Ever Onward

Annual Report 2015

Year Ended March 31, 2015

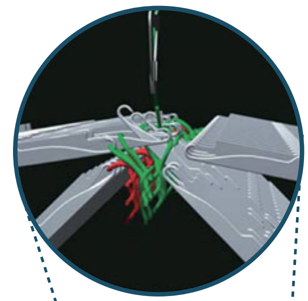
Virtual sample created using the SDS®-ONE APEX3

Shima Seiki is the world's leading company in computerized

Almost all the knitwear you regularly wear is made on a flat knitting machine.
Shima Seiki continues to lead the world as a computerized flat knitting machine manufacturer.

About Computerized Flat Knitting Machines

Computerized flat knitting machines are machines that produce knitwear automatically. Complicated hand-knitting movement is driven by mechatronics technologies automated by computer control.



The Merits of Knitwear

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

flat knitting machines.

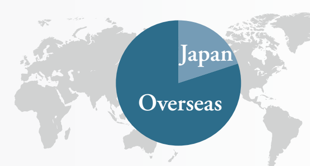
Shima Seiki's Unique Features

1 Ongoing Technological Innovation for Half a Century

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

2 Over 80% of Sales are Overseas

From Italy, the center of the fashion industry, to China and Hong Kong, the world's largest knitwear manufacturing base, to ASEAN and other countries in Southeast Asia, which are currently attracting attention as a new knitwear manufacturing base, Shima Seiki boasts a high global market share.



3 Domestic Integrated Production System Provides "Japanese Quality"

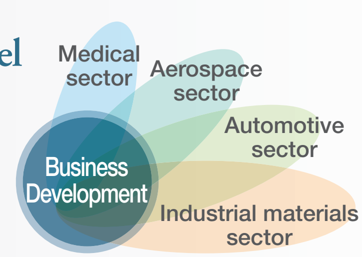
Production is consolidated at our headquarters factory in Japan. From parts to assembly, integrated production facilitates the efficient creation of a wide range of products and ensures quality products that are durable and stable. We are highly trusted by customers around the world.

4 WHOLEGARMENT®, the Forefront of Flat Knitting Machines

WHOLEGARMENT® flat knitting machines, which create complete pieces of seamfree knitwear, are Shima Seiki's unique development. In addition to being highly designable and realizing a comfortable fit, WHOLEGARMENT® conserves resources by eliminating cutting loss and seam allowance. WHOLEGARMENT® contributes significantly to the resolution of issues related to the global shortage of skilled sewing technicians.

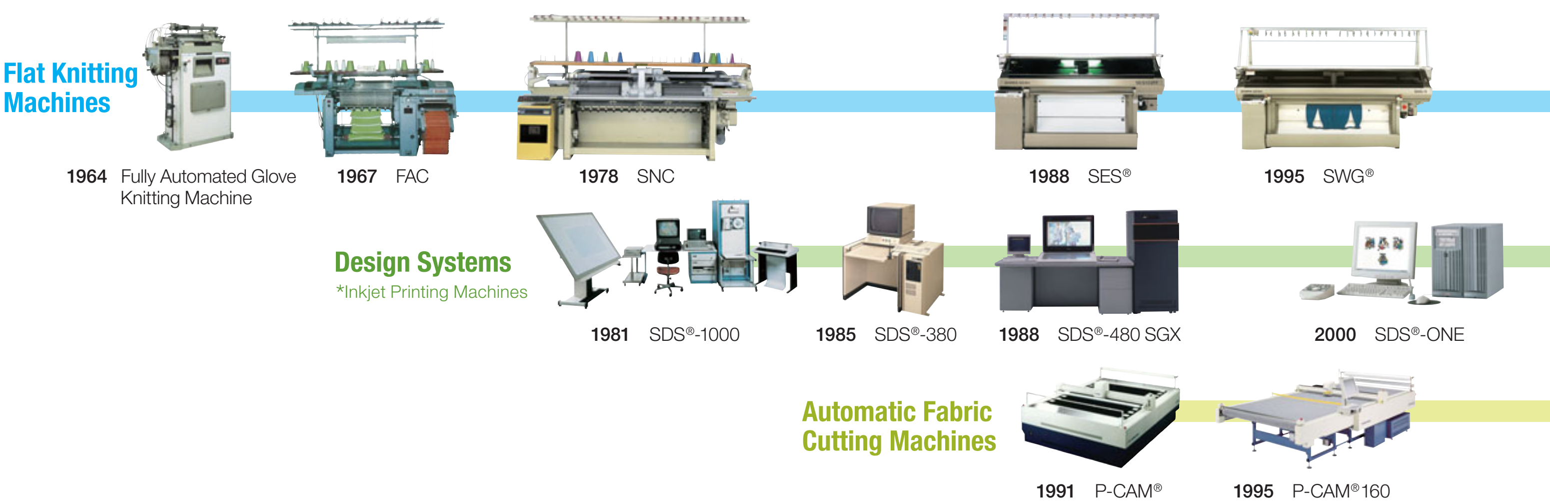
5 Proactive Development in Areas Other than Apparel

The design system business makes a wide range of proposals in areas other than apparel, including design systems and automatic fabric cutting machines. We provide various industries with high-performance and high-quality manufacturing equipment.



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.



Markets by Geographical Region

Europe

WHOLEGARMENT® flat knitting machines and SRY® 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.

15.2%

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.

Sales ratio by region

60.5%

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.

15.9%

3.9%

4.5%

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.

Other Areas

Imports account for the majority of sales in the United States, the world's largest apparel consumer, but local production opportunities are on the rise. In Brazil, highly productive WHOLEGARMENT® flat knitting machine penetration is meeting internal demand.

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.

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®, featuring loop pressers; the SVR®, which enhances knitting; and the SSR®, which delivers outstanding cost performance.

MACH2®XS

Design System Segment

This segment, which provides design systems to support production in apparel and a variety of other industries, got its start with the 1981 launch of the SDS®-1000. Offering high speed and high definition, our design systems employ virtual samples and 3D simulations and enable diverse designs while realizing 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.

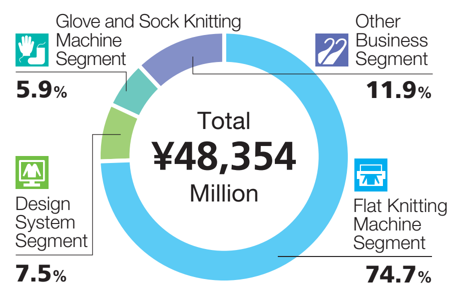
SDS®-ONE APEX3

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 knit products.



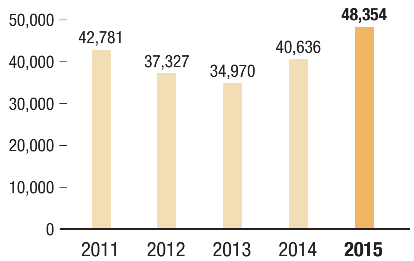
Financial Highlights

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

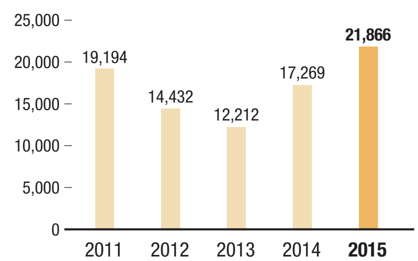
	2015	2014	2013	2012	2011		2015	2015
For the Year:			Millions of yen			Percent change 2014 / 2015	Thousands of U.S. dollars	Thousands of euros
Net sales	**¥48,354**	¥40,636	¥34,970	¥37,327	¥42,781	19.0%	**$402,380**	**€371,041**
Gross profit	**21,866**	17,269	12,212	14,432	19,194	26.6	**181,959**	**167,787**
Operating income (loss)	**5,745**	2,732	(509)	883	5,908	110.3	**47,807**	**44,084**
Income (loss) before income taxes and minority interests	**7,006**	7,230	3,363	(537)	1,092	(3.1)	**58,301**	**53,760**
Net income (loss)	**3,646**	4,863	1,754	(642)	770	(25.0)	**30,340**	**27,977**
At Year-End:			Millions of yen			Percent change 2014 / 2015	Thousands of U.S. dollars	Thousands of euros
Total assets	**¥126,987**	¥119,727	¥112,089	¥106,863	¥113,951	6.1%	**$1,056,728**	**€974,424**
Net assets	**98,179**	93,222	87,382	84,167	86,591	5.3	**817,001**	**753,369**
Per Share Data:			Yen			Percent change 2014 / 2015	U.S. dollars	Euros
Net income (loss)	**¥106.54**	¥142.13	¥51.26	¥(18.60)	¥22.26	(25.0)%	**$0.89**	**€0.82**
Cash dividends applicable to the year	**32.50**	32.50	25.00	40.00	35.00	0.0	**0.27**	**0.25**
Net assets	**2,863.49**	2,718.57	2,547.88	2,454.07	2,502.27	5.3	**23.83**	**21.97**
Ratios:			%					
ROA	**3.0%**	4.2%	1.6%	(0.6)%	0.7%			
ROE	**3.8**	5.4	2.0	(0.8)	0.8			
Equity ratio	**77.2**	77.7	77.8	78.6	75.9			
Overseas sales ratio	**84.1**	83.6	84.7	87.6	91.1			

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥120.17=US$1 and ¥130.32=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2015.

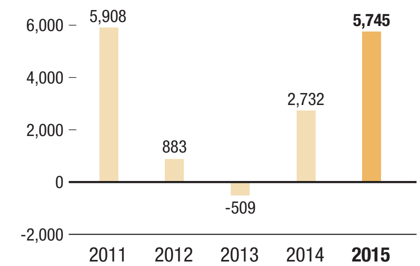
Net sales (¥ Million)



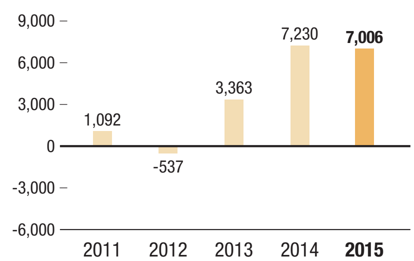
Gross profit (¥ Million)



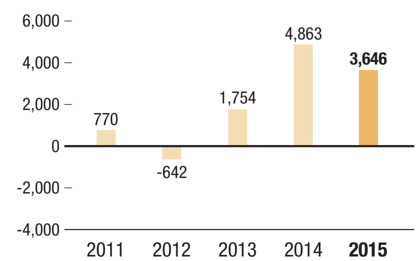
Operating income (¥ Million)



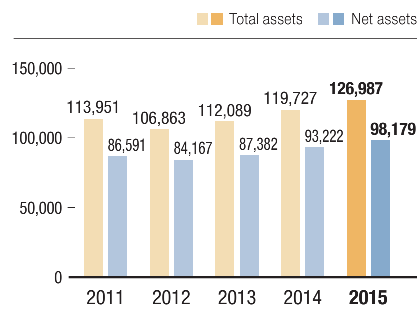
Income before income taxes and minority interests (¥ Million)



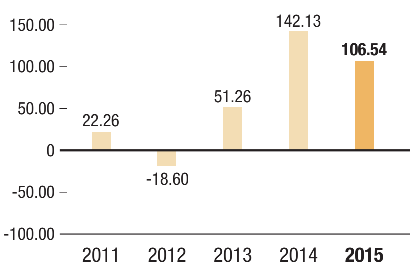
Net income (¥ Million)



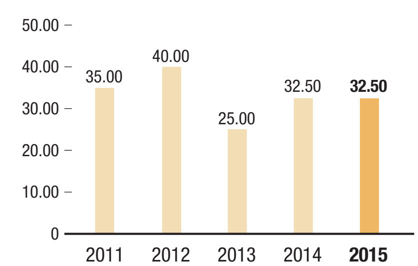
Total assets / Net assets (¥ Million)



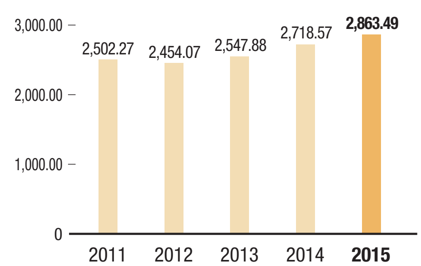
Net income per share (¥)



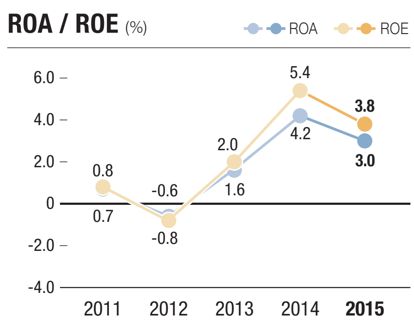
Cash dividends per share applicable to the year (¥)



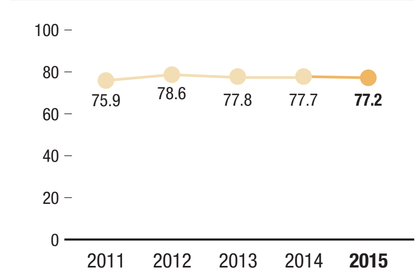
Net assets per share (¥)



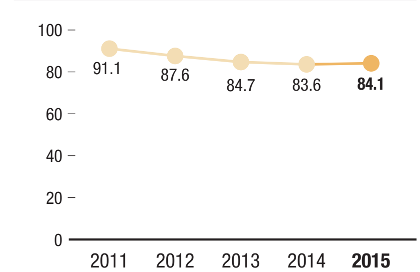
ROA / ROE (%)



Equity ratio (%)



Overseas sales ratio (%)



Message from Top Management

Our intrinsic high competitiveness led to increased income two years in a row. We will carry this momentum forward as we aim for further growth.

