SHIMA SEIKI

Integrated Report 2021
Financial Section

Year Ended March 31, 2021

Contents

Financial Section

Five-Year Financial Summary

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

	2021	2020	2019	2018	2017	2021
For the Year:			Millions of yen			Thousands of U.S. dollars
Net sales	**¥24,489**	¥33,206	¥51,353	¥71,858	¥62,433	**$221,199**
Cost of sales	**18,528**	21,577	28,197	38,420	33,385	**167,356**
Gross profit	**5,961**	11,629	23,156	33,438	29,048	**53,843**
Selling, general and administrative expenses	**15,104**	17,232	18,517	18,532	17,786	**136,428**
Operationg income (loss)	**(9,143)**	(5,603)	4,639	14,906	11,262	**(82,585)**
Income (loss) before income taxes and minority interests	**(17,610)**	(6,552)	5,100	15,443	9,979	**(159,063)**
Net income (loss) attributable to owners of the parent	**(17,866)**	(8,428)	3,835	11,279	7,199	**(161,376)**
Net cash provided by (used in) operating activities	**5,937**	3,776	9,936	9,398	6,989	**53,627**
Net cash provided by (used in) investing activities	**1,300**	(3,086)	(873)	(4,844)	(1,242)	**11,742**
Net cash provided by (used in) financing activities	**(3,776)**	(5,555)	(6,540)	1,731	2,470	**(34,107)**
Capital investment	**1,342**	3,802	4,483	4,000	3,559	**12,121**
Depreciation and amortization	**2,344**	2,454	2,195	2,105	1,833	**21,172**
Research and development expenses	**3,311**	3,676	3,251	2,795	2,677	**29,907**
At Year-End:			Millions of yen			Thousands of U.S. dollars
Total assets	**¥110,140**	¥130,695	¥145,146	¥154,338	¥141,931	**$994,851**
Net assets	**90,036**	107,950	121,166	123,492	104,880	**813,260**
Per Share Data:			Yen			U.S. dollars
Net income (loss) per share	**¥(517.71)**	¥(239.68)	¥105.62	¥316.82	¥209.97	**$(4.68)**
Cash dividends per share applicable to the year	**20.00**	35.00	55.00	60.00	45.00	**0.18**
Net assets per share	**2,607.72**	3,126.86	3,411.08	3,381.85	3,039.66	**23.55**
Ratios:			%			
Ratio of operating income (loss) to net sales	**(37.3)%**	(16.9)%	9.0%	20.7%	18.0%	
ROA = Return on assets	**(14.8)**	(6.1)	2.6	7.6	5.4	
ROE = Return on equity	**(18.1)**	(7.4)	3.1	9.9	7.1	
Equity ratio	**81.7**	82.6	83.5	80.0	73.8	

Note:Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥110.71=US$1,
the approximate Tokyo foreign exchange market rate as of March 31, 2021.

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

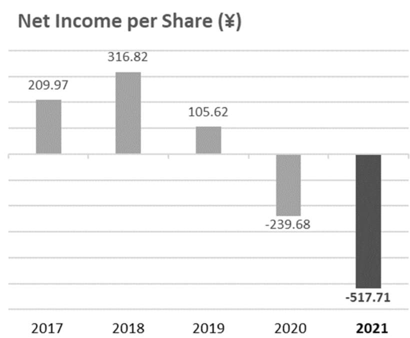
Overview

During the fiscal year under review, market trends were greatly impacted by the global spread of COVID-19. In the United States, economic recovery continued at a steady pace, supported by increased fiscal spending and monetary relaxation, but in Europe, there are concerns that economic normalization will be delayed because of the spread of COVID-19 infections and restrictions on movement. In China, positive growth was maintained and the economic recovery trend is becoming clear. In Japan, there is a strong sense of economic stagnation, influenced by the trend of the number of infected people, and the future remains uncertain.

Under these conditions, in the apparel industry, to which the Shima Seiki Group supplies products, the demand environment is unlikely to recover from the impact of the spread of COVID-19, the trend toward controlling excessive production and inventories against a backdrop of rising environmental awareness is ongoing, and overall capital investment remains sluggish.

To resolve user industry issues, the Group reinforced its proposals for total solutions including a new production system that makes full use of digital technology with a focus on WHOLEGARMENT® flat knitting machines, which make possible mass customization and on-demand production, and 3D design systems. At the same time, the Group worked to further promote sustainable manufacturing. The Group focused on stimulating user willingness to invest by launching “yarnbank,” the world’s first software service that enables users to search, browse, and download yarns from around the world and use them as virtual samples to improve the efficiency of product planning, and launched “APEXFiz,” a new subscription service for design software that responds to diversifying work styles. However, these efforts did not lead to a recovery in sales, and consolidated net sales for the fiscal year ended March 31, 2021 were to ¥24,489 million, down 26. 3% from the preceding fiscal year.

In addition to the substantial decrease in net sales, there was a decline in sales unit prices and the gross profit margin deteriorated in conjunction with production adjustments, and as a result, the Company recorded an operating loss of ¥9,143 million (compared to an operating loss of ¥5,603 million in the previous fiscal year) and an ordinary loss of ¥7,273 million (compared to an ordinary loss of ¥5,583 million in the previous fiscal year). The Company also recorded extraordinary losses including impairment losses of fixed assets and loss on the valuation of shares of affiliated companies. As a result, the Company posted a substantial loss of ¥17,866 million in net loss attributable to owners of the parent (compared to net loss of ¥8,428 million in the previous fiscal year).



Net Sales

In the core Flat Knitting Machine Segment, consumer demand slumped due to store closures and self-imposed isolation in many regions around the world in respond to the spread of COVID-19, resulting in sluggish capital investment in apparel industry overall. In addition, plant operations were suspended and sales activities were unavoidably interrupted throughout the world, and sales of computerized flat knitting machines were down.

In Asia, in the Chinese and Hong Kong markets, the Group shifted from OEM-type production to a production system of planning and proposal based, high value-added products. As labor-saving measures gain momentum to cope with the rise in labor costs and labor shortages, the introduction of WHOLEGARMENT® flat knitting machines are on an upward trend. However, since leading knit makers exercised caution over their capital investment, the Group was unable to increase sales volume. In Bangladesh, overseas orders for apparel increased in the third and fourth quarters, and capital investment is trending toward recovery.

In developed country markets, the WHOLEGARMENT® flat knitting machine sales volume increased in the U.S., but in the European and Japanese markets, the sales volume of computerized flat knitting machines was down from the previous fiscal year.

As a result, sales in the Flat Knitting Machine Segment were ¥15,547 million, down 32.0% year on year.

In the Design System Segment, the Company promoted a revolutionary shift in the production and distribution business model by utilizing the SDS®-ONE APEX4, an apparel design system for planning and design, color scheme investigation, realistic fabric simulation, and 3D virtual sampling of products, and in the second half of the fiscal year, we launched APEXFiz, a new design software subscription service that fits diversifying work patterns. Despite these efforts, sales were down in tandem with the decline in sales of computerized flat knitting machines. Sales of P-CAM® automatic fabric cutting machines fell in both Japan and overseas markets due to declining demand in the textiles field.

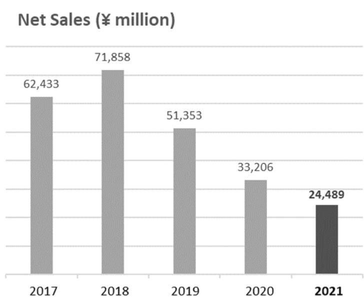
As a result, sales in the Design System Segment were ¥2,509 million, down 30.5% year on year.

