

Ever Onward

Annual Report 2013

Year Ended March 31, 2013



Ever Onward

Based on our corporate motto, “Ever Onward,” we will maintain a spirit of tireless challenge as we work to bring innovative products into the world.

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 a 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. In the future, Shima Seiki looks forward to contributing to the knitwear and apparel industries through technological innovations and to taking on the challenge of expanding its business into a broader range of industries.

Business Segments

The Shima Seiki Group comprises four segments, centered on the manufacture and sale of flat knitting machines and design systems.

Flat Knitting Machine Segment

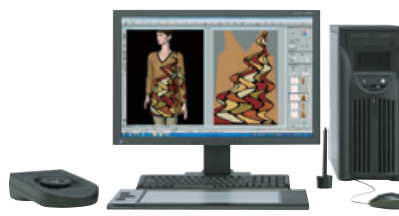
Shima Seiki’s core business is the manufacture and sale of computerized flat knitting machines, for which the Company boasts industry-leading technological prowess. This segment provides an extensive range of products developed using proprietary technologies, such as WHOLEGARMENT® flat knitting machines, which produce complete pieces three dimensionally; the SIR®, expressive over multicolored designs and patterns; and the NSSG® and SSR®, which deliver outstanding cost performance and gain strong support from customers.



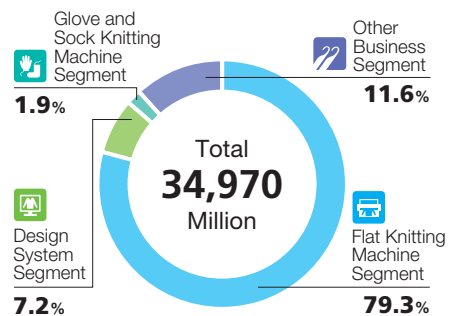
SSR®

Design System Segment

This segment provides the design systems that support manufacturing in the knitwear and apparel industries. Offering rich functionality and enabling diverse designs, our design systems employ virtual samples and 3D simulations to realize shorter lead times and cost reductions. The segment also handles the manufacture and sale of automatic fabric cutting machines and printing machines. In recent years, we have been proactively developing business in other sectors, as well.



SDS®-ONE APEX3

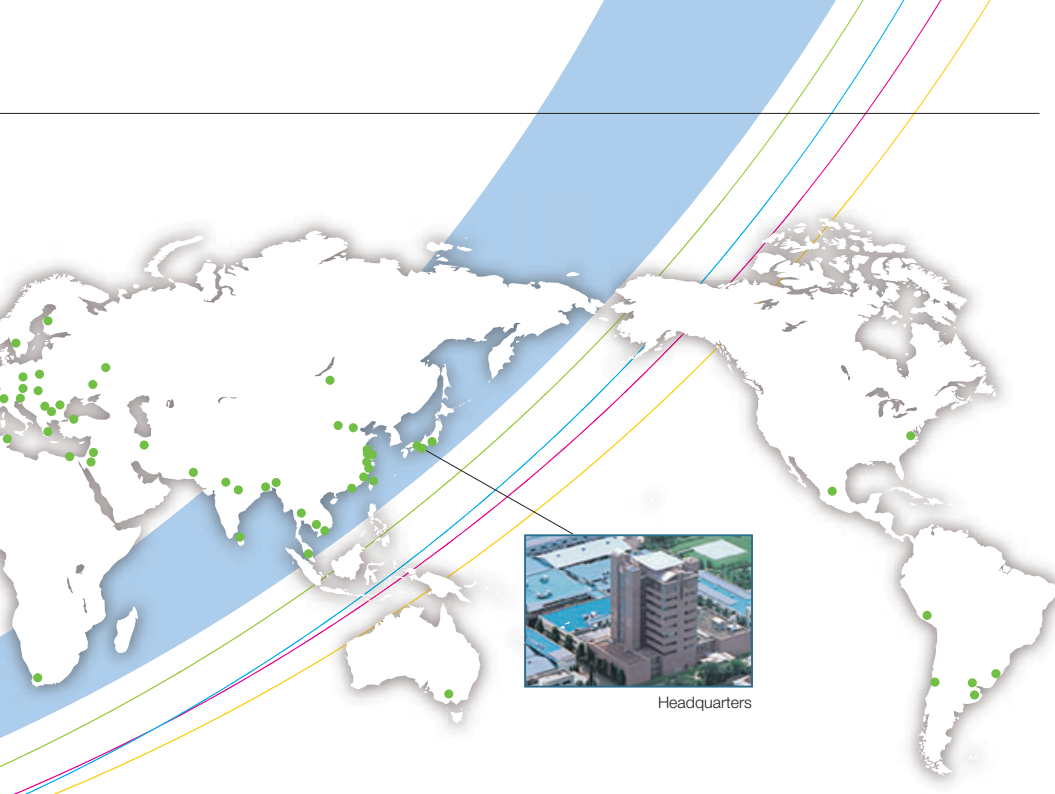


Glove and Sock Knitting Machine Segment

In this segment, 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.

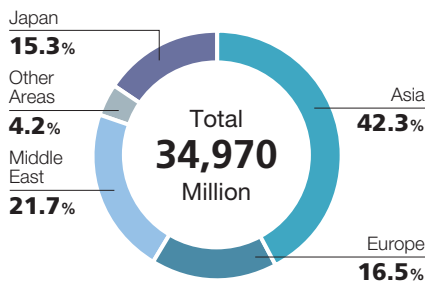
Other Business Segment

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.



Headquarters

Markets by Geographical Region



Europe

WHOLEGARMENT® flat knitting machines are penetrating the market in Italy, the source of numerous fashion brands. Eastern European countries are a focus of manufacturing bases for mass-merchandised products.

Middle East

The knitwear industry is vigorous in Turkey, which is a source of apparel production for Europe and Russia. In recent years, demand has grown in the region for high-value-added merchandise, as well as for increased productivity.

Asia

In China, the world's leading knitwear production base, 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 Bangladesh and other countries surrounding China (China plus one).

Japan

The Japanese apparel market is characterized by a high percentage of imports, and domestic producers are struggling. Nevertheless, there are indications of a return of high-value-added production to Japan.

Other Areas

Imports account for the majority of sales in the United States, the world's largest consumer, but moves toward a return to domestic production have begun. In addition, in Brazil production is increasing to meet internal demand, spurring growth in demand for highly productive WHOLEGARMENT® flat knitting machines.

History

- 1962 ▶ Established SHIMA SEIKI MFG., LTD.
- 1964 ▶ Developed the world's first fully automated glove knitting machine.
- 1978 ▶ Developed the SNC® SHIMATRONIC® computerized jacquard flat knitting machine.
- 1981 ▶ Developed the SDS®-1000 SHIMATRONIC® design system.
- 1995 ▶ Developed the SWG® series, the world's first completely seamless computerized flat knitting machine.
- 2007 ▶ Developed the MACH2® series WHOLEGARMENT® flat knitting machine. Achieved dramatic productivity increases.
- 2011 ▶ Developed the SDS®-ONE APEX3 design system. Made substantial progress in 3D simulation.

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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.

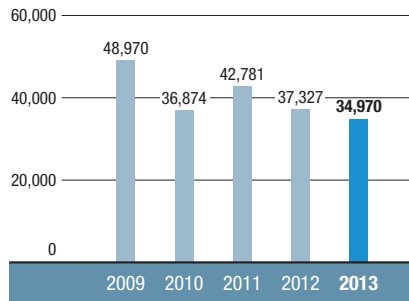
Financial Highlights

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

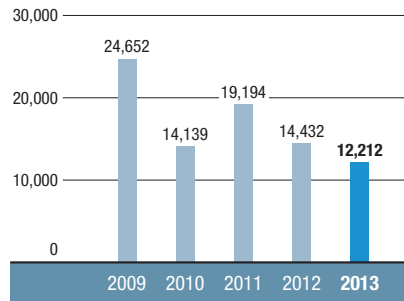
	2013	2012	2011	2010	2009		2013	2013
For the Year:						Percent change 2012 / 2013	Thousands of U.S. dollars	Thousands of euros
			Millions of yen					
Net sales	¥34,970	¥37,327	¥42,781	¥36,874	¥48,970	(6.3)%	\$371,823	€289,655
Gross profit	12,212	14,432	19,194	14,139	24,652	(15.4)	129,846	101,151
Operating income (loss)	(509)	883	5,908	651	8,528	–	(5,412)	(4,216)
Income (loss) before income taxes and minority interests	3,363	(537)	1,092	(1,042)	4,057	–	35,758	27,856
Net income (loss)	1,754	(642)	770	(1,885)	1,766	–	18,649	14,528
At Year-End:			Millions of yen			Percent change 2012 / 2013	Thousands of U.S. dollars	Thousands of euros
Total assets	¥112,089	¥106,863	¥113,951	¥110,063	¥119,778	4.9%	\$1,191,803	€928,427
Net assets	87,382	84,167	86,591	87,473	91,064	3.8	929,102	723,780
Per Share Data:			Yen			Percent change 2012 / 2013	U.S. dollars	Euros
Net income (loss)	¥51.26	¥(18.60)	¥22.26	¥(54.52)	¥49.88	–	\$0.55	€0.42
Cash dividends applicable to the year	25.00	40.00	35.00	30.00	40.00	(37.5)%	0.27	0.21
Net assets	2,547.88	2,454.07	2,502.27	2,529.67	2,633.55	3.8	27.09	21.10
Ratios:			%					
ROA	1.6%	(0.6)%	0.7%	(1.6)%	1.4%			
ROE	2.0	(0.8)	0.8	(2.0)	1.9			
Equity ratio	77.8	78.6	75.9	79.5	76.0			
Overseas sales ratio	84.7	87.6	91.1	91.6	91.0			

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥94.05=US\$1 and ¥120.73=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2013.

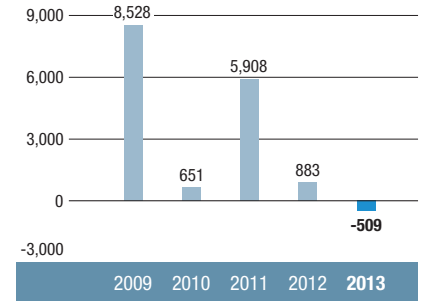
Net sales (¥ Million)



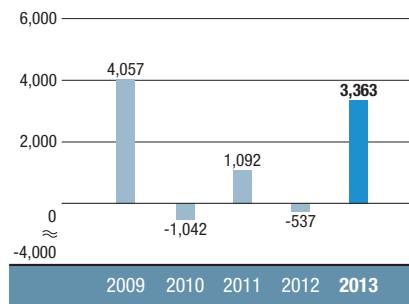
Gross profit (¥ Million)



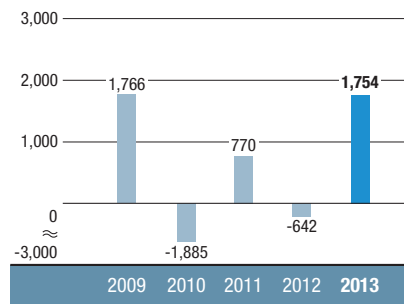
Operating income (¥ Million)



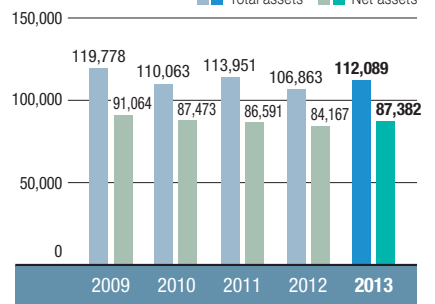
Income before income taxes and minority interests (¥ Million)



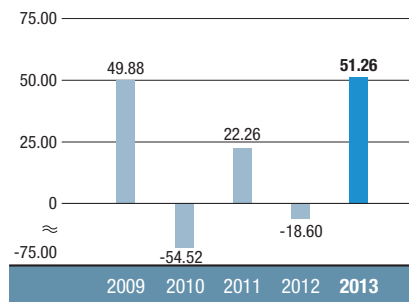
Net income (¥ Million)



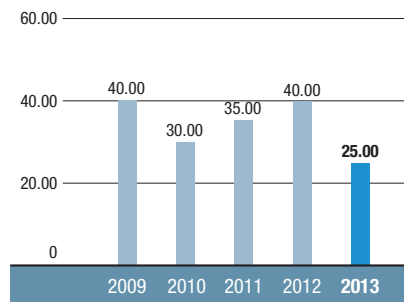
Total assets / Net assets (¥ Million)



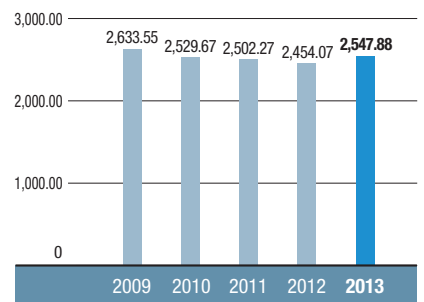
Net income per share (¥)



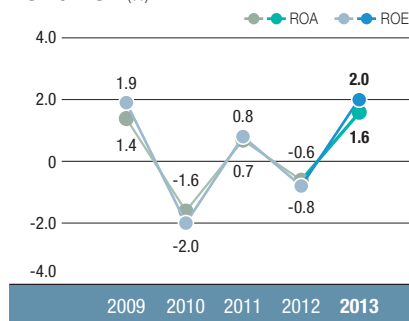
Cash dividends per share applicable to the year (¥)



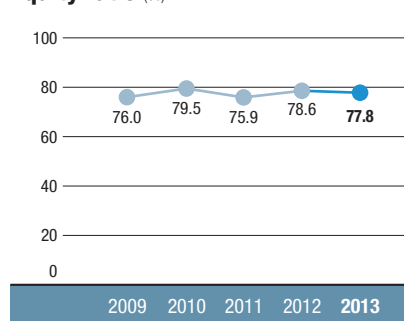
Net assets per share (¥)



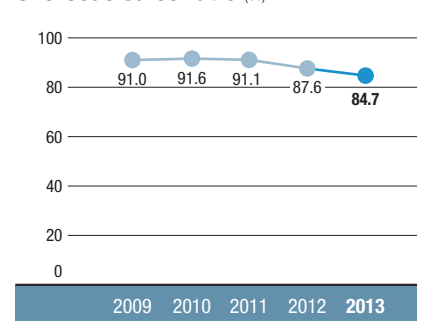
ROA / ROE (%)



Equity ratio (%)



Overseas sales ratio (%)



We moved back into the black for the first time in two years, and now expect to make a significant leap forward.