In the fiscal year ended March 31, 2015, we sufficiently leveraged our high competitiveness and expanded capital investments mainly in Asian markets, resulting in significantly growth in net sales and operating income. In the fiscal year ending March 31, 2016, as we commemorate 20 years of WHOLEGARMENT® flat knitting machines, we will focus efforts on sales activities and product development to meet customer needs throughout the world with the intention of making even further leaps 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.

Q Please describe the market conditions and the Company's performance during the fiscal year ended March 31, 2015.

A We leveraged our strengths around the world to significantly increase net sales and operating income.

In the fiscal year ended March 31, 2015, sales in our core Flat Knitting Machine Segment expanded significantly in Asia, while sales in Japan and other regions were strong overall, resulting in consolidated net sales of ¥48,354 million, up 19.0% year on year, the second straight fiscal year of income growth. In addition to the effect of higher sales, unit sales prices increased due to the weaker yen and production increases drove costs down, causing operating income to more than double compared to the previous fiscal year, increasing 110.3% to ¥5,745 million. Ordinary income also increased significantly, up 15.2% year on year to ¥8,470 million, due to non-operating factors such as foreign exchange gains. At the same time, we recorded an extraordinary loss of ¥1,274 million on provision for allowance for doubtful accounts resulting from the business failure of a customer in Indonesia. This caused net income to drop 25.0% year on year, to ¥3,646 million.

In the year ended March 31, 2014, sales and profits also increased, but the reason for this was probably the favorable impact of the weakened yen. In

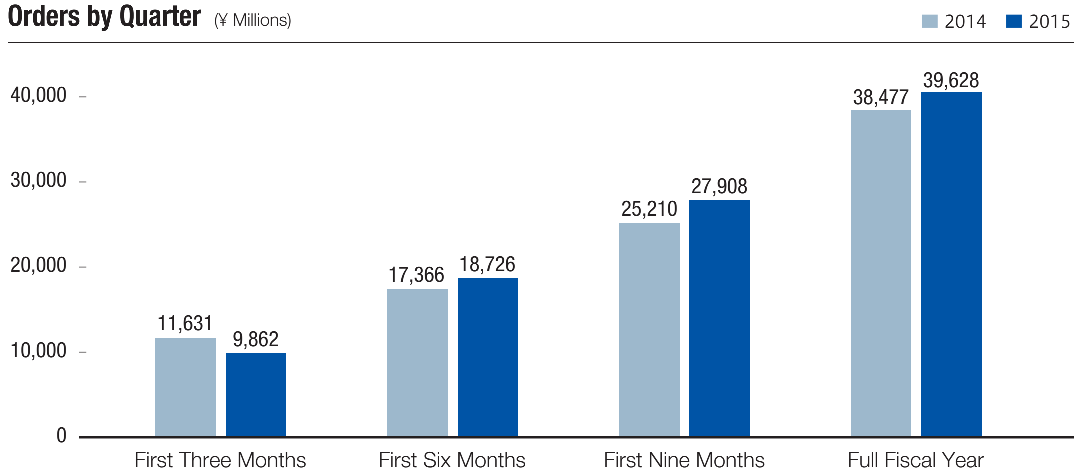
terms of performance in the fiscal year under review, as indicated by the significant increase in operating income, we successfully leveraged our intrinsic high competitiveness, expanding capital investment in Asian markets such as Bangladesh and ASEAN countries and providing high-quality, high-performance products and an elaborate service structure. These efforts received strong support from a great number of customers in each region.

Q Please explain conditions in different segments during the year.

A Flat Knitting Machine Segment sales expansion was driven by favorable conditions in Asian markets. Sales also grew significantly in the Glove and Sock Knitting Machine Segment.

The Asian region led the Flat Knitting Machine Segment in the fiscal year under review. In particular, Bangladesh expanded at an astonishing rate. For the past two years, capital investment has been extremely robust in Bangladesh as the fast fashion production base for European and U.S. apparel, with unit sales doubling compared to the previous fiscal year. In addition, sales increased in Vietnam, Cambodia, Thailand and other ASEAN countries amid the accelerated shift in production away from China, mainly among major knitwear manufacturers in Hong Kong. In the China and Hong Kong markets, capital

Orders by Quarter (¥ Millions)



(Years ended March 31)

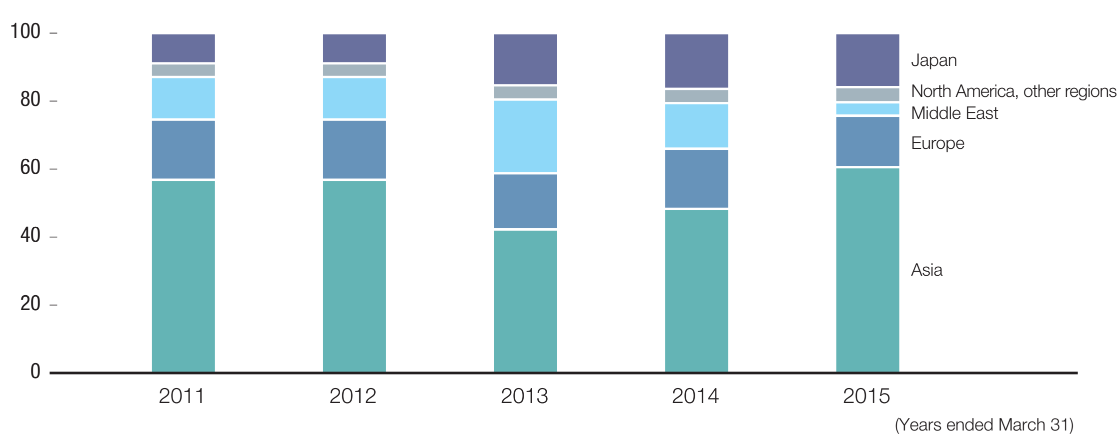
investment recovered on domestic demand focused on SPA (specialty store retailer of private label apparel) apparel manufacturers operating integrated businesses, from the design stage to retail sales.

In developed markets such as Italy, the center of the fashion industry, we introduced the SRY®, which creates totally new fabrics with a woven feel. Sales of computerized flat knitting machines, including WHOLEGARMENT® flat knitting machines, also increased in the United States amid an increasing shift toward domestic production. In Japan, the return of production from China and government industry support measures drove sales higher, mainly of WHOLEGARMENT® flat knitting machines.

In the Design System Segment, the SDS®-ONE APEX3 design system was well received in Japan and overseas, resulting in a steady increase in the number of units shipped. In particular, use of this system in Japan has expanded due to proactive sales activities targeting a wide range of industries, including to the knitting industry, as well as textiles and textile printing, towels, interior items, furniture and sundry goods. This has increased our sales ratio in industries other than knitting. Sales of P-CAM® automatic fabric cutting machines also increased due to sales promotion activities targeting a variety of areas mainly in Japan, resulting in increased sales to non-knitting industries, including automotive interiors, furniture, aerospace and industrial materials.

During the fiscal year under review, sales in the Glove and Sock Knitting Machine Segment grew robustly to more than double the sales of the previous fiscal year. For many years, this segment has struggled due to low-cost machines from South Korea and China. However, the weaker yen has reduced the price differential, resulting in a more equitable competitive environment. Many customers reaffirmed their high esteem for this product's superior performance, stability, durability and productivity, resulting in significantly higher unit sales in Japan and overseas.

Sales by Region (%)



Q 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 commemorate 20 years since the launch of WHOLEGARMENT® as we move forward to a new growth stage.

In the fiscal year ending March 31, 2016, we will proactively promote proposal-making activities tailored to the specifics of each national and regional market aimed at further growth in all business segments.

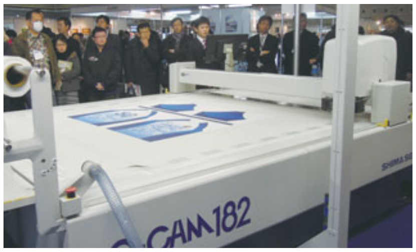
The most critical strategic issue is WHOLEGARMENT® flat knitting machine sales promotion in developed markets. In November of this year, ITMA 2015, an international textile and garment machinery exhibition conducted every four years will be held in Milan, Italy. Ahead of this exhibition, in February we announced new product MACH2®XS, a WHOLEGARMENT® flat knitting machine featuring 4 needle beds equipped with the world's first movable full sinkers. The MACH2®XS has an extremely advanced design compared to other machines up to now, offering significant improvements in productivity, stability and operability. 2015 marks 20 years since we developed the first WHOLEGARMENT® flat knitting machine; the launch of the MACH2®XS represents the culmination of WHOLEGARMENT® history.

Since its release, MACH2®XS has attracted the strong attention of customers around the world. Domestic knitting manufacturers as well as customers from Italy, the United Kingdom, Brazil, Russia and South Korea have visited us to inspect this product. Going forward, we will take WHOLEGARMENT® flat knitting machines to a new growth stage through vigorous individual sales promotion efforts, including emphasizing the unlimited possibilities resulting from the combination of the MACH2®XS and SDS®-ONE APEX3 to customers from around the world while at the ITMA exhibition in November.

With regard to machines other than WHOLEGARMENT® flat knitting machines, we aim to promote sales by strengthening product proposal-making activities that meet the market needs of each country and region with the SSR®, which offers superior cost performance, and the SVR®, which offers higher functionality. In terms of design systems, we will attempt to expand unit sales through aggressive proposals in a variety of areas based not only on knit programming, but also on the merits of using virtual samples in planning and its dramatic production process efficiencies.

In light of the extraordinary loss recorded in the fiscal year under review, we will renew efforts to further strengthen risk management in overseas businesses next fiscal year.

As a result of these initiatives, in the upcoming fiscal year we forecast consolidated net sales of ¥51.0 billion, operating income of ¥7.0 billion, ordinary income of ¥7.5 billion and net income of ¥5.0 billion. This forecast assumes exchange rates of ¥120 to the U.S. dollar and ¥125 to the euro.



Q Can you explain the dividend for the year under review and describe your efforts targeting ongoing growth?

A We will inspire innovation around the world through product development.

For the fiscal year under review, we paid a total dividend of ¥32.50 per share, comprising a ¥15.00 interim dividend and a ¥17.50 year-end dividend.

Against the backdrop of economic growth in developing countries, global apparel consumption continued to increase and the knit product purchase segment significantly expanded. From a manufacturer's perspective, there is no doubt local production for the local market is best in terms of meeting consumer needs for higher-quality products, responding quickly to changing market needs, and managing distribution costs. However, high planning and production process costs have prevented these efforts, particularly in developed countries.

I am confident our products are able to completely resolve these issues. WHOLEGARMENT® flat knitting machines eliminate linking from the manufacturing process, contributing significantly to production rationalization. In addition, design system virtual simulation alleviates bottlenecks in the product planning process by drastically shortening the time required to make samples and dramatically reducing costs.

Combining WHOLEGARMENT® flat knitting machines and design systems, we think it is necessary to transform into a "creative, information-based industry" able to create high added value through local production for the local market in the labor-intensive textile industry.

Shima Seiki will continue aiming for global growth through the provision of pioneering products and services delivering true innovation to global knitting and various related industries.

In August 2015, we formulated the "Ever Onward 2017" medium-term management plan to clarify these specific objectives (for details, please see the next page.)

We ask all our shareholders and investors for their continued understanding and support.