Sales in the Glove and Sock Knitting Machine Segment rose 86.8% year on year to ¥1,969 million, due to a steady capital investment from major users.

In the Other Business Segment, sales were ¥4,464 million, down 21.2% year on year, and primarily comprised sales of maintenance parts and woolen yarn.

Overseas sales across all segments were ¥18,880 million, down 27.9% year on year, and overseas sales accounted for 77.1% of sales overall (-1.8 percentage points year on year). Sales in Asia accounted for a larger share of overall sales, taking up 46.7 % (48.7% in the previous fiscal year), while Europe accounted for 21.0 % (18.9%), the Middle East 3.9 % (7.6%) and other regions 5.5 % (3.7%). The percentage of overseas sales accounted for by Europe increased.

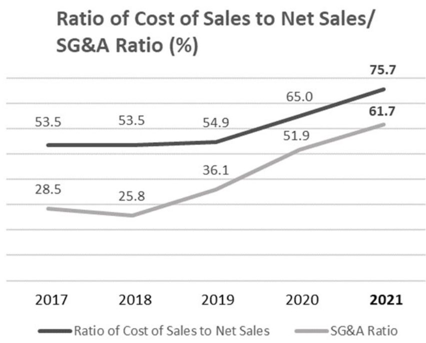
In the Japanese market, sales declined 19.9% year on year to ¥5,609 million, due to lower sales in both the Flat Knitting Machine Segment and the Design System Segment.



Cost of Sales and SG&A Expenses

Cost of sales was ¥18,528 million, lower than the previous fiscal year, due to sluggish sales of computerized flat knitting machines. Gross profit fell 48.7% year on year to ¥5,961 million due to the substantial decline in sales and production adjustments. Meanwhile, gross profit margin was 24.3%.

SG&A expenses dropped to ¥15,104 million, down 12.3% 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 9.8 percentage points year on year to 61.7%.



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 ¥9,143 million. In the Flat Knitting Machine Segment, the Company recorded operating loss of ¥3,281 million, compared with operating income of ¥349 million in the previous fiscal year, and operating income of ¥114 million in the Design System Segment, compared with operating income of ¥308 million in the previous fiscal year. Meanwhile, operating loss was ¥243 million in the Glove and Sock Knitting Machine Segment, compared with operating loss of ¥49 million in the previous fiscal year, and the Company posted operating income of ¥12 million in the Other Business Segment, compared with operating income of ¥317 million in the previous fiscal year. However, after subtracting ¥5,745 million in Companywide expenses from total operating income across all segments, the Company's consolidated financial statements reflected operating loss.

Other Income and Expenses

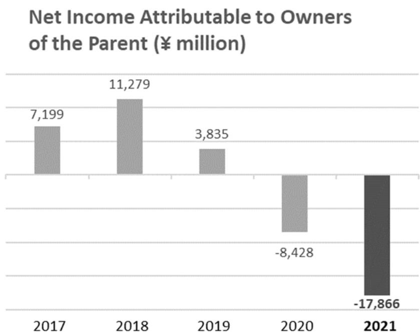
Other income was lower than other expenses, leading to net other loss of ¥8,467 million, compared with net other loss of ¥949 million in the previous fiscal year. Increase in net other loss was due to impairment losses of fixed assets and loss on the valuation of shares of affiliated companies.

Net Income Attributable to Owners of the Parent

Loss before income taxes was ¥17,610 million, compared with loss before income taxes of ¥6,552 million in the previous fiscal year.

Corporate income, residential and enterprise taxes totaled ¥113 million, down ¥282 million from the previous fiscal year. Corporate income tax adjustments amounted to ¥142 million (versus ¥1,481 million in the previous fiscal year). As a result, the Company's tax burden after the application of tax effect accounting was ¥255 million, down ¥1,621 million from the previous fiscal year.

Consequently, net loss attributable to owners of the parent was ¥17,866 million, compared with net loss attributable to owners of the parent of ¥8,428 million in the previous fiscal year.



Liquidity and Capital Resources

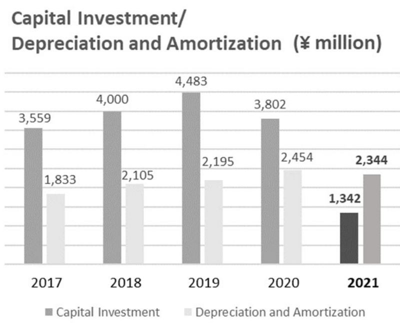
As of March 31, 2021, cash and cash equivalents were ¥25,582 million, up ¥4,000 million from one year earlier. Despite net loss before income taxes, net cash provided by operating activities was ¥5,937 million, due primarily to a decrease in trade receivables and a decrease in inventories.

Net cash provided by investing activities was ¥1,300 million, primarily due to income from the sale of investment securities.

Net cash used in financing activities was ¥3,776 million, caused mainly by a decrease in short term borrowings 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 according to the use of funds and the Group's objectives. At fiscal year-end, the equity ratio and current ratio, indicators of a company's margin of safety, were 81.7% and 565.9%, 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.



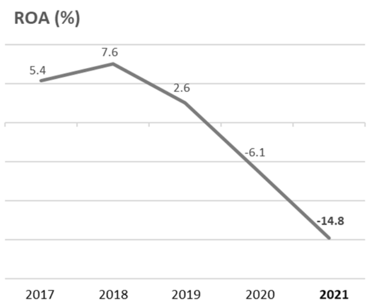
Assets, Liabilities and Net Assets

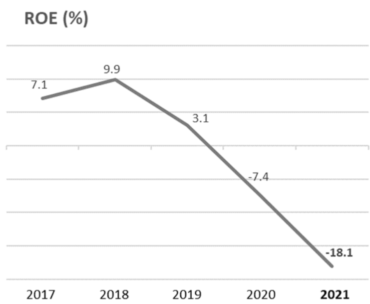
As of March 31, 2021, consolidated total assets were ¥110,140 million, down ¥20,555 million year on year. Current assets were ¥82,811 million (down ¥6,660 million, or 7.4%, year on year), declining primarily because of year-on-year decreases of ¥6,426 million in notes and accounts receivable and ¥2,664 million in finished goods. Current liabilities were ¥14,634 million (down ¥2,659 million, or 15.4%, year on year), with the contraction mainly caused by year-on-year downturns of ¥1,927 million in short-term borrowings.

Meanwhile, non-current assets were ¥27,329 million (down ¥13,895 million, or 33.7%, year on year), and non-current liabilities were ¥5,470 million (up ¥18million, or 0.3%, year on year).

Net assets amounted to ¥90,036 million (down ¥17,914 million, or 16.6 %, year on year). Consequently, the equity ratio was 81.7% as of March 31, 2021, down 0.9 percentage points year on year.

The return on assets (ROA) ratio declined to -14.8 %, compared with -6.1 as of March 31, 2020, and the return on equity (ROE) ratio fell to -18.1%, compared with -7.4% as of March 31, 2020.





Dividend Policy

We have positioned shareholder returns as the highest priority management issue, and our fundamental policy is to continue providing stable dividends over the long term in line with sustainable business expansion. We have also adopted a policy of distributing funds in a well-balanced manner to growth investment from a long-term perspective and to internal reserves in preparation for future business development.

