SHIMA SEIKI

Ever Onward

Annual Report 2014

Year Ended March 31, 2014

Based on our philosophy of creating something totally new, we apply our proprietary technologies to provide high-quality products.

Computerized Flat Knitting Machines

Greatly Expanding the Potential of Knitwear

As the leading company in computerized flat knitting machines, Shima Seiki continues to expand the possibilities of knitwear through innovative technological developments.

WHOLEGARMENT® Flat Knitting Machines, at the Forefront of Knitting Technologies

WHOLEGARMENT® flat knitting machines use our unique technology to produce complete pieces of seamless and comfortable knitwear three-dimensionally.





Design Systems

Achieve Dramatic Progress at Producing Designs in Apparel and Other Fields

By putting innovation to work in the design production process, we provide efficient workflows for the apparel and other industries.

Automatic Fabric Cutting Machines

Going Beyond the Boundaries of the Apparel Sector into a Broad Range of Other Fields

Our P-CAM® series of automatic fabric cutting machines, which can also be used for cutting carbon and glass fibers, is finding application in the automotive, aircraft and industrial materials sectors, among others.

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.

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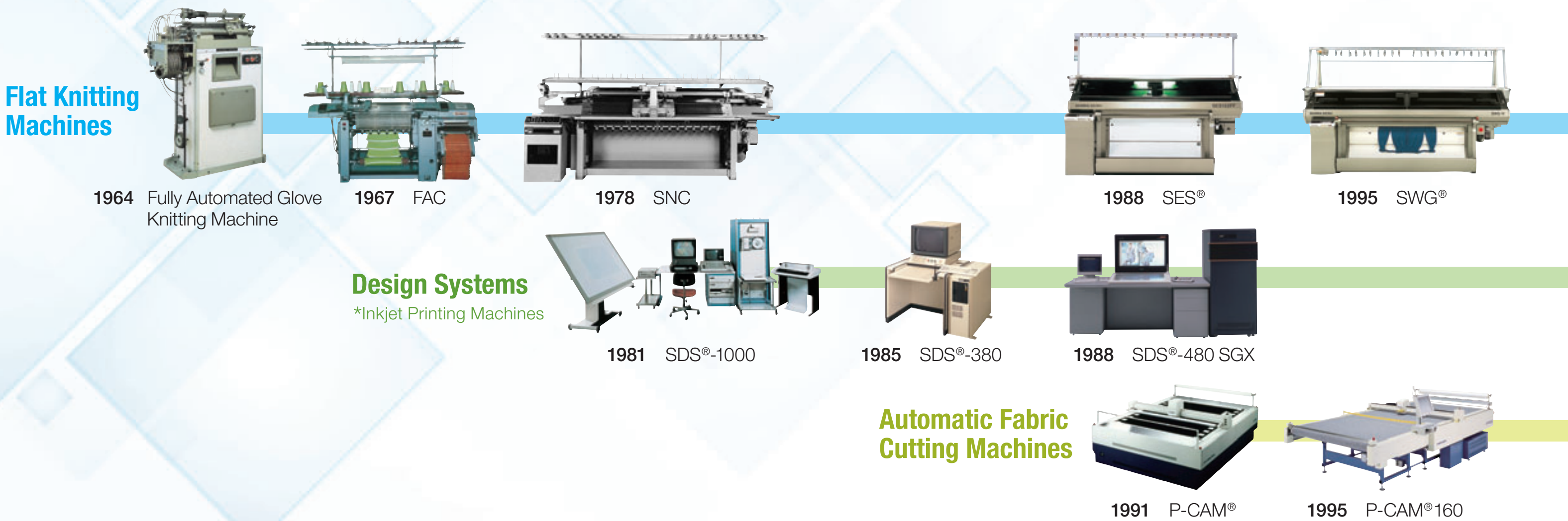
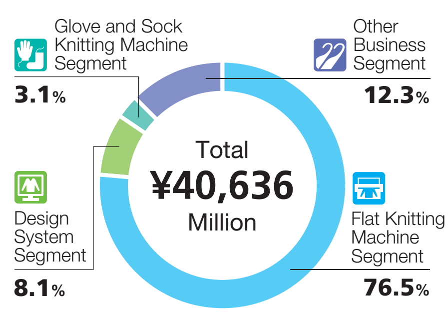
Ever Onward

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.



Business Segments

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



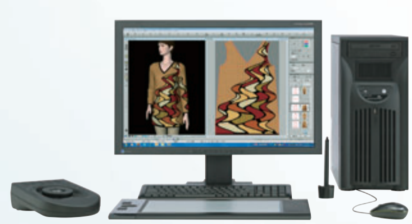
Flat Knitting Machine Segment

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 unique technologies, such as WHOLEGARMENT® flat knitting machines, which produce complete pieces three-dimensionally; the SRY®, equipped with loop pressers; the SVR®, which enhances knitting; and the SSR®, which delivers outstanding cost performance.

SSR®

Design System Segment

This segment, which provides design systems to support production in the apparel industry, got its start with the 1981 launch of the SDS®-1000. 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 has also developed inkjet printing machines and is striving proactively to make inroads into other fields, through such products as the P-CAM® series of automatic fabric cutting machines.



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.

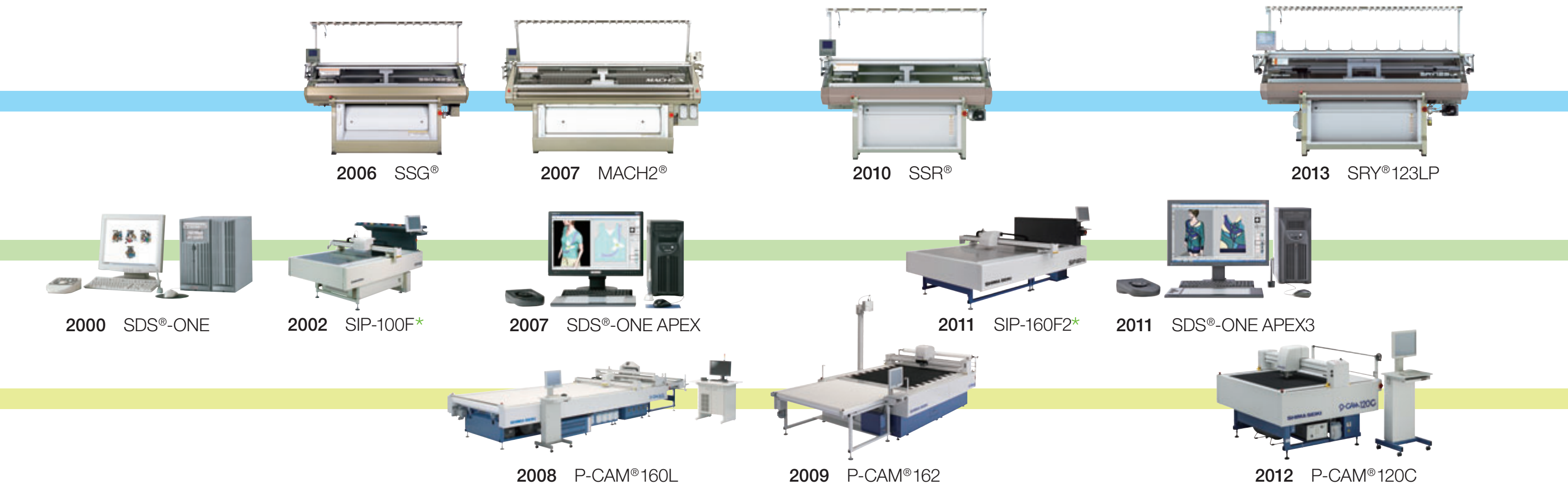
Other Business Segment

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 selling knitwear.

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 develop products with the most advanced technologies and offer them at the most 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 developments in the apparel and various other industries through technological innovations and to doing its utmost to express its creativity through the development of excellent products.



Markets by Geographical Region

Europe

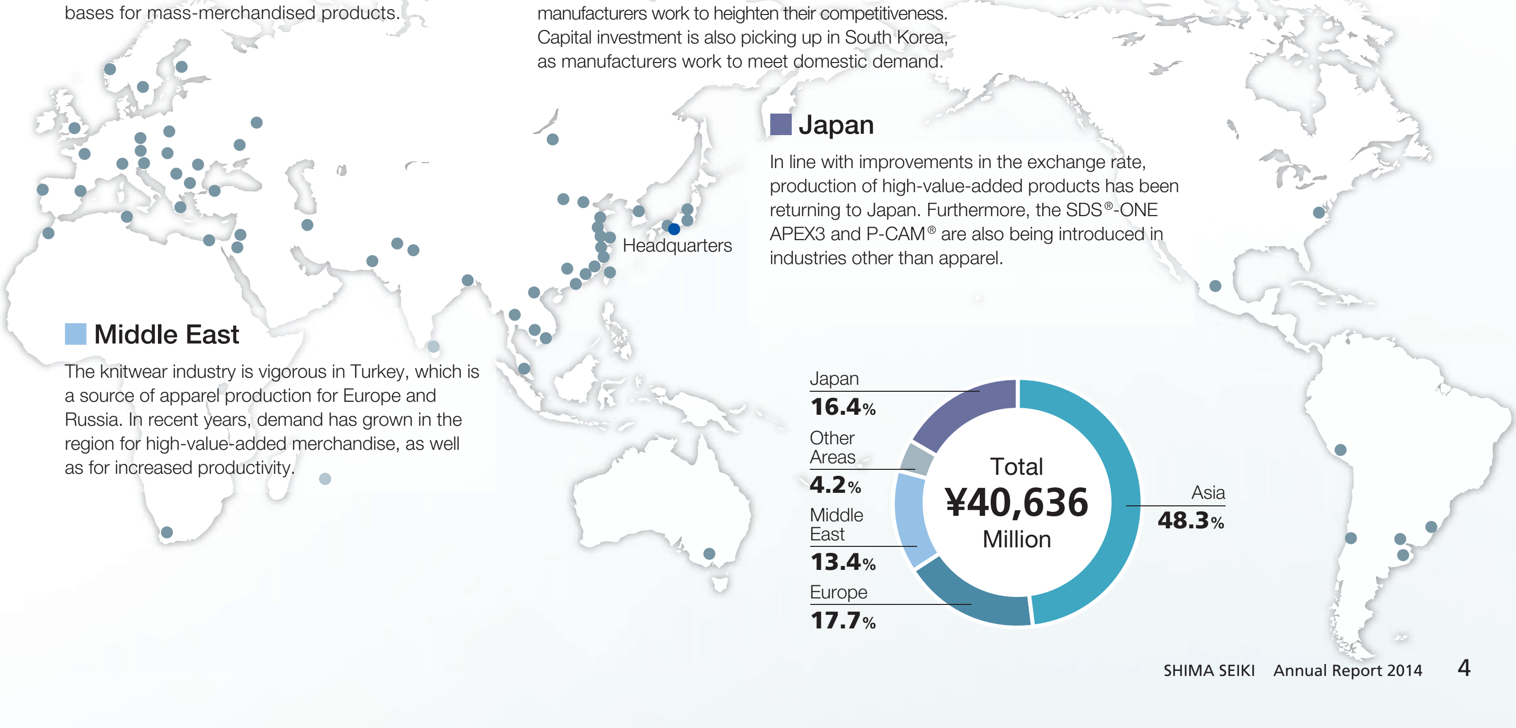
WHOLEGARMENT® flat knitting machines are penetrating the market in Italy, the source of numerous fashion brands. Production is beginning to return to such countries as the United Kingdom and Spain, and Eastern European countries are a focus of manufacturing bases for mass-merchandised products.

Asia

Against a backdrop of escalating personnel costs and a shortage of skilled linking personnel, China, the world's leading knitwear production base, is experiencing an accelerating shift in production to ASEAN countries and Bangladesh. Meanwhile, capital investment levels are recovering, as Chinese manufacturers work to heighten their competitiveness. Capital investment is also picking up in South Korea, as manufacturers work to meet domestic demand.

Other Areas

Imports account for the majority of sales in the United States, the world's largest apparel consumer, but local production is also picking up. In Brazil, production is increasing to meet internal demand, spurring growth in demand for highly productive WHOLEGARMENT® flat knitting machines.



Japan

In line with improvements in the exchange rate, production of high-value-added products has been returning to Japan. Furthermore, the SDS®-ONE APEX3 and P-CAM® are also being introduced in industries other than apparel.

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.

