

Ever Onward

Annual Report 2020

Year Ended March 31, 2020



Contributing to Sustainable Society as the Leading Company in Flat Knitting Machines

Flat knitting machines are used to produce highly designable knitwear. Shima Seiki leads user industries and continuously takes on challenges to develop new technologies as a computerized flat knitting machine manufacturer.

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Shima Seiki's Unique Features

1 Ongoing Technological Innovation for Half a Century

Shima Seiki was established in 1962 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 Around 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 South Asia, which are currently attracting attention as a new knitwear manufacturing base, Shima Seiki is earning accolades around the world.



Overseas

3 Domestic Integrated Production System Provides "Shima Seiki Quality"

All production is conducted 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.



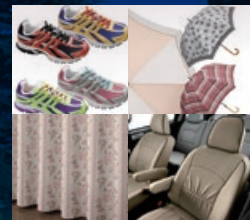
4 WHOLEGARMENT®, the Forefront of Flat Knitting Machines

WHOLEGARMENT® flat knitting machines, which produce complete, fully interplaited knitwear, are unique products developed by Shima Seiki. In addition to being highly designable and realizing a comfortable fit, WHOLEGARMENT® knitwear conserves resources by eliminating cutting losses and seam allowances. WHOLEGARMENT® knitwear contribute significantly to the resolution of issues related to the global shortage of skilled sewing technicians.



5 Proactive Development in Areas Other than Apparel

Centered on the design system business, we make a wide range of proposals in areas other than apparel, including for the SDS®-ONE APEX series and P-CAM® automatic fabric cutting machines. We provide various industries with high-performance and high-quality manufacturing equipment.



The Foundation That Supports Growth

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We help to resolve the issues society faces by centering on the apparel industry.

Principal Capital (Inputs, Consolidated)

Development Capabilities

The ability to **create unique**, world's-first products and services

Production Technology Capabilities

The technologies to **consistently** produce **high-quality** products through widely varied, small-lot production

Sales Capabilities

Sales in more than **80** countries
Overseas sales ratio of
Around **80%**

Social Issues

Health damage due to **overwork**

Consumption of resources/
disposal of apparel inventories

Low wages for simple work

Customer-Related Issues

Response to increasingly sophisticated fashion

Response to diverse manufacturing

Structural changes in market trends

Reduction of losses generated during the production process

Improvements in the labor environment

Business Activities

One-Stop Provision of Development and Design, Production and Marketing and Support

Development and Design



Production



Foundation Supporting the Company

Corporate philosophy:
Ever Onward

Stakeholders

Shareholders and investors

Local community

providing unique, world's-first products,

Human Resource Capabilities

2,010 employees
Cultivating diverse human resources to maintain a corporate culture that fosters originality

Intellectual Property Capabilities (Non-Consolidated)

1,298 patents
319 registered trademarks

Financial Capabilities

An equity ratio of **82.6%**

Outputs



Flat kitting machines



Design systems



Automatic fabric cutting machines



Glove and sock knitting machines

Marketing and Support



Value Created for Society (Outcomes)

Value Provided to Customers

Quick response with myriad designs

Ability to offer widely varied, small-lot production

Solutions that respond quickly to changing market trends

Increasingly efficient production process

Provision of a working environment that enables employees to continue working

Drop in excessive work



Decrease in discarded apparel
Reduction of cutting losses



Shift toward higher added value in the apparel industry



10-year vision and medium-term management plan

Corporate Governance

Customers

Business partners

Employees

Shima Seiki is contributing to the achievement of through sustainability initiatives.

The apparel industry is currently entering a period of major revolution.

The past few years have seen the establishment of supply chains that quickly provide trending products at low prices in accordance with consumer demand.

However, the success of these supply chains rests upon the precondition that products are mass-produced in regions where personnel costs are low. These mass-production processes have resulted in excess supply that has led to the disposal of unsold products, a social issue that is currently receiving a great deal of attention.

Shima Seiki will revolutionize distribution, engage in multiple-variety, small-lot production, establish sustainable manufacturing and contribute to the achievement of SDGs by spreading innovative solutions to a variety of issues, focusing primarily on WHOLEGARMENT® flat knitting machines and design systems.

We are conducting SDGs initiatives using our products.

We will respond to issues in the apparel industry by using the synergy between our WHOLEGARMENT® flat knitting machines and design systems to implement innovations in production processes that eliminate various forms of waste.



Sustainable Development Goals (SDGs)

SUSTAINABLE DEVELOPMENT GOALS



The Sustainable Development Goals (SDGs) were adopted at the UN Sustainable Development Summit held in 2015 and will remain in place until 2030. They comprise 17 goals and 169 targets internationally aimed at the achievement of a sustainable world and call for the participation of both developing and advanced countries.

Improving Labor Environments

A typical flat knitting machine knits individual pieces of a garment, including the hem, sleeves and front and back body panels, separately. These pieces are then sewn together on machines and their individual seams are aligned through the linking process. This painstaking process, which involves passing a needle through each stitch of the seams one by one, is very time-consuming and hard on the eyes.

WHOLEGARMENT® machines produce completely seam-free pieces, thereby eliminating the arduous linking process and contributing to improvements in labor environments.



People-friendly

Decreasing Cutting Losses and Reducing Discarded Apparel

Our original WHOLEGARMENT® flat knitting machines, which we developed in-house, create complete pieces of seam-free knitwear, eliminating the need for post-processes such as cutting, sewing and linking. These machines also eradicate the loss of fabric required for seam allowances, enabling an approximately 30% reduction in cutting loss compared to prior manufacturing methods, which cuts back on energy consumption and CO₂ emissions due to disposal. This machine reduces shipment lead times, allowing manufacturers to produce more products, cut out waste by manufacturing just the amount of fabric that they need and minimize their volume of discarded unsold products.



Earth-friendly

Maximizing Added Value in the Apparel Industry

Creating products that are suited to regional needs, instead of merely producing the same products in large quantities, leads to the advancement of local industry. Shima Seiki is supporting product development in the apparel industry that aims to maximize added value by coming up with creative products that fit the needs of individuals. We provide this support through our products and services, which include our WHOLEGARMENT® flat knitting machines and our design systems.



For the future

Financial Highlights

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

Years ended March 31

	2011	2012	2013	2014	2015	2016
For the Year:	Millions of yen					
Net sales	¥42,781	¥37,327	¥34,970	¥40,636	¥48,354	¥49,583
Gross profit	19,194	14,432	12,212	17,269	21,866	23,345
Operating income (loss)	5,908	883	(509)	2,732	5,745	5,782
Income (loss) before income taxes and minority interests	1,092	(537)	3,363	7,230	7,006	4,803
Net income (loss) attributable to owners of the parent	770	(642)	1,754	4,863	3,646	3,271

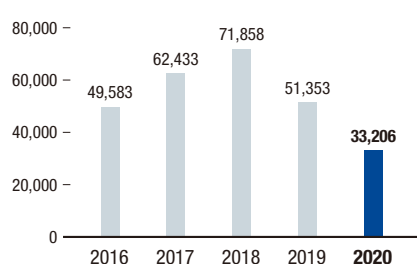
	Millions of yen					
At Year-End:						
Total assets	¥113,951	¥106,863	¥112,089	¥119,727	¥126,987	¥126,416
Net assets	86,591	84,167	87,382	93,222	98,179	98,293

	Yen					
Per Share Data:						
Net income (loss)	¥22.26	¥(18.60)	¥51.26	¥142.13	¥106.54	¥95.61
Cash dividends applicable to the year	35.00	40.00	25.00	32.50	32.50	37.50
Net assets	2,502.27	2,454.07	2,547.88	2,718.57	2,863.49	2,867.00

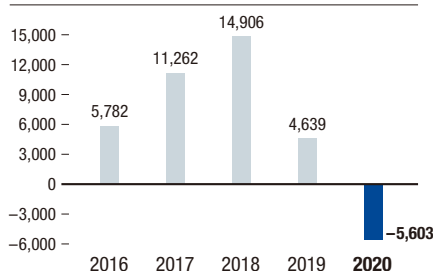
	%					
Ratios:						
ROA	0.7%	(0.6)%	1.6%	4.2%	3.0%	2.6%
ROE	0.8	(0.8)	2.0	5.4	3.8	3.3
Equity ratio	75.9	78.6	77.8	77.7	77.2	77.6
Overseas sales ratio	91.1	87.6	84.7	83.6	84.1	83.5

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥108.83=US\$1 and ¥119.55=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2020.

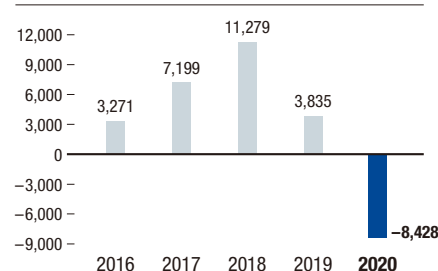
Net Sales (¥ Million)



Operating Income (Loss) (¥ Million)

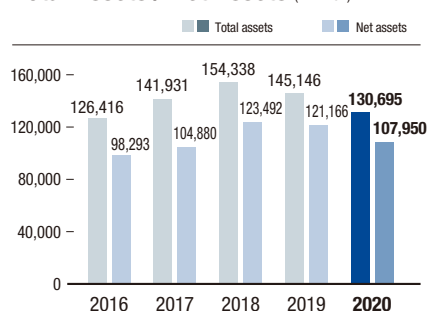


Net Income (Loss) Attributable to Owners of the Parent (¥ Million)

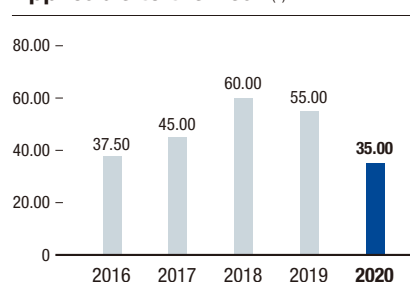


2017	2018	2019	2020	2019 ▶ 2020	2020	2020
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥62,433	¥71,858	¥51,353	¥33,206	-35.3%	\$305,118	€277,758
29,048	33,438	23,156	11,629	-49.8	106,855	97,273
11,262	14,906	4,639	(5,603)	—	(51,484)	(46,867)
9,979	15,443	5,100	(6,552)	—	(60,205)	(54,806)
7,199	11,279	3,835	(8,428)	—	(77,442)	(70,498)
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥141,931	¥154,338	¥145,146	¥130,695	-10.0%	\$1,200,910	€1,093,225
104,880	123,492	121,166	107,950	-10.9	991,914	902,969
				Percent change	U.S. dollars	Euros
¥209.97	¥316.82	¥105.62	¥(239.68)	—	\$(2.20)	€(2.00)
45.00	60.00	55.00	35.00	-36.4%	0.32	0.29
3,039.66	3,381.85	3,411.08	3,126.86	-8.3	28.73	26.16
5.4%	7.6%	2.6%	(6.1)%			
7.1	9.9	3.1	(7.4)			
73.8	80.0	83.5	82.6			
87.6	90.0	83.2	78.9			

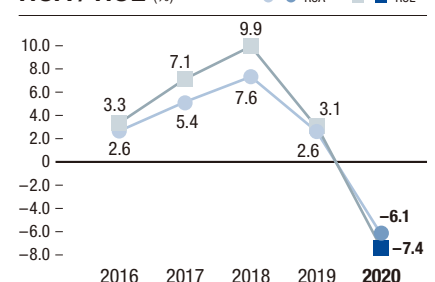
Total Assets / Net Assets (¥ Million)



Cash Dividends per Share Applicable to the Year (¥)



ROA / ROE (%)



We recorded a significant decline in sales and posted losses as our surrounding business environment underwent multiple changes.



Mitsuhiro Shima

President

Profile

- March 1987 Joined the Company
- March 1998 General Manager of System Development Division
- June 2002 Director, General Manager of System Development Division
- June 2007 Executive Director in charge of Control System Development Division, Intellectual Property Department and Total Design Center, General Manager of Graphic System Development Division
- June 2011 Senior Executive Director in charge of Machinery Production Technology Division and Total Design Center, Director of Production Headquarters
- June 2012 Executive Vice President in charge of Corporate Planning Division and Total Design Center, Deputy Director of Sales Headquarters
- June 2017 President, Representative Director, Director of Sales Headquarters, in charge of Corporate Planning Division
- June 2018 President, Representative Director, Executive Officer, in charge of Corporate Planning Division
- June 2020 President, Representative Director, Executive Officer, General Manager of Sales Division, in charge of Total Design Center and Corporate Planning Division (current)

Ever Onward — Limitless Progress

The Company was established in 1962 by Masahiro Shima, its current chairman, with the goal of producing the world's first fully automated glove knitting machine.

With “Ever Onward—Limitless Progress” as our corporate motto, we are constantly working to develop new technologies, unstinting in our efforts and continuously taking on challenges in unknown areas.

Since the time of our founding, we have remained a step ahead of the needs of the time, developing a number of flat knitting machines and design systems and growing to become the world's leading manufacturer in these areas. In the 1990s, we succeeded in developing the WHOLEGARMENT® flat knitting machine for completely seam-free clothing, heralded as being comparable to the advances made during the Industrial Revolution.

Going forward, we will continue taking on the challenge of developing new technologies. Through a business model based on planning and proposals, we aim to contribute to the development of the apparel industry and other user segments.



Please explain your primary initiatives and your results for the fiscal year ended March 31, 2020.



We recorded a substantial decline in sales and posted losses due to deterioration in our surrounding business environment that was larger than projected.

During the fiscal year under review (ended March 31, 2020), uncertainty within the apparel industry grew due to factors such as prolonged trade friction between the United States and China, which carried over from the previous fiscal year. Additionally, during the first half, knitting factories around the world that we serve as our primary customers displayed less willingness to conduct capital investment as they stepped up efforts to curtail their production volumes in response to greater global awareness of mass disposal of unsold apparel as an issue.

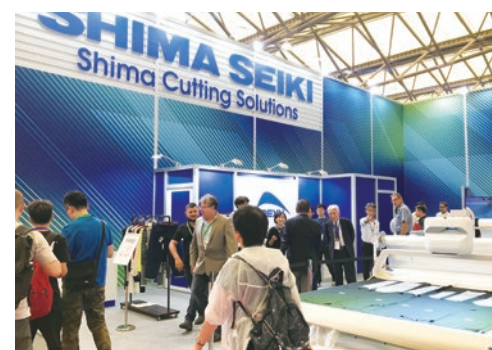
Under these circumstances, we actively and globally advertised our shift toward “sustainable manufacturing” that utilizes our products and systems through a variety of means, including our participation in ITMA 2019, which was held in the month of June and is the world's largest international trade fair for textile machinery.

However, the novel coronavirus pandemic broke out during the fourth quarter, which is typically when we see more capital investment activity. The virus originated in China, where it spread from our core Chinese market to the European market, eventually becoming a global pandemic. In response, customers in regions around the world have frozen their capital investment.

As a result, consolidated net sales in the fiscal year under review declined substantially to ¥33,206 million (down 35.3% year on year) and finished below the revised forecast we released in October 2019. Additionally, we recorded an operating loss of ¥5,603 million (versus operating income of ¥4,639 million in the previous fiscal year) and an ordinary loss of ¥5,583 million (versus ordinary income of ¥4,991 million in the previous fiscal year) due to factors such as deterioration in our gross profit margin caused by production adjustments. Furthermore, net loss attributable to owners of the parent was substantial at



ITMA 2019
Spain



CISMA 2019
China

Message from Top Management



Pitti Filati 86
Italy



ISPO MUNICH 2020
Germany

¥8,428 million (versus net income of ¥3,835 million in the previous fiscal year) and was primarily due to a loss on valuation of investment securities and other extraordinary loss, as well as a reversal of deferred tax assets.



Please describe conditions by business segment.



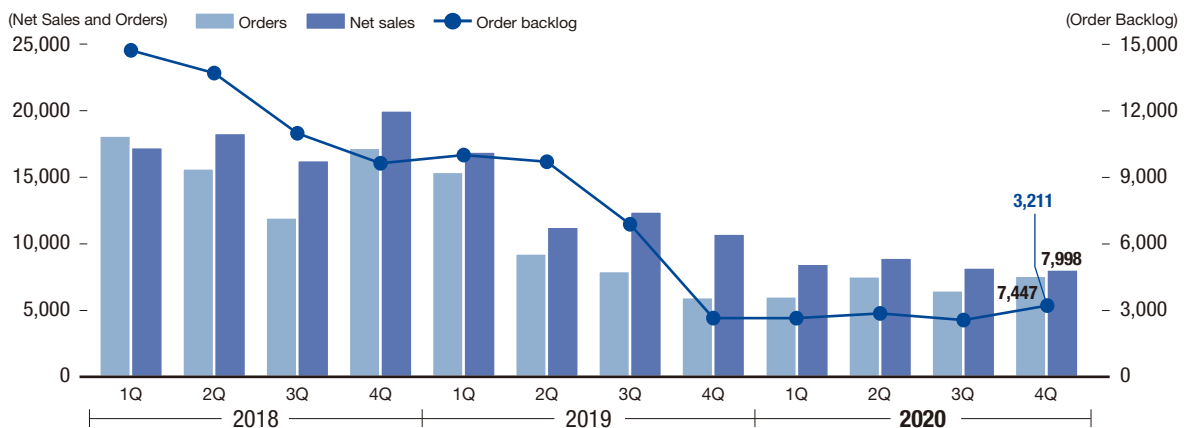
Orders declined as willingness to conduct capital investment in core markets for our flat knitting machines cooled off significantly.

In the Flat Knitting Machine Segment, capital investment fell off substantially, primarily at OEM production factories in Asian regions that encompass our core markets, including China, Bangladesh and Vietnam. This decline in capital investment was due to global economic uncertainty, cooldown in willingness to conduct capital investment caused by environmental issues such as disposal loss and impact from the novel coronavirus pandemic.

