English translation from the original Japanese-language document, "KESSAN TANSHIN"
(Summary for reference only)

Financial Results for the year ended March 31, 2007

May 10, 2007

Shima Seiki Mfg., Ltd.
Stock listings: Tokyo Stock Exchange and Osaka Securities Exchange (1st section)
Code number: 6222
URL: http://www.shimaseiki.co.jp/
Representative: Masahiro Shima, President
Expected date of general shareholders' meeting: June 28, 2007
Expected date of dividends payment: June 29, 2007
Expected date for filing financial report: June 29, 2007

(Amounts less than 1 million yen are omitted)

1. Consolidated results for FY2007 (from April 1, 2006 to March 31, 2007)

(1) Consolidated operating results (%: change from the same period of previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)
FY2007	47,079	(24.3)	7,709	(91.6)	9,450	(67.7)	3,113	(-8.5)
FY2006	37,879	(-17.8)	4,023	(-56.5)	5,634	(-39.8)	3,404	(-42.6)

	Net income per share	Diluted net income per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
FY2007	86.17	83.51	3.4	7.9	16.4
FY2006	91.92	-	3.6	5.2	10.6

Reference: Investment profit or loss on equity method
FY2007: N/A FY2006: N/A

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007	129,161	92,810	69.2	2,546.71
FY2006	109,302	95,330	87.2	2,599.24

Reference: Shareholders' equity
FY2007: 89,315 million yen FY2006: N/A

(3) Consolidated cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2007	10,691	(16,222)	12,225	15,954
FY2006	4,754	(3,512)	(1,386)	9,110

2. Cash dividends

	Cash dividends per share			Total dividends (Annual)	Dividend payout ratio (Consolidated)	Dividends on net assets (Consolidated)
	Interim	Year-end	Annual			
	Yen	Yen	Yen	Millions of yen	%	%
FY2006	17.50	20.00	37.50	1,374	40.8	1.5
FY2007	17.50	20.00	37.50	1,343	43.5	1.5
FY2008 (Forecast)	22.50	20.00	42.50		22.9	

3. Forecast of consolidated financial results for FY2008 (from April 1, 2007 to March 31, 2008)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Yen
Interim period	30,000	(45.3)	7,000	(143.4)	7,000	(120.3)	3,500	(483.3)	99.80
Full year	55,000	(16.8)	12,000	(55.7)	12,000	(27.0)	6,500	(108.8)	185.34

4. Other

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries that involve changes in scope of consolidation): Yes

New: 1 (Name of the company: Shima Seiki Win Win Ltd.)

Excluded: None

(2) Changes in accounting principles, procedures, presentation methods, and other practices for presenting consolidated financial statements (changes listed on “Significant changes in basis of presenting consolidated financial statements”)

1) Changes following revision of accounting standards: Yes

2) Changes other than those above: No

(3) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the year (including treasury stock)

FY2007: 37,600,000 FY2006: 37,600,000

2) Number of shares of treasury stock at the end of the year

FY2007: 2,529,153 FY2006: 936,623

Reference: Summarized non-consolidated financial results

1. Non-consolidated results for FY2007 (from April 1, 2006 to March 31, 2007)

(1) Non-consolidated operating results

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)
FY2007	43,754	(19.7)	7,024	(113.6)	8,737	(67.2)	3,607	(19.8)
FY2006	36,544	(-16.9)	3,288	(-55.2)	5,225	(-31.6)	3,010	(-39.2)

	Net income per share	Diluted net income per share
	Yen	Yen
FY2007	99.83	96.77
FY2006	81.28	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007	114,688	83,034	72.4	2,367.62
FY2006	103,926	88,776	85.4	2,420.57

Reference: Shareholders' equity
FY2007: 83,034 million yen FY2006: N/A

2. Forecast of non-consolidated financial results for FY2008 (from April 1, 2007 to March 31, 2008)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Yen
Interim period	26,000	(29.6)	5,500	(99.8)	5,500	(58.1)	2,800	(172.1)	79.84
Full year	47,000	(7.4)	9,000	(28.1)	9,000	(3.0)	5,000	(38.6)	142.57

1. Operating Results

(1) Analysis of operating results

[Operating results for the current fiscal year]

Concerning the global economic situation during the current consolidated fiscal year, the U.S. economy remained generally robust, although with a slight slowdown, and the EU economy saw sustained growth led by domestic demand. The economic growth in Asia, especially China, remained high due to buoyant exports and capital investments. Japan also performed well, reflecting such factors as improved corporate earnings.

Under these economic conditions, the Company established a sales subsidiary, Shima Seiki Win Win Ltd., for the Chinese and Hong Kong market, the world's largest knitwear production center, and initiated direct sales operations through the subsidiary, which took over business operations from the former sales agent in September 2006, in order to provide an even faster and direct response to user needs. In the United States, the world's largest consumer region, the Company acquired shares of a major knitwear manufacturer, Nova Knits Inc., in June and opened Shima Seiki Design Center of New York in July. In Italy, the Company acquired shares of Shima - Orsi S.r.l. to turn it into a sales subsidiary in December. Trough these activities, the Company promoted strategic business reform in important markets worldwide.

As for the business results for the current consolidated fiscal year, despite low capital investments in Europe and Turkey resulting from the competition with Chinese-made knitwear, sales saw substantial growth in the Chinese and Hong Kong market, which account for 70% of the Group's total sales, supported by aggressive demand for computerized flat knitting machines. As a result, total sales hit a historic high of 47,079 million yen (a 24.3% year-on-year increase) with overseas sales accounting for 90.9%. In order to fulfill the increased orders from the Chinese and Hong Kong market, the Group has provided higher production capabilities for flat knitting machines since the second half of the fiscal year.

On the earnings side, the increase in sales and a decline in the percentage of SG&A (selling, general, and administrative) expenses resulting from lower costs stemming from the higher production and aggressive expense reduction efforts pushed up operating income significantly to 7,709 million yen (a 91.6% year-on-year increase). Ordinary income was 9,450 million yen (a 67.7% year-on-year increase) due to such factors as exchange gains resulting from the continued weakness of the yen. However, the Company reported net income of 3,113 million yen (an 8.5% year-on-year decrease) mainly because it recorded extraordinary losses associated with business restructuring in overseas markets.

