SHIMA SEIKI

Ever Onward

Annual Report 2010

Year Ended March 31, 2010

Ever Onward

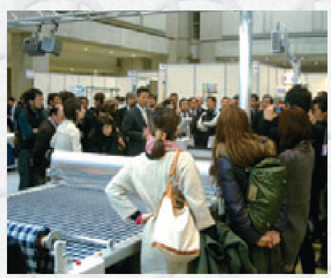
Shima Seiki's corporate motto, "Ever Onward," embodies a sense of ongoing challenge—a spirit manifested in all of the Company's activities.

Shima Seiki was incorporated in 1962. Since then, our tireless sense of challenge toward ingenious technical development has resulted in a number of "world's firsts."

As a young engineer, Masahiro Shima, our current president, set out to address the Company's initial challenge: the difficulties of fully automating glove knitting machines. Three years later, following extensive trial and error, his zeal and creativity were rewarded with a major hit product that distinguished the Company from its competitors. In this way, Shima Seiki has positioned itself from its beginnings as a technology-centric company that provides highly advanced products at economical prices—a spirit that continues to this day.

In the latter half of the 1970s, while the economy was in recession in the wake of the second oil crisis, Shima Seiki announced its development of sophisticated yet reasonably priced computerized flat knitting machines, designed through the fusion of mechanical and electronic technologies. Outstripping advanced overseas manufacturers in the 1980s through its design-based development expertise, the Company became a global leader in its field only 20 years after its founding. In the 1990s, which were marked by a hollowing-out of the Japanese knitwear industry, Shima Seiki developed WHOLEGARMENT® flat knitting machines for completely seamless clothing. The impact on the knitwear industry was comparable to the advances made during the Industrial Revolution.

In the 21st century, the Company has focused on boosting the speed of its knitting machines, enhancing the functionality of its design systems and developing Total Fashion System that consolidates its accumulated know-how. Going forward, Shima Seiki will take on new and greater challenges as a global company, providing comprehensive technologies and services that will shape the clothing culture for customers throughout the world.

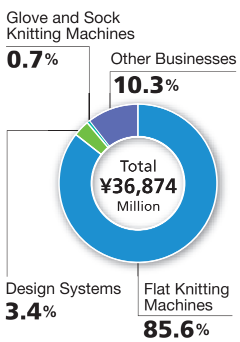


Contents

Forward-looking statements:

Statements contained in this report regarding the Company's plans, strategies, and expectations for future performance fall into the category of "forward-looking statements," which are based on information available to the Company's management at the time of writing. They are therefore subject to a number of uncertainties and unknowable factors, and actual results may thus differ substantially from those projected.

Segment Information



Flat Knitting Machine Segment

Shima Seiki's core business is the manufacture and sales of computerized flat knitting machines, for which the Company holds the world's leading share. This segment provides such products as the SSG® series, which has gained overwhelming support from customers throughout the world; the SIG® series, expressive over multicolored designs and patterns; WHOLEGARMENT® flat knitting machines, which work in three dimensions without the need for sewing; and other technically advanced machines.

NSSG

Design System Segment

This segment handles the manufacture and sales of the SDS®-ONE design system and other peripherals that support production in the knitwear and apparel industries. We assist workflows through 3D simulation and offer virtual samples that enable us to share final product images, thus greatly reducing customer burden and costs.

SDS®-ONE

Glove and Sock Knitting Machine Segment

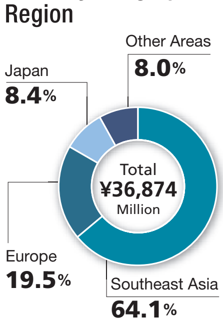
In this segment, we manufacture and sell machines for knitting gloves and socks with world-leading technology. By deploying advanced technologies to make finer-gauge products, we are expanding our domain of products to meet demand in healthcare and other fields.

Other Business Segment

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

Markets by Geographical Region

Sales by Geographical Region

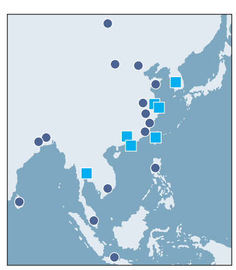


Note: Significant countries or areas belonging to each area are as follows:
Europe : Italy, U.K.
Southeast Asia : China, South Korea
Other Areas : Brazil, U.S.A., Turkey

- Headquarters
- Local subsidiaries, branch offices
- Contacts

Southeast Asia

In China, the world's leading knitwear production location, the turnabout in demand from manually operated machines to computerized flat knitting machines is intensifying as a result of escalating personnel costs. In addition, there is a rising impetus toward investment in Bangladesh and other South Asian countries.

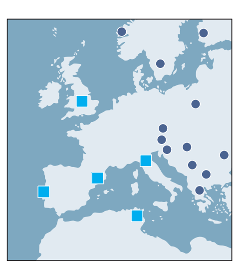


Other Areas

In the United States, with its emphasis on fitting, we are highlighting such WHOLEGARMENT® merits as comfort and superior design. Turkey, where production is geared to Europe, is successfully targeting higher-value-added merchandise to differentiate its output from Chinese knitwear.

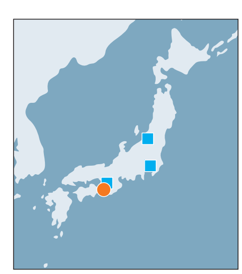
Europe

In Europe, the harsh environment for the apparel industry continues to intensify. Amid these conditions, there has been an increase in manufacturers shifting toward wide-variety/small-lot and high-end production in Italy, a leading source of cutting-edge fashion. WHOLEGARMENT® flat knitting machines are proving an instrumental element in strategies for companies vying to dominate in this field.



Japan

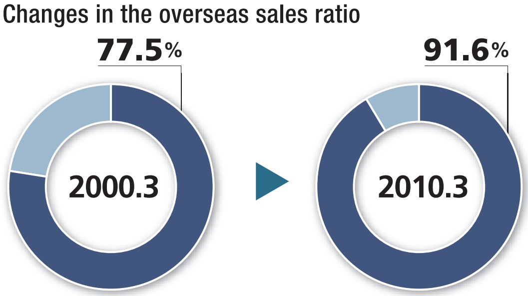
The pace at which the domestic fashion market is polarizing into high-end and mass-merchandized products is increasing. Accordingly, more companies are becoming involved in the development of high-value products using WHOLEGARMENT® flat knitting machines.



To contribute to the development of the industries in which our users operate, in our role as a leading provider of flat knitting machines

Shima Seiki responds to ever-shifting trends in the knitwear and apparel industries by developing market strategies attuned to the needs of the regions in which it operates, worldwide. At the same time, we will contribute to the evolution of the industry, through the development of highly original products and comprehensive proposals, including fashion, to bolster efficiency and stimulate advancement of the industry overall.

Changes in the overseas sales ratio



VISION 1 Consolidating Our Strong Position in China and Emerging Regions in Asia

China is the world's prime knitwear production hub, with further growth forecast for the future. To secure the number one position in this market, Shima Seiki leverages the superiority of its products through considered sales development, differentiating itself from its rivals by its enhanced design proposals and technical support.

In the emerging regions of Asia, which feature thriving textile industries, mechanization of knitwear production continues to advance, with an anticipated future shift toward high-value-added machines. The Company is expanding its aggressive up-front investment and marketing activities and promoting the construction of sales and service systems in strategic locations.

In the future, we will further hone our design proposals, technical support and after-sales services, while aggressively marketing our unrivaled WHOLEGARMENT® and intarsia flat knitting machines. This approach should consolidate our position in the evolving Southeast Asian markets.

VISION 2 Expanding WHOLEGARMENT® Use and Sales Worldwide

WHOLEGARMENT® flat knitting machines produce entire three-dimensional knitwear products. In addition to facilitating the simple manufacture of lightweight, comfortable and seamless knitwear, swift response minimizes inventory and opportunity losses, bringing numerous benefits to both consumer and manufacturer.

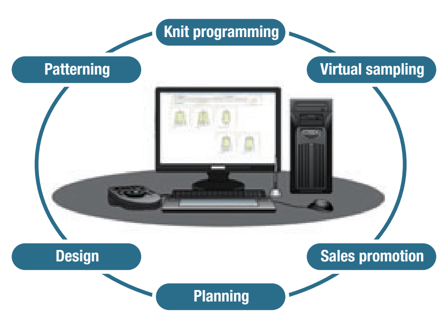
Recently, WHOLEGARMENT® flat knitting machines have been acclaimed for their environmental benefits arising from elimination of cutting losses, in addition to for their proven high added value, fashion merits and advantages from local production for the local market. In the future, we will step up activities to boost sales by publicizing the attractions and possibilities of WHOLEGARMENT® worldwide.

VISION 3 Propelling the Revitalization and Advancement of the Apparel and Related Industries by Shima Seiki's Total Fashion System

Currently, extended lead times arising from division of labor are an issue facing the apparel industry. In search of a solution to this problem and to support development of the industry, Shima Seiki introduced the SDS®-ONE design system, linking the entire production process via visual communications. This system works in conjunction with manufacturing equipment, based around a flat knitting machine, to facilitate a single flow from planning and design, through sample production, to completed products.

The Company's proposed Total Fashion System incorporates the needs of markets into production and facilitates wide-variety/small-lot production with swift response. In conjunction with our focus on versatile design proposals, this helps stimulate and advance the entire apparel industry.

Total Fashion System



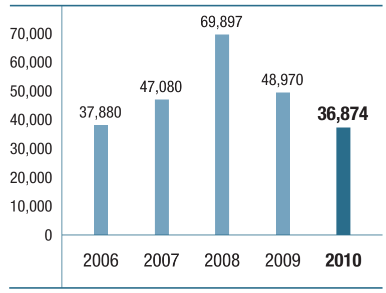
Financial Highlights

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31

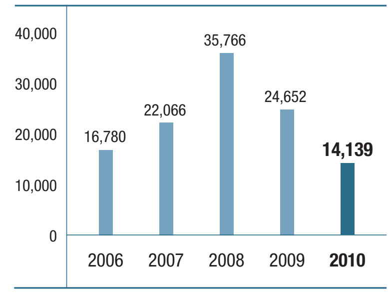
	2010	2009	2008	2007	2006		2010	2010
For the Year:			Millions of yen			Percent change 2009/2010	Thousands of U.S. dollars	Thousands of euros
Net sales	**¥36,874**	¥48,970	¥69,897	¥47,080	¥37,880	**(24.7)%**	**$396,324**	**€295,181**
Gross profit	**14,139**	24,652	35,766	22,066	16,780	**(42.6)**	**151,967**	**113,184**
Operating income	**651**	8,528	16,214	7,709	4,023	**(92.4)**	**6,997**	**5,211**
Income (loss) before income taxes and minority interests	**(1,042)**	4,057	18,168	6,183	5,293	**(125.7)**	**(11,199)**	**(8,341)**
Net income (loss)	**(1,885)**	1,766	9,959	3,114	3,405	**(206.8)**	**(20,260)**	**(15,090)**
At Year-End:			Millions of yen			Percent change 2009/2010	Thousands of U.S. dollars	Thousands of euros
Total assets	**¥110,063**	¥119,778	¥133,746	¥129,161	¥109,302	**(8.1)%**	**$1,182,964**	**€881,068**
Net assets/ Shareholders' equity	**87,473**	91,064	101,647	92,810	95,331	**(3.9)**	**940,166**	**700,232**
Per Share Data:			Yen			Percent change 2009/2010	U.S. dollars	Euros
Net income (loss)	**¥(54.52)**	¥49.88	¥276.13	¥86.17	¥91.92	**(209.3)%**	**$(0.59)**	**€(0.44)**
Cash dividends applicable to the year	**30.00**	40.00	55.00	37.50	37.50	**(25.0)**	**0.32**	**0.24**
Net assets/ Shareholders' equity	**2,529.67**	2,633.55	2,677.47	2,546.71	2,599.24	**(3.9)**	**27.19**	**20.25**
Ratios:			%					
ROA	**(1.6)%**	1.4%	7.6%	2.6%	3.1%			
ROE	**(2.0)**	1.9	10.6	3.4	3.6			

Notes: 1. Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥93.04=US$1 and ¥124.92= €1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2010.
2. Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted the accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. The figures in prior years have not been restated.

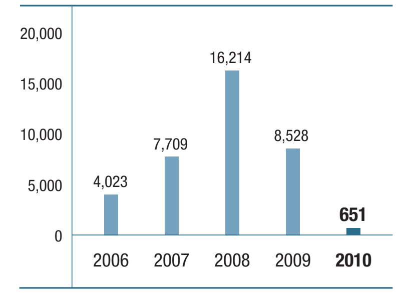
Net sales (¥ Million)



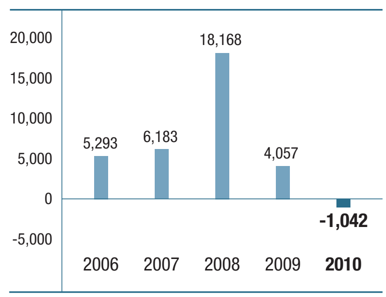
Gross profit (¥ Million)



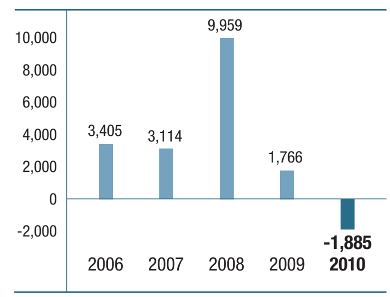
Operating income (¥ Million)



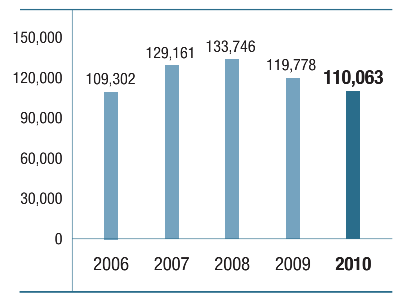
Income before income taxes and minority interests (¥ Million)



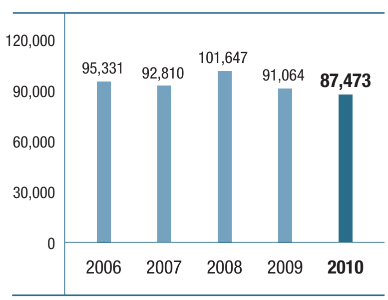
Net income (¥ Million)



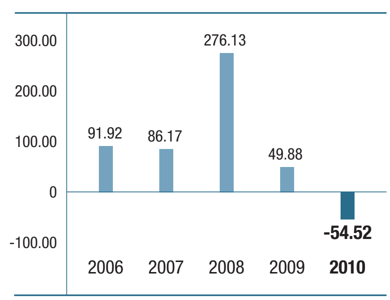
Total assets (¥ Million)



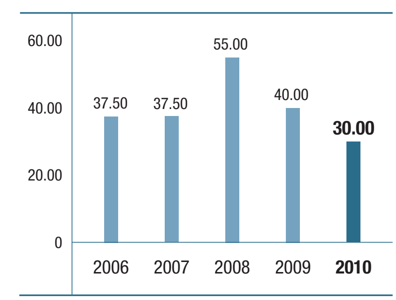
Net assets/Shareholders' equity (¥ Million)



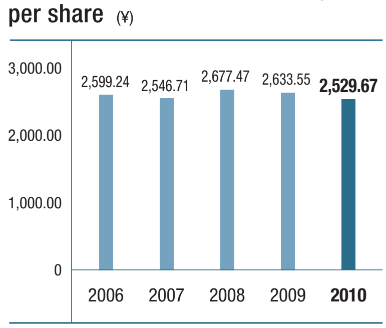
Net income per share (¥)



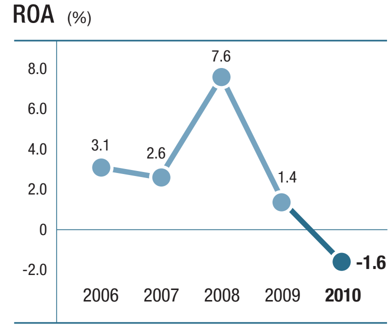
Cash dividends per share applicable to the year (¥)



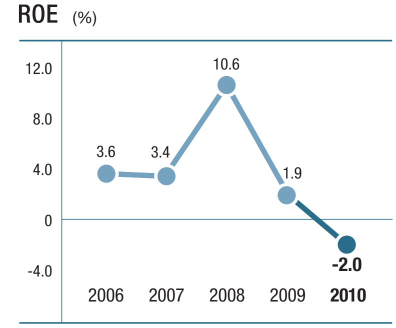
Net assets/Shareholders' equity per share (¥)



ROA (%)



ROE (%)



Falloffs in sales and profits in the face of a harsh market environment, but aiming to regenerate growth during the upcoming fiscal year by reinforcing in-house systems

During the fiscal year ended March 31, 2010, the world economy entered a recovery phase at the start of 2010, but with insufficient impetus to shake off the effects of the recession entirely. Global consumption remained depressed, most notably in the United States, the primary consumer of knitwear products. In Shima Seiki's mainstay markets of China and Hong Kong, the severe operating environment continued from the previous year, exacerbated by lackluster capital investment. As a result, the Shima Seiki Group suffered declines in sales and profits for the second consecutive fiscal year, resulting in the first net loss in a decade. However, orders showed signs of recovery by fiscal year-end. The Company is positioning itself to take full advantage of the market turnaround by improving in-house systems in preparation for breakthrough expansion in the upcoming fiscal year.