New orders for WHOLEGARMENT® flat knitting machines were sluggish due in part to slow growth in the Chinese economy, and this sluggishness contrasted with previous strong growth in unit sales, primarily in the Chinese market. In recent years, sales of flat knitting machines used in shoe upper production had been expanding in Asian markets but faced increasingly stiff competition during the fiscal year under review as inexpensive products manufactured in China entered the market. Furthermore, customer capital investment was subdued in Italy and other European markets and in the Japanese market.

In the Design System Segment, sales of the SDS®-ONE APEX series declined along with a decrease in flat knitting machine sales. Meanwhile, sales of P-CAM® automatic fabric cutting machines fell in both Japanese and overseas markets due to an overall downturn in the apparel industry.

Net Sales, Orders and the Order Backlog, by Quarter (Millions of yen)



(Consolidated fiscal years ended March 31)



Please explain your outlook for the fiscal year ending March 31, 2021.



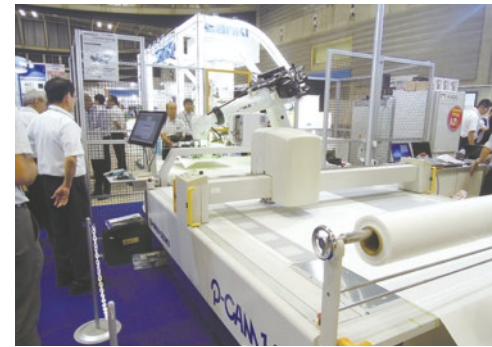
We will enthusiastically propose total solutions for the apparel industry, which is currently searching for new business models.

The fiscal year ending March 31, 2021 is clouded by extreme uncertainty, as we are currently unable to determine when the novel coronavirus pandemic will conclude or project future impact from downturns in economic activity. We have decided not to release a forecast for the fiscal year ending March 31, 2021 at this time because our ability to make rational estimations is currently hampered by the conditions mentioned above.

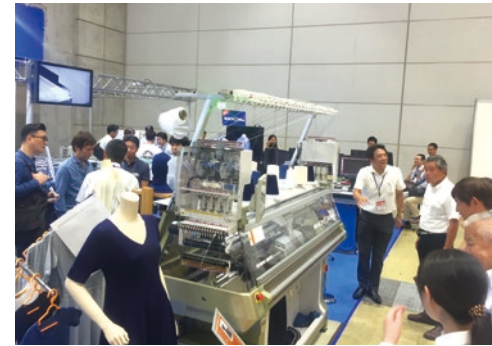
Meanwhile, although we will face difficulty achieving corresponding numerical targets, we will continue to promote the four growth strategies outlined in “Ever Onward 2020,” our medium-term management plan, on a companywide basis during its final year; the four strategies included in the plan are “Strengthening the flat knitting business,” “Advancing unique business segments,” “Improving the profit structure” and “Reinforcing the management infrastructure.”

The apparel and fashion industries continue to face major issues, regardless of how the novel coronavirus crisis will eventually proceed to its conclusion. Currently, these global industries are demanding response measures that are focused on dealing with major changes in the business environment. These changes include a shift in consumer behavior as shoppers increasingly engage in ethical consumption and purchase customized products, rapid development in terms of digitalization and increasing requirements related to sustainability and other corporate social responsibility (CSR) issues.

My feeling is that these entire industries continue to search for solutions that will allow them to escape prior business models that were based on mass production and consumption and accompanied long lead times. At the same time, these industries are seeking strategies that will enable them to manufacture appropriate volumes of high-value-added products that meet market needs on a

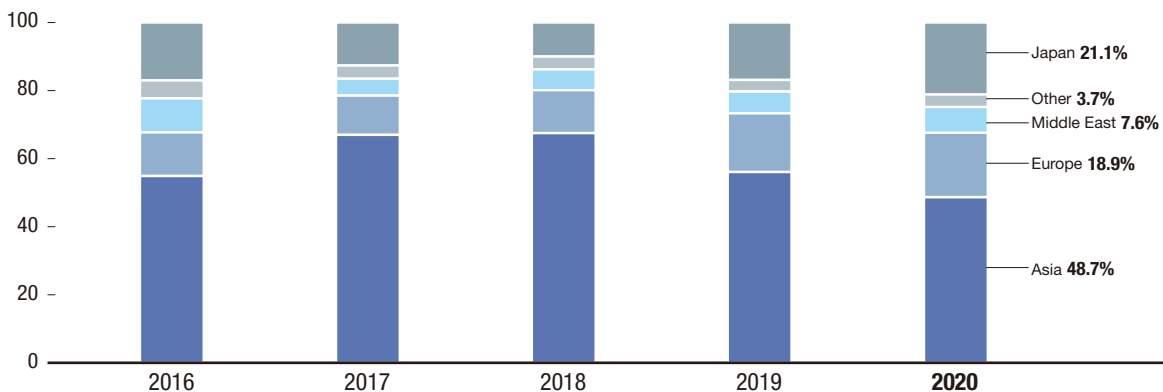


SAMPE Japan
Yokohama (Japan)



56th FISMA TOKYO
Tokyo (Japan)

■ Composition of Sales by Region (%)



(Consolidated fiscal years ended March 31)

Message from Top Management



timely basis while quickly delivering these products to consumers.

Obviously, the global downturn in capital investment that occurred during the fiscal year under review was partially due to the economic environment and the novel coronavirus crisis. However, I believe that significant hesitation when choosing future paths and targets that is endemic throughout the apparel and fashion industries was an even larger cause of the decline in capital investment.

I am confident that the WHOLEGARMENT® flat knitting machines and the design system-focused total solutions we propose will resolve these industry-wide issues and contribute to the achievement of ideal new business models.

Shima Seiki has always proposed solutions like these to apparel companies and other customers throughout the world. However, starting from the current fiscal year, I will be assuming command as director of sales headquarters. Through this position, I will attempt to create new value by enthusiastically proposing total solutions to customers in countries and regions across the globe. With these efforts, I aim to increase genuine customer understanding regarding the importance of our proposals and generate innovation that will lead us into a new future. Furthermore, we plan to continue actively investing in research and development activities that form our value creation base.



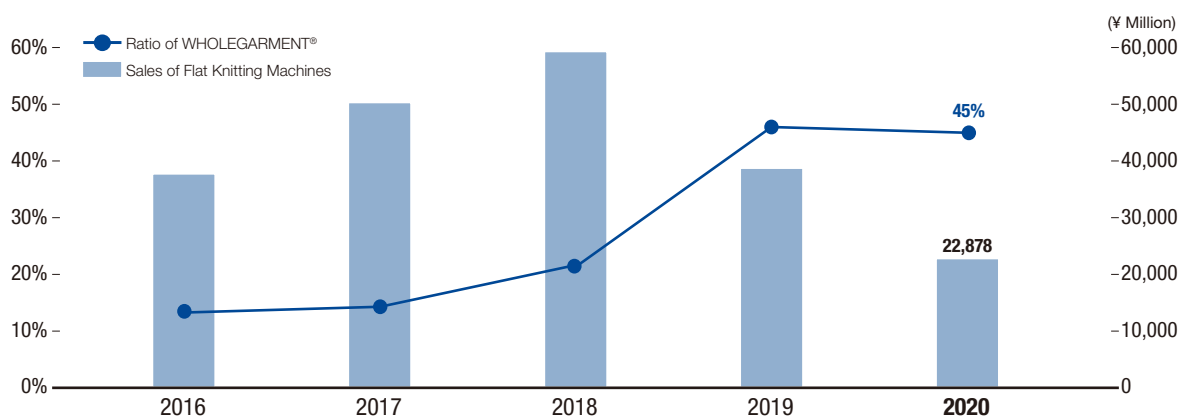
Please share your message for shareholders and investors.



We will create value that will lead us into a sustainable future.

Shima Seiki views returning profit to shareholders as one of its most important managerial priorities. We issued a total of ¥35.00 per share in dividends for the fiscal year ended March 31, 2020, comprising an interim

■ Ratio of WHOLEGARMENT® Flat Knitting Machines (Sales Basis)



(Consolidated fiscal years ended March 31)

dividend of ¥20.00 per share and a year-end dividend of ¥15.00 per share. I find it extremely regrettable that total dividends have decreased for the second consecutive period, but we intend to expend every possible effort to ensure that we can continue to provide stable dividends to our shareholders moving forward. Furthermore, to enhance shareholder return, we bought back a total of one million treasury shares between November 2019 and February 2020, when we also retired 800,000 treasury shares.

I believe that the novel coronavirus crisis will accelerate the development of circumstances that are forcing the apparel and fashion industries to construct ideal business models. As a result, we can expect to find more opportunities to inform those in these industries regarding our proposals. When viewed this way, current circumstances actually represent an enormous chance for Shima Seiki. In response to major environmental changes that only occur roughly once per century, all members of Shima Seiki will cooperate as one cohesive unit to create value and achieve a sustainable future in accordance with the Company's corporate philosophy, "Ever Onward—Limitless Progress."

We ask our shareholders and investors for their continued warm understanding and support moving forward.

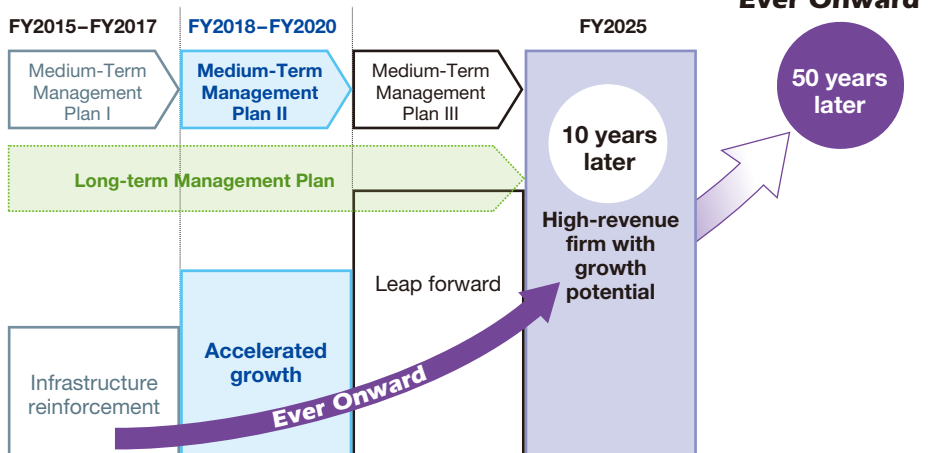


Mitsuhiro Shima,
President

■ Conceptual Diagram of the Medium-Term Management Plan



■ Structure of the Medium-Term Management Plan



Proposing Solutions to Issues Facing the Apparel Industry

The apparel industry is currently confronting a variety of issues.

Shima Seiki is proposing a diverse range of solutions to these issues through its Total Fashion System®, which encompasses planning, production, and sales processes.

Heralded as a fashion distribution revolution, the Total Fashion System® is a smart, speedy, and sustainable production method that eliminates inventory loss, unsold goods, opportunity loss, and inventory disposal.

In this feature, we introduce the diverse range of solutions that constitute the Total Fashion System®.

Issues Facing the Apparel Industry

- Strenuous gathering of planning materials
- Samples sometimes produced and shipped unnecessarily
- Designs verified in remote locations
- Desire to confirm differences in yarn textures



Proposed Solutions from Shima Seiki

PLANNING



Implement trial-and-error processes and support collaboration

Details such as color variations can be instantly changed, discussed, and shared with others in remote locations.



Digitally replicate a range of elements that extends to yarn texture and expand options

By using digitized yarn, we generate simulations that are realistic enough to be mistaken for the real thing.



Offering Users a New Online Training System

We offer an e-learning system for the SDS®-ONE APEX series. The system allows customers to undergo training when the timing suits them, and is well suited to new working styles, such as teleworking or working from home.



- Reduction of manufacturing lead times
- Loss generated during cutting
- Lack of sewing personnel
- Understanding of production statuses



- Disposal loss resulting from make-to-stock production
- Made-to-order or customized production
- Quick response
- Space saving



PRODUCTION

Provide support that extends to pattern making

Incorporating stylistically diverse knitting expertise into software, we provide strong support by speeding up and simplifying programming for pattern making.

SALES

Make sales volumes researchable through virtual samples

Virtual samples are helpful when projecting future demand because they can be used to measure customer reactions before products are placed in stores and receive feedback during the design stages.



WHOLEGARMENT®

Reduce disposal resulting from cutting losses

Our WHOLEGARMENT® machines only use the amount of yarn necessary, eliminating cutting losses generated by conventional cut and sew techniques, which amounted to about 30%.

Garments can be produced one at a time, minimizing inventory loss

WHOLEGARMENT® machines enable on-demand production that allows inventories to be replenished when they become low. This advantage grants users the ability to minimize inventory loss while preventing lost sales opportunities due to stock shortages.

Improve capital investment efficacy through waste-free production management

Shima KnitPLM®

Optimal production is made possible through production planning, schedule formulation, and data collection and distribution.

Enable marketing of original goods that meet individual customer needs

Mass Customization



Through the Total Fashion System®, users can provide products that are tailored to the needs of individual customers and achieve mass customization.

Providing a Wide Range of Offerings in Fields

Shima Seiki is proactively promoting proposals that use its distinctive technologies—such as 3D shaping technology using WHOLEGARMENT® and cutting technology that can be used on diverse materials—in a wide range of fields outside of apparel.

Sports

Knitwear offering superior elasticity is gentle on athletes' bodies, as well as being functional and comfortable. In addition to a host of sports items, knits can also be used in outdoor items to maximize athletic performance.



Furniture and Interior

Knitted fabrics fit complex shapes, suiting them for use as materials for chair covers, lampshades, cushion covers and other lifestyle items. Our automatic fabric cutting machines are also used in production processes for numerous furniture and interior items.

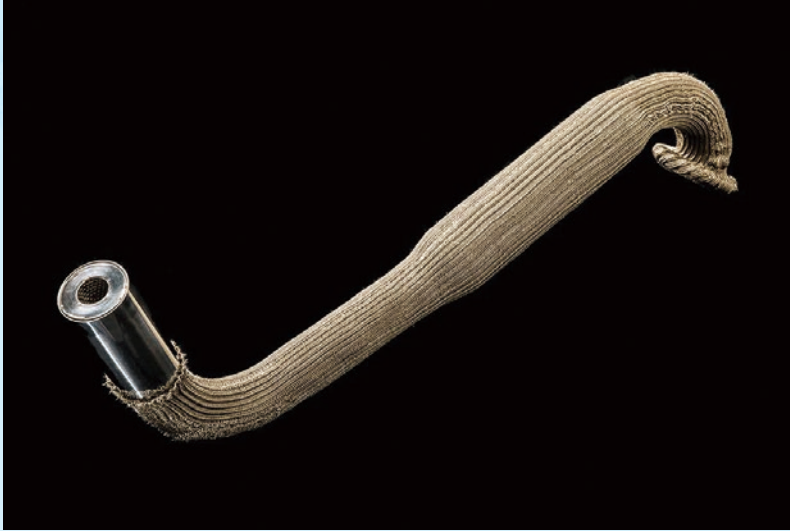


Medical

The elasticity of knitted fabrics suits them for use in the fields of medicine and healthcare, in such applications as medical supporters, socks, and compression gloves. Flat knitting also allows compression to be freely applied in specific regions.

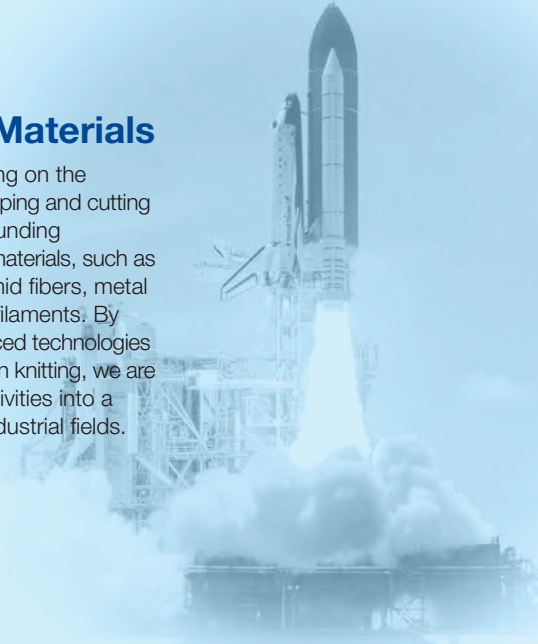


Outside Apparel



Industrial Materials

We are also focusing on the development of shaping and cutting technologies surrounding high-performance materials, such as carbon fibers, aramid fibers, metal threads and monofilaments. By applying the advanced technologies we have cultivated in knitting, we are broadening our activities into a diverse range of industrial fields.



Wearable Devices

WHOLEGARMENT® is suited for incorporating electrical circuits, IC tags, telecommunication antennas and other devices into clothing. In such categories as health monitors, we contribute to the advancement and development of wearable technologies.