Performance of each segment is as follows:

Flat Knitting Machine Segment

Industry to which the Flat Knitting Machine segment, the Company's core business, belongs is clearly divided into two categories; consumer production regions of Japan, Europe, and the United States that manufacture a wide variety of products with high-quality fashion and brilliant design in small quantities, and labor-intensive mass production regions led by China and Hong Kong.

The Company demonstrated the innovative and creative edge of WHOLEGARMENT®, and as a company capable of formulating plans to offer products, it offered a total solution to the knitwear and apparel industries in consumer regions to revitalize the industry. In the domestic market, the Company proposed to manufacture leveraging WHOLEGARMENT® for revitalizing market to the knitwear and apparel industries in order to satisfy the need for high quality and short delivery of products, and knitwear production is a partial return to the domestic market. However, capital investment remained weak, which reflected the continuing high product import ratio. In Europe, the Company focused particular attention on the expansion of sales of the WHOLEGARMENT® flat knitting machines, primarily in Italy, though without a full recovery of orders.

In the Middle East, Turkey, which is the production base of knitwear products for the European and Russian markets, suffered from weak capital investment and a significant decrease in sales due to the effects of competition with Chinese-made knitwear products.

On the other hand, sales in China and Hong Kong, the largest center for mass-production markets, grew significantly and benefited from the growing demand for computerized flat knitting machines driven by higher requirements for efficiency in the manufacturing process on the back of higher labor costs, as well as high ratings for SSG and SIG, released in July 2006, from users for the excellent production and cost efficiency. As a result, the Flat Knitting Machine segment recorded sales of 38,736 million yen (a 28.4% year-on-year increase).

＊WHOLEGARMENT is a registered trademark of Shima Seiki Mfg., Ltd.

Design System Segment

The Design System segment was engaged in the aggressive proposal and expansion of sales of its SDS-ONE as the core tool offering total solutions to the knitwear and apparel industries through the enhancement of virtual sample functions and other new functions for a reduction in time and costs.

Although overseas markets, primarily Italy, stayed at a slightly higher level than in the previous fiscal year, the weak domestic market forced sales down to 1,433 million yen (a 20.5% year-on-year decrease).

Glove and Sock Knitting Machine Segment

The Glove and Sock Knitting Machine segment recorded a massive decline in sales, despite a slight recovery in the domestic market, due to a significant sales decrease in its core Korean market, which was adversely affected by Chinese-made imitation machines, to 2,188 million yen (a 30.0% year-on-year decrease).

Other Business Segment

The Other Business segment recorded sales of 4,720 million yen (a 69.4% year-on-year increase) mainly because it acquired the sales business of Nova Knits Inc. for knitwear products.

[Topics covered during the period under review]

“Receipt of the 53rd Okochi Memorial Grand Production Prize”

The Company received the 53rd Okochi Memorial Grand Production Prize from the Okochi Memorial Foundation on March 13, 2007, for its development of an advanced knitwear manufacturing system utilizing seamless computerized flat knitting machines and design systems.

The Company developed the world’s first seamless computerized flat knitting machine (WHOLEGARMENT® flat knitting machine) in 1995 to overcome indigenous disadvantages, such as lack of wearer comfort and elasticity and high costs associated with the cutting and sewing processes, and has made comprehensive proposals including design systems, knitting techniques, know-how, samples, and other solutions to make full use of the flat knitting machine. In addition, the Company has made efforts to change and improve the traditional labor-intensive industry and to promote widespread use and penetration of knowledge-intensive product manufacturing that are suitable for knitwear production in consumer nations such as Japan, Europe, and the United States, and had the honor of receiving the prize for these achievements.

The Okochi Memorial Grand Production Prize, which is to be given to business entities that have made an especially distinguished industrial achievement through excellent creative research, is the greatest honor in the industry among all the Okochi Prizes presented by the Okochi Memorial Foundation.

Features of the core technologies related to this prize are stated below.

1. Features and achievements

(1) Four-needle-bed flat knitting machine

Replacement of conventional two-needle-bed flat knitting machines by the world's only four-needle-bed flat knitting machines has enabled manufacturing of sensitive products, which had previously been impossible using two-needle-bed machines.

(2) SlideNeedle

Development of the Company's proprietary SlideNeedle, which has provided innovations to the knitting needle called the latch needle used for approximately 150 years, gave rise in the number, from 36 to 144, of knitting techniques, and therefore, has provided a significantly wider range of design variations and has enabled three-dimensional representation that is compatible with body line.

(3) Digital Stitch Control System (DSCS)

This system is a devise that can automatically control yarn feeding and allow knitting with the size and shape kept constant. WHOLEGARMENT® has leveraged this system to reduce material loss from cutting, which has previously wasted approximately 30% of materials of conventional knitting products required the sewing process.

(4) Computerized design systems

Design systems, which have been developed to achieve a higher presence of WHOLEGARMENT® among apparel manufacturers, have enabled virtual sample design, significant reduction in time and costs required for design, and provision of samples of three-dimensional and sophisticated silhouettes equivalent to clothes, thereby supporting top-brand companies worldwide and retain them as the Company's customers.

The above-mentioned breakthrough core technologies and production of WHOLEGARMENT® flat knitting machines, as well as design systems, have enabled the Company to gain a market share of more than 90%, both in the domestic and overseas markets. As a result, WHOLEGARMENT® business has grown into a business with a global competitive edge.

2. Future outlook

These technologies have provided innovations that reduce labor-intensive work operations, such as cutting and sewing knitwear products, and have significantly reduced production costs and time, thereby restoring the competitive edge of the declining textile industries in consumer regions and contributing to global environmental protection to pose a large impact on the industries and society. Advantages to the consumers, such as higher quality design and wearer comfort resulting from the seamless futures, have been steadily gaining ground and have provided ideal knitwear that takes full advantage of inherent features of knitwear, such as a soft feel, lightweight comfort and high elasticity.

In consideration of the receipt of this prize, which was awarded for the highly evaluated advanced technology of WHOLEGARMENT® flat knitting machines and design systems, the Company further formulated plans and provided offers to the global knitwear and apparel market to achieve a higher presence of WHOLEGARMENT®.