With regard to our profit distribution policy for the next and subsequent fiscal years, we will flexibly implement share buybacks and other measures in an effort to improve capital efficiency by achieving a return to profitability and seeking a consolidated dividend payout ratio of 30% in accordance with the Ever Onward 2023 Medium-Term Management Plan, taking into comprehensive consideration stock price levels, cash position, market environments, and other factors.

Accordingly, we have decided to issue a year-end dividend of ¥10 per share, which, when combined with our previous interim dividend of ¥10 per share, will generate an annual dividend of ¥20 per share.

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 31,2021.

１． Risk on changes in market environment

Customers of our group’s products mainly consist of Japanese and overseas apparel and knitted product manufacturers. Therefore, changes in lifestyle, consumption styles of consumers, and environmental awareness, such as responses to the sustainability and unseasonable weather, including warm winters, may have an impact on developments in production and, consequently, may have an impact on capital spending in flat knitting machines.

Including deteriorating trade issues and spread of COVID-19 in the geographical areas where the supply chain is located and a shift of the region where production bases had conventionally been located to a consuming region, rapid changes in market environment/industrial structure may cause a decrease in capital spending and have an impact on operating results and financial positions of our group.

For these risks, our group proactively proposes timely and adequate production corresponding to developments in demand at consuming regions by using Design Systems and WHOLEGARMENT flat knitting machines. In addition, our group builds the structure to propose new value by closely communicating with customers to understand needs and promotes convention of products in non-apparel fields to knitted products under the slogan “KNITify the World.”

２． Impact of changes in social systems in areas where businesses are operated

In the apparel industry, supply chain management has been globalized as globalization of the economy progresses. If any trade friction occurs between a consuming country and a producing country and develops into an economic problem, this has a significant impact on capital spending.

Our group appropriately corresponds to developments in economic measures, including mutual hikes in tariffs and restrictions on technology exports triggered by recent trade friction between the U.S. and China to which we pay careful attention. Any regulations introduced and changed by governments and international frameworks could have an impact on operating results and the financial positions of our group. Therefore, our group prepares to understand local developments early and takes action immediately by using the network of local subsidiaries/sales agents covering countries across the world.

３． Fluctuations in exchange rates

In our group, the ratio of overseas sales remains at around 80% and transactions are made in JPY and foreign currencies. Therefore, rapid fluctuations in exchange rates could have an impact on operating results and financial positions of our group.

Accordingly, our group hedges risks on trade accounts receivable in foreign currencies among trade accounts receivable with forward exchange contracts as described in the notes to the consolidated financial statements (derivative transactions).

４． Risks on recovery of credits and trade accounts receivable

Trade accounts receivable consist mostly of those related to the flat knitting machine business. It takes a long time for many users to purchase materials and eventually sell products, and so it also takes a long time to recover trades receivable. This is a business practice peculiar to the industry. Therefore, our group directly strengthens the management of credit to users in the main regions. In the Asian market, both wheels of global apparel and knitted product manufacturers have performed large-scale production in recent years, and the transaction amount per company also shows an upward trend. To reduce the risk on recovery, our group executes liquidation of receivables, setting the collateral, promotes lease transactions, and purchases trade insurance policies. Additionally, the group builds a system to promote payments by the due date by installing PMS (password management system) in flat knitting machines. Our group also takes countermeasures for any delay in recovery, if such were to occur, including conservative posting of the provision for reserves based on the actual recovery rate and the recoverability of individual cases.

５． Problems on the strategy for protection of intellectual property

Some of our group’s unique technologies and know-how may be unable to be completely protected or may be limitedly protected by intellectual property rights mainly because of the lack of awareness of compliance. The WHOLEGARMENT flat knitting machine is our group’s strategic machine type based on comprehensive, sophisticated technologies, and distribution of imitative products violating the patent would have a significant impact on our business. Therefore, our group established the Intellectual Property Department to constantly pay attention to violations of the patent by other companies and builds the structure to send a reminder and take legal action as necessary, effectively using the information from local subsidiaries and agents in other countries.

６． Risk on talents

The Company has created things that do not exist in the world and offered products with the most advanced technologies at the most affordable prices and has been appreciated in the industry. This is supported by talent with a high degree of expertise, creativity, and uniqueness. We strive to continuously secure and develop talent. The ability to develop products and product quality would be weakened if talent keeping and succeeding to technologies were not secured/developed as planned or the talent left us due to retirement. Consequently, this could reduce business competitiveness and have an impact on operating results and the financial positions of our group. Therefore, we proactively execute the succession of technologies, including an improvement in in-house training for junior employees, recommendations for taking skill examinations, and the expansion of OJT with experienced employees.

７． Risk on product liability

Our group establishes the basic policy for a quality environment and executes professional committee activities to increase product quality and customer satisfaction under the Shima Seiki Spirit of developing the most advanced technology and keeping it most affordable. Defects in products could have an impact on operating results and financial positions of our group because of compensation for damage and the cost of correcting defects. Our group purchases an insurance policy in preparation for product liability to reduce the risk.

８． Risk on information security

The information system is one of significant factors for our group. Human error, failures of devices, defects in services provided by third parties, including telecommunication carriers, as well as outside attack on servers, unauthorized access, and infection by a computer virus could cause problems and reveal flaws in the IT system resulting in failures, such as errors and delays in processing of transactions and data leakage, which would have an impact on operating results and the financial positions of our group. Our group established an information security policy to draft a code of conduct concerning the treatment of information for all officers and employees. In addition, it continuously provides awareness activities about physical and technical countermeasures for information security through the Information Security Committee.

９． Risk on disasters, accidents, and spread of infection

Disasters, including earthquakes, typhoons, tsunami, fires, power failures, and the spread of infection (pandemic), and international disputes could have an impact on our business.

(1) Impact on sales

Increasing impact on Asia, the main customer, (China, ASEAN, including Vietnam and Bangladesh), European market, particularly Italy, and the Middle East market, particularly Turkey, would result in problems in ordinary business activities. In the worst scenario, we would be forced to suspend business. Prolonged suspension of business would increase an impact our operating results. Additionally, this could have an impact on the production activities of users and have a significant impact on the risk of the recovery of trade accounts receivable arising from deteriorated financing. More details are described in “4. Risk of recovery of credits and trade accounts receivable.”

(2) Impact on production

For production, the prolonged impact of the suspended operation of suppliers would cause a shortage of parts and force us to reduce production. Consequently, this would result in a significant impact. Additionally, the realization of the risk of disasters for January-March, where there is strong demand for capital spending, (fourth quarter of the Company) could increase the impact. Our group implements countermeasures that include securing stock for emergencies and building a stable parts supply system through purchases from several companies.

10. Overconcentration of production base

The Company manufactures products and establishes an integrated system ranging from development to manufacturing in Wakayama Prefecture, where the headquarters is located, to increase efficiency and cut costs. Therefore, natural disasters in the suburbs of Wakayama Prefecture, such as earthquakes, and wind and flood damage, accidents, such as fires in our plants, and severe infections could cause production lines to suspend for a long time. For general-purpose products, stock for net sales for about a month is generally kept in storage. The negative impact on storage conditions of the stock and the impact resulting from suspended logistics exceeding the stock would have a direct link to the sales of our business. The Company establishes a daily production system, and so continuing any suspension of production would increase the impact. Therefore, the Company purchases insurance policies and develops the business continuity plan so that any suspension period of operations can be minimized. Additionally, we implement countermeasures, such as seismic constructions for buildings, practice for emergencies, and introduction of safety confirmation system to establish the system for early recovery. Disasters with damage exceeding estimates could have an impact on continuing business as a result of suspension of functions/destruction of equipment, suspended offering of infrastructures, and suspension of traffic and communication tools.