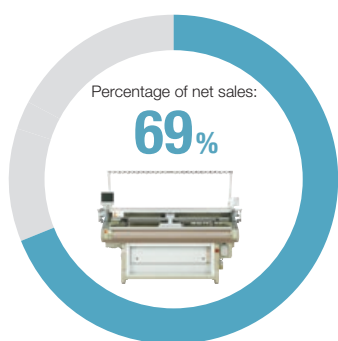
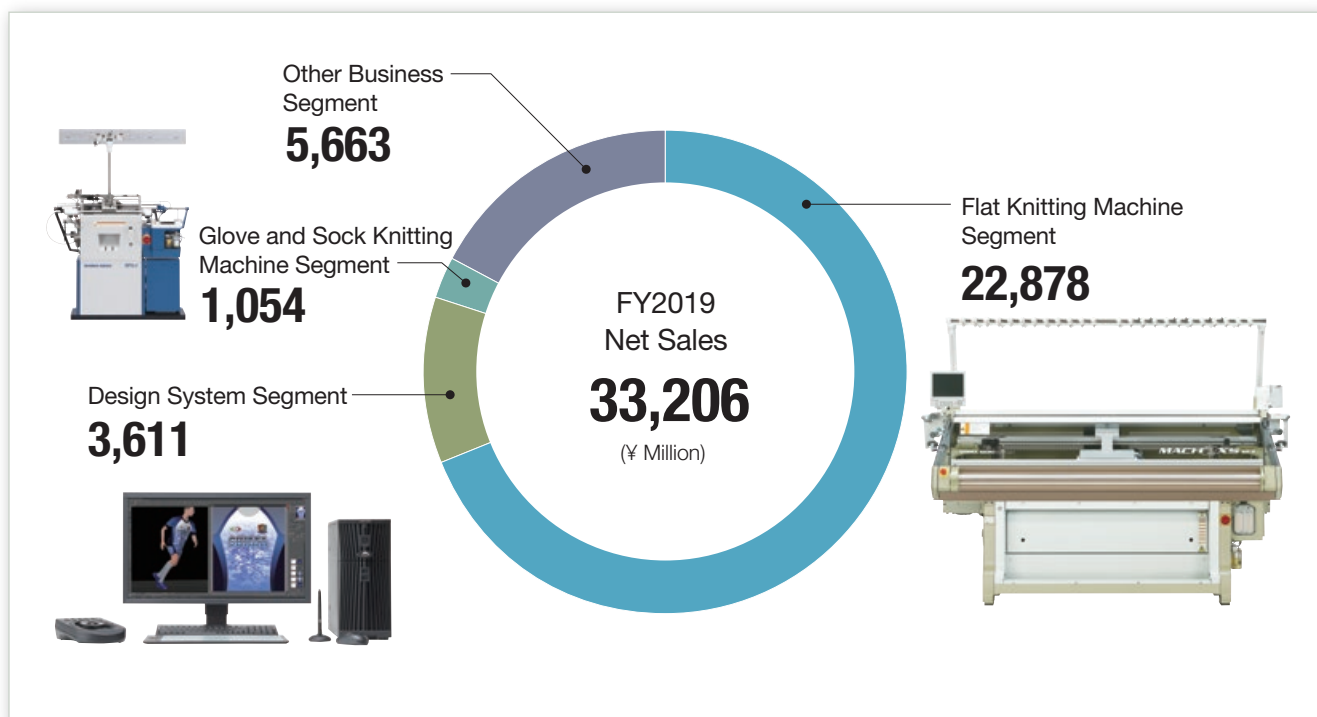


Automobiles

In addition to seat covers, armrests and other interior items, we help turn new ideas into reality in the automotive sector. Examples include insulating materials formed with WHOLEGARMENT® technology and parts made of glass fiber.

Overview of the Year under Review

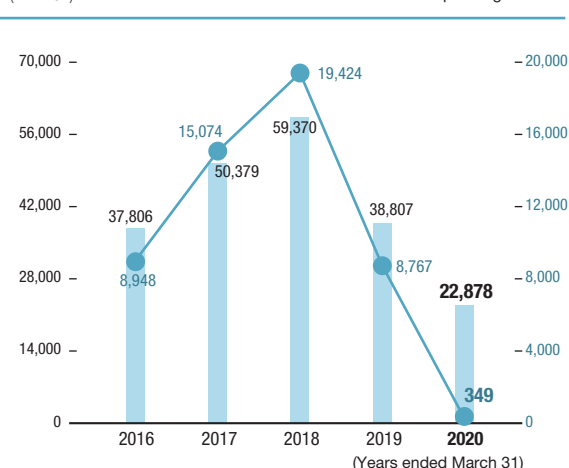
* We will promptly announce our outlook for FY2020 as soon as we are capable of generating rational estimates.



Flat Knitting Machine Segment

Shima Seiki's core business is the manufacture and sale of computerized flat knitting machines, for which the Company boasts industry-leading technological prowess. This segment provides an extensive range of products developed using proprietary technologies, such as WHOLEGARMENT® flat knitting machines, which produce complete pieces three dimensionally; the SRY®, which enables the production of a new knitted fabric with less elasticity; the SSR®, which offers superior cost performance; and the SVR®, which facilitates high-speed knitting.

Net Sales/Operating Income



Overview of the Year under Review

In the fiscal year under review, trade friction between the U.S. and China and environmental issues led to a downturn in willingness to conduct capital investment that enveloped the entire industry, and added fourth-quarter impact from the novel coronavirus pandemic caused stagnant new order growth in our core markets, including China, Bangladesh and Vietnam. New orders for WHOLEGARMENT® flat knitting machines, which had been growing primarily in China, decreased due in part to slowdown in the Chinese economy.

In Asian markets, sales of flat knitting machines used to produce shoe uppers had been growing, but struggled in the

fiscal year under review due to stiff competition from inexpensive products manufactured in China.

In the Middle Eastern nation of Turkey, orders from European apparel manufacturers demanding quick deliveries increased, leading to some signs of recovery during the second half. However, sales fell short of the previous fiscal year's level.

In European markets and in the Japanese market, total sales of computerized flat knitting machines declined year on year.

Consequently, net sales in the fiscal year under review were ¥22,878 million (down 41.0% year on year).

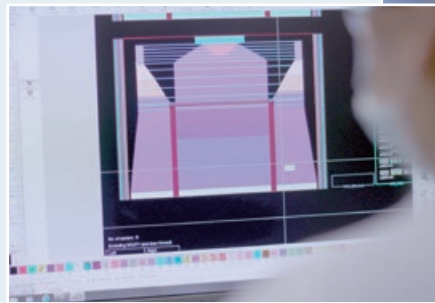
Case Study 1: Andari Fashion Inc.

Creating localized production opportunities for luxury brands while creating more jobs in the United States.

Wei Wang, CEO of Andari Fashion, shares his story on how he uses WHOLEGARMENT® in the world's largest consumer market for apparel goods.



Wei Wang/CEO



“My parents started the company in 1991. Nowadays, we produce knitwear for major US brands.

My younger sister and I took over the company. We chose a Shima Seiki WHOLEGARMENT® flat knitting machine because we wanted to attract high-end customers.

Shima Seiki’s machines allow technicians to convert the designs customers desire into knit programs and turn them into high-quality knitted products. Furthermore, knitwear can be produced as complete pieces, reducing lead time and allowing items to be brought quickly to market.

As a result, customers have transitioned away from producing knitwear overseas, so our made-in-USA production leads to more local employment opportunities.”



For further details on this interview, see the video on Shima Seiki’s website.

<https://www.shimaseiki.com/product/case/andari/>



Andari Fashion Inc.

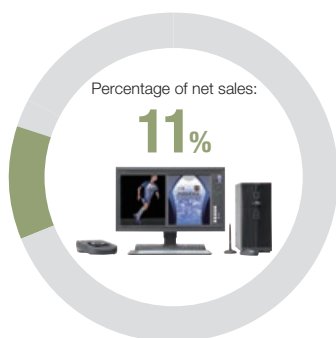
Established: 1991

Location: California, USA

URL : <https://www.andari.com/>



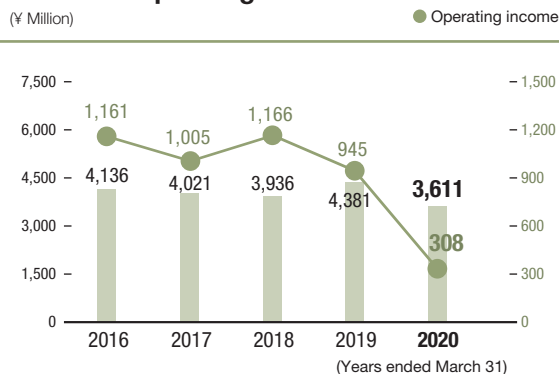
Segment Information



Design System Segment

This segment provides design systems to support production in apparel and a variety of other industries. Our design systems employ high-definition virtual samples and 3D simulations that enable diverse designs while realizing shorter lead times and cost reductions. We are striving proactively to make inroads into other fields, through such products as automatic fabric cutting machines.

Net Sales/Operating Income



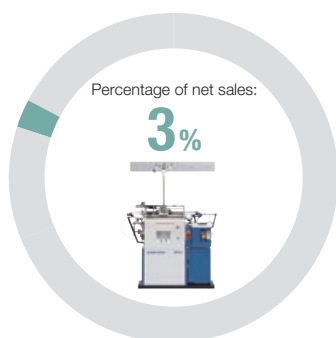
Overview of the Year under Review

Sales of the SDS®-ONE APEX series fell despite the launch of the new SDS®-ONE APEX4 as overseas sales of flat knitting machines slumped.

Meanwhile, in Japan, sales were mostly level year on year as they spread into markets outside of the knitting industry.

Sales of P-CAM® automatic fabric cutting machines were sluggish due to declining textile demand in Japan and in overseas markets.

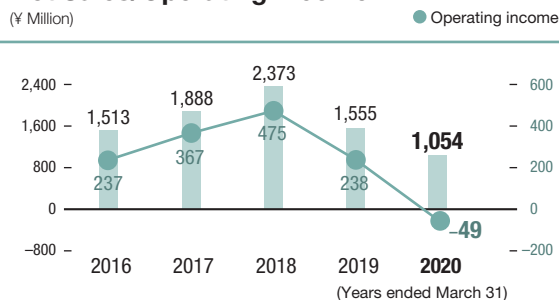
As a result, sales were ¥3,611 million (down 17.6% year on year).



Glove and Sock Knitting Machine Segment

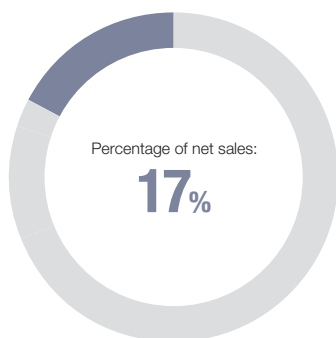
In this segment, we manufacture and sell machines for knitting gloves and socks, the origin of our technological development. By advancing finer-gauge products, we are enhancing our offerings in such high-value-added fields as healthcare.

Net Sales/Operating Income



Overview of the Year under Review

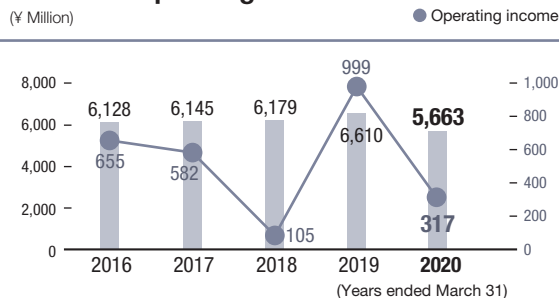
Sales amounted to ¥1,054 million (down 32.2% year on year) as capital investment from major users declined.



Other Business Segment

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

Net Sales/Operating Income



Overview of the Year under Review

Sales were ¥5,663 million (down 14.3% year on year), declining due to lower sales of maintenance parts, woolen yarn and knitwear.

Case Study 2: MIDORI APPAREL VIETNAM HOA BINH

P-CAM[®] automatic fabric cutting machines from Shima Seiki are supporting stable production at factories in Vietnam.

Overseas installations of P-CAM[®] automatic cutting machines from Shima Seiki are becoming more numerous. We spoke with Norio Watanabe, the general director of MIDORI APPAREL VIETNAM CO., LTD., regarding his company's use of P-CAM[®].

Q Why did you decide to install P-CAM[®] automatic cutting machines from Shima Seiki?

A MIDORI ANZEN, which has the top share of Japan's protective work apparel market, established MIDORI APPAREL VIETNAM as one of its overseas factories. Currently, MIDORI APPAREL VIETNAM has approximately 2,000 employees working at two factories in Vietnam, and produces about 3 million products per year.

When manufacturing uniforms, fabric must be cut before the uniforms can be sewn. However, Vietnam is not home to many craftsmen who are well-versed in specialized cutting techniques, so we had decided to install automatic cutting machines from the start. Shima Seiki's P-CAM[®] machines are capable of quickly and accurately cutting through multiple layers of fabric, reducing the need for post-processes. These advantages greatly contribute to quality stabilization and improved productivity while compensating for the lack of skilled craftsmen.

Q What are your feelings regarding P-CAM[®] machines now that they have been installed?

A P-CAM[®] machines are high-performance devices and also rarely break down. Even when infrequent problems occur, we can rest assured that the reliable local after-sales support system will provide immediate assistance. Due to these advantages, we also installed P-CAM[®] machines at our second factory, which began operating in 2013.

We are installing more P-CAM[®] machines each year as we raise our production volumes in Vietnam, and we plan to continue doing so in the future. Additionally, we intend to move sample production that we had been conducting in Japan to Vietnam, and are considering the installation of cutting machines that are appropriate for smaller volumes of fabric.

For further details on this interview, see the video on Shima Seiki's website.

<https://www.shimaseiki.com/product/case/midoriapparel/>



MIDORI APPAREL VIETNAM
HOA BINH CO., LTD.

Established: 2013

Location: Hoa Binh, Vietnam



Topics 2020 (April 1, 2019–March 31, 2020)

Showcased Our Advanced Technology at International Work Safety Exhibition A+A 2019

Ran a Display at the World's Largest Occupational Safety and Health Exhibition

In November 2019, we ran a display in A+A 2019, a four-day international exhibition held in Dusseldorf, Germany. This exhibition takes place every two years and is the world's largest related to workplace safety and health. Amid rising global awareness of occupational safety and health, about 2,100 companies and organizations from 63 countries and regions around the world ran displays at the event, which was attended by more than 73,000 people. Many of Shima Seiki's client companies from around the world, primarily those that use its glove knitting machines, also hold displays during this event. Accordingly, the Company has conducted unique presentations at this exhibition, displaying sample gloves and glove knitting machines while also conducting actual knitting demonstrations using the machines.

Shared Shima Seiki's Advanced Technology with a Wide Range of People

During the 2019 exhibition, we advertised the appeal of various other leading-edge Shima Seiki technologies other than for glove knitting machines, including the SWG[®]091N2 WHOLEGARMENT[®] flat knitting machine, the SVR[®]123SP flat knitting machine and the SDS[®]-ONE APEX4 design system.

At our exhibition booth, we displayed many our latest work

glove samples, which were created using both ultra-fine-gauge knitting and high-performance materials. We also conducted knitting demonstrations through which we created knit shoes for workers using highly cut-resistant yarn, as well as safety vests, which we produced through inlay knitting techniques. These displays and demonstrations attracted a large amount of attention from visitors and exhibiting companies.

During the 2019 event, many visitors from different industries who experienced our products and technologies for the first time expressed interest in purchasing them through capital investment aimed at generating new development. The success of the event helped convince onlookers to adopt the "KNITify the World" approach proposed by Shima Seiki.



Opened the Order Knit Factory, which Provides Opportunities to Experience WHOLEGARMENT[®]

In March 2020, we opened the Order Knit Factory in Wakayama.

At this factory, visitors can customize and create their own semi-custom knit garments based on pre-established models, modifying aspects such as garment height, sleeve length and color. The factory also sells garments such as one-piece dresses and scarves, and provides visiting customers with the opportunity to purchase WHOLEGARMENT[®] products with perfect fits.

The factory has also assembled a collection of "knitting art," which keenly displays the possibilities of knitting by using the medium to create knitted photorealistic images and paintings. When you have the opportunity, we kindly invite you visit the factory.



Order Knit Factory

1st floor, Forte Wajima, 2-1 Honmachi, Wakayama City, Wakayama 640-8033, Japan
 (Open all year, except for the year-end and New Year holidays)
https://www.shimaseiki.co.jp/company/other/order_knit_factory/ (Only in Japanese)

Initiatives Targeting Social Issues

Providing Mask Data Worldwide to Help Fight the Coronavirus Pandemic

In response to mask shortages caused by the spreading novel coronavirus pandemic, on March 19, we began offering 3D knit mask data through the Shima Seiki User Website, which allows users to view and download samples. This data can be used to produce masks using devices such as our WHOLEGARMENT® flat knitting machines.

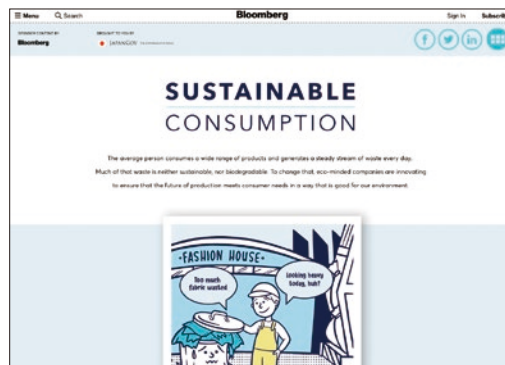
These 3D masks fit the human face very well and prevent the spread of droplets produced when coughing or sneezing. Initially, we only offered data that could only be used with the "WHOLEGARMENT® Mini," a compact device that is optimal for knitting masks and other accessories, but later started providing data for use with N.SVR®123SP and other molded fabric knitting machines. This data has been downloaded more than 300 times worldwide and is being used for a variety of activities, including the production and sale of knit masks.



Shima Seiki Named as an Innovative Company Conducting SDG-Related Initiatives

Ahead of the United Nations SDG Summit held in September 2019, as part of its public relations activities the Public Relations Department of the Cabinet Office of Japan named Shima Seiki as one of several innovative companies conducting initiatives aimed at achieving Sustainable Development Goals (SDGs).

The impact that the apparel industry has on the environment is now being addressed as a global problem. The Public Relations Department of the Cabinet Office praised the Company for providing innovative Japanese technologies that enable sustainable consumption and production, citing its WHOLEGARMENT® flat knitting machines and design systems, as well as solutions it provides that combine both of these commodities to prevent fabric cutting loss, eliminate the need to leave cutting margins and allow users to skip sample production processes by utilizing realistic and highly detailed virtual samples.