Masahiro Shima,
President

Established the Company in 1962. He led the design and development of many products and, as the top management of the Company, helped the Company grow to become the leading company in the industry.

Q Could you outline the Company's results for the year ended March 31, 2010?

A Although orders had turned upward by year-end, capital investment was slow throughout the year. This resulted in declines in sales and profits.

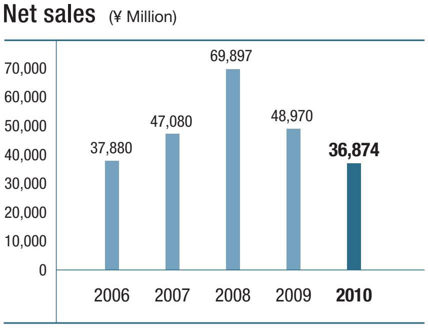
During 2009, worldwide apparel consumption was lackluster as a consequence of the global recession. Although the budget fashion market was relatively buoyant, there was a slump in sales of high-end clothing.

Economic stimulation packages implemented by the governments of various countries began to take effect from the start of 2010. With added momentum from high-growth emerging nations, led by China, the economic upturn finally arrived. In the United States, the world's leading apparel consumer, purchasing impetus exhibited trends toward sustained recovery, accompanied by inventory adjustments for clothing stock.

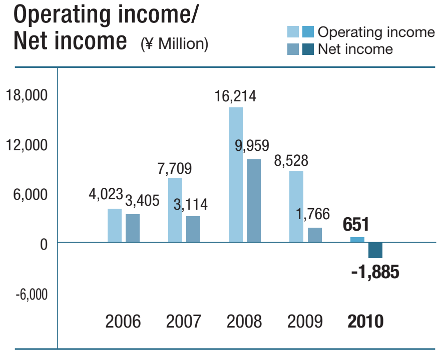
Affected by this recovery in consumption, capital investment picked up in Shima Seiki's key markets of China and Hong Kong. This was manifest in a resurgence in inquiries and orders for the Company by fiscal year-end. Italy and Turkey also enjoyed an upswing in capital investment. In this environment, the Shima Seiki Group reinforced its marketing network to ensure swift response to customer needs and focused on product development aimed at differentiating the Group from its competitors. However, depressed second and third quarters resulted in severe conditions over the full year.

Consequently, consolidated net sales dropped 24.7% during the year, to ¥36,874 million. On the earnings front, operating income dropped 92.4% during the year, to ¥651 million, affected by the decline in sales and unit selling prices, leading to a fall in the gross profit ratio. Moreover, exchange losses, amortization of goodwill and other factors contributed to a net loss of ¥1,885 million for the year, compared with net income of ¥1,766 million for the previous year. This was the first time in a decade that the Company has posted a net loss.

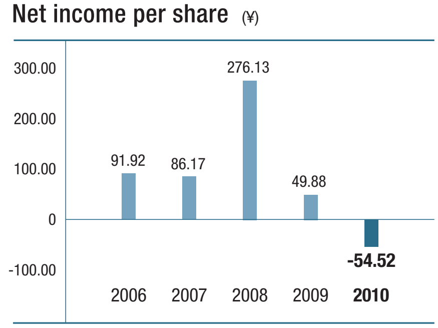
Net sales (¥ Million)



Operating income/ Net income (¥ Million)



Net income per share (¥)



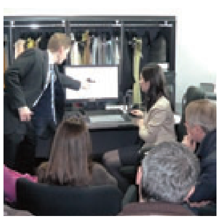
Q What was the business status in the various regions in which the Company operates?

A Although we saw expansion of our mainstay market of China, it was accompanied by intensified competition. In Italy, our new products were received very favorably.

In China, which is enjoying continued brisk economic growth, the vast apparel market maintains its uptrend, spurred by expanding domestic demand. Moreover, the increasing affluent class in the country has brought about an escalation in demand for luxury goods, while rising labor costs have bolstered the market for flat knitting machines. Nevertheless, intensifying price competition prevents us from being entirely optimistic. We believe that formulating and presenting proposals closely attuned to customers is a paramount issue for Shima Seiki. (See pages 15–18 for further information on the Chinese market.)

The MACH2®SIG®, which features speedy production of high-value-added knitwear products and differentiates Shima Seiki from other companies, has drawn widespread praise from European knitwear manufacturers. (See page 20 for further information on the MACH2®SIG® flat knitting machine.) European apparel companies increasingly tend to place orders with Turkish knitwear manufacturers to reduce their risk of being overly dependent on China. This has in turn boosted Shima Seiki's sales in Turkey—a trend that will contribute to sales even more during the next fiscal year.

In the domestic market, meanwhile, harsh operating conditions continue, despite a partial return of offshore manufacturing to Japan.



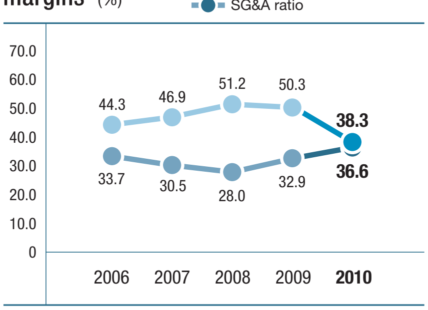
Q What efforts has the Company made to reinforce its marketing capacities?

A Shima Seiki has focused on cultivating human resources and bolstering design-proposal-based marketing. In addition, we have worked to reform our sales and marketing structure.

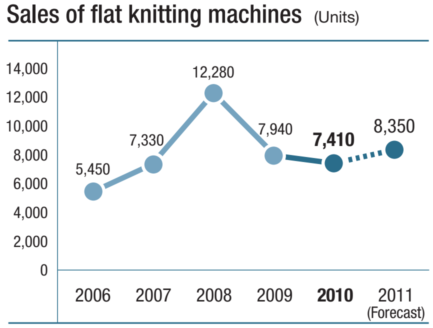
The Company has endeavored to strengthen its sales and marketing based on planning and proposals. In order to support our customers' businesses in the broadest sense, we have evolved from fashion proposals to the provision of technical support and business models. This progression necessitates staff that can provide all-embracing proposals that incorporate the use of design systems and knitting machines. Accordingly, we are striving to cultivate human resources

Trends in profit margins (%)

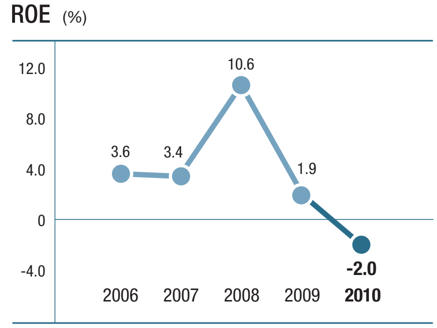
Ratio of gross profit to net sales
SG&A ratio



Sales of flat knitting machines (Units)



ROE (%)



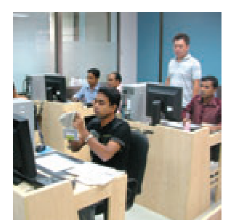
that are versed in a combination of engineering technologies, design sense and cost consciousness.

Of these skills, we are focusing on representation using charts and figures to nurture design sense and cost consciousness. As far as possible, we encourage the use of graphic representations to support explanations during negotiations with customers. In addition to verbal presentation, the gist of a proposal can be communicated at a deeper level using illustrations that can be understood at a glance and figures produced on the spot. In the future, we will step up our use of visual, easily comprehensible means of proposal delivery.

In March 2010, I was in Italy for a week, touring apparel companies to make presentations to top management highlighting the benefits of Shima Seiki's products. When delegates of user companies from China and Hong Kong visit our office in Japan, I devote as much time as possible to communicating Shima Seiki's corporate philosophy. These meetings offer an opportunity for on-the-job training in sales skills to our younger marketing staff. Moreover, we are endeavoring to raise the level of marketing abilities by actively rejuvenating the Company's sales leaders and other initiatives.

We also partially revised our marketing structure to provide greater support for sales activities. Specifically, we have replaced our nationwide network of sales offices with technical service centers in a bid to bolster flagging domestic sales. This step has encouraged our sales staff to start afresh, shifting from straightforward sales to full-blown consulting transactions by focusing on composite technical support.

Q What are your sales strategies for WHOLEGARMENT® flat knitting machines?



A We are striving to expand sales through total design proposals to build a base for future growth.

The development of the MACH2® X, which can produce fine-gauge seamless knitwear, enabled us to offer full lineup coverage through WHOLEGARMENT® flat knitting machines, from fine-quality, high-productivity top range models to mini-versions for fashion accessories.

In expanding sales of WHOLEGARMENT® flat knitting machines, it is difficult to win over customers simply by proposing new hardware solutions; total design proposals are required, illustrating how the introduction of the hardware will lead to designs that present new production possibilities. Furthermore, we are promoting a business model for consumer markets worldwide that combines design systems with WHOLEGARMENT® flat knitting machines to facilitate swift in-store creation of original seamless knitwear.

The key point in sales presentations is imparting to the customer a sense of how the advanced performance of new models that are equipped with innovative capabilities, such as the MACH2® X, can be translated to profits. We are striving to expand sales through activities finely tuned to each client, including mini exhibitions that enable private dialogs with individual customers. Through this approach, we foster the understanding that our flat knitting machines can produce knitwear products in the latest designs and, if applied appropriately, they have the potential to transform the structure of the industry.

Shima Seiki is uncovering the possibilities of WHOLEGARMENT® flat knitting machines in China and Hong Kong, which are high-potential knitwear consumer markets, as well as in advanced nations—Italy and other European markets and Japan. By boosting sales of WHOLEGARMENT® flat knitting machines worldwide, we aim to strategically adjust our sales composition to compensate for the current high dependency on China.

Q What is the Company's position on shareholder dividends?

A With regret, we reduced year-end dividends to ¥10.00 per share. We plan to pay a dividend of ¥35.00 per share in the next fiscal year.

Shima Seiki posted disappointing business results for the year. Accordingly, with deep regret we reduced our intended year-end dividends of ¥20.00 to ¥10.00 per share. Including interim dividends paid, this brought dividends per share for the full business year to ¥30.00. During the next fiscal year, although the business outlook remains uncertain, we forecast an improvement in business performance. We plan to pay interim dividends and year-end dividends of ¥17.50 each, representing dividends per share for the full business year of ¥35.00.

We consider the return of profits to shareholders to be a top management responsibility. Our policy on profit distribution prioritizes the continuity of stable dividends as we strive to raise shareholder value. To achieve this goal, above all we need to bolster profits, leveraging the creativity and technological prowess that differentiate Shima Seiki from its competitors.

Q What are Shima Seiki's policies and outlook for the upcoming term?

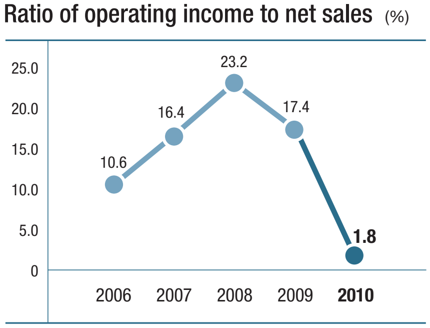
A Amid a severe operating environment, we aim to clearly differentiate ourselves from other companies in terms of technologies as we reorient ourselves along a growth path.

The overall outlook for the upcoming term features continued high growth for developing nations, led by China, and progressive upward momentum in the economy. In the United States, personal consumption will remain on its upward course, but recovery in Europe and Japan may yet take time to materialize.

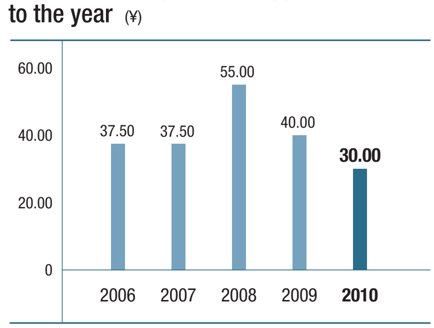
The major event of the year is ITMA ASIA+CITME 2010, the world's largest international textile machinery exhibition, held in Shanghai in June 2010. In order to gain a pole position in the Chinese market, we are differentiating ourselves from our rivals by leveraging our high-value-added products, centered on the MACH2® series, and our unique capacity for formulating and presenting integrated proposals.

Shima Seiki's measures to expand sales in the Chinese market are led by upgraded versions of widely used models. We have implemented full-blown cost reductions, mainly for

Ratio of operating income to net sales (%)



Cash dividends per share applicable to the year (¥)



products targeting the Chinese market, the SSG® and SIG®, while simultaneously boosting their performance. In China, we have deemed it necessary to reinforce our competitive advantage, so are revising our operations from the design stage onward and implementing other measures, including the development of more powerful models. The Company is also proposing the introduction of the MACH2® X to major knitwear manufacturers in Hong Kong with a view to expanding its share of the market for high-end products. We will achieve this by appealing to the facts that using WHOLEGARMENT® flat knitting machines to produce spring and summer wear that is pleasantly cooling helps to calm the dramatic seasonal fluctuations in knitwear production and the effect of faster response to orders facilitates higher profits.

Expanding sales of design systems is another important issue facing the Company. We are cultivating new demand, with our recently established Design System Sales Group as a hub, by expanding the range of targeted users from knitwear manufacturers throughout the apparel and fashion industries.

We are organizing events to publicize Ordermade at department stores and other venues to encourage the widespread adoption of this business model, which realizes optimal high-mix low-volume production and local production for the local market utilizing the MACH2® series and the SDS®-ONE APEX design system. The Company is taking a leadership role through activities to boost the industry's potential by providing original knitwear products to consumers.