11. Risk on pandemic of COVID-19

If there is a spread of infection in the Company due to the global spread (pandemic) of COVID-19, the suspension of business activities that the temporary suspension of plant operation could have an impact on operating results and the financial positions of our group.

Our group established the Crisis Management Headquarters, which the president leads as general manager, to implement a countermeasure to the spread of infection. The group puts priority on securing the safety of employees through a ban on non-essential meetings/business trips, cancellation of reception of plant tours, strengthening of prevention measures (such as daily temperature check, wearing of masks, and disinfection of hands and fingers), and remote work while implementing measures to minimize the impact on business.

12. Risk on compliance

In performing business activities, our group is subject to a wide variety of laws and regulations and rules. Material compliance violations that include fraud (including unintended violations) could deteriorate the public reputation of our group and have a significant impact on business, including damage from suspension of transactions and lawsuits. For that reason, our group established the Compliance Committee to promote compliance while establishing and complying with the SHIMA SEIKI Group Code of Conduct. In addition, the group set up the Corporate Ethics Helpline as a reporting counter for other compliance such as violations of laws and regulations.

Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
ASSETS			
Current assets:			
Cash and time deposits (Note 4,5)	**¥25,637**	¥21,641	**$231,569**
Trade notes and accounts receivable (Note 5)	**44,823**	51,249	**404,869**
Inventories (Note 7)	**16,213**	18,411	**146,445**
Prepaid expenses and other current assets	**954**	1,267	**8,617**
Less: allowance for doubtful accounts (Note 3)	**(4,816)**	(3,097)	**(43,501)**
Total current assets	**82,811**	89,471	**747,999**
Investments and other assets:			
Investments in unconsolidated subsidiaries (Note 5)	**516**	569	**4,661**
Investments in securities (Note 5,6)	**5,263**	6,965	**47,538**
Net defined benefit assets (Note 11)	**1,185**	1,277	**10,704**
Deferred tax assets (Note 14)	**360**	499	**3,252**
Goodwill	**2,197**	2,566	**19,845**
Other	**3,214**	4,351	**29,030**
Less: allowance for doubtful accounts (Note 3)	**(1,449)**	(1,967)	**(13,088)**
Total investments and other assets	**11,286**	14,260	**101,942**
Property, plant and equipment:			
Land (Note 8)	**6,474**	12,159	**58,477**
Buildings and structures	**27,946**	27,106	**252,426**
Machinery and equipment	**5,622**	6,912	**50,781**
Tools, furniture and fixtures	**7,739**	7,953	**69,903**
Leased assets	**6,349**	8,331	**57,348**
Construction in progress	**438**	1,371	**3,956**
	54,568	63,832	**492,891**
Less: accumulated depreciation	**(38,525)**	(36,868)	**(347,981)**
Property, plant and equipment, net	**16,043**	26,964	**144,910**
Total assets	**¥110,140**	¥130,695	**$994,851**

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 5,10)	**¥6,235**	¥8,162	**$56,318**
Lease obligation	**944**	952	**8,527**
Trade notes and accounts payable (Note 5)	**2,393**	2,113	**21,615**
Electronically recorded obligations-operating (Note 5)	**281**	416	**2,538**
Accrued expenses	**1,485**	1,728	**13,413**
Accrued income taxes	**165**	119	**1,490**
Other current liabilities	**3,131**	3,803	**28,282**
Total current liabilities	**14,634**	17,293	**132,183**
Long-term liabilities:			
Long-term accounts payable	**968**	975	**8,744**
Lease obligation	**2,323**	2,932	**20,982**
Deferred tax liabilities (Note 14)	**556**	498	**5,022**
Deferred tax liabilities for land revaluation (Note 8)	**18**	23	**163**
Net defined benefit liability (Note 11)	**1,406**	731	**12,700**
Other long-term liabilities	**199**	293	**1,797**
Total long-term liabilities	**5,470**	5,452	**49,408**
Contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized - 142,000,000 shares			
Issued - 2021 - 35,800,000 shares			
2020 - 35,800,000 shares	**14,860**	14,860	**134,225**
Capital surplus	**23,424**	23,424	**211,580**
Retained earnings	**55,648**	81,414	**502,647**
Treasury stock, at cost			
2021 – 1,288,541 shares			
2020 – 1,288,926 shares	**(3,935)**	(3,937)	**(35,543)**
Total shareholders' equity	**89,997**	115,761	**812,909**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	**606**	306	**5,474**
Land revaluation difference (Note 8)	**34**	(7,004)	**307**
Foreign currency translation adjustments	**(324)**	(1,489)	**(2,927)**
Remeasurements of defined benefit plans	**(316)**	336	**(2,854)**
Total accumulated other comprehensive income	**0**	(7,851)	**0**
Subscription rights to share (Note 16)	**23**	26	**207**
Non-controlling interests in consolidated subsidiaries	**16**	14	**144**
Total net assets	**90,036**	107,950	**813,260**
Total liabilities and net assets	**¥110,140**	¥130,695	**$994,851**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S.dollars
	2021	2020	**2021**
Net sales	**¥24,489**	¥33,206	**$221,199**
Cost of sales	**18,528**	21,577	**167,356**
Gross profit	**5,961**	11,629	**53,843**
Selling, general and administrative expenses (Note 15)	**15,104**	17,232	**136,428**
Operating loss	**(9,143)**	(5,603)	**(82,585)**
Other income (expenses):			
Interest and dividend income	**513**	580	**4,634**
Interest expense	**(46)**	(199)	**(415)**
Foreign exchange loss	**(57)**	(812)	**(515)**
Provision of allowance for doubtful accounts	**(30)**	(43)	**(271)**
Subsidy income	**944**	-	**8,527**
Loss on the valuation of shares of affiliated companies	**(202)**	(29)	**(1,825)**
Impairment loss (Note 9)	**(10,222)**	(11)	**(92,331)**
Other, net	**633**	(435)	**5,718**
Loss before income taxes	**(17,610)**	(6,552)	**(159,063)**
Income taxes (Note 14):			
Current	**113**	395	**1,021**
Deferred	**142**	1,481	**1,283**
	255	1,876	**2,304**
Net loss	**(17,865)**	(8,428)	**(161,367)**
Net income attributable to non-controlling interests	**1**	0	**9**
Net loss attributable to owners of the parent	**¥(17,866)**	¥(8,428)	**$(161,376)**

	Yen		U.S. dollars
Net loss per share:			
Basic	**¥(517.71)**	¥(239.68)	**$(4.68)**
Diluted	**-**	-	**-**
Cash dividends applicable to the year	**20.00**	35.00	**0.18**

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Net loss	**¥(17,865)**	¥(8,428)	**$(161,367)**
Other comprehensive income (Note 17):			
Net unrealized holding gain on securities	**300**	243	**2,710**
Foreign currency translation adjustments	**1,165**	(719)	**10,522**
Remeasurements of defined benefit plans	**(653)**	(82)	**(5,898)**
Total other comprehensive income	**812**	(558)	**7,334**
Comprehensive income	**¥(17,053)**	¥(8,986)	**$(154,033)**
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	**¥(17,054)**	¥(8,985)	**$(154,042)**
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, 2021 and 2020