Introductory Website
Source: <https://Bloomberg.com/ad/japangov/3dknitting>

Participation in Wakayama City's SDGs Promotion Network

Wakayama, where our headquarters is located, was named one of 60 SDGs Future Cities throughout Japan and, in January 2020, established the Wakayama City SDGs Promotion Network in response.

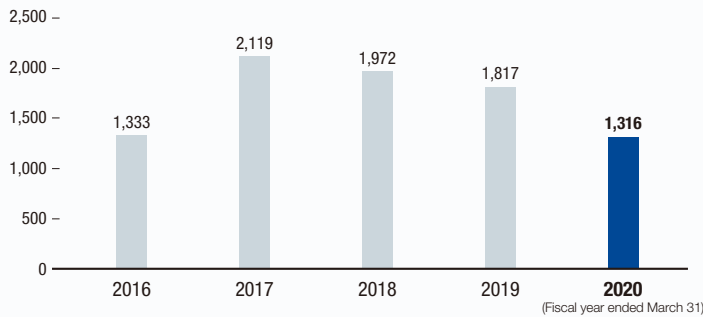
As a managing member company in this network, Shima Seiki will give lectures, hold events and conduct other informative and awareness-raising activities targeting SDGs promotion.



ESG Highlights (Non-Consolidated)

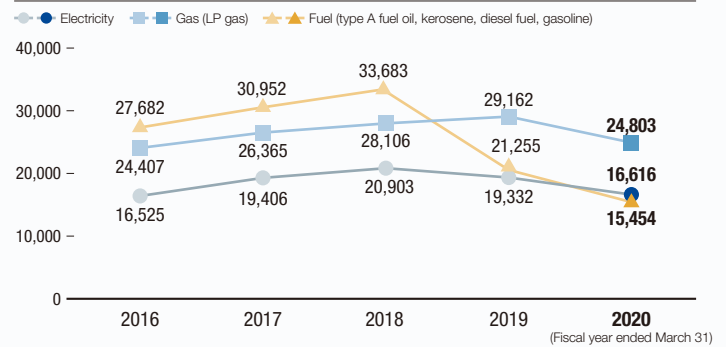
Environment

Waste Emission Volume (t)



The volume has decreased since peaking in the fiscal year ended March 31, 2017.

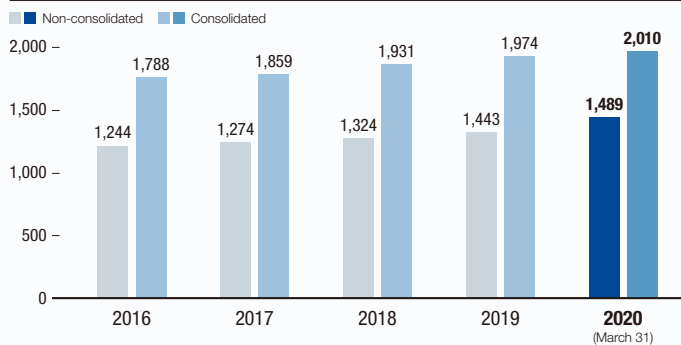
Energy Consumption (Electricity: thousands of kWh; gas: kg; fuel: liters)



Partly due to the relationship to production volume, electricity and fuel use has decreased since peaking in the fiscal year ended March 31, 2018.

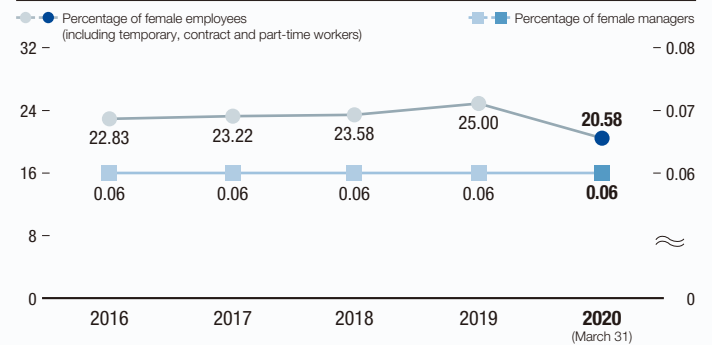
Social

Employees (Number of People)



We prioritize the recruitment of personnel who can flourish at a global company, as well as regional employment as a manufacturer.

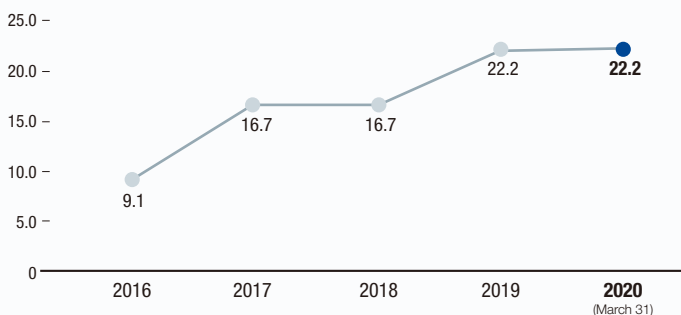
Percentage of Female Employees / Percentage of Female Managers (%)



Our percentage of female managers is currently low. However, we are working to create a working environment more amenable to women through such measures as opening an in-house nursery school.

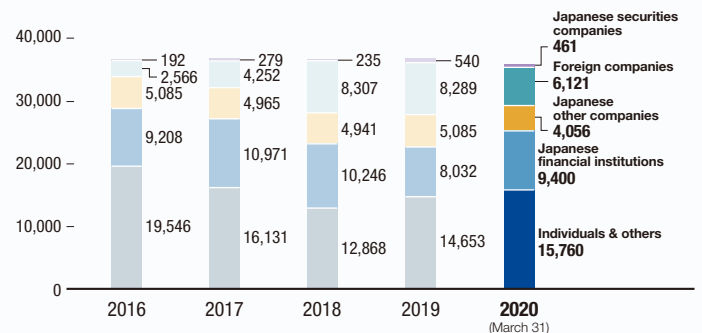
Governance and Other

Ratio of Outside Directors (%)



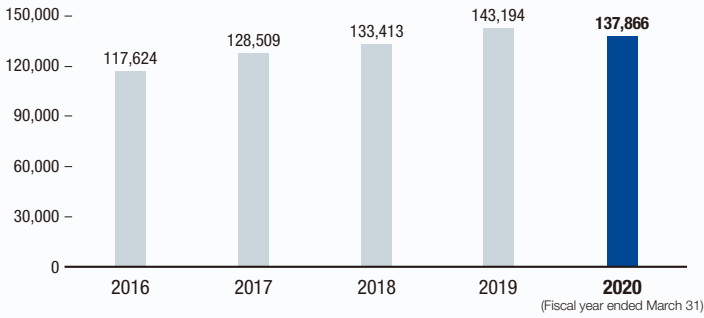
When selecting outside directors, we appoint people who have specialized expertise and management experience.

Shareholder Breakdown by Type (Thousands of shares)



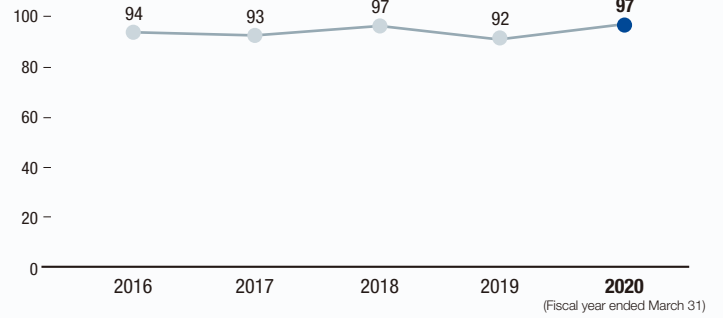
Individual shareholders account for a high percentage of the total, and the number of overseas shareholders has risen in recent years.

Water Consumption (Service Water, Industrial Water)



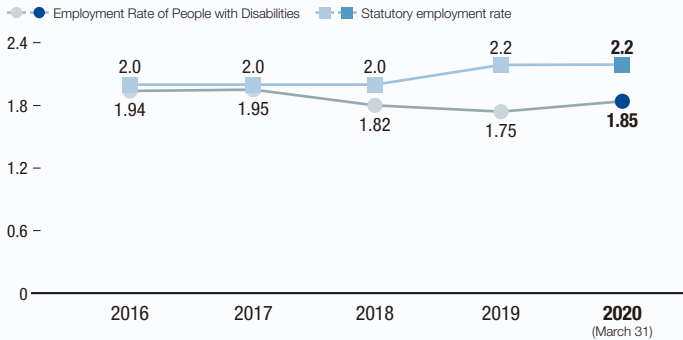
More than 80% of the water the Company consumes is industrial water. Some of this water is used to irrigate the greenery that occupies approximately 30% of our sites.

Comparison of Green Purchasing Amounts (%)



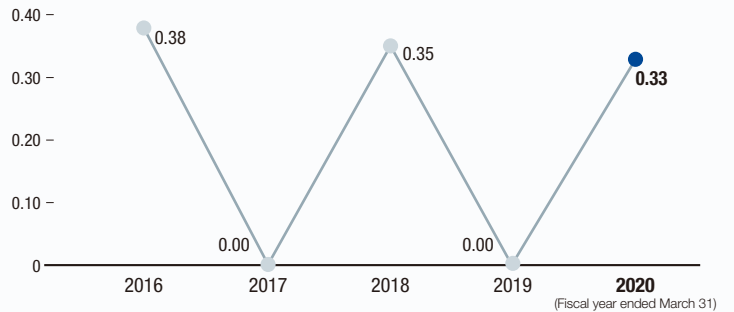
We promote green purchasing initiatives across the Company. For example, we prioritize environmentally friendly goods when purchasing such routine items as office supplies.

Employment Rate of People with Disabilities (%)



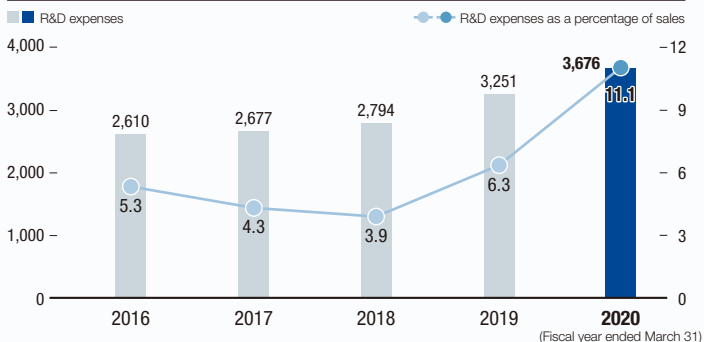
We are working to meet the statutory employment rate by creating a working environment suitable to employees with disabilities.

Frequency Rate of Accidents Resulting in Lost Work Time (One Day or More)



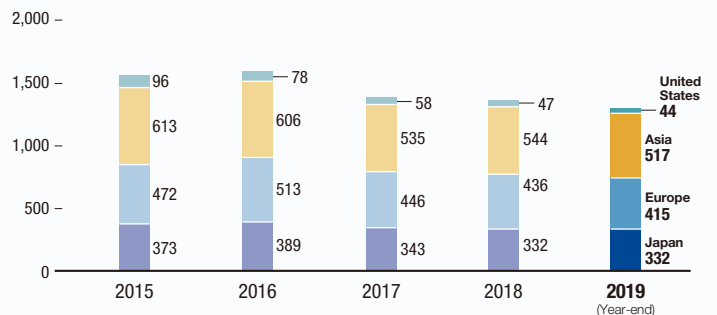
We strive to maintain zero accidents resulting in lost work time through health and safety measures, including periodic workplace inspections.

R&D Expenses (Millions of yen) / R&D Expenses as a Percentage of Sales (%)



In recent years, we have been increasing R&D expenses from a medium-term to long-term perspective.

Patents (Number)



We have invented a number of proprietary technologies. We have more than 1,000 patents that incorporate our expertise in knitting technology.

Taking the Global Environment into Consideration

Environmental Management

We have acquired third-party ISO 14001 verification from an external certifying organization for corporate operations across all products we design, manufacture and sell (acquired on October 1, 2015).

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.



Reducing Factory Waste, Waste Liquids and Emissions

We are working to reduce waste at our factories, which are concentrated in Wakayama.

In the fiscal year ended March 31, 2020, waste volume decreased 27.6% year on year, due in part to a decline in production volume.

Decreasing Paper Use and Promoting a Shift to Electronics

We are making a companywide effort to shift toward the electronic sharing of information. We are transitioning from paper to electronic document storage and reducing the amount of paper we distribute by using projectors and other electronic equipment, making meetings more efficient. In addition, we are moving to data-based process management in our production divisions and taking other initiatives to reduce the amount of paper we use internally.

When we do use paper, we are adopting methods that reduce environmental impact, such as considering printing methods and using recycled paper.

Electric Power

We are working to reduce the amount of electric power used at our factories and headquarters. We have adopted LED lighting and supply electric power using solar and other renewable energy sources. Partly due a decline in production volume in the fiscal year ended March 31, 2020, we reduced our electricity use 14% year on year.



Water Resources

Owing to efforts to reduce water use, in the fiscal year ended March 31, 2020 we decreased the amount used by 3.7% year on year.

Using Fewer Packaging Materials

Through collaboration and cooperation with partner companies, while maintaining product safety we are simplifying our packaging. As a result, we are reducing the amount of packaging materials used in shipping and making packaging more compact and lightweight.

Green Procurement

We promote green procurement, which prioritizes purchases of environmentally conscious products, in an effort to reduce environmental impact. Our target is to reach a green procurement ratio of 100% of purchasing value.

Factory Greening

We are proactively greening company spaces. Green spaces account for around 30% of factory sites, and we have planted some 12,000 trees to help reduce CO₂.

In recognition of these comprehensive factory greening efforts and our contribution to the greening of the community, we received the 2016 Prime Minister's Award for Contributions to Greening Efforts.

Interaction with Employees

Communication between Top Management and Employees

Each month, the president gives a talk at a companywide morning meeting to communicate his messages to employees.

Along with his explanation of management conditions that month, he speaks on particular monthly topics and shares views with employees.



Work Style Reforms

The number of people taking childcare leave rose from 14 to 18.

Having made a five-day paid vacation mandatory, the percentage of people taking their paid holidays has remained above 50% for five consecutive years.

In April 2017, we opened Shima Kids' Land, an in-house nursery school. As of March 31, 2020, the number of children making regular use of the center reached more than 50% of capacity. By such measures as increasing the age of children accepted, we are putting in place an environment that makes it easier for employees to use the school.

Training Programs

We are working to enhance our various training programs, including training for new employees. New employees being assigned to factory sites undergo up to six months of practical training, enabling them to acquire skills that can be put to use immediately upon assignment.

We also conduct language training, as well as training for newly appointed officers and next-generation leaders, to help employees enhance their skills.

Award System

In the aim of making manufacturing attractive, Shima Seiki offers an award for proposing improvements. This award is part of a system to encourage employees to continue going about their work with originality and ingenuity, and working to enhance quality, lower costs, prevent workplace accidents, increase customer satisfaction, gain skills and focus on ecology. The president presents awards to winning employees at a monthly companywide morning meeting.

We have in place an award system that encourages

employees to gain certifications, with the objective of boosting operational levels. Additionally, we introduced an internal system of certifying specialists, such as the WHOLEGARMENT® 1 Specialist Certification.

Being an innovative company, our Invention Committee meets regularly to encourage technological inventions. Every year, we have an award ceremony to recognize excellent inventors. Furthermore, we also commend expert employees with awards at our foundation commemoration ceremonies, which are held once every five years.

Measures to Enhance Employee Motivation

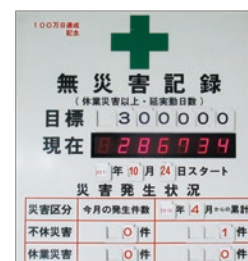
We have a pool and tennis courts on premises that we open to employees' families on holidays. We strive to promote employee health and raise motivation in other ways, as well, such as by encouraging use of green spaces during lunch breaks and allowing employees to use hotels operated by Group companies as recreation facilities.

Occupational Safety Activities

Shima Seiki's Health and Safety Committee meets monthly, and the fiscal year under review corresponds to its 49th year of efforts to ensure employee safety compliance, health promotion and accident prevention. Committee members regularly conduct internal inspections, continually reviewing the white traffic lines inside factories and working to foster a safe and efficient working environment.

• No-Injury Record Board

We display a "no-injury record board." Located on a wall in the employee cafeteria, this board shows the number of employees (people employed directly by Shima Seiki and its two Group manufacturing companies) times the number of days with zero accidents (zero accidents that result in lost work time). Each time we reach a new level—updated at 150,000 days, 300,000 days and 450,000 days—we conduct activities to raise employee safety awareness toward reaching that level.



Interaction with Shareholders and Investors

General Meeting of Shareholders

As Shima Seiki's highest decision-making body, the General Meeting of Shareholders determines important matters and reports on annual business results and consolidated financial statements. Regarding the exercising of voting rights, execution is possible over the Internet using personal computers or smartphones.

Each year, numerous shareholders participate in a factory tour held after the conclusion of the general meeting to give them an opportunity to experience Shima Seiki's advanced technological capabilities firsthand. (This year, we suspended factory tours to help prevent the spread of COVID-19.)



Headquarters factory tour after the General Meeting of Shareholders (2019)

Results Briefings

Results briefings for securities analysts and institutional investors are held in Tokyo twice each year to announce results. (We suspended results briefings in the fiscal year ended March 31, 2020 to help prevent the spread of COVID-19.)

The president and the director in charge of accounting and finance attend the briefings to explain results of operations, performance outlooks, and our medium- to long-term management vision based on medium-term management plans. In addition, the briefings provide an opportunity for Shima Seiki to receive opinions and suggestions regarding the Company's management policies through question-and-answer exchanges with institutional investors.