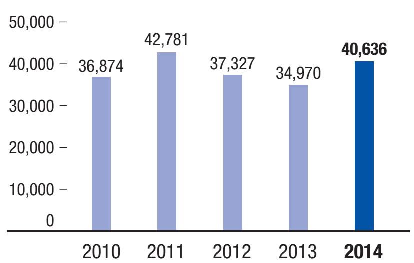
Financial Highlights

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

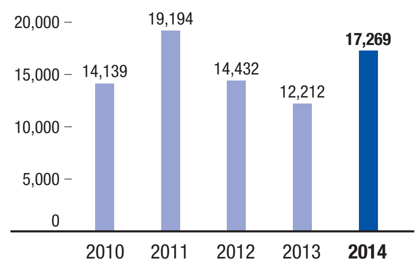
	2014	2013	2012	2011	2010		2014	2014
For the Year:		Millions of yen				Percent change 2013 / 2014	Thousands of U.S. dollars	Thousands of euros
Net sales	**¥40,636**	¥34,970	¥37,327	¥42,781	¥36,874	16.2%	**$394,831**	**€286,876**
Gross profit	**17,269**	12,212	14,432	19,194	14,139	41.4	**167,791**	**121,913**
Operating income (loss)	**2,732**	(509)	883	5,908	651	—	**26,545**	**19,287**
Income (loss) before income taxes and minority interests	**7,230**	3,363	(537)	1,092	(1,042)	115.0	**70,249**	**51,041**
Net income (loss)	**4,863**	1,754	(642)	770	(1,885)	177.2	**47,250**	**34,331**
At Year-End:		Millions of yen				Percent change 2013 / 2014	Thousands of U.S. dollars	Thousands of euros
Total assets	**¥119,727**	¥112,089	¥106,863	¥113,951	¥110,063	6.8%	**$1,163,302**	**€845,231**
Net assets	**93,222**	87,382	84,167	86,591	87,473	6.7	**905,771**	**658,115**
Per Share Data:		Yen				Percent change 2013 / 2014	U.S. dollars	Euros
Net income (loss)	**¥142.13**	¥51.26	¥(18.60)	¥22.26	¥(54.52)	177.3%	**$1.38**	**€1.00**
Cash dividends applicable to the year	**32.50**	25.00	40.00	35.00	30.00	30.0	**0.32**	**0.23**
Net assets	**2,718.57**	2,547.88	2,454.07	2,502.27	2,529.67	6.7	**26.41**	**19.19**
Ratios:		%						
ROA	**4.2%**	1.6%	(0.6)%	0.7%	(1.6)%			
ROE	**5.4**	2.0	(0.8)	0.8	(2.0)			
Equity ratio	**77.7**	77.8	78.6	75.9	79.5			
Overseas sales ratio	**83.6**	84.7	87.6	91.1	91.6			

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥102.92=US$1 and ¥141.65=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2014.

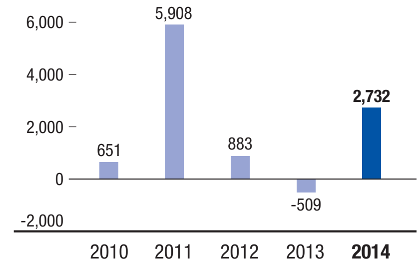
Net sales (¥ Million)



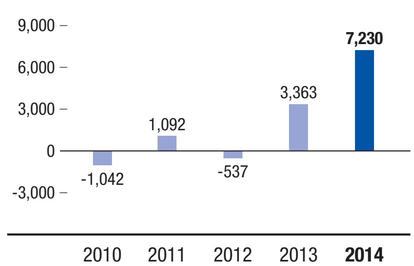
Gross profit (¥ Million)



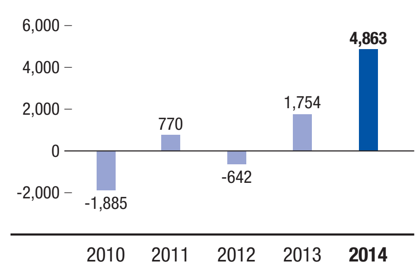
Operating income (¥ Million)



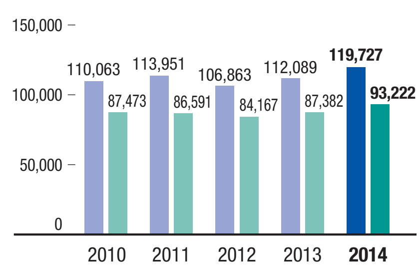
Income before income taxes and minority interests (¥ Million)



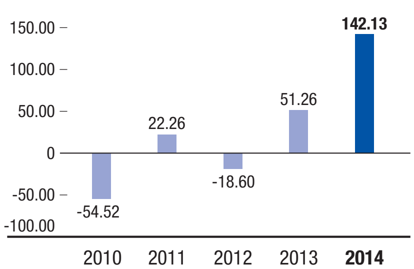
Net income (¥ Million)



Total assets / Net assets (¥ Million)



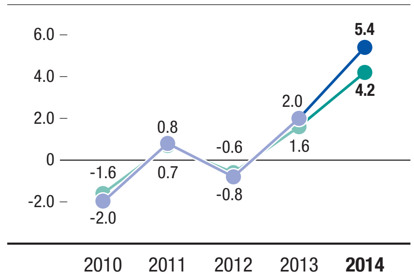
Net income per share (¥)



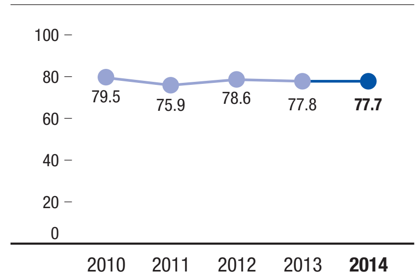
Cash dividends per share applicable to the year (¥)

Net assets per share (¥)

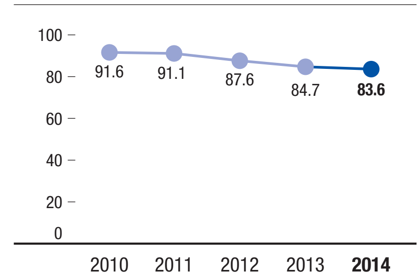
ROA / ROE (%)



Equity ratio (%)



Overseas sales ratio (%)



We will carry forward the momentum generated through our significant recovery in operating performance to accelerate our global development.

An improved business environment during the fiscal year ended March 31, 2014, led to substantial sales and income increases across all business segments.

Carrying this momentum forward into the fiscal year ending March 31, 2015, we will step up new product development and proposal-making activities to meet the needs of individual countries and markets in our aim to make a significant leap forward.

Masahiro Shima
President

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

Q1

Please describe the market conditions and the Company's performance during the fiscal year ended March 31, 2014.

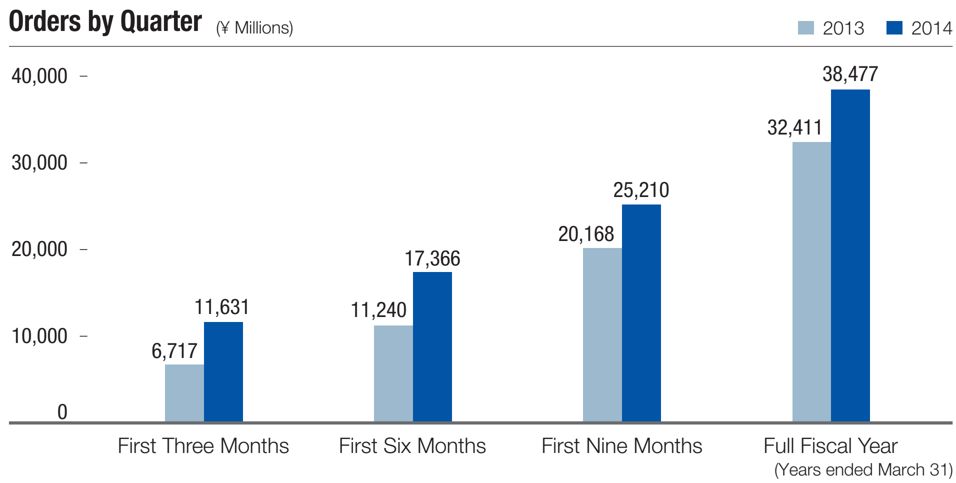
A Benefiting from an upturn in the operating environment, sales and income increased in all operating segments.

The second half of the fiscal year ended March 31, 2013, saw a rapid correction to yen appreciation, which had proven a major handicap to us in our global developments. That obstacle finally out of the path, the market reverted to conditions that originally allowed us to be highly competitive. Therefore, during the fiscal year sales increased across all segments. In particular, once we were again able to be responsive on the price front, demand for our high-quality, highly advanced products became apparent, leading to sales increases.

As a result, consolidated net sales for the year came to ¥40,636 million, up 16.2% year on year, and rising for the first time in three fiscal years. On the profit front, in addition to higher sales we benefited from increased yen-based prices thanks to improvement in the exchange rate. Furthermore, manufacturing efficiency increased as we stepped up production. Consequently, operating income amounted to ¥2,732 million, recovering sharply after the ¥509 million operating loss posted in the preceding term. Among non-operating factors, yen depreciation led to foreign exchange gains of ¥4,209 million. The resulting increases were large: ordinary income rose 76.4%, to ¥7,353 million, and net income increased 177.2%, to ¥4,863 million.

Despite these across-the-board rises in sales and income, we regrettably fell short of the performance we had forecast at the beginning of the year. In the upcoming fiscal year, we will redouble our efforts to demonstrate in all world markets the superiority of our WHOLEGARMENT® flat knitting machines and other products. Through these efforts, plus strengthening our proposals in response to customer needs, we will work to firmly meet our sales targets.

Orders by Quarter (¥ Millions)



Q2

Please explain conditions in and some of your key initiatives for different segments during the year.

A We experienced substantial gains in the Flat Knitting Machine Segment and the Design System Segment.

Capital investment rebounded in China, our mainstay market for the Flat Knitting Machine Segment. Because the country is currently facing such issues as rising labor costs and a dearth of linking technicians, increasingly, major knitwear manufacturers are shifting production to bases in lower-wage ASEAN countries. At the same time, however, business is picking up with Chinese knitwear manufacturers, who are investing in new equipment to restore their competitiveness by boosting production efficiency and quality. By making proposals to meet such needs, we succeeded in increasing sales.

Sales also grew, particularly for conventional machines, in the ASEAN countries to which production from China is shifting—including Indonesia, Vietnam and Cambodia. Of particular note is Bangladesh, which has experienced marked economic growth in recent years and handles quick-turnaround orders of mass-merchandised products for sale in Europe and the United States. Sales have centered on the SSR®, which offers superior cost performance. Over the past year, we have seen orders from Bangladesh double, as manufacturers in the country ramp up their capital investment. In South Korea, too, unit sales rose dramatically as knitwear manufacturers made capital investments to meet internal demand.

In Europe, another key market for the Flat Knitting Machine Segment, capital investment in WHOLEGARMENT® flat knitting machines has been lackluster in the fashion center of Italy, due to long-term business sluggishness. We have been making inroads there with other types of equipment, however. In addition, in Spain and other countries production that had been focused on China began returning to its roots. Consequently, sales were up for Europe as a whole.

In the Japanese market, we also became more cost-competitive thanks to yen depreciation, and capital investment in the market expanded as production increasingly returned from China. The sales increase was concentrated on WHOLEGARMENT® flat knitting machines, as major apparel manufacturers raised their domestic production ratios on fashionable, high-quality knitwear.

In the Design System Segment, we made proposals in numerous regions to

transform the production process with our Total Fashion System, with the SDS®-ONE APEX3 at its core. These efforts pushed up sales both in Japan and overseas. Particularly in Japan, in addition to apparel-oriented exhibitions we displayed the SDS®-ONE APEX3 at various tradeshows for other industries. We took a proactive approach in our proposals, showing how the SDS®-ONE APEX3 could boost overall business efficiency from product planning through to production and logistics. Awarding this initiative was increased take-up in a wide range of sectors—textiles, circular knitting, textile printing and towels, as well as interiors, sundry items and automotive. Sales also increased for the P-CAM® automatic fabric cutting machine, notably in Japan, and we extended our sales routes outside the apparel industry to include areas that handle industrial materials, such as the medical equipment, aircraft, automotive interior and carbon fiber categories.

Q3

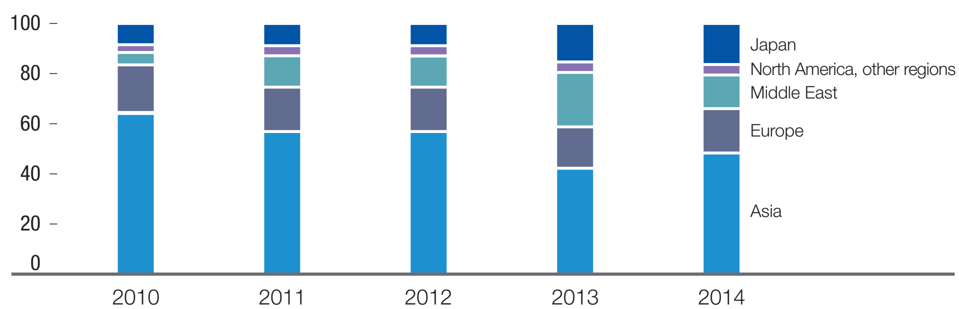
Would you describe your market expectations for the upcoming fiscal year, as well as some of the key measures you will pursue?

A We will continue to be proactive in proposal-making activities that respond to the needs of individual countries and regions.

We aim to augment operating performance further by being more proactive in our proposal-making activities in various regions throughout the world in the upcoming fiscal year, as well. As we expect exchange rates to remain at current levels for the foreseeable future, we expect to maintain our competitiveness on the price front as well, allowing us to bring fully to the fore the strengths we have cultivated. We will strive to accurately understand market trends in different countries, accelerating our global business development by differentiating ourselves from competitors.

Markets we see as particularly promising are China, ASEAN countries and Bangladesh, where business is expanding as the result of a production shift. In China, the market structure is changing and customer needs are trending toward the quality end of the scale; we will continue focusing on proposal-making activities that meet this demand. To survive within the Chinese market, knitwear manufacturers are demanding equipment that is highly productive and delivers high quality. Accordingly, we will step up proposals aimed at local production for the local market, much as we do for advanced countries. In ASEAN countries, we will step up our customer appeals emphasizing the high quality, stability and superior

Sales by Region (%)



(Years ended March 31)

operability our products offer, aiming to win market share and secure profits.

ITMA ASIA + CITME 2014, an international textile machinery exhibition, was held in Shanghai in June 2014. In addition to planning and proposal capabilities, at the exhibition we succeeded in making a dynamic appeal to customers from China and other parts of Asia for the high level of cost performance we offer, compared to our competitors. We will follow up this performance by holding private showings in various countries and focusing on reinforcing our after-sales service. In Bangladesh, where business growth was particularly pronounced during the year, we will aim to double sales again in the upcoming year by augmenting our service locations and reinforcing sales activities. In this manner, we expect to benefit not only from the shift in production from China but also from local companies' increasingly energetic moves into the knitwear industry. Although business is down somewhat in Turkey, where robust capital investment has continued for the past few years, we will work to recover sales, as we believe that the underlying market remains firm. In the European and U.S. markets, we will respond to the shift back toward domestic production in individual countries, continuing with aggressive sales promotion activities targeting energetic local manufacturers.