[Outlook for the following period]

In the overseas markets, robust demand for capital investment is expected to continue in the Chinese and Hong Kong market, whose importance in the global knitwear production has become more evident than ever. The Group will offer intensified technical support under the Company's initiative and accelerated comprehensive sales strategy throughout China, mainly through a local subsidiary, Shima Seiki Win Win Ltd., for the Chinese and Hong Kong market, the world's largest knitwear production center, to quickly respond to user needs and further increase the market share despite the severe competition. The Company's new SSG and SIG models, which were introduced in the market in 2006 and have been highly evaluated as models that enhance production efficiency of high-volume knitwear products with excellent cost performance, are still expected to continue enjoying brisk sales.

In Italy, full-fledged direct sales operations through Shima - Orsi S.p.A (former Shima - Orsi S.r.l. incorporated as an S.p.A. in April 2007) is expected to facilitate further acceptance of the WHOLEGARMENT® flat knitting machine and the SDS-ONE design system.

In the United States, the Company endeavors to offer cutting-edge WHOLEGARMENT® products primarily through Shima Seiki Design Center of New York to proactively expand sales in the world's largest consumer market.

In addition, the Company is committed to propose a product line-up that leverages the Company's high-end technology at the ITMA 2007, the world's largest exhibition of textile machines to be held in Munich, Germany, in September 2007, to revitalize the global apparel and knitwear industry and differentiate itself from competing manufacturers.

As for the domestic market, in response to the momentum of return of production to the domestic market, the Company resolves to offer a business model of manufacturing knitwear products leveraging its core WHOLEGARMENT® flat knitting machine and the SDS-ONE design system.

As for performance forecast under these measures, a high level of demand is expected to continue in the Chinese and Hong Kong market, and the full-year results of the new consolidated subsidiary established during the period under review will be included in the Company's reported results in the following period. Under these circumstances, the Company expects a significant increase in sales and income with regard to the consolidated performance for the year ended March 31, 2008 and projects net sales of 55,000 million yen (a 16.8% year-on-year increase), operating income of 12,000 million yen (a 55.7% year-on-year increase), ordinary income of 12,000 million yen (a 27.0% year-on-year increase), and net income of 6,500 million yen (a 108.8% year-on-year increase).

Exchange rates assumed for the performance forecasts are 115 yen to the US dollar and 150 yen to the Euro.

(2) Analysis of financial position

[Analysis of status of assets, liabilities, net assets, and cash flow]

Total assets at the end of the current fiscal year rose by 19,859 million yen from the previous year to 129,161 million yen. The major reasons for the increase include recorded goodwill and increase in cash and deposit. Liabilities increased by 22,571 million yen, compared to the end of the previous year, to 36,351 million yen. The increase was primarily attributable to the issuance of convertible bonds with stock acquisition rights and an increase in loans associated with purchases of treasury stock. Net assets, including minority interests, declined by 2,711 million yen, compared to the end of the previous year, to 92,810 million yen. The decline was due mainly to the purchases of treasury stock.

Cash and cash equivalents for the current consolidated fiscal year increased by 6,843 million yen to 15,954 million yen at the end of the period under review.

Cash flow status for each activity is as stated below.

[Cash flow from operating activities]

Net cash provided by operating activities was 10,691 million yen (a 5,937 million yen year-on-year increase) mainly due to an increase in income before income taxes and minority interests, as well as depreciation expenses, allowance for doubtful accounts and other non-cash items.

[Cash flow from investing activities]

Net cash used in investing activities totaled 16,222 million yen (a 12,709 million yen year-on-year increase) due to payments for business transfers and purchases of investments in securities.

[Cash flow from financing activities]

Net cash provided by financing activities was 12,225 million yen (1,386 million yen expenditure in the previous year) primarily attributable to the issuance of convertible bonds with stock acquisition rights.

Trends in Company cash flow indicators are shown below.

	FY2003	FY2004	FY2005	FY2006	FY2007
Equity ratio	87.7%	85.5%	85.9%	87.2%	69.2%
Market-to-market equity ratio	125.3%	153.2%	112.1%	110.0%	84.2%
Debt redemption period	0.0years	-	0.8years	0.5years	0.7years
Interest coverage ratio	98.3	-	218.0	147.8	145.8

Note: 1. Each indicator is calculated using consolidated financial data and the following formula:

Equity ratio	Shareholders' equity/Total assets
Market-to-market equity ratio	Market capitalization/Total assets
Debt redemption period	Interest-bearing liabilities/Operating cash flow
Interest coverage ratio	Operating cash flow/Interest payment

2. Market capitalization is calculated by multiplying the closing price of Company shares at the end of the period by the number of shares outstanding at the end of the period (net of any treasury stock).
3. Interest-bearing liabilities include all liabilities on the consolidated balance sheet upon which interest is paid.
4. "Cash flow from operating activities" and "interest expense paid" as presented on the consolidated statements of cash flow are used as operating cash flow and interest payments.
5. Debt redemption period and interest coverage ratio for the year ended March 31, 2004 are not available due to negative "cash flow from operating activities".

(3) Basic policy on profit sharing and dividends for the current and the following fiscal year

The Company believes that it is a priority management task to return profits to its shareholders.

As for profit sharing, the Company's approach is to maintain long-term stable dividends and actively pay dividends based on business performance enhancement, taking into account future earnings forecasts and business operations. The Company also intends to utilize retained earnings in an active and timely manner for medium- to long-term and proactive investment in property, plant and equipment, R&D, and market strategies in preparation for reinforcement of the Group's business infrastructure and future business operations.

As for the current fiscal year, the Company intends to propose at the shareholders' meeting a year-end dividend of 20.00 yen per share as originally planned; thus 37.50 yen per share for the full business year, including the previously paid interim dividend of 17.50 yen per share.

As for dividends for the following fiscal year, the Company intends to raise the interim dividend by 2.50 yen per share based on expectations of improving business performance due to continued strong demand. In addition, because 45 years have passed since the Company's foundation in 1962, it will pay an additional dividend of 2.50 yen per share to commemorate its 45th anniversary as a way of expressing its appreciation for the continuing support of its shareholders. Consequently, the Company plans to pay an interim dividend of 22.50 yen per share, which is an increase of 5.00 yen per share, in total. As for the year-end dividend, the Company intends to pay 20.00 yen per share; thus 42.50 yen per share for the full business year.