Results briefing (Tokyo) (2019)

Information Exchanges with Japanese and Overseas Investors

The Shima Seiki Group is working to increase opportunities for dialogue with Japanese and overseas institutional investors. Specifically, we hold regular meetings with Japanese institutional investors. We have also increased opportunities to meet face to face with overseas investors by actively participating in conferences hosted by securities companies. Shima Seiki places importance on overseas IR activities. Going forward, we plan to continue reflecting highly astute feedback from institutional investors in our management.

Utilization of IR Tools

We publish regular shareholder newsletters and annual reports as tools to facilitate better shareholder and investor understanding of our business, management strategies and recent topics. We are also enhancing the IR information posted on our website.



Shareholder newsletter, "To Our Shareholders"

Interaction with Customers

Quality Management

In 2002, we received ISO 9001 certification for Design and Manufacturing of Apparel Design Systems, and we operate accordingly.



Business Continuity Plan (BCP) Activities

Shima Seiki is establishing a system that, in the event of a large-scale natural disaster or accident, enables minimal interruptions to business activities while ensuring the safety of employees, their families and Shima Seiki's stakeholders.

We have put in place seismic countermeasures at factory buildings in anticipation of an earthquake in the Tonankai/Nankai area, as well as a system for confirming employee safety. We also identify potential emergency scenarios to prepare for the rapid resumption of business. In the event a real disaster were to occur, we will establish a Crisis Management Headquarters to respond swiftly based on our business continuity plan.

Research and Development Activities

Since our establishment, in line with our corporate motto "Ever Onward—Limitless Progress" and under our goal to conduct unique technological development based on creativity, we have worked to internally develop hardware and software.

In the Flat Knitting Machine Segment, we are increasing the number of variations for WHOLEGARMENT® flat knitting machines and developing functions to increase the added value of knit products. In addition, we are working to improve the efficiency of knitting operations and develop options that will help reduce labor requirements.

In the Design System Segment, we are striving to enhance functionality of the upgraded SDS®-ONE APEX4 in an ongoing effort to improve operability.

With our P-CAM® series of automatic fabric cutting machines, we are aiming to establish a "total cutting solution." However, we are not only developing our cutting machines; we are also stepping up development aimed at improving productivity and saving labor in the pre- and post-cutting processes, such as spreading, labeling and picking up.



SDS®-ONE APEX4

Interaction with Suppliers

When procuring parts and materials, we make a thorough effort to ensure that suppliers have appropriate standards and production backgrounds. We also prohibit transactions with suppliers who procure through routes that involve antisocial elements or who have materials or processes that do not comply with environmental laws and regulations.

For distributors, in addition to providing guidance on equipment operation we work to build trust-based partner relationships. To this end, we are enhancing training and support and working to reflect issues they raise into the product development process.

Interaction with Local Communities and Society

Participating in Industry–Academia Collaboration Projects

In 2017, we signed an industry–academia collaboration agreement with Wakayama University. Under this accord, we will offer job experience and training to students of this university, providing support to entrepreneurial young people in Wakayama Prefecture.

Commencing Forest Preservation Initiatives through Participation in *Kigyo no Mori* (Company Forest)

In December 2019, Shima Seiki signed agreements with Wakayama Prefecture and regional governments to participate in the prefecture's *Kigyo no Mori* initiative. Over the next 10 years, we will engage in forest preservation efforts such as tree planting and thinning in the "Shima Seiki Amano no Satoyama" in the town of Katsuragi, Wakayama Prefecture.

Sponsoring Sports Promotions

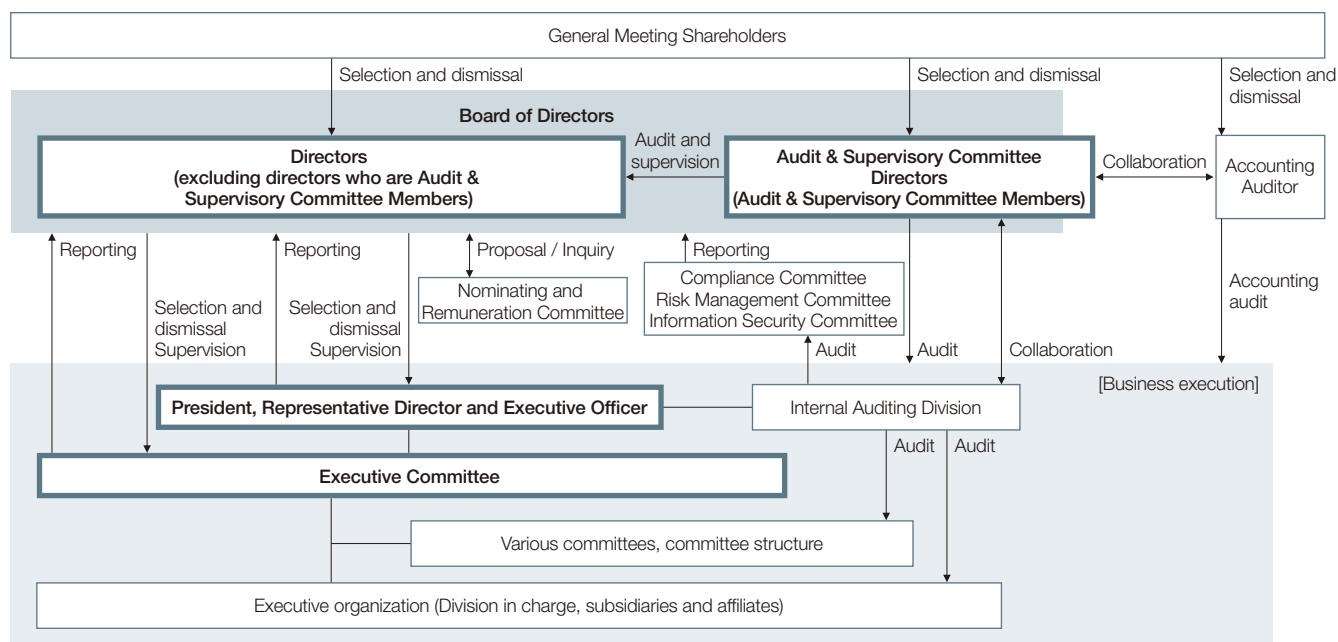
Each year, we sponsor the Shima Seiki Cup, a sailing competition in Wakaura Bay, to cultivate marine sports from Wakayama.

Helping to Create a City of Fine Views and Supporting Volunteer Activities

We concentrate on the environment surrounding our headquarters, promoting efforts to bury utility poles along roads surrounding our headquarters and providing some areas as walkways. We also contribute to the community through cleanups of the area around Wakayama Castle.

Corporate Governance (As of June 25, 2020)

Corporate Governance Organization



Basic Policies and Systems

Shima Seiki places great importance on enhancing corporate governance to improve management efficiency, soundness, and transparency while at the same time conducting management that emphasizes the interests of stakeholders such as shareholders, customers, business partners, and employees. By fully utilizing the functions of the Board of Directors and members of the Audit and Supervisory Committee, we will strive to build a system that enables proper and effective corporate governance.

Governance Structure

Directors/Board of Directors

The Board of Directors consists of 11 people, including 4 outside directors. As a general rule, the Board of Directors meets at least once each month, flexibly as needed, to deliberate on matters stipulated by law and important management matters, determine management policies, and supervise the execution of business. In 2019, the Board of Directors met 12 times.

Audit and Supervisory Committee Members/Audit and Supervisory Committee

The Audit and Supervisory Committee consists of three members, including two outside directors who have specialized knowledge in legal affairs, finance and accounting.

Internal Auditing Division

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

Accounting Audits

The Company has appointed Ohtemae Audit Corporation as its accounting auditor. Regular accounting audits and internal

control audits of the Company by the auditing firm enhance the effectiveness of the audit system.

Internal Control System

Shima Seiki has constructed an internal control system, as stipulated by Japan's Companies Act. In addition to assuring thorough legal compliance, we recognize this system as essential to realize our corporate philosophy and targets by reviewing our operations and reinforcing our corporate structure.

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

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

With regard to internal control over financial reporting, we have constructed a system to rationally ensure the reliability of financial reporting from the standpoint of protecting investors, and we promote fair and impartial disclosure. The Company is also subject to internal control audits by the accounting auditor.

Compliance

The Shima Seiki Group formulated the Shima Seiki Group Code of Conduct in October 2006. The General Rules pledge the Company's resolution to comply with laws and regulations and corporate ethical standards, and we strive to comply with related statutes and respect social norms.

We have formulated a Compliance Program centered on the

See our corporate governance report in the following pages.
<https://www.shimaseiki.co.jp/irj/company/governance.html>

Compliance Committee, conducted regular checks on compliance status, and entrenched compliance systematically through induction courses, distribution of case studies and other initiatives. The Company also constructed a framework for audits to be conducted by the Internal Auditing Division.

In addition to these measures, Shima Seiki has introduced internal and external Corporate Ethics Helplines to communicate information about employees found to have violated laws or to have been involved in other serious misconduct, or to report cases of human rights violations, sexual harassment and other improprieties.

Company Goals (Including Corporate Philosophy), Management Strategy and Management Plan

The Company has formulated its medium-term management plan, disclosing information regarding its corporate philosophy and management plans inside. For more details, please see the Company's homepage.

https://www.shimaseiki.com/ire/plan/pdf/plan2018_2.pdf

Strategic Shareholdings

Shima Seiki retains shares when they are determined to contribute to the Company's sustainable growth and enhance corporate value over the medium to long term through importance to the business or trade relation maintenance, enhancement or cooperation.

We also aim to reduce retained shares that are not deemed to be sufficiently significant.

Each year, the Board of Directors comprehensively considers individual strategic shareholdings to determine the risks involved with retaining them and the benefit that can be obtained by collaborating or maintaining or strengthening business relationships with their associated companies. It then examines the rationality of holding these strategic shareholdings from a medium- to long-term perspective and makes final decisions regarding whether they should be retained or reduced.

With regard to the execution of voting rights involved with strategic shareholdings, proposals are carefully examined and executed appropriately after determining whether or not they contribute to an increase in shareholder value.

Securing Effectiveness in the Board of Directors and Audit and Supervisory Committee

To facilitate an effective and efficient Board of Directors function, the board comprises an appropriate number of 10 or fewer directors (excluding directors who also members of the Audit and Supervisory Committee) and five or fewer directors who are also members of the Audit and Supervisory Committee. We carefully consider director selections, ensuring that the board is diverse and has an optimal balance of knowledge, experience, ability and expertise.

We appropriately ensure that at least one third of directors serving on the board are independent outside directors who meet independence standards for outside officers and are capable of fulfilling their required roles and responsibilities. This allows the outside directors to contribute to the sustainable growth of the Company and the medium- to long-term enhancement of

corporate value. Additionally, we ensure that candidates for outside director include individuals with management experience.

Currently the Board of Directors has eight directors (excluding directors who are also members of the Audit and Supervisory Committee), two of whom are independent outside directors and corporate managers in different business fields. Three other directors on the board, two of whom are independent outside directors, are also members of the Audit and Supervisory Committee. Each of these three directors has expertise in finance, accounting and legal fields.

With regard to diversity, we currently have two women serving as directors, and, in terms of internationality, we have appointed directors with abundant international experience.

(Analysis and evaluation concerning the effectiveness of the Board of Directors)

1. Evaluation method

A questionnaire was distributed to directors and auditors who used a graded evaluation and comments to evaluate the effectiveness of the Board of Directors. The results were analyzed and assessed by the Board of Directors.

2. Overview of evaluation results

Evaluation results determined that the Company's Board of Directors must make further improvements to raise its effectiveness. Upon reviewing these results, the Board of Directors has become aware of the need to strengthen initiatives aimed at improving discussions regarding topics such as the board's composition and medium- to long-term management strategies, as well as enhancing oversight of successor training processes to augment the Board of Directors' effectiveness.

3. Future response

Based on these evaluation results, we have decided to strengthen the auditing and supervisory functions of our Board of Directors while further enhancing corporate governance. At the same time, we have reached the decision to transition into a company with an Audit and Supervisory Committee with the goal of further raising the effectiveness of our Board of Directors. We plan to achieve this goal by delegating some of the authority over important business execution decisions, which previously belonged to the overall board, to individual directors, thereby streamlining the decision-making process and increasing managerial efficiency.

Moving forward, the Company's Board of Directors will conduct further review aimed at enhancing and stimulating discussion within the Board of Directors and will work to further increase its effectiveness.

Director Training

The Board of Directors is encouraged to make an effort to study and acquire the knowledge necessary for directors to appropriately fulfill the roles and responsibilities expected of them and to update such knowledge appropriately. To this end, training opportunities are provided and arranged, and all required expenses are provided by the Company. In addition, outside directors are provided with opportunities, such as business briefings and forums for exchanging views, to facilitate an even deeper understanding of Shima Seiki's operations.

Corporate Governance

Policies and Procedures Applied when the Board of Directors Determines Remuneration for Executives and Directors (excluding those who also members of the Audit and Supervisory Committee)

We ensure that remuneration for directors (excluding directors who are also members of the Audit and Supervisory Committee) is commensurate with the roles and responsibilities of each director and have established a compensation system that enhances incentives for directors to achieve sustainable growth and increase corporate value over the medium to long term. Accordingly, remuneration for these directors comprises basic remuneration and bonuses linked to performance in the corresponding fiscal year that are offered as short-term incentives. Furthermore, we have incorporated into the compensation structure stock options that are intended to serve as medium- to long-term incentives. Moreover, we have limited outside director compensation to basic remuneration out of consideration for their roles and experience.

When making decisions regarding director remuneration, the Nominating and Remuneration Committee, which is chaired by an outside director, conducts discussions and submits a report to the Board of Directors, which then makes final judgments. This process is designed to raise the transparency and objectivity of decisions concerning director remuneration.

Policies and Procedures Applied when the Board of Directors Appoints and Dismisses Leading Managers and Nominates Director Candidates

We nominate candidates for the position of director (not including directors who are also members of the Audit and Supervisory Committee) based on judgments regarding the overall balance of knowledge, experience, capability and expertise required for directors to fulfill their duties and responsibilities effectively and the ideal balance between the diversity and size of the Board of Directors.

We appropriately ensure that at least one third of directors serving on the board are independent outside directors who meet

independence standards for outside officers and are capable of fulfilling their required roles and responsibilities. This enables the outside directors to contribute to the sustainable growth of the Company and the medium- to long-term enhancement of corporate value. We also ensure that our lineup of outside directors includes individuals with management experience.

We select candidates for directors serving on the Audit and Supervisory Committee based on judgments regarding the overall balance of knowledge, experience, capability and expertise required for committee members to fulfill their duties and responsibilities, and also ensure that selected candidates will contribute to the diversity of the committee. Furthermore, we make certain that candidates for directors serving on the Audit and Supervisory Committee include individuals with appropriate knowledge regarding finance and accounting.

To ensure that we select director candidates, representative directors and executive directors with the highest possible levels of transparency and objectivity, the Nominating and Remuneration Committee, which is chaired by an outside director, holds discussions regarding all relevant matters and reports to the Board of Directors, which then makes a final decision. Additionally, the Company obtains prior approval from the Audit and Supervisory Committee before selecting candidates for directors who also serve on the committee.

When directors, representative directors or executive directors violate laws and ordinances or the Company's Articles of Incorporation, or the Company otherwise discovers disqualifying factors associated with individuals serving in these positions that could damage its corporate value, the Nominating and Remuneration Committee holds discussions regarding potential dismissal.

Transactions Between Related Parties

In the event of transactions conducted with Shima Seiki directors, legal entities materially controlled by Shima Seiki directors or major shareholders, the matter is referred to the Board of Directors in advance to obtain approval. We report all cases in which these transactions are approved.

Outside Director Main Activities and Reason for Appointment

Category Name	Board of Directors (Met 12 times)	The Audit & Supervisory Board (Met 13 times)	Reason for appointment
Outside Director Yoshio Ichiryu	Attended 12 times	—	Appointed as an outside director for his abundant experience in the areas of economics and industrial policy, as well as a wide range of experience and insight into overall management as a corporate manager.
Outside Director Rieko Zamma	Attended 12 times	—	Appointed as an outside director for her abundant experience as a producer involved in event planning and public relations strategy, as well as a wide range of experience and insight into overall management as a corporate manager.
Outside Director (Audit and Supervisory Committee Member) Daisuke Shinkawa	Attended 11 times	Attended 12 times	Mr. Shinkawa has substantial experience as a certified public accountant and certified tax accountant. He has been judged capable of contributing to the health and transparency of the management of the Company, and has accordingly been chosen as an outside director who is a member of the Audit & Supervisory Committee.
Outside Director (Audit and Supervisory Committee Member) Sachiko Nomura	Attended 12 times	Attended 13 times	Ms. Nomura has substantial experience as an attorney. She has been judged capable of contributing to the health and transparency of the management of the Company as an outside director who is a member of the Audit & Supervisory Committee.

* The Company transitioned to a company with an Audit & Supervisory Committee as of the Ordinary General Meeting of Shareholders held in June 2020. Mr. Daisuke Shinkawa and Ms. Sachiko Nomura were newly chosen as directors who are members of the Audit & Supervisory Committee.

Directors and Executive Officers (As of June 25, 2020)

**Chairman,
Representative Director**
Masahiro Shima



**President,
Representative Director and
Executive Officer**
Mitsuhiro Shima



Director of Sales Headquarters in charge of Total Design Center and Corporate Planning Division

**Executive Director,
Executive Officer**
Reiji Arikita



General Manager of Material Purchasing Division, in charge of Production Headquarters

Director, Executive Officer
Ikuto Umeda



CEO of SHIMA SEIKI (HONG KONG) LTD.

Director, Executive Officer
Takashi Nanki



Director of Administrative Headquarters in charge of Physical Distribution Division

Director, Executive Officer
Hirokazu Nishitani



Director of Development Headquarters

Outside Director

Yoshio Ichiryu



President & CEO, Ichiryu Associates, Inc.