	Thousands	Millions of yen										
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets
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 loss 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
Net loss attributable to owners of the parent	**—**	**—**	**—**	**(17,866)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(17,866)**
Cash dividends	**—**	**—**	**—**	**(863)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(863)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**
Retirement of treasury stock	**—**	**—**	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**—**	**—**	**3**
Reversal of land revaluation difference	**—**	**—**	**—**	**(7,037)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(7,037)**
Other changes, net	**—**	**—**	**—**	**—**	**—**	**300**	**7,038**	**1,165**	**(652)**	**(3)**	**2**	**7,850**
Balance at March 31 ,2021	**35,800**	**¥14,860**	**¥23,424**	**¥55,648**	**¥(3,935)**	**¥606**	**¥34**	**¥(324)**	**¥(316)**	**¥23**	**¥16**	**¥90,036**

	Thousands of U.S. dollars										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at March 31 , 2020	$134,225	$211,580	$735,381	$(35,561)	$2,764	$(63,264)	$(13,450)	$3,035	$235	$126	$975,071
Net loss attributable to owners of the parent	**—**	**—**	**(161,376)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(161,376)**
Cash dividends	**—**	**—**	**(7,796)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(7,796)**
Purchases of treasury stock	**—**	**—**	**—**	**(9)**	**—**	**—**	**—**	**—**	**—**	**—**	**(9)**
Retirement of treasury stock	**—**	**—**	**—**	**27**	**—**	**—**	**—**	**—**	**—**	**—**	**27**
Reversal of Land revaluation difference	**—**	**—**	**(63,562)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(63,562)**
Other changes, net	**—**	**—**	**—**	**—**	**2,710**	**63,571**	**10,523**	**(5,889)**	**(28)**	**18**	**70,905**
Balance at March 31 , 2021	**$134,225**	**$211,580**	**$502,647**	**$(35,543)**	**$5,474**	**$307**	**$(2,927)**	**$(2,854)**	**$207**	**$144**	**$813,260**

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Cash flows from operating activities:			
Loss before income taxes	**¥(17,610)**	¥(6,552)	**$(159,064)**
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	**2,343**	2,454	**21,163**
Amortization of goodwill	**389**	397	**3,514**
Increase in allowance for doubtful accounts	**1,120**	651	**10,117**
Increase (Decrease) in net defined benefit liability	**30**	(220)	**271**
Interest and dividend income	**(512)**	(580)	**(4,625)**
Interest expense	**46**	199	**415**
Foreign exchange gain and loss	**(31)**	(38)	**(280)**
Gain on sales and disposal of property, plant and equipment, net	**(12)**	-	**(108)**
Loss on valuation of investment securities	**60**	892	**542**
(Gain) Loss on sale of investment in securities	**(125)**	37	**(1,129)**
Loss on valuation of stocks of subsidiaries and affiliates	**202**	29	**1,825**
Impairment loss	**10,222**	11	**92,331**
Subsidy income	**(944)**	-	**(8,527)**
Decrease in trade receivables	**7,764**	5,937	**70,129**
Decrease in inventories	**2,565**	457	**23,169**
(Decrease) Increase in trade payables	**(312)**	151	**(2,818)**
Other	**(790)**	(270)	**(7,136)**
Subtotal	**4,405**	3,555	**39,789**
Interest and dividend income received	**510**	576	**4,607**
Interest expense paid	**(42)**	(211)	**(379)**
Income taxes paid	**122**	(144)	**1,102**
Proceeds from subsidy income	**942**	-	**8,508**
Net cash provided by operating activities	**5,937**	3,776	**53,627**
Cash flows from investing activities:			
Increase in time deposits, net	**5**	11	**45**
Purchases of property, plant and equipment	**(1,133)**	(2,523)	**(10,234)**
Proceeds from sales of property, plant and equipment	**90**	8	**813**
Purchases of investments in securities	**(205)**	(335)	**(1,852)**
Proceeds from sales and redemption of investments in securities	**2,418**	102	**21,841**
Payment for acquisition of subsidiaries and affiliated companies	**(147)**	-	**(1,328)**
Other	**272**	(349)	**2,457**
Net cash provided by (used in) investing activities	**1,300**	(3,086)	**11,742**
Cash flows from financing activities:			
Decrease in short-term borrowings, net	**(1,946)**	(526)	**(17,577)**
Repayment of finance lease obligations	**(967)**	(794)	**(8,735)**
Purchases of treasury stock	**(1)**	(2,638)	**(9)**
Cash dividends paid	**(862)**	(1,597)	**(7,786)**
Net cash used in financing activities	**(3,776)**	(5,555)	**(34,107)**
Effect of exchange rate changes on cash and cash equivalents	**539**	(402)	**4,868**
Net increase (decrease) in cash and cash equivalents	**4,000**	(5,267)	**36,130**
Cash and cash equivalents at beginning of year	**21,582**	26,849	**194,942**
Cash and cash equivalents at end of year (Note 4)	**¥25,582**	¥21,582	**$231,072**

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, 2021, which was ¥110.71 to US$1. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

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

(b) Translation of foreign currencies

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

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

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

(c) Cash and cash equivalents

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

(d) 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 historical rate of bad debt loss 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 loss per share is computed by dividing net 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, 2021 since the Company posted a net loss per share.

3. Significant accounting estimates

Allowance for doubtful accounts

(a) Amount recorded in the consolidated financial statements for the current fiscal year

Allowance for doubtful accounts (Current assets)	¥4,816 million ($43,501 thousand)
Allowance for doubtful accounts (non-Current assets)	¥1,449 million ($13,088 thousand)

(b) Information that contributes to the understanding of the significant accounting estimates

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 historical rate of bad dept loss 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.

The Companies obtain financial statements from major business partners and continuously grasp the financial status, review the credit through grasping the collection status, and estimate the future uncollectible amounts.

The amount of allowance for doubtful accounts provisioned as of March 31, 2021 is based on our best estimate at present, however, the assumptions for estimating reserve for credit losses are highly uncertain. Accordingly, the amount of bad debt losses may change if it changes a credit risk due to changes in the economic environment.

4. 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, 2021 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Cash and time deposits	**¥25,637**	¥21,641	**$231,569**
Time deposits with an original maturity in excess of three months included in cash and deposits	**(55)**	(59)	**(497)**
Cash and cash equivalents at end of year	**¥25,582**	¥21,582	**$231,072**

5. 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.

(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 identify risks for exchange rate fluctuations monitored monthly by each currency and enter into foreign exchange forward contracts to hedge such risk.