Masahiro Shima,
President

Outline of Medium-Term Management Plan, “Ever Onward 2017”

Shima Seiki has continually risen to the challenge of developing a series of groundbreaking products by applying creativity and innovative technology to meet the needs of its customers in line with its corporate motto, “**Ever Onward**.”

After more than 50 years in this industry, we have evolved into a highly trusted manufacturer of computerized glove knitting machines, computerized flat knitting machines, and computer graphic design systems, thanks to the loyal patronage of our customers.

On the other hand, the worldwide business environment in which we operate is changing rapidly.

We have formulated our new medium-term management plan, “**Ever Onward 2017**,” to address various business issues we are facing and further enhance the corporate value.

1. Long-term management plan

We have formulated our medium-term management plan based on our corporate philosophy and long-term vision for where we wish to be in 10 years’ time.

(1) Corporate philosophy

Ever Onward — Limitless Progress

We strive to become an indispensable company to the society through sustainable business development.
We do this under the motto of “**Ever Onward**” with “love”, “creation” and “passion” as our mantra.

Love : We contribute to society through our creative craftsmanship, which is friendly to both people and the environment. We strive to contribute to society through love for our work, people, country, community and the earth.

Creativity : We aim to create world’s firsts through our finely honed sensitivity and sense of creativity.

Passion : We tackle new challenges with passion and chart our own future course by putting our all into our products and services.

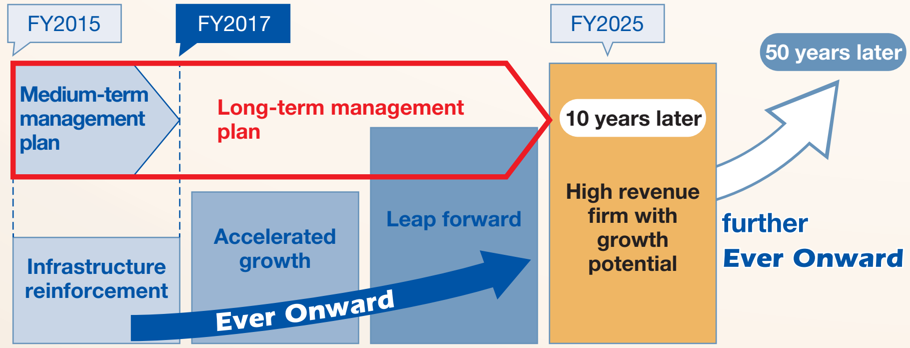
(2) Our vision for where we wish to be in 10 years’ time

Our technology is adopted around the world and becomes the standard for the creation of appealing fashion items.
Our core competencies create a newly expanding and sustainable business domain as a creative, information-based company that values based on innovative ideas for industries other than fashion.

2. Outline of the medium-term management plan

(1) Structure

We consider this medium-term management plan to be the **reinforcing phase** for building the foundations for corporate growth over the next 50 years. We will move forward on companywide management measures by promoting environmentally friendly management and reinforcing our business infrastructure to achieve sustainable growth, while aiming to set new profit records.



(2) Key principles

(i) Contribute to the development of the fashion industry by promoting our total fashion system and changing how knitting items are produced.

(ii) Create new markets by tapping the resources from our core business and providing business solutions that contribute to society.

(iii) Build new business models by returning to our origins and reviewing our current business practices.

(3) Target figures

Our new medium-management plan aims to increase profitability, financial stability and flexibility, preparing us for future investment and higher return to shareholders.

(Unit) Billions of yen	FY 2014 (Consolidated results)		FY 2017 (Consolidated targets)
Net Sales	48.3	▶	70.0
Operating Income	5.7		15.0
Ordinary Income	8.4		15.0
Net Income	3.6		10.0
ROE (%)	3.8%		8.5%

(4) Priority measures

Four priority measures for our growth strategy are outlined below. We will promote the selection and concentration of our management resources in these areas as we work to enhance corporate value.

Strengthening the flat knitting business	▶	We will further strengthen the flat knitting business by increasing customer satisfaction through innovative marketing strategies surrounding WHOLEGARMENT® solutions.
Advancing unique business segments	▶	We will advance our differentiation strategy by creating innovative business models that tap into our unique WHOLEGARMENT® technology. We will also expand flat knitting technology into non-fashion fields and strengthen the automated cutting machine solution business.
Improving the profit structure	▶	We will achieve sustainable revenue growth and strategic cost reduction by reviewing our fundamental business practices and diversifying revenue sources through enhanced after-sale activities and improved operating cash flows.
Reinforcing the management infrastructure	▶	We will reinforce overall management resources, including the recruiting of creative and diverse personnel, and build a management structure with more emphasis on CSR.

(5) Policy on profit return

We make contributions to all the stakeholders through sustainable business development.

We also consider the return of profits to shareholders one of the topmost management priorities. Our fundamental policy is to grow our business from a long-term perspective, increasing dividends steadily and actively as business performance improves.

Special Feature

WHOLEGARMENT®

20 Years of Achievements and Beyond

Pursuing Ideal Knitwear with Cutting-Edge WHOLEGARMENT® Flat Knitting Machines

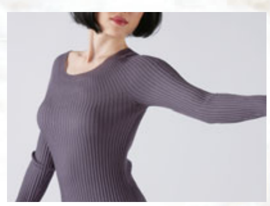
Features 1 “Second Skin” Comfort

Provides second skin-like comfort with no bulky seams and a three-dimensional fit.

Shima Seiki’s proprietorially developed WHOLEGARMENT® flat knitting machines create seamfree three-dimensional WHOLEGARMENT® knitwear that does not require making bodies, sleeves or other parts.

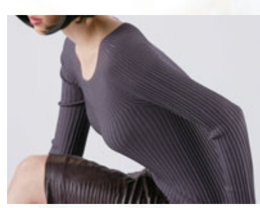
Features 2 Beautiful Silhouette

Drapes beautifully like traditional knitwear with smooth seams to create a luxurious silhouette.



Features 3 Superior Stretch

Seams do not hinder the stretchability this knitwear provides as it expands and contracts smoothly with body movement.



Features 4 Environmentally Friendly

These machines produce complete pieces without cutting loss or seam allowance, which reduces material waste and is environmentally friendly.

WHOLEGARMENT® 20th
Innovation Coming of Age

Innovating WHOLEGARMENT® In Step With Design Systems

2015

MACH2®XS featuring movable full sinkers, which offers enhanced production stability, with the SDS®-ONE APEX3, which utilizes virtual simulation to realize high definition, we are transforming the textile industry into a “creative, information-based industry.”

NEW MACH2®XS & SDS®-ONE APEX3

WHOLEGARMENT®

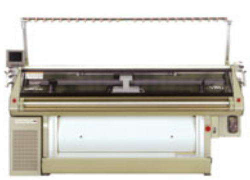
2007

Realized WHOLEGARMENT® flat knitting machines that operate at more than twice the speed of conventional machines

MACH2®X

1999

Equipped with Shima Seiki’s proprietary SlideNeedles mounted on four needle beds



SWG®-X

1995

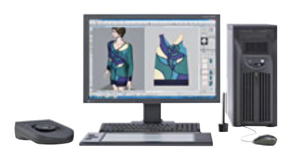
Realized the world’s first seamfree knitwear

SWG®-V

Design System

2012

Significantly strengthened and accelerated three-dimensional simulation function



SDS®-ONE APEX3

2007

Enabled three-dimensional WHOLEGARMENT®

SDS®-ONE APEX

2000

“All-in-One” system concept connecting the entire manufacturing process

SDS®-ONE

Special Feature

WHOLEGARMENT®

20 Years of Achievements and Beyond

Customer Case Study **INOUE CO., LTD.**

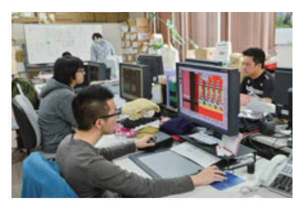
WHOLEGARMENT® Provides an Abundance of Value to Knitwear Manufacturers and Apparel

INOUE CO., LTD., a leading Japanese WHOLEGARMENT® manufacturer, discusses the benefits of using WHOLEGARMENT® flat knitting machines.

The Benefits of WHOLEGARMENT® According to INOUE CO., LTD.

Benefit 1 — Enables salespeople to quickly meet customer needs [Planning and Design]

All INOUE salespeople are able to operate our design system and make proposals with samples of actual knitwear. As it does not require sewing, WHOLEGARMENT® enables us to provide samples quickly and convey our company's insistence on quality, enhancing customer satisfaction.

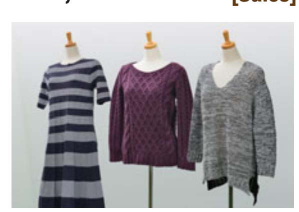


Benefit 2 — Enables additional orders, improving apparel customer profits [Manufacturing]

While there is a demand for knitwear in a wide range of colors, holding an inventory of unpopular colors presents a problem. However, as WHOLEGARMENT® enables the additional manufacturing of necessary items in a short period of time, apparel customers do not miss opportunities to sell popular color items and inventories can be controlled, resulting in higher profits.

Benefit 3 — WHOLEGARMENT® products are light and comfortable, which leads to an increase in repeat customers. [Sales]

Consumers who try WHOLEGARMENT® knitwear, which is light and comfortable without losing shape, ask for more after just one wearing. The highly regarded WHOLEGARMENT® silhouette fosters an increase in repeat customers.



INOUE CO., LTD.

Located in Ota, Gunma Prefecture, INOUE is Japan's largest WHOLEGARMENT® specialized manufacturer. They also handle several famous brands. Their headquarters has more than 5,000 patterns on display, attracting visits from numerous customers.

http://knit-inoue.co.jp/

Going Forward, World-Class WHOLEGARMENT® Knitwear Will Continue to Steadily Expand

We are meeting a variety of customer demands with WHOLEGARMENT®.

As a late entrant to knitwear in the manufacturing district of Ota in Gunma Prefecture, we knew we had to try something different from other companies. We decided to do what no one else was doing at the time, so 20 years ago we introduced WHOLEGARMENT® flat knitting machines. There were many challenges to overcome before we got this business on track, and we hit many obstacles along the way, but we were eventually able to overcome them and move forward.

We adopted the motto of "always looking at things from the customer's perspective." For example, even if a certain type of thread would not fit in the flat knitting machine, we would make every effort to come as close as possible to meeting the demands of the customer. Making use of technologies and expertise accumulated over many long years, we offer proposals by asking "how can we meet customer demands using WHOLEGARMENT®?"

As awareness increases, we expect the market for WHOLEGARMENT® knitwear to expand.

When we introduced our first machine, the new MACH2®XS, it resolved several manufacturing issues as it offered expanded knitting variations, increased stability and was easy to use. For example, we were able to increase the manufacturing capacity of our regular products due to the increased knitting stability of basic products. Previously, it had been difficult to work with hemp and other stiff threads used to sew together cool summer wear. The MACH2®XS made this work much easier.

I think that, as this new MACH2®XS spreads throughout the world and manufacturers discover its benefits, the market for WHOLEGARMENT® knitwear will expand. The MACH2®XS can be considered a new start for Japanese manufacturing, and I hope sales of this product are promoted widely overseas.

Takashi Inoue
President
INOUE CO., LTD.

We will promote WHOLEGARMENT® throughout the world making use of customer feedback.

In November this year, the ITMA 2015 international textile and garment machinery exhibition, known as the "Olympics of Textile Machinery," will be held in Milan, Italy. In addition to proactively conducting new product PR activities ahead of the ITMA exhibition, we will listen carefully to the opinions of INOUE and other users, incorporating their feedback into the promotion of WHOLEGARMENT® innovation throughout the entire world.

MACH2®XS launch ceremony

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

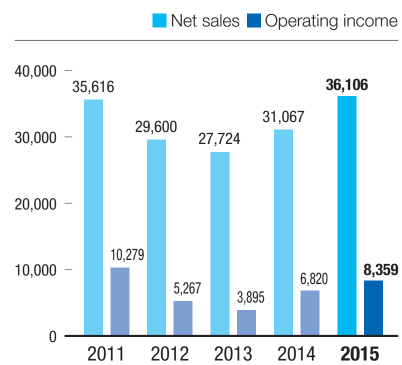
Overview of the Year under Review

In Asia, capital investment rose sharply in Bangladesh as the production base for U.S. and European apparel. Unit sales doubled in Bangladesh, centered on the SSR®, which offers superior cost performance. The shift of production from China to Vietnam, Cambodia, Thailand and other ASEAN countries is accelerating, resulting in significantly higher sales in that region. In the China and Hong Kong markets, domestic demand from the expanding middle class drove capital investment recovery, resulting in higher sales of the SSR® and the higher performance SVR®.