In design systems, we will sustain efforts that also target industries outside the apparel sector, cultivating new demand by showing companies how they can use our products to actively transform their businesses.

As a result of these strategies, for the upcoming fiscal year we forecast consolidated net sales of ¥45.0 billion, operating income of ¥6.0 billion, ordinary income of ¥5.5 billion and net income of ¥3.7 billion.

Q4

What is your expansion strategy for WHOLEGARMENT® flat knitting machines?

A We will take a variety of approaches to cultivate potential demand over a broad base.

For Shima Seiki, the foremost priority in terms of future growth is to increase sales of WHOLEGARMENT® flat knitting machines. In this product, we have a solid advantage that our competitors cannot emulate, and I believe that moving WHOLEGARMENT® flat knitting machines into markets throughout the world is our key to taking a significant leap forward. As we have noted numerous times, the trend toward local production for the local market is growing more pronounced, starting in Europe and moving to Japan, the United States, China and South Korea. I believe that we need to uncover latent demand in each of these markets.

To do this, in the upcoming fiscal year we will make increasingly diverse proposals for WHOLEGARMENT® flat knitting machines.

First of all, we will continue with our time-honored approach of targeting mid-level to high-end fashion in advanced countries.

In Italy, we are already making proposals to apparel manufacturers for creative product plans that involve combining WHOLEGARMENT® flat knitting machines and design systems. Some knitwear manufacturers who have taken this approach to achieve high levels of efficiency and fast production turnaround times are reaping high profits as a result. We will increase the number of successful case studies in each country.

In addition, we will promote approaches targeting fast fashion, sports apparel and other mass-merchandised products. WHOLEGARMENT® flat knitting machines do away with linking, so productivity is high. We will augment our proposals for these machines in markets such as China. Because of their superior performance on the cost front, WHOLEGARMENT® flat knitting machines can help these manufacturers address the problems of soaring labor costs and a shortage of workers.

Furthermore, as an approach for the medium to long term we plan to develop business in new fields. In addition to sundry knitwear items such as gloves, socks, neckties and caps, we would like to expand sales of WHOLEGARMENT® flat knitting machines for other categories, including shoes, medical devices, automotive products and industrial materials. Going forward, we will cultivate new markets by showcasing the high quality and productivity benefits that WHOLEGARMENT® offers through trade shows and private showings in individual regions.

Q5

What was your dividend for the year under review?

A We paid an annual dividend of ¥32.50 per share, ¥2.50 more than we had initially forecast.

Shima Seiki treats return of profits to shareholders as a priority management issue. Although our initial plans for the year under review called for a total dividend of ¥30.00 per share, comprising a ¥15.00 interim dividend and a ¥15.00 year-end dividend, we decided to increase this level to mark our recovery in profitability compared with the previous year's levels. We therefore increased the planned year-end dividend by ¥2.50 to ¥17.50, raising the annual dividend to ¥32.50 per share. Going forward, over the long term we plan to maintain stable dividends and strive to return profits to shareholders.

Q6

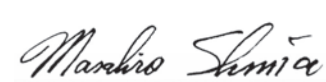
To conclude, would you describe your efforts targeting ongoing growth?

A Amid this time of change for the knitwear industry, we will forge ahead enthusiastically in line with our corporate philosophy, "Ever Onward."

The global knitwear industry is entering a period of structural change.

Against this backdrop, Shima Seiki has some unique strengths to offer the entire world. These include the manufacturing capability to provide high-quality, highly reliable products; the proposal-making skills to show potential customers how to address the issues they face; and the service and support capacity to provide carefully tailored follow-up services to customers after a sale.

In addition, going about their work with an understanding of our philosophy and a sense of passion, our employees will look for solutions that make connections employing out-of-the-box thinking as we strive to realize our corporate philosophy, "Ever Onward."

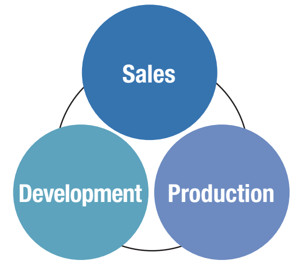


Masahiro Shima, President

Special Feature

Promoting Initiatives in Every Department to Put Our “Ever Onward” Philosophy into Practice

Having marked its 50th anniversary of establishment, in each of its departments Shima Seiki has begun setting the course for growth over the next 50 years. We aim for marketing that is closely attuned to the world’s countries and regions, developing products that deliver high market competitiveness and creating a highly productive manufacturing structure. In this section, we introduce initiatives in our sales, development and production departments to achieve the various transformations that will put our corporate philosophy, “Ever Onward,” into practice.

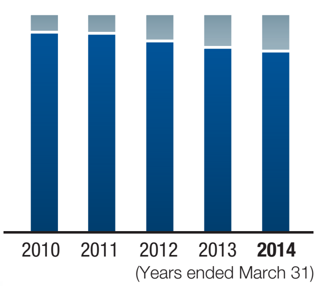


Sales Headquarters

Reinforcing Proposal-Making Capabilities Further in Every Region through Organizational Changes

Sales by geographical region
(%)

Overseas sales ratio
about 83%

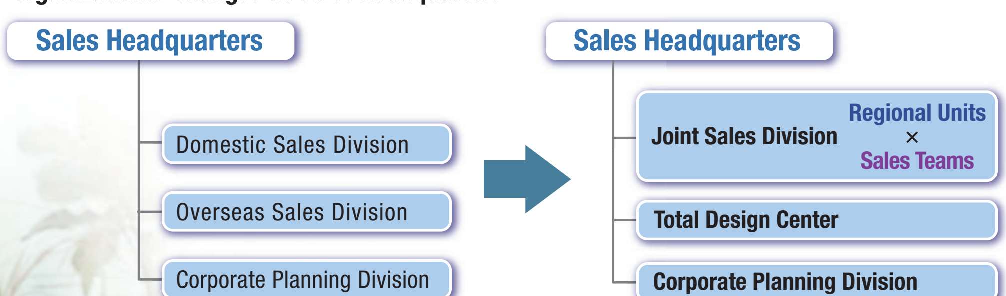


Configuring Our Sales Structure to Accelerate Global Development

In March 2013, we did away the distinction between our Domestic Sales Division and Overseas Sales Division, combining them into the Joint Sales Division. Underlying this change was the idea that we needed to think of the world as a single market and develop integrated marketing strategies. Recognizing that this organizational change has led steadily to a shift in employee awareness, in April 2014 we introduced additional changes designed to further accelerate global development, while at the same time remaining sensitive to regional characteristics.

Our current reorganization creates sales teams aligned with individual product characteristics, as well as five units formed around regional characteristics with the aim of more strategic sales in global markets. In short, we have created a matrix organizational structure (see the figure on the facing page) to promote more efficient and effective proposal-making activities.

Organizational Changes at Sales Headquarters



All units and teams of the Joint Sales Division, as well as the Total Design Center, are pulling together to accelerate comprehensive proposal-making activities.

Mitsuhiro Shima
Executive Vice President

Joint Sales Division

Organically Linking Regional Units and Sales Teams

Our new structure has five regional units, for Asia, East Asia, South Asia, Europe and the Americas, and the Middle East. Full-time staff are assigned to each of these units to provide marketing support to local subsidiaries and distributors in accordance with regional market conditions and needs. These regional units organically link with the two sales teams—for WHOLEGARMENT® flat knitting machines and design systems—to conduct proposal-making activities that are carefully tailored to the needs of customers in individual countries and regions.

ITMA ASIA+CITME 2014

Exhibition in Bangladesh

Textile machinery show in Turkey

Regional Units

- Asia Unit
  (China, Hong Kong, Southeast Asian countries)
- East Asia Unit
  (Japan, South Korea)
- South Asia Unit
  (India, Pakistan, Bangladesh, Sri Lanka)
- Europe and the Americas Unit
  (Europe, United States, South America)
- Middle East Unit
  (Middle Eastern countries, Turkey, Mauritius, others)

Sales Teams

WHOLEGARMENT® Sales Team

This team proposes the use of WHOLEGARMENT® flat knitting machines to transform businesses in ways that meet the needs and address the issues of customers in regions around the world. In addition to the apparel sector, the team is expanding the scope of its proposals to bring WHOLEGARMENT® advantages to other sectors.

System Sales Team

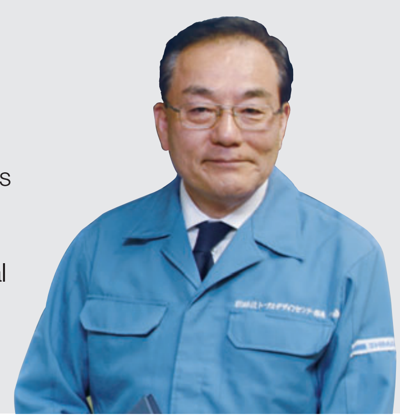
In a bid to expand sales of the SDS®-ONE APEX3 and P-CAM®, this team goes beyond the fashion and textiles industries to uncover needs and develop proposals across a broad range of industries. Operating through the matrix organization, they are also reinforcing developments in overseas markets.

Total Design Center

Delivering Information and Designs Directly to Sales

Our organizational changes in March 2013 put the Total Design Center (TDC) under the jurisdiction of Sales Headquarters. TDC currently works with various departments of Sales Headquarters to demonstrate the features of our products to a broad range of industries through private showings, comprehensive trade shows and seminars. Based on fashion trend analyses, TDC and the Joint Sales Division also work together on producing original samples and enhancing the “User Site” portion of our website. We are reinforcing activities such as these, which link directly to sales.

Toshio Nakashima Director, General Manager of Total Design Center



Special Feature

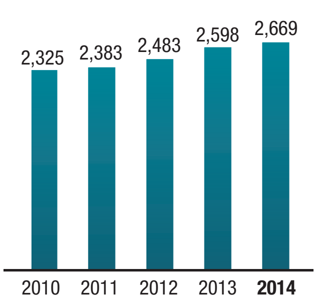
Development Headquarters

Focusing on the Creation of Products That Will Deliver Superior Market Competitiveness

Development meeting

Design system development

Research and development expenses (¥ Million)



In recent years, Development Headquarters has facilitated the sharing of information between the Mechatronic Development Division and the Graphic System Development Division. These two departments coordinate with the Intellectual Property Department on patent-related analysis and strive to develop products that are highly competitive and will contribute to customers' businesses.

In addition to encouraging faster development that will bring the products customers want to market in a timely manner, we are focusing on efforts to boost production efficiency by forging links with production divisions from the design stage. To enhance development capabilities, we proactively take part in exhibitions in different industries, accumulating information on leading-edge technologies and expertise. In these ways, we are cultivating development staff who have the broad-ranging perspectives and flexibility to create the innovative products that will support the Company over the next 50 years.

Mechatronic Development Division

Centering on flat knitting machines, this division is charged with the mechanical portions of products including glove knitting machines, automatic fabric cutting machines and printing machines, the development and design of electrical controls, and the chassis for design systems. We are working to hold down costs by using common components where possible. We are also front-loading development activities (pushing forward the burdens that would normally occur in later processes) and using parallel processing to shorten time requirements. Furthermore, we are introducing 3D printing to reduce prototyping time requirements, maintaining high levels of quality while accelerating development speed and cutting costs.

Graphic System Development Division

This division develops application software for flat knitting machines, design systems, automatic fabric cutting machines and printing machines. With the SDS®-ONE APEX3 design system, we have sought to introduce simulation functions to produce more realistic 3D virtual samples, as well as increasing the efficiency of sample production and boosting productivity through links with knitting machines. In these ways, we aim to create products that will be beneficial to our customers.

Also, through organizationally cross-cutting projects with the Mechatronic Development Division and Sales Headquarters, we work to promote the rapid development of highly advanced products and encourage development staff to visit customers so they can accumulate user information firsthand.

We will continue taking up the challenge of developing innovative technologies.

Reiji Arikita
Executive Director
Director of Development Headquarters

We are working to achieve higher productivity and reduce costs.

Takashi Wada
Executive Director
Director of Production Headquarters

Production Headquarters

Promoting Market-Driven Manufacturing

The Production Headquarters works with development divisions to promote manufacturing, such as through production processes designed for working efficiency. In response to customer requests, this headquarters cooperates with the Material Purchasing Division and production divisions to create on-demand production systems that deliver what is needed, when it is needed, and in the right amounts.

The Manufacturing Division also takes charge of providing technical guidance and support and other user services to distributors and customers who have purchased our products. This division promptly feeds the on-site information it accumulates from locations throughout the world back to the development and sales divisions in an effort to enhance quality and functionality.

Going forward, we will continue working to transfer leading-edge technologies and the unique experience we have accumulated to cultivate creative human resources who will support Shima Seiki's advancement over the next 50 years.


Stress relieving process


Design system assembly process

Machinery Production Technology Division

This division handles activities such as processing mechanical parts, designing and processing molds for formed resin components and designing and producing jigs. To better respond to on-demand production needs, we have used high-performance machining centers to bring component manufacturing in-house. We also work to hand down expertise in heat-treatment technology, as well as stress relief technology and other sophisticated techniques.

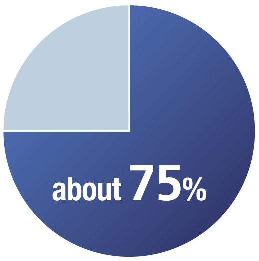
Manufacturing Division

As well as the manufacture and assembly of flat knitting machines and glove knitting machines, this division handles after-sales services. Through diligent support, we build trust in the Shima Seiki brand. Also, by feeding back information about local user environments in real time, we contribute to improvements in design and manufacturing processes. For assembly, we use process control systems that we have developed in-house and thoroughly minimize waste by making processes visible. We are also boosting production efficiency by cross-training employees.