As a result of these initiatives, for the fiscal year ending March 31, 2011, we anticipate that consolidated net sales will rise 22.0% year on year, to ¥45.0 billion, with operating income growing ¥5,849 million, to ¥6.5 billion, and net income of ¥4.0 billion, an increase of ¥5,885 million. Our assumed exchange rates for the year are ¥92 to the U.S. dollar and ¥123 to the euro.

Although the operating environment will continue to be challenging, we aim to put ourselves on a new growth trajectory by discovering new avenues of business, returning to the basic motto expressed in our corporate philosophy of "Ever Onward." Accordingly, I ask you to focus on the Group's success from a medium- to long-term perspective.

* The above-stated performance outlook is as of April 27, 2010. Actual results may vary from projections, owing to changes in economic conditions, as well as other factors.

* On July 29, 2010, the Company revised its operating performance forecast to consolidated net sales of ¥46.0 billion, operating income of ¥7.0 billion and net income of ¥2.5 billion. The assumed exchange rates have been changed to US$1.00 = ¥90 and €1.00 = ¥110.

Masahiro Shima, President

On-Site Commitment and Creativity—The Source of Growth

The divisional leaders who will take the helm in Shima Seiki's future currently steer the sites at which they work, guided by the Company's management policies. The following reports describe their daily efforts to extract the optimum potential from their operations. Their commitment and creativity is the driving force behind Shima Seiki's future growth.

Production Site Leader

Tomoyuki Tagami,

General Manager, Machinery Production Technology Division

Mr. Tagami is in charge of a production site engaged in processing parts for flat knitting machines. He also participates as a key member of the in-house Cost Reduction Project.

Challenging the Perpetual Dichotomy of Cutting Production Costs and Raising Quality

Achieving cost reductions—one of Shima Seiki's management policies—is an issue that concerns me directly as the manager of a production facility. During the fiscal year ended March 31, 2010, we attained some progress from our efforts to shorten times for parts processing, lower purchasing costs, raise yield rates and implement other improvements. This made me particularly aware of striking a balance between reducing costs and raising quality. We revised existing processes from scratch, purging waste with consideration for quality, in a bid to bolster efficiency.

My leadership role involves focusing staff awareness. All employees on production lines share the same problem-consciousness and sense of danger. By pooling knowledge, progress is made with improvements. We believe that by encouraging people to think for themselves and focus on problem-solving, we also raise motivation. In the future, we will rise to the challenge of creating a robust plant that curtails manufacturing costs, even for small lots, by identifying the concealed waste inherent to production sites.

Maximizing the Functions of Flat Knitting Machines to Realize Appealing Fashion Proposals

Making actual knitwear enables us to develop applications and communicate the latest information from a perspective closer to that of our users. To date, we have hosted independent fashion shows and taken other initiatives to display the broad-reaching merits of knitwear fashions created using Shima Seiki's flat knitting machines in Japan and overseas.

Our current approach is to promote Shima Seiki's flat knitting machines launched in January 2010 onto the market in combination with fashions created utilizing the characteristics of each model of flat knitting machine. While highlighting these styles at exhibitions and private showings held in various countries, we are also endeavoring to publicize our Total Fashion System, which leverages the entire apparel process, from the design stage through production. In the future, we will continue to promote activation of the industry overall through design proposals that support the manufacture of alluring products.

Design Site Leader

Masayuki Kodama,

Manager, Total Design Center

Mr. Kodama directs and manages Shima Seiki's Total Design Center, which is involved in planning, knitting and sewing through to computer graphics for knitwear fashions generated on the Company's flat knitting machines.

Sales Site Leader

Kyoji Takahashi,

General Manager, Domestic Sales Division, and West Japan Branch Manager

Mr. Takahashi promotes flat knitting machine sales and publicizes the Ordermade model of local production of knitwear for the local market. His experience includes the organization of events at department stores.

Focusing on Publicizing Ordermade, which Combines Original Knitwear Creation with Quick Response

Ordermade, a new business model featuring Shima Seiki's flat knitting machines and design systems, caters to the needs of customers in-store, creating WHOLEGARMENT® products to order. We are striving to popularize this made-to-order system, which eliminates the need for inventories, revolutionizes clothing distribution and is a model for knitwear production in the region of consumption.

As part of our activities to encourage the spread of Ordermade, we held an event at a leading department store in Japan in October 2009, which concluded on a successful note amid praise for the comfort and wearability of Ordermade garments. We have subsequently received requests from other department stores to host similar groundbreaking marketing events.

In the future, we aim to promote made-to-order business by opening a Shima Seiki antenna shop that will serve as a hub for information dissemination.

Design Proposals that Communicate the Appeal and Strengths of Shima Seiki's Products to Customers in Japan and Overseas in an Easily Understandable Manner

Shima Seiki strove to strengthen its sales capabilities by hosting exhibitions and private showings in various knitwear production regions in a bid to attract new customers in the fiscal year ended March 31, 2010. China's largest exhibition, ShanghaiTex, is one outlet for our meticulous sales activities. We used this event to showcase inventive display techniques and provided an extensive space for business discussions. We also opened showrooms in China and Bangladesh, where we are working to reinforce after-sales services. These endeavors have yielded various successes, including increases in new customers and inquiries both in Japan and overseas.

Currently, we are presenting our core strengths of quality and stability from various angles to differentiate Shima Seiki from other companies. In the future, we will forge ahead with design proposals that communicate the attraction of Shima Seiki's products in a drive to further expand sales.

Planning Site Leader

Nobuhiro Matsuda,

Assistant Manager, Corporate Planning Division

Mr. Matsuda is responsible for planning various types of exhibitions in a division engaged in management planning and formulating marketing strategies. He also participates as a key member of the in-house Sales Capability Reinforcement Project.

The Current Markets in China and Hong Kong

Ongoing growth for the world's largest knitwear production region
Burgeoning needs for investment in computerized flat knitting machines against a backdrop of escalating labor costs

1 Shima Seiki Win Win Dongguan Ltd.
Expansion of service outlet in Guangdong Province, China's largest market

2 Shima Seiki (Hong Kong) Ltd.
The Company's sales base in the Chinese and Hong Kong markets

ShanghaiTex 2009

1 The World's Largest Knitwear Production Region—China and Hong Kong

China and Hong Kong represent a concentration of approximately 80% of global knitwear production. In addition to their reputation for production volume, the region's products are recognized by top apparel makers for their quality. However, the focus on mass-production renders quick-response output adjustments difficult and production costs have risen steeply in recent years as a result of growing personnel expenses. Accordingly, apparel manufacturers have been pursuing China Plus One strategies, involving shifting investment to Asian markets outside China, as a means of risk diversification.

2 Knitwear Manufacturers Operating on a Large Scale in Hong Kong and with Great Regional Variation in Mainland China

The term "Chinese knitwear manufacturer" alone fails to express the huge differences in the nature of business between Hong-Kong–funded and mainland Chinese enterprises.

Many Hong Kong knitwear manufacturers are large-scale operations, with more than 100 knitting machines on their books, and some companies having as many as several thousands. Participants in the Hong Kong industry have a long history, operating through tie-up ventures with European and U.S. apparel manufacturers from the design stage onward. As such, they play a background role in supporting the fashion businesses of advanced nations. These important customers therefore greet Shima Seiki's fashion proposals with a high level of sensitivity.

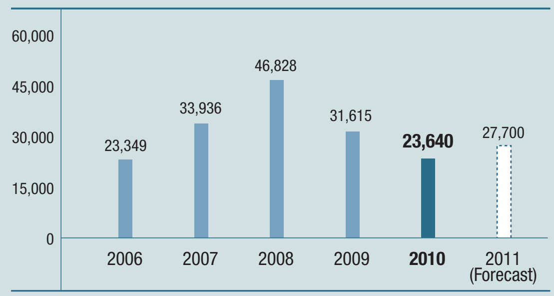
Mainland China, by contrast, primarily features small-scale knitwear manufacturers, characterized by vast differences between areas. Broadly speaking, these can be classified into three regions: Huabei in the north, including Beijing and Inner Mongolia; Huadong in the east, spanning Shanghai, Zhejiang and Jiangsu; and Huanan in the south, incorporating Guangdong and Fujian. Of these, Huadong and Huanan primarily export to Europe and the United States, while Huabei principally manufactures products for domestic consumption. Shima Seiki is currently stepping up its finely tuned sales development targeting Chinese manufacturers.

Market

Knitwear production in China (Billions of Pieces)

Source: China Textile Industry Association

Net sales in Southeast Asia
(China, South Korea and other countries) (¥ Million)



3 Shima Seiki's Strengths in the Increasingly Competitive Flat Knitting Machine Market

As a leading provider of flat knitting machines, the Company was an early participant in marketing activities for the Chinese and Hong Kong markets and has subsequently enjoyed steady sales gains.

However, since 2008 Chinese flat knitting machine manufacturers have rapidly picked up momentum, evidenced by the advent of several companies that have kept pace with Shima Seiki in the field of diffusion models. These competitors have an advantage in terms of price, though Shima Seiki remains dominant from the perspectives of product durability and production efficiency. Moreover, we gain a decisive edge from our total proposals and advanced technological products, such as WHOLEGARMENT® flat knitting machines and design systems.

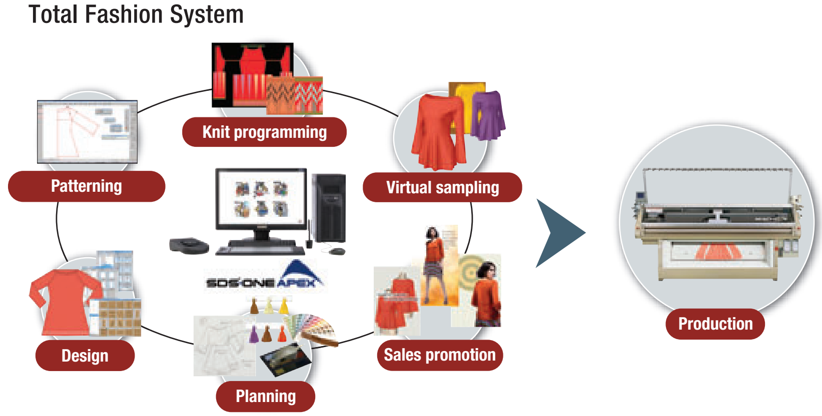
4 Expanding Mechanical Needs in Step with Escalating Labor Costs

Recently, capital investment has been lackluster in the Chinese and Hong Kong markets under the influence of the global slump in consumer spending. However, capital investment by knitwear manufacturers has resurged since the latter half of 2009, with trends toward recovery now in evidence.

Amendments to the Labor Contract Act in China in 2008 resulted in an upturn in labor costs, rendering conventional production by manually operated machines uneconomical. Accordingly, there has been a surge in demand for computerized knitting machines to replace existing machines, thereby reducing costs. Translating this rise to concrete orders is the most important issue facing Shima Seiki in the Chinese market.

Detailed intarsia pattern

Total Fashion System



Current Market Strategies in China and Hong Kong

Supporting apparel and knitwear manufacturers with our unrivaled comprehensive capabilities
Aiming for development as a business partner

WHOLEGARMENT® exhibition in Dongguan (Guangdong Province)

1 Gaining Customers by Leveraging Our Comprehensive Capabilities, from Proposals through Support

In order to weather the intense competition in the Chinese market, Shima Seiki established a subsidiary in Hong Kong through a merger and acquisition with a sales agent in 2006. This company offers proposals, marketing and support for the Chinese and Hong Kong markets. Shima Seiki's comprehensive capabilities, underpinned by long years of accumulated expertise, have gained widespread acclaim from customers and provide the vital differentiation for the Company to survive in an intensely price-competitive arena.

Current topical issues for the Company include expanding its customer base to include small and medium-size knitwear manufacturers and reinforcing sales of new-model flat knitting machines.

2 Supporting the Differentiation Strategies of Knitwear Manufacturers

The overall apparel market has reached maturity, bringing intense competition between apparel and knitwear manufacturers. These conditions represent an ideal opportunity to leverage the appeal of Shima Seiki's products, which facilitate high-quality manufacturing. The Company is focusing on providing design, know-how and samples and on the technological backup required to realize sophisticated designs. We are confident that this approach supports the businesses of our customers.

3 Expanding Sales of MACH2®SIG® through Communications at Personal Exhibitions

Marketing activities for the upcoming fiscal year, ending March 31, 2011, focus on ITMA ASIA, a major textile machinery exhibition, and personal exhibitions at various locations in China. We will also promote close communications with customers and make proposals on individual issues at showrooms that we maintain in the areas in which we operate.

The Company is making detailed application proposals to provide customers with hands-on experience of the versatile design of our latest model, the MACH2®SIG®.

We are leveraging our appeal as a potential partner and a company itself in pursuit of development by creating actual samples in response to customer requests to knit specific chosen items.

4 Creating a Base to Reinforce Relations with Customers

Shima Seiki (Hong Kong) Ltd., which controls our business activities in China, has moved its head office and showroom to a more central area where the headquarters of its clients are concentrated. The more generous space allows us to showcase a greater range of samples and also serves as a locale for customers to experience Shima Seiki's fashion proposals. We carry out regular technical training attuned to customer levels at showrooms, located in each area where the Company operates, in our drive to bolster relations with users.

MACH2®SIG®

Initial shipments of new model

Seminar in a Hong Kong showroom

Order Knit Fair at Isetan store in Shanghai

Strategy

Front-Line Sales Reports

Acclaim for Our New Model, the MACH2®SIG®, at Personal Exhibitions

The MACH2®SIG® is a high-potential, revolutionary new intarsia flat knitting machine from Shima Seiki that can produce knitwear products with complex, intricate designs on short lead times. Despite concerns that its launch in the Chinese market was premature because of its high performance, detailed explanations of the MACH2®SIG®'s merits at personal exhibitions were received with blazing acclaim.

These results pointed to robust potential demand for 40-color designs—the new model's crowning feature. Although the need for multicolored designs was already well proven, these could not be realized on manually operated machines so such products had not been commercially realized. Accordingly, customers have high expectations of the MACH2®SIG®, with its capacity to manufacture higher-value-added products.

The MACH2®SIG® has also been praised by users for its production efficiency and mechanical quality. We are confident that this product launch will ignite demand from companies that have long experience with intarsia knitting. Shima Seiki will strive to expand sales of the MACH2®SIG® by tailoring the presentation of its merits at personal exhibitions to the needs of the customers.

Exhibition in Hong Kong

Boosting Investment in the Promising Bangladesh Market
Striving to Establish the Shima Seiki Brand Image and Attract New Customers

Bangladesh is one of the most promising of our China Plus One markets. Textiles are a key industry in this country, where knitwear production is carried out by manually operated knitting machines to this day. Local knitwear manufacturers have begun investing in computerized flat knitting machines in response to an anticipated influx of diversified orders. Forecast demand growth arising from the upgrades from manual to computerized models makes Bangladesh an important market for Shima Seiki.

Accordingly, we are carrying out aggressive forward investment and working to firmly establish the Shima Seiki brand image at the earliest possible juncture. In October 2009, we opened a showroom and through future reinforcement of a support system that provides technical training and after-sales and other services we aim to differentiate the Company from its competitors and attract new customers.

Overview of Operations and Outlook for the Next Fiscal Year

The Company categorizes its business into four segments. The Flat Knitting Machine segment, which engages in the development, manufacture and sales of computerized flat knitting machines, accounts for more than 80% of net sales and is core to Shima Seiki's operations.