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 13. 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		
	2021		
	Carrying value	Fair value	Variance
① Cash and time deposits	**¥25,637**	**¥25,637**	－
② Trade notes and accounts receivable	**44,823**	－	－
Less: allowance for doubtful accounts *1	**(4,816)**	－	－
	40,007	**40,007**	－
③ Investments in securities	**3,052**	**3,052**	－
④ Trade notes and accounts payable	**2,393**	**2,393**	－
⑤ Electronically recorded obligations-operating	**281**	**281**	－
⑥ Short-term borrowings	**6,235**	**6,235**	－

	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	－

	Thousands of U.S. dollars		
	2021		
	Carrying value	Fair value	Variance
① Cash and time deposits	**$231,569**	**$231,569**	－
② Trade notes and accounts receivable	**404,869**	－	－
Less: allowance for doubtful accounts *1	**(43,501)**	－	－
	361,368	**361,368**	－
③ Investments in securities	**27,568**	**27,568**	－

④ Trade notes and accounts payable	**21,615**	**21,615**	**－**
⑤ Electronically recorded obligations-operating	**2,538**	**2,538**	**－**
⑥ Short-term borrowings	**56,318**	**56,318**	**－**

*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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Unlisted equity securities	**¥2,211**	¥2,011	**19,971**
Shares of subsidiaries and affiliates	**495**	550	**4,471**

(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2021 and 2020

	Millions of yen			
(As of March 31, 2021)	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	**¥25,637**	**－**	**－**	**－**
Trade notes and accounts receivable	**29,039**	**¥15,784**	**－**	**－**
Investment securities				
Available-for-sale securities with maturity				
– Other investments	**－**	**34**	**－**	**－**
Total	**¥54,676**	**¥15,818**	**－**	**－**

	Millions of yen			
(As of March 31, 2020)	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	¥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	－

	Thousands of U.S. dollars			
(As of March 31, 2021)	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	**$231,569**	**－**	**－**	**－**
Trade notes and accounts receivable	**262,298**	**$142,571**	**－**	**－**
Investment securities				
Available-for-sale securities with maturity				
– Other investments	**－**	**307**	**－**	**－**
Total	**$493,867**	**$142,878**	**－**	**－**

6. Investments in securities

Other securities with quoted market prices at March 31, 2021 and 2020 were as follows:

	Millions of yen					
	2021			2020		
	Acquisition cost	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:						
Equity securities	**¥1,939**	**¥2,762**	**¥823**	¥1,445	¥1,911	¥466
Other	**-**	**-**	**-**	791	817	26
Subtotal	**¥1,939**	**¥2,762**	**¥823**	¥2,236	¥2,728	¥492
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:						
Equity securities	**¥303**	**¥255**	**¥(48)**	¥1,075	¥997	¥(78)
Other	**46**	**35**	**(11)**	1,328	1,229	(99)
Subtotal	**¥349**	**¥290**	**¥(59)**	¥2,403	¥2,226	¥(177)
Total	**¥2,288**	**¥3,052**	**¥764**	¥4,639	¥4,954	¥315

	Thousands of U.S. dollars		
	2021		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	**$17,514**	**$24,948**	**$7,434**
Other	**-**	**-**	**-**
Subtotal	**$17,514**	**$24,948**	**$7,434**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**$2,737**	**$2,303**	**$(434)**
Other	**415**	**316**	**(99)**
Subtotal	**$3,152**	**$2,619**	**$(533)**
Total	**$20,666**	**$27,567**	**$6,901**

Other securities without quoted market prices at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2021	2020	**2021**
Other securities	**¥2,211**	¥2,011	**$19,971**
	¥2,211	¥2,011	**$19,971**

7. Inventories

Inventories at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Finished goods	**¥7,899**	¥10,563	**$71,349**
Work in process	**6,910**	6,670	**62,414**
Raw materials	**1,081**	840	**9,764**
Supplies and others	**323**	338	**2,918**
	¥16,213	¥18,411	**$146,445**

8. 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 more than its carrying value by ¥93 million ($840 thousand) at March 31, 2021 and less than its carrying value by ¥5,023 million at March 31, 2020, respectively.

9. Impairment loss

The Companies recognized an impairment loss under the following asset category at March 31, 2021.

Location	Category	Related Assets	Millions of Yen	Thousands of U.S. dollars
Wakayama prefecture etc.	Business assets	Land and machinery etc.	**10,174**	**91,898**
Wakayama prefecture etc.	Idle assets	Land and structures	**48**	**433**

The Companies grouped their fixed assets mainly based on operating activities, with idle assets and rental assets were each treated as separate property. The Companies reduced the carrying amount of the assets to a recoverable amount due to decline profitability and recognized an impairment loss of ¥10,174 million ($91,898 thousand) for the operating assets listed above. The Companies reduced the carrying amount of the assets to a recoverable amount due to a significant decrease in the market value of the company's assets and recognized an impairment loss of ¥48 million ($ 433 thousand) for the idle assets listed above. The recoverable amount of those assets was measured based on net selling price. The net selling price was calculated based on the real estate appraisal value for land and the estimated disposal amount for other assets.

10. Short-term borrowings

Short-term borrowings at March 31, 2021and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Average rate of 0.51% unsecured loans from banks	**¥6,235**	¥8,162	**$56,318**

11. Retirement benefits

Retirement benefits at March 31, 2021 and 2020 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. Also, certain consolidated subsidiaries have defined contribution plans.

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 U. S. dollars
	2021	2020	2021
Balance, beginning of year	**¥6,213**	¥6,145	**$56,120**
Service cost	**339**	326	**3,062**
Interest cost	**69**	61	**623**
Actuarial loss	**(187)**	0	**(1,689)**
Benefit paid	**(373)**	(319)	**(3,369)**
Past service cost	**859**	-	**7,759**
Balance, end of year	**¥6,920**	¥6,213	**$62,506**

(2) Movement in plan assets

	Millions of yen		Thousands of U. S. dollars
	2021	2020	2021
Balance, beginning of year	**¥6,759**	¥6,575	**$61,051**
Expected return on plan assets	**76**	76	**686**
Actuarial gain	**(61)**	0	**(551)**
Contributions paid by the employer	**230**	350	**2,077**
Benefit paid	**(305)**	(242)	**(2,755)**
Balance, end of year	**¥6,699**	¥6,759	**$60,508**

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

	Millions of yen		Thousands of U. S. dollars
	2021	2020	2021
Funded retirement benefit obligations	**¥5,514**	¥5,482	**$49,805**
Plan assets	**(6,699)**	(6,759)	**(60,509)**
	(1,185)	(1,277)	**(10,704)**
Unfunded retirement benefit obligations	**1,406**	731	**12,700**
Total net liability for retirement benefits end of year	**221**	(546)	**1,996**
Net defined benefit liability	**1,406**	731	**12,700**
Net defined benefit assets	**(1,185)**	(1,277)	**(10,704)**
Total net liability for retirement benefits end of year	**¥221**	¥(546)	**$1,996**

(4) Retirement benefit costs

	Millions of yen		Thousands of U. S. dollars
	2021	2020	2021
Service cost	**¥339**	¥326	**$3,062**
Interest cost	**69**	61	**623**
Expected return on plan assets	**(76)**	(76)	**(686)**
Net actuarial loss amortization	**(89)**	(120)	**(804)**
Past service costs amortization	**86**	1	**777**
Total retirement benefits costs	**¥329**	¥192	**$2,972**

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

	Millions of yen		Thousands of U. S. dollars
	2021	2020	2021
Past service cost	**¥(774)**	¥1	**$(6,991)**
Actuarial gain and loss	**37**	(120)	**334**
Total balance end of year	**¥(737)**	¥(119)	**$(6,657)**

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

	Millions of yen		Thousands of U. S. dollars
	2021	2020	**2021**
Past service costs that are yet to be recognized	**¥(774)**	-	**$(6,991)**
Actuarial gain and loss that are yet to be recognized	**¥522**	¥485	**$4,715**
Total balance end of year	**¥(252)**	¥485	**$(2,276)**

(7) Plan assets

①Plan assets at March 31, 2021 comprise:

Equity securities	4%
Bonds	11%
Insurance assets (General account)	72%
Other	13%
Total	100%

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

②Long-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, 2021 (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	2.07%

Defined contribution plans

Amounts required to contribute to the defined contribution plans of certain consolidated subsidiaries was ¥36 million and ¥31 million for the year ended March 31, 2020 and 2021 respectively.