In the fiscal year ended March 31, 2013, which marked the 50th anniversary of the Company's establishment, net sales were down slightly. However, the business environment recovered swiftly from midway into the third quarter through the end of the fiscal year, restoring us to profitability for the first time in two years. With this vigor continuing into the fiscal year ending March 31, 2014, we look forward to greater successes as we reinforce our proposal-making activities in individual countries and markets and expand our fields of business.

Masahiro Shima
President

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



Q | Please describe the market conditions and the Company's performance during the fiscal year ended March 31, 2013.

A | We continued fighting an uphill battle in our key markets throughout the first half of the year, but performance improved remarkably in the fourth quarter, allowing us to post profits for the year.

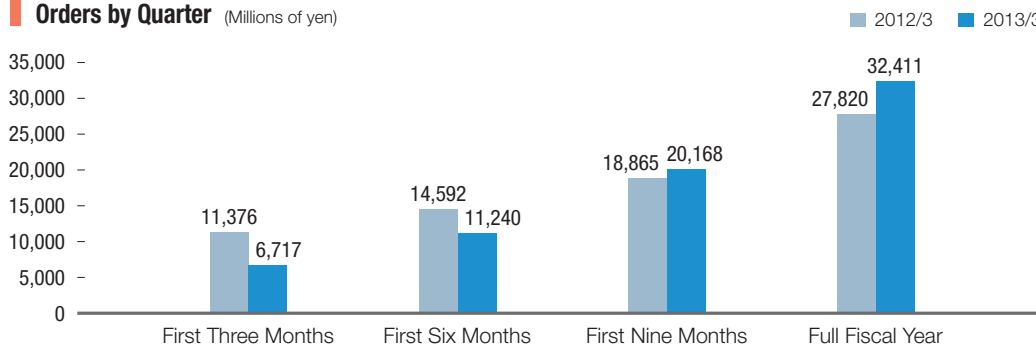
Market conditions were extremely challenging up through midway into the third quarter of the fiscal year. Our mainstay markets for the Flat Knitting Machine Segment, China and Hong Kong, suffered from sluggish apparel orders from Europe and the United States, owing to the protracted European financial crisis and a slowing rate of economic recovery in the United States. Consequently, capital investment between January and June was much lower than in typical years. With the market shrinking, price competition grew more severe, and we were also affected by yen appreciation, making matters all the worse for sales. In Europe, another of our key markets, economic stagnation and turmoil in financial markets caused many customers to hold back on capital investments, preventing sales there from increasing.

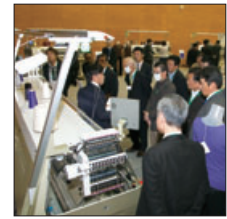
Midway through the third quarter, however, the market regained its overall sense of expectation about the future, and customers generally grew more willing

to invest. Orders for flat knitting machines picked up, notably from major knitwear manufacturers in the China and Hong Kong markets, to handle quick-turnaround orders on products for Europe and the United States. Thanks to this buoyancy, as well as ongoing growth in sales to customers in Turkey, Bangladesh and other areas that had been favorable since the first half of the year, total consolidated net sales for the year amounted to ¥34,970 million, a 6.3% year-on-year decrease. Although down slightly from the preceding year, business recovered substantially from the doldrums we experienced through the middle of the third quarter.

The high yen began to correct around the end of 2012, driving a swift recovery in profits toward the end of the fiscal year. We posted an operating loss of ¥508 million, due to lower net sales and a decrease in unit sales, which held down the gross profit ratio. However, yen depreciation prompted foreign exchange gains of ¥3,119 million. This upswing led us to profitability for

Orders by Quarter (Millions of yen)





the first time in two fiscal years, with ordinary income amounting to ¥4,168 million, and net income of ¥1,754 million.

Performance is trending toward recovery, but taking

into account performance through the third quarter, the Company awarded shareholder dividends of ¥25 per share for the year, comprising an interim dividend of ¥10 per share and a year-end dividend of ¥15 per share.

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

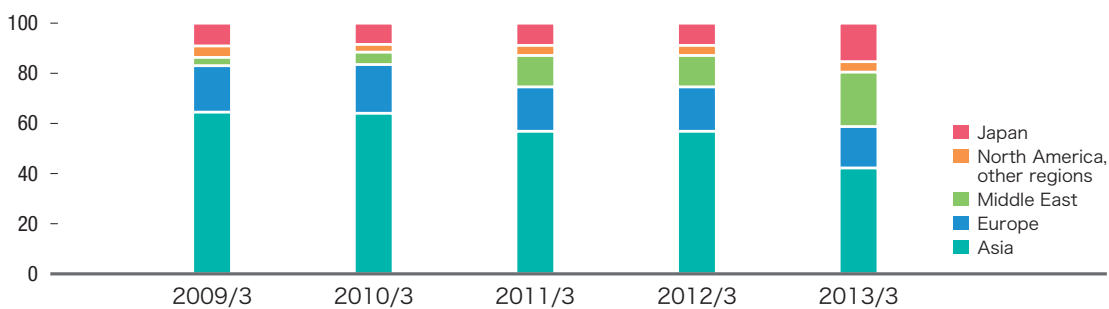
A | Orders in Japan expanded, bolstered by an event to commemorate our 50th anniversary of establishment.

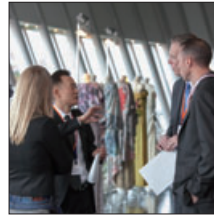
In the Flat Knitting Machine Segment, sales increased substantially in Turkey, which is enjoying the shift of production from China, as well as Bangladesh. Unit sales also increased in Indonesia, Vietnam and other Southeast Asian countries.

In the mainstay Chinese market, sales were down during the year because of sluggish performance in the first half, but we have confirmed sales figures for the current fiscal year. At the same time, we recognize the importance of responding to a qualitative shift in the Chinese market. Whereas growth was formerly

driven by China's position as the "workshop of the world," the market is beginning to approach the limits of low-cost production, due to factors such as soaring labor costs, a dearth of linking technicians and shorter cycle times on apparel orders from Europe and the United States. Also, economic development is bringing a growing number of people into the middle-income bracket. This phenomenon is encouraging growth in the internal market for higher-quality, fashionable apparel. Because of these numerous changes in the market environment, the Chinese knitwear industry is

Sales by Region (%)





currently undergoing a major transformation.

For this reason, at ITMA ASIA+CITME 2012, an exhibition held in Shanghai last June, our exhibits centered on the newest-model flat knitting machines and design systems for producing high-quality, high-value-added products. In this way, we are making a comprehensive appeal to Chinese manufacturers, showing how we support the qualitative transformation that is underway.

During the year, we also stepped up our initiatives related to the Japanese market. In November 2012, we held an event to commemorate the 50th anniversary of the Company's establishment. We invited customers from Japan and overseas to attend this large-scale exhibition, held in Wakayama, showcasing our WHOLEGARMENT® lineup. The event had a strong impact on sales, boosting recognition

of Shima Seiki and leading to new orders of our leading-edge WHOLEGARMENT® flat knitting machines from numerous Japanese knitwear and apparel manufacturers, which contributed to the expansion of sales.

Meanwhile, in the Design System Segment, in addition to targeting apparel manufacturers in Japan, we extended our efforts on innovative business proposals for deploying the SDS®-ONE APEX3 design system in interior and other peripheral industries. We also accelerated overseas activities. In the first half, we exhibited for the first time at a tradeshow in Italy and France for the apparel industry, seeking to transform our SDS®-ONE APEX3 business beyond knitwear manufacturers by proactively making proposals to apparel makers and trading companies.

Q | **Would you describe your expectations for the market in the upcoming fiscal year, as well as the measures you pursue?**

A | **We will accelerate global marketing, promoting proposals tailored to market conditions in individual countries.**

Entering 2013, capital investment in China and our other key markets made a brisk recovery, and this vigor has continued past April. Correction to the high yen again gave us some flexibility on the pricing front, improving our ability to compete with overseas manufacturers. We will augment our marketing structure in individual countries, aiming to stage a further recovery in performance in the year ending March 31, 2014.

The first element of our global strategy for the

Flat Knitting Machine Segment involves continuing to focus on proposal-making activities that respond to structural reforms in the Chinese market and qualitative changes in customers' needs. Given sharply higher labor costs in China, combined with a shortage of young workers and rising material costs, we expect unit sales to recover. We also expect demand to increase for high-end equipment such as WHOLEGARMENT® flat knitting machines. Taking advantage of this trend, we will develop new



manufacturing proposals that encourage local production for the local market in China, in the same manner as in advanced countries.

We anticipate robust ongoing demand in countries that posted favorable results during the year under review, including Turkey, ASEAN countries and South Korea. In these countries, we have earned high marks for our technological and support capabilities, compared with our competitors. We expect to gain orders as a result of steady efforts to make proposals tailored to individual market characteristics and needs. By providing customers in these areas with detailed support, we will also focus on enhancing the power of the Shima Seiki brand.

In the European and U.S. markets, we will continue to give WHOLEGARMENT® flat knitting machines and design systems a central role in our proposals. Particularly in the United States, during the year under review we undertook an initiative with the Fashion Institute of Technology (FIT) in New York,

which is a key center for training personnel for the global textile industry, and commenced joint research with Drexel University (see page 12). We plan to move ahead proactively with these activities from the year ahead.

In the Japanese market, spurred on by the sales impact of our 50th anniversary event, we will hold exhibitions in various regions, taking an even more proactive stance on proposal-making in this market.

In the design system business, we will strive to expand our business in Japan by continuing to promote proposals in areas outside knitwear, and accelerate marketing and sales promotion in overseas markets. In addition to participating actively in tradeshows in various regions, we will augment our technological follow-up structure to boost the overseas sales ratio.

Through these measures, in the fiscal year ending March 31, 2014, we expect to generate net sales of ¥47.0 billion, operating income of ¥5.7 billion and net income of ¥4.0 billion.

Q | Please describe some of your priorities and strategies for the medium to long term.

A | We will further entrench the Shima Seiki brand and expand our business by making Total Fashion System proposals.

As I see it, Shima Seiki's topmost priority is the global expansion of our Total Fashion System. In the past, particularly in Europe our innovative proposals for market-oriented production centering on WHOLEGARMENT® flat knitting machines and design systems have won over numerous major clients, including among major apparel manufacturers in Italy.

Going forward, we will continue to roll out innovative manufacturing proposals globally. In March 2013, we eliminated the barrier in our sales division that divided domestic and overseas sales. We also set up specialized teams by product area, establishing a joint sales division. By forging links between teams overseeing sales in specific regions and specialized product



teams, we will move forward with sales efforts that maintain closer contact with the world's regions.

Expanding sales of WHOLEGARMENT® flat knitting machines is another priority. In addition to advanced countries striving for market-oriented production and China, where the market structure is changing, as well as in the knitwear industries of emerging markets in Central and South America and Eastern Europe, we know that potential demand exists for WHOLEGARMENT® flat knitting machines, which significantly bolster production efficiency. Accordingly, we will push ahead with proposal-making activities that are closely linked to the needs of those specific countries and regions. During the year we established a new company, SHIMA CO., LTD., that specializes in WHOLEGARMENT® products (see page 14). Our objective was to verify the validity of our business model of taking a comprehensive approach spanning planning and design through to production and sales. We expect to spark demand for our products by demonstrating the effectiveness of market-oriented production to the industry.

Another strategic focus for the future will be the

expansion of business centered SDS®-ONE APEX3 design system to sectors outside the knitwear industry. Making full use of our design system allows customers to dispense with the highly time-consuming and expensive task of making physical samples by instead making high-precision virtual samples. We will reinforce our proposals in this category, targeting manufacturers in the textile, textile printing and circular knitting industries, as well as with such sources of orders as trading companies and apparel manufacturers.

Creative manufacturing has been a consistent point of focus for us throughout the 50 years since the Company's founding, and we have concentrated on offering products with the most highly advanced functions and on closely attentive technical and service support. Attesting to the success of these efforts, the Shima Seiki brand has become a guarantee of quality and reliability in numerous countries throughout the world. In the next 50 years, as well, we will uphold our "Ever Onward" spirit as we endeavor to steadily meet the diverse needs of customers throughout the world, and grow our business as a result.

