SHIMA SEIKI

March 24, 2020

SHIMA SEIKI MFG., LTD.
Representative: Mitsuhiro Shima, President
Code number: 6222
Stock listings: Tokyo Stock Exchange (1st section)

Notice of Recording of Extraordinary Losses, a Reversal of Deferred Tax Assets and Amendments to Full-year Earnings Forecast and Dividends Forecast

SHIMA SEIKI MFG., LTD. (the "Company") announces the recording of extraordinary losses (losses on revaluation of investments in securities) and a reversal of deferred tax assets in the financial statements for the fiscal year ending March 2020, as well as amendments to the full-year consolidated and unconsolidated earnings forecasts for the fiscal year ending March 2020, which were published on October 21, 2019, as described below.

We also notify you that the year-end dividends forecast for the fiscal year ending March 2020, which was published on May 8, 2019, has been amended at the Board of Directors' meeting held today as described below.

Notes

1. Recording of extraordinary losses and a reversal of deferred tax assets

(1) Recording of extraordinary losses (losses on revaluation of investments in securities)

We expect the recording of extraordinary losses (losses on revaluation of investments in securities) of about 1 billion yen in the consolidated financial statements for the current fiscal year and about 840 million yen in the unconsolidated financial statements, respectively. This is because the equity price is largely below the book value of investment for some of the equities held due to recent movements in the equity market, and there is no prospect for a rapid recovery in the equity price.

(2) A reversal of deferred tax assets

We estimated future taxable income as of now and carefully examined the recoverability of deferred tax assets according to the Implementation Guidance on Recoverability of Deferred Tax Assets. As a result, we expect a reversal of deferred tax assets of about 2.8 billion yen in the consolidated financial statements and of about 2.7 billion yen in the unconsolidated financial statements and recording of the reversal amount in income taxes, deferred.

2. Revision to consolidated earnings forecast for the year ending March 31, 2020

(1) Revised consolidated earnings forecast for the year ending March 31, 2020
(April 1, 2019—March 31, 2020)

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share
Previous forecast (A)	40,000	-3,600	-3,500	-2,400	Yen -67.58
Revised forecast (B)	33,500	-4,800	-4,800	-7,600	-215.77
Increase or decrease (B-A)	-6,500	-1,200	-1,300	-5,200	—
Percentage change (%)	-16.3	—	—	—	—
<Reference> Previous results (FY2018)	51,352	4,638	4,991	3,835	105.62

(2) Revised non-consolidated earnings forecast for the year ending March 31, 2020
(April 1, 2019—March 31, 2020)

(Millions of yen)

	Net sales	Ordinary income	Net income	Net income per share
Previous forecast (A)	32,500	-4,800	-3,300	Yen -92.93
Revised forecast (B)	26,000	-5,000	-7,000	-198.74
Increase or decrease (B-A)	-6,500	-200	-3,700	—
Percentage change (%)	-20.0	—	—	—
<Reference> Previous results (FY2018)	39,352	2,233	3,272	90.12

(3) Reasons for the revision

For the fiscal year ending March 2020, there is a clear movement for restraining excess production and inventory quantities of products as a result of the concern about the future of the global economy and the efforts to reduce environmental burdens in the apparel industry, our main user industry. In addition, there is a continued weak sentiment for capital investment in production plants.

Under such an environment, we encouraged the appetite for investment by making an appeal on a switch to a timely and optimal production system by our products and published the previous earnings forecasts, expecting that net sales would recover in the fourth quarter, which is a yearly peak period in capital investment.

From the third quarter to the fourth quarter, production quantities increased for European apparel and capital investment improved in computerized flat knitting machines in Turkey. But the production was cut in many customers' factories in our main market of China after the Chinese new year because of the spread of the new coronavirus. During the global spread of the infection, cutting capital investment was also seen in other production regions due to uncertainties about the future. As a result of the situation, the sale of products is weak for the fourth quarter, and net sales are expected to be largely below the forecast previously published.

Gross profit margin improved because of an increase in factory utilization arising from the end of production adjustment, and an effort was made to limit selling and administrative expenses. But this did not cover the decrease in operating income resulting from the large decrease in net sales. In addition, we expect that the above-mentioned recording of extraordinary losses and income taxes, deferred, will force us to record large losses in net income attributable to owners of the parent in the consolidated financial statements and net income in the unconsolidated financial statements.

Given such situation, we amend full-year (consolidated/non-consolidated) earnings forecast.

3. Revision to forecast of year-end dividend for the year ending March 31, 2020

(1) Details of revision to dividends forecast

	Dividend per share (Yen)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Total
Previous forecast (May 8, 2019)	—	—	—	25.00	45.00
Revised forecast	—	—	—	15.00	35.00
Current results	—	20.00	—		
Previous results (FY2018)	—	30.00	—	25.00	55.00

(2) Reasons behind the revision of dividends forecast

We established the basic policy of continuously paying stable dividends over the long term through stable business development and by setting the return of profits to shareholders as one of the most important managerial issues.

Unfortunately, however we amend the projected year-end cash dividend per share of 25 yen, which was published on May 8, 2019, to 15 yen because of the prospect of recording large losses in the fiscal year ending March 2020 as mentioned above.

* The above forecast of financial performance is based on information currently available to the Company, as well as certain assumptions deemed reasonable, and is not intended as a commitment by the Company to achieve such results. The actual results may differ significantly due to various factors.