Outside Director

Rieko Zamma



CEO, CANDID PRODUCE, Inc.

**Director
(Audit and Supervisory
Committee Member)**
Hisahito Totsui



**Outside Director
(Audit and Supervisory Committee
Member)**

Daisuke Shinkawa



Representative Partner, HOKUTO tax accountant office

**Outside Director
(Audit and Supervisory Committee
Member)**

Sachiko Nomura



Partner Attorney, DOJIMA LAW OFFICE

Executive Officers

(Excluding those concurrently serving as directors)

Hirofumi Imai

Manager of General Affairs and Personnel Division

Akihiro Ohtani

Manager of Production Headquarters

Shosaku Kitagawa

Manager of Corporate Planning Division

Yoshinori Shimasaki

Director of Development Headquarters

Transitioning to a Company with an Audit & Supervisory Committee

Shima Seiki transitioned to a company with an Audit & Supervisory Committee following approval at the Ordinary General Meeting of Shareholders in June 2020. The aim of the transition is to strengthen the audit and supervisory functions of the Board of Directors and enhance corporate governance by establishing an Audit

& Supervisory Committee with outside directors making up the majority of members. In addition, the Company aims to accelerate decision-making and augment management efficiency by delegating to directors some of the Board of Directors' authority to decide important matters of business execution.

Financial Section

Five-Year Financial Summary

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

	2020	2019	2018	2017	2016	2020
For the Year:						Thousands of U.S. dollars
		Millions of yen				
Net sales	¥33,206	¥51,353	¥71,858	¥62,433	¥49,583	\$305,118
Cost of sales	21,577	28,197	38,420	33,385	26,238	198,263
Gross profit	11,629	23,156	33,438	29,048	23,345	106,855
Selling, general and administrative expenses	17,232	18,517	18,532	17,786	17,563	158,339
Operating income (loss)	(5,603)	4,639	14,906	11,262	5,782	(51,484)
Income (loss) before income taxes and minority interests	(6,552)	5,100	15,443	9,979	4,803	(60,205)
Net income (loss) attributable to owners of the parent	(8,428)	3,835	11,279	7,199	3,271	(77,442)
Net cash provided by (used in) operating activities	3,776	9,936	9,398	6,989	1,257	34,696
Net cash provided by (used in) investing activities	(3,086)	(873)	(4,844)	(1,242)	(2,350)	(28,356)
Net cash provided by (used in) financing activities	(5,555)	(6,540)	1,731	2,470	(1,776)	(51,043)
Capital investment	3,802	4,483	4,000	3,559	2,128	34,936
Depreciation and amortization	2,454	2,195	2,105	1,833	1,590	22,550
Research and development expenses	3,676	3,251	2,795	2,677	2,610	33,777
At Year-End:						Thousands of U.S. dollars
		Millions of yen				
Total assets	¥130,695	¥145,146	¥154,338	¥141,931	¥126,416	\$1,200,910
Net assets	107,950	121,166	123,492	104,880	98,293	991,914
Per Share Data:						U.S. dollars
		Yen				
Net income (loss) per share	¥(239.68)	¥105.62	¥316.82	¥209.97	¥95.61	\$(2.20)
Cash dividends per share applicable to the year	35.00	55.00	60.00	45.00	37.50	0.32
Net assets per share	3,126.86	3,411.08	3,381.85	3,039.66	2,867.00	28.73
Ratios:		%				
Ratio of operating income (loss) to net sales	(16.9)%	9.0%	20.7%	18.0%	11.7%	
ROA = Return on assets	(6.1)	2.6	7.6	5.4	2.6	
ROE = Return on equity	(7.4)	3.1	9.9	7.1	3.3	
Equity ratio	82.6	83.5	80.0	73.8	77.6	

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥108.83=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2020.

MD&A

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

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

Overview

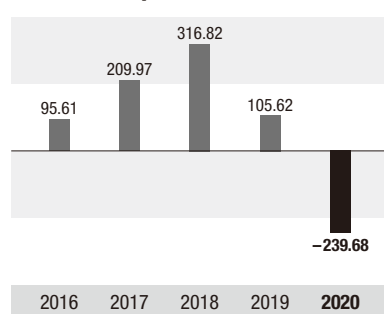
During the fiscal year under review, market sentiments within the manufacturing industry deteriorated due to ongoing protectionist international trade policies in the U.S., and production in the European manufacturing industry declined while exports trended downward. Both domestic demand and capital investment stagnated in China, while sluggish exports contributed to a sense of deceleration in Japan. Furthermore, prospects for the global economy became even more severe as the novel coronavirus pandemic began its global spread in China during the fourth quarter.

Under these conditions, the apparel industry, which the Shima Seiki Group supplies with products, was characterized by notable efforts to curb overproduction of goods and limit inventory quantities in response to concerns regarding economic prospects and initiatives focused on reducing environmental burdens. Willingness to conduct capital investment in factories was also low.

To resolve user industry issues like these, the Group focused on arousing investor interest, marketing its shift to a manufacturing system that leverages the Company's products and is based on timely production of appropriate quantities. However, these efforts did not lead to a recovery in sales, and consolidated net sales for the fiscal year ended March 31, 2020 came to ¥33,206 million, down 35.3% from the preceding fiscal year.

Due in part to the substantial decline in sales and deterioration in gross profit margin caused by production adjustments, the Company recorded operating loss of ¥5,603 million (versus operating income of ¥4,639 million in the previous fiscal year) and ordinary loss of ¥5,583 million (versus ordinary income of ¥4,991 million in the previous fiscal year). The bottom line also declined by a wide margin, as the Company posted ¥8,428 million in net loss attributable to owners of the parent (versus net income of ¥3,835 million in the previous fiscal year) due primarily to loss on valuation of investment securities and

Net Income per Share (¥)



other extraordinary loss, as well as reversal of deferred tax assets. Meanwhile, earnings per share (EPS) fell to -¥239.68, down from ¥105.62 in the previous fiscal year.

Shima Seiki considers the return of profits to shareholders one of its highest management priorities. Our fundamental policy is to continue providing stable dividends over the long term in line with sustainable business expansion. Accordingly, we have decided to issue a year-end dividend of ¥15 per share, which, when combined with our previous interim dividend of ¥20 per share, will generate an annual dividend of ¥35 per share.

Net Sales

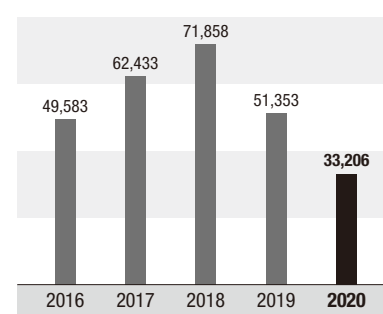
In the core Flat Knitting Machine Segment, capital investment plans for OEM production factories in China, Bangladesh, Vietnam, and other Asian regions were revised due to a decrease in orders for apparel for sold in developed countries. Sales of computerized flat knitting machines fell as a result. The Chinese market has experienced a recent shift from OEM production toward local and domestic production of high value-added products based on planning and proposals. As a result of this trend, installations of WHOLEGARMENT® flat knitting machines had been expanding. However, unit sales for these devices fell due to sluggish domestic demand.

In the Middle Eastern nation of Turkey, production of apparel for sale in Europe grew in the third and fourth quarters, and capital investment was recovering. However, sales for the entire year in Turkey did not reach the same levels as the previous fiscal year.

Overall sales of computerized flat knitting machines in the markets of developed countries in Europe and North America, as well as Japan, fell in comparison to the previous fiscal year.

In addition to these conditions, the global spread of the novel coronavirus pandemic in the fourth quarter caused operational suspensions at factories around the world and interruptions to sales activities. These adverse

Net Sales (¥ Million)



conditions resulted in sluggish sales.

Consequently, sales in the Flat Knitting Machine Segment were ¥22,878 million, down 41.0% year on year.

In the Design System Segment, the Company launched SDS®-ONE APEX4, an apparel design system with processing speeds of up to six times faster than those of previous models, and proposed a shift toward a groundbreaking production and distribution business model that takes full advantage of high-quality 3D virtual simulations. Despite these efforts, segment sales fell along with slumping computerized flat knitting machine sales.

Sales of P-CAM® automatic fabric cutting machines fell in both Japan and overseas markets due to declining demand in the textiles field.

As a result, sales in the Design System Segment were ¥3,611 million, down 17.6% year on year.

Sales in the Glove and Sock Knitting Machine Segment fell 32.2% year on year to ¥1,054 million, due to a decline in capital investment from major users.

In the Other Business Segment, sales were ¥5,663 million, down 14.3% year on year, and primarily comprised sales of maintenance parts, woolen yarn, and knitwear.

Overseas sales across all segments were ¥26,202 million, down 38.7% year on year, and overseas sales accounted for 78.9% of sales overall (-4.3 percentage points year on year). Sales in Asia accounted for a larger share of overall sales, taking up 48.7% (56.1% in the previous fiscal year), while Europe accounted for 18.9% (17.4%), the Middle East 7.6% (6.3%) and other regions 3.7% (3.4%).

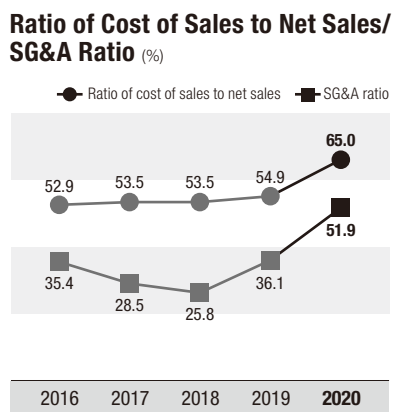
In the Japanese market, sales declined 18.6% year on year to ¥7,003 million, due to lower sales in both the Flat Knitting Machine Segment and the Design System Segment.

Cost of Sales and SG&A Expenses

Cost of sales fell to ¥21,577 million, lower than the previous fiscal year, due to sluggish sales of computerized flat knitting machines.

Gross profit fell 49.8% year on year to ¥11,629 million due to the substantial decline in sales and production adjustments. Meanwhile, gross profit margin was 35.0%.

SG&A expenses



dropped to ¥17,232 million, down 6.9% year on year.

This decline was due to a downward slide in product shipments that caused a reduction in sales commissions paid and in shipping and packing expenses. The Company's efforts to reduce personnel expenses also contributed to the decrease in SG&A expenses. However, this decrease could not compensate for the substantial decline in sales, and the SG&A-to-sales ratio rose 15.8 percentage points year on year to 51.9%.

Operating Income

Due in part to the substantial decline in sales and deterioration in gross profit margin accompanying production adjustments, the Company posted an operating loss of ¥5,603 million. In the Flat Knitting Machine Segment, the Company recorded operating income of ¥349 million, down 96.0% year on year, and ¥308 million, down 67.4% year on year, in the Design System Segment. Meanwhile, operating loss was ¥49 million in the Glove and Sock Knitting Machine Segment, compared with operating income of ¥238 million in the previous fiscal year, and the Company posted operating income of ¥317 million in the Other Business Segment, down 68.2% year on year. However, after subtracting ¥6,528 million in Companywide expenses from total operating income across all segments, the Company's consolidated financial statements reflected operating loss.

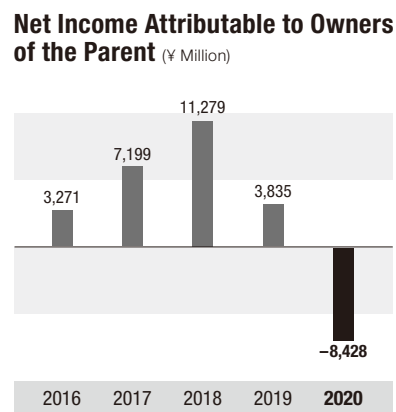
Other Income and Expenses

Other income was lower than other expenses, leading to net other losses of ¥949 million, compared with net other income of ¥461 million in the previous fiscal year. The year-on-year decline was due to foreign exchange losses.

Net Income Attributable to Owners of the Parent

Loss before income taxes was ¥6,552 million, compared with income before income taxes of ¥5,100 million in the previous fiscal year.

Corporate income, residential and enterprise taxes totaled ¥395 million, down ¥601 million from the previous fiscal year. Corporate income tax adjustments amounted to ¥1,481 million



(versus ¥268 million in the previous fiscal year). As a result, the Company's tax burden after the application of tax effect accounting was ¥1,876 million, up ¥612 million from the previous fiscal year.

Consequently, net loss attributable to owners of the parent was ¥8,428 million, compared with net income attributable to owners of the parent of ¥3,835 million in the previous fiscal year.

Liquidity and Capital Resources

As of March 31, 2020, cash and cash equivalents were ¥21,582 million, down from one year earlier. Despite net loss before income taxes, net cash provided by operating activities was ¥3,776 million, due primarily to depreciation and a decrease in trade receivables.

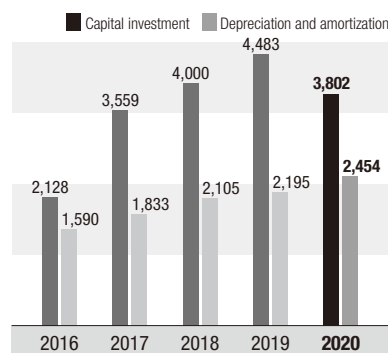
Net cash used in investing activities was ¥3,086 million, primarily due to the purchase of property, plant, and equipment, as well as investment security expenditures.

Net cash used in financing activities was ¥5,555 million, caused mainly by the purchase of treasury shares and the payment of dividends.

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 82.6% and 517.4%, respectively, implying an extremely good financial position.

Moving forward, 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 sound financial position and vigorous sales efforts and by maintaining growth to secure the working funds and funds for capital investment required for stable growth.

Capital Investment/ Depreciation and Amortization (¥ Million)



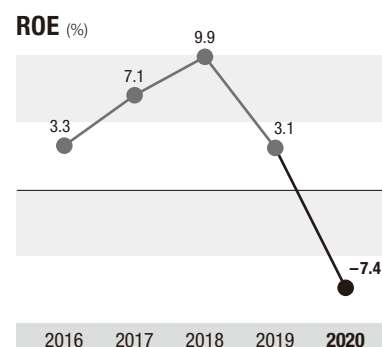
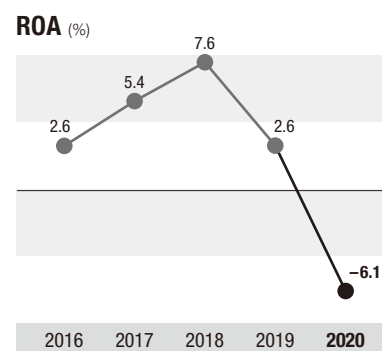
Assets, Liabilities and Net Assets

As of March 31, 2020, consolidated total assets were ¥130,695 million, down ¥14,451 million year on year. Current assets were ¥89,471 million (down ¥13,383 million, or 13.0%, year on year), declining primarily because of year-on-year decreases of ¥5,280 million in cash and deposits and ¥5,536 million in notes and accounts receivable. Current liabilities were ¥17,293 million (down ¥1,670 million, or 8.8%, year on year), with the contraction mainly caused by year-on-year downturns of ¥372 million in accounts payable and ¥717 million in short-term borrowings.

Meanwhile, non-current assets were ¥41,224 million (down ¥1,068 million, or 2.5%, year on year), and non-current liabilities were ¥5,452 million (up ¥435 million, or 8.7%, year on year).

Net assets amounted to ¥107,950 million (down ¥13,216 million, or 10.9%, year on year), decreasing primarily due to a decline in retained earnings and the retirement of treasury shares. Consequently, the equity ratio was 82.6% as of March 31, 2020, down 0.9 percentage points year on year.

The return on assets (ROA) ratio declined to -6.1% (down from 2.6% as of March 31, 2019), and the return on equity (ROE) ratio fell to -7.4% (down from 3.1% as of March 31, 2019) as the Company posted loss for the fiscal year under review.



Business Risks and Uncertainties

Business Risks and Uncertainties

The Shima Seiki Group recognizes the following items as risk factors that could impact its business results or financial standing as it endeavors to expand its operations.

The Group has acknowledged of these risks and strives to both prevent them and respond appropriately when they become reality. All matters related to the future included in the text below are based on judgments made by the Group as of March 31, 2020.

(1) Reliance on specific overseas markets

The apparel business is labor-intensive, and production within this business is accordingly conducted in regions where labor costs are low. Due to this trend, in recent years, production has been notably shifting from China, the top manufacturing nation in the world, to other parts of Southeast Asia. Approximately 80% of the Group's sales are generated overseas, and about 50% come from Asian markets. These markets are important production centers in the global apparel industry and business discussions concerning flat knitting machines are increasing in scale within these markets. Consequently, the Group's performance is subject to substantial fluctuation caused by changes in competitive environments, governmental policies, and other factors related to regions within these markets. Flat knitting machines are a type of industrial equipment, and the Group's order receiving environment is therefore susceptible to impact from a variety of factors, including changes to industrial structures and the timing of active investment in new equipment and equipment upgrades. In response to these circumstances, the Group is making proposals related to manufacturing within consumption areas, achieved through the sale of its WHOLEGARMENT® flat knitting machines, which enable on-demand production.

(2) Exchange rate fluctuation

Overseas sales account for approximately 80% of the Group's overall sales. Accordingly, the Group conducts transactions denominated in currencies other than the Japanese yen. Consequently, the Group's business performance and financial conditions are subject to impact from rapid exchange rate fluctuations. Sales denominated in U.S. dollars accounted for about 50% of all foreign currency sales in FY2019 and were generated in markets in Asia and North and South America. Meanwhile, euro-denominated transactions produced about 30% of sales in FY2019 and emerged from the European market and the Turkish market in the Middle East. The Group also conducts transaction in the Korean won and the British pound.

As indicated in addendums attached to its consolidated financial statements (related to derivatives trading), the Group is hedging risks primarily through the formation of forward exchange agreements concerning foreign currency

receivables recorded as trade receivables.