Masahiro Shima, President

Next 50 years

Shima Seiki is off to a new start into its next 50 years of business. This special feature explores the Company's growth directions and strategies going forward, introducing specific initiatives.



Mitsuhiro Shima Executive Vice President

March 1987	Joined the Company
June 2002	Director
June 2007	Executive Director
June 2011	Senior Managing Director
June 2012	Executive Vice President (current position)

Expansion Outside the Apparel Sector and “Glocal” Strategies

For the past 50 years, Shima Seiki has grown by concentrating on the apparel sector, chiefly knitwear. But apparel accounts for only a small fraction of the yarn that is produced in the world. Interiors, household products and industrial materials also offer fertile and uncultivated markets for expansion.

In the next 50 years, therefore, we will take on the challenge of moving proactively into markets outside the apparel sector, as well.

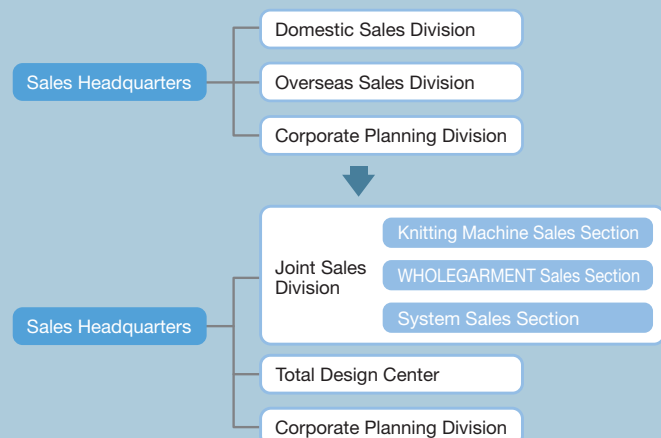
Another key focus will be on further global development. Our business expansion will adopt a “glocal” (global and local) strategy, whereby we remain focused on global markets, while meeting local needs in individual countries.

Restructuring Our Sales Organization to Act “Glocally”

In March 2013, we introduced some organizational changes in the sales division. To encourage a global perspective in regionally oriented sales, we eliminated the barrier between our domestic and overseas sales divisions. At the same time, we set up specialized, product-specific teams for knitting machines, WHOLEGARMENT® and systems. By forging organic lines between region-specific and product-specific teams going forward, we will promote proposals that are more closely tailored to meet the needs of customers in specific countries and regions.

We have also relocated the Total Design Center, formerly situated in the development division, into our Sales Headquarters. In addition to creating samples, in the future the Total Design Center will interact more closely and play a more pivotal role in sales activities.

Organizational Changes at Sales Headquarters (March 1, 2013)



Supporting the Apparel Business in an Era of Widely Varied, Small-Lot Production

The Return of High-Quality Manufacturing to Consumer Regions

Current trends in the world's fashion market are characterized by a shift from mass manufacturing to widely varied, small-lot production. Against this backdrop, we are seeing a growing tendency for manufacturers in consumer regions to develop their businesses through high-quality manufacturing based on planning and proposal. This transition has already begun in Italy and other countries with advanced fashion industries, and we expect this move to accelerate into other parts of the world.

In Japan, we have already introduced our own branded system for integrating the processes of planning and design through production, and new companies are pursuing this business throughout Japan. We will provide the equipment and know-how to support the efforts of customers willing to take on challenges such as these.

Offering Systems That Encourage Creativity

The key to business success in the era of widely varied, small-lot production is to generate highly creative designs and manufacture them efficiently. Our SDS®-ONE APEX3 design system provides robust support in this area.

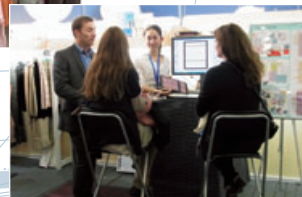
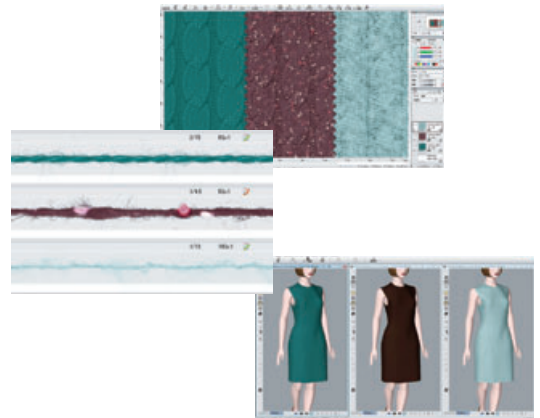
Designers can use the many sophisticated functions on the SDS®-ONE APEX3 to express their original designs quickly, just as they have imagined them. Linking the design data directly to production results in highly efficient, high-quality manufacturing. Going forward, we will increase the system's functionality as a creative tool, which should drive the expansion of our design system business.

Technological Cooperation in R&D with a U.S. University

In November 2012, Drexel University of Philadelphia, Pennsylvania, in the United States, established a facility that began using our computerized flat knitting machines and design systems to conduct interdisciplinary research. We are collaborating with the university to develop business in new industry sectors and on new technological developments.



SHIMA SEIKI Haute Technology Laboratory



Expanding Business Outside the Fashion Industry Further Promoting Our Business Model

Expanding Our Business Domains, Centered on Design Systems

The SDS®-ONE APEX3 design system is central to our strategy of expanding our business in sectors outside of knitwear, including textile products, bags and shoes. As design is the cornerstone of all fashion items, we believe our equipment can provide solid support to meet potential needs in a variety of industries.

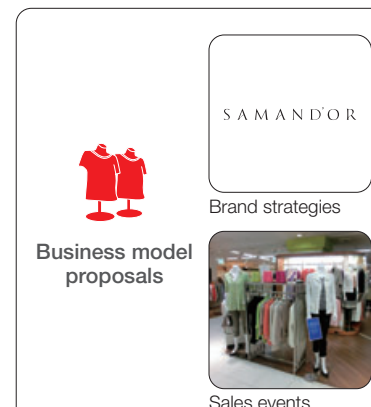
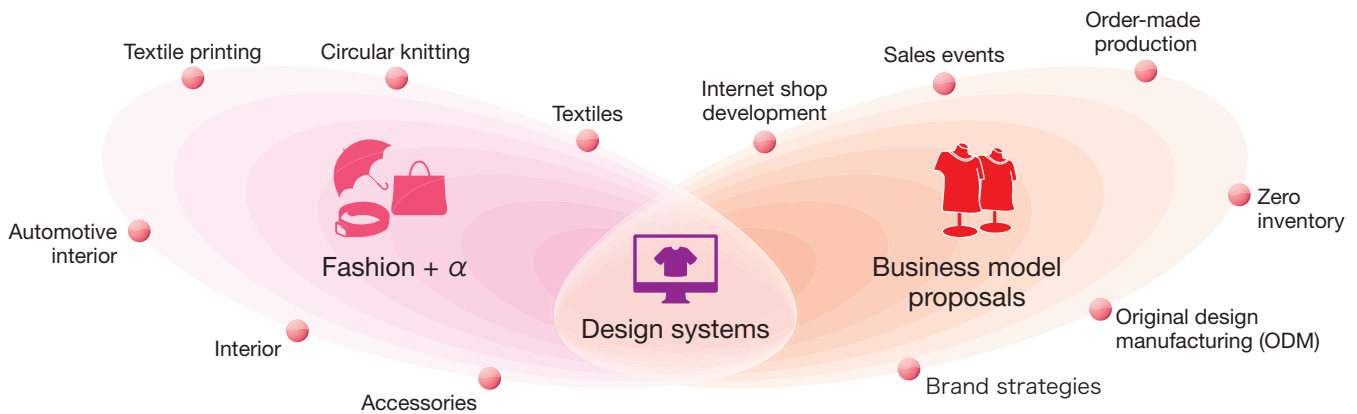
Using the proprietary and superb simulation function on the SDS®-ONE APEX3 can help to eliminate a typical bottleneck in the production process—the need to create physical samples. This function reduces planning costs and development times significantly, as well as contributing substantially to design improvements.

Personally Verifying the Business Model We Have Proposed

We established a new company, SHIMA CO., LTD., in October 2012, to realize our strategy. Rather than to make advances in the apparel market, our objective in setting up SHIMA, an apparel manufacturer specializing in WHOLEGARMENT® products, was to show the market and our customers how the business model we propose would work in practice.

By pursuing total business development spanning marketing and planning to production and sales, we plan to demonstrate to the marketplace the possibilities that exist in advanced countries for a business that generates profits by leveraging our knitting machines and systems. At the same time, we will apply the expertise that SHIMA develops toward our own sales activities.

Expanding Proposals in the Apparel and Retail Businesses



Establishing SHIMA CO., LTD., to Accelerate Business Model Proposals

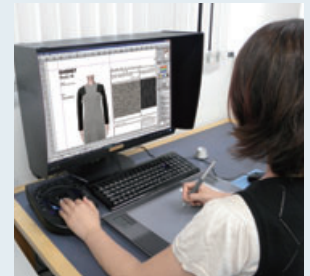
An important role for SHIMA CO., LTD., in addition to creating WHOLEGARMENT® products, will be to verify its superiority as a business tool. Based on the experience we gain at this company, we will consult with customers and advocate business models that will be helpful for them.

On the product development front, as well, we plan to leverage WHOLEGARMENT® characteristics to cultivate a new genre of products. By approaching companies in fields that have previously been constrained by design or cost concerns, we intend to expand the scope of products that are uniquely possible through the use of three-dimensional WHOLEGARMENT® capabilities. In addition, we plan to employ the SDS®-ONE APEX3 design system's communication function to show how ensuring that producers', sellers' and purchasers' opinions are adequately aligned makes possible the creation of high-added-value products.

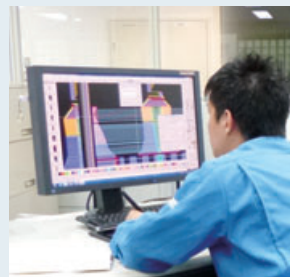
In tandem with the new company's establishment, we have set up a new model factory within Shima Seiki's headquarters site. We are constructing a proprietary production management system to enable both highly diverse, small-lot production and high operational efficiency. By establishing a business model that is highly profitable on the production front as well, we aim to help invigorate our customers' businesses.



(1) Planning



(2) Creation of virtual samples



(3) Programming



(4) Picking system



(5) Products



(6) Inspection



Website of SHIMA CO., LTD.
<http://www.shima-co.com/>

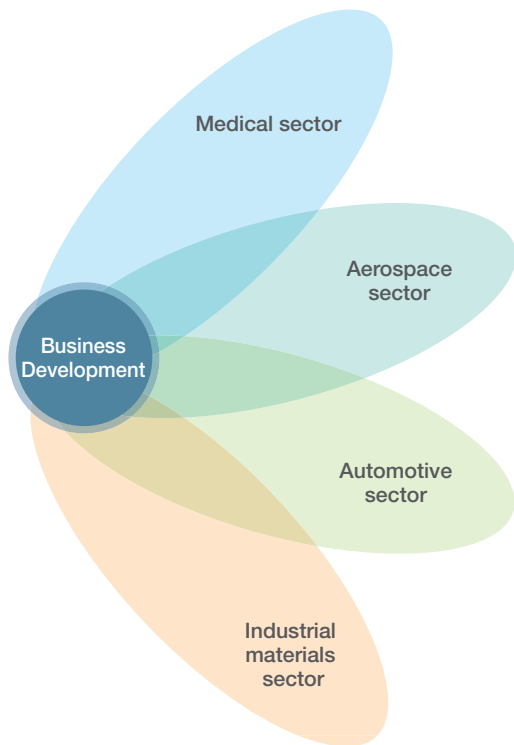
Kiyokata Nishikawa

President
SHIMA CO., LTD.



Developing Business in Diverse Fields

In addition to cultivating the apparel business deeply, we are conducting R&D on new equipment for the medical sector, rolling out automatic fabric cutting machines for the industrial materials sector and actively taking on challenges in other new fields that should enable further growth.



Medical Sector

Introducing Newly Developed 3D Measuring Device to the Medical Sector

Tailor-made clothing begins with taking measurements at various places throughout a person's body. In August 2012, we unveiled a 3D measuring device we developed as a joint industry-academia project in collaboration with Wakayama University and Wakayama Medical University to take such measurements instantaneously. With this device, a person stands in the center of four pillars mounted with LEDs and cameras. In only one second after the light flashes, a person's entire body can be measured in three dimensions.

One potential area of application for our new device is in the medical sector. For example, more than 100,000 people in Japan suffer from lymphatic edema; our device could be used to produce the medical supporters that these patients require. Currently, patients choose medical supporters from the variety of sizes that are available. In the future, the new measurement device could provide 3D data to our SDS®-ONE APEX3 design system, for knitting on our WHOLEGARMENT® flat knitting machines, enabling the rapid production of supporters that provide optimal compression for the patient.

In addition, by controlling the degree of compression to allow more movement, the same approach could be used to make fitness clothing and swimwear. We believe the fields of application for our 3D measuring device are numerous, and our R&D department is pushing forward with research in the aim of increasing the device's level of precision as we move toward commercial viability.