In Europe, sales of the SRY®, which creates fabrics with a woven feel, increased in Italy, the center of the fashion industry. Sales were also solid in the United Kingdom and Spain, maintaining nearly the same levels as in the previous fiscal year. Sales increased in the United States due to expanding domestic production opportunities in an apparel consumer nation with massive potential needs. In Japan, government industry support measures increased the return of production from China, resulting in increased sales, mainly of WHOLEGARMENT® flat knitting machines.

Consequently, sales in the Flat Knitting Machine Segment increased 16.2% during the year, to ¥36,106 million.

Flat Knitting Machine Segment (¥ Million)



(Years ended March 31)

Outlook for the Next Fiscal Year

In Bangladesh, the ASEAN countries and other emerging markets, we will respond to robust demand with the SSR® and focus efforts on after-sales service and proposals based on expertise while working to increase customer satisfaction to differentiate ourselves from competitors and expand sales. In the China and Hong Kong markets, we will continue planning and proposing manufacturing solutions in an effort to expand sales of highly advanced machines. We also aim to recover sales of high-knitting-efficiency SVR® in the Turkish market.

In developed markets, we are positioning the new WHOLEGARMENT® flat knitting machine, the MACH2®XS, as a strategic machine linked to design systems to strengthen local production for local market proposals. In November 2015, we will promote the advanced MACH2®XS to the world at the ITMA 2015 in Milan, Italy. We will focus on a variety of perspectives, including functionality, production, operability and stability, with the aim of placing this machine on a growth track as our core flat knitting machine going forward.

As a result of these initiatives, in the upcoming fiscal year we anticipate sales from the Flat Knitting Machine Segment of ¥38.9 billion, up 7.7% from the year under review.

Design System Segment

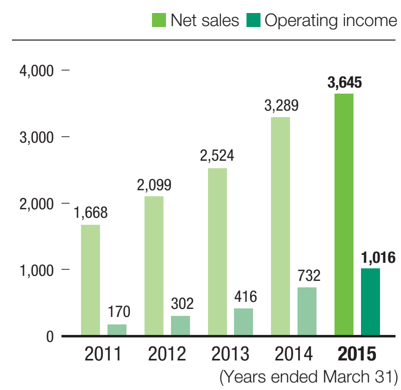
Overview of the Year under Review

Unit sales of the SDS®-ONE APEX3 design system increased in Asia, Europe and throughout the rest of the world. Proactive proposals as a virtual sample creation tool in Japan and overseas led to this system expanding beyond the knitting industry to be adopted in a broad range of categories, including textiles, textile printing and towels, as well as interior items, furniture and sundry goods.

We proactively engaged in P-CAM® automatic fabric cutting machine proposals targeting a wide range of domestic industries, resulting in increased sales to new markets including automotive interiors, furniture, aerospace and industrial materials.

As a result, Design System Segment sales rose 10.8% during the year, to ¥3,645 million.

Design System Segment (¥ Million)



Outlook for the Next Fiscal Year

In the upcoming fiscal year, we anticipate a continued increase in domestic and overseas sales for the SDS®-ONE APEX3, which realizes high-speed and high-definition 3D virtual simulation. We will continue to cultivate new demand through proactive proposal-making activities targeting a variety of sectors.

In terms of the P-CAM® automatic fabric cutting machine, 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 expand sales through ongoing efforts targeting other industries, including automotive, furniture, aerospace and industrial materials.

Through these initiatives, we expect Design System Segment sales to grow 18.2% in the upcoming fiscal year, to ¥4,310 million.

Customer Case Study **INTERIX CO., LTD.**

Using SDS®-ONE APEX3 for Curtain Simulation

INTERIX CO., LTD., which manufactures and sells order-made curtains, uses the SDS®-ONE APEX3 to provide a service enabling customers to “try out” curtains through its mail-order website. Customers select the pattern and curtain material they want to try, upload an image of their room, and with the click of a button, they can confirm whether or not the curtain will be a good match.

INTERIX also uses the SDS®-ONE APEX3 to create catalogs and pamphlets. Changing product images reduces both time required for photo shoots and related costs.

Glove and Sock Knitting Machine Segment

Overview of the Year under Review

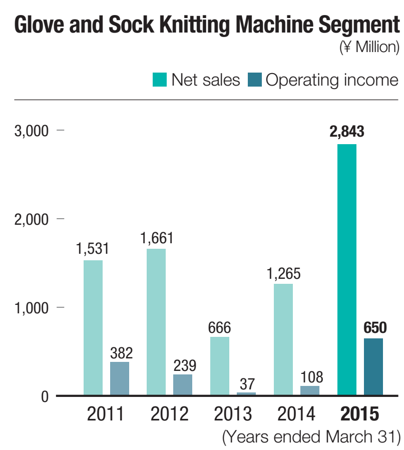
In addition to increased market demand this fiscal year, we reviewed the superiority of our product performance, stability, durability and finished product quality. The reduced price differential caused by favorable conditions in the foreign exchange environment provided a boost that drove higher sales in Japan and overseas.

As a result, sales in this segment soared 124.7%, to ¥2,843 million.

Outlook for the Next Fiscal Year

In the next fiscal year, we will continue to promote the superiority of our products to our customers in Japan and overseas, while moving forward with enhanced sales activities focused on providing customers with comprehensive technical support.

In the upcoming fiscal year, we anticipate sales in the Glove and Sock Knitting Machine Segment of ¥1,990 million, down 30.0%.



Other Business Segment

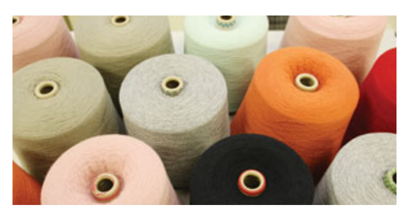
Overview of the Year under Review

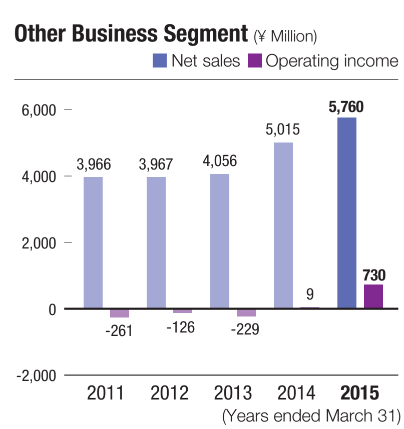
In line with higher unit sales of flat knitting machines, service part sales also increased, causing Other Business Segment sales to grow 14.9%, to ¥5,760 million.

Outlook for the Next Fiscal Year

In the upcoming fiscal year, we will continue to develop the same activities as in the fiscal year under review.

Accordingly, we expect sales to be on a par with the year under review, rising 0.7%, to ¥5,800 million.



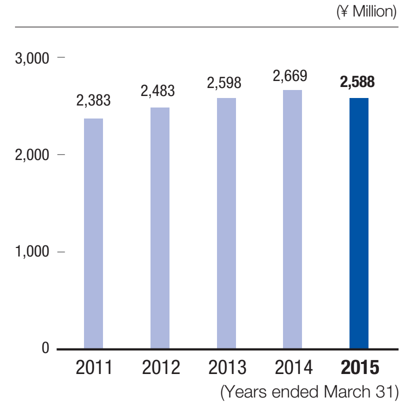


Research and Development Activities

Since our establishment, we have engaged in proprietary development, from substrate designs to software, through the employment of unique technological developments based on creativity.

During the fiscal year under review, we made an effort to expand our existing product lineup and create numerous new products, including the WHOLEGARMENT® flat knitting machine MACH2®XS, featuring the world's first movable full sinkers, and design system SDS®-ONE APEX3, which realizes high-speed, high definition 3D virtual simulations.

R&D Expenditures



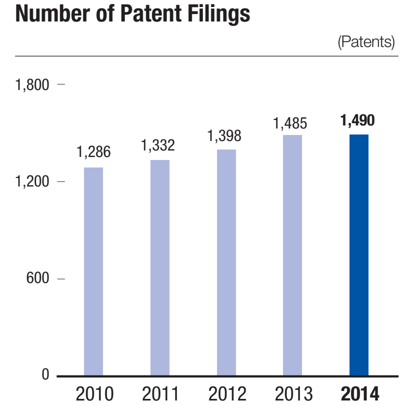
Intellectual Property Activities

We established a system for protecting and leveraging as intellectual property rights our R&D successes, which are the source of our growth potential.

Within our intellectual property strategy, we have acquired patents across a broad range of technologies—not only technical patents on flat knitting machines, but also knitting and design technologies—which are stored in a database, allowing them to be shared throughout the Company.

As of December 2014, Shima Seiki had acquired 1,490 patents worldwide, and in recent years, we have been enhancing intellectual property rights protection, particularly in Asia.

Number of Patent Filings



Environmental Activities

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

In September 2015, we plan on acquiring ISO 14001 certification at our headquarters and factories. In addition to management indicators including reductions of various environmental impacts, factory greening efforts and the promotion of renewable energy usage, we contribute to global environmental conservation through our business, including the provision of environmentally conscious WHOLEGARMENT® flat knitting machines, design systems and other products.

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 11 directors, meets at least once each month to supervise the execution of business. This includes one outside director in an attempt to strengthen the management structure through an external perspective. During the year ended March 31, 2015, the Board of Directors met 16 times.

Corporate Auditors, Board of Corporate Auditors

The Board of Corporate Auditors comprises four corporate auditors, including two outside auditors, and they monitor the execution of duties by directors and audit the appropriateness of management. The advice that outside auditors provide from their specialist backgrounds—one auditor is an attorney and another is a certified public accountant—acts as a check on directors' activities. During the year, the Board of Corporate Auditors met 10 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.

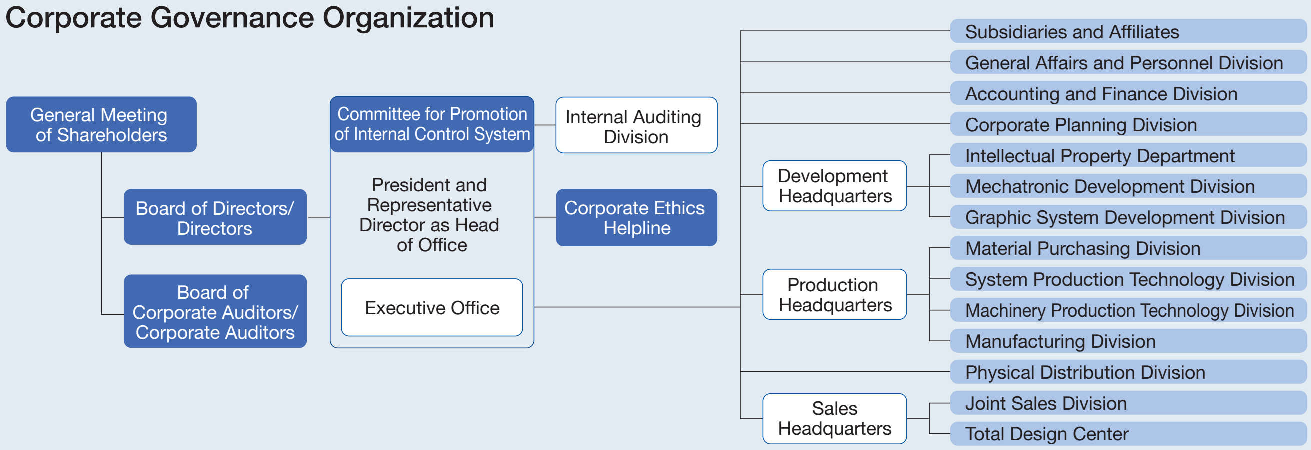
With regard to internal control over financial reporting, as well, we have systems in place to promote fair and impartial disclosure, thereby ensuring the reliability of financial reporting.

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 26, 2015

President

Masahiro Shima

Director of Sales Headquarters

Executive Vice President

Mitsuhiro Shima

Deputy Director of Sales Headquarters, concurrently overseeing Corporate Planning Division

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, 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

Outside Director,
President & CEO,
Ichiryu Associates, Inc.

Corporate Auditor

Mitsunori Ueda

Standing Corporate Auditor

Corporate Auditor

Masao Tanaka

Standing Corporate Auditor

Corporate Auditor

Daisuke Shinkawa

Outside Auditor
Certified Public Accountant and Tax Attorney

Corporate Auditor

Sachiko Nomura

Outside Auditor
Attorney

Introducing Sachiko Nomura, Outside Auditor

In June 2015, Shima Seiki welcomed Sachiko Nomura of the Dojima Law Office as an outside auditor. As an attorney, she possesses a wealth of knowledge and experience in corporate law, and will enhance our governance structure by providing management advice from a legal perspective.