(3) Credit and recovery of trade receivables

Trade receivables related to the Flat Knitting Machine Segment account for most of the Group's overall trade receivables. Many users require long periods of time between raw material procurement and product sales. Consequently, conducting debt collection over considerable lengths of time is a common business practice within the industry. In accordance with these circumstances, the Group is strengthening its direct credit management of users in core regions. Recently, Asian markets have been characterized by large-scale production activities driven by growth in global apparel and knitwear manufacturers. As a result, per-company transaction amounts are trending upward.

To reduce collection risk, the Group is securitizing its receivables and promoting lease transactions. At the same time, it is equipping its flat knitting machines with password management systems and constructing mechanisms that facilitate timely payment. Furthermore, the Group conservatively records allowances delayed collections and other similar contingencies.

(4) Challenges related to intellectual property protection strategies

The Group may not be completely able, or could be entirely unable, to protect its intellectual property rights regarding original technologies and expertise in some cases due to factors such as deficiencies in legal compliance awareness. The WHOLEGARMENT® flat knitting machine is a strategic model for the Group and accounts for approximately half of sales in the Flat Knitting Machine Segment. As a result, the Group's business will be susceptible to substantial impact if imitative products created through patent infringement enter circulation. In view of these risks, the Group has established an Intellectual Property Department through which it regularly monitors possible patent infringement from other companies. In addition, it has established a systemic framework through which it can send warning notices or conduct legal proceedings as necessary in response to infringements.

(5) Overconcentration of manufacturing bases

The Company has endeavored to reduce costs and raise efficiency by concentrating its production in Wakayama Prefecture, where its headquarters is located, and establishing a fully integrated manufacturing system that spans from development to production. Due to this strategy, production lines could potentially be halted for long periods of time if large-scale earthquake disasters or serious infectious disease outbreaks occur nearby Wakayama Prefecture. To protect itself from risk, the Company maintains a general-purpose product inventory equivalent to approximately one month of sales. However, its sales will be susceptible to direct impact if they are exposed to factors such as changes in storage conditions, stagnating distribution, or other even more consequential

circumstances. The Company's manufacturing system is constructed based on daily production, so any ongoing suspension of operations will also have a dramatic impact on performance. In response, the Company has formulated a business continuity plan with the goal of minimizing the duration of potential suspensions and is establishing systems that will enable quick recovery.

(6) Changes in apparel consumption trends, inclement weather, etc.

The Group's primary customers are domestic and overseas manufacturers of apparel and knitwear. Accordingly, the Group is exposed to potential impact from sluggish apparel sales and changes in consumption styles. Knitwear products are primarily characterized by strong seasonality. For this reason, excess inventories caused by warm winters or other inclement weather can impact production trends during the following year. Capital investment decline or other circumstances resulting from this impact could potentially affect the Group's business performance and financial conditions.

To protect itself from this risk, the Company is striving to propagate the use of its knitting technologies in fields other than apparel under the slogan "KNITify the World."

(7) Information security

Information systems are a material factor for the Group. Its information and telecommunication systems could potentially malfunction or develop flaws due to factors such as human error; mechanical failure; faulty service from telecommunications carriers or other third parties; cyberattacks; hacking and other unauthorized access; or computer virus infections. These malfunctions and flaws could subsequently lead to erroneous or delayed transaction processing; information leaks; or other infelicitous circumstances that could potentially impact business performance or financial conditions.

In response, the Group has established an information security policy and a code of conduct regarding director and employee handling of information. At the same time, it is conducting ongoing activities aimed at raising awareness of its physical and technological information security measures through its Information Security Committee.

(8) Changes to societal systems and other relevant factors in regions targeted for business expansion

Due to globalization of the economy, supply chain management in the apparel industry is simultaneously expanding to a global scale. For this reason, the industry is labor-intensive and much of its manufacturing is conducted in regions with low labor costs. Capital investment trends in the industry are subject to substantial impact from economic issues resulting from factors such as trade friction between consumer nations and manufacturing nations. This impact can potentially become even larger when the nations involved have large trade volumes, as is the case in recent trade friction between the U.S. and China.

In response to this risk, the Group is making proposals

related to manufacturing projects within the regions in which they will be consumed, such as Japan and Europe, and aims to implement these proposals through sales of its WHOLEGARMENT® flat knitting machines, which enable on-demand production.

(9) Disasters, etc.

The Group's business is susceptible to impact from natural disasters such as earthquakes, typhoons, and tsunamis; fires; power failures; pandemics; international conflict; and other similar adverse circumstances.

1. Impact on sales

The Group's sales activities could potentially be obstructed when the impact of these adverse circumstances spreads to Asian markets (China, Vietnam and other ASEAN nations, Bangladesh), which include the Group's primary customers; Italy and other European markets; and Turkey and other Middle Eastern markets. In the very worst of cases, the Group may be forced to suspend sales activities, which would create difficulty in meeting numerical targets.

If adverse circumstances continue over the long term, the Company's business performance could incur substantial impact. Furthermore, these circumstances could affect user manufacturing and lead to cash flow issues that generate substantial trade receivable collection risk (more details in "3. Credit and recovery of trade receivables").

2. Impact on production

Prolonged adverse circumstances could also cause component shortages that force production stoppages. As detailed in "5. Overconcentration of manufacturing bases," production suspensions would have an enormous impact on performance.

This impact could potentially grow even larger if disasters or other similar adverse circumstances occur in between the beginning of January and the end of March (fourth quarter of the Group's consolidated fiscal year), when capital investment demand is high.

Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
ASSETS			
Current assets:			
Cash and time deposits (Note 3,4)	¥21,641	¥26,921	\$198,851
Trade notes and accounts receivable (Note4)	51,249	56,785	470,909
Inventories (Note 6)	18,411	19,288	169,172
Prepaid expenses and other current assets	1,267	1,854	11,642
Less: allowance for doubtful accounts	(3,097)	(1,994)	(28,457)
Total current assets	89,471	102,854	822,117
Investments and other assets:			
Investments in unconsolidated subsidiaries (Note 4)	569	601	5,228
Investments in securities (Note 4,5)	6,965	7,270	63,999
Net defined benefit assets (Note 9)	1,277	1,156	11,734
Deferred tax assets (Note 12)	499	1,596	4,585
Goodwill	2,566	2,987	23,578
Other	4,351	5,650	39,980
Less: allowance for doubtful accounts	(1,967)	(2,547)	(18,074)
Total investments and other assets	14,260	16,713	131,030
Property, plant and equipment:			
Land (Note 7)	12,159	11,665	111,725
Buildings and structures	27,106	26,936	249,067
Machinery and equipment	6,912	6,818	63,512
Tools, furniture and fixtures	7,953	7,762	73,077
Leased assets	8,331	7,340	76,551
Construction in progress	1,371	213	12,598
	63,832	60,734	586,530
Less: accumulated depreciation	(36,868)	(35,155)	(338,767)
Property, plant and equipment, net	26,964	25,579	247,763
Total assets	¥130,695	¥145,146	\$1,200,910

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 4,8)	¥8,162	¥8,879	\$74,998
Lease obligation	952	819	8,748
Trade notes and accounts payable (Note 4)	2,113	2,485	19,416
Electronically recorded obligations-operating (Note 4)	416	520	3,822
Accrued expenses	1,728	1,857	15,878
Accrued income taxes	119	168	1,093
Other current liabilities	3,803	4,235	34,944
Total current liabilities	17,293	18,963	158,899
Long-term liabilities:			
Long-term accounts payable	975	993	8,959
Lease obligation	2,932	2,862	26,942
Deferred tax liabilities (Note 12)	498	1	4,576
Deferred tax liabilities for land revaluation (Note 7)	23	23	211
Net defined benefit liability (Note 9)	731	726	6,717
Other long-term liabilities	293	412	2,692
Total long-term liabilities	5,452	5,017	50,097
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2020 — 35,800,000 shares			
2019 — 36,600,000 shares	14,860	14,860	136,543
Capital surplus	23,424	25,868	215,235
Retained earnings	81,414	91,441	748,084
Treasury stock, at cost			
2020 — 1,288,926 shares			
2019 — 1,088,459 shares	(3,937)	(3,743)	(36,176)
Total shareholders' equity	115,761	128,426	1,063,686
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	306	64	2,812
Land revaluation difference (Note 7)	(7,004)	(7,004)	(64,357)
Foreign currency translation adjustments	(1,489)	(771)	(13,682)
Remeasurements of defined benefit plans	336	418	3,087
Total accumulated other comprehensive income	(7,851)	(7,293)	(72,140)
Subscription rights to share (Note 14)	26	19	239
Non-controlling interests in consolidated subsidiaries	14	14	129
Total net assets	107,950	121,166	991,914
Total liabilities and net assets	¥130,695	¥145,146	\$1,200,910

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net sales	¥33,206	¥51,353	\$305,118
Cost of sales	21,577	28,197	198,263
Gross profit	11,629	23,156	106,855
Selling, general and administrative expenses (Note 13)	17,232	18,517	158,339
Operating income (loss)	(5,603)	4,639	(51,484)
Other income (expenses):			
Interest and dividend income	580	494	5,329
Interest expense	(199)	(456)	(1,829)
Foreign exchange loss	(812)	(238)	(7,461)
Provision of allowance for doubtful accounts	(43)	(50)	(395)
Other, net	(475)	711	(4,365)
Income (loss) before income taxes	(6,552)	5,100	(60,205)
Income taxes (Note 12):			
Current	395	996	3,629
Deferred	1,481	268	13,608
	1,876	1,264	17,237
Net income (loss)	(8,428)	3,836	(77,442)
Net income attributable to non-controlling interests	0	1	0
Net income (loss) attributable to owners of the parent	¥(8,428)	¥3,835	\$(77,442)
		Yen	U.S. dollars
Net income (loss) per share:			
Basic	¥(239.68)	¥105.62	\$(2.20)
Diluted	—	105.54	—
Cash dividends applicable to the year	35.00	55.00	0.32

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income (loss)	¥(8,428)	¥3,836	\$(77,442)
Other comprehensive income (Note 15):			
Net unrealized holding gain (loss) on securities	243	(878)	2,233
Foreign currency translation adjustments	(719)	564	(6,607)
Remeasurements of defined benefit plans	(82)	(9)	(753)
Total other comprehensive income	(558)	(323)	(5,127)
Comprehensive income	¥(8,986)	¥3,513	\$(82,569)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥(8,985)	¥3,512	\$(82,560)
Comprehensive income attributable to non-controlling interests	(1)	1	(9)

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, 2020 and 2019

	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	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2018	36,600	¥14,860	¥25,868	¥89,979	¥(258)	¥942	¥(7,004)	¥(1,335)	¥427	—	¥13	¥123,492
Net income attributable to owners of the parent	—	—	—	3,835	—	—	—	—	—	—	—	3,835
Cash dividends	—	—	—	(2,373)	—	—	—	—	—	—	—	(2,373)
Purchases of treasury stock	—	—	—	—	(3,485)	—	—	—	—	—	—	(3,485)
Cancellation of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Other changes, net	—	—	—	—	—	(878)	—	564	(9)	¥19	1	(303)
Balance at March 31, 2019	36,600	¥14,860	¥25,868	¥91,441	¥(3,743)	¥64	¥(7,004)	¥(771)	¥418	¥19	¥14	¥121,166
Net income attributable to owners of the parent	—	—	—	(8,428)	—	—	—	—	—	—	—	(8,428)
Cash dividends	—	—	—	(1,599)	—	—	—	—	—	—	—	(1,599)
Purchases of treasury stock	—	—	—	—	(2,638)	—	—	—	—	—	—	(2,638)
Cancellation of treasury stock	(800)	—	(2,444)	—	2,444	—	—	—	—	—	—	—
Other changes, net	—	—	—	—	—	242	—	(718)	(82)	7	0	(551)
Balance at March 31, 2020	35,800	¥14,860	¥23,424	¥81,414	¥(3,937)	¥306	¥(7,004)	¥(1,489)	¥336	¥26	¥14	¥107,950

	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	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets	
Balance at March 31, 2019	\$136,543	\$237,692	\$840,219	\$(34,393)	\$588	\$(64,357)	\$(7,084)	\$3,840	\$174	\$129	\$1,113,351	
Net income attributable to owners of the parent	—	—	(77,442)	—	—	—	—	—	—	—	(77,442)	
Cash dividends	—	—	(14,693)	—	—	—	—	—	—	—	(14,693)	
Purchases of treasury stock	—	—	—	(24,240)	—	—	—	—	—	—	(24,240)	
Cancellation of treasury stock	—	(22,457)	—	22,457	—	—	—	—	—	—	—	
Other changes, net	—	—	—	—	2,224	—	(6,598)	(753)	65	0	(5,062)	
Balance at March 31, 2020	\$136,543	\$215,235	\$748,084	\$(36,176)	\$2,812	\$(64,357)	\$(13,682)	\$3,087	\$239	\$129	\$991,914	

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash flows from operating activities:			
Income (loss) before income taxes	¥(6,552)	¥5,100	\$ (60,205)
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,454	2,195	22,550
Amortization of goodwill	397	403	3,648
Increase in allowance for doubtful accounts	651	1,075	5,982
Decrease in net defined benefit liability	(220)	(194)	(2,022)
Interest and dividend income	(580)	(494)	(5,329)
Interest expense	199	456	1,829
Foreign exchange gain and loss	(38)	94	(349)
Loss on sales and disposal of property, plant and equipment, net	—	4	—
Loss on valuation of investment securities	892	—	8,196
Loss (gain) on sale of investment in securities	37	(119)	340
Loss on valuation of stocks of subsidiaries and affiliates	29	—	266
Impairment loss	11	—	101
Decrease in trade receivables	5,937	11,864	54,553
Decrease (Increase) in inventories	457	(1,893)	4,199
Increase (Decrease) in trade payables	151	(2,279)	1,387
Other	(270)	(2,235)	(2,480)
Subtotal	3,555	13,977	32,666
Interest and dividend income received	576	493	5,292
Interest expense paid	(211)	(375)	(1,939)
Income taxes paid	(144)	(4,159)	(1,323)
Net cash provided by operating activities	3,776	9,936	34,696
Cash flows from investing activities:			
Increase in time deposits, net	11	279	101
Purchases of property, plant and equipment	(2,523)	(2,658)	(23,183)
Proceeds from sales of property, plant and equipment	8	19	74
Purchases of investments in securities	(335)	(507)	(3,078)
Proceeds from sales and redemption of investments in securities	102	2,250	937
Other	(349)	(256)	(3,207)
Net cash used in investing activities	(3,086)	(873)	(28,356)
Cash flows from financing activities:			
Decrease in short-term borrowings, net	(526)	—	(4,833)
Repayment of finance lease obligations	(794)	(658)	(7,296)
Purchases of treasury stock	(2,638)	(3,512)	(24,240)
Cash dividends paid	(1,597)	(2,370)	(14,674)
Net cash used in financing activities	(5,555)	(6,540)	(51,043)
Effect of exchange rate changes on cash and cash equivalents	(402)	103	(3,694)
Net increase (decrease) in cash and cash equivalents	(5,267)	2,626	(48,397)
Cash and cash equivalents at beginning of year	26,849	24,223	246,706
Cash and cash equivalents at end of year (Note 3)	¥21,582	¥26,849	\$198,309

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, 2020, which was ¥108.83 to US\$1. These convenience translations should not be construed as representations that the Japanese yen amounts 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 gain 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 on or after April 1, 1998 and fixtures attached to the buildings and structures acquired on or after April 1, 2016. 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.

(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, 2019 since there are no residual securities and for the year ended March 31, 2020 since the Company posted a net loss per share.

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, 2020 and 2019 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and time deposits	¥21,641	¥26,921	\$198,851
Time deposits with an original maturity in excess of three months included in cash and deposits.....	(59)	(72)	(542)
Cash and cash equivalents at end of year	¥21,582	¥26,849	\$198,309

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 1.5 months.

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		
	2020		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	¥21,641	¥21,641	—
<2> Trade notes and accounts receivable ..	51,249	—	—
Less: allowance for doubtful accounts *1 ...	(3,096)	—	—
	48,153	48,153	—
<3> Investments in securities	4,954	4,954	—
<4> Trade notes and accounts payable ..	2,113	2,113	—
<5> Electronically recorded obligations-operating	416	416	—
<6> Short-term borrowings	8,162	8,162	—

	Millions of yen		
	2019		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	¥26,921	¥26,921	—
<2> Trade notes and accounts receivable ..	56,785	—	—
Less: allowance for doubtful accounts *1 ...	(1,993)	—	—
	54,792	54,792	—
<3> Investments in securities	5,587	5,587	—
<4> Trade notes and accounts payable ..	2,485	2,485	—
<5> Electronically recorded obligations-operating	520	520	—
<6> Short-term borrowings	8,879	8,879	—

	Thousands of U.S. dollars		
	2020		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	\$198,851	\$198,851	—
<2> Trade notes and accounts receivable ..	470,909	—	—
Less: allowance for doubtful accounts *1 ...	(28,448)	—	—
	442,461	442,461	—
<3> Investments in securities	45,521	45,521	—
<4> Trade notes and accounts payable ..	19,416	19,416	—
<5> Electronically recorded obligations-operating	3,822	3,822	—
<6> Short-term borrowings	74,998	74,998	—

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

(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> 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> Electronically recorded obligations-operating; Carrying amount approximates fair value due to the short maturities.
- <6> Short-term borrowings; Carrying amount approximates fair value due to the short maturities.