Reiji Arikita

Executive Director
Director of
Development Headquarters



3D measuring device

Aerospace Sector

Introducing a High-Performance Fabric-Cutting Machine to the Aerospace Sector

Over the past several years, Shima Seiki has stepped up sales of its automatic fabric cutting machines to the automotive parts sector and in other fields outside apparel industry, which account for a growing percentage of sales. The P-CAM®120C, which went on sale in September 2012, is a strategic product that takes this trend to the next level. This machine employs a direct cutting method to cut materials by pressing on them in much the same manner as applying a box cutter, and employs an ultrasonic vibration mechanism so that it can be used even on materials that are typically difficult to cut, such as carbon fiber and glass fiber. The P-CAM®120C also facilitates the faster and more precise cutting of materials that melt when heat is applied, such as plastics and rubber.

At the Japan International Aerospace Exhibition in October 2012, where we exhibited for the first time (see the column below), we began making approaches in the aerospace industry. In this area, where we have never before done business, we made a P-CAM®120C-based proposal for use with increasingly popular carbon fiber. Carbon fiber is

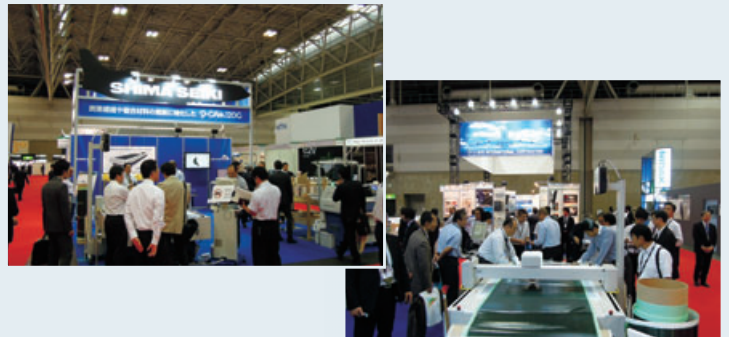
attractive from an environmental standpoint because it is lightweight. Expectations are also mounting for the use of this material in the automotive and other industries. In upcoming fiscal years, we will participate in exhibitions in various regions to raise awareness of this system, as we endeavor to develop proposals carefully tailored to applications and demands in individual industries, leading to higher sales.



P-CAM®120C

Exhibiting at the Japan International Aerospace Exhibition for the First Time to Cultivate Business in the Industrial Materials Sector

In October 2012, we exhibited at the Japan International Aerospace Exhibition 2012 in Nagoya, participating in such an event for the first time. In addition to our newly developed P-CAM®120C automatic fabric cutting machine, a strategic product, we displayed the SDS®.ONE APEX3 design system and our WHOLEGARMENT® flat knitting machines, and introduced some of the possibilities for combining these products into an integrated production system.



Overview and Outlook

The Shima Seiki Group categorizes its business into four segments: the Flat Knitting Machine Segment, the Design System Segment, the Glove and Sock Knitting Machine Segment and the Other Business Segment.

This section reports on these segments' results during the year under review, as well as their initiatives and outlook for the next fiscal year.



Flat Knitting Machine Segment

Overview of the Year under Review

In the mainstay Chinese market, customers' capital investment was lackluster until midway through the third quarter of the fiscal year. After that point, investment began to recover, chiefly among leading knitwear manufacturers in Hong Kong. In emerging markets, sales rose in rapidly growing Bangladesh, a new production region for European apparel manufacturers. Sales also rose significantly in Turkey, which is a point of production for Europe and Russia and that also enjoys favorable internal demand. In Italy, an important market for WHOLEGARMENT® flat knitting machines, capital investment was lackluster, affected by a major earthquake in a key manufacturing region in May 2012 and curtailed lending by financial institutions.

In the Japanese market, meanwhile, the effect of an event to commemorate our 50th anniversary of establishment, combined with an increase in capital investment in line with the return of production from China, led to sales increases.

Consequently, sales in the Flat Knitting Machine Segment decreased 6.3% during the year, to ¥27,724 million.

Outlook for the Next Fiscal Year

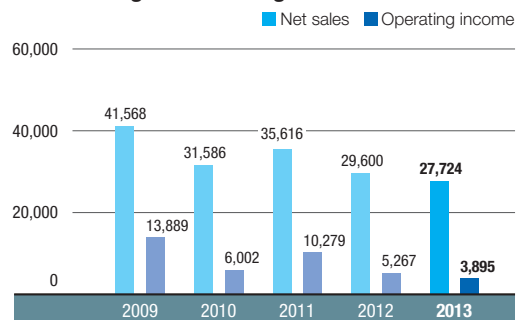
Changes in the market structure in China and Hong Kong are fueling demand for greater efficiency and higher-value-added production. Consequently, we plan to expand sales of highly functional equipment, including WHOLEGARMENT® flat knitting machines, by planning and proposing manufacturing solutions that emphasize quality.

As production shifts away from China to Turkey and other Asian countries, capital investment there is forecast to rise further. In these areas, we will work to differentiate ourselves from competitors with proposals based on sophisticated technology and expertise and increase our market share. In the European market, we will continue to propose local production for the local market that links WHOLEGARMENT® flat knitting machines and design systems. In the Japanese market, which is expected to grow more vigorous due to the correction of the high yen, we will pursue proposal-based sales activities that are carefully tailored to the needs of manufacturing regions.

As a result of these initiatives, in the upcoming fiscal year we anticipate sales from the Flat Knitting Machine Segment of ¥38,570 million, up 39.1% from the year under review.



Flat Knitting Machine Segment (¥ Million)





Design System Segment

Overview of the Year under Review

Through private showings and other proactive planning-and proposal-based marketing efforts, we enjoyed robust sales of the SDS®-ONE APEX3 design system in Japan. We expanded our user base by highlighting the appeal of using virtual samples to realize shorter lead times and cost reductions in sectors outside the knitwear industry.

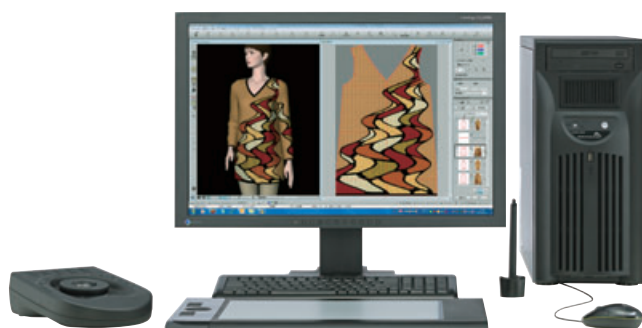
For P-CAM® automatic fabric cutting machines, as well, we enhanced sales routes by augmenting applications and functional variations. Sales of these machines accordingly rose, principally in Japan. Sales in this segment amounted to ¥2,524 million during the year, up 20.3% year on year.

Outlook for the Next Fiscal Year

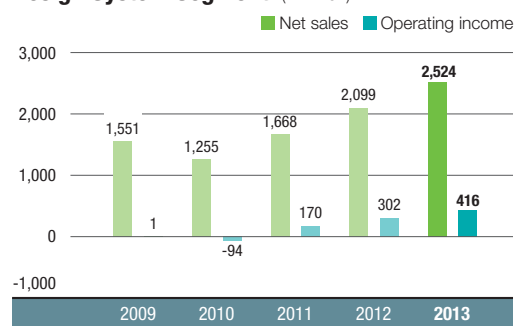
For the SDS®-ONE APEX3 design system, we will continue to offer proposals to a wide range of industries and reinforce overseas sales activities further, cultivating new demand.

With P-CAM® automatic fabric cutting machines, we will also work to boost our market share outside the apparel industry, including the automotive, furniture and industrial materials fields. At the same time, we will expand sales channels overseas and focus on expanding sales by offering technical services that are closely in line with users' needs.

Through these initiatives, we expect to boost sales 31.5% in the upcoming fiscal year, to ¥3,320 million.



Design System Segment (¥ Million)



TOPICS

Exhibiting for the First Time at Textile Industry Trade Shows in Italy and France

In September 2012, we participated for the first time in two European exhibitions for the apparel industry. The first of these, held September 11–13, 2012, was Milano Unica. Some 458 companies participated in this show, held in the fashion capital of Milan. Next, we attended Première Vision, held September 19–21 in Paris. Hosting 742 companies, this tradeshow is one of the largest in the world.

At each of these events, we showcased our Total Fashion System, with the SDS®-ONE APEX3 at its core, as well as artworks portrayed through jacquard knitting. In

addition to the knitwear industry, we emphasized the benefits of sophisticated virtual samples and showed how design systems can be employed in planning and sales promotion in wide-ranging industries, including textile and apparel manufacturing.





Glove and Sock Knitting Machine Segment

Overview of the Year under Review

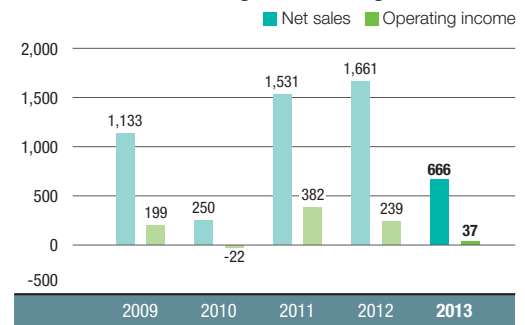
Demand for work gloves used in the manufacturing sector dropped as a result of the worldwide business slowdown, and capital investment in major manufacturing regions was stagnant. Accordingly, sales in this segment dropped 59.9%, to ¥666 million.



Outlook for the Next Fiscal Year

Demand for work gloves showed signs of rebounding toward the end of the fiscal year under review, along with the uptick in economic activity. Also, in the upcoming year we plan to expand sales, concentrating on high-value-added products. We therefore anticipate sales of ¥1,110 million, a rise of 66.7%.

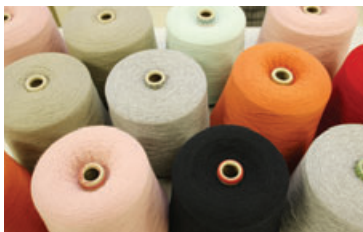
Glove and Sock Knitting Machine Segment (¥ Million)



Other Business Segment

Overview of the Year under Review

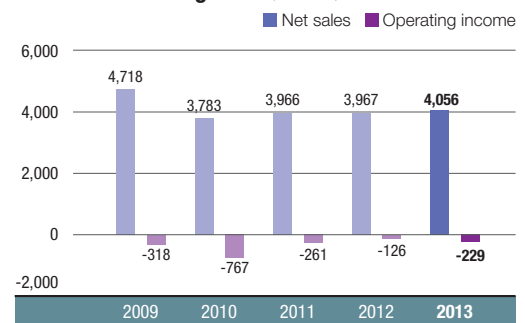
Advances in such business as the sales of parts, repair and maintenance, spinning and sales of knitwear led to sales in the Other Business Segment of ¥4,056 million, a 2.3% increase from the preceding fiscal year.



Outlook for the Next Fiscal Year

In the upcoming year, we expect to conduct the same activities as in the term under review. Accordingly, we expect sales to be essentially at the same level, at ¥4.0 billion, a 1.4% decrease.

Other Business Segment (¥ Million)



R&D Structure for Flat Knitting Machines and Design Systems

Structure and Policies

In accordance with its basic policy of conducting unique technological development based on creativity, Shima Seiki develops its own hardware and software. We consistently strive to pursue research and development that generates products, technology and expertise from a customer standpoint. Our development division is flexible in the projects it undertakes,

from developing new types of equipment to enhancing the functionality of existing equipment varieties and expanding product variations.

Flat Knitting Machine Development Initiatives

During the fiscal year ended March 31, 2013, we added the five-gauge MACH2®X series to our offerings of high-end WHOLEGARMENT® products and expanded the lineup further. We augmented the SWG®-FIRST® series with special ultrafine-gauge SlideNeedles arranged in a 21-gauge pitch and added the compact SWG®-FIRST®124. These machines achieve the finest-gauge shaped flat knits currently available in the world, which should broaden the possibilities for knitwear products in previously untapped fields.

We also introduced a five-gauge version of the NSSG®, for which user demand has been strong. Furthermore, by adding two loop presser beds before and after the top end of the needle bed, we developed the SRY123LP, which holds down loops even better than in the past.

Efforts in the Development of Design Systems

Our foremost aim in developing design systems is to enhance customer satisfaction. The SDS®-ONE APEX3 design system contributes to reductions in the cost, time and materials required to produce samples during planning processes across a broad range of industries. We are always working to improve and advance functionality, such as increasing the reality of our simulations, to contribute further to these applications. Moreover, by linking such equipment as our flat knitting machines and the P-CAM® automatic fabric cutting machine, we undertake developments that combine hardware, software and expertise to provide total customer support.

To ensure that our developments are based on customer needs, our people in charge of marketing and user support feed the information that they gather at worksites back to the development division. Sometimes developers themselves also visit customers to gather information about their needs that can be employed in development.



NSSG®122



MACH2®X173

Primary SDS®-ONE APEX3 Design System Functions Added in Recent Years

Year Developed	Functions Added	Description
2011	Renewal of shaping knit point	We revised the processing of automatic programming for shaping so that even novices can easily create quality knit programming data with a high degree of knitting efficiency.
2011	Towel edit/simulation	When conducting towel designs and their simulations, designs can be confirmed prior to production.
2011	Automatic design creation	We have developed automated design creation software that enables Mondrian Pattern, Line Repeat and Euclidean Pattern designs, enabling the automated creation of designs that were previously difficult to generate.
2013	Automatic process knit efficiency	We created software to perform the knit programming data tuning conducted by experts, so that even novices can automatically create knit programming data efficiently.
2013	Shima Private Server (SPS)	This system, which links with mobile terminals to confirm product images virtually, can be used in sales promotion as a tool for communicating with customers in shops.
2013	Real-time 3D view	Designed images can be confirmed in real time and in three dimensions.