(4) Business risks and uncertainties

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

1. Risks associated with fluctuations in currency exchange rates

Since the Group sells products worldwide, some transactions are conducted in denominations other than yen. Although the Group employs forward exchange contracts and other hedges to minimize foreign exchange risks, it is possible that sales activities may not be conducted according to plan as a result of declining price competitiveness due to the rising value of the yen. Since such situations could easily occur, sharp fluctuations in exchange rates could affect the performance and financial position of the Group.

2. Risks associated with credit and accounts receivable recovery

The Group currently conducts sales, which have been conducted through indirect sales by overseas agents, through direct sales in China, Hong Kong, and the European market, which represent major markets in the Group's global sales strategy. This has enabled the Group to implement comprehensive global sales and marketing strategies by properly managing customer credit to maintain a balance between receivables recovery risks and sales. As the role of the precise handling of credit in consolidated business operations gains even greater significance, changes in the performance and credit standing of each customer and country risks could affect the performance and financial position of the Group.

3. Risks of dependency on particular overseas markets

Export sales account for more than 90% of the Group's total sales, with sales to China and Hong Kong accounting for approximately 70% of export sales. Consequently, economic and political changes, including monetary policies, tariffs, and trade friction with other regions, could affect the performance and financial position of the Group.

4. Risks associated with social and institutional changes in business areas

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

a) Stagnant demand resulting from deteriorating economic conditions
b) Unforeseen changes in laws and regulations
c) Social turmoil due to terrorism, war, political upheaval, deteriorating civil order, and other causes
d) Natural disasters including earthquakes

5. Risks associated with changes in consumer apparel spending and unseasonable weather

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

6. Risks associated with the protection of intellectual property rights

In some particular countries and regions, it is virtually impossible, or possible only to a limited extent, to completely protect the Group's proprietary technology and know-how in terms of its intellectual property rights due to a lack of awareness concerning legal compliance. Consequently, the Group may not be able to effectively prevent a third party from illegally using the Group's intellectual property rights and producing imitation products, and the accompanying deterioration in sales and price competition could affect the performance and financial position of the Group.

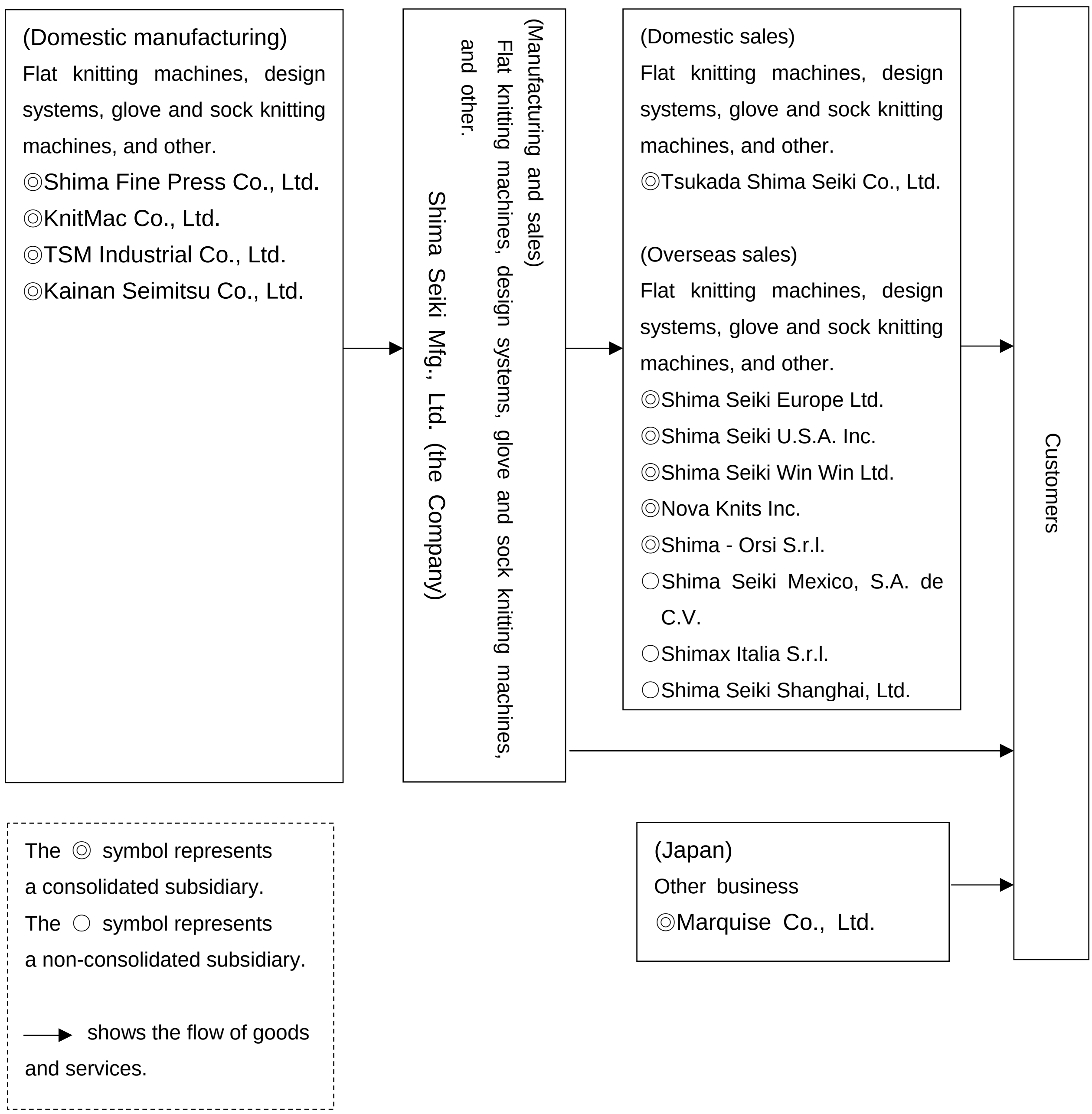
7. Risks associated with over concentration of production on a particular production site

The Company promotes efficiency by concentrating its product production in Wakayama prefecture, where the Headquarters is located, to allow all operations, from development to manufacturing, to be integrated into one process. Therefore, the occurrence of natural disasters, such as a large earthquake in and around Wakayama prefecture, which may involve a stopping of the production line for an extended period of time, could affect the performance and financial position of the Group.

2. Status of Shima Seiki Group

The Group's businesses consist of the manufacturing and sales of flat knitting machines, design systems, and glove and sock knitting machines, together with the manufacturing and sales of parts related to the other segments and other services.