(Note2) Fair values that are difficult to determine as of March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	Unlisted equity securities	¥2,011	¥1,682
Shares of subsidiaries and affiliates ..	550	565	5,054

(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2020 and 2019

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2020)				
Cash and time deposits	¥21,641	—	—	—
Trade notes and accounts receivable	26,628	¥24,578	¥43	—
Investment securities				
Available-for-sale securities with maturity				
– Other investments	—	34	713	—
Total	¥48,269	¥24,612	¥756	—

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2019)				
Cash and time deposits	¥26,921	—	—	—
Trade notes and accounts receivable	31,880	¥24,777	¥128	—
Investment securities				
Available-for-sale securities with maturity				
— Other investments	—	36	735	—
Total	¥58,801	¥24,813	¥863	—

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2020)				
Cash and time deposits	\$198,851	—	—	—
Trade notes and accounts receivable	244,676	\$225,839	\$395	—
Investment securities				
Available-for-sale securities with maturity				
— Other investments	—	312	6,552	—
Total	\$443,527	\$226,151	\$6,947	—

5. Investments in securities

Other securities with quoted market prices at March 31, 2020 and 2019 were as follows:

	Millions of yen		
	2020		
	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	¥1,445	¥1,911	¥466
Other	791	817	26
Subtotal	¥2,236	¥2,728	¥492
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥1,075	¥997	¥(78)
Other	1,328	1,229	(99)
Subtotal	¥2,403	¥2,226	¥(177)
Total	¥4,639	¥4,954	¥315

	Millions of yen		
	2019		
	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	¥1,848	¥2,456	¥608
Other	997	1,013	16
Subtotal	¥2,845	¥3,469	¥624
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥1,614	¥1,033	¥(581)
Other	1,126	1,086	(40)
Subtotal	¥2,740	¥2,119	¥(621)
Total	¥5,585	¥5,588	¥3

	Thousands of U.S. dollars		
	2020		
	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	\$13,278	\$17,560	\$4,282
Other	7,268	7,507	239
Subtotal	\$20,546	\$25,067	\$4,521
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	\$9,878	\$9,161	\$(717)
Other	12,202	11,293	(909)
Subtotal	\$22,080	\$20,454	\$(1,626)
Total	\$42,626	\$45,521	\$2,895

Other securities without quoted market prices at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other securities	¥2,011	¥1,682	\$18,478
	¥2,011	¥1,682	\$18,478

6. Inventories

Inventories at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Finished goods	¥10,563	¥11,821	\$97,060
Work in process	6,670	6,315	61,288
Raw materials	840	794	7,718
Supplies and others	338	358	3,106
	¥18,411	¥19,288	\$169,172

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 ¥5,023 million (\$46,155 thousand) and ¥5,067 million at March 31, 2020 and 2019, respectively.

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Average rate of 2.25% unsecured loans from banks	¥8,162	¥8,879	\$74,998

9. Retirement benefits

Retirement benefits at March 31, 2020 and 2019 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		Thousands of
	2020	2019	U.S. dollars
Balance, beginning of year	¥6,145	¥6,184	\$56,464
Service cost	326	340	2,996
Interest cost	61	61	560
Actuarial loss	0	(54)	0
Benefit paid	(319)	(386)	(2,931)
Balance, end of year	¥6,213	¥6,145	\$57,089

(2) Movement in plan assets

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Balance, beginning of year	¥6,575	¥6,417	\$60,415
Expected return on plan assets	76	73	698
Actuarial gain	0	18	0
Contributions paid by the employer	350	340	3,217
Benefit paid	(242)	(273)	(2,224)
Balance, end of year	¥6,759	¥6,575	\$62,106

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

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Funded retirement benefit obligations	¥5,482	¥5,419	\$50,372
Plan assets	(6,759)	(6,575)	(62,106)
	(1,277)	(1,156)	(11,734)
Unfunded retirement benefit obligations	731	726	6,717
Total net liability for retirement benefits end of year	(546)	(430)	(5,017)
Net defined benefit liability	731	726	6,717
Net defined benefit assets	(1,277)	(1,156)	(11,734)
Total net liability for retirement benefits end of year	¥(546)	¥(430)	\$(5,017)

(4) Retirement benefit cost

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Service cost	¥326	¥340	\$2,996
Interest cost	61	61	560
Expected return on plan assets	(76)	(74)	(698)
Net actuarial loss amortization	(120)	(86)	(1,103)
Past service costs amortization	1	1	9
Total retirement benefits cost	¥192	¥242	\$1,764

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

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Past service cost	¥1	¥1	\$9
Actuarial gain and loss	(120)	(14)	(1,102)
Total balance end of year	¥(119)	¥(13)	\$(1,093)

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Past service costs that are yet to be recognized	—	¥(1)	—
Actuarial gain and loss that are yet to be recognized	¥485	605	\$4,456
Total balance end of year	¥485	¥604	\$4,456

(7) Plan assets

<1> Plan assets at March 31, 2020 comprise:

Equity securities	3%
Bonds	12%
Insurance assets (General account)	73%
Other	12%
Total	100%

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

<2> Long-term expected rate of return

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

(8) Actuarial assumptions

The principal actuarial assumption at March 31, 2020 (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	2.34%

10. Contingent liabilities

Contingent liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Guarantees of customers' loans and lease obligations	¥515	¥783	\$4,732

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 a rise in interest rate.

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

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2020 are as follows:

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

Not applicable

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen			
	2020			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	¥3,648	¥ —		
EUR	10,370	4,874		
KWR	583	109		
GBP	68	16		

	Millions of yen			
	2019			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	¥8,215	¥1,177		
EUR	11,552	4,420		
KWR	1,342	51		

	Thousands of U.S. dollars			
	2020			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	\$33,520	\$ —		
EUR	95,286	44,785		
KWR	5,357	1,002		
GBP	625	147		

Note 1: Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed at Note 4.
 2: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.

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 30.46% for the year ended March 31, 2020 and 2019.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Tax loss carryforwards	¥3,314	¥1,425	\$30,451
Allowance for doubtful accounts	1,166	924	10,713
Accrued bonuses to employees	358	350	3,290
Loss on valuation of investments in securities	346	270	3,179
Long - term liabilities	297	303	2,729
Intercompany profit	267	608	2,453
Impairment loss on fixed assets	159	146	1,461
Allowance for losses on guarantees	89	104	818
Net defined benefit liability	252	38	2,316
Other	401	573	3,685
Total gross deferred tax assets	6,649	4,741	61,095
Less valuation allowance	(6,150)	(2,897)	(56,510)
Net deferred tax assets	499	1,844	4,585
Deferred tax liabilities:			
Net defined benefit asset	(434)	(185)	(3,987)
Reserve for special depreciation	(14)	(19)	(129)
Unrealized holding gain on securities	(9)	—	(83)
Asset retirement obligation	(4)	(5)	(37)
Other	(37)	(40)	(340)
Total gross deferred tax liabilities	(498)	(249)	(4,576)
Net deferred tax assets	¥1	¥1,595	\$9

13. Research and development costs

Research and development costs charged to income were ¥3,676 million (\$33,777 thousand) and ¥3,251 million for the years ended March 31, 2020 and 2019, respectively.

14. Stock option plan

As of March 31, 2020 and 2019, the Company has the following stock option programs.

Date of resolution	July 25, 2018
Type and number of eligible persons	[The Company] Director: 5 Executive officer: 3
Class and number of shares to be granted	Common stock: 4,500 shares
Grant date	August 17, 2018
Vesting requirement	—
Vesting period	—
Exercise period	From August 18, 2018 to August 17, 2048

Date of resolution	June 27, 2019
Type and number of eligible persons	[The Company] Director: 5 Executive officer: 3
Class and number of shares to be granted	Common stock: 2,500 shares
Grant date	July 18, 2019
Vesting requirement	—
Vesting period	—
Exercise period	From July 19, 2019 to July 18, 2049

(a) Number and price information
(As of March 31, 2020)

Date of resolution	July 25, 2018	June 27, 2019
Unvested stock options		
Outstanding as of March 31, 2019	—	—
Granted	—	2,500
Expired	—	—
Vested	—	2,500
Outstanding as of March 31, 2020	—	—
Vested stock options		
Outstanding as of March 31, 2019	4,500	—
Vested	—	2,500
Exercised	—	—
Expired	—	—
Outstanding as of March 31, 2020	4,500	2,500

	Yen
Date of resolution	July 25, 2018
Exercise price	¥1
Average stock price at exercise	—
Fair value at grant date	¥4,369

	Yen
Date of resolution	June 27, 2019
Exercise price	¥1
Average stock price at exercise	—
Fair value at grant date	¥2,261

(b) The estimate method on unit price of subscription rights
Estimate method: Black Scholes Model

	Yen
Volatility	39.03%
Expected remaining period	15 years
Estimated dividend	¥57.50 per share
Non risk interest rate	0.08%

(c) 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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized holdings gain on securities:			
Amount recognized in the period under review	¥(622)	¥(990)	\$(5,715)
Amount of recycling	928	(119)	8,527
Before income tax effect adjustments	306	(1,109)	2,812
Amount of income tax effect	(63)	231	(579)
Net unrealized holdings gain on securities	243	(878)	2,233
Foreign currency translation adjustments:			
Amount recognized in the period under review	(719)	564	(6,607)
Amount of recycling	—	—	—
Before income tax effect adjustments	(719)	564	(6,607)
Amount of income tax effect	—	—	—
Foreign currency translation adjustments	(719)	564	(6,607)
Remeasurements of defined benefit plans			
Amount recognized in the period under review	0	72	0
Amount of recycling	(119)	(85)	(1,093)
Before income tax effect adjustments	(119)	(13)	(1,093)
Amount of income tax effect	37	4	340
Remeasurements of defined benefit plans	(82)	(9)	(753)
Total other comprehensive income	¥(558)	¥(323)	\$(5,127)

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. The Design System segment includes computerized design systems and automatic fabric cutting machines. The Glove and Sock Knitting Machine segment consists of computerized 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, 2020 and 2019 were as follows:

Millions of yen						
2020						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥22,878	¥3,611	¥1,054	¥27,543	¥5,663	¥33,206
Inter-segment sales	—	—	—	—	—	—
Total sales	22,878	3,611	1,054	27,543	5,663	33,206
Operating expenses	22,529	3,303	1,103	26,935	5,346	32,281
Segment profit (loss)	¥349	¥308	¥(49)	¥608	¥317	¥925
Segment Assets:	¥87,903	¥5,894	¥2,029	¥95,826	¥9,810	¥105,636
Others:						
Capital expenditure	¥1,334	¥114	¥66	¥1,514	¥217	¥1,731
Depreciation	1,453	80	68	1,601	260	1,861
Amortization of goodwill	378	3	0	381	16	397

Millions of yen						
2019						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥38,807	¥4,381	¥1,555	¥44,743	¥6,610	¥51,353
Inter-segment sales	—	—	—	—	—	—
Total sales	38,807	4,381	1,555	44,743	6,610	51,353
Operating expenses	30,040	3,436	1,317	34,793	5,611	40,404
Segment profit	¥8,767	¥945	¥238	¥9,950	¥999	¥10,949
Segment Assets:	¥102,846	¥5,693	¥2,136	¥110,675	¥9,953	¥120,628
Others:						
Capital expenditure	¥2,724	¥136	¥133	¥2,993	¥349	¥3,342
Depreciation	1,399	65	58	1,522	186	1,708
Amortization of goodwill	384	3	0	387	16	403

Thousands of U.S. dollars						
2020						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	\$210,218	\$33,180	\$9,685	\$253,083	\$52,035	\$305,118
Inter-segment sales	—	—	—	—	—	—
Total sales	210,218	33,180	9,685	253,083	52,035	305,118
Operating expenses	207,011	30,350	10,135	247,496	49,123	296,619
Segment profit (loss)	\$3,207	\$2,830	\$(450)	\$5,587	\$2,912	\$8,499
Segment Assets:	\$807,709	\$54,158	\$18,644	\$880,511	\$90,141	\$970,652
Others:						
Capital expenditure	\$12,258	\$1,048	\$606	\$13,912	\$1,994	\$15,906
Depreciation	13,351	735	625	14,711	2,389	17,100
Amortization of goodwill	3,473	28	0	3,501	147	3,648

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
	2020	2019	2020
Reportable segments total	¥27,543	¥44,743	\$253,083
Other sales	5,663	6,610	52,035
Net sales in the consolidated statements of income	¥33,206	¥51,353	\$305,118

Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Reportable segments total	¥608	¥9,950	\$5,587
Other income	317	999	2,912
Corporate expenses	(6,528)	(6,310)	(59,983)
Operating income (loss) in the consolidated statements of income	¥(5,603)	¥4,639	\$(51,484)

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
	2020	2019	2020
Reportable segments total	¥95,826	¥110,675	\$880,511
Other assets	9,810	9,953	90,141
Company-wide assets	25,059	24,518	230,258
Total assets in the consolidated balance sheets	¥130,695	¥145,146	\$1,200,910

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

Others

	Millions of yen						The amount in the consolidated financial statements	
	Reportable segments total		Other		Adjustment		2020	2019
	2020	2019	2020	2019	2020	2019		
Capital expenditure	¥1,514	¥2,993	¥217	¥349	¥2,071	¥1,141	¥3,802	¥4,483
Depreciation	1,601	1,522	260	186	593	487	2,454	2,195
Amortization of goodwill	381	387	16	16	—	—	397	403

	Thousands of U.S. dollars			The amount in the consolidated financial statements
	Reportable segments total	Other	Adjustment	
Capital expenditure	\$13,912	\$1,994	\$19,030	\$34,936
Depreciation	14,711	2,389	5,450	22,550
Amortization of goodwill	3,501	147	—	3,648

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, 2020 and 2019 were as follows:

	Millions of yen					
	2020					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	¥7,004	¥6,282	¥2,535	¥16,181	¥1,204	¥33,206

	Millions of yen					
	2019					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	¥8,603	¥8,960	¥3,228	¥28,810	¥1,752	¥51,353

	Thousands of U.S. dollars					
	2020					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	\$64,357	\$57,723	\$23,293	\$148,681	\$11,064	\$305,118

17. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 25, 2020.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥518	\$4,760

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of SHIMA SEIKI MFG., LTD and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statement of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance 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 misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ohtemae Audit Corporation
Osaka City, Japan
June 25, 2020

和田 裕之 

Hiroyuki Wada
Designated Engagement Partner
Certified Public Accountant

木梨 譲 

Jo Kinashi
Designated Engagement Partner
Certified Public Accountant

Corporate Data (As of March 31, 2020)

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 2,010
Non-consolidated 1,489

URL Corporate Information <https://www.shimaseiki.com>
IR Information <https://www.shimaseiki.com/ire/ire.html>

Consolidated Subsidiaries SHIMA FINE PRESS 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 35,800,000

Number of Shareholders 16,029

Stock Exchange Listing The First Section of the Tokyo Stock Exchange

Auditing Corporation Ohtemae Audit Corporation

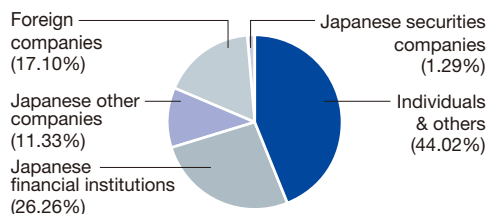
Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	3,001	8.70
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,538	4.46
Japan Trustee Services Bank, Ltd. (Trust Account)	1,452	4.21
The Kiyo Bank, Ltd.	1,387	4.02
Masahiro Shima	1,070	3.10
Mitsuhiro Shima	1,061	3.08
The Bank of Mitsubishi UFJ, Ltd.	880	2.55
Wako LLC	780	2.26
Japan Trustee Services Bank, Ltd. (Trust Account 5)	647	1.88
Chikage Umeda	632	1.83

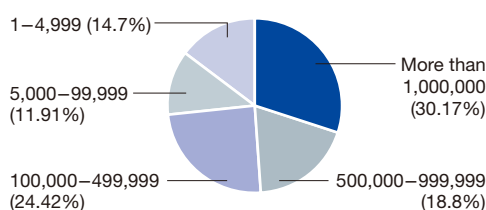
Note: Treasury stock (1,288 thousand shares) is excluded from the calculation of percentage of shares held.

Stock Ownership

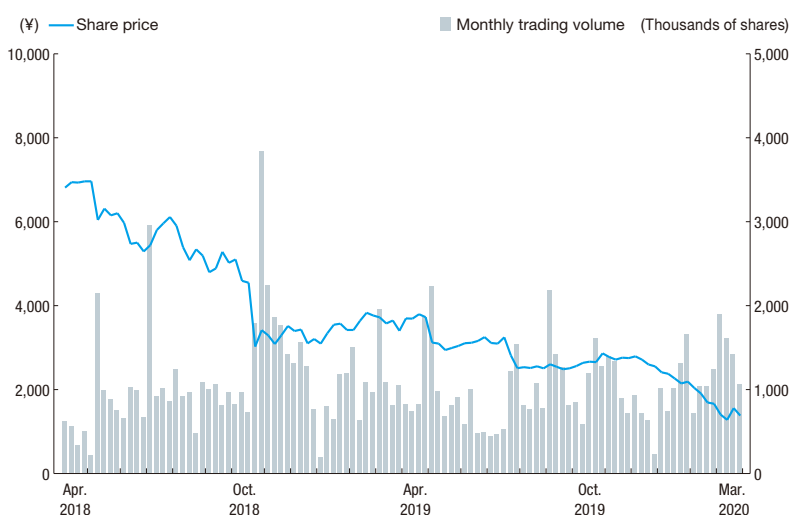
Shareholder breakdown by type



Shareholder breakdown by number of shares held



Share Price and Trading Volume



IR Website

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.



<https://www.shimaseiki.com/ire/ire.html>

Smartphone Access

If you have a smartphone that reads QR codes (two-dimensional bar codes), scan the image on the right for easy access to the site.



Sustainability Initiatives in This Publication

Environmental

- Paper produced from sustainable forest resources
- No waste liquid generated during production, and a printing process that does not use aluminum plates
- A highly durable, long-life binding method
- Glue that makes separation easy when recycling paper

Social

- Provision of printed documents to people who cannot easily access digital media
- A binding method that makes the document easy to open by people with manual disabilities



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