**$25,782**	**$1,582**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**$7,203**	**$6,193**	**$(1,010)**
Bond	**12,167**	**11,924**	**(243)**
Other	**42,913**	**36,075**	**(6,838)**
Subtotal	**$62,283**	**$54,192**	**$(8,091)**
Total	**$86,483**	**$79,974**	**$(6,509)**

Other securities without quoted market prices at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2012	2011	**2012**
Held-to-maturity securities	**¥817**	¥626	**$9,940**
Other securities	**358**	396	**4,355**
	¥1,175	¥1,022	**$14,295**

5. Inventories

Inventories at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Finished goods	**¥14,363**	¥12,986	**$174,754**
Work in process	**720**	981	**8,760**
Raw materials	**5,440**	4,465	**66,188**
Supplies and others	**362**	342	**4,404**
	¥20,885	¥18,774	**$254,106**

6. Land revaluation

On March 31, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the income tax effect on revaluation gain or loss, has been stated as a component of net assets, "Land revaluation difference." The income tax effect has been stated as a component of long-term liabilities, "Deferred tax liabilities for land revaluation." The fair value of the revalued land was less than its carrying value by ¥3,418 million ($41,587 thousand) and ¥3,187 million at March 31, 2012 and 2011, respectively.

7. Short-term loans and long-term debt

Short-term loans at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Average rate of 0.35% unsecured loans from banks	**¥5,701**	¥5,694	**$69,364**

Long-term debt at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Average rate of 0.74% unsecured loans from banks	**¥4,500**	¥4,500	**$54,751**
Less current portion	**(3,000)**	—	**(36,501)**
	¥1,500	¥4,500	**$18,250**

The aggregate annual maturities of long-term debt at March 31, 2012 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013	**—**	**—**
2014	**¥1,500**	**$18,250**
2015	**—**	**—**
2016	**—**	**—**
2017	**—**	**—**
Thereafter	**—**	**—**
Total	**¥1,500**	**$18,250**

8. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2012 and 2011 consisted of the following:

Retirement benefit obligation at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Projected benefit obligation	**¥(4,930)**	¥(4,917)	**$(59,983)**
Fair value of plan assets	**4,502**	4,322	**54,776**
Benefit obligation in excess of plan assets	**(428)**	(595)	**(5,207)**
Unrecognized prior service cost	**5**	5	**60**
Unrecognized actuarial gain	**(73)**	42	**(888)**
Net retirement benefit obligation	**(496)**	(548)	**(6,035)**
Prepaid pension cost	**823**	870	**10,013**
Allowance for retirement benefits	**¥(1,319)**	¥(1,418)	**$(16,048)**

Components of net periodic benefit cost for the years ended March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Service cost	**¥266**	¥275	**$3,237**
Interest cost	**97**	98	**1,180**
Expected return on plan assets	**(50)**	(48)	**(608)**
Amortization:			
Prior service cost	**1**	1	**12**
Actuarial loss	**44**	36	**535**
Net periodic benefit cost	**¥358**	¥362	**$4,356**

Assumption used in the accounting for the defined benefit plans for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
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**	10 years
Amortization period for actuarial gain (loss)	**10 years**	10 years

9. Contingent liabilities

Contingent liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Guarantees of customers' loans and lease obligations	**¥1,537**	¥2,160	**$18,701**

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, 2012 and 2011.

11. Income taxes

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 40.43% for the years ended March 31, 2012 and 2011.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred tax assets:			
Tax loss carryforwards	**¥1,817**	¥1,420	**$22,107**
Allowance for doubtful accounts	**956**	1,483	**11,632**
Tax credit for research and development cost	**626**	424	**7,616**
Allowance for directors' and statutory auditors' retirement benefits	**397**	439	**4,830**
Impairment loss on fixed assets	**335**	323	**4,076**
Loss on valuation of investments in securities	**311**	350	**3,784**
Accrued bonuses to employees	**268**	298	**3,261**
Allowance for losses on guarantees	**265**	262	**3,224**
Unrealized holding loss on securities	**192**	310	**2,336**
Allowance for retirement benefits	**161**	195	**1,959**
Intercompany profit	**59**	107	**718**
Other	**330**	452	**4,015**
Total gross deferred tax assets	**5,717**	6,063	**69,558**
Less valuation allowance	**(1,908)**	(1,797)	**(23,214)**
Net deferred tax assets	**3,809**	4,266	**46,344**
Deferred tax liabilities:			
Reserve for special depreciation	**(26)**	(9)	**(316)**
Asset retirement obligation	**(15)**	(19)	**(183)**
Adjustment for allowance for doubtful accounts	**—**	(352)	**—**
Other	**(17)**	(29)	**(207)**
Total gross deferred tax liabilities	**(58)**	(409)	**(706)**
Net deferred tax assets	**¥3,751**	¥3,857	**$45,638**