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, 2013, the Board of Directors met 18 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 public accountant—acts as a check on directors’ activities. During the year, the Board of Corporate Auditors met 12 times.

Internal Auditing System

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

Accounting Audits

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

Internal Control System

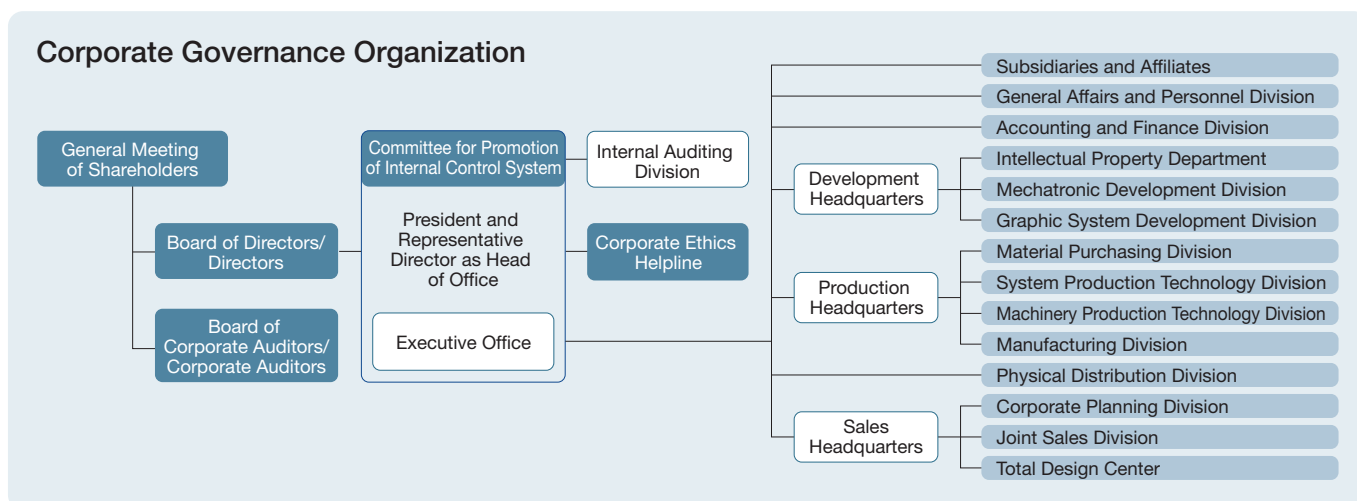
Recognizing the importance of creating and operating an internal control system to realizing our corporate philosophy and targets, we have formulated and are pursuing Basic Policies Related to Improvement of the Internal Control System. In addition to the Committee for the Promotion of the Internal Control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

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

Efforts toward Compliance

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

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





President

Masahiro Shima

Director of Sales Headquarters



Executive Vice President

Mitsuhiro Shima

Deputy Director of Sales Headquarters



Executive Director

Takashi Wada

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



Executive Director

Reiji Arikita

Director of Development Headquarters



Executive Director

Ikuto Umeda

Deputy Director of Sales Headquarters, General Manager of Corporate Planning Division, CEO of SHIMA SEIKI (HONG KONG) LTD.



Director

Osamu Fujita

General Manager of General Affairs and Personnel Division



Director

Toshio Nakashima

General Manager of Total Design Center



Director

Takashi Nanki

General Manager of Accounting and Finance Division, concurrently overseeing Physical Distribution Division



Director

Hirokazu Nishitani

General Manager of Material Purchasing Division



Director

Kiyokata Nishikawa

General Manager of Joint Sales Division



Corporate Auditor

Mitsunori Ueda

Standing Corporate Auditor



Corporate Auditor

Masao Tanaka

Standing Corporate Auditor



Corporate Auditor

Yuuki Matoba

Corporate Auditor



Corporate Auditor

Daisuke Shinkawa

Corporate Auditor

Message from Daisuke Shinkawa, Outside Auditor

During the fiscal year ended March 31, 2013, my first year after being appointed, I attended meetings of the Board of Directors and the Board of Corporate Auditors in my effort to fulfill my responsibilities as outside auditor. As a certified public accountant, I am particularly focused on consistency between the Company's performance figures and the economic climate. No major problems

exist with respect to the status of Shima Seiki's corporate governance. However, taking the current operating environment into consideration, I would like to see the Company establish and monitor the status of systems for appropriately responding to exchange risk in the event of sudden fluctuations and managing trade accounts receivable in line with the increase in net sales.

The background of the page is a light blue gradient. At the top, there is a faint image of a person's hand holding a pen, pointing towards a computer screen. The screen displays a financial chart with a candlestick pattern and a line graph. A price change of "-1.98" is visible on the screen. The overall aesthetic is professional and financial.

Financial Section

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Five-Year Financial Summary

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

	2013	2012	2011	2010	2009	2013
For the Year:	Millions of yen					Thousands of U.S. dollars
Net sales	¥34,970	¥37,327	¥42,781	¥36,874	¥48,970	\$371,823
Cost of sales	22,758	22,895	23,587	22,735	24,318	241,977
Gross profit	12,212	14,432	19,194	14,139	24,652	129,846
Selling, general and administrative expenses	12,721	13,549	13,286	13,488	16,124	135,258
Operating income (loss)	(509)	883	5,908	651	8,528	(5,412)
Income (loss) before income taxes and minority interests	3,363	(537)	1,092	(1,042)	4,057	35,758
Net income (loss)	1,754	(642)	770	(1,885)	1,766	18,649
Net cash provided by (used in) operating activities	3,614	(2,094)	3,504	6,746	1,978	38,426
Net cash provided by (used in) investing activities	(3,218)	532	(1,834)	(2,759)	70	(34,216)
Net cash provided by (used in) financing activities	227	(1,929)	1,297	(6,682)	(4,294)	2,414
Capital investment	934	2,275	1,587	2,154	4,147	9,931
Depreciation and amortization	1,661	1,809	1,696	2,164	2,358	17,661
Research and development expenses	2,598	2,483	2,383	2,325	2,651	27,624
At Year-End:	Millions of yen					Thousands of U.S. dollars
Total assets	¥112,089	¥106,863	¥113,951	¥110,063	¥119,778	\$1,191,803
Net assets	87,382	84,167	86,591	87,473	91,064	929,102
Per Share Data:	Yen					U.S. dollars
Net income (loss)	¥51.26	¥(18.60)	¥22.26	¥(54.52)	¥49.88	\$0.55
Cash dividends applicable to the year	25.00	40.00	35.00	30.00	40.00	0.27
Net assets	2,547.88	2,454.07	2,502.27	2,529.67	2,633.55	27.09
Ratios:	%					
Ratio of operating income to net sales	(1.5)%	2.4%	13.8%	1.8%	17.4%	
ROA	1.6	(0.6)	0.7	(1.6)	1.4	
ROE	2.0	(0.8)	0.8	(2.0)	1.9	
Equity ratio	77.8	78.6	75.9	79.5	76.0	

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥94.05=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2013.

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

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

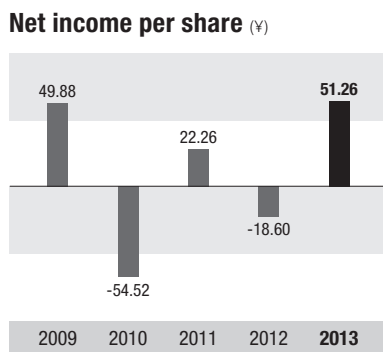
Overview

During the consolidated fiscal year under review, overall conditions in the global economy remained problematic, characterized by protracted debt crisis in Europe, concerns about fiscal issues in the United States and economic deceleration in China and other emerging markets. Toward the end of the fiscal year, however, heightened economic stimulus measures led to more positive signs about the future in the United States, and the eurozone and emerging markets began displaying signs of recovery. In Japan as well, although yen appreciation and the global economic slowdown had serious repercussions for export-oriented companies through the end of 2012, the situation began to improve around the beginning of the new year, as a sense of expectation surrounding the new administration's economic measures and large-scale monetary easing by the Bank of Japan led to a significant rise in share prices and rapid correction of the high yen, causing the profitability of exports to improve and prompting a recovery in business confidence.

Against this backdrop, the Shima Seiki Group focused on responding swiftly to the diverse needs of customers in Japan and overseas by developing and selling products that contribute to higher levels of productivity and high-quality manufacturing. Looking at sales conditions in the year under review, until midway through the third quarter uncertainty about global economic trends caused customers in our mainstay markets of China and Europe to remain cautious about capital investment, and sales were sluggish, centered on the Flat Knitting Machine Segment. From the second half of the third quarter, however, capital investment began to pick up as expectations for the future grew more positive. Orders expanded sharply, leading to a substantial increase in sales in the fourth quarter.

Under these circumstances, the Company posted consolidated net sales of ¥34,970 million for the fiscal year ended March 31, 2013, down 6.3% from the preceding fiscal year. Profits fell as a result of lower net sales, as well as a decline in production volume, which drove down the gross profit ratio.

Consequently, the Company recorded an operating loss of ¥509 million, compared with operating income of ¥883 million in the preceding term. On the other hand, Shima Seiki posted foreign exchange gains of ¥3,119 million



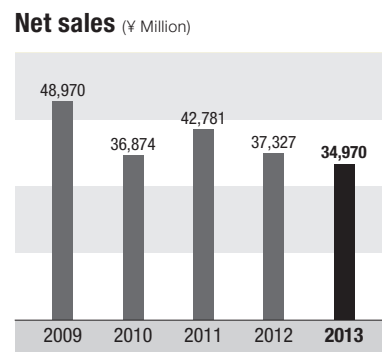
stemming from the rapid correction of the high yen, and net income improved markedly, to ¥1,754 million, compared with a net loss of ¥642 million in the preceding fiscal year.

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 rose from a negative ¥18.60 in the preceding term to a positive ¥51.26 during the year under review. We awarded a year-end cash dividend of ¥15.00 per share. This amount, combined with an interim dividend of ¥10.00, brought dividends for the year to ¥25.00 per share.

Net Sales

Shima Seiki's consolidated net sales fell 6.3% from the previous year, to ¥34,970 million.

Within the Shima Seiki Group's core business of flat knitting machines, in the pivotal Chinese market escalating labor costs and a slowdown in exports to Europe and the United States caused performance to worsen, particularly among export-oriented knitwear manufacturers. Capital investment by these companies was accordingly lackluster, which resulted in lower sales for Shima Seiki. However, orders picked notably from leading Hong Kong knitwear manufacturers with major factories around Guangdong Province that handle quick-turnaround orders of mass-merchandised products for Europe and the United States, and demand for the introduction of computerized flat knitting machines that offer high production efficiency accelerated from companies seeking to expand at production locations in ASEAN countries, where labor costs are low. Consequently, sales rose sharply in the fourth quarter. Sales also increased in Bangladesh, which has enjoyed rapid growth in recent years, as customers there proceeded with the automation of knitwear production to meet the high quality and productivity demands of European apparel. Capital investment in computerized flat knitting machines also rose in Turkey, which is a point of



production for Europe and Russia, to augment its export competitiveness against China—its competitor, where wages are rising, to build production systems to meet shorter turnaround times, as well as to meet robust internal demand. Within Europe, capital investment was lackluster in Italy, which was hit by an earthquake in a key manufacturing region in May 2012, and due to financial institutions' curtailed lending. Meanwhile, in Japan, which accounts for a relatively small percentage of the Group's business, we held a fashion show in November 2012 to commemorate our 50th anniversary of establishment. Positive response to this event drove up capital investment in our WHOLEGARMENT® flat knitting machines, and the return to production in Japan that had been taking place in China pushed up demand, causing our sales in this market to increase year on year.

In the Design System Segment, Shima Seiki held detailed private showings and worked aggressively at planning-and proposal-based marketing that is closely attuned to the sectors in which its users operate. As a result, sales were robust for the SDS®-ONE APEX3, which employs virtual samples to dramatically reduce lead times from product planning through to production and distribution, as well as to slash costs.

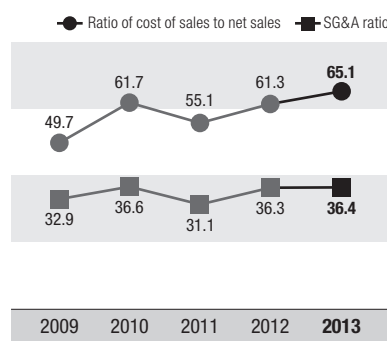
The Company expanded applications and the number of variations on P-CAM® automatic fabric cutting machines, broadening sales channels outside the apparel industry as well. Sales consequently increased, chiefly in the domestic market.

In the Glove and Sock Knitting Machine Segment, demand for work gloves dropped as a result of the worldwide business slowdown. Accordingly, capital investment in this area was depressed, leading to a substantial decline in sales.