Flat Knitting Machine Segment

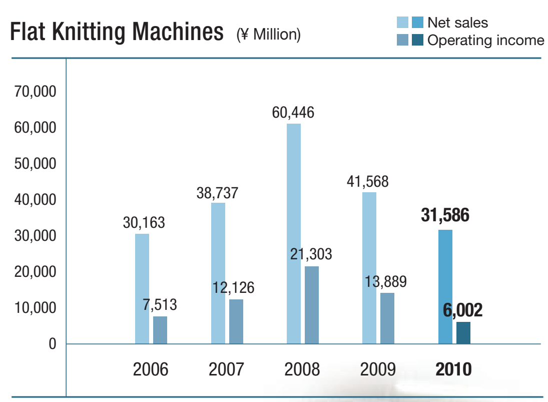
Overview of the Year under Review

Shima Seiki's core business, the Flat Knitting Machine segment, suffered from weak capital investment in the sectors in which its users operate, both overseas and in Japan. In this harsh operating environment, exacerbated by intensified competition, the Company posted declines in sales.

China and Hong Kong, our mainstay markets, were aided by demand stimulation measures introduced by the Chinese administration and expansion of the domestic clothing consumer market. However, exports of knitwear products to the United States, the number one destination for these goods, declined during the year, leading to stagnant overall capital investment. During the fourth quarter, the U.S. economy exhibited signs of recovery, and capital investment levels turned upward as exports increased, but without sufficient impetus to offset the decline in the second and third quarters.

In addition, price competition from rival manufacturers, particularly in the Chinese and Hong Kong markets, precipitated unit price reductions, which in turn contributed to the falloff in sales. Despite acclaim from many users for the high total cost performance of Shima Seiki's products in terms of quality, performance and other factors, the Company was still obliged to drop some prices in order to maintain market share.

In emerging Asian markets, targeted under China



Topics Japan

During the latter half of the fiscal year ended March 31, 2010, Shima Seiki held Order Knit Fairs at several leading department stores. These events aimed to highlight the attractions of the Ordermade business model, which features local production for the local market utilizing WHOLEGARMENT® flat knitting machines and the SDS®-ONE APEX design system. The stores hosting these fairs praised the events for boosting customer satisfaction by facilitating well-fitting clothing made from top-quality materials.

Topics Europe

In March 2010, we held a launch exhibition for the MACH2®X 18L and MACH2®SIG® at the Carpi Branch of Shima Seiki Italia S.p.A. The event was supported by some 120 companies, showing great interest in the new models. In particular, responses were favorable, accompanied by encouraging business inquiries, regarding the MACH2®X 18L WHOLEGARMENT® flat knitting machine that meets the needs for fine-gauged machines by users oriented toward luxury merchandise. We expect an enthusiastic market response to this model in the future.

Plus One strategies, we recorded sales gains in Indonesia and Bangladesh, in addition to Cambodia, which had been on the rise since the previous year.

In Italy, we focused on design proposals using our top-end MACH2®X, which facilitates stylish, quality, high-speed knitting for WHOLEGARMENT®. Nevertheless, this drive was not sufficient to overcome trends toward investment restraint by users, so expenditure on upgrade equipment remained lackluster. Sales recovered in Turkey compared with the previous year, but production volumes declined in other major knitwear manufacturing countries, resulting in an overall deterioration in capital investment.

Clothing consumption was also stagnant in the domestic market, alleviated by neither growth in production of knitwear nor expansion of capital investment.

As a result of these trends, sales by the Flat Knitting Machine segment fell 24.0% during the year ended March 31, 2010, to ¥31,586 million.

Outlook for the Next Fiscal Year

In our mainstay markets of China and Hong Kong, in addition to a recovery in U.S.-bound exports and a rise in domestic demand, investment demand is growing for computerized flat knitting machines, which offer a potential solution to escalating labor costs and a shortage of younger workers. Based around local subsidiaries in Hong Kong and Shanghai, we are reinforcing our technical support system and aggressively developing sales strategies to cover the whole of China. These initiatives are effectively expanding our share of sales in these markets.

Shima Seiki is courting major knitwear manufacturers in Hong Kong by promoting an upgraded model to capitalize on the proven performance of the SSG® and SIG® series and the introduction of the MACH2®X WHOLEGARMENT® flat knitting machines, which promises greater share of the market segment for high-end products. At knitwear production sites in developing Asian nations, led by Bangladesh, we are bolstering our finely tuned marketing activities to gain market penetration. We also are fortifying proposal-based marketing in Turkey, which features cost competitiveness and technological excellence and is attracting attention as an alternative to dissipate risk of over-reliance on production in China. The momentum of top-grade knitwear production is on the rise in Europe, centered on Italy. Accordingly, Shima Seiki is reinforcing its marketing network of offshore sales subsidiaries and technical support services, in anticipation of sales expansion led by the MACH2®X.

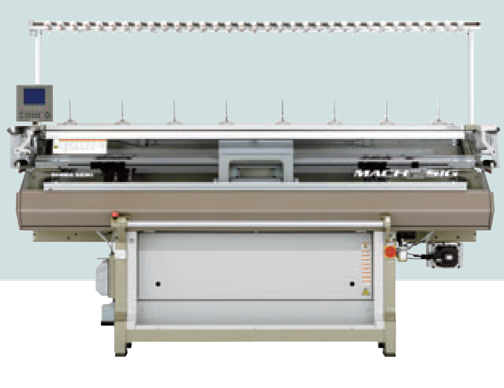
In the domestic market, we are revising our organizational structure and enhancing our technical services to interact closely with knitwear production areas, spearheaded by the establishment of seven Technical Service Centers (TSCs). In addition, the Company is revitalizing the market through its proposal-based business models, centered on WHOLEGARMENT® flat knitting machines.

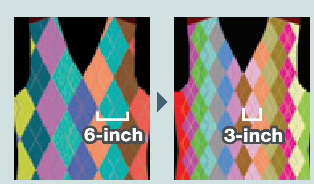
Through the implementation of these measures, we forecast net sales for the segment of ¥38,320 million during the fiscal year ending March 31, 2011, up 21.3% compared with year under review.

* In line with July 29, 2010, revisions to its operating performance forecast, the Company now anticipates net sales in the Flat Knitting Machine segment of ¥39,320 million.

Topics The MACH2®SIG®—Realizing Overwhelming Quality and Speed by Fusing Hardware and Software

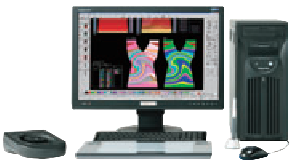
The MACH2®SIG®, launched in January 2010, is a revolutionary new intarsia flat knitting machine from Shima Seiki that can produce knitwear products with complex, intricate designs over a short time frame. By reinforcing connectivity with our design systems, the MACH2®SIG® has enabled us to drastically reduce total lead times from planning and design through production.





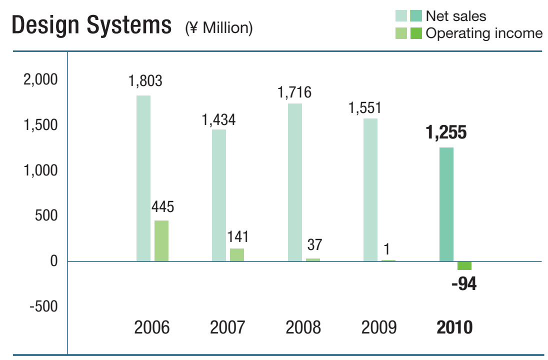
Conventional machine MACH2®SIG®

Design System Segment



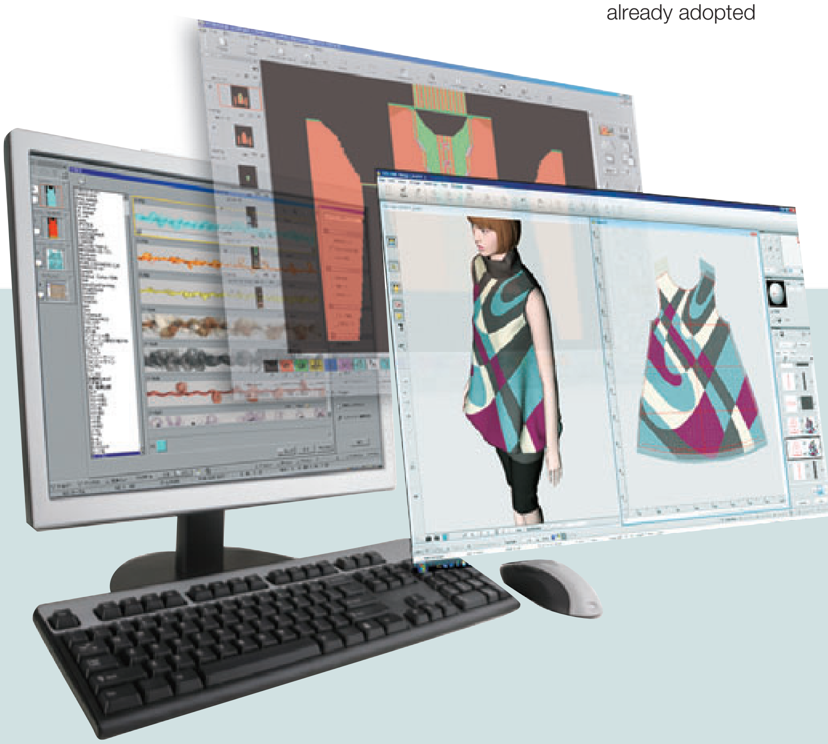
Overview of the Year under Review

During the year, the Design System segment promoted sales of the SDS®-ONE design system, which provides total support for high-quality, stylish manufacturing and the P-CAM® series of state-of-the-art automatic fabric cutting machines. Moreover, we focused on new business model proposals, including in other business fields, that utilized the 3D functions of the SDS®-ONE APEX, the top-end model of the SDS®-ONE series. However, overall capital investment being lackluster, sales contracted 19.1% from the previous year, to ¥1,255 million.



Outlook for the Next Fiscal Year

During the next fiscal year, we will emphasize our proposal-based marketing capacities for the SDS®-ONE and SDS®-ONE APEX in light of trends toward global economic recovery and rapid expansion of domestic needs for high-grade clothing in China. In particular, the SDS®-ONE APEX targets top-class enterprises in markets worldwide that have already adopted WHOLEGARMENT® flat knitting machines. We are also making manufacturing proposals to market-leading companies that drastically cut sample creation costs and lead times through virtual simulation. Furthermore, we are cultivating new demand, with our newly established Design System Sales Group as a hub, expanding the range of targeted users throughout the fashion industry. As a result of these efforts, sales for the next fiscal year are set to jump 71.3%, to ¥2,150 million.



Topics

Version Upgrade for the SDS®-ONE APEX Design System Radical Reductions in Times for Sample Creation

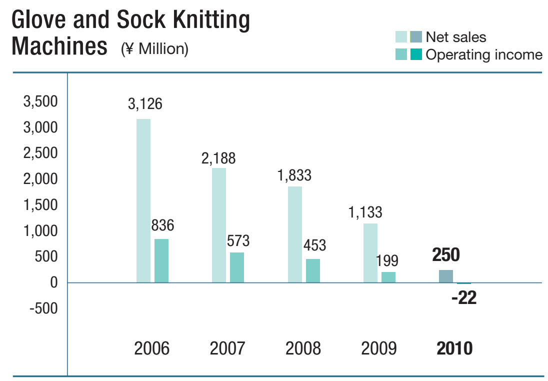
The SDS®-ONE APEX is a high-performance design system that can produce 3D product samples as virtual images, thus facilitating on-screen creation of all processes required for sample-creation.

In January 2010, we completed the development of new software that will significantly upgrade operational efficiency. This breakthrough enables complex intarsia knitting patterns that formerly took several hours to be programmed in a matter of 10 minutes or so. In tandem with the new-model MACH2®SIG® intarsia flat knitting machine, the SDS®-ONE APEX effectively expands the scope of knitwear design.

Glove and Sock Knitting Machine Segment

Overview of the Year under Review

Over the past few years, the Glove and Sock Knitting Machine segment has continued its struggle against severe price competition from domestic machinery manufacturers in the Chinese market. Gloves feature a lesser emphasis on design, comfort of fit and other quality-centric factors than apparel products, so Shima Seiki's overall sales have been harder hit by the offensive from Chinese domestic machinery manufacturers in this area. As a result, sales in this segment dropped 78.0% from the previous fiscal year, to ¥250 million.



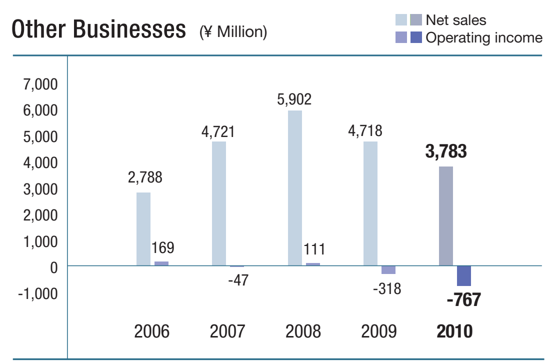
Outlook for the Next Fiscal Year

Despite these results, we have received production inquiries from emerging nations in Asia, which we will endeavor to convert to concrete orders during the next term. Furthermore, we plan to continue our approach from the fiscal year under review of focusing on development of applications in the precision and medical industries and other fields in which the merits of Shima Seiki's machines can be leveraged to effect. We anticipate an upturn in revenues for the next fiscal year, in contrast with the severe recession in the year under review, with sales surging 452.5%, to ¥1,380 million.

Other Business Segment

Overview of the Year under Review

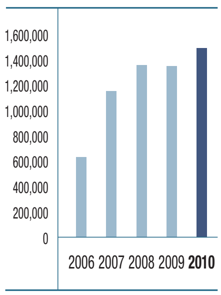
Although Shima Seiki promoted the development of high-value-added cashmere yarn and other textile materials that it manufactures, their sales were flat as a result of a slump in consumer apparel spending. Sales of parts for flat knitting machines and other products declined, being linked to overall groupwide sales trends. Knitwear product sales in the United States suffered from the nationwide recession, despite measures to reinforce collaboration with the Design Center of New York, in step with a shift of our hub of operations from the west coast to the east coast, with its higher purchasing power, and other initiatives to restructure operations. As a result, sales from the Other Business segment diminished 19.8%, to ¥3,783 million.



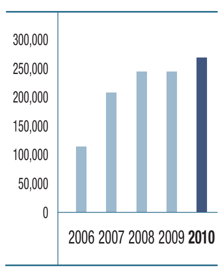
Outlook for the Next Fiscal Year

Harsh operating conditions are expected to continue through the next term, with sales falling a further 16.7%, to ¥3,150 million.

Photovoltaic generation capacity of the Group
(kWh)



Reduction of CO_2 emissions (kg-C)



Environmental Endeavors in Production Activities

Recognizing the management importance of promoting environmentally conscious business activities, the Company has incorporated global environmental protection into the Shima Seiki Group Code of Conduct.

The production divisions encourage the use of natural energy, as well as energy conservation, and are working to reduce CO_2 emissions. Groupwide, we operate a large-scale 1,330 kW solar power generation system that provides power at the FA Building No. 2 assembly plant and other facilities. Effectively 7% of the power used at our plants comes from natural energy sources. In addition, we are pursuing a target of an average annual unit energy consumption reduction of 1% or more.