Change in statutory effective tax rate

The statutory effective tax rate used for the calculation of deferred tax assets and liabilities has changed to 37.75% for tax differences expected to be realized during April 1, 2012 to March 31, 2015 and to 35.38% for tax differences expected to be realized after April 1, 2015 from the 40.43% used in previous fiscal year. This is due to revisions of tax laws in Japan promulgated on December 2, 2011, which reduce the corporate tax rate while, at the same time, implementing a temporary tax increase to fund the rebuilding of areas devastated by the Great East Japan Earthquake. Due to the change in the tax rate, amounts of deferred tax assets (net of deferred tax liabilities) decreased by ¥275 million ($3,346 thousand), deferred income taxes increased by ¥252 million ($3,066 thousand), net unrealized holding loss on securities decreased by ¥23 million ($280 thousand), deferred tax liabilities for land revaluation decreased by ¥4 million ($48 thousand) and land revaluation difference increased by ¥4 million ($48 thousand) as of and for the fiscal year ended March 31, 2012.

12. Research and development costs

Research and development costs charged to income were ¥2,483 million ($30,210 thousand) and 2,383 million for the years ended March 31, 2012 and 2011, 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 ¥482 million ($5,864 thousand) and ¥608 million for the years ended March 31, 2012 and 2011, 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, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2012			**2012**
	Acquisition cost	Accumulated depreciation	Net leased assets	Net leased assets
Machinery and equipment	**¥2,503**	**¥1,874**	**¥629**	**$7,653**
Total	**¥2,503**	**¥1,874**	**¥629**	**$7,653**

	Millions of yen		
	2011		
	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery and equipment	¥3,506	¥2,413	¥1,093
Tools, furniture and fixtures	92	83	9
Total	¥3,598	¥2,496	¥1,102

Obligations under such financial leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Due within one year	**¥326**	¥474	**$3,966**
Due after one year	**317**	647	**3,857**
Total	**¥643**	¥1,121	**$7,823**

Depreciation expense and imputed interest expense for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Depreciation expense	**¥470**	¥592	**$5,718**
Imputed interest expense	**¥8**	¥13	**$97**

14. Stock option plan

The stock options as of March 31, 2012 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 ($27.27)	From August 4, 2010 to July 20, 2012	From July 21, 2012 to July 20, 2017

15. Comprehensive income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2012 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2012	**2012**
Net unrealized holdings gain on securities:		
Amount recognized in the period under review	**¥221**	**$2,688**
Amount of recycling	**(13)**	**(158)**
Before income tax effect adjustments	**234**	**2,846**
Amount of income tax effect	**117**	**1,423**
Net unrealized holdings gain on securities	**117**	**1,423**
Land revaluation difference:		
Amount recognized in the period under review	**—**	**—**
Amount of recycling	**—**	**—**
Before income tax effect adjustments	**—**	**—**
Amount of income tax effect	**(4)**	**(49)**
Land revaluation difference	**4**	**49**
Foreign currency translation adjustments:		
Amount recognized in the period under review	**(294)**	**(3,577)**
Amount of recycling	**—**	**—**
Before income tax effect adjustments	**(294)**	**(3,577)**
Amount of income tax effect	**—**	**—**
Foreign currency translation adjustments	**(294)**	**(3,577)**
Total other comprehensive income	**¥(173)**	**$(2,105)**

16. Segment information

(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, 2012 and 2011 were as follows:

	Millions of yen					
	2012					
	Flat Knitting Machines	Design Systems	Glove and Sock Knitting Machines	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**¥29,600**	**¥2,099**	**¥1,661**	**¥33,360**	**¥3,967**	**¥37,327**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**29,600**	**2,099**	**1,661**	**33,360**	**3,967**	**37,327**
Operating expenses	**24,333**	**1,797**	**1,422**	**27,552**	**4,093**	**31,645**
Segment profit (loss)	**¥5,267**	**¥302**	**¥239**	**¥5,808**	**¥(126)**	**¥5,682**
Segment Assets:	**¥68,261**	**¥2,630**	**¥1,805**	**¥72,696**	**¥6,407**	**¥79,103**
Others:						
Depreciation	**¥1,197**	**¥28**	**¥61**	**¥1,286**	**¥150**	**¥1,436**
Amortization of goodwill	**310**	**3**	**0**	**313**	**22**	**335**
Increase in property, plant, equipment and intangible assets	**1,801**	**32**	**107**	**1,940**	**235**	**2,175**

	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

	Thousands of U.S. dollars					
	2012					
	Flat Knitting Machines	Design Systems	Glove and Sock Knitting Machines	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**$360,141**	**$25,539**	**$20,209**	**$405,889**	**$48,266**	**$454,155**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**360,141**	**25,539**	**20,209**	**405,889**	**48,266**	**454,155**
Operating expenses	**296,058**	**21,864**	**17,301**	**335,223**	**49,800**	**385,023**
Segment profit (loss)	**$64,083**	**$3,675**	**$2,908**	**$70,666**	**$(1,534)**	**$69,132**
Segment Assets:	**$830,527**	**$31,999**	**$21,961**	**$884,487**	**$77,954**	**$962,441**
Others:						
Depreciation	**$14,564**	**$341**	**$742**	**$15,647**	**$1,825**	**$17,472**
Amortization of goodwill	**3,772**	**36**	**0**	**3,808**	**268**	**4,076**
Increase in property, plant, equipment and intangible assets	**21,913**	**389**	**1,302**	**23,604**	**2,859**	**26,463**

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
	2012	2011	**2012**
Reportable segments total	**¥33,360**	¥38,815	**$405,889**
Other sales	**3,967**	3,966	**48,266**
Net sales in the consolidated statements of income	**¥37,327**	¥42,781	**$454,155**

Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Reportable segments total	**¥5,808**	¥10,831	**$70,666**
Other income (loss)	**(126)**	(261)	**(1,534)**
Corporate expenses	**(4,799)**	(4,662)	**(58,389)**
Operating income in the consolidated statements of income	**¥883**	¥5,908	**$10,743**

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
	2012	2011	**2012**
Reportable segments total	**¥72,696**	¥72,063	**$884,487**
Other assets	**6,407**	6,077	**77,954**
Company-wide assets	**27,760**	35,811	**337,754**
Total assets in the consolidated balance sheets	**¥106,863**	¥113,951	**$1,300,195**

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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Depreciation	**¥1,286**	¥1,022	**¥150**	¥150	**¥373**	¥524	**¥1,809**	¥1,696
Amortization of goodwill	**313**	641	**22**	103	**—**	—	**335**	744
Increase in property, plant, equipment and intangible assets	**1,940**	1,214	**235**	122	**100**	251	**2,275**	1,587

	Thousands of U.S. dollars			
	2012			
	Reportable segments total	Other	Adjustment	The amount in the consolidated financial statements
Depreciation	**$15,647**	**$1,825**	**$4,538**	**$22,010**
Amortization of goodwill	**3,808**	**268**	**—**	**4,076**
Increase in property, plant, equipment and intangible assets	**23,604**	**2,859**	**1,217**	**27,680**

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)

Information about geographical region

Information about geographical region of the Company and its consolidated subsidiaries for the year ended March 31, 2012 and 2011 were as follows:

	Millions of yen					
	2012					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	**¥4,622**	**¥7,306**	**¥4,022**	**¥19,745**	**¥1,632**	**¥37,327**

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

	Thousands of U.S. dollars					
	2012					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	**$56,236**	**$88,892**	**$48,935**	**$240,236**	**$19,856**	**$454,155**

17. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 28, 2012.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥770	$9,369

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

We have audited the accompanying consolidated balance sheet of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Osaka, Japan
June 28, 2012

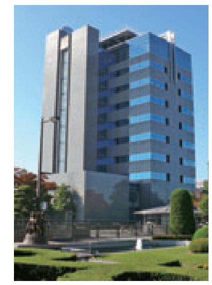
Ohtemae Audit Co.