12. Contingent liabilities

Contingent liabilities at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Guarantees of customers' loans and lease obligations	**¥406**	¥515	**$3,667**

13. Derivative financial instruments

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2021 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 2021			
		Contract amount			
		Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Allocation method for foreign exchange contracts	Foreign exchange contracts:				
	Put US$	**¥ 3,923**	**¥ -**		
	EUR	**10,319**	**4,333**		
	KWR	**160**	**7**		
	GBP	**192**	**83**		

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

		Thousands of U.S. dollars 2021			
		Contract amount			
		Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Allocation method for foreign exchange contracts	Foreign exchange contracts:				
	Put US$	**$35,435**	**$ -**		
	EUR	**93,207**	**39,138**		
	KWR	**1,445**	**63**		
	GBP	**1,734**	**750**		

Note 1: Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed at Note5.

2: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.

14. 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, 2021 and 2020.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Deferred tax assets:			
Tax loss carryforwards	**¥5,381**	¥3,314	**$48,604**
Impairment loss on fixed assets	**3,303**	159	**29,835**
Allowance for doubtful accounts	**1,053**	1,166	**9,511**
Loss on valuation of investments in securities	**346**	346	**3,125**
Long - term liabilities	**295**	297	**2,665**
Accrued bonuses to employees	**292**	358	**2,638**
Net defined benefit liability	**277**	252	**2,502**
Intercompany profit	**120**	267	**1,084**
Allowance for losses on guarantees	**70**	89	**632**
Other	**537**	401	**4,851**
Total gross deferred tax assets	**11,674**	6,649	**105,447**

Less valuation allowance	**(11,314)**	(6,150)	**(102,195)**
Net deferred tax assets	**360**	499	**3,252**
Deferred tax liabilities:			
Net defined benefit asset	**(364)**	(434)	**(3,288)**
Unrealized holding gain on securities	**(155)**	(9)	**(1,400)**
Reserve for special depreciation	**(9)**	(14)	**(81)**
Other	**(28)**	(41)	**(253)**
Total gross deferred tax liabilities	**(556)**	(498)	**(5,022)**
Net deferred tax assets	**¥(196)**	¥1	**$(1,770)**

Note: Valuation allowance increase ¥5,164 million ($46,644 thousands). The main reasons for this increase were increases in losses carried forward and impairment losses.

15. Research and development costs

Research and development costs charged to income were ¥3,311 million ($29,907 thousand) and ¥3,676 million for the years ended March 31, 2021 and 2020, respectively.

16.Stock option plan

As of March 31, 2021, 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

Date of resolution	June 25, 2020
Type and number of eligible persons	[The Company] Director: 4 Executive officer: 3
Class and number of shares to be granted	Common stock: 2,200 shares
Grant date	July 16, 2020
Vesting requirement	—
Vesting period	—
Exercise period	From July 17, 2020 to July 16, 2050

(a) Number and price information

(As of March 31, 2021)

Date of resolution	July 25, 2018	June 27, 2019	June 25, 2020
Unvested stock options			
Outstanding as of March 31, 2020	—	—	—
Granted	—	—	2,200
Expired	—	—	—
Vested	—	—	2,200
Outstanding as of March 31, 2021	—	—	—
Vested stock options			
Outstanding as of March 31, 2020	4,500	2,500	—
Vested	—	—	2,200
Exercised	600	300	—
Expired	—	—	—
Outstanding as of March 31, 2021	3,900	2,200	2,200

	Yen
Date of resolution	July 25, 2018
Exercise price	¥ 1
Average stock price at exercise	¥ 1,536
Fair value at grant date	¥ 4,369

	Yen
Date of resolution	June 27, 2019
Exercise price	¥ 1
Average stock price at exercise	¥ 1,536
Fair value at grant date	¥ 2,261

	Yen
Date of resolution	June 25, 2020
Exercise price	¥ 1
Average stock price at exercise	—
Fair value at grant date	¥ 900

(b)The estimate method on unit price of subscription rights

Estimate method: Black Scholes Model

	Yen
Volatility	40.29%
Expected remaining period	15 years
Estimated dividend	¥45.00 per share
Non risk interest rate	0.26%

(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.

17. Comprehensive income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Net unrealized holdings gain on securities:			
Amount recognized in the period under review	**¥508**	¥(622)	**$4,589**
Amount of recycling	**(61)**	928	**(551)**
Before income tax effect adjustments	**447**	306	**4,038**
Amount of income tax effect	**(147)**	(63)	**(1,328)**
Net unrealized holdings gain on securities	**300**	243	**2,710**
Foreign currency translation adjustments:			
Amount recognized in the period under review	**1,165**	(719)	**10,522**
Amount of recycling	**-**	-	**-**
Before income tax effect adjustments	**1,165**	(719)	**10,522**
Amount of income tax effect	**-**	-	**-**
Foreign currency translation adjustments	**1,165**	(719)	**10,522**
Remeasurements of defined benefit plans			
Amount recognized in the period under review	**(734)**	0	**(6,630)**
Amount of recycling	**(3)**	(119)	**(27)**
Before income tax effect adjustments	**(737)**	(119)	**(6,657)**
Amount of income tax effect	**84**	37	**759**
Remeasurements of defined benefit plans	**(653)**	(82)	**(5,898)**
Total other comprehensive income	**¥812**	¥(558)	**$7,334**

18. 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, 2021 and 2020 were as follows:

	Millions of yen					
	2021					
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**¥15,547**	**¥2,509**	**¥1,969**	**¥20,025**	**¥4,464**	**¥24,489**
Inter-segment sales	—	—	—	—	—	—
Total sales	**15,547**	**2,509**	**1,969**	**20,025**	**4,464**	**24,489**
Operating expenses	**18,828**	**2,395**	**2,212**	**23,435**	**4,452**	**27,887**
Segment profit (loss)	**¥(3,281)**	**¥114**	**¥(243)**	**¥(3,410)**	**¥12**	**¥(3,398)**
Segment Assets:	**¥66,355**	**¥4,389**	**¥3,230**	**¥73,974**	**¥10,146**	**¥84,120**
Others:						
Capital expenditure	**¥583**	**¥32**	**¥74**	**¥689**	**¥135**	**¥824**
Depreciation	**1,341**	**57**	**165**	**1,563**	**256**	**1,819**
Amortization of goodwill	**371**	**3**	**0**	**374**	**15**	**389**

	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

	Thousands of U.S. dollars					
	2021					
	Flat Knitting Machine	Design System	Glove and Sock knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	**$140,430**	**$22,663**	**$17,785**	**$180,878**	**$40,321**	**$221,199**
Inter-segment sales	—	—	—	—	—	—
Total sales	**140,430**	**22,663**	**17,785**	**180,878**	**40,321**	**221,199**
Operating expenses	**170,066**	**21,633**	**19,980**	**211,679**	**40,213**	**251,892**
Segment profit (loss)	**$(29,636)**	**$1,030**	**$(2,195)**	**$(30,801)**	**$108**	**$(30,693)**
Segment Assets:	**$599,359**	**$39,644**	**$29,175**	**$668,178**	**$91,645**	**$759,823**
Others:						
Capital expenditure	**$5,266**	**$289**	**$668**	**$6,223**	**$1,219**	**$7,442**
Depreciation	**12,113**	**515**	**1,490**	**14,118**	**2,312**	**16,430**
Amortization of goodwill	**3,351**	**27**	**0**	**3,378**	**135**	**3,513**