System Production Technology Division

In this division, we assemble design-system-related products such as the SDS®-ONE APEX3 and the P-CAM®. We also assemble electronic hardware units, such as flat knitting machine controllers. Striving to minimize electronic components, we respond to changes in the fast-paced world of electronic technologies and are working to bring production of electronic substrates in-house through the use of automated assembly in our clean room.

Percentage of components produced internally



Overview and Outlook

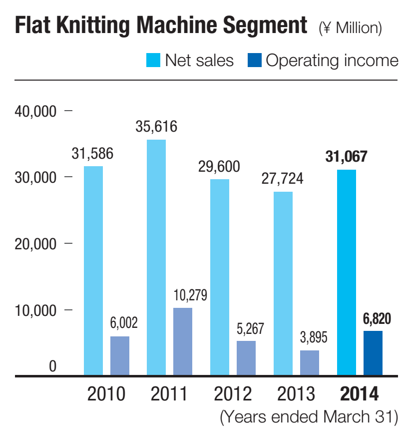
The Shima Seiki Group categorizes its business into four segments: the Flat Knitting Machine Segment, the Design System Segment, the Glove and Sock Knitting Machine Segment and the Other Business Segment.

Flat Knitting Machine Segment

Overview of the Year under Review

In the mainstay Chinese market, sales recovered as a result of our proactive proposals to knitwear manufacturers facing such issues as rising labor costs and a shortage of skilled linking personnel to upgrade equipment in order to recover their competitiveness. ASEAN countries and Bangladesh, which are benefiting from an accelerating shift of production from China, are experiencing robust demand for mass-merchandised apparel from developed countries. Sales in these countries increased, centered on the SSR®, which features superior cost performance. Sales also continued to expand in South Korea, due to increasingly energetic capital investment. Sales increases in Europe centered on countries such as Spain, which are experiencing a return to local production. In Italy, sales of WHOLEGARMENT® flat knitting machines were lackluster, reflecting the country's business slump, but higher sales of other products led to an overall increase there, as well. The Japanese market was also characterized by manufacturers reconsidering a return to domestic production, given rising production costs in China and the correction to yen appreciation. We met this trend by proactively conducting individual showings. Accordingly, sales in this market increased, centered on WHOLEGARMENT® flat knitting machines, which were adopted for production of highly fashionable, high-quality knitwear.

As a result, sales in the Flat Knitting Machine Segment grew 12.1% during the year, to ¥31,067 million.



Outlook for the Next Fiscal Year

Although China, our mainstay market for flat knitting machines, is experiencing a shift of production to other countries, we expect capital investment to remain relatively firm in the upcoming fiscal year, with sales expansion centering on highly advanced machines that deliver increasing levels of production efficiency and added value. Meanwhile, in ASEAN countries and Bangladesh, where demand is expected to increase, we expect to boost sales by using our know-how to make proposals and offering extensive after-sales service that showcase the Company's comprehensive strengths. We aim to turn sales around in the Turkish market through the introduction of a new machine, the SVR®. To augment sales in Europe and Japan, we will make manufacturing proposals based on planning and proposals that emphasize local production for the local market.

As a result of these initiatives, in the upcoming fiscal year we anticipate sales from the Flat Knitting Machine Segment of ¥34,910 million, up 12.4% from the year under review.

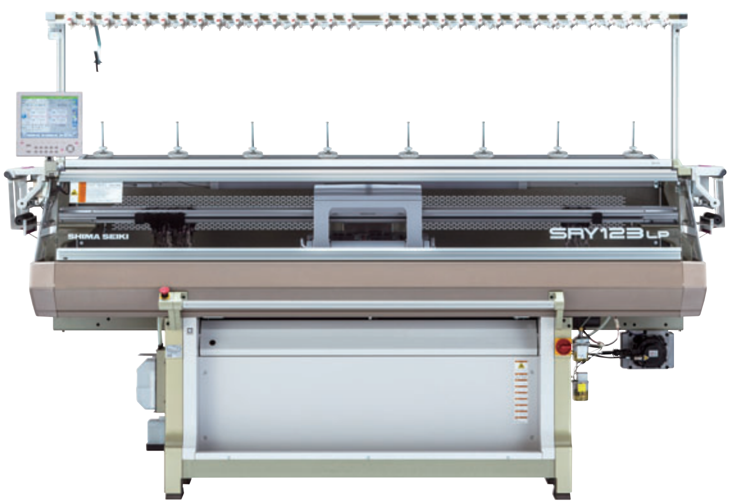
New Product Introduction

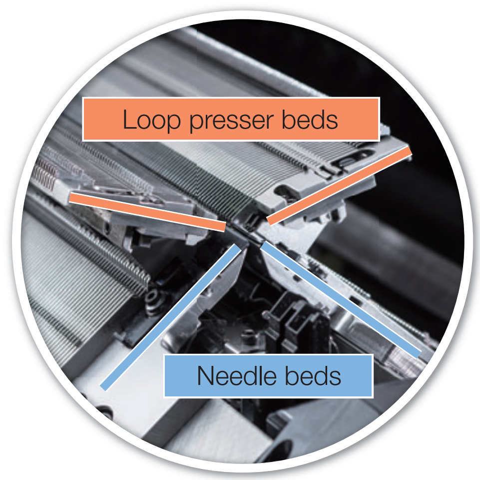
SRY®123LP with Loop Presser Facilitates Broad-Ranging Applications, from Apparel and Interiors to Industrial Materials

The SRY®123LP computerized flat knitting machine, which we unveiled in October 2013, is an altogether new type of flat knitting machine employing Shima Seiki's unique four-bed configuration.

On top of the needle beds are newly developed loop presser beds, which have the same number of loop pressers as the number of knitting needles, allowing individual loops to be pressed down. This arrangement allows for stable configurations of inlay fabric (see the column below) and flechage knitting. This capability greatly increases design leeway, and should lend itself to application in fields such as interior items and industrial materials.

Going forward, we will demonstrate the new product at exhibitions and private showings, which should contribute to increased sales.



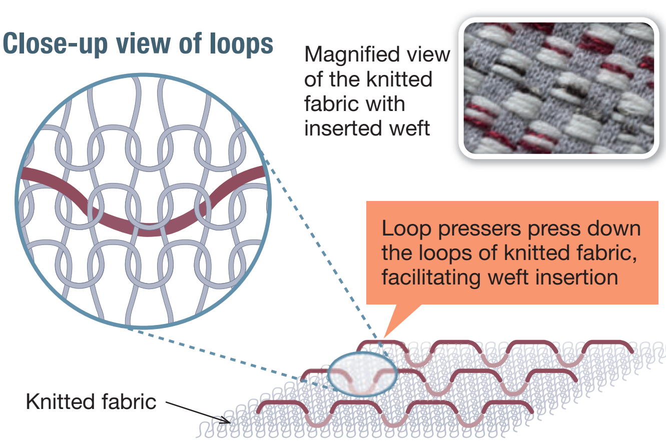


Four-bed structure comprising loop presser beds and needle beds

Inlay Fabric

Inlay fabric is a method that involves inlaying a weft into the knitted fabric base. Passing the weft between the loops of a knitted fabric produces an inlay fabric. Inserting a weft in this manner can help restrain the characteristic stretch of knitted fabric, allowing for the proposal of knitted fabrics that appear to be woven. This approach also facilitates the insertion of metallic and monofilament yarns or other specialty materials, which we believe should help in cultivating applications in other fields.

Close-up view of loops



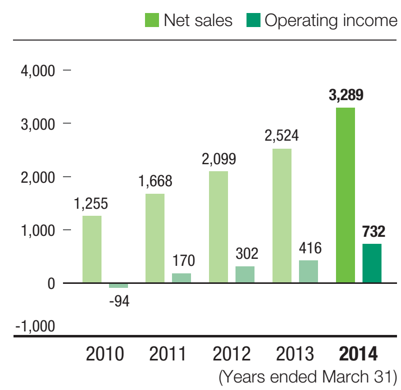
Design System Segment

Overview of the Year under Review

During the year, we participated in a number of trade shows, both domestic and international and including those in different industries. We also conducted private showings as part of our aggressive proposals for using the SDS®-ONE APEX3 design system to increase business efficiency. Consequently, sales were favorable, with the system being adopted in a broad range of categories, including textiles, circular knitting, textile printing and towels, as well as interior items, furniture and sundry goods. We have also added model variations of the P-CAM® automatic fabric cutting machine, leading to additional sales in such new fields as automotive interiors, aerospace and industrial materials. Overseas sales rose accordingly.

As a result, Design System Segment sales surged 30.3% during the year, to ¥3,289 million.

Design System Segment (¥ Million)



Outlook for the Next Fiscal Year

In the upcoming fiscal year, we anticipate increased domestic and overseas sales for the SDS®-ONE APEX3. In addition to the apparel industry, we will continue proactive proposal-making activities targeting other sectors, working to cultivate new demand.

For the P-CAM® automatic fabric cutting machine, which continues to enjoy favorable sales in Japan, we will accelerate overseas sales by enhancing technical services closely tailored to individual customers. In addition to augmenting our market share in the apparel industry, we aim to maintain sales through ongoing efforts targeting other industries.

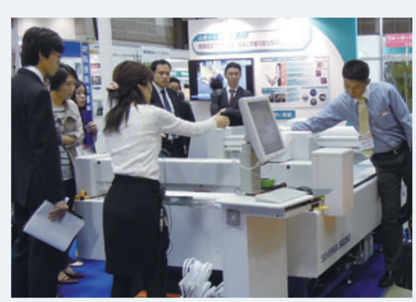
Through these initiatives, we expect to boost sales 14.3% in the upcoming fiscal year, to ¥3,760 million.

SAMPE JAPAN 2013

Shima Seiki earned high marks for its booth at this technology exhibition for leading-edge machines.

Shima Seiki participated in the SAMPE JAPAN 2013, held at Tokyo Big Sight in November 2013. In 2011, we first joined this exhibition, which draws numerous companies engaged in fields involving leading-edge materials such as carbon fiber and glass fiber. Since that time, the event has led to surveys of needs in the industrial materials sector, as well as new product development and sales promotion activities.

Shima Seiki exhibited its P-CAM®120C automatic fabric cutting machine and other members of the P-CAM® series, the SDS®-ONE APEX3 design system and the new SRY®123LP computerized flat knitting machine that employs our unique loop presser technology, as well as a new WHOLEGARMENT® flat knitting machine, the SWG®061N2. These machines are all compatible with specialty materials such as metallic and monofilament yarns, and our demonstration of knitting made of stainless steel wire proved popular with exhibition-goers. We plan to take an active part in future trade shows in different fields, which should help to cultivate business in new markets.



Glove and Sock Knitting Machine Segment

Overview of the Year under Review

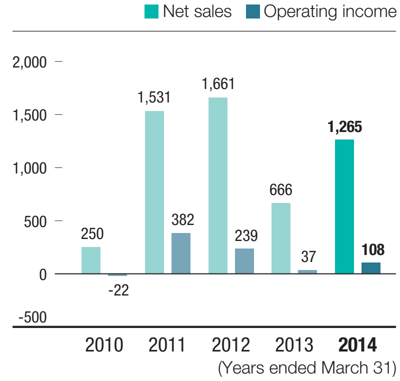
Although sales declined in the year ended March 31, 2013, due to aggressive pricing by competing products, during the year under review, this segment benefited from an increase in demand, as well as a renewed emphasis on the superior reliability, durability and final product quality that results from our products. Sales in this segment accordingly recovered substantially, jumping 90.0%, to ¥1,265 million.

Outlook for the Next Fiscal Year

We expect demand for work gloves to remain solid, thanks to economic recovery. We aim to secure sales by emphasizing our product development support—a high added value that competitors do not provide.

In the upcoming fiscal year, we anticipate sales in the Glove and Sock Knitting Machine Segment of ¥1,190 million, down 5.9%.

Glove and Sock Knitting Machine Segment (¥ Million)



Other Business Segment

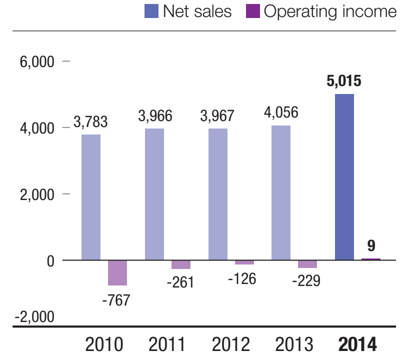
Overview of the Year under Review

In line with the upswing in Company sales, this segment experienced a rise in sales of maintenance parts and repair and maintenance services. An increase in demand for cashmere yarn from the apparel industry also contributed to overall sales, which expanded 23.6%, to ¥5,015 million.

Outlook for the Next Fiscal Year

In the upcoming fiscal year, we expect to conduct the same activities as in the term under review. Accordingly, we expect sales to be on a par with the year under review, rising 2.5%, to ¥5,140 million.

Other Business Segment (¥ Million)



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, 2014, the Board of Directors met 18 times. In June 2014, one outside director was added to the board to strengthen the management structure through an external perspective.

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 9 times.