Companywide activities include the promotion of green purchasing, which is one example of efforts to work effectively toward creating a recycling-based society. We formulated guidelines in 2007 that stipulate the prioritization of procurement of goods and services that have low environmental impact. Green product purchase ratios differ by division, but in general we achieve a ratio of around 80%.

To prevent global warming and to ensure that we do our part to pass on a beautiful environment to the next generation, we aggressively promote environmental preservation activities, such as by proposing eco-friendly knitwear made with WHOLEGARMENT® machines.

Environmentally Friendly WHOLEGARMENT® Machines

WHOLEGARMENT® flat knitting machines require no cutting or sewing processes. Accordingly, these machines can reduce losses from seam allowance and save the approximately 30% of materials that conventional machines discard as waste. To illustrate, knitting 1,000 sweaters using WHOLEGARMENT® flat knitting machines generates savings equivalent to the wool yarn collected from 48 sheep. Moreover, energy can be saved and CO_2 emissions reduced by not requiring incineration of cut parts.

By providing resource-saving machines and proposing ecology knitwear that is friendly to the global environment, we believe that WHOLEGARMENT® flat knitting machines meet the environmental imperatives of the times.

Products Designed with Safety in Mind

We are devising numerous ways of introducing operator safety and operability into our product designs.

For example, safety covers for the prevention of accidents are fitted over the drive parts of our knitting machines, which will automatically stop the machine when opened. Further, we have reduced by 10 cm the height of all knitting machines sold since 2006 in a drive to improve operability.

All products designated for sale within the European Union must bear the CE marking, signifying that they comply with stringent safety regulations. All Shima Seiki products meet this level of safety.

New Information Dissemination Hubs Newly Opened Fusion Museum

In April 2009, Shima Seiki established Fusion Museum KNIT X TOYS in the city of Wakayama as a showcase for the milestones reached by Shima Seiki through its history as a pioneer in the textile industry. Exhibits include actual examples of textile machinery through the ages, including flat knitting machines and glove knitting machines. Visitors can observe old and new knitting machines in operation, from the world's first sock knitting machine, produced in the United Kingdom, to the very latest WHOLEGARMENT® flat knitting machine.

The facility also has a corner dedicated to Ordermade, the new business model that the Company is currently promoting. This offers an opportunity for hands-on experience of this model, which facilitates swift production of high-quality, made-to-order garments at reasonable prices utilizing a design system in conjunction with WHOLEGARMENT® flat knitting machines.

Moreover, we host an Art Club at the museum for children to enjoy using a design system. This also helps to promote design education among children, by honing their sensitivity and expressive powers.

The fusion museum, which presents the history of the indigenous knitwear industry in Wakayama, also contributes to local education by serving as a popular destination for elementary school field trips and other outings.

FUSION MUSEUM KNIT × TOYS

Basic Policies and Systems

The Shima Seiki Group considers strengthening corporate governance important from the standpoint of efficient, sound, transparent and stakeholder-oriented management. Accordingly, we are striving to enhance our governance systems.

As a company with corporate auditors, we have formulated a framework for appropriate and effective corporate governance through the full functioning of a Board of Directors system and a Board of Corporate Auditors system.

Governance Structure

Directors, Board of Directors

The Company has nine directors, who meet at least once each month at Board of Directors meetings to resolve important management issues and supervise the execution of business. During the year ended March 31, 2010, the Board of Directors met 19 times.

Corporate Auditors, Board of Corporate Auditors

The Company has four corporate auditors, including two outside auditors, who monitor directors' execution of duties and audit the appropriateness of management. During the year, the Board of Corporate Auditors met seven times. In addition to attending Board of Directors meetings, the Board of Auditors is responsible for monitoring the execution of duties by directors. One of the Company's outside auditors is an attorney; the other is a licensed certified tax accountant. The advice that they provide from their specialist backgrounds acts as a check on directors' activities.

Internal Auditing Division

The Company has established an Internal Auditing Division to conduct internal audits throughout the Company's business operations and to strengthen internal control. The Internal Auditing Division comprises three members, who conduct internal control audits, the scope of which covers the status of compliance and risk management and financial reporting, based on an annual audit plan.

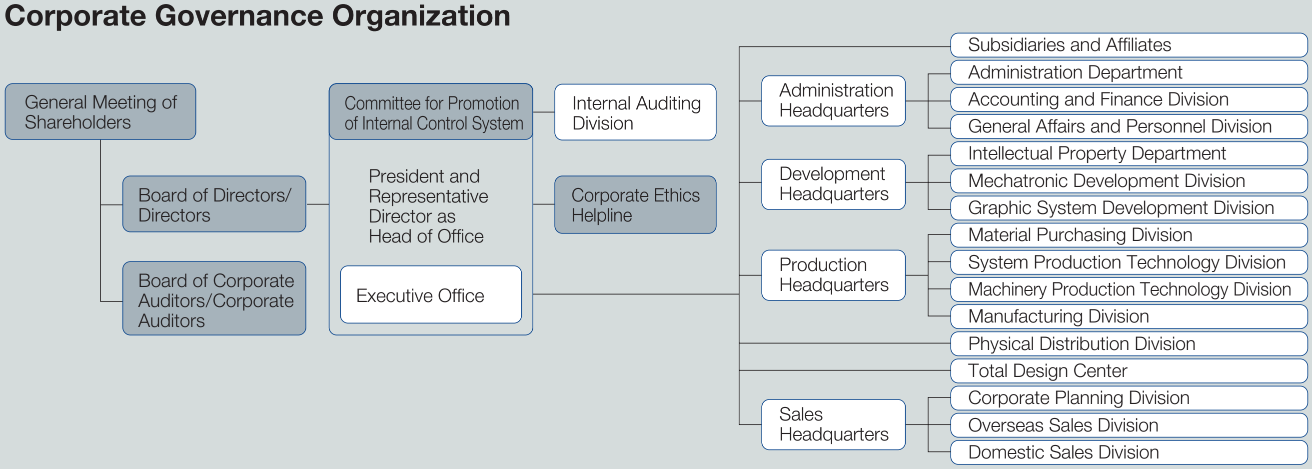
Accounting Audits

The Company has appointed Ohtemae Audit Corporation as its accounting auditor. Regular accounting audits and internal control audits of the Company by the auditing firm enhance the effectiveness of the audit system.

Accountability

The Company deploys various means, such as video and other media, to make the business reports of the General Shareholders' Meeting easily understandable to shareholders. In addition, results briefings are held in Tokyo for analysts and institutional investors twice a year, after the end of the first half and fiscal year-end, with the objective of public disclosure of information.

Corporate Governance Organization



Internal Control System

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

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

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

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

Based on the Company's system to appropriately evaluate the scope of companywide internal controls, the financial reporting processes and business processes, we judged the Group's internal control over financial reporting to be effective as of March 31, 2010.

Compliance

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

During the year, we made steady progress on planned compliance activities. We formulated a Compliance Program centered on the Compliance Committee, conducted regular checks on compliance status, and entrenched systematic compliance through induction courses, compilations of case studies and other initiatives. The Company also constructed a framework for audits to be conducted by the Internal Auditing Division.

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

Message from an Outside Auditor

Masatoshi Yasugi

Outside Auditor (tax accountant)

It is my belief that the duties of a corporate auditor are to oversee the conduct of each director and confirm that it is not in violation of any laws or the Company's Articles of Incorporation and to ensure that they cause no inadvertent harm to investors.

I am mainly involved in providing advice utilizing my specialist knowledge of taxation. This involves actively attending meetings of the Board of Directors and striving to participate in issues at hand.

In my judgment, Shima Seiki's current status presents no particular problems; one future issue to be addressed is response to transactions with overseas subsidiaries, for which recovery of debts, administration of credit and other operational aspects are growing in importance.

Board of Directors and Corporate Auditors

President

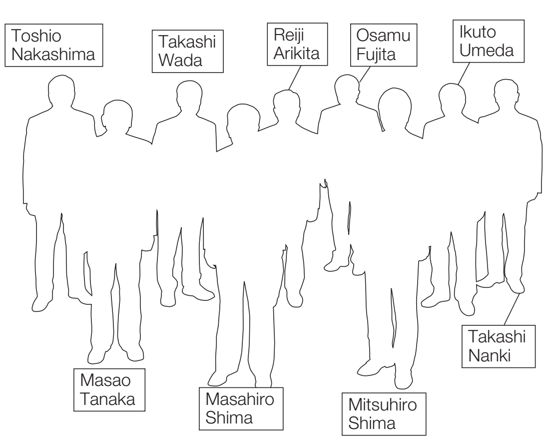
Masahiro Shima
General Manager of Sales Headquarters

Senior Managing Director

Masao Tanaka
General Manager of Administration Headquarters, concurrently overseeing Internal Auditing Division and Physical Distribution Division

Managing Director

Mitsuhiro Shima
General Manager of Production Headquarters, concurrently overseeing Machinery Production Technology Division, Material Purchasing Division and Total Design Center



Directors

Takashi Wada
General Manager of Manufacturing Division, concurrently overseeing System Production Technology Division

Ikuto Umeda
CEO of Shima Seiki (Hong Kong) Ltd.

Osamu Fujita
General Manager of General Affairs and Personnel Division

Reiji Arikita
General Manager of Development Headquarters

Toshio Nakashima
General Manager of Overseas Sales Division, concurrently overseeing Domestic Sales Division and Corporate Planning Division

Takashi Nanki
General Manager of Accounting and Finance Division, concurrently overseeing Administration Department

Corporate Auditors

Shojiro Katagiri
Standing Corporate Auditor

Mitsunori Ueda
Standing Corporate Auditor

Yuuki Matoba
Corporate Auditor

Masatoshi Yasugi
Corporate Auditor

(As of June 29, 2010)

Masatoshi Yasugi　Mitsunori Ueda　Shojiro Katagiri　Yuuki Matoba

Financial Section

Five-Year Financial Summary

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31

	2010	2009	2008	2007	2006	2010
For the Year:			Millions of yen			Thousands of U.S. dollars
Net sales	**¥36,874**	¥48,970	¥69,897	¥47,080	¥37,880	**$396,324**
Cost of sales	**22,735**	24,318	34,131	25,014	21,100	**244,357**
Gross profit	**14,139**	24,652	35,766	22,066	16,780	**151,967**
Selling, general and administrative expenses	**13,488**	16,124	19,552	14,357	12,757	**144,970**
Operating income	**651**	8,528	16,214	7,709	4,023	**6,997**
Income (loss) before income taxes and minority interests	**(1,042)**	4,057	18,168	6,183	5,293	**(11,199)**
Net income (loss)	**(1,885)**	1,766	9,959	3,114	3,405	**(20,260)**
Cash flows from operating activities	**6,746**	1,978	21,747	10,691	4,754	**72,506**
Cash flows from investing activities	**(2,759)**	70	(3,321)	(16,223)	(3,513)	**(29,654)**
Cash flows from financing activities	**(6,682)**	(4,294)	(10,883)	12,226	(1,386)	**(71,819)**
Capital investment	**2,154**	4,147	2,496	1,753	2,474	**23,151**
Depreciation and amortization	**2,164**	2,358	2,454	1,542	1,026	**23,259**
Research and development expenses	**2,325**	2,651	2,818	2,519	2,644	**24,989**
At Year-End:			Millions of yen			Thousands of U.S. dollars
Total assets	**¥110,063**	¥119,778	¥133,746	¥129,161	¥109,302	**$1,182,964**
Net assets/Shareholders' equity	**87,473**	91,064	101,647	92,810	95,331	**940,166**
Per Share Data:			Yen			U.S. dollars
Net income (loss)	**¥(54.52)**	¥49.88	¥276.13	¥86.17	¥91.92	**$(0.59)**
Cash dividends applicable to the year	**30.00**	40.00	55.00	37.50	37.50	**0.32**
Net assets/Shareholders' equity	**2,529.67**	2,633.55	2,677.47	2,546.71	2,599.24	**27.19**
Ratios:			%			
Ratio of operating income to net sales	**1.8%**	17.4%	23.2%	16.4%	10.6%	
ROA	**(1.6)**	1.4	7.6	2.6	3.1	
ROE	**(2.0)**	1.9	10.6	3.4	3.6	
Equity ratio	**79.5**	76.0	73.2	69.2	87.2	

Notes: 1.Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥93.04=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2010.
2.Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted the accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. The figures in prior years have not been restated.

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31

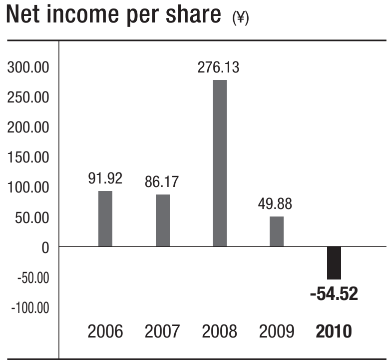
Overview

During the consolidated fiscal year under review, the global recession triggered by the financial crisis in the fall of 2008 finally bottomed out. By fiscal year-end, the momentum of recovery had picked up, propelled by economic packages introduced by the governments of various countries and high growth in China and other developing nations. Japan also showed signs of modest recovery, led by growth in exports to Asia and an upturn in capital investment. Although the management environment for the Shima Seiki Group benefited from a rebound in capital investment in the Chinese market during the fourth quarter, a slump in consumer apparel spending in advanced nations, appreciation of the yen and intensifying price competition from rival manufacturers resulted in ongoing harsh conditions, particularly during the second and third quarters.

Orders bounced back from the start of the year in the Company's main markets of China and Hong Kong, as well as in Italy, Turkey and other countries. However, lackluster capital investment throughout the fiscal term led to a dramatic decline in income, largely precipitated by falloff in sales from the Company's core business, computerized flat knitting machines. Consequently, consolidated net sales for the year decreased 24.7%, to ¥36,874 million. This represents the second consecutive year of diminishing sales and profits for the Group. The gross margin fell, and operating income dropped 92.4%, to ¥651 million, as a result of lower net sales and falling unit selling prices and production volumes of its mainstay products. Amortization of goodwill and other extraordinary losses during the year led to a net loss of ¥1,885 million, compared with net income during the previous term of ¥1,766 million. This was the first time that we have posted a negative bottom line in a decade.

Shima Seiki treats return of profits to shareholders as a priority management issue. With regard to profit distribution, the Company aggressively strives to maintain long-term stable dividends, taking into account business performance during the year, forecasts for future profits and business expansion for the future. We also take an aggressive stance toward purchases of treasury stock to implement our capital policy expeditiously in response to changes in the operating environment and raise stock value per share. However, as results for the year were substantially lower than our initial projections, we reduced our intended year-end cash dividend of ¥20.00 to ¥10.00 per share. Combined with an interim dividend of ¥20.00 per share, this brought the dividends for the full business year to ¥30.00 per share. Consolidated net income per share dropped significantly, from ¥49.88 in the preceding term to a negative value of ¥54.52 during the year under review.

Net income per share (¥)



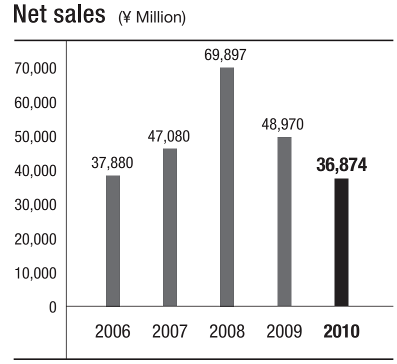
Net Sales

Shima Seiki's consolidated net sales fell 24.7% from the previous year, to ¥36,874 million. This is the second consecutive term of significant sales declines.