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
	2021	2020	**2021**
Reportable segments total	**¥20,025**	¥27,543	**$180,878**
Other sales	**4,464**	5,663	**40,321**
Net sales in the consolidated statements of income	**¥24,489**	¥33,206	**$221,199**

Segment loss

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Reportable segments total	**¥(3,410)**	¥608	**$(30,801)**
Other income	**12**	317	**108**
Corporate expenses	**(5,745)**	(6,528)	**(51,892)**
Operating loss in the consolidated statements of income	**¥(9,143)**	¥(5,603)	**$(82,585)**

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
	2021	2020	**2021**
Reportable segments total	**¥73,974**	¥95,826	**$668,178**
Other assets	**10,146**	9,810	**91,645**
Company-wide assets	**26,020**	25,059	**235,028**
Total assets in the consolidated balance sheets	**¥110,140**	¥130,695	**$994,851**

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

Others

	Millions of yen							
	Reportable segments total		Other		Adjustment		The amount in the consolidated financial statements	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Capital expenditure	**¥689**	¥1,514	**¥135**	¥217	**¥518**	¥2,071	**¥1,342**	¥3,802
Depreciation	**1,563**	1,601	**256**	260	**525**	593	**2,344**	2,454
Amortization of goodwill	**374**	381	**15**	16	—	—	**389**	397

	Thousands of U.S. dollars			
	2021			
	Reportable segments total	Other	Adjustment	The amount in the consolidated financial statements
Capital expenditure	**$6,223**	**$1,219**	**$4,679**	**$12,121**
Depreciation	**14,118**	**2,312**	**4,742**	**21,172**
Amortization of goodwill	**3,378**	**135**	**—**	**3,513**

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, 2021 and 2020 were as follows:

	Millions of yen					
	2021					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	**¥5,609**	**¥5,154**	**¥962**	**¥11,432**	**¥1,332**	**¥24,489**

	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

	Thousands of U.S. dollars					
	2021					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	**$50,664**	**$46,554**	**$8,689**	**$103,261**	**$12,031**	**$221,199**

19. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 25, 2021.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥345	$3,116

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, 2021, 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, 2021, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of allowance for doubtful accounts related to trade receivables	
Description of Key Audit Matter	Auditor's Response
The total amount of the allowance for doubtful accounts on the consolidated balance sheet as of the end of the current fiscal year was 6,264 million yen, most of which was related to the trade receivables of the Company's core business, the flat knitting machine business. Due to the industry's unique business practices, collection terms for these receivables can be lengthy, and a high percentage of these receivables are owed to overseas customers. The Company strives to reduce the collection risk of trade receivables by securitization, collateralization, etc., and classifies the receivables according to the credit risk and determines the collectability for each classification. The classification of trade receivables according to credit risk is determined comprehensively based on the collection status of the receivables, the financial status and solvency of each customer, and the situation in the country of location. After classifying trade receivables, the company makes an allowance for doubtful accounts for the estimated uncollectible amount by using the historical rate of bad debt loss for general receivables and by individually examining the collectability of specific receivables such as doubtful receivables. The classification of trade receivables according to credit risk and the estimation of specific uncollectible amounts for doubtful accounts involve subjective judgments by management, which may have a significant impact on the consolidated financial statements. Based on the above, we concluded that the evaluation of the allowance for doubtful accounts related to trade receivables is particularly important for the audit of the consolidated financial statements for the current fiscal year and falls under one of the key audit matters.	In considering our assessment of the allowance for doubtful accounts related to trade receivables, we performed the following audit procedures. (1) Assessment of internal control We assessed the effectiveness of the design and operation of internal control over the evaluation of the allowance for doubtful accounts related to trade receivables, focusing mainly on the following points. ・Internal control over the timely and appropriate acquisition of information and investigation of customers for the proper classification of receivables ・Internal control over the determination of the classification of receivables in consideration of credit risk ・Internal control over the evaluation of collateral assets (2) Examination of the appropriateness of the classification of trade receivables and the estimation of uncollectible amounts In considering appropriateness of the classification of trade receivables and the estimation of uncollectible amounts, we performed the following audit procedures. ・In order to evaluate the appropriateness of the classification of receivables according to their credit risk, we asked questions to the receivables management department and inspected related materials. ・With regard to the evaluation of the solvency of customers, we examined various factors related to debt collection and examined the appropriateness of the estimation of uncollectible amounts. ・With regard to the valuation of collateral assets, we examined the appropriateness of the valuation based on the nature of the collateral, the valuation method, and the timing of the valuation, etc.

Impairment of fixed assets	
Description of Key Audit Matter	Auditor's Response
As stated in the notes to the consolidated financial statements (consolidated statements of income), the company recorded an impairment loss of 10,222 million yen in the current consolidated fiscal year due to a decline in profitability of business assets, etc. caused by rapid changes in the market. The company groups its business assets based on the business segments used for management accounting and grasps whether there is any indication of impairment due to deterioration of profit and loss of the asset group. For asset groups for which there is an indication of impairment, if the total undiscounted future cash flows from the asset group are less than the carrying amount, the carrying amount is reduced to the higher of the value in use or the net selling price, and the amount of the reduction is recognized as an impairment loss. The value in use is calculated as the discounted present value of future cash flows and the future cash flows are based on the medium-term management plan approved by management, and after the period covered by the medium-term management plan, certain achievable growth rates and changes in the business environment are reasonably estimated and calculated. In addition, the discount rate is calculated based on the weighted average cost of capital. The future cash flows and discount rates used in the recognition and measurement of impairment losses involve assumptions that reflect company-specific circumstances and subjective judgments by management, which may have a significant impact on the consolidated financial statements. Based on the above, we concluded that impairment of fixed assets is particularly important for the audit of the consolidated financial statements for the current fiscal year and falls under one of the key audit matters.	In considering the impairment of fixed assets, we performed the following audit procedures. ・We assessed the effectiveness of the design and operation of internal control related to judgments regarding the necessity of recognizing impairment losses on fixed assets and the measurement of impairment losses. ・We discussed and reviewed the asset grouping with management based on the management accounting documents. ・We reviewed the status of the asset group's profit and loss, the scope or method of use of assets, and whether or not the market prices, etc. of major assets are appropriately taken into account to determine whether there were any indicators of impairment. ・We reviewed the future cash flows used in the recognition and measurement of impairment losses for consistency with the medium-term management plan approved by management. ・We discussed with management the reasonableness of the major assumptions included in the medium-term management plan, and examined market forecasts, reviewed related materials, and analyzed trends in past years' results. ・We examined the validity of the discount rate used to calculate the value in use, using available external data. ・We evaluated the suitability, competence and objectivity of the experts involved in the real estate appraisal, which is the basis for the net selling price.

Responsibilities of Management and Audit & Supervisory Committee 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 Committee is 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 Committee 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 Committee 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.

From the matters communicated with Audit & Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, 2021 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, 2021

古谷 一郎

Ichiro Furutani
Designated Engagement Partner
Certified Public Accountant

和田 裕之

Hiroyuki Wada
Designated Engagement Partner
Certified Public Accountant

木梨 譲

Jo Kinashi
Designated Engagement Partner
Certified Public Accountant