Overall, overseas net sales fell 9.4%, to ¥29,627 million, and accounted for 84.7% of net sales during the year, a 2.9-percentage-point decrease from the previous year. By geographical region, net sales consisted of 42.3% to Asia (compared with 52.9% during the previous year), 16.5% to Europe (19.6%), 21.7% to the Middle East (10.8%) and 4.2% to other areas (4.3%), indicating a decreasing weight in Asia, but a rising percentage in the Middle East.

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 15.6%, to ¥5,343 million.

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



Cost of Sales and SG&A Expenses

The decline in net sales, as well as lower sales volume, pushed up the percentage of manufacturing costs. Cost of sales came to ¥22,758 million, and as a result gross profit fell 15.4%, to ¥12,212 million. The gross profit ratio slipped 3.8 percentage points year on year, to 34.9%.

Selling, general and administrative (SG&A) expenses declined 6.1% year on year, to ¥12,721 million, owing to decreases in bad debt expenses and provision for doubtful accounts. The SG&A ratio remained largely unchanged from the previous year, at 36.4%.

Operating Income

Orders recovered sharply midway through the third quarter, and net sales and operating income grew in the fourth quarter. However, sales were lackluster through the first half of the third quarter, and the cost of sales ratio rose, stemming from the decline in sales volume. Amid this difficult business environment, the operating loss for the fiscal year as a whole amounted to ¥509 million, compared with operating income of ¥883 million in the preceding fiscal year.

By business segment, operating income in the Flat Knitting Machine Segment came to ¥3,895 million, down 26.0% year on year; ¥416 million in the Design System Segment, up 37.7%; and ¥37 million in the Glove and Sock Knitting Machine Segment, down 84.5%. The Other Business Segment posted an operating loss of ¥229 million, compared with an operating loss of ¥126 million in the previous term.

Other Income and Expenses

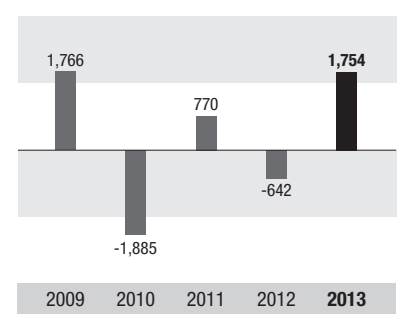
Other income exceeded other expenses, leading to net other income of ¥3,872 million, compared with net other expenses of ¥1,420 million in the previous year. This result stemmed from foreign exchange gains of ¥3,119 million, owing to such factors as gains on the valuation of receivables denominated in foreign currencies, due to correction of the high yen.

Net Income

Income before income taxes and minority interests was ¥3,363 million, against a loss of ¥537 million during the previous year.

Corporate income, residential and enterprise taxes totaled ¥430 million, representing an increase of ¥316 million from a year earlier. Corporate income tax adjustments for the period under review

Net income (¥ Million)



were ¥1,178 million, compared with a negative ¥9 million in the previous year. As a result, the Company's tax burden after the application of tax effect accounting increased ¥1,503 million, to ¥1,608 million.

Owing to the above factors, consolidated net income for the Shima Seiki Group during the year came to ¥1,754 million, compared with a consolidated net loss of ¥642 million for the preceding fiscal term.

Liquidity and Capital Resources

Cash and cash equivalents were ¥16,648 million as of March 31, 2013, up ¥2,457 million from one year earlier. This increase occurred because operating and financing activities provided cash in an amount that exceeded the cash used in investing activities.

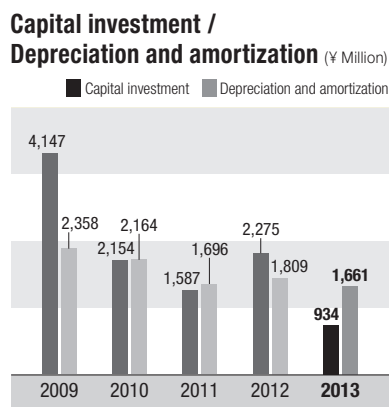
Net cash provided by operating activities was ¥3,614 million, compared with 2,094 million used in this category in the preceding fiscal year. Uses of cash included an increase in trade receivables of ¥1,025 million, compared with a decrease of ¥2,759 million in the preceding fiscal year. Principal sources of cash, meanwhile, came from a decrease in inventories, which provided ¥3,361 million, compared with an increase of ¥2,606 million in the previous term.

Net cash used in investing activities amounted to ¥3,218 million, compared with ¥532 million provided by these activities in the preceding fiscal year. The main use of cash was an increase in time deposits of ¥3,642 million, compared with a decrease of ¥1,128 million in the preceding fiscal year.

Net cash provided by financing activities was ¥227 million, whereas these activities used ¥1,929 million in the preceding term. Major factors were proceeds from long-term debt, which provided ¥5,000 million, the repayment of long-term debt, which used ¥3,000 million, and cash dividends paid. The payment of dividends used ¥1,112 million during the year under review, compared with ¥1,210 million in the previous year.

The Shima Seiki Group's funding activities combine various procurement methods, including cash flows from operating activities and loans from financial institutions, in an effort to secure low-cost,

stable capital in response to uses of funds required to pursue the Group's objectives. At fiscal year-end, the equity ratio and current ratio, indicators of a company's margin of safety, were 77.8% and 457.8%, respectively, implying



an extremely good financial position.

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

Assets, Liabilities and Net Assets

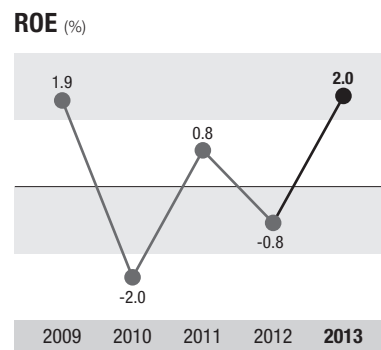
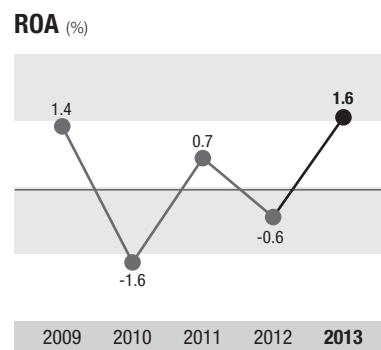
Consolidated total assets as of March 31, 2013, were ¥112,089 million, up ¥5,226 million from a year earlier.

In terms of short-term assets and liabilities, current assets rose 9.3%, or ¥6,264 million, to ¥73,755 million. Major reasons for the increase were a ¥4,827 million rise in cash and time deposits and a ¥3,842 million increase in trade notes and accounts receivable. Current liabilities, meanwhile, fell 7.0%, or ¥1,220 million, to ¥16,110 million. This was primarily due to a ¥1.5 billion decrease in the current portion of long-term debt.

With regard to long-term assets and liabilities, long-term assets decreased ¥1,038 million, or 2.6%, to ¥38,334 million, largely due to a decrease in deferred tax assets. Long-term liabilities, on the other hand, rose ¥3,231 million, or 60.2%, to ¥8,597 million. A ¥3.5 billion increase in long-term debt was the primary reason.

Net assets expanded ¥3,215 million, or 3.8%, to ¥87,382 million, owing principally to higher retained earnings and the impact of foreign currency translation adjustments. As a result, the shareholders' equity ratio slipped 0.8 percentage point from the preceding year-end, to 77.8%.

Return on assets improved from a negative 0.6% to a positive 1.6%. Return on equity likewise rose, from a negative 0.8% to a positive 2.0%.



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, 2013.

(1) Risks of dependency on particular overseas markets

Overseas sales account for around 85% of the Group's total sales, with sales to Turkey, China and Hong Kong accounting for more than one-second 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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
ASSETS			
Current assets:			
Cash and time deposits	¥19,737	¥14,910	\$209,856
Short-term investments in securities (Note 5)	550	618	5,848
Trade notes and accounts receivable	33,700	29,858	358,320
Inventories (Note 6)	18,345	20,885	195,056
Deferred tax assets (Note 12)	1,629	1,296	17,321
Prepaid expenses and other current assets	927	2,486	9,856
Less: allowance for doubtful accounts	(1,133)	(2,562)	(12,046)
Total current assets	73,755	67,491	784,211
Investments and other assets:			
Investments in unconsolidated subsidiaries	177	157	1,882
Investments in securities (Note 5)	7,071	7,130	75,183
Deferred tax assets (Note 12)	625	2,455	6,645
Goodwill	4,706	5,031	50,038
Other	6,808	5,079	72,387
Less: allowance for doubtful accounts	(1,191)	(1,421)	(12,663)
Total investments and other assets	18,196	18,431	193,472
Property, plant and equipment:			
Land	10,833	10,931	115,183
Buildings and structures	23,038	23,022	244,955
Machinery and equipment	5,577	5,504	59,298
Tools, furniture and fixtures	6,902	6,944	73,386
Leased assets	2,239	2,067	23,807
Construction in progress	53	37	564
	48,642	48,505	517,193
Less: accumulated depreciation	(28,504)	(27,564)	(303,073)
Property, plant and equipment, net	20,138	20,941	214,120
Total assets	¥112,089	¥106,863	\$1,191,803

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 8)	¥5,400	¥5,701	\$57,416
Current portion of long-term debt (Note 8)	1,500	3,000	15,949
Lease obligation	352	317	3,743
Trade notes and accounts payable	4,445	4,295	47,262
Accrued expenses	1,200	1,167	12,759
Accrued income taxes	385	67	4,094
Other current liabilities	2,828	2,783	30,069
Total current liabilities	16,110	17,330	171,292
Long-term liabilities:			
Long-term debt, less current portion (Note 8)	5,000	1,500	53,163
Lease obligation	990	1,180	10,526
Allowance for retirement benefits (Note 9)	1,226	1,319	13,036
Deferred tax liabilities for land revaluation (Note 7)	29	29	308
Allowance for directors' and statutory auditors' retirement benefits	1,065	1,155	11,324
Other long-term liabilities	287	183	3,052
Total long-term liabilities	8,597	5,366	91,409
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2013 — 36,600,000 shares			
2012 — 36,600,000 shares	14,860	14,860	158,001
Capital surplus	21,724	21,724	230,983
Retained earnings	67,322	66,304	715,811
Treasury stock, at cost			
2013 — 2,379,834 shares			
2012 — 2,370,086 shares	(6,906)	(6,890)	(73,429)
Total shareholders' equity	97,000	95,998	1,031,366
Accumulated other comprehensive income:			
Net unrealized holding gain (loss) on securities	260	(340)	2,765
Land revaluation difference (Note 7)	(7,351)	(7,351)	(78,161)
Foreign currency translation adjustments	(2,720)	(4,305)	(28,921)
Total accumulated other comprehensive income	(9,811)	(11,996)	(104,317)
Subscription rights to share (Note 15)	181	153	1,925
Minority interests in consolidated subsidiaries	12	12	128
Total net assets	87,382	84,167	929,102
Total liabilities and net assets	¥112,089	¥106,863	\$1,191,803

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net sales	¥34,970	¥37,327	\$371,823
Cost of sales	22,758	22,895	241,977
Gross profit	12,212	14,432	129,846
Selling, general and administrative expenses (Note 13)	12,721	13,549	135,258
Operating income (loss)	(509)	883	(5,412)
Other income (expenses):			
Interest and dividend income	464	528	4,934
Interest expense	(78)	(57)	(829)
Foreign exchange gains (losses).....	3,119	(1,794)	33,163
Loss on valuation of investments in securities	(19)	(52)	(202)
Other, net	386	(45)	4,104
Income (loss) before income taxes and minority interests	3,363	(537)	35,758
Income taxes (Note 12):			
Current	430	114	4,572
Deferred	1,178	(9)	12,526
	1,608	105	17,098
Income (loss) before minority interests	1,755	(642)	18,660
Minority interests in gain of consolidated subsidiaries	1	0	11
Net income (loss)	¥1,754	¥(642)	\$18,649
Per share:			
Net income (loss)	¥51.26	¥(18.60)	\$0.55
Cash dividends applicable to the year	25.00	40.00	0.27

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Income before minority interests	¥1,755	¥(642)	\$18,660
Other comprehensive income (Note 16):			
Net unrealized holding gain on securities	600	117	6,379
Land revaluation difference	—	4	—
Foreign currency translation adjustments	1,585	(294)	16,853
Total other comprehensive income	2,185	(173)	23,232
Comprehensive income	¥3,940	¥(815)	\$41,892
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥3,939	¥(815)	\$41,882
Comprehensive income attributable to minority interests	1	0	10

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, 2013 and 2012

	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	Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets
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
Net income	—	—	—	1,755	—	—	—	—	—	—	1,755
Cash dividends	—	—	—	(1,113)	—	—	—	—	—	—	(1,113)
Purchases of treasury stock	—	—	—	—	(16)	—	—	—	—	—	(16)
Disposal of treasury stock	—	—	—	(0)	0	—	—	—	—	—	0
Change in scope of consolidation	—	—	—	376	—	—	—	—	—	—	376
Other changes, net	—	—	—	—	—	600	—	1,585	28	—	2,213
Balance at March 31, 2013	36,600	¥14,860	¥21,724	¥67,322	¥(6,906)	¥260	¥(7,351)	¥(2,720)	¥181	¥12	¥87,382