The Company's core business of flat knitting machines suffered a decrease in sales, amid severe operating conditions in both domestic and overseas markets, impacted by stagnant capital investment in the industries in which its users operate. In our main markets of China and Hong Kong, we enjoyed a major turnabout in demand, arising from a shift from manually operated machines to computerized flat knitting machines to counter growth in personnel costs, labor shortages and other factors. However, exports decreased as a consequence of a slump in the United States, the primary export destination for knitwear products, and capital investment was stagnant. Demand rallied during the fourth quarter of the year, bringing a boost to orders, but this was insufficient to offset the mid-term depression. Furthermore, the growing strength of the yen against the euro intensified competition from European manufacturers, which was also a factor behind a decrease in sales in the Chinese market. Against the background of the ongoing China Plus One strategy, which advocates the establishment and expansion of Asian manufacturing bases outside China, sales advanced in Indonesia and Bangladesh. Meanwhile, in Italy we focused on design proposals for the MACH2®X and other flat knitting machines that facilitate high-speed knitting for WHOLEGARMENT®, but this failed to counter trends toward investment constraint by users. Sales recovered in Turkey, but capital investment remained weak in major knitwear production countries as a whole.

Shima Seiki's Design System segment posted a decline in sales, tied to poor sales of computerized flat knitting machines, with the Glove and Sock Knitting Machine segment's

Net sales (¥ Million)



sales also dropping through failure to cultivate new demand in developing nations. Overall, overseas net sales slipped 24.2%, to ¥33,775 million, and overseas net sales accounted for 91.6% of net sales during the year, a 0.6-percentage-point increase from the previous year. By geographical region, overseas sales consisted of 70.0% to Southeast Asia (compared with 70.9% during the previous year), 21.2% to Europe (20.4%) and 8.8% to other areas (8.7%), indicating no significant change in the regional composition.

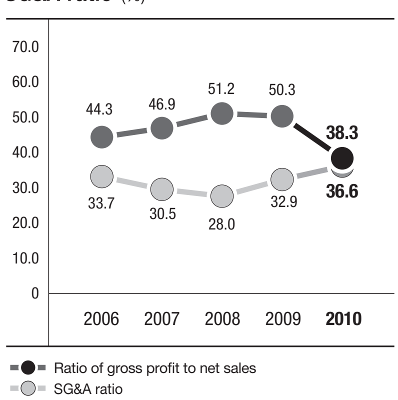
In the Japanese market, expenditures on upgrade equipment were stagnant under the weight of sagging domestic apparel consumption. As a result, domestic net sales were down 29.7%, at ¥3,099 million.

Cost of Sales and SG&A Expenses

The production volume of flat knitting machines was on the wane from the second quarter. As capacity utilization decreased, the burden of fixed costs grew more pronounced, and severe competition led to reduced unit selling prices on mainstay machines, pushing up the percentage of manufacturing costs. Cost of sales amounted to ¥22,735 million, leading to a drop in gross profit of 42.6%, to ¥14,139 million. The ratio of gross profit to net sales worsened 12.0 percentage points, to 38.3%.

Selling, general and administrative (SG&A) expenses fell 16.3%, to ¥13,488 million, owing to curbed personnel costs, reductions in such direct selling costs as freight and packing costs and commissions paid, and lower advertising expenses. However, due to the decline in net sales, the SG&A ratio worsened 3.7 percentage points, to 36.6%.

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



Operating Income

Operating income plummeted 92.4%, to ¥651 million. Principal factors were a 24.7% decline in net sales, an increase in the ratio of cost of sales to net sales as a result of low levels of unit production by mid-term of the year and ongoing falling unit selling prices, and the worsening of the SG&A ratio. As a result, the ratio of operating income to net sales was 15.6 percentage points lower than during the previous year, at 1.8%.

In terms of operating income by segment, the Flat Knitting Machine segment recorded a 56.8% slump, to ¥6,002 million; the Design System segment posted a ¥94 million operating loss, compared with ¥1 million in operating income during the previous year; the Glove and Sock Knitting Machine segment, too, fell to an operating loss of ¥22 million from operating income of ¥199 million; while operating loss in the Other Business segment worsened ¥449 million, to ¥767 million.

Other Income and Expenses

Other expenses exceeded other income, leading to net other expenses of ¥1,693 million. Rapid yen appreciation resulted in exchange losses of ¥1,243 million, stemming from such factors as loss on valuation of receivables denominated in foreign currencies, while we posted amortization of goodwill of ¥1,518 million and loss on devaluation of investment in affiliates of ¥119 million. Nevertheless, net other expenses decreased ¥2,778 million compared with the preceding fiscal year.

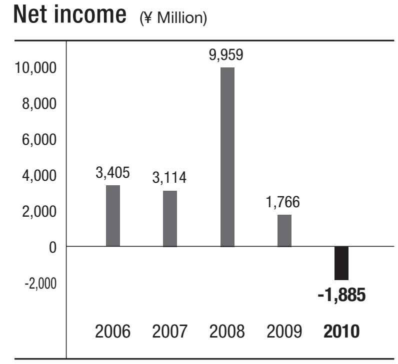
Net Income

Shima Seiki recorded a consolidated loss before income taxes and minority interests for the period under review of ¥1,042 million, against income before income taxes and minority interests of ¥4,057 million during the previous year.

Corporate income, residential and enterprise taxes totaled ¥454 million, representing a year-on-year increase of ¥83 million. Corporate income tax adjustments for the period under review were ¥389 million, down ¥844 million from the previous year. As a result, the Company’s tax burden after the application of tax effect accounting declined ¥761 million, to ¥843 million. Minority interests were ¥0 million, down ¥687 million compared with the previous year.

As a result of the above factors, consolidated net loss for the current year amounted to ¥1,885 million, compared with consolidated net income of ¥1,766 million for the preceding fiscal term.

Net income (¥ Million)



Liquidity and Capital Resources

Cash and cash equivalents were ¥16,318 million as of March 31, 2010, a decrease of ¥2,993 million, or 15.5%, from one year earlier. Operating activities provided cash, but the cash used in investing and financing activities exceeded this cash provision.

Net cash provided by operating activities was ¥6,746 million during the year, compared with ¥1,978 million in the previous year. This was primarily due to a loss before income taxes and minority interests of ¥1,042 million, against income before income taxes and minority interests of ¥4,057 million for the previous year. Other contributors included depreciation and amortization of ¥2,164 million (compared with ¥2,358 million in the previous fiscal year), amortization of goodwill of ¥2,015 million (compared with ¥502 million), a decrease in trade receivables of ¥904 million (compared with ¥3,452 million), and income taxes refund of ¥1,955 million (against income taxes paid of ¥9,726 million).

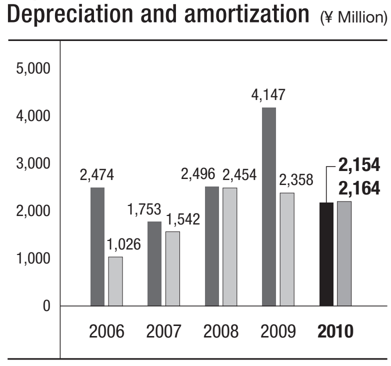
Net cash used in investing activities was ¥2,759 million, compared with ¥70 million provided by these activities in the previous year. The difference between proceeds from sales of short-term investments and purchases of short-term investments was cash used of ¥996 million (compared with cash provided of ¥3,504 million). Purchases of property, plant and equipment used ¥1,491 million (compared with ¥3,208 million).

Net cash used in financing activities was ¥6,682 million, compared with ¥4,294 million during the preceding fiscal year. Major factors included a ¥4,471 million decrease in short-term loans (compared with an increase of ¥6,382 million), proceeds from long-term loans of ¥3,000 million and repayment of long-term loans of ¥3,000 million.

The Shima Seiki Group's funding activities combine various procurement methods, including cash flows from operating activities, loans from financial institutions and issue of convertible bonds with stock acquisition rights, in an effort to secure low-cost, stable capital in response to uses of funds required to pursue the Group's objectives. At fiscal year-end, the equity ratio and current ratio, indicators of a company's margin of safety, were 79.5% and 428.3%, respectively, implying an extremely good financial position.

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

Capital investment/
Depreciation and amortization (¥ Million)



Assets, Liabilities and Net Assets

Consolidated total assets as of March 31, 2010, were ¥110,063 million, down ¥9,715 million from a year earlier.

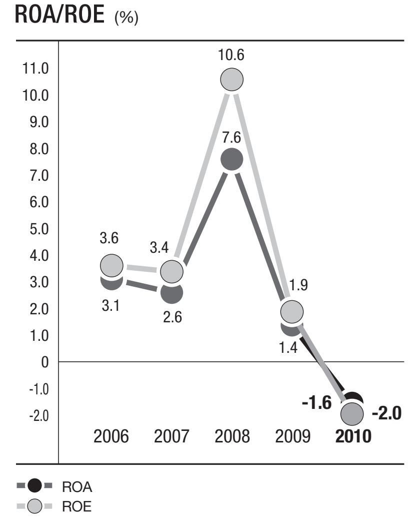
In terms of short-term assets and liabilities, current assets decreased ¥5,409 million, or 7.3%, to ¥68,860 million. Major reasons include a ¥2,993 million drop in cash and cash equivalents; a ¥2,011 million reduction in trade accounts and notes receivable, owing to such factors as settlement prior to due dates and liquidation; and a ¥2,750 million decline in prepaid expenses and other current assets, led by a falloff in other accounts receivable. Current liabilities fell ¥5,287 million, or 24.7%, to ¥16,077 million. Downward factors included decreases in short-term loans of ¥4,660 million and in current portion of long-term debt of ¥2,000 million. Increases included ¥1,942 million from current portion of bonds with stock acquisition rights and a ¥593 million increase from trade accounts and notes payable.

With regard to long-term assets and liabilities, property, plant and equipment decreased ¥1,639 million, or 7.2%, compared to the previous year, to ¥21,096 million, and investments and other assets diminished ¥2,667 million, or 11.7%, to ¥20,107 million, due principally to the amortization of goodwill. Long-term liabilities slid ¥837 million, or 11.4%, to ¥6,513 million. Principal factors included a ¥2,805 million reduction in bonds with stock acquisition rights arising from reclassification as current liabilities and a ¥2,000 million rise in long-term debt.

Net assets eased ¥3,591 million, or 3.9%, from the end of the previous fiscal year, to ¥87,473 million, primarily impacted by a ¥3,095 deterioration in retained earnings. As a result, the equity ratio rose 3.5 percentage points, to 79.5%.

Return on assets fell from 1.4% in the previous year to a negative value of 1.6%, as a result of the drop from net income to net loss during the year. Return on equity similarly declined from 1.9% to minus 2.0%.

ROA/ROE (%)



Business Risks and Uncertainties

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

(1) Risks of dependency on particular overseas markets

Overseas sales account for more than 90% of the Group's total sales, with sales to China and Hong Kong accounting for the majority of overseas sales. There is a concern over economic and political changes, including competition with other knitting machine manufacturers, changes in monetary policies and tax systems, and trade friction with other regions in this market, which could lead to a decline in orders, and thus affect the performance and financial position of the Group.

(2) Risks associated with fluctuations in currency exchange rates

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 as planned 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.

(3) Risks associated with credit and accounts receivable recovery

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

(4) Risks associated with the protection of intellectual property rights

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

(5) Risks associated with overconcentration of production on a particular production site

The Group promotes efficiency by concentrating its product production in Wakayama Prefecture, where the Headquarters is located, to allow all operations, from development to manufacturing, to be integrated into one process. Therefore, natural disasters, such as a large earthquake in and around Wakayama Prefecture, which may involve a long halt in production, could affect the performance and financial position of the Group.

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

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

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

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

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

Consolidated Balance Sheets

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
ASSETS			
Current assets:			
Cash and cash equivalents	**¥16,318**	¥19,311	**$175,387**
Time deposits	**1,144**	384	**12,296**
Short-term investments (Note 4)	**1,400**	403	**15,047**
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	**368**	153	**3,955**
Other	**33,288**	35,514	**357,782**
Inventories (Note 5)	**16,052**	15,303	**172,528**
Deferred tax assets (Note 11)	**1,959**	2,085	**21,056**
Prepaid expenses and other current assets	**1,202**	3,952	**12,919**
Less: allowance for doubtful accounts	**(2,871)**	(2,836)	**(30,858)**
Total current assets	**68,860**	74,269	**740,112**
Investments and other assets:			
Investments in unconsolidated subsidiaries	**290**	1,002	**3,117**
Investments in securities (Note 4)	**7,288**	6,245	**78,332**
Long-term loans receivable	**25**	35	**269**
Deferred tax assets (Note 11)	**2,060**	2,421	**22,141**
Goodwill	**6,763**	9,121	**72,689**
Other	**5,934**	6,076	**63,779**
Less: allowance for doubtful accounts	**(2,253)**	(2,126)	**(24,216)**
Total investments and other assets	**20,107**	22,774	**216,111**
Property, plant and equipment:			
Land	**10,993**	10,917	**118,153**
Buildings and structures	**22,376**	21,321	**240,499**
Machinery and equipment	**5,014**	6,997	**53,891**
Tools, furniture and fixtures	**6,696**	6,549	**71,969**
Leased assets	**1,135**	960	**12,199**
Construction in progress	**126**	546	**1,354**
	46,340	47,290	**498,065**
Less: accumulated depreciation	**(25,244)**	(24,555)	**(271,324)**
Property, plant and equipment, net	**21,096**	22,735	**226,741**
Total assets	**¥110,063**	¥119,778	**$1,182,964**

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 7)	**¥1,839**	¥6,499	**$19,766**
Current portion of long-term debt (Note 7)	**2,942**	3,000	**31,621**
Lease obligations	**168**	140	**1,806**
Trade accounts and notes payable	**5,804**	5,211	**62,382**
Accrued expenses	**1,142**	1,150	**12,274**
Accrued income taxes	**237**	32	**2,547**
Other current liabilities	**3,945**	5,332	**42,401**
Total current liabilities	**16,077**	21,364	**172,797**
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	**3,000**	3,806	**32,244**
Lease obligations	**794**	799	**8,534**
Allowance for retirement benefits (Note 8)	**1,542**	1,574	**16,573**
Deferred tax liabilities for land revaluation (Note 6)	**33**	33	**355**
Allowance for directors' and statutory auditors' retirement benefits	**1,144**	1,138	**12,296**
Total long-term liabilities	**6,513**	7,350	**70,002**
Contingent liabilities (Note 9)			
Net assets:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2010 — 36,600,000 shares			
2009 — 36,600,000 shares	**14,860**	14,860	**159,716**
Capital surplus	**21,724**	21,724	**233,491**
Retained earnings	**68,416**	71,511	**735,340**
Treasury stock, at cost			
2010 — 2,023,379 shares			
2009 — 2,021,620 shares	**(6,398)**	(6,395)	**(68,766)**
Net unrealized holding loss on securities	**(1,061)**	(1,210)	**(11,405)**
Land revaluation difference (Note 6)	**(7,433)**	(7,433)	**(79,890)**
Foreign currency translation adjustments	**(2,640)**	(1,993)	**(28,375)**
Minority interests	**5**	—	**54**
Total net assets	**87,473**	91,064	**940,165**
Total liabilities and net assets	**¥110,063**	¥119,778	**$1,182,964**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Net sales	**¥36,874**	¥48,970	**$396,324**
Cost of sales	**22,735**	24,318	**244,357**
Gross profit	**14,139**	24,652	**151,967**
Selling, general and administrative expenses (Note 12)	**13,488**	16,124	**144,970**
Operating income	**651**	8,528	**6,997**
Other income (expenses):			
Interest and dividend income	**534**	741	**5,740**
Interest expense	**(118)**	(137)	**(1,268)**
Other, net	**(2,109)**	(5,075)	**(22,668)**
Income (loss) before income taxes and minority interests	**(1,042)**	4,057	**(11,199)**
Income taxes (Note 11)**:**			
Current	**454**	371	**4,880**
Deferred	**389**	1,233	**4,181**
	843	1,604	**9,061**
Income (loss) before minority interests	**(1,885)**	2,453	**(20,260)**
Minority interests in gain of consolidated subsidiaries	**0**	687	**0**
Net income (loss)	**¥(1,885)**	¥1,766	**$(20,260)**