Ohtemae Audit Corporation

Corporate Data

Corporate Information (As of March 31, 2012)

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 1,727 Non-consolidated 1,190
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. 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, 2012)

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	19,405
Stock Exchange Listing	The First Section of the Tokyo Stock Exchange The First Section of the Osaka Securities Exchange
Auditing Corporation	Ohtemae Audit Corporation

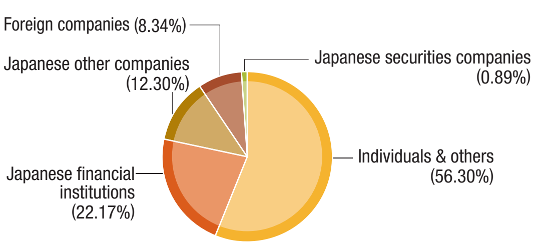
Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	3,450	10.08
Japan Trustee Services Bank, Ltd. (Trust Account)	1,597	4.67
The Kiyo Bank, Ltd.	1,310	3.83
Masahiro Shima	1,070	3.13
Mitsuhiro Shima	1,060	3.10
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.57
Wako LLC	765	2.23
Shima Seiki Employees Shareholding Association	762	2.23
The Senshu Ikeda Bank, Ltd.	700	2.04
Hiromi Goto	697	2.04

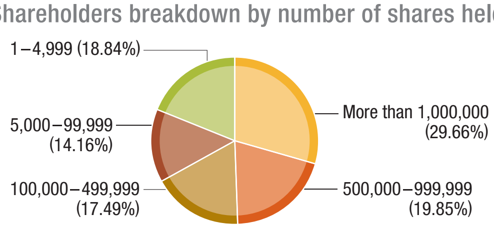
Notes: 1.The Company, which owns 2,370 thousand shares of treasury stock, or 6.47% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.
2.Holdings of less than 1,000 shares have been omitted.

Stock Ownership

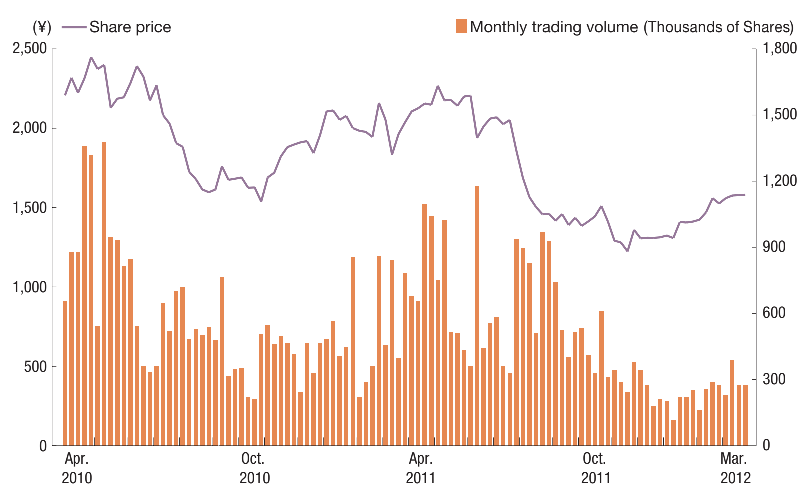
Shareholders breakdown by type



Shareholders breakdown by number of shares held



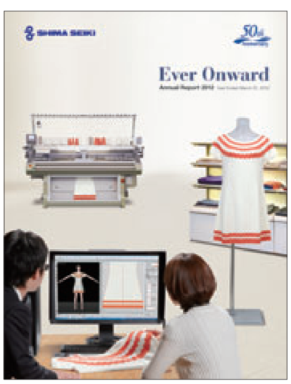
Share Price and Trading Volume on the Osaka Securities Exchange



IR Website

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

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



About the Cover

The cover design expresses Shima Seiki's business of providing total support to the apparel industry, from product planning to sales, through design systems (lower left) and flat knitting machines (upper left).

SHIMA SEIKI

SHIMA SEIKI MFG., LTD.

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