Internal Auditing System

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

Accounting Audits

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

Internal Control System

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

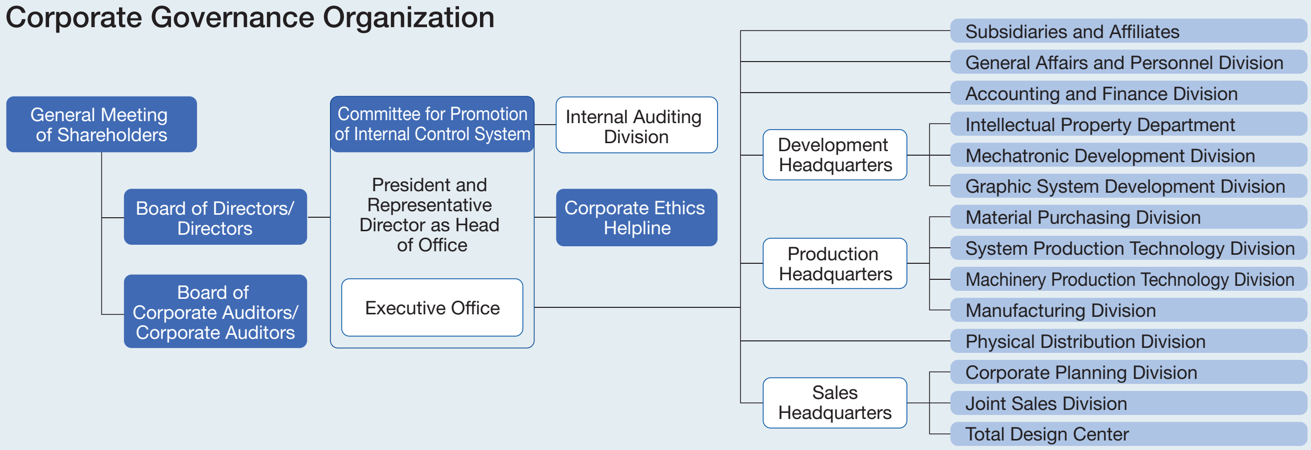
With regard to internal control over financial reporting, as well, we have systems in place to promote fair and impartial disclosure, thereby ensuring the reliability of financial reporting.

Efforts toward Compliance

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

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

Corporate Governance Organization



Directors and Corporate Auditors

As of June 27, 2014

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

Director

Yoshio Ichiryu

President & CEO, Ichiryu Associates, Inc.

Introduction to Yoshio Ichiryu, Director

In June 2014, Shima Seiki welcomed Mr. Yoshio Ichiryu, President & CEO of the management consulting company Ichiryu Associates, Inc., to the board as its first outside director. We believe that Mr. Ichiryu will apply his abundant knowledge and expertise gained as a consultant and through his extensive other endeavors to further enhance the Company's governance system.

Career Summary of Yoshio Ichiryu, Director

- 1968 Joined the Ministry of International Trade and Industry (now, METI)
- 1995 Director-General, Machinery and Information Industries Bureau
- 1996 Director-General for Policy Coordination, Minister's Secretariat
- 1998 Retired from the Ministry of International Trade and Industry
- 2000 Established Ichiryu Associates, Inc., where he is President & CEO (current position)

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

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Five-Year Financial Summary

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

	2014	2013	2012	2011	2010	2014
For the Year:			Millions of yen			Thousands of U.S. dollars
Net sales	**¥40,636**	¥34,970	¥37,327	¥42,781	¥36,874	**$394,831**
Cost of sales	**23,367**	22,758	22,895	23,587	22,735	**227,040**
Gross profit	**17,269**	12,212	14,432	19,194	14,139	**167,791**
Selling, general and administrative expenses	**14,537**	12,721	13,549	13,286	13,488	**141,246**
Operating income (loss)	**2,732**	(509)	883	5,908	651	**26,545**
Income (loss) before income taxes and minority interests	**7,230**	3,363	(537)	1,092	(1,042)	**70,249**
Net income (loss)	**4,863**	1,754	(642)	770	(1,885)	**47,250**
Net cash provided by (used in) operating activities	**(2,401)**	3,614	(2,094)	3,504	6,746	**(23,329)**
Net cash provided by (used in) investing activities	**(367)**	(3,218)	532	(1,834)	(2,759)	**(3,566)**
Net cash provided by (used in) financing activities	**(1,597)**	227	(1,929)	1,297	(6,682)	**(15,517)**
Capital investment	**1,360**	934	2,275	1,587	2,154	**13,214**
Depreciation and amortization	**1,594**	1,661	1,809	1,696	2,164	**15,488**
Research and development expenses	**2,669**	2,598	2,483	2,383	2,325	**25,933**
At Year-End:			Millions of yen			Thousands of U.S. dollars
Total assets	**¥119,727**	¥112,089	¥106,863	¥113,951	¥110,063	**$1,163,302**
Net assets	**93,222**	87,382	84,167	86,591	87,473	**905,771**
Per Share Data:			Yen			U.S. dollars
Net income (loss)	**¥142.13**	¥51.26	¥(18.60)	¥22.26	¥(54.52)	**$1.38**
Cash dividends applicable to the year	**32.50**	25.00	40.00	35.00	30.00	**0.32**
Net assets	**2,718.57**	2,547.88	2,454.07	2,502.27	2,529.67	**26.41**
Ratios:			%			
Ratio of operating income to net sales	**6.7%**	(1.5)%	2.4%	13.8%	1.8%	
ROA	**4.2**	1.6	(0.6)	0.7	(1.6)	
ROE	**5.4**	2.0	(0.8)	0.8	(2.0)	
Equity ratio	**77.7**	77.8	78.6	75.9	79.5	

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥102.92=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2014.

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

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

Overview

During the consolidated fiscal year under review, the U.S. economy remained in a moderate expansionary phase, and the European economy showed signs of staging a turnaround, albeit sluggishly. In emerging markets, however, China's rate of economic growth slowed, making the outlook uncertain. In Japan, correction to the high yen prompted a resurgence in performance by export-driven companies, and personal consumption improved, causing business sentiment to improve to some extent.

Under these circumstances, the Group concentrated on swiftly responding to varied needs of customers worldwide by developing and selling products that contribute to raising the efficiency of high-quality manufacturing for their users.

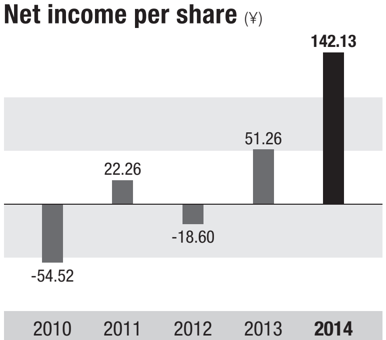
Partly thanks to improvements in the operating environment resulting from the correction to the high yen, during the fiscal year Shima Seiki's sales efforts focused on meeting growing demand for our high-quality, high-performance products. In our mainstay Flat Knitting Machine Segment, sales expanded, centered on the Asian market. In the Design Systems Segment, we extended our sales routes outside the apparel industry, and sales in the Glove and Sock Knitting Machine Segment recovered substantially. Consequently, sales in all segments were up compared with the preceding fiscal year.

Under these circumstances, the Company posted consolidated net sales of ¥40,636 million during the fiscal year ended March 31, 2014, up 16.2% from the preceding fiscal year.

On the profit front, favorable exchange rate movements made selling prices more attractive on a yen conversion basis. This factor, plus the effect of higher production pushed up the gross profit ratio. The Company therefore posted operating income of ¥2,732 million, compared with an operating loss of ¥509 million in the previous year. Among non-operating items, foreign exchange gains amounted to ¥4,209 million. These factors caused net income to surge 177.2% year on year, to ¥4,863 million.

Shima Seiki treats the return of profits to shareholders as a priority management issue. With regard to profit distribution, the Company strives to maintain long-term stable dividends, 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 ¥51.26 in the preceding term to ¥142.13 during the year under review. We awarded a year-end cash dividend of ¥17.50 per share. This amount, combined with an interim dividend of ¥15.00, brought dividends for the year to ¥32.50 per share.

Net income per share (¥)



Net Sales

Shima Seiki's consolidated net sales rose 16.2% from the previous year, to ¥40,636 million.

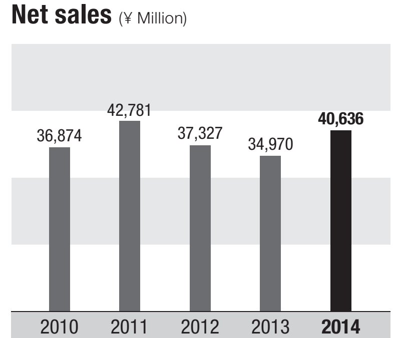
Within the Shima Seiki Group's core business of the Flat Knitting Machine Segment, the pivotal Chinese market faces escalating labor costs and a shortage of workers. The Company responded to this situation with proposal-based sales efforts emphasizing how upgrading to computerized flat knitting machines could bolster production efficiency and quality, and sales of flat knitting machines recovered as a result. In areas where labor costs are lower and labor is abundant, such as the ASEAN countries and Bangladesh, we encouraged the introduction of the SSR®, which features high productivity and superior cost performance, to respond to apparel orders with short delivery times from companies in advanced countries. Sales grew significantly as a result. Sales also continued to expand in South Korea and India, where manufacturers have been raising their levels of capital investment in recent years.

In the Middle East, for the past several years capital investment in computerized flat knitting machines has been rising at a fast pace in Turkey, where manufacturers are striving to recover their competitiveness to meet short delivery times for customers in Europe and Russia. Nevertheless, investment in this region began to decelerate slightly in the second quarter of the fiscal year.

In Italy, which tends to concentrate on local production for the local market, sales of WHOLEGARMENT® flat knitting machines were lackluster, reflecting the country's downbeat economic situation. Demand for other models increased, however, causing sales in the market to rise.

In Japan, capital investment in WHOLEGARMENT® flat knitting machines rose, as prominent apparel manufacturers began increasing their percentage of high-quality knitwear

Net sales (¥ Million)



produced in Japan, given the increased production costs in China and the impact of the yen correction. Accordingly, domestic sales were up year on year.

In the Design System Segment, we participated in exhibitions in Japan and overseas, targeting a broad-ranging user base. We held tailored private showings and proactively pursued proposal-based sales plans. As a result, sales of the SDS®-ONE APEX3 were favorable. By leveraging virtual samples outside the knitwear industry as well, we gained traction in breakthrough business solution proposals for reducing lead times from product planning through to production and distribution, as well as slashing costs. In addition to textiles, circular knitting, textile printing, towels, these efforts led to the model being adopted in such broad-ranging fields as interiors, furniture and sundry items.

For the P-CAM® automatic fabric cutting machine, we increased the number of variations to expand our sales routes outside apparel to include such fields as automotive interiors, furniture, aircraft and industrial materials. We also increased sales overseas sales.

Overall, overseas net sales grew 14.6%, to ¥33,965 million, accounting for 83.6% of net sales, down 1.1 percentage point from the preceding fiscal year. By geographical region, net sales consisted of 48.3% to Asia (compared with 42.3% during the previous year), 17.7% to Europe (16.5%), 13.4% to the Middle East (21.7%) and 4.2% to other areas (4.2%). This represents an increase in sales to Asia, but a decline in the Middle East, which was up in the preceding fiscal year.

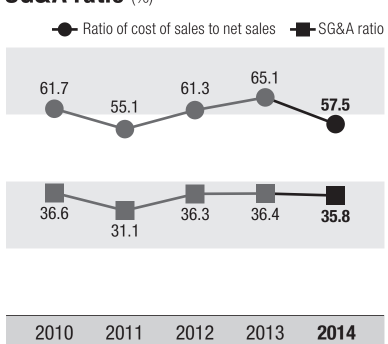
In the Japanese market, sales grew a substantial 24.9%, to ¥6,671 million. This rise was attributable to a shift of some production from China, due to an improved exchange rate, which boosted results in the Flat Knitting Machine Segment, as well as to favorable performance in the Design System Segment.

Cost of Sales and SG&A Expenses

The gross profit ratio increased, due to increases in the number of flat knitting machines produced and sold, and to an increase in yen-based pricing as a result of favorable exchange rates. Cost of sales come to ¥23,367 million, and gross profit expanded 41.4%, to ¥17,269 million. The gross profit ratio improved dramatically, rising 7.6 percentage points, to 42.5%.

Selling, general and administrative (SG&A) expenses rose 14.3%, to ¥14,537 million, due to higher personnel costs, such as higher bonuses associated with the rise in sales, as well as increased selling commissions. The SG&A ratio fell 0.6 percentage point, to 35.8%.

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



Operating Income

Owing to a more favorable exchange rate, yen-based selling prices increased. Owing to this factor, plus the impact of higher production, the gross profit ratio improved. As a result, the situation improved dramatically at the operating level, with the Company reporting operating income of ¥2,732 million, compared with an operating loss of ¥509 million in the preceding term.

By business segment, operating income in the Flat Knitting Machine Segment came to ¥6,820 million, up 75.1% year on year; in the Design System Segment, up 75.6%, to ¥732 million; and in the Glove and Sock Knitting Machine Segment, up 194.8%, to ¥108 million. The Other Business Segment posted operating income of ¥9 million, up from a net loss of ¥229 million in the preceding fiscal year.

Other Income and Expenses

Other income exceeded other expenses, leading to net other income of ¥4,498 million, up 16.2%. This result stemmed from foreign exchange gains of ¥4,209 million, owing to such factors as gains on the valuation of receivables denominated in foreign currencies, due to the correction of the high yen.

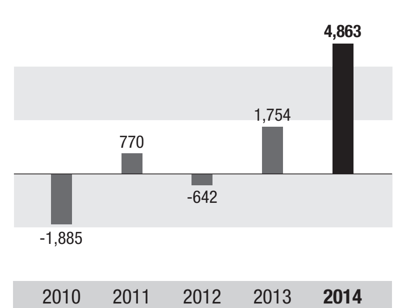
Net Income

Income before income taxes and minority interests was ¥7,230 million, up from ¥3,363 million.