	Yen		U.S. dollars
Per share:			
Net income (loss)	**¥(54.52)**	¥49.88	**$(0.59)**
Diluted net income	**—**	48.56	**—**
Cash dividends applicable to the year	**30.00**	40.00	**0.32**

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, 2010 and 2009

	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 (loss) on securities	Land revaluation difference	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at April 1, 2008	37,600	¥14,860	¥22,397	¥74,924	¥(5,323)	¥(573)	¥(7,392)	¥(1,039)	¥3,793	¥101,647
Net income	—	—	—	1,766	—	—	—	—	—	1,766
Cash dividends	—	—	—	(1,971)	—	—	—	—	—	(1,971)
Purchases of treasury stock	—	—	—	—	(5,096)	—	—	—	—	(5,096)
Disposal of treasury stock	—	—	(67)	(1)	170	—	—	—	—	102
Retirement of treasury stock	(1,000)	—	(606)	(3,248)	3,854	—	—	—	—	—
Reversal of land revaluation difference	—	—	—	41	—	—	—	—	—	41
Other changes, net	—	—	—	—	—	(637)	(41)	(954)	(3,793)	(5,425)
Balance at March 31, 2009	36,600	14,860	21,724	71,511	(6,395)	(1,210)	(7,433)	(1,993)	—	91,064
Net loss	**—**	**—**	**—**	**(1,885)**	**—**	**—**	**—**	**—**	**—**	**(1,885)**
Cash dividends	**—**	**—**	**—**	**(1,210)**	**—**	**—**	**—**	**—**	**—**	**(1,210)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(3)**	**—**	**—**	**—**	**—**	**(3)**
Other changes, net	**—**	**—**	**—**	**—**	**—**	**149**	**—**	**(647)**	**5**	**(493)**
Balance at March 31, 2010	**36,600**	**¥14,860**	**¥21,724**	**¥68,416**	**¥(6,398)**	**¥(1,061)**	**¥(7,433)**	**¥(2,640)**	**¥5**	**¥87,473**

	Thousands of U.S. dollars								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Land revaluation difference	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2009	$159,716	$233,491	$768,605	$(68,734)	$(13,005)	$(79,890)	$(21,421)	—	$978,762
Net loss	**—**	**—**	**(20,260)**	**—**	**—**	**—**	**—**	**—**	**(20,260)**
Cash dividends	**—**	**—**	**(13,005)**	**—**	**—**	**—**	**—**	**—**	**(13,005)**
Purchases of treasury stock	**—**	**—**	**—**	**(32)**	**—**	**—**	**—**	**—**	**(32)**
Other changes, net	**—**	**—**	**—**	**—**	**1,600**	**—**	**(6,954)**	**$54**	**(5,300)**
Balance at March 31, 2010	**$159,716**	**$233,491**	**$735,340**	**$(68,766)**	**$(11,405)**	**$(79,890)**	**$(28,375)**	**$54**	**$940,165**

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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥(1,042)**	¥4,057	**$(11,199)**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**2,164**	2,358	**23,259**
Amortization of goodwill	**2,015**	502	**21,657**
Increase in allowance for doubtful accounts	**212**	529	**2,279**
Increase (decrease) in allowance for losses on guarantees	**25**	(246)	**269**
Decrease in allowance for retirement benefits	**(126)**	(167)	**(1,354)**
Increase in allowance for directors' and statutory auditors' retirement benefits	**11**	51	**118**
Interest and dividend income	**(534)**	(740)	**(5,740)**
Interest expense	**118**	137	**1,268**
Foreign exchange loss	**1,024**	1,131	**11,006**
Loss (gain) on sales and disposal of property, plant and equipment, net	**37**	(94)	**398**
Gain on disposition of foreign currency translation adjustment	**(459)**	—	**(4,933)**
Decrease in trade receivables	**904**	3,452	**9,716**
Decrease in inventories	**64**	22	**688**
Decrease in trade payables	**(502)**	(2,025)	**(5,396)**
Other	**488**	2,161	**5,245**
Subtotal	**4,399**	11,128	**47,281**
Interest and dividend income received	**539**	721	**5,793**
Interest expense paid	**(127)**	(145)	**(1,365)**
Income taxes refund (paid)	**1,955**	(9,726)	**21,012**
Other	**(20)**	—	**(215)**
Net cash provided by operating activities	**6,746**	1,978	**72,506**
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	**(763)**	41	**(8,201)**
Purchases of short-term investments	**(3,898)**	(4,696)	**(41,896)**
Proceeds from sales of short-term investments	**2,902**	8,200	**31,191**
Purchases of property, plant and equipment	**(1,491)**	(3,208)	**(16,025)**
Proceeds from sales of property, plant and equipment	**456**	1,144	**4,901**
Purchases of investments in securities	**(986)**	(238)	**(10,597)**
Proceeds from sales of investments in securities	**348**	25	**3,740**
Payments for acquisition of subsidiaries	**(80)**	(214)	**(860)**
Proceeds from liquidation of an unconsolidated subsidiary	**590**	—	**6,341**
Payment for acquisition of business	**—**	(457)	**—**
Extension in loans receivable	**(25)**	(1)	**(269)**
Collection in loans receivable	**95**	—	**1,021**
Other	**93**	(526)	**1,000**
Net cash provided by (used in) investing activities	**(2,759)**	70	**(29,654)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	**(4,471)**	6,382	**(48,055)**
Proceeds from long-term loans	**3,000**	1,000	**32,244**
Repayment of long-term loans	**(3,000)**	—	**(32,244)**
Payments for purchasing redemption of convertible bonds	**(851)**	—	**(9,147)**
Purchases of treasury stock	**(4)**	(5,096)	**(43)**
Proceeds from sales of treasury stock	**0**	2	**0**
Acquisition of shares from minority interests in a consolidated subsidiary	**—**	(4,614)	**—**
Cash dividends paid	**(1,210)**	(1,968)	**(13,005)**
Other	**(146)**	—	**(1,569)**
Net cash used in financing activities	**(6,682)**	(4,294)	**(71,819)**
Effect of exchange rate changes on cash and cash equivalents	**(298)**	(1,087)	**(3,202)**
Net decrease in cash and cash equivalents	**(2,993)**	(3,333)	**(32,169)**
Cash and cash equivalents at beginning of year	**19,311**	22,644	**207,556**
Cash and cash equivalents at end of year	**¥16,318**	¥19,311	**$175,387**

See the accompanying notes to the consolidated financial statements.

1. Basis of presenting consolidated financial statements

Shima Seiki Mfg., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in Japan's Companies Act and the Financial Instruments and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different in several respects as to the accounting and disclosure requirements of International Accounting Standards.

The Company's foreign subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its significant subsidiaries, which were filed with the Director of Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the exchange rate prevailing at March 31, 2010, which was ¥93.04 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 consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions are eliminated.

Unconsolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in aggregate are not significant in relation to those of the consolidation with the Group.

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

Investments in unconsolidated subsidiaries are stated at cost, since those companies' combined net income and retained earnings in aggregate are not significant in relation to those of the consolidation with the Group.

(b) Translation of foreign currencies

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

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

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

(c) Cash and cash equivalents

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

(d) Short-term investments and investments in securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of net assets and is reflected as "Net unrealized holding loss on securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the average method.

(e) Inventories

Finished goods, work in process and raw materials are stated at cost determined by the moving-average method (with book values written down on the balance sheet based on decreased profitability of assets).

Supplies are stated at cost determined by the first-in first-out method (with book values written down on the balance sheet based on decreased profitability of assets).

Purchased goods held by foreign consolidated subsidiaries are stated at cost determined by the specific method (with book values written down on the balance sheet based on decreased profitability of assets).

(f) Property, plant and equipment and depreciation (except for leased assets)

Property, plant and equipment are stated at cost. Depreciation of the Company and its domestic consolidated subsidiaries are computed principally by the declining-balance method based on the estimated useful lives of assets, except that the straight-line method is applied to buildings, but not to fixtures attached to the buildings, acquired after April 1, 1998. Depreciation of foreign consolidated subsidiaries is computed by the straight-line method on the estimated useful lives of assets.

The principal estimated useful lives are as follows:

Buildings and structures	3 to 60 years
Machinery and equipment	2 to 12 years
Tools, furniture and fixtures	2 to 20 years

(g) Leased assets

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees are accounted for in a similar way to purchases and depreciation for leased assets is computed under the straight-line method with zero residual value over the lease term.

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees, which commenced in fiscal years beginning prior to April 1, 2008, are accounted for in a similar way to operating leases.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. The allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries are calculated based on their past credit loss experience plus an estimate of the individual uncollectible amounts. The allowance for doubtful accounts of foreign consolidated subsidiaries is calculated based on an estimate of the individual uncollectible amounts.

(i) Allowance for retirement benefits

The Company and certain consolidated subsidiaries have retirement benefit plans for their employees. Such benefits are provided through the unfunded lump-sum severance indemnity plan and the funded noncontributory pension plan. The amount of retirement benefits are determined on the basis of length of service, basic salary and certain other factors at the time of termination of employment.

Allowance for retirement benefits has been provided for employees' retirement benefits, based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the balance sheet date. The actuarial gains and losses recognized in the fiscal year under review are amortized over 10 years by the straight-line method from the year subsequent to the year in which such gains and losses are incurred.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

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

(l) Derivatives and hedging activities

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

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

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

(m) Per share information

Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding in each period. Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price. However, diluted net income per share had not been presented for the year ended March 31, 2010 since the Company posted a net loss per share.

3. Changes in accounting policies

Adoption of Partial Amendments to Accounting Standard for Retirement Benefits (Part3)

Effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No. 19; issued July 31, 2008).

The adoption of this standard had no impact on operating results for the year ended March 31, 2010.

4. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2010 and 2009 were as follows:

	Millions of yen		
	2010		
	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	**¥609**	**¥745**	**¥136**
Other	**36**	**47**	**11**
Subtotal	**¥645**	**¥792**	**¥147**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**¥3,430**	**¥2,126**	**¥(1,304)**
Bond	**1,000**	**960**	**(40)**
Other	**3,593**	**3,008**	**(585)**
Subtotal	**¥8,023**	**¥6,094**	**¥(1,929)**
Total	**¥8,668**	**¥6,886**	**¥(1,782)**

	Millions of yen		
	2009		
	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	¥222	¥311	¥89
Subtotal	¥222	¥311	¥89
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥2,871	¥1,742	¥(1,129)
Bond	1,095	1,064	(31)
Other	3,682	2,726	(956)
Subtotal	¥7,648	¥5,532	¥(2,116)
Total	¥7,870	¥5,843	¥(2,027)

	Thousands of U.S. dollars		
	2010		
	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	**$6,545**	**$8,007**	**$1,462**
Other	**387**	**505**	**118**
Subtotal	**$6,932**	**$8,512**	**$1,580**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**$36,866**	**$22,851**	**$(14,015)**
Bond	**10,748**	**10,318**	**(430)**
Other	**38,618**	**32,330**	**(6,288)**
Subtotal	**$86,232**	**$65,499**	**$(20,733)**
Total	**$93,164**	**$74,011**	**$(19,153)**

Other securities without quoted market prices at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2010	2009	**2010**
Held-to-maturity securities	**¥399**	¥399	**$4,288**
Other securities	**1,403**	406	**15,080**
	¥1,802	¥805	**$19,368**

5. Inventories

Inventories at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Finished goods	**¥10,716**	¥10,749	**$115,176**
Work in process	**1,024**	792	**11,006**
Raw materials	**4,001**	3,453	**43,003**
Supplies and others	**311**	309	**3,343**
	¥16,052	¥15,303	**$172,528**

6. Land revaluation

Under the "Law of Land Revaluation," the Company elected to make a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation difference represents the net unrealized depreciation of land values and is stated, net of income taxes, as a component of net assets. There was no effect on the statement of income. The details of the one-time revaluation for land remaining as of March 31, 2010 were as follows:

Land before revaluation	¥15,902 million
Land after revaluation	¥8,502 million
Land revaluation difference	¥7,433 million (net of deferred tax liabilities of ¥33 million)

7. Short-term loans and long-term debt

Short-term loans at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Average rate of 0.42% unsecured loans from banks	**¥1,839**	¥6,499	**$19,766**

Long-term debt at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Average rate of 0.98% unsecured loans from banks	**¥4,000**	¥4,000	**$42,992**
Zero coupon convertible bonds due November 26, 2010	**1,942**	2,806	**20,873**
Less current portion	**(2,942)**	(3,000)	**(31,621)**
	¥3,000	¥3,806	**$32,244**

On November 27, 2006, the Company issued ¥10,050 million of zero coupon convertible bonds with stock acquisition rights due in 2010. The stock acquisition rights are exercisable during the period from December 11, 2006 to November 12, 2010 at a conversion price of ¥3,060 ($32.89) per share.

The aggregate annual maturities of long-term debt at March 31, 2010 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2011	**¥2,942**	**$31,621**
2012	**—**	**—**
2013	**3,000**	**32,244**
2014	**—**	**—**
2015	**—**	**—**
Thereafter	**—**	**—**
Total	**¥5,942**	**$63,865**

8. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2010 and 2009 consisted of the following:

Retirement benefit obligation at March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥(4,999)**	¥(4,971)	**$(53,730)**
Fair value of plan assets	**4,164**	3,715	**44,755**
Benefit obligation in excess of plan assets	**(835)**	(1,256)	**(8,975)**
Unrecognized actuarial gain	**187**	463	**2,010**
Net retirement benefit obligation	**(648)**	(793)	**(6,965)**
Prepaid pension cost	**894**	781	**9,608**
Allowance for retirement benefits	**¥(1,542)**	¥(1,574)	**$(16,573)**

Components of net periodic benefit cost for the years ended March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥283**	¥287	**$3,042**
Interest cost	**97**	95	**1,042**
Expected return on plan assets	**(43)**	(43)	**(462)**
Amortization:			
Actuarial loss	**59**	32	**634**
Net periodic benefit cost	**¥396**	¥371	**$4,256**

Assumption used in the accounting for the defined benefit plans for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Method of attributing benefit to periods of service	**Straight-line basis**	Straight-line basis
Discount rate	**2.0%**	2.0%
Expected rate of return on fund assets	**1.15%**	1.15%
Amortization period for actuarial gain (loss)	**10 years**	10 years

9. Contingent liabilities

Contingent liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Guarantees of customers' loans and lease obligations	**¥2,688**	¥3,237	**$28,891**

10. Derivatives

The Company and its consolidated subsidiaries are exposed to market risk arising from forward foreign exchange contracts and the risk of credit loss in the event of nonperformance by the counterparties to these forward foreign exchange contracts.

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

There are no derivative instruments outstanding to which hedge accounting is not applied at March 31, 2010 and 2009.