Career Summary

2000	Registered as an attorney
	Joined the Dojima Law Office (up to present)
2010	Adjunct professor of Kinki University Graduate Law School (up to present)
2014	Adjunct professor of Osaka University Graduate School of Law (up to present)

Financial Section

Five-Year Financial Summary

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

	2015	2014	2013	2012	2011	2015
For the Year:			Millions of yen			Thousands of U.S. dollars
Net sales	**¥48,354**	¥40,636	¥34,970	¥37,327	¥42,781	**$402,380**
Cost of sales	**26,488**	23,367	22,758	22,895	23,587	**220,421**
Gross profit	**21,866**	17,269	12,212	14,432	19,194	**181,959**
Selling, general and administrative expenses	**16,121**	14,537	12,721	13,549	13,286	**134,152**
Operating income (loss)	**5,745**	2,732	(509)	883	5,908	**47,807**
Income (loss) before income taxes and minority interests	**7,006**	7,230	3,363	(537)	1,092	**58,301**
Net income (loss)	**3,646**	4,863	1,754	(642)	770	**30,340**
Net cash provided by (used in) operating activities	**(1,957)**	(2,401)	3,614	(2,094)	3,504	**(16,285)**
Net cash provided by (used in) investing activities	**2,288**	(367)	(3,218)	532	(1,834)	**19,040**
Net cash provided by (used in) financing activities	**(1,966)**	(1,597)	227	(1,929)	1,297	**(16,360)**
Capital investment	**2,108**	1,360	934	2,275	1,587	**17,542**
Depreciation and amortization	**1,614**	1,594	1,661	1,809	1,696	**13,431**
Research and development expenses	**2,588**	2,669	2,598	2,483	2,383	**21,536**
At Year-End:			Millions of yen			Thousands of U.S. dollars
Total assets	**¥126,987**	¥119,727	¥112,089	¥106,863	¥113,951	**$1,056,728**
Net assets	**98,179**	93,222	87,382	84,167	86,591	**817,001**
Per Share Data:			Yen			U.S. dollars
Net income (loss)	**¥106.54**	¥142.13	¥51.26	¥(18.60)	¥22.26	**$0.89**
Cash dividends applicable to the year	**32.50**	32.50	25.00	40.00	35.00	**0.27**
Net assets	**2,863.49**	2,718.57	2,547.88	2,454.07	2,502.27	**23.83**
Ratios:			%			
Ratio of operating income to net sales	**11.9%**	6.7%	(1.5)%	2.4%	13.8%	
ROA	**3.0**	4.2	1.6	(0.6)	0.7	
ROE	**3.8**	5.4	2.0	(0.8)	0.8	
Equity ratio	**77.2**	77.7	77.8	78.6	75.9	

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥120.17=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2015.

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

In terms of economic trends during the consolidated fiscal year under review, employment environment and corporate performance improvements in the United States drove a mild recovery, spurring increased individual consumption. The pace was slower in Europe, where developing economy growth was sluggish overall. In Japan, the economy bounced back from the consumption tax hike slump, continuing its gradual recovery on improved corporate earnings and increased capital investment.

Amid these conditions, the Shima Seiki Group made an effort to respond swiftly to the diverse needs of customers in Japan and overseas by developing and selling products that contribute to higher levels of productivity and high-quality manufacturing.

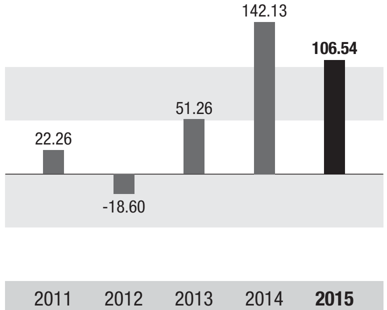
Looking at sales conditions in the year under review, as in the previous fiscal year, sales in our core computerized Flat Knitting Machine Segment expanded mainly in Asian markets. In the Design System Segment, sales expanded in areas other than apparel, while Glove and Sock Knitting Machine Segment sales rebounded significantly. As in all other business segments, year-on-year sales also expanded in the Other Business Segment.

As a result, the Company posted consolidated net sales of ¥48,354 million for the fiscal year ended March 31, 2015, up 19.0% from the preceding fiscal year.

Profits skyrocketed on unit sales growth, the favorable impact of exchange rates leading to an increase in yen-converted sales prices and the effect of increased production, resulting in operating income of ¥5,745 million, up 110.3% from the preceding fiscal year. Despite a non-operating foreign exchange gain of ¥2,555 million, we also recorded an extraordinary loss of ¥1,274 million, a provision for the allowance for doubtful accounts related to a customer in Indonesia, resulting in net income of ¥3,646 million, down 25.0% from the preceding fiscal year.

Shima Seiki treats the return of profits to shareholders as a priority management issue. With regard to profit distribution, the Company strives to maintain long-term stable dividends, taking into account business performance during the year, forecasts for future profits and business expansion for the future, as it works to raise stock value per share. During the year, consolidated earnings per share declined from ¥142.13 in the preceding term to ¥106.54 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

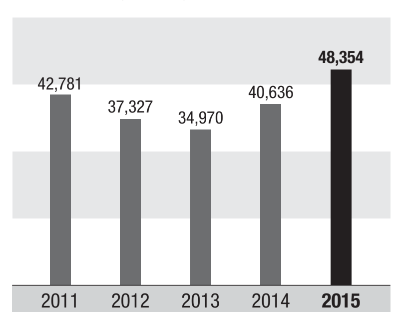
In the fiscal year ended March 31, 2015, consolidated net sales amounted to ¥48,354 million, up 19.0% from the preceding fiscal year.

In the Flat Knitting Machine Segment, our core business, rising labor costs in China led to the heightened presence of ASEAN countries and Bangladesh as manufacturing bases for global fast fashion apparel. In these regions, computerized flat knitting machines offering high manufacturing efficiency are being rapidly introduced to handle quick-turnaround orders of mass-merchandised products bound for developed markets. As a result, there has been a significant expansion in the sales of the SSR®, which provides superior cost performance, and the SVR®, which enables high-speed knitting. In addition, computerized flat knitting machine upgrades in the China market aimed at increasing manufacturing efficiency and quality to regain competitive advantage have led to a recovery in flat knitting machine sales. At the same time, in the Middle East, capital investment in Turkey focused on computerized flat knitting machines. Although having expanded rapidly in the past several years, this investment now appears to be slowing down.

In developed markets, flagging WHOLEGARMENT® flat knitting machine sales in Italy have been reinvigorated with the introduction of the SRY®, which creates fabrics with an unprecedented woven feel. Sales also increased in the United Kingdom and Spain, as overall sales in Europe remained at nearly the same level as the previous fiscal year. In the United States, where the trend toward domestic manufacturing is gaining momentum, despite low volumes, sales of computerized flat knitting machines, including WHOLEGARMENT® flat knitting machines, increased.

In the domestic market, sales were nearly the same level as the previous fiscal year, led mainly by WHOLEGARMENT® flat knitting machines.

Net sales (¥ Million)



As a result of these trends, sales in the Flat Knitting Machine Segment grew 16.2%, to ¥36,106 million.

In the Design System Segment, Shima Seiki worked aggressively at proposal-based marketing in Japan and overseas targeting users in a wide range of industries. As a result, the SDS®-ONE APEX3 is now used in the knitting industry as well as for textiles, textile printing, towels, interior items, furniture and sundry goods.

Sales of P-CAM® automatic fabric cutting machines increased as a result of expanding sales channels to non-apparel industries, including automotive interiors, furniture, aerospace and industrial materials. These efforts resulted in Design System Segment sales of ¥3,645 million, up 10.8% year on year.

In the Glove and Sock Knitting Machine Segment, demand increased amid renewed recognition of the superiority of our product performance, stability, durability and finished product quality, causing sales in this segment to soar 124.7%, to ¥2,843 million.

In the Other Business Segment, service part sales increased causing sales to grow 14.9%, to ¥5,760 million.

Overall, overseas net sales grew 19.7%, to ¥40,665 million, accounting for 84.1% of net sales during the year, a 0.5-percentage-point increase from the previous year. By geographical region, 60.5% of net sales were conducted in Asia (compared with 48.3% during the previous year), 15.2% in Europe (17.7%), 3.9% in the Middle East (13.4%) and 4.5% in other areas (4.2%), indicating the rising percentage of sales in Asia, but a shrinking percentage of sales in the Middle East.

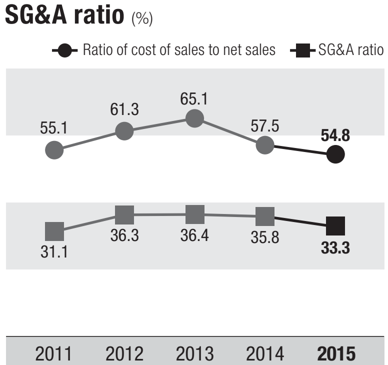
In the Japanese market, domestic net sales grew 15.3%, to ¥7,690 million, attributable to production shifting away from China due to exchange rate improvement in the Flat Knitting Machine Segment and robust sales in the Design System Segment.

Cost of Sales and SG&A Expenses

Higher flat knitting machine unit sales, increased unit production and improved yen-converted sales prices due to the favorable exchange rate caused the gross profit ratio to rise. Cost of sales came to ¥26,488 million, and as a result gross profit grew 26.6%, to ¥21,866 million. The gross profit ratio rose 2.7 percentage points year on year, to 45.2%.

Selling, general and administrative (SG&A) expenses increased 10.9% year on year, to ¥16,121 million, owing to higher labor costs in line with staff increases and rising sales commissions. The SG&A ratio declined 2.5 percentage points year on year, to 33.3%.

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



Operating Income

Gross profit ratio improvement led by improved yen-converted sales prices due to the favorable exchange rate and the effects of increased production drove the rapid recovery of operating income, which shot up 110.3%, to ¥5,745 million.

By business segment, operating income in the Flat Knitting Machine Segment came to ¥8,359 million, up 22.6% year on year; ¥1,016 million in the Design System Segment, up 38.8%; ¥650 million in the Glove and Sock Knitting Machine Segment, up 500.2%; and ¥730 million in the Other Business Segment, about 80 times higher compared to the previous term.

Other Income and Expenses

Although other income exceeded other expenses, net other income fell 72.0% compared to the previous term, to ¥1,261 million. This was because, despite foreign exchange gains of ¥2,555 million on the valuation of receivables denominated in foreign currencies due to correction of the high yen, we recorded an extraordinary loss of ¥1,274 million on provision for the allowance for doubtful accounts related to a customer in Indonesia.

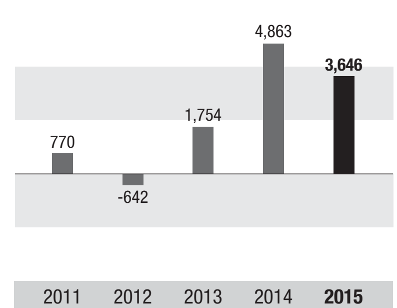
Net Income

Income before income taxes and minority interests was ¥7,006 million, compared to ¥7,230 million in the previous year.

Corporate income, residential and enterprise taxes totaled ¥2,926 million, representing an increase of ¥498 million from a year earlier. Corporate income tax adjustments for the period under review were ¥433 million, compared with a negative ¥62 million in the previous year. As a result, the Company's tax burden after the application of tax effect accounting increased ¥993 million, to ¥3,359 million.

Owing to the above factors, consolidated net income for the Shima Seiki Group during the fiscal year under review came to ¥3,646 million, a 25.0% decline compared to the preceding fiscal term.

Net income (¥ Million)



Liquidity and Capital Resources

Cash and cash equivalents were ¥13,164 million as of March 31, 2015, down ¥655 million from one year earlier. Net cash used in operating activities was ¥1,957 million, compared with ¥2,401 million used in this category in the preceding fiscal year. Uses of cash included an increase in trade receivables of ¥9,506 million, compared to ¥6,172 million in the previous fiscal year, while the principal source of cash was income before income taxes and minority interests of ¥7,006 million.

Net cash provided by investing activities amounted to ¥2,288 million, compared with ¥367 million used in these activities in the preceding fiscal year. Sources of cash include ¥1,539 million in proceeds from the disposal of investments in securities, while the main use of cash was purchases of property, plant and equipment totaling ¥1,028 million.