Corporate income, residential and enterprise taxes totaled ¥2,428 million, ¥1,998 more than a year earlier. Corporate income tax adjustments for the period under review were a negative ¥62 million, compared with a positive ¥1,178 million in the previous year. As a result, the Company's tax burden after the application of tax effect accounting increased ¥758 million, to ¥2,366 million.

Owing to the above factors, consolidated net income for the Shima Seiki Group during the year surged 177.2%, to ¥4,863 million.

Net income (¥ Million)



Liquidity and Capital Resources

Cash and cash equivalents were ¥13,819 million as of March 31, 2014, down ¥2,829 million from one year earlier. Net cash used in operating activities amounted to ¥2,401 million, compared with ¥3,614 million provided by these activities in the preceding fiscal year. Principal sources of cash came from ¥7,230 million in income before income taxes, while main uses of cash stemmed from a ¥6,172 million increase in trade receivables (compared with an increase of ¥1,025 million in the preceding term), a decrease in trade payables of ¥3,684 million (compared with a decrease of ¥1,848 million).

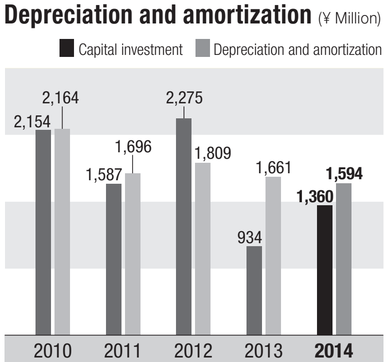
Net cash used in investing activities amounted to ¥367 million, compared with ¥3,218 million in the preceding fiscal year. The primary source of cash was proceeds from the sales and redemption of short-term investments, providing ¥0.7 billion during the year, compared with ¥0.2 billion in the preceding year. Meanwhile, purchases of investments in securities used ¥1,006 million, compared with ¥507 million in the previous year.

Net cash used in financing activities was ¥1,597 million, whereas these activities provided ¥227 million in the preceding term. The major factor was the payment of dividends, which used ¥1,026 million, compared with ¥1,112 million during 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 77.7% and 433.7%, 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 to secure the working funds and funds for capital investment required for stable growth.

Capital investment / Depreciation and amortization (¥ Million)



Assets, Liabilities and Net Assets

Consolidated total assets as of March 31, 2014, were ¥119,727 million, up ¥7,638 million from a year earlier.

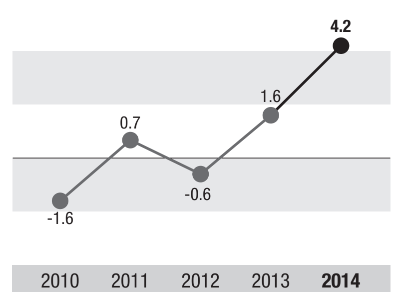
In terms of short-term assets and liabilities, current assets rose 8.9%, or ¥6,542 million, to ¥80,297 million. Major factors were a ¥9,264 million increase in trade accounts and notes receivable and a ¥1,246 million rise in inventories, while cash and time deposits fell ¥3,734 million. Current liabilities, meanwhile, rose 14.9%, or ¥2,405 million, to ¥18,515 million. This was primarily due to a ¥1,926 million increase in accrued income taxes.

With regard to long-term assets and liabilities, long-term assets increased ¥1,096 million, or 2.9%, to ¥39,430 million, largely due to higher investments in securities. Long-term liabilities, on the other hand, fell ¥607 million, or 7.1%, to ¥7,990 million.

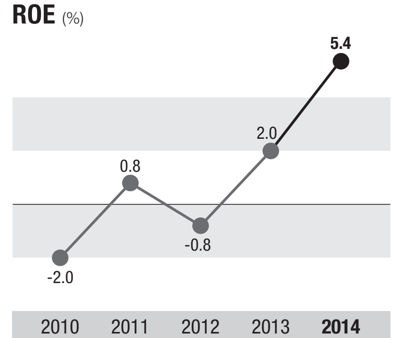
Net assets expanded ¥5,840 million, or 6.7%, to ¥93,222 million, owing principally to higher retained earnings. As a result, the shareholders' equity ratio slipped 0.1 percentage point from the preceding year-end, to 77.7%.

Return on assets improved from 1.6% to 4.2%. Return on equity likewise rose, from 2.0% to 5.4%.

ROA (%)



ROE (%)



Business Risks and Uncertainties

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

The Group, which recognizes the possibility of an outbreak of these risks, strives to prevent the outbreak of risks and employ proper countermeasures. Statements regarding the future are decisions made by the Group as of the end of the fiscal year ended March 31, 2014.

(1) Risks of dependency on particular overseas markets

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

(2) Risks associated with fluctuations in currency exchange rates

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 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 Financial Statements

Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
ASSETS			
Current assets:			
Cash and time deposits (Note 3, 4)	**¥16,003**	¥19,737	**$155,490**
Short-term investments in securities (Note 4, 5)	**71**	550	**690**
Trade notes and accounts receivable (Note 4)	**42,964**	33,700	**417,450**
Inventories (Note 6)	**19,591**	18,345	**190,352**
Deferred tax assets (Note 12)	**1,584**	1,629	**15,390**
Prepaid expenses and other current assets	**1,385**	927	**13,457**
Less: allowance for doubtful accounts	**(1,301)**	(1,133)	**(12,641)**
Total current assets	**80,297**	73,755	**780,188**
Investments and other assets:			
Investments in unconsolidated subsidiaries (Note 4)	**259**	177	**2,517**
Investments in securities (Note 4, 5)	**8,199**	7,071	**79,664**
Net defined benefit assets (Note 9)	**785**	—	**7,627**
Deferred tax assets (Note 12)	**523**	625	**5,082**
Goodwill	**4,762**	4,706	**46,269**
Other	**6,340**	6,808	**61,601**
Less: allowance for doubtful accounts	**(1,315)**	(1,191)	**(12,777)**
Total investments and other assets	**19,553**	18,196	**189,983**
Property, plant and equipment:			
Land	**10,879**	10,833	**105,703**
Buildings and structures	**23,162**	23,038	**225,049**
Machinery and equipment	**5,720**	5,577	**55,577**
Tools, furniture and fixtures	**6,989**	6,902	**67,907**
Leased assets	**2,681**	2,239	**26,050**
Construction in progress	**44**	53	**428**
	49,475	48,642	**480,714**
Less: accumulated depreciation	**(29,598)**	(28,504)	**(287,583)**
Property, plant and equipment, net	**19,877**	20,138	**193,131**
Total assets	**¥119,727**	¥112,089	**$1,163,302**

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 4, 8)	**¥6,696**	¥5,400	**$65,060**
Current portion of long-term debt (Note 4, 8)	**—**	1,500	**—**
Lease obligation	**424**	352	**4,120**
Trade notes and accounts payable (Note 4)	**4,290**	4,445	**41,683**
Accrued expenses	**1,213**	1,200	**11,786**
Accrued income taxes	**2,311**	385	**22,454**
Other current liabilities	**3,581**	2,828	**34,794**
Total current liabilities	**18,515**	16,110	**179,897**
Long-term liabilities:			
Long-term debt, less current portion (Note 4, 8)	**5,000**	5,000	**48,582**
Long-term accounts payable	**1,084**	—	**10,532**
Lease obligation	**997**	990	**9,687**
Allowance for retirement benefits (Note 9)	**—**	1,226	**—**
Deferred tax liabilities for land revaluation (Note 7)	**29**	29	**282**
Allowance for directors' and statutory auditors' retirement benefits	**—**	1,065	**—**
Net defined benefit liability (Note 9)	**526**	—	**5,111**
Other long-term liabilities	**354**	287	**3,440**
Total long-term liabilities	**7,990**	8,597	**77,634**
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2014 — 36,600,000 shares			
2013 — 36,600,000 shares	**14,860**	14,860	**144,384**
Capital surplus	**21,724**	21,724	**211,077**
Retained earnings	**71,158**	67,322	**691,391**
Treasury stock, at cost			
2014 — 2,380,089 shares			
2013 — 2,379,834 shares	**(6,904)**	(6,906)	**(67,081)**
Total shareholders' equity	**100,838**	97,000	**979,771**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	**329**	260	**3,197**
Land revaluation difference (Note 7)	**(7,351)**	(7,351)	**(71,424)**
Foreign currency translation adjustments	**(1,139)**	(2,720)	**(11,067)**
Remeasurements of defined benefit plans	**352**	—	**3,420**
Total accumulated other comprehensive income	**(7,809)**	(9,811)	**(75,874)**
Subscription rights to share (Note 15)	**180**	181	**1,748**
Minority interests in consolidated subsidiaries	**13**	12	**126**
Total net assets	**93,222**	87,382	**905,771**
Total liabilities and net assets	**¥119,727**	¥112,089	**$1,163,302**

See the accompanying notes to the consolidated financial statements.

Consolidated Financial Statements

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net sales	**¥40,636**	¥34,970	**$394,831**
Cost of sales	**23,367**	22,758	**227,040**
Gross profit	**17,269**	12,212	**167,791**
Selling, general and administrative expenses (Note 13)	**14,537**	12,721	**141,246**
Operating income (loss)	**2,732**	(509)	**26,545**
Other income (expenses):			
Interest and dividend income	**505**	464	**4,906**
Interest expense	**(87)**	(78)	**(845)**
Foreign exchange gains	**4,209**	3,119	**40,896**
Loss on valuation of investments in securities	**(—)**	(19)	**(—)**
Other, net	**(129)**	386	**(1,253)**
Income before income taxes and minority interests	**7,230**	3,363	**70,249**
Income taxes (Note 12)**:**			
Current	**2,428**	430	**23,591**
Deferred	**(62)**	1,178	**(602)**
	2,366	1,608	**22,989**
Income before minority interests	**4,864**	1,755	**47,260**
Minority interests in gain of consolidated subsidiaries	**1**	1	**10**
Net income	**¥4,863**	¥1,754	**$47,250**

	Yen		U.S. dollars
Per share:			
Net income	**¥142.13**	¥51.26	**$1.38**
Cash dividends applicable to the year	**32.50**	25.00	**0.32**

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Income before minority interests	**¥4,864**	¥1,755	**$47,260**
Other comprehensive income (Note 16)**:**			
Net unrealized holding gain on securities	**69**	600	**671**
Foreign currency translation adjustments	**1,582**	1,585	**15,371**
Total other comprehensive income	**1,651**	2,185	**16,042**
Comprehensive income	**¥6,515**	¥3,940	**$63,302**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	**¥6,514**	¥3,939	**$63,292**
Comprehensive income attributable to minority interests	**1**	1	**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, 2014 and 2013

	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	Remeasure-ments of defined benefit plans	Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets
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
Net income	**—**	**—**	**—**	**4,864**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,864**
Cash dividends	**—**	**—**	**—**	**(1,027)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,027)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(4)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4)**
Disposal of treasury stock	**—**	**—**	**—**	**(1)**	**6**	**—**	**—**	**—**	**—**	**—**	**—**	**5**
Change in scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other changes, net	**—**	**—**	**—**	**—**	**—**	**69**	**—**	**1,581**	**352**	**(1)**	**1**	**2,002**
Balance at March 31, 2014	**¥36,600**	**¥14,860**	**¥21,724**	**¥71,158**	**¥(6,904)**	**¥329**	**¥(7,351)**	**¥(1,139)**	**¥352**	**¥180**	**¥13**	**¥93,222**

	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	Remeasure-ments of defined benefit plans	Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2013	$144,384	$211,077	$654,120	$(67,101)	$2,527	$(71,424)	$(26,429)	—	$1,758	$116	$849,028
Net income	**—**	**—**	**47,260**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**47,260**
Cash dividends	**—**	**—**	**(9,979)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(9,979)**
Purchases of treasury stock	**—**	**—**	**—**	**(39)**	**—**	**—**	**—**	**—**	**—**	**—**	**(39)**
Disposal of treasury stock	**—**	**—**	**(10)**	**59**	**—**	**—**	**—**	**—**	**—**	**—**	**49**
Change in scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other changes, net	**—**	**—**	**—**	**—**	**670**	**—**	**15,362**	**3,420**	**(10)**	**10**	**19,452**
Balance at March 31, 2014	**$144,384**	**$211,077**	**$691,391**	**$(67,081)**	**$3,197**	**$(71,424)**	**$(11,067)**	**$3,420**	**$1,748**	**$126**	**$905,771**