The positions of manufacturing and sales subsidiaries, which bear part of all the business segments of the Company, in principle, in the Group business, are shown below.



3. Management policy

(1) Basic management policy

Since its foundation, based on its corporate motto of "Ever Onward" and under its basic policy to provide highly advanced products at economical prices leveraging its creative and ingenious edge, the Company has continued to provide products that do not exist anywhere in the world from the perspective of counterparties (customers).

In the textile industry, which underpins apparel that is indispensable for daily life and has been experiencing an accelerated shift from a traditional labor-intensive industry into a knowledge-intensive industry, which enables multi-products/small lots production and quick response, the Company has made full efforts to develop proprietary technology in order to propose a business model of manufacturing new and attractive products that never existed before. In addition, the Company intends to provide overall services and information that cover not only hardware and software but also know-how and design, contribute to revitalize user industries, including the fashion industry, and create an apparel culture that spiritually enriches people in its efforts to maintain stable growth of the Company.

(2) Targeted management benchmark

The Group believes that continuous operational success on a consolidated basis involving overseas subsidiaries and business growth facilitated by development of new technology will contribute to enhancement of corporate value and will return profit not only to shareholders but also to all stakeholders. In the endeavor to attain this goal, the Company had set the management benchmark of achieving net earnings per share (EPS) of 200 yen or greater on a consolidated basis and has been committed to proactively implementing global sales strategy, simultaneously improving quality and reducing costs, and strives to respond flexibly to changes in the foreign exchange market and improve its financial strength.

(3) Medium- to long-term management strategy of, and challenges faced by, the Company

Overseas sales of the Group has exceeded 90% of the total in accordance with a proactive sales strategy that is focused on its core Flat Knitting Machine segment. The trend in the global apparel market to concentrate production in China has been accelerated since the quota-free (termination of textile import quotas) in January 2005. Consequently, the imminent task of the consumer regions of Europe, the United States, and Japan is to shift into the manufacture of products offering higher added value to strengthen the competitiveness against imported products. Amidst the severe condition of further polarization of the global market, the Company decided to mark the year commemorating its 45th anniversary as the year of Innovation and has successively taken the important measures mainly with respect to sales in the globally important markets, including Hong Kong, the United States, and Italy. The Company will integrate these market strategies that enable flexible responses to changes in the business environment and business strategies backed by cutting-edge technology in striving to ensure enhanced medium- to long-term performance. In addition, the Company is committed to the following management strategies listed below as significant challenges for the Company.

1. Increasing share in the Asian market

In spite of the temporary decline following the termination of textile import quotas (quota-free) in the Southeast Asian market, which is led by China and Hong Kong, recent orders of computerized flat knitting machines received from the market remain strong due to a rise in the demand driven by significant increases in labor costs combined with the injection of new models taking market needs into consideration. In China, all participants, including Shima Seiki, European manufacturers, and local Chinese companies that are in fierce competition to gain a market share in the world's largest knitwear production base (which is expected to continue to grow and expand in the future) are required to further distinguish themselves from competitors in terms of product competitiveness, sales strategies, and technical support and gain overwhelming market share in order to survive. In the Chinese market, where management of credit and accounts receivable together with the expansion of sales constitute key issues to secure growth in the future, Shima Seiki will strengthen its management system through the subsidiaries.

The Company will also make strategic sales in South Asia, including India, which is an attractive market as the next China, although knitwear production is still not a major industry in this region.

2. Further penetrating and expanding the sales of the WHOLEGARMENT® flat knitting machine in consumer markets

The strengths of the WHOLEGARMENT® flat knitting machine offered by Shima Seiki are advantages to the consumer such as wearer comfort, and production optimality in consumer countries associated with its low susceptibility to production and opportunity losses stemming from the ability to provide a quick response by manufacturing extra quantities of products. By providing not only the hardware but also unique and total planning, the higher added value, fashionability, and advantages derived from the consumer market-oriented production of WHOLEGARMENT® have been widely recognized. In addition, WHOLEGARMENT® has been highly praised for its global environmental friendliness.

However, sales of WHOLEGARMENT® flat knitting machines have remained negative for the previous year after the peak reached in the year ended March 31, 2004. The Company will expand sales of WHOLEGARMENT® flat knitting machines through the efforts made during the period under review to turn Italian and U.S. companies into subsidiaries using the cooperation with design centers to balance sales composition, which is currently highly dependent on China.

3. Revitalizing the related apparel industry through the Total Fashion System

The Company has offered its design system, based on its traditional computer graphics technology, to the entire industry spectrum, from apparel to knitwear manufacturers, as a visual communication tool capable of integrating the apparel industry.

In the future, the Company, while continuously improving the functionality and operability of its SDS-ONE design system, intends to enhance sales of the system by vigorously promoting it as a solution to realize the challenges facing apparel-related industries, such as market-oriented manufacturing of a wide variety of products in small quantities and quick responses both in Japan and abroad, and also as a highly functional and economical design tool that enables processes, such as the virtual production of samples.

4. Establishing a stronger financial position by striving to enhance competitiveness

The Company intends to further increase its earning power to attain more confidence in the global market. On the product level, the Company will undertake a review of factory costs from the development design stage to implement further reductions in material purchasing and manufacturing costs. The Company will also concentrate on improving its profit margin by shifting its production toward items of high added value. Efforts will also be made to enhance cost competitiveness by further improving production efficiency and the efficiency of indirect business of the entire Group to continuously reinforce profitability.

In the financial aspects, the Company strives to reduce its receivables turnover period through stronger accounts receivable management in order to reduce risks and improve operating cash flows, and also reduce and improve efficiency of inventories through its sales strategies and stronger coordination with flexible manufacturing systems.

5. Enhancing the risk management system

The Group set up a risk management system that allows for monitoring of risks at any time in order to reduce risks with a high probability of occurrence that could affect performance.

The Group actively hedges against foreign exchange risks by increasing yen-denominated transactions and using forward exchange contracts in order to minimize the impact of sudden fluctuations in exchange rates.