Net cash used in financing activities was ¥1,966 million, whereas these activities used ¥1,597 million in the preceding term. The main use of cash in this category was for the payment of dividends, which amounted to ¥1,111 million during the year under review, compared with ¥1,026 million in the previous year.

The Shima Seiki Group's funding activities combine various procurement methods, including cash flows from operating activities and loans from financial institutions, in an effort to secure low-cost, stable capital in response to uses of funds required to pursue the Group's objectives. At fiscal year-end, the equity ratio and current ratio, indicators of a company's margin of safety, were 77.2% and 439.4%, respectively, implying an extremely good financial position.

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

Assets, Liabilities and Net Assets

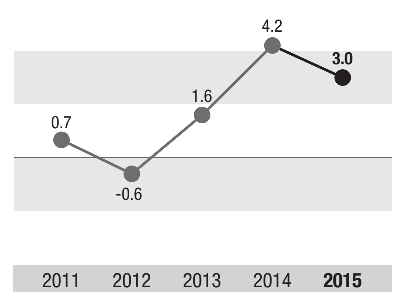
Consolidated total assets as of March 31, 2015, were ¥126,987 million, up ¥7,260 million from a year earlier. In terms of short-term assets and liabilities, current assets rose 9.7%, or ¥7,807 million, to ¥88,104 million. Major reasons for these changes were a ¥9,614 million increase in trade accounts and notes receivable and a ¥1,491 million decline in cash and time deposits. Current liabilities, meanwhile, grew 8.3%, or ¥1,536 million, to ¥20,051 million. This was primarily due to a ¥2,094 million increase in trade accounts and notes payable.

With regard to long-term assets and liabilities, long-term assets decreased ¥547 million, or 1.4%, to ¥38,883 million, largely due to a reduction in investments in securities. Long-term liabilities, on the other hand, rose ¥767 million, or 9.6%, to ¥8,757 million.

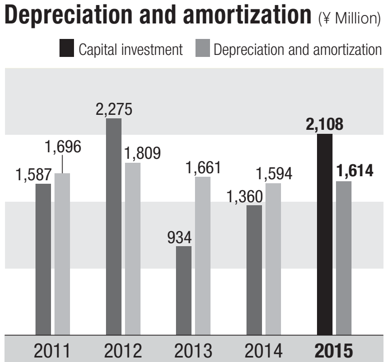
Net assets expanded ¥4,957 million, or 5.3%, to ¥98,179 million, owing principally to higher retained earnings. As a result, the shareholders' equity ratio slipped 0.5 percentage point from the preceding year-end, to 77.2%.

Return on assets declined from 4.2% to 3.0%. Return on equity also declined, from 5.4% to 3.8%.

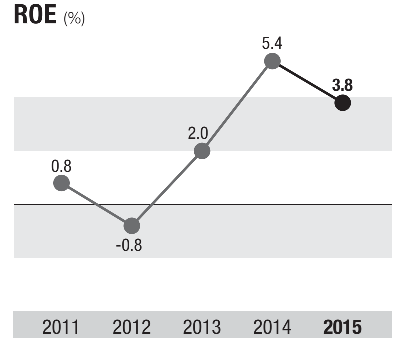
ROA (%)



Capital investment / Depreciation and amortization (¥ Million)



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 strives to prevent the manifestation 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, 2015.

(1) Risks of dependency on particular overseas markets

Overseas sales account for around 85% of the Group's total sales, with sales to the Asian market, including China, Bangladesh and ASEAN countries, accounting for over one-half 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

As the Group sells products worldwide, some transactions are conducted in currencies other than yen. Although the Group employs forward exchange contracts and other hedges to minimize foreign exchange risks, 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 can 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, could cause the extended suspension of production. In addition, the Group's performance and financial position could be affected by disruptions in the steady supply of electricity, which could hamper the Group's ability to meet its production plans.

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

The Group's deployment of business encompasses not only Japan but spans the entire world. Therefore, the areas where the Group conducts business pose the following inherent risks that could affect the performance and financial position of the Group.

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

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

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

Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
ASSETS			
Current assets:			
Cash and time deposits (Note 3, 4)	¥14,512	¥16,003	$120,762
Short-term investments in securities (Note 4, 5)	61	71	508
Trade notes and accounts receivable (Note 4)	52,578	42,964	437,530
Inventories (Note 6)	18,677	19,591	155,422
Deferred tax assets (Note 12)	1,453	1,584	12,091
Prepaid expenses and other current assets	2,119	1,385	17,633
Less: allowance for doubtful accounts	(1,296)	(1,301)	(10,785)
Total current assets	88,104	80,297	733,161
Investments and other assets:			
Investments in unconsolidated subsidiaries (Note 4)	130	259	1,082
Investments in securities (Note 4, 5)	7,648	8,199	63,643
Net defined benefit assets (Note 9)	650	785	5,409
Deferred tax assets (Note 12)	317	523	2,638
Goodwill	5,041	4,762	41,949
Other	8,752	6,340	72,830
Less: allowance for doubtful accounts	(3,669)	(1,315)	(30,532)
Total investments and other assets	18,869	19,553	157,019
Property, plant and equipment:			
Land	10,892	10,879	90,638
Buildings and structures	23,799	23,162	198,044
Machinery and equipment	5,807	5,720	48,323
Tools, furniture and fixtures	7,210	6,989	59,998
Leased assets	3,158	2,681	26,280
Construction in progress	14	44	117
	50,880	49,475	423,400
Less: accumulated depreciation	(30,866)	(29,598)	(256,852)
Property, plant and equipment, net	20,014	19,877	166,548
Total assets	¥126,987	¥119,727	$1,056,728

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 4, 8)	**¥6,251**	¥6,696	**$52,018**
Lease obligation	**416**	424	**3,462**
Trade notes and accounts payable (Note 4)	**6,384**	4,290	**53,125**
Accrued expenses	**1,209**	1,213	**10,060**
Accrued income taxes	**1,860**	2,311	**15,478**
Other current liabilities	**3,931**	3,581	**32,712**
Total current liabilities	**20,051**	18,515	**166,855**
Long-term liabilities:			
Long-term debt, less current portion (Note 4, 8)	**5,000**	5,000	**41,608**
Long-term accounts payable	**1,087**	1,084	**9,046**
Lease obligation	**1,072**	997	**8,921**
Deferred tax liabilities for land revaluation (Note 7)	**25**	29	**208**
Net defined benefit liability (Note 9)	**1,068**	526	**8,887**
Other long-term liabilities	**505**	354	**4,202**
Total long-term liabilities	**8,757**	7,990	**72,872**
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2015 — 36,600,000 shares			
2014 — 36,600,000 shares	**14,860**	14,860	**123,658**
Capital surplus	**21,724**	21,724	**180,778**
Retained earnings	**72,976**	71,158	**607,273**
Treasury stock, at cost			
2015 — 2,381,276 shares			
2014 — 2,380,089 shares	**(6,907)**	(6,904)	**(57,477)**
Total shareholders' equity	**102,653**	100,838	**854,232**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	**836**	329	**6,957**
Land revaluation difference (Note 7)	**(7,005)**	(7,351)	**(58,293)**
Foreign currency translation adjustments	**1,312**	(1,139)	**10,918**
Remeasurements of defined benefit plans	**189**	352	**1,573**
Total accumulated other comprehensive income	**(4,668)**	(7,809)	**(38,845)**
Subscription rights to share (Note 14)	**180**	180	**1,497**
Minority interests in consolidated subsidiaries	**14**	13	**117**
Total net assets	**98,179**	93,222	**817,001**
Total liabilities and net assets	**¥126,987**	¥119,727	**$1,056,728**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Net sales	**¥48,354**	¥40,636	**$402,380**
Cost of sales	**26,488**	23,367	**220,421**
Gross profit	**21,866**	17,269	**181,959**
Selling, general and administrative expenses (Note 13)	**16,121**	14,537	**134,152**
Operating income	**5,745**	2,732	**47,807**
Other income (expenses):			
Interest and dividend income	**515**	505	**4,286**
Interest expense	**(132)**	(87)	**(1,098)**
Foreign exchange gains	**2,555**	4,209	**21,262**
Provision of allowance for doubtful accounts	**(1,414)**	(97)	**(11,767)**
Other, net	**(263)**	(32)	**(2,189)**
Income before income taxes and minority interests	**7,006**	7,230	**58,301**
Income taxes (Note 12)**:**			
Current	**2,926**	2,428	**24,349**
Deferred	**433**	(62)	**3,604**
	3,359	2,366	**27,953**
Income before minority interests	**3,647**	4,864	**30,348**
Minority interests in gain of consolidated subsidiaries	**1**	1	**8**
Net income	**¥3,646**	¥4,863	**$30,340**

	Yen		U.S. dollars
Per share:			
Net income	**¥106.54**	¥142.13	**$0.89**
Cash dividends applicable to the year	**32.50**	32.50	**0.27**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Income before minority interests	**¥3,647**	¥4,864	**$30,348**
Other comprehensive income (Note 15)**:**			
Net unrealized holding gain on securities	**507**	69	**4,219**
Land revaluation difference	**2**	—	**16**
Foreign currency translation adjustments	**2,451**	1,582	**20,396**
Remeasurements of defined benefit plans	**(163)**	—	**(1,356)**
Total other comprehensive income	**2,797**	1,651	**23,275**
Comprehensive income	**¥6,444**	¥6,515	**$53,623**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	**¥6,443**	¥6,514	**$53,615**
Comprehensive income attributable to minority interests	**1**	1	**8**

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, 2015 and 2014

	Thousands	Millions of yen										
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets
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)
Reversal of land revaluation difference	—	—	—	—	—	—	—	—	—	—	—	—
Disposal of treasury stock	—	—	—	(1)	6	—	—	—	—	—	—	5
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
Cumulative effects of changes in accounting policies	**—**	**—**	**—**	**(372)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(372)**
Net income	**—**	**—**	**—**	**3,646**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,646**
Cash dividends	**—**	**—**	**—**	**(1,112)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,112)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(3)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**
Reversal of land revaluation difference	**—**	**—**	**—**	**(344)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(344)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other changes, net	**—**	**—**	**—**	**—**	**—**	**507**	**346**	**2,451**	**(163)**	**—**	**1**	**3,142**
Balance at March 31 , 2015	**36,600**	**¥14,860**	**¥21,724**	**¥72,976**	**¥(6,907)**	**¥836**	**¥(7,005)**	**¥1,312**	**¥189**	**¥180**	**¥14**	**¥98,179**

	Thousands of U.S. dollars										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31 , 2014	$123,658	$180,778	$592,144	$(57,452)	$2,738	$(61,172)	$(9,478)	$2,929	$1,497	$109	$775,751
Cumulative effects of changes in accounting policies	**—**	**—**	**(3,095)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,095)**
Net income	**—**	**—**	**30,340**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**30,340**
Cash dividends	**—**	**—**	**(9,253)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(9,253)**
Purchases of treasury stock	**—**	**—**	**—**	**(25)**	**—**	**—**	**—**	**—**	**—**	**—**	**(25)**
Reversal of land revaluation difference	**—**	**—**	**(2,863)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,863)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other changes, net	**—**	**—**	**—**	**—**	**4,219**	**2,879**	**20,396**	**(1,356)**	**—**	**8**	**26,146**
Balance at March 31 , 2015	**$123,658**	**$180,778**	**$607,273**	**$(57,477)**	**$6,957**	**$(58,293)**	**$10,918**	**$1,573**	**$1,497**	**$117**	**$817,001**