	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	Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets	
Balance at March 31, 2012	\$158,001	\$230,983	\$704,987	\$(73,259)	\$(3,615)	\$(78,161)	\$(45,774)	\$1,627	\$128	\$894,917	
Net income	—	—	18,660	—	—	—	—	—	—	18,660	
Cash dividends	—	—	(11,834)	—	—	—	—	—	—	(11,834)	
Purchases of treasury stock	—	—	—	(170)	—	—	—	—	—	(170)	
Disposal of treasury stock	—	—	(0)	0	—	—	—	—	—	0	
Change in scope of consolidation	—	—	3,998	—	—	—	—	—	—	3,998	
Other changes, net	—	—	—	—	6,380	—	16,853	298	—	23,531	
Balance at March 31, 2013	\$158,001	\$230,983	\$715,811	\$(73,429)	\$2,765	\$(78,161)	\$(28,921)	\$1,925	\$128	\$929,102	

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥3,363	¥(537)	\$35,758
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,661	1,809	17,661
Amortization of goodwill	920	335	9,782
Increase (decrease) in allowance for doubtful accounts	(1,032)	159	(10,973)
Interest and dividend income	(464)	(528)	(4,934)
Interest expense	78	57	829
Foreign exchange loss (gain)	(2,913)	1,705	(30,973)
Loss on sales and disposal of property, plant and equipment, net	35	17	372
Impairment loss	23	141	245
Loss on redemption of investment securities	125	—	1,329
Loss on valuation of derivatives	99	—	1,053
Decrease (increase) in trade receivables	(1,025)	2,759	(10,898)
Decrease (increase) in inventories	3,361	(2,606)	35,736
Decrease in trade payables	(1,848)	(2,751)	(19,649)
Other	868	(2,564)	9,229
Subtotal	3,251	(2,004)	34,567
Interest and dividend income received	466	534	4,954
Interest expense paid	(85)	(75)	(904)
Income taxes paid	(18)	(549)	(191)
Net cash provided by (used in) operating activities	3,614	(2,094)	38,426
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	(3,642)	1,128	(38,724)
Purchases of short-term investments	—	(200)	—
Proceeds from sales of short-term investments	—	1,415	—
Proceeds from redemption of short-term investments	200	—	2,126
Purchases of property, plant and equipment	(606)	(1,435)	(6,443)
Proceeds from sales of property, plant and equipment	61	5	649
Purchases of investments in securities	(507)	(307)	(5,391)
Proceeds from sales of investments in securities	1,004	35	10,675
Proceeds from redemption of investments in securities	325	—	3,456
Acquisition of subsidiaries and affiliated companies	(144)	—	(1,531)
Other	91	(109)	967
Net cash provided by (used in) investing activities	(3,218)	532	(34,216)
Cash flows from financing activities:			
Decrease in short-term borrowings, net	(318)	—	(3,381)
Proceeds from long-term debt	5,000	—	53,163
Repayment of long-term debt	(3,000)	—	(31,898)
Repayment of finance lease obligations	(327)	(230)	(3,477)
Purchases of treasury stock	(16)	(489)	(170)
Proceeds from sales of treasury stock	0	0	0
Cash dividends paid	(1,112)	(1,210)	(11,823)
Net cash provided by (used in) financing activities	227	(1,929)	2,414
Effect of exchange rate changes on cash and cash equivalents	1,413	(396)	15,024
Net increase (decrease) in cash and cash equivalents	2,036	(3,887)	21,648
Cash and cash equivalents at beginning of year	14,191	18,078	150,888
Increase in cash and cash equivalents from newly consolidated subsidiary	421	—	4,476
Cash and cash equivalents at end of year	¥16,648	¥14,191	\$177,012

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, 2013, which was ¥94.05 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 (the "Companies") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

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

(b) Translation of foreign currencies

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

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

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

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

(c) Cash and cash equivalents

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

(d) Short-term investments and investments in securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of net assets and is reflected as "Net unrealized holding 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 is computed principally by the declining-balance method based on the estimated useful lives of assets, except that the straight-line method is applied to buildings, but not to fixtures attached to the buildings, acquired 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

(Change in accounting policies)

The Company and certain domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2012 pursuant to the amendment of the Corporate Income Tax Law in 2012.

The effect of the change was to increase slightly operating income and income before income taxes and minority interests.

(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 plans and the funded noncontributory pension plans. The amount of retirement benefits is 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, 2012 since the Company posted a net loss per share and for the year ended March 31, 2013 since there are no residual securities with dilutive effect upon exercise into common stock.

3. Cash and deposits

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in cash and cash deposits in the consolidated balance sheets as of March 31, 2013 and 2012 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and time deposits	¥19,737	¥14,910	\$209,856
Time deposits with an original maturity in excess of three months included in cash and deposits	(3,089)	(719)	(32,844)
Cash and cash equivalents at end of year	¥16,648	¥14,191	\$177,012

4. Financial Instruments

(a) Policy for financial instruments

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

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

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

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

The Companies use borrowings and interest-bearing debt to procure funds for operating transactions due for a maximum of 18 months. The Companies hedges risk for long-term borrowings by using derivatives (interest rate swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

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

(c) Risk management of financial instruments

1. Credit risk management

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

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

The Companies have derivative transactions only with counterparties rated highly.

2. Market risk management

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

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

3. Liquidity risk in procurement of funds

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

(d) Supplemental information on fair value of financial instruments

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

The contract amounts of the derivative transactions referred in Note 9. Derivative financial instruments below are not indicators of market risk associated with derivative transactions.

(e) Fair value of financial instruments

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

	Millions of yen		
	Carrying value	Fair value	Variance
		2013	
<1> Cash and time deposits	¥19,737	¥19,737	—
<2> Trade notes and accounts receivable ..	33,700		
Less: allowance for doubtful accounts *1 ..	(1,133)		
	32,567	32,546	¥(21)
<3> Short-term investments in securities, investments in securities	6,618	6,618	—
<4> Trade notes and accounts payable ..	4,445	4,445	—
<5> Short-term borrowings	5,400	5,400	—
<6> Long-term debt including long-term borrowings due within one year	6,500	6,506	6
<7> Derivative instruments *2	(103)	(103)	—

	Millions of yen		
	2012		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	¥14,910	¥14,910	—
<2> Trade notes and accounts receivable ..	29,858		
Less: allowance for doubtful accounts *1...	(2,555)		
	27,303	27,271	¥(32)
<3> Short-term investments in securities, investments in securities	6,573	6,573	—
<4> Trade notes and accounts payable ..	4,294	4,294	—
<5> Short-term borrowings	5,701	5,701	—
<6> Long-term debt including long-term borrowings due within one year.....	4,500	4,501	1
<7> Derivative instruments *2	—	—	—

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	\$209,860	\$209,860	—
<2> Trade notes and accounts receivable ..	358,321		
Less: allowance for doubtful accounts *1...	(12,047)		
	346,274	346,052	\$(222)
<3> Short-term investments in securities, investments in securities	70,370	70,370	—
<4> Trade notes and accounts payable ..	47,266	47,266	—
<5> Short-term borrowings	57,415	57,415	—
<6> Long-term debt including long-term borrowings due within one year.....	69,112	69,179	67
<7> Derivative instruments *2	(1,096)	(1,096)	—

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

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

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

- <1> Cash and time deposits; Carrying amount approximates fair value due to the short maturities.
- <2> Trade notes and accounts receivable; The fair value is based on the discounted by the free rate to be applied to the periods of collection, assuming allowance for doubtful accounts as credit risks since it is difficult to value credit risks individually.
- <3> Short-term investments in securities, investments in securities; Fair value of equity securities are based on the prices quoted by financial institutions.
- <4> Trade notes and accounts payable; Carrying amount approximates fair value due to the short maturities.
- <5> Short-term borrowings; Carrying amount approximates fair value due to the short maturities.
- <6> Long-term debt; Fair value of long-term debt is calculated by discounting the sum of future principal and interest payments to present value at the rate expected in another loan with the same conditions.
- <7> Derivative instruments; Refer to Note 10 Derivative financial instruments.

(Note2) Fair values that are difficult to determine as of March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted equity bonds	¥672	¥817	\$7,144
Unlisted equity securities	250	270	2,656
Shares of subsidiaries and affiliates ...	144	113	1,531
Investment in limited partnership	81	88	858

(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2013

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2013)				
Cash and time deposits	¥19,737	—	—	—
Trade notes and accounts receivable	20,815	¥12,754	¥131	—
Investment securities				
Held-to-maturity securities				
– Bonds	472	—	200	—
Available-for-sale securities with maturity				
– Bonds	—	—	1,000	—
– Other investments	78	66	—	—
Total	¥41,102	¥12,820	¥1,331	—

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2013)				
Cash and time deposits	\$209,860	—	—	—
Trade notes and accounts receivable	221,322	\$135,609	\$1,391	—
Investment securities				
Held-to-maturity securities				
– Bonds	5,017	—	2,126	—
Available-for-sale securities with maturity				
– Bonds	—	—	10,635	—
– Other investments	827	697	—	—
Total	\$437,026	\$136,306	\$14,152	—

5. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2013 and 2012 were as follows:

	Millions of yen		
	2013		
	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	¥1,803	¥2,367	¥564
Bonds	1,000	1,000	0
Other	36	61	25
Subtotal	¥2,839	¥3,428	¥589
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥642	¥598	¥(44)
Bonds	—	—	—
Other	2,733	2,592	(141)
Subtotal	¥3,375	¥3,190	¥(185)
Total	¥6,214	¥6,618	¥404

	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
Bonds	—	—	—
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)
Bonds	1,000	980	(20)
Other	3,527	2,965	(562)
Subtotal	¥5,119	¥4,454	¥(665)
Total	¥7,108	¥6,573	¥(535)

	Thousands of U.S. dollars		
	2013		
	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	\$19,170	\$25,167	\$5,997
Bonds	10,633	10,633	0
Other	383	649	266
Subtotal	\$30,186	\$36,449	\$6,263
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	\$6,826	\$6,358	\$(468)
Other	29,059	27,560	(1,499)
Subtotal	\$35,885	\$33,918	\$(1,967)
Total	\$66,071	\$70,367	\$4,296

Other securities whose market values recorded in the balance sheet exceed their acquisition costs:

Equity securities	\$19,170	\$25,167	\$5,997
Bonds	10,633	10,633	0
Other	383	649	266
Subtotal	\$30,186	\$36,449	\$6,263

Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:

Equity securities	\$6,826	\$6,358	\$(468)
Other	29,059	27,560	(1,499)
Subtotal	\$35,885	\$33,918	\$(1,967)
Total	\$66,071	\$70,367	\$4,296

Other securities without quoted market prices at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2013	2012	2013
Held-to-maturity securities	¥672	¥817	\$7,145
Other securities	331	358	3,519
	¥1,003	¥1,175	\$10,664

6. Inventories

Inventories at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Finished goods	¥11,027	¥14,363	\$117,246
Work in process	1,015	720	10,792
Raw materials	5,953	5,440	63,296
Supplies and others	350	362	3,722
	¥18,345	¥20,885	\$195,056

7. Land revaluation

On March 31, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the income tax effect on revaluation gain or loss, has been stated as a component of net assets, "Land revaluation difference." The income tax effect has been stated as a component of long-term liabilities, "Deferred tax liabilities for land revaluation." The fair value of the revalued land was less than its carrying value by ¥4,646 million (\$49,399 thousand) and ¥3,418 million at March 31, 2013 and 2012, respectively.

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Average rate of 0.34% unsecured loans from banks	¥5,400	¥5,701	\$57,416

Long-term debt at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Average rate of 0.63% unsecured loans from banks	¥6,500	¥4,500	\$69,112
Less current portion	(1,500)	(3,000)	(15,949)
	¥5,000	¥1,500	\$53,163

The aggregate annual maturities of long-term debt at March 31, 2013 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2014	—	—
2015	—	—
2016	—	—
2017	—	—
2018	¥5,000	\$53,163
Thereafter	—	—
Total	¥5,000	\$53,163

9. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2013 and 2012 consisted of the following:

Retirement benefit obligation at March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥(4,961)	¥(4,930)	\$(52,749)
Fair value of plan assets	4,857	4,502	51,643
Benefit obligation in excess of plan assets	(104)	(428)	(1,106)
Unrecognized prior service cost	4	5	43
Unrecognized actuarial gain	(324)	(73)	(3,445)
Net retirement benefit obligation	(424)	(496)	(4,508)
Prepaid pension cost	802	823	8,528
Allowance for retirement benefits	¥(1,226)	¥(1,319)	\$(13,036)

Components of net periodic benefit cost for the years ended March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥260	¥266	\$2,765
Interest cost	97	97	1,031
Expected return on plan assets	(52)	(50)	(553)
Amortization:			
Prior service cost	1	1	11
Actuarial loss	0	44	0
Net periodic benefit cost	¥306	¥358	\$3,254

Assumption used in the accounting for the defined benefit plans for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
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

10. Contingent liabilities

Contingent liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Guarantees of customers' loans and lease obligations	¥1,337	¥1,537	\$14,216

11. Derivative financial instruments

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

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

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2012 are as follows:

(a) Derivatives that do not meet the criteria for hedge accounting
None applicable

(b) Derivatives that meet the criteria for hedge accounting

Millions of yen				
2012				
Contract amount				
Total	Settled over one year	Estimated fair value	Unrealized gain (loss)	
Foreign exchange contracts:				
Put US\$	¥669			
EUR	3,317			
Interest rate swap contracts:				
To receive variable/to pay fixed	1,400	¥500		

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2013 are as follows:

(a) Derivatives that do not meet the criteria for hedge accounting
None applicable

Millions of yen				
2013				
Contract amount				
Total	Settled over one year	Estimated fair value	Unrealized gain (loss)	
Capital-safe deposit including derivative instrument	¥2,116	¥1,644	¥(103)	¥(103)

Thousands of U.S. dollars				
2013				
Contract amount				
Total	Settled over one year	Estimated fair value	Unrealized gain (loss)	
Capital-safe deposit including derivative instrument	\$22,499	\$17,480	\$(1,095)	\$(1,095)

Note 1: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.
2: Estimated fair value of derivative –embedded deposits is computed based on the value of the embedded derivatives included in compound financial instruments.
3: “Contract amount” is notional amount of the Capital-safe deposit including derivative instrument and do not show market risk of all derivative instruments.