11. Income taxes

The Company and its consolidated subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a normal effective statutory tax rate of approximately 40.4% for the years ended March 31, 2010 and 2009.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Allowance for doubtful accounts	**¥2,000**	¥2,708	**$21,496**
Unrealized holding loss on securities	**721**	822	**7,749**
Tax loss carryforwards	**523**	810	**5,621**
Allowance for directors' and statutory auditors' retirement benefits	**463**	460	**4,976**
Impairment loss on fixed assets	**329**	306	**3,536**
Accrued bonuses to employees	**268**	273	**2,881**
Allowance for retirement benefits	**224**	261	**2,408**
Tax credit for research and development cost	**209**	245	**2,246**
Intercompany profit	**196**	634	**2,107**
Allowance for losses on guarantees	**165**	164	**1,774**
Loss on devaluation of investment in an affiliate	**–**	364	**–**
Loss on devaluation of inventories	**–**	117	**–**
Other	**243**	173	**2,612**
Total gross deferred tax assets	**5,341**	7,337	**57,406**
Less valuation allowance	**(857)**	(1,529)	**(9,211)**
Net deferred tax assets	**4,484**	5,808	**48,195**
Deferred tax liabilities:			
Adjustment for allowance for doubtful accounts	**(422)**	(1,104)	**(4,536)**
Tax deductible reserves	**(14)**	(21)	**(150)**
Accrued enterprise tax	**–**	(157)	**–**
Other	**(29)**	(20)	**(312)**
Total gross deferred tax liabilities	**(465)**	(1,302)	**(4,998)**
Net deferred tax assets	**¥4,019**	¥4,506	**$43,197**

12. Research and development costs

Research and development costs charged to income were ¥2,325 million ($24,989 thousand) and ¥2,651 million for the years ended March 31, 2010 and 2009, respectively.

13. Lease

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees, which commenced in fiscal years beginning prior to April 1, 2008, are accounted for in a similar way to operating leases.

Total lease payments under financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees were ¥703 million ($7,556 thousand) and ¥906 million for the years ended March 31, 2010 and 2009, respectively.

Proforma information of leased assets under financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees on an "as if capitalized" basis for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010			**2010**
	Acquisition cost	Accumulated depreciation	Net leased assets	Net leased assets
Machinery and equipment	**¥4,360**	**¥2,698**	**¥1,662**	**$17,863**
Tools, furniture and fixtures	**92**	**60**	**32**	**344**
Total	**¥4,452**	**¥2,758**	**¥1,694**	**$18,207**

	Millions of yen		
	2009		
	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery and equipment	¥4,930	¥2,562	¥2,368
Tools, furniture and fixtures	121	65	56
Total	¥5,051	¥2,627	¥2,424

Obligations under such financial leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥596**	¥791	**$6,406**
Due after one year	**1,121**	1,717	**12,048**
Total	**¥1,717**	¥2,508	**$18,454**

Depreciation expense and imputed interest expense for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Depreciation expense	**¥684**	¥852	**$7,352**
Imputed interest expense	**¥18**	¥36	**$193**

14. Segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen						
	2010						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**¥31,586**	**¥1,255**	**¥250**	**¥3,783**	**¥36,874**	**—**	**¥36,874**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**31,586**	**1,255**	**250**	**3,783**	**36,874**	**—**	**36,874**
Operating costs and expenses	**25,584**	**1,349**	**272**	**4,550**	**31,755**	**¥4,468**	**36,223**
Operating income (loss)	**¥6,002**	**¥(94)**	**¥(22)**	**¥(767)**	**¥5,119**	**¥(4,468)**	**¥651**
Assets, depreciation, impairment loss on fixed assets and capital expenditures:							
Assets	**¥66,689**	**¥1,946**	**¥318**	**¥6,367**	**¥75,320**	**¥34,743**	**¥110,063**
Depreciation	**1,282**	**42**	**10**	**231**	**1,565**	**599**	**2,164**
Impairment loss on fixed assets	**—**	**—**	**—**	**—**	**—**	**80**	**80**
Capital expenditures	**1,072**	**25**	**3**	**230**	**1,330**	**824**	**2,154**

	Millions of yen						
	2009						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥41,568	¥1,551	¥1,133	¥4,718	¥48,970	—	¥48,970
Intersegment sales	—	—	—	—	—	—	—
Total	41,568	1,551	1,133	4,718	48,970	—	48,970
Operating costs and expenses	27,679	1,550	934	5,036	35,199	¥5,243	40,442
Operating income (loss)	¥13,889	¥1	¥199	¥(318)	¥13,771	¥(5,243)	¥8,528
Assets, depreciation, impairment loss on fixed assets and capital expenditures:							
Assets	¥76,561	¥2,119	¥852	¥7,826	¥87,358	¥32,420	¥119,778
Depreciation	1,483	56	29	273	1,841	517	2,358
Impairment loss on fixed assets	—	—	—	246	246	—	246
Capital expenditures	2,848	56	40	421	3,365	782	4,147

	Thousands of U.S. dollars						
	2010						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**$339,488**	**$13,489**	**$2,687**	**$40,660**	**$396,324**	**—**	**$396,324**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**339,488**	**13,489**	**2,687**	**40,660**	**396,324**	**—**	**396,324**
Operating costs and expenses	**274,979**	**14,499**	**2,923**	**48,904**	**341,305**	**$48,022**	**389,327**
Operating income (loss)	**$64,509**	**$(1,010)**	**$(236)**	**$(8,244)**	**$55,019**	**$(48,022)**	**$6,997**
Assets, depreciation, impairment loss on fixed assets and capital expenditures:							
Assets	**$716,777**	**$20,916**	**$3,418**	**$68,433**	**$809,544**	**$373,420**	**$1,182,964**
Depreciation	**13,779**	**451**	**108**	**2,483**	**16,821**	**6,438**	**23,259**
Impairment loss on fixed assets	**—**	**—**	**—**	**—**	**—**	**860**	**860**
Capital expenditures	**11,522**	**269**	**32**	**2,472**	**14,295**	**8,856**	**23,151**

Note: Main products of each segment are as follows:
Flat knitting machines: Computerized flat knitting machines, computerized semi-jacquard flat knitting machines
Design systems: Computer graphic apparel design systems, knitting CAD systems, apparel CAD/CAM systems
Glove and sock knitting machines: Computerized seamless glove and sock knitting machines
Other: Parts for knitting machines and design systems, manufacturing and sales of knitting products, machines repair and maintenance, hotel business

Geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen						
	2010						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**¥12,487**	**¥16,775**	**¥7,099**	**¥513**	**¥36,874**	**—**	**¥36,874**
Intersegment sales	**17,900**	**394**	**1**	**44**	**18,339**	**¥(18,339)**	**—**
Total	**30,387**	**17,169**	**7,100**	**557**	**55,213**	**(18,339)**	**36,874**
Operating costs and expenses	**24,435**	**16,234**	**7,625**	**1,041**	**49,335**	**(13,112)**	**36,223**
Operating income (loss)	**¥5,952**	**¥935**	**¥(525)**	**¥(484)**	**¥5,878**	**¥(5,227)**	**¥651**
Assets	**¥67,739**	**¥20,823**	**¥14,465**	**¥554**	**¥103,581**	**¥6,482**	**¥110,063**

	Millions of yen						
	2009						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥11,680	¥27,022	¥8,987	¥1,281	¥48,970	—	¥48,970
Intersegment sales	28,791	54	226	3	29,074	¥(29,074)	—
Total	40,471	27,076	9,213	1,284	78,044	(29,074)	48,970
Operating costs and expenses	29,589	24,753	9,131	1,993	65,466	(25,024)	40,442
Operating income (loss)	¥10,882	¥2,323	¥82	¥(709)	¥12,578	¥(4,050)	¥8,528
Assets	¥75,159	¥23,595	¥17,234	¥1,174	¥117,162	¥2,616	¥119,778

	Thousands of U.S. dollars						
	2010						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**$134,211**	**$180,299**	**$76,300**	**$5,514**	**$396,324**	**—**	**$396,324**
Intersegment sales	**192,390**	**4,235**	**11**	**473**	**197,109**	**$(197,109)**	**—**
Total	**326,601**	**184,534**	**76,311**	**5,987**	**593,433**	**(197,109)**	**396,324**
Operating costs and expenses	**262,629**	**174,484**	**81,954**	**11,189**	**530,256**	**(140,929)**	**389,327**
Operating income (loss)	**$63,972**	**$10,050**	**$(5,643)**	**$(5,202)**	**$63,177**	**$(56,180)**	**$6,997**
Assets	**$728,063**	**$223,807**	**$155,471**	**$5,954**	**$1,113,295**	**$69,669**	**$1,182,964**

Note: Significant countries or areas belonging to each segment are as follows:
Southeast Asia: China
Europe: U.K., Italy, Spain
North America: U.S.A.

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen			
	2010			
	Europe	Southeast Asia	Other areas	Total
Overseas sales	**¥7,176**	**¥23,640**	**¥2,959**	**¥33,775**
Total sales				**¥36,874**
Ratio of overseas sales to total sales	**19.5%**	**64.1%**	**8.0%**	**91.6%**

	Millions of yen			
	2009			
	Europe	Southeast Asia	Other areas	Total
Overseas sales	¥9,083	¥31,615	¥3,863	¥44,561
Total sales				¥48,970
Ratio of overseas sales to total sales	18.5%	64.6%	7.9%	91.0%

	Thousands of U.S. dollars			
	2010			
	Europe	Southeast Asia	Other areas	Total
Overseas sales	**$77,128**	**$254,084**	**$31,804**	**$363,016**
Total sales				**$396,324**
Ratio of overseas sales to total sales	**19.5%**	**64.1%**	**8.0%**	**91.6%**

Note: Significant countries or areas belonging to each area are as follows:
Europe: Italy, U.K.
Southeast Asia: China, South Korea
Other areas: Brazil, U.S.A., Turkey, Syria

15. Subsequent events

On June 29, 2010, at a meeting of the shareholders of the Company, the following items were approved.

(1) Appropriation of retained earnings

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥346	$3,719

(2) Stock option plan

The plan provides for issuing stock options to directors and employees of the Company and its subsidiaries, who will be individually adopted by a resolution of the Board of Directors' meeting of the Company. The options entitle the holders to purchase shares of the Company's common stock up to 400 thousand shares. The options will be generally granted at an exercise price of 105% of the average closing price of the per share value of the Company's common stock, according to the Osaka Securities Exchange, for the month prior to the month in which the options are issued. The exercisable period will be for five years after two years passes since a resolution of the Board of Directors' meeting of the Company.

Report of Independent Certified Public Accountants

To the Board of Directors of
Shima Seiki Mfg., Ltd.

We have audited the accompanying consolidated balance sheets of Shima Seiki Mfg., Ltd. and its consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shima Seiki Mfg., Ltd. and its consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The United States dollar amounts shown in the accompanying consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 1.

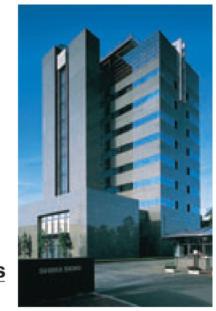
Osaka, Japan
June 29, 2010

Ohtemae Audit Co.

Ohtemae Audit Corporation

Corporate Information (As of March 31, 2010)

Company Name	Shima Seiki Mfg., Ltd.
Headquarters	85 Sakata, Wakayama City, Wakayama 641-8511, Japan Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267
Date of Establishment	February 4, 1962
Capital	¥14,859,800,000
Total Number of Employees	Consolidated 1,686 Non-consolidated 1,191
URL	Corporate Information http://www.shimaseiki.com IR Information http://www.shimaseiki.co.jp/ire/ire.html
Consolidated Subsidiaries	Shima Fine Press Co., Ltd. TSM Industrial Co., Ltd. Kainan Seimitsu Co., Ltd. Toyoboshi Kogyo Co., Ltd. Tsukada Shima Seiki Co., Ltd. Marquise Co., Ltd. Shima Seiki Europe Ltd. Shima Seiki U.S.A. Inc. Shima Seiki (Hong Kong) Ltd. Shima Seiki Italia S.p.A. Shima Seiki Win Win Shanghai Ltd. Shima Seiki Spain, S.A.U. Shima Seiki Win Win Dongguan Ltd. Shima Seiki (Thailand) Co., Ltd.



Investor Information (As of March 31, 2010)

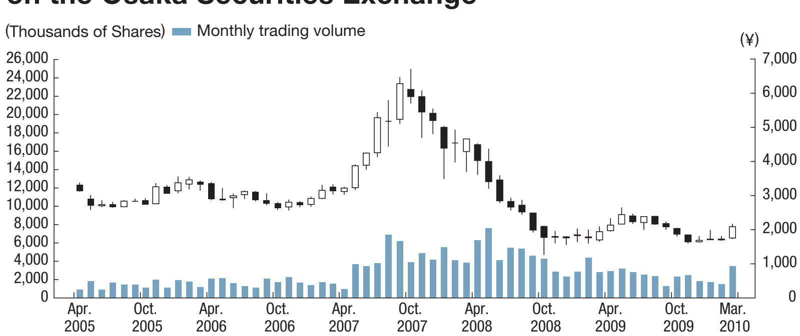
Accounting Year-End	March 31
Month of General Shareholders' Meeting	June
Authorized Common Stocks	142,000,000
Issued Common Stocks	36,600,000
Number of Shareholders	17,967
Stock Exchange Listing	The First Section of the Tokyo Stock Exchange The First Section of the Osaka Securities Exchange
Auditing Corporation	Ohtemae Audit Corporation

Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Masahiro Shima	3,670	10.61
Mitsuhiro Shima	1,825	5.28
Japan Trustee Services Bank, Ltd. (Trust Account)	1,318	3.81
The Kiyo Bank, Ltd.	1,310	3.79
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.55
Wajima Kosan Co., Ltd.	850	2.46
Shima Seiki Employees Shareholding Association	819	2.37
The Master Trust Bank of Japan, Ltd. (Trust Account)	737	2.13
The Senshu Bank, Ltd.	700	2.02
Hiromi Goto	697	2.02

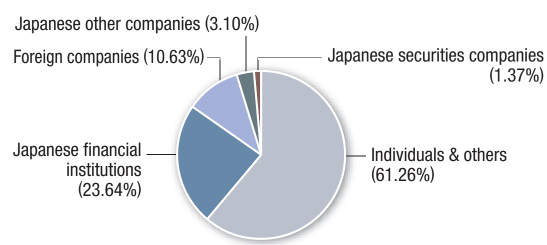
Notes: 1. The Company, which owns 2,023 thousand shares of treasury stock, or 5.52% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.
2. Holdings of less than 1,000 shares have been omitted.
3. On May 1, 2010, The Bank of Ikeda, Ltd., and The Senshu Bank, Ltd., merged to form The Senshu Ikeda Bank, Ltd.

Share Price and Trading Volume on the Osaka Securities Exchange

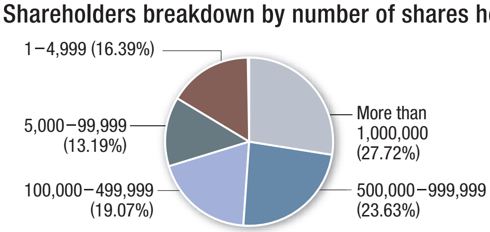


Stock Ownership

Shareholders breakdown by type



Shareholders breakdown by number of shares held



Shima Seiki Mfg., Ltd.

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