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥7,006**	¥7,230	**$58,301**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	**1,614**	1,594	**13,431**
Amortization of goodwill	**416**	374	**3,462**
Increase in allowance for doubtful accounts	**2,183**	529	**18,166**
Decrease in net defined benefit liability	**(161)**	(149)	**(1,340)**
Decrease in provision for directors' retirement benefits	**—**	(1,065)	**—**
Interest and dividend income	**(515)**	(505)	**(4,286)**
Interest expense	**132**	87	**1,098**
Foreign exchange gain	**(2,564)**	(2,008)	**(21,336)**
Loss on sales and disposal of property, plant and equipment, net	**(6)**	31	**(50)**
Impairment loss	**104**	91	**865**
Loss on valuation of derivatives	**141**	58	**1,173**
Increase in trade receivables	**(9,506)**	(6,172)	**(79,105)**
Decrease (increase) in inventories	**1,398**	(60)	**11,634**
Decrease (increase) in trade payables	**1,580**	(3,684)	**13,148**
Other	**(737)**	1,414	**(6,132)**
Subtotal	**1,085**	(2,235)	**9,029**
Interest and dividend income received	**490**	488	**4,078**
Interest expense paid	**(167)**	(87)	**(1,390)**
Income taxes paid	**(3,365)**	(567)	**(28,002)**
Net cash used in operating activities	**(1,957)**	(2,401)	**(16,285)**
Cash flows from investing activities:			
Decrease in time deposits, net	**2,477**	1,585	**20,612**
Purchases of short-term investments	**—**	(200)	**—**
Proceeds from sales and redemption of short-term investments	**—**	700	**—**
Purchases of property, plant and equipment	**(1,028)**	(681)	**(8,554)**
Proceeds from sales of property, plant and equipment	**84**	14	**699**
Purchases of investments in securities	**(205)**	(1,006)	**(1,706)**
Proceeds from sales and redemption of investments in securities	**1,539**	—	**12,807**
Acquisition of subsidiaries and affiliated companies	**—**	(71)	**—**
Payment of long-term loans receivable	**(500)**	(380)	**(4,161)**
Other	**(79)**	(328)	**(657)**
Net cash provided by (used in) investing activities	**2,288**	(367)	**19,040**
Cash flows from financing activities:			
Decrease in short-term borrowings, net	**(443)**	(208)	**(3,686)**
Repayment of finance lease obligations	**(410)**	(363)	**(3,412)**
Purchases of treasury stock	**(2)**	(5)	**(17)**
Proceeds from sales of treasury stock	**—**	5	**—**
Cash dividends paid	**(1,111)**	(1,026)	**(9,245)**
Net cash used in financing activities	**(1,966)**	(1,597)	**(16,360)**
Effect of exchange rate changes on cash and cash equivalents	**980**	1,536	**8,155**
Net decrease in cash and cash equivalents	**(655)**	(2,829)	**(5,450)**
Cash and cash equivalents at beginning of year	**13,819**	16,648	**114,995**
Cash and cash equivalents at end of year	**¥13,164**	¥13,819	**$109,545**

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, 2015, which was ¥120.17 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 primarily amortized on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

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

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

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

(l) Derivatives and hedging activities

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

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

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

(m) Per share information

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

Diluted net income per share is not presented for the year ended March 31, 2015 and 2014 since there are no residual securities with dilutive effect upon exercise into common stock.

(Changes in accounting policy)

Effective from the current consolidated fiscal year, the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued on May 17, 2012; hereinafter, the “Retirement Benefits Accounting Standard”) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued on March 26, 2015; hereinafter, “Retirement Benefits Guidance”) have been applied with regard to the rules provided in paragraph 35 of the Retirement Benefits Accounting Standard and in paragraph 67 of the Retirement Benefits Guidance. The Companies reviewed the calculation methods for retirement benefit obligations and service costs, and changed the method of determining the discount rate from the use of a single discount rate to the use of a single weighted average discount rate.

In accordance with transitional accounting as provided in paragraph 37 of the Retirement Benefits Accounting Standard, the effects of the changes in calculation methods for retirement benefit obligations and service costs have been reflected in retained earnings as of the beginning of the fiscal year ended March 31, 2015.

As a result, net defined benefit liability decreased by ¥539 million ($4,485 thousand), net defined benefit assets increased by ¥38 million ($316 thousand) , and retained earnings decreased by ¥372 million ($3,096 thousand) as of the beginning of the fiscal year ended March 31, 2015. The impact of the above changes on profit and loss for the consolidated fiscal year under review was immaterial.

The effect of the above changes on per share information for the consolidated fiscal year ended March 31, 2015 was also immaterial.

3. Cash and deposits

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in cash and cash deposits in the consolidated balance sheets as of March 31, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cash and time deposits	**¥14,512**	¥16,003	**$120,762**
Time deposits with an original maturity in excess of three months included in cash and deposits	**(1,348)**	(2,184)	**(11,217)**
Cash and cash equivalents at end of year	**¥13,164**	¥13,819	**$109,545**

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		
	2015		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	**¥14,512**	**¥14,512**	**—**
<2> Trade notes and accounts receivable	**52,578**	**—**	**—**
Less: allowance for doubtful accounts *1	**(1,277)**	**—**	**—**
	51,301	**51,280**	**¥(21)**
<3> Short-term investments in securities, investments in securities	**6,265**	**6,265**	**—**
<4> Trade notes and accounts payable	**6,384**	**6,384**	**—**
<5> Short-term borrowings	**6,251**	**6,251**	**—**
<6> Long-term debt including long-term borrowings due within one year	**5,000**	**5,005**	**5**
<7> Derivative instruments *2	**(353)**	**(353)**	**—**

	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)	—

	Thousands of U.S. dollars		
	2015		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	**$120,762**	**$120,762**	**—**
<2> Trade notes and accounts receivable	**437,530**	**—**	**—**
Less: allowance for doubtful accounts *1	**(10,626)**	**—**	**—**
	426,904	**426,729**	**$(175)**
<3> Short-term investments in securities, investments in securities	**52,134**	**52,134**	**—**
<4> Trade notes and accounts payable	**53,125**	**53,125**	**—**
<5> Short-term borrowings	**52,018**	**52,018**	**—**
<6> Long-term debt including long-term borrowings due within one year	**41,608**	**41,649**	**41**
<7> Derivative instruments *2	**(2,938)**	**(2,938)**	**—**

*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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Unlisted equity bonds	**¥200**	¥200	**$1,664**
Unlisted equity securities	**1,182**	1,232	**9,836**
Shares of subsidiaries and affiliates	**87**	218	**724**
Investment in limited partnership	**61**	74	**508**

(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2015 and 2014

	Millions of yen			
(As of March 31, 2015)	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	**¥14,512**	**—**	**—**	**—**
Trade notes and accounts receivable	**27,735**	**¥24,782**	**¥61**	**—**
Investment securities				
Held-to-maturity securities				
– Bonds	**—**	**—**	**200**	**—**
Available-for-sale securities with maturity				
– Bonds	**—**	**998**	**—**	**—**
– Other investments	**60**	**38**	**—**	**—**
Total	**¥42,307**	**¥25,818**	**¥261**	**—**

	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 maturity				
– Bonds	—	998	—	—
– Other investments	71	90	—	—
Total	¥44,022	¥16,035	¥269	—

(As of March 31, 2015)	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	**$120,762**	**—**	**—**	**—**
Trade notes and accounts receivable	**230,798**	**$206,225**	**$508**	**—**
Investment securities				
Held-to-maturity securities				
– Bonds	**—**	**—**	**1,664**	**—**
Available-for-sale securities with maturit				
– Bonds	**—**	**8,305**	**—**	**—**
– Other investments	**499**	**316**	**—**	**—**
Total	**$352,059**	**$214,846**	**$2,172**	**—**

5. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2015 and 2014 were as follows:

	Millions of yen 2015 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	**¥2,471**	**¥3,617**	**¥1,146**
Bonds	**—**	**—**	**—**
Other	**719**	**837**	**118**
Subtotal	**¥3,190**	**¥4,454**	**¥1,264**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**¥6**	**¥6**	**¥(0)**
Bonds	**1,000**	**998**	**(2)**
Other	**834**	**808**	**(26)**
Subtotal	**¥1,840**	**¥1,812**	**¥(28)**
Total	**¥5,030**	**¥6,266**	**¥1,236**

	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

	Thousands of U.S. dollars 2015 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	**$20,563**	**$30,099**	**$9,536**
Bonds	**—**	**—**	**—**
Other	**5,983**	**6,965**	**982**
Subtotal	**$26,546**	**$37,064**	**$10,518**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**$50**	**$50**	**$(0)**
Bonds	**8,322**	**8,305**	**(17)**
Other	**6,940**	**6,724**	**(216)**
Subtotal	**$15,312**	**$15,079**	**$(233)**
Total	**$41,858**	**$52,143**	**$10,285**

Other securities without quoted market prices at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2015	2014	**2015**
Held-to-maturity securities	**¥200**	¥200	**$1,664**
Other securities	**1,243**	1,306	**10,344**
	¥1,443	¥1,506	**$12,008**

6. Inventories

Inventories at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Finished goods	**¥10,225**	¥11,687	**$85,088**
Work in process	**930**	838	**7,739**
Raw materials	**7,283**	6,810	**60,606**
Supplies and others	**239**	256	**1,989**
	¥18,677	¥19,591	**$155,422**

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 ¥4,757 million ($39,586 thousand) and ¥4,798 million at March 31, 2015 and 2014, respectively.

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2015 and 2014 were as follows:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Average rate of 0.25% unsecured loans from banks	¥6,251	¥6,696	$52,018

Long-term debt at March 31, 2015 and 2014 were as follows:

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Average rate of 0.55% unsecured loans from banks	¥5,000	¥5,000	$41,608
Less current portion	(—)	(—)	(—)
	¥5,000	¥5,000	$41,608

The aggregate annual maturities of long-term debt at March 31, 2015 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2016	—	—
2017	—	—
2018	¥5,000	$41,608
2019	—	—
Thereafter	—	—
Total	¥5,000	$41,608

9. Retirement benefits

Retirement benefits at March 31, 2015 and 2014 consisted of the following:

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

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

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

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

Defined benefit plans, including a plan applying a simplified method

(1) Movement in retirement benefit obligations

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Balance, beginning of year	¥4,908	¥4,961	$40,842
Cumulative effects of changes in accounting policies	576	—	4,793
Restated balance	5,484	4,961	45,635
Service cost	302	273	2,513
Interest cost	54	97	449
Actuarial loss (gain)	493	(94)	4,103
Benefit paid	(271)	(329)	(2,255)
Balance, end of year	¥6,062	¥4,908	$50,445

(2) Movement in plan assets

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Balance, beginning of year	¥5,167	¥4,857	$42,997
Expected return on plan assets	59	56	491
Actuarial loss (gain)	283	178	2,355
Contributions paid by the employer	321	326	2,671
Benefit paid	(187)	(250)	(1,556)
Balance, end of year	¥5,643	¥5,167	$46,958

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

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Funded retirement benefit obligations	¥4,993	¥4,382	$41,549
Plan assets	(5,643)	(5,167)	(46,958)
	(650)	(785)	(5,409)
Unfunded retirement benefit obligations	1,068	526	8,887
Total net liability (asset) for retirement benefits, end of year	418	(259)	3,478
Net defined benefit liability	1,068	526	8,887
Net defined benefit assets	(650)	(785)	(5,409)
Total net liability (asset) for retirement benefits, end of year	¥418	¥(259)	$3,478

(4) Retirement benefit costs

	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Service cost	¥302	¥273	$2,513
Interest cost	54	97	449
Expected return on plan assets	(59)	(56)	(491)
Net actuarial loss amortization	(58)	(49)	(483)
Past service costs amortization	0	1	0
Total retirement benefits costs	¥239	¥266	$1,988

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Past service costs	**¥0**	—	**$0**
Actuarial gains and losses	**(266)**	—	**2,214**
Total balance, end of year	**¥(266)**	—	**$2,214**

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Past service costs that are yet to be recognized	**¥(3)**	¥(4)	**$(25)**
Actuarial gains and losses that are yet to be recognized	**281**	548	**2,338**
Total balance, end of year	**¥278**	¥544	**$2,313**

(7) Plan assets

<1> Plan assets at March 31, 2015 comprise:

Equity securities	18%
Bonds	11%
Insurance assets (General account)	70%
Other	1%
Total	100%

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

<2> Long-term expected rate of return

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

(8) Actuarial assumptions

The principal actuarial assumption at March 31, 2015 (expressed as weighted averages) are as follows:

Discount rate	1.00%
Long-term expected rate of return	1.15%
Rate of increase in future compensation	1.84%

10. Contingent liabilities

Contingent liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Guarantees of customers' loans and lease obligations	**¥1,170**	¥1,410	**$9,736**

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, 2015 are as follows:

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

	Millions of yen			
	2015			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Capital-safe deposit including derivative instrument	**¥1,502**	**¥901**	**¥(320)**	**¥(320)**
Foreign exchange contract call JP¥	**1,722**	**—**	**(33)**	**(33)**
Total	**¥3,224**	**¥901**	**¥(353)**	**¥(353)**

	Thousands of U.S. dollars			
	2015			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Capital-safe deposit including derivative instrument	**$12,499**	**$7,498**	**$(2,663)**	**$(2,663)**
Foreign exchange contract call JP¥	**14,330**	**—**	**(275)**	**(275)**
Total	**$26,829**	**$7,498**	**$(2,938)**	**$(2,938)**

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

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen 2015 Contract amount Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts:				
Put US$	**¥10,064**	**¥3,912**		
EUR	**5,470**	**1,925**		
Interest rate swap contracts:				
To receive variable/to pay fixed	**¥1,500**	**¥1,500**		

	Thousands of U.S. dollars 2015 Contract amount Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts:				
Put US$	**$83,748**	**$32,554**		
EUR	**45,519**	**16,019**		
Interest rate swap contracts:				
To receive variable/to pay fixed	**$12,482**	**$12,482**		

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, 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)

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

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen 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		

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 35.38% and 37.75% for the year ended March 31, 2015 and 2014.