(b) Derivatives that meet the criteria for hedge accounting

Millions of yen				
2013				
Contract amount				
Total	Settled over one year	Estimated fair value	Unrealized gain (loss)	
Foreign exchange contracts:				
Put US\$	¥2,995			
EUR	4,177			
Interest rate swap contracts:				
To receive variable/to pay fixed	2,000	¥1,500		

Thousands of U.S. dollars				
2013				
Contract amount				
Total	Settled over one year	Estimated fair value	Unrealized gain (loss)	
Foreign exchange contracts:				
Put US\$	\$31,845			
EUR	44,413			
Interest rate swap contracts:				
To receive variable/to pay fixed	21,265	\$15,949		

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

12. Income taxes

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 37.75% for the year ended March 31, 2013 and 40.43% for the year ended March 31, 2012.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Tax loss carryforwards	¥1,383	¥1,817	\$14,705
Allowance for doubtful accounts	464	956	4,933
Allowance for directors' and statutory auditors' retirement benefits	371	397	3,945
Loss on valuation of investments in securities	317	311	3,370
Accrued bonuses to employees	276	268	2,935
Allowance for losses on guarantees	254	265	2,701
Impairment loss on fixed assets	234	335	2,488
Tax credit for research and development cost	228	626	2,424
Intercompany profit	166	59	1,765
Allowance for retirement benefits	109	161	1,159
Unrealized holding loss on securities	1	192	11
Other	330	330	3,509
Total gross deferred tax assets	4,133	5,717	43,945
Less valuation allowance	(1,659)	(1,908)	(17,640)
Net deferred tax assets	2,474	3,809	26,305

Deferred tax liabilities:

Unrealized holding gain on securities	(143)	—	(1,520)
Reserve for special depreciation	(20)	(26)	(213)
Asset retirement obligation	(11)	(15)	(117)
Other	(46)	(17)	(489)
Total gross deferred tax liabilities	(220)	(58)	(2,339)
Net deferred tax assets	¥2,254	¥3,751	\$23,966

13. Research and development costs

Research and development costs charged to income were ¥2,598 million (\$27,624 thousand) and ¥2,483 million for the years ended March 31, 2013 and 2012, respectively.

14. 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 ¥333 million (\$3,541 thousand) and ¥482 million for the years ended March 31, 2013 and 2012, 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, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2013		2013	
	Acquisition cost	Accumulated depreciation	Net leased assets	Net leased assets
Machinery and equipment	¥1,733	¥1,425	¥308	\$3,275
Total	¥1,733	¥1,425	¥308	\$3,275

	Millions of yen		
	2012		
	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery and equipment	¥2,503	¥1,874	¥629
Total	¥2,503	¥1,874	¥629

Obligations under such financial leases as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥214	¥326	\$2,276
Due after one year	103	317	1,095
Total	¥317	¥643	\$3,371

Depreciation expense and imputed interest expense for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Depreciation expense	¥323	¥470	\$3,434
Imputed interest expense	¥5	¥8	\$53

15. Stock option plan

The stock options as of March 31, 2013 were as follows:

Stock options	Persons granted	Number of options	Date of grant
2010 stock option	8 Directors 1 Auditor 56 Employees 11 Directors and employees of subsidiaries	386,000 shares	August 4, 2010

Exercise price	Service period covered	Exercise period
¥2,241 (\$23.83)	From August 4, 2010 to July 20, 2012	From July 21, 2012 to July 20, 2017

16. Comprehensive income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of
	2013	2012	U.S. dollars
Net unrealized holdings gain on securities:			
Amount recognized in the period under review	¥833	¥221	\$8,857
Amount of recycling	(102)	(13)	(1,085)
Before income tax effect adjustments..	935	234	9,942
Amount of income tax effect	335	117	3,562
Net unrealized holdings gain on securities	600	117	6,380
Land revaluation difference:			
Amount recognized in the period under review	—	—	—
Amount of recycling	—	—	—
Before income tax effect adjustments..	—	—	—
Amount of income tax effect	—	(4)	—
Land revaluation difference	—	4	—
Foreign currency translation adjustments:			
Amount recognized in the period under review	1,585	(294)	16,853
Amount of recycling	—	—	—
Before income tax effect adjustments..	1,585	(294)	16,853
Amount of income tax effect	—	—	—
Foreign currency translation adjustments	1,585	(294)	16,853
Total other comprehensive income	¥2,185	¥(173)	\$23,233

17. Segment information

(a) Outline of reportable segments

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

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

Thus, the Company consists of segments by products and services, based on business units, and the "Flat Knitting 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 and apparel CAD/CAM systems. The Glove and Sock Knitting Machine segment consists of computerized seamless glove and sock knitting machines.

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

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

Segment profit (loss) is based on operating income.

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

Information related to the reportable segments of the Company and its consolidated subsidiaries for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen					
	2013					
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥27,724	¥2,524	¥666	¥30,914	¥4,056	¥34,970
Inter-segment sales	—	—	—	—	—	—
Total sales	27,724	2,524	666	30,914	4,056	34,970
Operating expenses	23,829	2,108	629	26,566	4,285	30,851
Segment profit (loss)	¥3,895	¥416	¥37	¥4,348	¥(229)	¥4,119
Segment Assets:	¥70,272	¥3,127	¥1,044	¥74,443	¥7,159	¥81,602
Others:						
Capital expenditure	¥522	¥17	¥25	¥564	¥127	¥691
Depreciation	1,132	34	27	1,193	158	1,351
Amortization of goodwill	806	17	0	823	97	920

Notes to the Consolidated Financial Statements

	Millions of yen					
	2012					
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥29,600	¥2,099	¥1,661	¥33,360	¥3,967	¥37,327
Inter-segment 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:						
Capital expenditure	¥1,801	¥32	¥107	¥1,940	¥235	¥2,175
Depreciation	1,197	28	61	1,286	150	1,436
Amortization of goodwill	310	3	0	313	22	335

	Thousands of U.S. dollars					
	2013					
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	\$294,779	\$26,837	\$7,082	\$328,698	\$43,125	\$371,823
Inter-segment sales	—	—	—	—	—	—
Total sales	294,779	26,837	7,082	328,698	43,125	371,823
Operating expenses	253,365	22,414	6,688	282,467	45,560	328,027
Segment profit (loss)	\$41,414	\$4,423	\$394	\$46,231	\$(2,435)	\$43,796
Segment Assets:	\$747,177	\$33,248	\$11,101	\$791,526	\$76,119	\$867,645
Others:						
Capital expenditure	\$5,550	\$181	\$266	\$5,997	\$1,350	\$7,347
Depreciation	12,036	362	287	12,685	1,680	14,365
Amortization of goodwill	8,570	181	0	8,751	1,031	9,782

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.

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

Sales to customers

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Reportable segments total	¥30,914	¥33,360	\$328,698
Other sales	4,056	3,967	43,125
Net sales in the consolidated statements of income	¥34,970	¥37,327	\$371,823

Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Reportable segments total	¥4,348	¥5,808	\$46,231
Other income (loss)	(229)	(126)	(2,435)
Corporate expenses	(4,628)	(4,799)	(49,208)
Operating income (loss) in the consolidated statements of income	¥(509)	¥883	\$(5,412)

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

Segment assets

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Reportable segments total	¥74,443	¥72,696	\$791,526
Other assets	7,159	6,407	76,119
Company-wide assets	30,487	27,760	324,158
Total assets in the consolidated balance sheets	¥112,089	¥106,863	\$1,191,803

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

Others

	Millions of yen						The amount in the consolidated financial statements	
	Reportable segments total		Other		Adjustment		2013	2012
	2013	2012	2013	2012	2013	2012		
Capital expenditure	¥564	¥1,940	¥127	¥235	¥243	¥100	¥934	¥2,275
Depreciation	1,193	1,286	158	150	310	373	1,661	1,809
Amortization of goodwill	823	313	97	22	—	—	920	335

	Thousands of U.S. dollars			
	2013			
	Reportable segments total	Other	Adjustment	The amount in the consolidated financial statements
Capital expenditure	\$5,997	\$1,350	\$2,584	\$9,931
Depreciation	12,685	1,680	3,296	17,661
Amortization of goodwill	8,751	1,031	—	9,782

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

(Related information)

Information about geographical region

Information about geographical region of the Company and its consolidated subsidiaries for the year ended March 31, 2013 and 2012 were as follows:

	Millions of yen					
	2013					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	¥5,343	¥5,785	¥7,598	¥14,782	¥1,462	¥34,970

	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

	Thousands of U.S. dollars					
	2013					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	\$56,810	\$61,510	\$80,787	\$157,171	\$15,545	\$371,823

18. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 27, 2013.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥513	\$5,455

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, 2013, 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, 2013, 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 27, 2013

Ohtemae Audit Co.

Ohtemae Audit Corporation

Corporate Information (As of March 31, 2013)

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 1,736
 Non-consolidated 1,189
URL Corporate Information <http://www.shimaseiki.com>
 IR Information <http://www.shimaseiki.co.jp/ire/ire.html>



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

Investor Information (As of March 31, 2013)

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 17,171
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

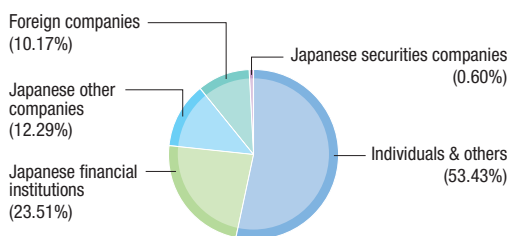
Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	3,450	10.08
Japan Trustee Services Bank, Ltd. (Trust Account)	2,142	6.26
The Kiyo Bank, Ltd.	1,310	3.83
Masahiro Shima	1,070	3.13
Mitsuhiro Shima	1,060	3.10
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.57
Shima Seiki Employees Shareholding Association	767	2.24
Wako LLC	765	2.24
The Senshu Ikeda Bank, Ltd.	700	2.05
Hiroimi Goto	697	2.04

*On July 16, 2013, the Tokyo Stock Exchange completed its acquisition of the Osaka Securities Exchange.

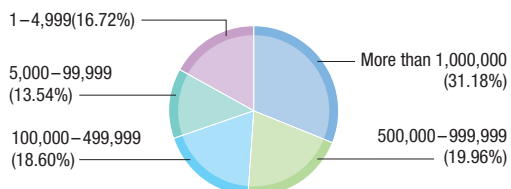
Notes: 1.The Company, which owns 2,379 thousand shares of treasury stock, or 6.50% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.
 2.Holdings of less than 1,000 shares have been omitted.

Stock Ownership

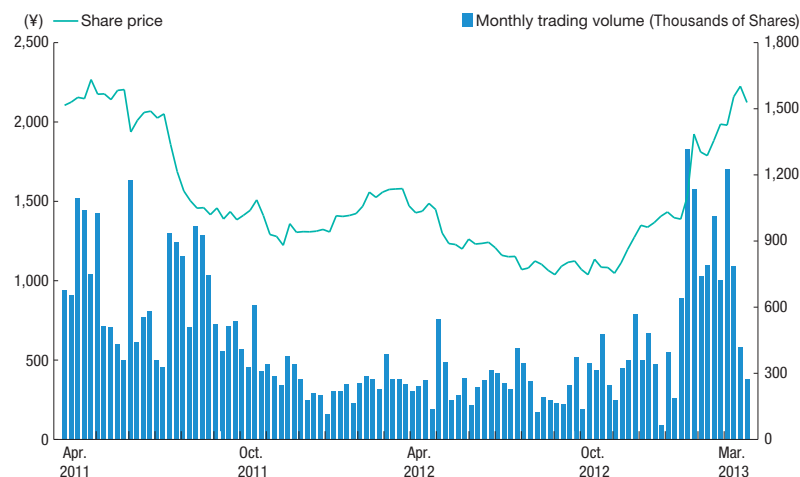
Shareholders breakdown by type



Shareholders breakdown by number of shares held



Share Price and Trading Volume on the Osaka Securities Exchange

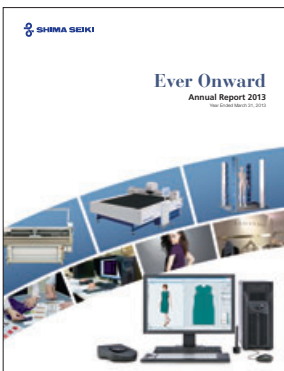


IR Website

<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

In line with the topic of this report's special feature, "The Next 50 Years," the cover graphic describes our efforts, centered on design systems (lower right) to cultivate the apparel industry and develop business in diverse sectors.



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