The Group is also attempting to manage credit risks by establishing a direct sales system in main overseas markets to implement comprehensive sales strategies, taking into account credit risks. It also closely monitors industry trends in each country and region, as well as the business performance and credit standing of its overseas agents, and the credit management status of each overseas agent is reported to the Board of Directors' Meeting on a monthly basis. Moreover, the Group intends to review the terms and conditions upon which it extends credit to major customers, including methods of financing, collection schemes, and credit lines, thereby dispersing and controlling the concentration of credit risks and ultimately practicing a well-balanced form of credit risk management.

In order to promote medium- to long-term management strategies mentioned above, the Company continues to train its human resources, who simultaneously exemplify technique, sensibility and cost consciousness to promptly satisfy diversified customer needs. At the same time, the Company is committed to enhancing user skills to provide full knowledge of the Company's products.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2007 (As of Mar. 31, 2007)		FY2006 (As of Mar. 31, 2006)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	% change
Assets						
Ⅰ. **Current assets**						
Cash and deposits	15,212		9,976		5,235	
Trade accounts and notes receivables	43,706		53,624		(9,918)	
Short-term investments	2,554		564		1,990	
Inventories	16,200		12,133		4,066	
Deferred tax assets	2,487		1,904		583	
Other	3,404		1,278		2,125	
Allowance for doubtful accounts	(2,325)		(2,909)		583	
Total current assets	**81,239**	**62.9**	**76,573**	**70.1**	**4,666**	**6.1**
Ⅱ. **Fixed assets**						
1. Property, plant, and equipment						
Buildings and structures	6,534		6,707		(173)	
Machinery and equipment	2,943		838		2,105	
Tools, furniture, and fixtures	1,299		1,137		162	
Land	10,668		10,645		23	
Construction in progress	54		121		(67)	
Property, plant, and equipment, net	**21,500**	**16.6**	**19,449**	**17.8**	**2,050**	**10.5**
2. Intangible fixed assets						
Goodwill	10,767		-		10,767	
Other	154		143		10	
Total intangible fixed assets	**10,921**	**8.5**	**143**	**0.1**	**10,778**	**-**
3. Investments and other assets						
Investments in securities	9,579		5,785		3,793	
Long-term loans receivables	-		658		(658)	
Deferred tax assets	1,231		797		434	
Deferred tax assets for land revaluation	24		3,049		(3,024)	
Other	5,762		3,987		1,774	
Allowance for doubtful accounts	(1,098)		(1,141)		42	
Total investments and other assets	**15,499**	**12.0**	**13,136**	**12.0**	**2,362**	**18.0**
Total fixed assets	**47,921**	**37.1**	**32,729**	**29.9**	**15,192**	**46.4**
Total assets	**129,161**	**100.0**	**109,302**	**100.0**	**19,859**	**18.2**

(Millions of yen)

	FY2007 (As of Mar. 31, 2007)		FY2006 (As of Mar. 31, 2006)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	% change
Liabilities						
Ⅰ. **Current liabilities**						
Trade accounts and notes payables	7,481		4,231		3,249	
Short-term loans	4,561		2,515		2,046	
Accrued income taxes	2,383		1,025		1,358	
Accrued bonuses to employees	879		778		100	
Allowance for losses on debt guarantees	331		542		(210)	
Other	4,872		2,214		2,657	
Total current liabilities	**20,509**	**15.9**	**11,307**	**10.3**	**9,202**	**81.4**
Ⅱ. **Long-term liabilities**						
Convertible bonds	10,045		-		10,045	
Long-term loans	3,071		-		3,071	
Allowance for retirement benefits	1,711		1,547		164	
Allowance for directors' and statutory auditors' retirement benefits	1,012		925		86	
Total long-term liabilities	**15,841**	**12.2**	**2,472**	**2.3**	**13,368**	**540.7**
Total liabilities	**36,351**	**28.1**	**13,780**	**12.6**	**22,571**	**163.8**
Minority interests	**-**	**-**	**191**	**0.2**	**-**	**-**
Shareholders' equity						
Ⅰ. **Common stock**	**-**	**-**	**14,859**	**13.6**	**-**	**-**
Ⅱ. **Capital surplus**	**-**	**-**	**21,724**	**19.9**	**-**	**-**
Ⅲ. **Retained earnings**	**-**	**-**	**65,008**	**59.5**	**-**	**-**
Ⅳ. **Land revaluation difference**	**-**	**-**	**(4,493)**	**(4.1)**	**-**	**-**
Ⅴ. **Net unrealized holding gain on securities**	**-**	**-**	**913**	**0.8**	**-**	**-**
Ⅵ. **Foreign currency translation adjustments**	**-**	**-**	**5**	**0.0**	**-**	**-**
Ⅶ. **Treasury stock**	**-**	**-**	**(2,687)**	**(2.5)**	**-**	**-**
Total shareholders' equity	**-**	**-**	**95,330**	**87.2**	**-**	**-**
Total liabilities, minority interests and shareholders' equity	**-**	**-**	**109,302**	**100.0**	**-**	**-**
Net assets						
Ⅰ. **Shareholders' equity**						
Common stock	14,859	11.5	-	-	-	-
Capital surplus	21,724	16.8	-	-	-	-
Retained earnings	66,713	51.7	-	-	-	-
Treasury stock	(6,995)	(5.4)	-	-	-	-
Total shareholders' equity	**96,301**	**74.6**	**-**	**-**	**-**	**-**
Ⅱ. **Valuation and translation adjustments**						
Net unrealized holding gain on securities	269	0.2	-	-	-	-
Land revaluation difference	(7,518)	(5.8)	-	-	-	-
Foreign currency translation adjustments	262	0.2	-	-	-	-
Total valuation and translation adjustments	**(6,986)**	**(5.4)**	**-**	**-**	**-**	**-**
Ⅲ. **Minority interests**	**3,494**	**2.7**	**-**	**-**	**-**	**-**
Total net assets	**92,810**	**71.9**	**-**	**-**	**-**	**-**
Total liabilities and net assets	**129,161**	**100.0**	**-**	**-**	**-**	**-**

(2) Consolidated Statements of Income

(Millions of yen)