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥7,230**	¥3,363	**$70,249**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	**1,594**	1,661	**15,488**
Amortization of goodwill	**374**	920	**3,634**
Increase (decrease) in allowance for doubtful accounts	**529**	(1,032)	**5,140**
Decrease in provision for retirement benefits	**—**	(81)	**—**
Decrease in net defined benefit liability	**(149)**	—	**(1,448)**
Decrease in provision for directors' retirement benefits	**(1,065)**	(91)	**(10,348)**
Interest and dividend income	**(505)**	(464)	**(4,907)**
Interest expense	**87**	78	**845**
Foreign exchange gain	**(2,008)**	(2,913)	**(19,510)**
Loss on sales and disposal of property, plant and equipment, net	**31**	35	**301**
Impairment loss	**91**	23	**884**
Loss on redemption of investment securities	**—**	125	**—**
Loss on valuation of derivatives	**58**	99	**564**
Increase in trade receivables	**(6,172)**	(1,025)	**(59,969)**
Decrease (increase) in inventories	**(60)**	3,361	**(583)**
Decrease in trade payables	**(3,684)**	(1,848)	**(35,795)**
Other	**1,414**	1,040	**13,739**
Subtotal	**(2,235)**	3,251	**(21,716)**
Interest and dividend income received	**488**	466	**4,741**
Interest expense paid	**(87)**	(85)	**(845)**
Income taxes paid	**(567)**	(18)	**(5,509)**
Net cash provided by (used in) operating activities	**(2,401)**	3,614	**(23,329)**
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	**1,585**	(3,642)	**15,400**
Purchases of short-term investments	**(200)**	—	**(1,943)**
Proceeds from sales and redemption of short-term investments	**700**	200	**6,801**
Purchases of property, plant and equipment	**(681)**	(606)	**(6,617)**
Proceeds from sales of property, plant and equipment	**14**	61	**136**
Purchases of investments in securities	**(1,006)**	(507)	**(9,774)**
Proceeds from sales and redemption of investments in securities	**—**	1,328	**—**
Acquisition of subsidiaries and affiliated companies	**(71)**	(144)	**(690)**
Payment of long-term loans receivable	**(380)**	—	**(3,692)**
Other	**(328)**	92	**(3,187)**
Net cash used in investing activities	**(367)**	(3,218)	**(3,566)**
Cash flows from financing activities:			
Decrease in short-term borrowings, net	**(208)**	(318)	**(2,021)**
Proceeds from long-term debt	**—**	5,000	**—**
Repayment of long-term debt	**—**	(3,000)	**—**
Repayment of finance lease obligations	**(363)**	(327)	**(3,527)**
Purchases of treasury stock	**(5)**	(16)	**(49)**
Proceeds from sales of treasury stock	**5**	0	**49**
Cash dividends paid	**(1,026)**	(1,112)	**(9,969)**
Net cash provided by (used in) financing activities	**(1,597)**	227	**(15,517)**
Effect of exchange rate changes on cash and cash equivalents	**1,536**	1,413	**14,924**
Net increase (decrease) in cash and cash equivalents	**(2,829)**	2,036	**(27,488)**
Cash and cash equivalents at beginning of year	**16,648**	14,191	**161,757**
Increase in cash and cash equivalents from newly consolidated subsidiary	**—**	421	**—**
Cash and cash equivalents at end of year	**¥13,819**	¥16,648	**$134,269**

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 readers, using the exchange rate prevailing at March 31, 2014, which was ¥102.92 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

(g) Leased assets

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

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

(h) Allowance for doubtful accounts

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

(i) Retirement benefits

1. Periodic allocation methodology for the estimated retirement benefit amount

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

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

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

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

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

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

(l) Derivatives and hedging activities

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

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

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

(m) Per share information

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

Diluted net income per share is not presented for the year ended March 31, 2013 since there are no residual securities with dilutive effect upon exercise into common stock.

(Changes in accounting policies)

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No.26,May 17,2012 (hereinafter, the “Statement No.26”)) and Guidance on Accounting Standard on Retirement Benefits (ASBJ Guidance No.25, May 17, 2012 (hereinafter, the “Guidance No.25”)) except for article 35 of the Statement No.26 and article 67 of the Guidance No.25 and actuarial gains and losses and past service costs that are yet to be recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits. In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result of the change, as of March 31, 2014, net defined benefit liabilities of ¥526 million ($5,111 thousand) and net defined benefit assets of ¥785 million ($7,627 thousand) were recognized. Also, accumulated other comprehensive income was increased by ¥352 million ($3,420 thousand).

(Additional Information)
Termination of Retirement Benefit System for Directors
The companies terminated retirement benefit system and shareholders approved a resolution on June 27, 2013, to make a final termination retirement benefit payment of retirement benefits to directors and corporate auditors. Retirement benefits are paid when each director and corporate auditor leaves. As a result, the remaining amount reserved for retirement allowance for directors and corporate auditors, ¥1,073 million ($10,426 thousand), is included long-term accounts payable.

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, 2014 and 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and time deposits	**¥16,003**	¥19,737	**$155,490**
Time deposits with an original maturity in excess of three months included in cash and deposits	**(2,184)**	(3,089)	**(21,221)**
Cash and cash equivalents at end of year	**¥13,819**	¥16,648	**$134,269**

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 11. 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		
	2014		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	**¥16,003**	**¥16,003**	**—**
<2> Trade notes and accounts receivable	**42,964**		
Less: allowance for doubtful accounts *1	**(1,297)**		
	41,667	**41,630**	**¥(37)**
<3> Short-term investments in securities, investments in securities	**6,764**	**6,764**	**—**
<4> Trade notes and accounts payable	**4,290**	**4,290**	**—**
<5> Short-term borrowings	**6,696**	**6,696**	**—**
<6> Long-term debt including long-term borrowings due within one year	**5,000**	**5,001**	**1**
<7> Derivative instruments *2	**(171)**	**(171)**	**—**

	Millions of yen		
	2013		
	Carrying value	Fair value	Variance
<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)	—

	Thousands of U.S. dollars		
	2014		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	**$155,490**	**$155,490**	**—**
<2> Trade notes and accounts receivable	**417,450**		
Less: allowance for doubtful accounts *1	**(12,602)**		
	404,848	**404,489**	**$(359)**
<3> Short-term investments in securities, investments in securities	**65,721**	**65,721**	**—**
<4> Trade notes and accounts payable	**41,683**	**41,683**	**—**
<5> Short-term borrowings	**65,060**	**65,060**	**—**
<6> Long-term debt including long-term borrowings due within one year	**48,581**	**48,591**	**10**
<7> Derivative instruments *2	**(1,661)**	**(1,661)**	**—**

*1: The net amount of allowance for doubtful accounts is related on trade notes and accounts receivable.
*2: The net amount of the assets and liabilities is shown. If the net amount is a liability, it is written in parentheses ( ).

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

<1> Cash and time deposits; Carrying amount approximates fair value due to the short maturities.

<2> Trade notes and accounts receivable; The fair value is based on the discounted by the free rate to be applied to the periods of collection, assuming allowance for doubtful accounts as credit risks since it is difficult to value credit risks individually.

<3> Short-term investments in securities, investments in securities; Fair value of equity securities are based on the prices quoted by financial institutions.

<4> Trade notes and accounts payable; Carrying amount approximates fair value due to the short maturities.

<5> Short-term borrowings; Carrying amount approximates fair value due to the short maturities.

<6> Long-term debt; Fair value of long-term debt is calculated by discounting the sum of future principal and interest payments to present value at the rate expected in another loan with the same conditions.

<7> Derivative instruments; Refer to Note 11 Derivative financial instruments.

(Note2) Fair values that are difficult to determine as of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unlisted equity bonds	**¥200**	¥672	**$1,943**
Unlisted equity securities	**1,232**	250	**11,971**
Shares of subsidiaries and affiliates	**218**	144	**2,118**
Investment in limited partnership	**74**	81	**719**

(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2014 and 2013

	Millions of yen			
(As of March 31, 2014)	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	**¥16,003**	**—**	**—**	**—**
Trade notes and accounts receivable	**27,948**	**¥14,947**	**¥69**	**—**
Investment securities				
Held-to-maturity securities				
– Bonds	**—**	**—**	**200**	**—**
Available-for-sale securities with maturit				
– Bonds	**—**	**998**	**—**	**—**
– Other investments	**71**	**90**	**—**	**—**
Total	**¥44,022**	**¥16,035**	**¥269**	**—**

	Millions of yen			
(As of March 31, 2013)	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
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	—

(As of March 31, 2014)	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
Cash and time deposits	**$155,490**	**—**	**—**	**—**
Trade notes and accounts receivable	**271,551**	**$145,229**	**$670**	**—**
Investment securities				
Held-to-maturity securities				
– Bonds	**—**	**—**	**1,943**	**—**
Available-for-sale securities with maturit				
– Bonds	**—**	**9,697**	**—**	**—**
– Other investments	**689**	**874**	**—**	**—**
Total	**$427,730**	**$155,800**	**$2,613**	**—**

5. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2014 and 2013 were as follows:

	Millions of yen 2014 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	**¥1,773**	**¥2,381**	**¥608**
Bonds	**—**	**—**	**—**
Other	**1,255**	**1,341**	**86**
Subtotal	**¥3,028**	**¥3,722**	**¥694**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**¥697**	**¥603**	**¥(94)**
Bonds	**1,000**	**998**	**(2)**
Other	**1,529**	**1,441**	**(88)**
Subtotal	**¥3,226**	**¥3,042**	**¥(184)**
Total	**¥6,254**	**¥6,764**	**¥510**

	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

	Thousands of U.S. dollars 2014 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	**$17,227**	**$23,134**	**$5,907**
Bonds	**—**	**—**	**—**
Other	**12,194**	**13,030**	**836**
Subtotal	**$29,421**	**$36,164**	**$6,743**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**$6,772**	**$5,859**	**$(913)**
Bonds	**9,717**	**9,697**	**(20)**
Other	**14,856**	**14,001**	**(855)**
Subtotal	**$31,345**	**$29,557**	**$(1,788)**
Total	**$60,766**	**$65,721**	**$4,955**

Other securities without quoted market prices at March 31, 2014 and 2013 were as follows:

	Millions of yen Amount recorded in the balance sheet 2014	2013	Thousands of U.S. dollars 2014
Held-to-maturity securities	**¥200**	¥672	**$1,943**
Other securities	**1,306**	331	**12,690**
	¥1,506	¥1,003	**$14,633**

6. Inventories

Inventories at March 31, 2014 and 2013 were as follows:

	Millions of yen 2014	2013	Thousands of U.S. dollars 2014
Finished goods	**¥11,687**	¥11,027	**$113,554**
Work in process	**838**	1,015	**8,142**
Raw materials	**6,810**	5,953	**66,168**
Supplies and others	**256**	350	**2,488**
	¥19,591	¥18,345	**$190,352**

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 ¥4,798 million ($46,619 thousand) and ¥4,646 million at March 31, 2014 and 2013, respectively.

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Average rate of 0.27% unsecured loans from banks	**¥6,696**	¥5,400	**$65,060**

Long-term debt at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Average rate of 0.55% unsecured loans from banks	**¥5,000**	¥6,500	**$48,582**
Less current portion	**(—)**	(1,500)	**(—)**
	¥5,000	¥5,000	**$48,582**

The aggregate annual maturities of long-term debt at March 31, 2014 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2015	**—**	**—**
2016	**—**	**—**
2017	**—**	**—**
2018	**¥5,000**	**$48,582**
Thereafter	**—**	**—**
Total	**¥5,000**	**$48,582**

9. Retirement benefits

Retirement benefits at March 31, 2014 and 2013 consisted of the following:

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

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

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

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

As of and for the year ended March 31, 2014

Defined benefit plans, including a plan applying a simplified method

(1) Movement in retirement benefit obligations

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥4,961**	**$48,203**
Service cost	**273**	**2,653**
Interest cost	**97**	**942**
Actuarial loss (gain)	**(94)**	**(913)**
Benefit paid	**(329)**	**(3,197)**
Balance at March 31, 2014	**¥4,908**	**$47,688**

(2) Movement in plan assets

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥4,857**	**$47,192**
Expected return on plan assets	**56**	**544**
Actuarial loss (gain)	**178**	**1,729**
Contributions paid by the employer	**326**	**3,168**
Benefit paid	**(250)**	**(2,429)**
Balance at March 31, 2014	**¥5,167**	**$50,204**

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

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Funded retirement benefit obiligations	**¥4,382**	**$42,577**
Plan assets	**(5,167)**	**(50,204)**
	(785)	**(7,627)**
Unfunded retirement benefit obligations	**526**	**5,110**
Total net liability (asset) for retirement benefits at March 31, 2014	**(259)**	**(2,517)**
Net defined benefit liability	**526**	**5,110**
Net defined benefit assets	**(785)**	**(7,627)**
Total net liability (asset) for retirement benefits at March 31, 2014	**¥(259)**	**$(2,517)**

(4) Retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Service cost	**¥273**	**$2,653**
Interest cost	**97**	**942**
Expected return on plan assets	**(56)**	**(544)**
Net actuarial loss amortization	**(49)**	**(476)**
Past service costs amortization	**1**	**10**
Total retirement benefits costs for the fiscal year ended March 31, 2014	**¥266**	**$2,585**

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

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Actuarial gains and losses that are yet to be recognized	**¥(4)**	**$(39)**
Past service costs that are yet to be recognized	**548**	**5,325**
Total balance at March 31, 2014	**¥544**	**$5,286**

(6) Plan assets

<1> Plan assets at March 31, 2014 comprise:

Equity securities	15%
Bonds	12%
Insurance assets (General account)	72%
Other	1%
Total	100%

The above total includes 7% of the retirement benefit trusts of corporate pension plan.

<2> Long-term expected rate of return

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

(7) Actuarial assumptions

The principal actuarial assumption at March 31, 2014 (expressed as weighted averages) are as follows:

Discount rate	2.00%
Long-term expected rate of return	1.15%

As of and for the year ended March 31, 2013

Retirement benefit obligation at March 31, 2013:

	Millions of yen
	2013
Projected benefit obligation	¥ (4,961)
Fair value of plan assets	4,857
Benefit obligation in excess of plan assets	(104)
Unrecognized prior service cost	4
Unrecognized actuarial gain	(324)
Net retirement benefit obligation	(424)
Prepaid pension cost	802
Allowance for retirement benefits	¥(1,226)

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

	Millions of yen
	2013
Service cost	¥260
Interest cost	97
Expected return on plan assets	(52)
Amortization:	
Prior service cost	1
Actuarial loss	0
Net periodic benefit cost	¥306

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

	2013
Method of attributing benefit to periods of service	Straight-line method
Discount rate	2.0%
Expected rate of return on fund assets	1.15%
Amortization period for prior service cost	10 years
Amortization period for actuarial gain (loss)	10 years

10. Contingent liabilities

Contingent liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Guarantees of customers' loans and lease obligations	**¥1,410**	¥1,337	**$13,700**

11. Derivative financial instruments

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

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

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2014 are as follows:

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

	Millions of yen			
	2014			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Capital-safe deposit including derivative instrument	**¥1,802**	**¥1,287**	**¥(171)**	**¥(171)**

	Thousands of U.S. dollars			
	2014			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Capital-safe deposit including derivative instrument	**$17,509**	**$12,505**	**$(1,661)**	**$(1,661)**

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			
	2014			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts:				
Put US$	**¥1,564**			
EUR	**3,123**			
Interest rate swap contracts:				
To receive variable/to pay fixed	**¥1,500**	**¥1,500**		

	Thousands of U.S. dollars			
	2014			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts:				
Put US$	**$15,196**			
EUR	**30,344**			
Interest rate swap contracts:				
To receive variable/to pay fixed	**$14,574**	**$14,574**		

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

	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)

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		

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, 2014 and 2013.