(1) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2015 and 2014 were as follows:

	Millions of yen 2015	2014	Thousands of U.S. dollars 2015
Deferred tax assets:			
Tax loss carryforwards	**¥1,407**	¥820	**$11,709**
Allowance for doubtful accounts	**802**	646	**6,674**
Intercompany profit	**505**	479	**4,202**
Long - term liabilities	**343**	373	**2,854**
Loss on valuation of investments in securities	**288**	317	**2,397**
Accrued bonuses to employees	**245**	258	**2,039**
Impairment loss on fixed assets	**213**	263	**1,773**
Allowance for losses on guarantees	**203**	237	**1,689**
Accrued enterprise tax	**132**	181	**1,098**
Net defined benefit asset	**115**	—	**957**
Tax credit for research and development cost	**—**	153	**—**
Other	**648**	494	**5,392**
Total gross deferred tax assets	**4,901**	4,221	**40,784**
Less valuation allowance	**(2,618)**	(1,775)	**(21,786)**
Net deferred tax assets	**2,283**	2,446	**18,998**
Deferred tax liabilities:			
Unrealized holding gain on securities	**(397)**	(180)	**(3,303)**
Net defined benefit asset	**—**	(91)	**—**
Reserve for special depreciation	**(36)**	(16)	**(300)**
Asset retirement obligation	**(9)**	(11)	**(75)**
Other	**(71)**	(41)	**(591)**
Total gross deferred tax liabilities	**(513)**	(339)	**(4,269)**
Net deferred tax assets	**¥1,770**	¥2,107	**$14,729**

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

Following promulgation of the Act for Partial Amendment of the Income Tax Act (Act No. 9 of 2015) and the Act for Partial Amendment of the Local Tax Act (Act No. 2 of 2015) on March 31, 2015, the corporate tax rate, etc., will be reduced effective from the consolidated fiscal period starting on April 1, 2015.

Consequently, the statutory effective tax rate used to calculate deferred tax assets and liabilities for this consolidated fiscal period was changed from 35.38% in the previous consolidated fiscal period to 32.83%, for the temporary difference that is expected to be settled in the consolidated fiscal period starting on April 1, 2015; and to 32.06%, for the temporary difference that is expected to be settled in the consolidated fiscal period starting on April 1, 2016.

As a result of the change in statutory tax rate, net deferred tax assets (after deducting deferred tax liabilities) decreased by ¥116 million ($965 thousand), and income taxes (deferred), net unrealized holding gain on securities, remeasurements of defined benefit plans increased by ¥165 million ($1,373 thousand), ¥40 million ($333 thousand), ¥9 million ($75 thousand), respectively.

13. Research and development costs

Research and development costs charged to income were ¥2,588 million ($21,536 thousand) and ¥2,669 million for the years ended March 31, 2015 and 2014, respectively.

14. Stock option plan

As of March 31, 2015 and 2014, 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, 2015)

Date of resolution	July 20, 2010
Unvested stock options	
Outstanding as of March 31, 2014	—
Granted	—
Expired	—
Vested	—
Outstanding as of March 31, 2015	—
Vested stock options	
Outstanding as of March 31, 2014	384,000
Vested	—
Exercised	—
Expired	—
Outstanding as of March 31, 2015	384,000

	yen
Date of resolution	July 20, 2010
Exercise price	¥2,241
Average stock price at exercise	—
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.

15. Comprehensive income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Net unrealized holdings gain on securities:			
Amount recognized in the period under review	**¥806**	¥107	**$6,707**
Amount of recycling	**84**	0	**699**
Before income tax effect adjustments	**722**	107	**6,008**
Amount of income tax effect	**215**	38	**1,789**
Net unrealized holdings gain on securities	**507**	69	**4,219**
Land revaluation difference			
Amount recognized in the period under review	**—**	—	**—**
Amount of recycling	**—**	—	**—**
Before income tax effect adjustments	**—**	—	**—**
Amount of income tax effect	**(2)**	—	**(16)**
Land revaluation difference	**2**	—	**16**
Foreign currency translation adjustments:			
Amount recognized in the period under review	**2,451**	1,582	**20,396**
Amount of recycling	**—**	—	**—**
Before income tax effect adjustments	**2,451**	1,582	**20,396**
Amount of income tax effect	**—**	—	**—**
Foreign currency translation adjustments	**2,451**	1,582	**20,396**
Remeasurements of defined benefit plans			
Amount recognized in the period under review	**(210)**	—	**(1,747)**
Amount of recycling	**56**	—	**466**
Before income tax effect adjustments	**(266)**	—	**(2,213)**
Amount of income tax effect	**(103)**	—	**(857)**
Remeasurements of defined benefit plans	**(163)**	—	**(1,356)**
Total other comprehensive income	**¥2,797**	¥1,651	**$23,275**

16. Segment information

(a) Outline of reportable segments

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

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

Thus, the Company consists of segments by products and services, based on business units, and the "Flat Knitting 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 computerized design systems and automatic fabric cutting machines. 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, 2015 and 2014 were as follows:

	Millions of yen					
	2015					
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**¥36,106**	**¥3,645**	**¥2,843**	**¥42,594**	**¥5,760**	**¥48,354**
Inter-segment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**36,106**	**3,645**	**2,843**	**42,594**	**5,760**	**48,354**
Operating expenses	**27,747**	**2,629**	**2,193**	**32,569**	**5,030**	**37,599**
Segment profit	**¥8,359**	**¥1,016**	**¥650**	**¥10,025**	**¥730**	**¥10,755**
Segment Assets:	**¥89,649**	**¥4,620**	**¥2,624**	**¥96,893**	**¥8,594**	**¥105,487**
Others:						
Capital expenditure	**¥1,229**	**¥98**	**¥79**	**¥1,406**	**¥204**	**¥1,610**
Depreciation	**1,055**	**48**	**71**	**1,174**	**150**	**1,324**
Amortization of goodwill	**385**	**3**	**0**	**388**	**28**	**416**

	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

	Thousands of U.S. dollars					
	2015					
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**$300,458**	**$30,332**	**$23,658**	**$354,448**	**$47,932**	**$402,380**
Inter-segment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**300,458**	**30,332**	**23,658**	**354,448**	**47,932**	**402,380**
Operating expenses	**230,898**	**21,877**	**18,249**	**271,024**	**41,857**	**312,881**
Segment profit	**$69,560**	**$8,455**	**$5,409**	**$83,424**	**$6,075**	**$89,499**
Segment Assets:	**$746,018**	**$38,445**	**$21,836**	**$806,299**	**$71,515**	**$877,814**
Others:						
Capital expenditure	**$10,227**	**$816**	**$657**	**$11,700**	**$1,698**	**$13,398**
Depreciation	**8,779**	**399**	**591**	**9,769**	**1,248**	**11,017**
Amortization of goodwill	**3,204**	**25**	**0**	**3,229**	**233**	**3,462**

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
	2015	2014	**2015**
Reportable segments total	**¥42,594**	¥35,621	**$354,448**
Other sales	**5,760**	5,015	**47,932**
Net sales in the consolidated statements of income	**¥48,354**	¥40,636	**$402,380**

Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Reportable segments total	**¥10,025**	¥7,660	**$83,424**
Other income	**730**	9	**6,075**
Corporate expenses	**(5,010)**	(4,937)	**(41,692)**
Operating income in the consolidated statements of income	**¥5,745**	¥2,732	**$47,807**

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
	2015	2014	**2015**
Reportable segments total	**¥96,893**	¥85,728	**$806,299**
Other assets	**8,594**	7,831	**71,515**
Company-wide assets	**21,500**	26,168	**178,914**
Total assets in the consolidated balance sheets	**¥126,987**	¥119,727	**$1,056,728**

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	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Capital expenditure	**¥1,406**	¥967	**¥204**	¥289	**¥498**	¥104	**¥2,108**	¥1,360
Depreciation	**1,174**	1,142	**150**	169	**290**	283	**1,614**	1,594
Amortization of goodwill	**388**	355	**28**	19	**—**	—	**416**	374

	Thousands of U.S. dollars			
	2015			
	Reportable segments total	Other	Adjustment	The amount in the consolidated financial statements
Capital expenditure	**$11,700**	**$1,698**	**$4,144**	**$17,542**
Depreciation	**9,769**	**1,248**	**2,414**	**13,431**
Amortization of goodwill	**3,229**	**233**	**—**	**3,462**

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, 2015 and 2014 were as follows:

	Millions of yen					
	2015					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	**¥7,690**	**¥7,327**	**¥1,905**	**¥29,271**	**¥2,161**	**¥48,354**

	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

	Thousands of U.S. dollars					
	2015					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	**$63,993**	**$60,972**	**$15,852**	**$243,580**	**$17,983**	**$402,380**

17. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 26, 2015.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥599	$4,985

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, 2015, 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, 2015, 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 26, 2015

Ohtemae Audit Co.

Ohtemae Audit Corporation

Corporate Data (As of March 31, 2015)

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 1,766 Non-consolidated 1,218
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 Shares	142,000,000
Issued Common Shares	36,600,000
Number of Shareholders	16,903
Stock Exchange Listing	The First Section of the Tokyo Stock Exchange
Auditing Corporation	Ohtemae Audit Corporation

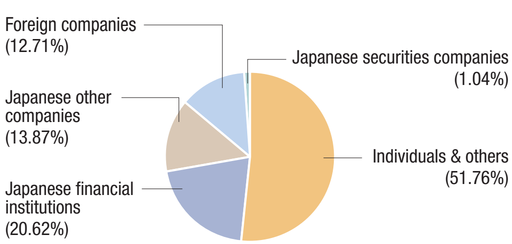
Major Shareholders

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	1,061	3.10
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.57
Wako LLC	780	2.28
Shima Seiki Employees Shareholding Association	714	2.09
The Senshu Ikeda Bank, Ltd.	700	2.05
Hiromi Goto	697	2.04

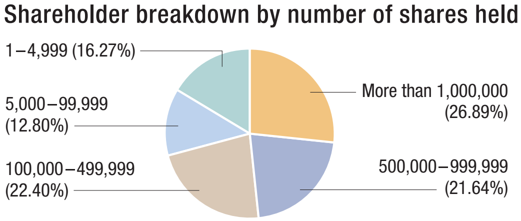
Notes: 1.The Company, which owns 2,381 thousand shares of treasury stock, or 6.51% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.
2.Holdings of less than 1,000 shares have been omitted.

Stock Ownership

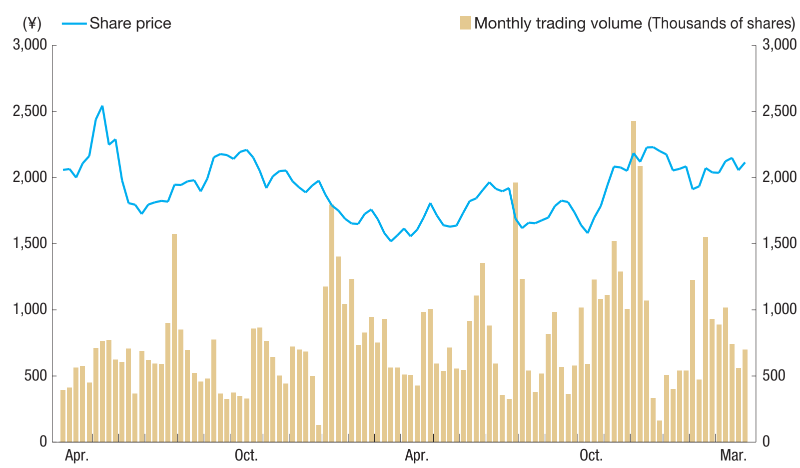
Shareholder breakdown by type



Shareholder breakdown by number of shares held



Share Price and Trading Volume



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

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

About the Cover

The SDS®-ONE APEX3, which creates realistic virtual samples in extremely high definition, and the groundbreaking MACH2®XS, born on the 20th anniversary of the development of WHOLEGARMENT®. We are combining these two products to cultivate new demand.

SHIMA SEIKI

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