	FY 2007 (Apr. 1, 2006- Mar. 31, 2007)		FY 2006 (Apr. 1, 2005- Mar. 31, 2006)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	% change
Ⅰ. **Net sales**	**47,079**	**100.0**	**37,879**	**100.0**	**9,199**	**24.3**
Ⅱ. **Cost of sales**	**25,013**	**53.1**	**21,100**	**55.7**	**3,913**	**18.5**
Gross profit	**22,066**	**46.9**	**16,779**	**44.3**	**5,286**	**31.5**
Ⅲ. **Selling, general, and administrative expenses**	**14,357**	**30.5**	**12,756**	**33.7**	**1,600**	**12.5**
Operating income	**7,709**	**16.4**	**4,023**	**10.6**	**3,686**	**91.6**
Ⅳ. **Non-operating income**	**2,039**	**4.3**	**1,699**	**4.5**	**339**	**20.0**
Interest income	448		356		92	
Dividend income	139		104		35	
Exchange gains	1,236		1,150		85	
Other	214		88		126	
Ⅴ. **Non-operating expenses**	**297**	**0.6**	**87**	**0.2**	**210**	**239.5**
Interest expense	77		32		45	
Sales discount	176		-		176	
Other	43		55		(11)	
Ordinary income	**9,450**	**20.1**	**5,634**	**14.9**	**3,815**	**67.7**
Ⅵ. **Extraordinary gains**	**1,607**	**3.4**	**-**	**-**	**1,607**	**-**
Gain on sales of fixed assets	57		-		57	
Gain on reversal of allowance for doubtful accounts	1,550		-		1,550	
Ⅶ. **Extraordinary losses**	**4,874**	**10.4**	**341**	**0.9**	**4,533**	**-**
Loss on support to a customer	3,246		-		3,246	
Bad debt expenses	1,036		-		1,036	
Amortization of goodwill	429		-		429	
Other	162		341		(178)	
Income before income taxes and minority interests	**6,182**	**13.1**	**5,293**	**14.0**	**889**	**16.8**
Income taxes (current)	3,381	7.2	2,202	5.8	1,178	53.5
Income taxes (deferred)	(615)	(1.3)	(302)	(0.8)	(312)	-
Minority interests in gains or losses	302	0.6	(11)	(0.0)	313	-
Net income	**3,113**	**6.6**	**3,404**	**9.0**	**(290)**	**(8.5)**

(3) Consolidated Statements of Changes in Net Assets and Consolidated Statements of Surplus

Consolidated Statements of Changes in Net Assets

FY2007 (from April 1, 2006 to March 31, 2007) (Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	14,859	21,724	65,008	(2,687)	98,905
Changes during the consolidated fiscal year					
Dividends of surplus			(1,374)		(1,374)
Bonuses to directors and statutory auditors			(34)		(34)
Net income			3,113		3,113
Purchases of treasury stock				(4,308)	(4,308)
Retirement of treasury stock		0		0	0
Changes in items other than shareholders' equity during the consolidated fiscal year, net					
Total changes during the consolidated fiscal year	-	0	1,704	(4,308)	(2,603)
Balance as of March 31, 2007	14,859	21,724	66,713	(6,995)	96,301

	Valuation and translation adjustments				Minority interests	Total net assets
	Net unrealized holding gain (loss) on securities	Land revaluation difference	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	913	(4,493)	5	(3,574)	191	95,522
Changes during the consolidated fiscal year						
Dividends of surplus						(1,374)
Bonuses to directors and statutory auditors						(34)
Net income						3,113
Purchases of treasury stock						(4,308)
Retirement of treasury stock						0
Changes in items other than shareholders' equity during the consolidated fiscal year, net	(643)	(3,024)	256	(3,411)	3,303	(108)
Total changes during the consolidated fiscal year	(643)	(3,024)	256	(3,411)	3,303	(2,711)
Balance as of March 31, 2007	269	(7,518)	262	(6,986)	3,494	92,810

Consolidated Statements of Surplus (Millions of yen)

	FY2006 (Apr. 1, 2005-Mar. 31, 2006) Amount	
(Capital surplus)		
Ⅰ. Capital surplus at beginning of year		**21,724**
Ⅱ. Increase in capital surplus		
Gain on appropriation of treasury stock	0	0
Ⅲ. Capital surplus at end of year		**21,724**
(Retained earnings)		
Ⅰ. Retained earnings at beginning of year		**63,381**
Ⅱ. Increase in retained earnings		
Net income	3,404	
Increase resulting from increase in consolidated subsidiaries	299	3,704
Ⅲ. Decrease in retained earnings		
Cash dividends	1,374	
Bonuses to directors and statutory auditors	59	
Reversal of land revaluation difference	642	2,076
Ⅳ. Retained earnings at end of year		**65,008**

(4) Consolidated Statements of Cash Flows

(Millions of yen)

		FY2007 (Apr. 1, 2006- Mar. 31, 2007)	FY2006 (Apr. 1, 2005- Mar. 31, 2006)
		Amount	Amount
Ⅰ.	**Cash flow from operating activities**		
	Income before income taxes and minority interests	6,182	5,293
	Depreciation and amortization	1,541	1,026
	Amortization of goodwill	429	-
	Impairment loss on fixed assets	-	271
	Increase in allowance for doubtful accounts	1,270	796
	Increase in allowance for losses on debt guarantees	93	542
	Bad debt expenses	1,036	-
	Loss on support to a customer	3,246	-
	Reversal of allowance for doubtful accounts	(1,550)	-
	Interest and dividend income	(587)	(460)
	Decrease (increase) in trade receivables	(1,501)	2,065
	Decrease (increase) in inventories	76	(1,152)
	Decrease in trade payables	(183)	(1,194)
	Other	2,236	(244)
	Subtotal	**12,291**	**6,942**
	Interest and dividend income received	531	470
	Interest expense paid	(73)	(32)
	Income taxes paid	(2,058)	(2,626)
	Net cash provided by operating activities	**10,691**	**4,754**
Ⅱ.	**Cash flow from investing activities**		
	Net decrease (increase) in time deposits	(891)	400
	Net increase in short-term investments	(939)	(279)
	Purchases of property, plant, and equipment	(818)	(2,495)
	Proceeds from sales of property, plant, and equipment	166	129
	Purchases of investments in securities	(5,128)	(1,831)
	Proceeds from sales of investments in securities	249	1,547
	Payments for acquisition of business	(8,583)	-
	Other	(277)	(983)
	Net cash used in investing activities	**(16,222)**	**(3,512)**
Ⅲ.	**Cash flow from financing activities**		
	Net increase (decrease) in short-term loans	1,865	(5)
	Proceeds from long-term loans	3,000	-
	Proceeds from issuance of bonds	10,027	-
	Proceeds from issuing shares to minority shareholders	3,021	-
	Purchases of treasury stock	(4,308)	(8)
	Cash dividends paid	(1,373)	(1,374)
	Other	(6)	1
	Net cash used in financing activities	**12,225**	**(1,386)**
Ⅳ.	**Effect of exchange rate changes on cash and cash equivalents**	**149**	**159**
Ⅴ.	**Net increase in cash and cash equivalents**	**6,843**	**15**
Ⅵ.	**Cash and cash equivalents at beginning of year**	**9,110**	**8,998**
Ⅶ.	**Increase in cash and cash equivalents due to a newly consolidated subsidiary**	**-**	**96**
Ⅷ.	**Cash and cash equivalents at end of year**	**15,954**	**9,110**