(1) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Tax loss carryforwards	**¥820**	¥1,383	**$7,967**
Allowance for doubtful accounts	**646**	464	**6,277**
Intercompany profit	**479**	166	**4,654**
Long-term liabilities	**373**	—	**3,624**
Allowance for directors' and statutory auditors' retirement benefits	**—**	371	**—**
Loss on valuation of investments in securities	**317**	317	**3,080**
Impairment loss on fixed assets	**263**	234	**2,555**
Accrued bonuses to employees	**258**	276	**2,507**
Allowance for losses on guarantees	**237**	254	**2,303**
Accrued enterprise tax	**181**	30	**1,759**
Tax credit for research and development cost	**153**	228	**1,486**
Allowance for retirement benefits	**—**	109	**—**
Other	**494**	301	**4,800**
Total gross deferred tax assets	**4,221**	4,133	**41,012**
Less valuation allowance	**(1,775)**	(1,659)	**(17,246)**
Net deferred tax assets	**2,446**	2,474	**23,766**
Deferred tax liabilities:			
Unrealized holding gain on securities	**(180)**	(143)	**(1,749)**
Net defined benefit asset	**(91)**	(—)	**(884)**
Reserve for special depreciation	**(16)**	(20)	**(156)**
Asset retirement obligation	**(11)**	(11)	**(107)**
Other	**(41)**	(46)	**(398)**
Total gross deferred tax liabilities	**(339)**	(220)	**(3,294)**
Net deferred tax assets	**¥2,107**	¥2,254	**$20,472**

(2) Adjustments of deferred tax assets and liabilities due to the change in statutory effective tax rates

Following the promulgation of the Act for Partial Amendment of the Income Tax Act (Act No.10 of 2014) on March 31, 2014, the special income tax for reconstruction will not be imposed as of the consolidated fiscal period starting on April 1, 2014. Consequently, the statutory effective tax rate used to calculate deferred tax assets and liabilities for this consolidated fiscal period has been changed from the previous consolidated fiscal period's rate of 37.75% to 35.38% for a temporary difference that is expected to be settled in the consolidated fiscal period starting on April 1, 2014.

As a result of the change in statutory tax rate, net deferred tax assets (after deducting deferred tax liabilities) at fiscal year-end decreased by ¥80 million ($777 thousand), while income taxes (deferred) increased by ¥80 million ($777 thousand) for the year ended March 31, 2014.

13. Research and development costs

Research and development costs charged to income were ¥2,669 million ($25,933 thousand) and ¥2,598 million for the years ended March 31, 2014 and 2013, 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 ¥213 million ($2,070 thousand) and ¥333 million for the years ended March 31, 2014 and 2013, 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, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014			**2014**
	Acquisition cost	Accumulated depreciation	Net leased assets	Net leased assets
Machinery and equipment	**¥1,136**	**¥1,036**	**¥100**	**$972**
Total	**¥1,136**	**¥1,036**	**¥100**	**$972**

	Millions of yen		
	2013		
	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery and equipment	¥1,733	¥1,425	¥308
Total	¥1,733	¥1,425	¥308

Obligations under such financial leases as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Due within one year	**¥103**	¥214	**$1,001**
Due after one year	**—**	103	**—**
Total	**¥103**	¥317	**$1,001**

Depreciation expense and imputed interest expense for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Depreciation expense	**¥205**	¥323	**$1,992**
Imputed interest expense	**¥2**	¥5	**$19**

15. Stock option plan

As of March 31, 2014 and 2013, the Company has the following stock option programs.

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

(a) Number and price information
(As of March 31, 2014)

Date of resolution	July 20, 2010
Unvested stock options	
Outstanding as of March 31, 2013	—
Granted	—
Expired	—
Vested	—
Outstanding as of March 31, 2014	—
Vested stock options	
Outstanding as of March 31, 2013	386,000
Vested	—
Exercised	2,000
Expired	—
Outstanding as of March 31, 2014	384,000

	yen
Date of resolution	July 20, 2010
Exercise price	¥2,241
Average stock price at exercise	¥2,316
Fair value at grant date	¥469.83

(b) Estimate of number of vested stock options

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

16. Comprehensive income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net unrealized holdings gain on securities:			
Amount recognized in the period under review	**¥107**	¥833	**$1,040**
Amount of recycling	**0**	(102)	**0**
Before income tax effect adjustments	**107**	935	**1,040**
Amount of income tax effect	**38**	335	**369**
Net unrealized holdings gain on securities	**69**	600	**671**
Foreign currency translation adjustments:			
Amount recognized in the period under review	**1,582**	1,585	**15,371**
Amount of recycling	**—**	—	**—**
Before income tax effect adjustments	**1,582**	1,585	**15,371**
Amount of income tax effect	**—**	—	**—**
Foreign currency translation adjustments	**1,582**	1,585	**15,371**
Total other comprehensive income	**¥1,651**	¥2,185	**$16,042**

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, 2014 and 2013 were as follows:

	Millions of yen					
	2014					
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**¥31,067**	**¥3,289**	**¥1,265**	**¥35,621**	**¥5,015**	**¥40,636**
Inter-segment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**31,067**	**3,289**	**1,265**	**35,621**	**5,015**	**40,636**
Operating expenses	**24,247**	**2,557**	**1,157**	**27,961**	**5,006**	**32,967**
Segment profit	**¥6,820**	**¥732**	**¥108**	**¥7,660**	**9**	**¥7,669**
Segment Assets:	**¥79,786**	**¥4,109**	**¥1,833**	**¥85,728**	**¥7,831**	**¥93,559**
Others:						
Capital expenditure	**¥881**	**¥36**	**¥50**	**¥967**	**¥289**	**¥1,256**
Depreciation	**1,061**	**31**	**50**	**1,142**	**169**	**1,311**
Amortization of goodwill	**352**	**3**	**0**	**355**	**19**	**374**

	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

	Thousands of U.S. dollars					
	2014					
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**$301,856**	**$31,957**	**$12,291**	**$346,104**	**$48,727**	**$394,831**
Inter-segment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**301,856**	**31,957**	**12,291**	**346,104**	**48,727**	**394,831**
Operating expenses	**235,591**	**24,845**	**11,241**	**271,677**	**48,640**	**320,317**
Segment profit	**$66,265**	**$7,112**	**$1,050**	**$74,427**	**$87**	**$74,514**
Segment Assets:	**$775,224**	**$39,924**	**$17,810**	**$832,958**	**$76,088**	**$909,046**
Others:						
Capital expenditure	**$8,560**	**$350**	**$486**	**$9,396**	**$2,808**	**$12,204**
Depreciation	**10,309**	**301**	**486**	**11,096**	**1,642**	**12,738**
Amortization of goodwill	**3,420**	**29**	**0**	**3,449**	**185**	**3,634**

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
	2014	2013	**2014**
Reportable segments total	**¥35,621**	¥30,914	**$346,104**
Other sales	**5,015**	4,056	**48,727**
Net sales in the consolidated statements of income	**¥40,636**	¥34,970	**$394,831**

Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Reportable segments total	**¥7,660**	¥4,348	**$74,427**
Other income (loss)	**9**	(229)	**87**
Corporate expenses	**(4,937)**	(4,628)	**(47,969)**
Operating income (loss) in the consolidated statements of income	**¥2,732**	¥(509)	**$26,545**

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
	2014	2013	**2014**
Reportable segments total	**¥85,728**	¥74,443	**$832,958**
Other assets	**7,831**	7,159	**76,088**
Company-wide assets	**26,168**	30,487	**254,256**
Total assets in the consolidated balance sheets	**¥119,727**	¥112,089	**$1,163,302**

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

Others

	Millions of yen							
	Reportable segments total		Other		Adjustment		The amount in the consolidated financial statements	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Capital expenditure	**¥966**	¥564	**¥289**	¥127	**¥105**	¥243	**¥1,360**	¥934
Depreciation	**1,142**	1,193	**169**	158	**283**	310	**1,594**	1,661
Amortization of goodwill	**355**	823	**19**	97	**—**	—	**374**	920

	Thousands of U.S. dollars			
	2014			
	Reportable segments total	Other	Adjustment	The amount in the consolidated financial statements
Capital expenditure	**$9,386**	**$2,808**	**$1,020**	**$13,214**
Depreciation	**11,096**	**1,642**	**2,750**	**15,488**
Amortization of goodwill	**3,449**	**185**	**—**	**3,634**

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, 2014 and 2013 were as follows:

	Millions of yen					
	2014					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	**¥6,671**	**¥7,181**	**¥5,434**	**¥19,629**	**¥1,721**	**¥40,636**

	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

	Thousands of U.S. dollars					
	2014					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	**$64,817**	**$69,773**	**$52,798**	**$190,721**	**$16,722**	**$394,831**

18. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 27, 2014.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥599	$5,820

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2014, 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, 2014, 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, 2014

Ohtemae Audit Co.

Ohtemae Audit Corporation

Corporate Data (As of March 31, 2014)

Corporate Information

Company Name	SHIMA SEIKI MFG., LTD.
Headquarters	85 Sakata, Wakayama City, Wakayama 641-8511, Japan Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267
Date of Establishment	February 4, 1962
Capital	¥14,859,800,000
Total Number of Employees	Consolidated 1,751 Non-consolidated 1,203
URL	Corporate Information http://www.shimaseiki.com IR Information http://www.shimaseiki.co.jp/ire/ire.html
Consolidated Subsidiaries	SHIMA FINE PRESS CO., LTD. TSM Industrial CO., LTD. KAINAN SEIMITSU CO., LTD. TOYOBOSHI KOGYO CO., LTD. SHIMA SEIKI EUROPE LTD. SHIMA SEIKI U.S.A. INC. SHIMA SEIKI (HONG KONG) LTD. SHIMA SEIKI ITALIA S.p.A. SHIMA SEIKI WIN WIN SHANGHAI LTD. SHIMA SEIKI SPAIN, S.A.U. SHIMA SEIKI WIN WIN DONGGUAN LTD. SHIMA SEIKI (THAILAND) CO., LTD. SHIMA SEIKI KOREA INC.

Investor Information

Accounting Year-End	March 31
Month of General Shareholders' Meeting	June
Authorized Common Stocks	142,000,000
Issued Common Stocks	36,600,000
Number of Shareholders	19,927
Stock Exchange Listing	The First Section of the Tokyo Stock Exchange
Auditing Corporation	Ohtemae Audit Corporation

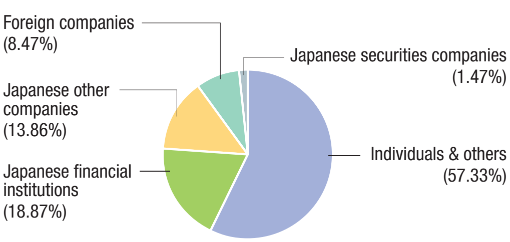
Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	2,870	8.39
The Kiyo Bank, Ltd.	1,310	3.83
NK Kosan Co., Ltd.	1,150	3.36
Masahiro Shima	1,070	3.13
Mitsuhiro Shima	1,060	3.10
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.57
Wako LLC	765	2.24
Shima Seiki Employees Shareholding Association	738	2.16
The Senshu Ikeda Bank, Ltd.	700	2.05
Hiromi Goto	697	2.04

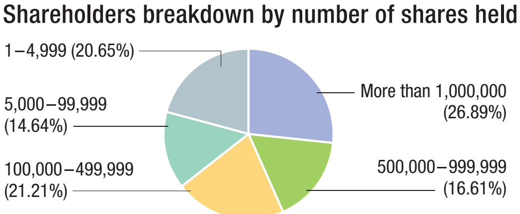
Notes: 1.The Company, which owns 2,380 thousand shares of treasury stock, or 6.50% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.
2.Holdings of less than 1,000 shares have been omitted.

Stock Ownership

Shareholders breakdown by type

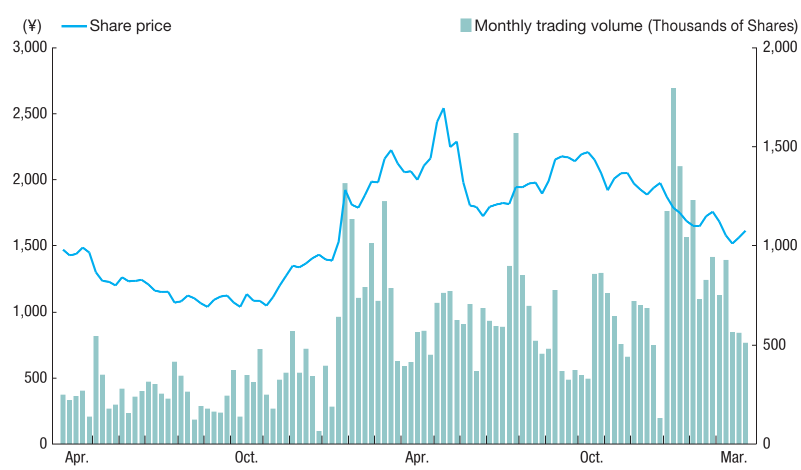


Shareholders breakdown by number of shares held



Share Price and Trading Volume

Note: Osaka Securities Exchange (Tokyo Stock Exchange from July 16, 2013)



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.

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