(Segment information)

1. Business segment information

(1) FY2007 (from April 1, 2006 to March 31, 2007) (Millions of yen)

	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Other	Total	Corporate/ elimination	Consolidated
Ⅰ.Sales and operating income							
Sales							
(1) Sales to customers	38,736	1,433	2,188	4,720	47,079	-	47,079
(2) Intersegment sales or transfer	-	-	-	-	-	-	-
Total	38,736	1,433	2,188	4,720	47,079	-	47,079
Operating costs and expenses	26,610	1,292	1,614	4,768	34,286	5,084	39,370
Operating income (loss)	12,126	141	573	(47)	12,793	(5,084)	7,709
Ⅱ.Assets, depreciation, and capital expenditures:							
Assets	85,928	3,607	1,592	6,179	97,308	31,853	129,161
Depreciation	1,052	16	38	82	1,189	352	1,541
Capital expenditures	1,058	40	44	331	1,474	278	1,752

(2) FY2006 (from April 1, 2005 to March 31, 2006) (Millions of yen)

	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Other	Total	Corporate/ elimination	Consolidated
Ⅰ. Sales and operating income							
Sales							
(1) Sales to customers	30,163	1,802	3,126	2,787	37,879	-	37,879
(2) Intersegment sales or transfer	-	-	-	-	-	-	-
Total	30,163	1,802	3,126	2,787	37,879	-	37,879
Operating costs and expenses	22,650	1,358	2,290	2,618	28,916	4,939	33,856
Operating income (loss)	7,513	444	835	169	8,962	(4,939)	4,023
Ⅱ. Assets, depreciation, impairment loss on fixed assets, and capital expenditures:							
Assets	72,703	4,834	3,278	4,468	85,285	24,016	109,302
Depreciation	551	12	46	53	663	362	1,026
Impairment loss on fixed assets	-	-	-	16	16	254	271
Capital expenditures	1,931	32	158	153	2,275	198	2,473

Note: Main products of each segment

(1) Flat Knitting Machine ・・・・・Computerized flat knitting machine and computerized semi-jacquard flat knitting machine

(2) Design System ・・・・・Computer graphic apparel design system, knitting CAD system, and apparel CAD/CAM system

(3) Glove and Sock Knitting Machine ・・・・・Computerized seamless glove and sock knitting machine

(4) Other ・・・・・Parts for knitting machines and design systems, manufacturing and sales of knit products, machine repair and maintenance, and hotel business

2. Geographical segment information

(1) FY2007 (from April 1, 2006 to March 31, 2007) (Millions of yen)

	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Ⅰ. Sales and operating income							
Sales							
(1) Sales to customers	26,262	16,663	1,389	2,764	47,079	-	47,079
(2) Intersegment sales or transfers	17,797	2	2	401	18,202	(18,202)	-
Total	44,059	16,665	1,391	3,165	65,282	(18,202)	47,079
Operating costs and expenses	30,560	14,946	2,231	2,856	50,595	(11,225)	39,370
Operating income (loss)	13,498	1,718	(840)	309	14,686	(6,977)	7,709
Ⅱ. Assets	80,755	30,127	17,278	1,790	129,951	(789)	129,161

Note: Significant countries or areas outside Japan belonging to each area are as follows:
(1) Europe･･････････U.K. and Italy
(2) Southeast Asia･･･China
(3) North America････U.S.A.

(2) FY2006 (from April 1, 2005 to March 31, 2006)

The statement of geographical segment information is omitted because the rate of Japan goes over 90% against the total sales amount and total assets amount of all segments.

3. Overseas sales

(1) FY2007(from April 1, 2006 to March 31, 2007) (Millions of yen)

	Europe	Southeast Asia	Other areas	Total
Ⅰ. Overseas sales	3,577	33,935	5,302	42,816
Ⅱ. Consolidated sales				47,079
Ⅲ. Ratio of overseas sales to consolidated sales	7.6%	72.1%	11.2%	90.9%

(2) FY2006 (from April 1, 2005 to March 31, 2006) (Millions of yen)

	Europe	Middle East	Southeast Asia	Other areas	Total
Ⅰ. Overseas sales	4,444	3,441	23,349	1,757	32,992
Ⅱ. Consolidated sales					37,879
Ⅲ. Ratio of overseas sales to consolidated sales	11.7%	9.1%	61.6%	4.7%	87.1%

Note: Significant countries or areas belonging to each area are as follows:
(1) Europe･･････････Italy, Spain, and U.K.
(2) Middle East･･････Turkey and Syria
(3) Southeast Asia･･･China, South Korea, and Taiwan
(4) Other areas･･････Brazil and U.S.A.

Status of production, orders, and sales

(1) Production

(Millions of yen)

Name of segment	Production	Year-on-year (%)
Flat Knitting Machine	36,458	125.0
Design System	1,165	69.6
Glove and Sock Knitting Machine	1,987	53.6
Total	39,611	115.9

(2) Orders

(Millions of yen)

Name of segment	Orders	Year-on-year (%)	Order backlog	Year-on-year (%)
Flat Knitting Machine	42,968	134.4	9,707	177.3
Design System	1,537	86.4	155	298.2
Glove and Sock Knitting Machine	2,188	68.4	360	100.0
Total	46,694	126.4	10,224	173.6

(3) Sales

(Millions of yen)

Name of segment	Sales	Year-on-year (%)
Flat Knitting Machine	38,736	128.4
Design System	1,433	79.5
Glove and Sock Knitting Machine	2,188	70.0
Other	4,720	169.4
Total	47,079	124.3