



# Ever Onward

**Annual Report 2008**

Year Ended March 31, 2008

# Contents

2	Corporate Profile
3	Core Technologies and Products
5	Financial Highlights
7	Message from Top Management— <b>Responding to Our Shareholders</b>
13	Segment Information— <b>Overview and Outlook for the Four Segments</b>
17	Shima Seiki M&A Update— <b>Full-Fledged Commencement of Sales Activities That Are Closely Linked with the World's Major Markets</b>
21	R&D/Production
22	Environmental Preservation
23	Corporate Governance
24	Board of Directors and Corporate Auditors
25	Financial Section
26	Five-Year Financial Summary
27	Management's Discussion and Analysis of Financial Condition and Results of Operations
30	Business Risks and Uncertainties
31	Consolidated Balance Sheets
33	Consolidated Statements of Income
34	Consolidated Statements of Changes in Net Assets
35	Consolidated Statements of Cash Flows
36	Notes to the Consolidated Financial Statements
45	Report of Independent Certified Public Accountants
46	History
47	Corporate Data
48	Investor Information



## 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.

## A Global Clothing Culture Supported by Shima Seiki's Technologies

Shima Seiki was incorporated in 1962 as a small factory in the city of Wakayama, Japan, by a young engineer, Masahiro Shima, our current president. The Company's initial challenge was to address the difficulties of fully automating glove knitting machines.

Three years later, after overcoming numerous obstacles, our efforts were rewarded with success in a world-leading breakthrough. Through a wealth of ideas and passion, the Company developed the computerized flat knitting machine in an unexplored fusion of mechanical and electronic technologies in the apparel knitting machine field, subsequently spawning an array of new products.

The Company, which has outstripped overseas manufacturers to take the industry's leading position, launched the WHOLEGARMENT® flat knitting machine for seamless knitwear in 1995. This step represented the first toward a knowledge-intensive structure utilizing creative ideas for the knitwear industry.

In addition to integrating knitting machines employing leading-edge mechatronics technologies and design systems using computer technologies,

Shima Seiki's strengths include its ability to propose its accumulated expertise for product applications.

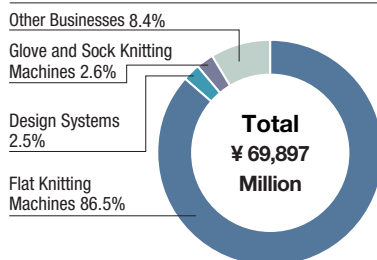
In the 45 years since its establishment, the Company has built a highly competitive, diverse product lineup and a powerful sales network. As a global corporation that generates the majority of sales revenues from overseas, we contribute to the development of the knitwear and apparel industries.

By providing comprehensive technologies and services that anticipate customer needs, Shima Seiki is creating a clothing culture with the aim of enriching the lives and minds of people worldwide.

## Ever Onward

Shima Seiki has consistently turned to this corporate motto as it strives to develop new technologies. Moreover, as a comprehensive mechatronics company that provides highly advanced products at economical prices, Shima Seiki continues to introduce successive innovations to the industry.

### Business Segments



#### Flat Knitting Machine Segment

Operates our core business, the manufacture and sales of computerized flat knitting machines (SSG® and SIG® series, SWG® series), for which we boast the world's leading share



#### Design System Segment

Handles the manufacture and sales of the SDS®-ONE design system and other peripherals that support production in the knitwear and apparel industries



#### Glove and Sock Knitting Machine Segment

Manufactures and sells knitting machines for gloves and socks

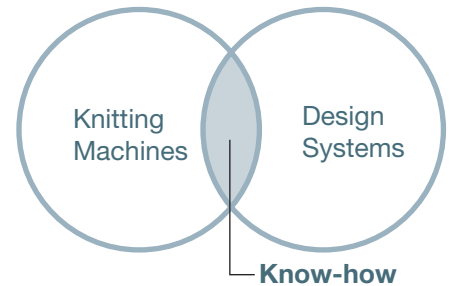
#### Other Business Segment

Sells maintenance parts for the Company's products, and manufactures and sells knitwear products

# Core Technologies and Products

## Provision of Integrated Hardware, Software and Expertise

The two technical pillars of Shima Seiki's operations are flat knitting machines utilizing the latest mechatronics technologies and computer technologies that the Company has accumulated during its history. The Company contributes to the development of the global knitting industry by providing ingenious products based on these technologies and the expertise to utilize its products.



# Knitting Machines



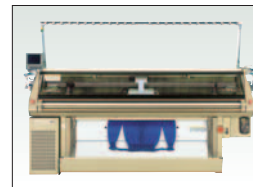
### Computerized flat knitting machines

#### SWG® series

(WHOLEGARMENT® flat knitting machines)

**Rich with variations and making inroads into the world markets**

WHOLEGARMENT® flat knitting machines enable the manufacture of seamless, three-dimensional knitwear. In addition to adoption by major apparel brands, WHOLEGARMENT® has found applications in fields requiring advanced functionality, such as sportswear and medicine. During 2007, we announced a new model that features higher productivity and finer manufacturing quality.



SWG®-X

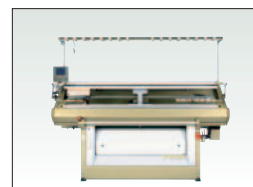


SWG® 041N

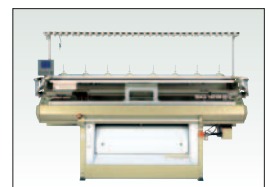
#### SSG® and SIG® series

**Shipments of machines meeting global standards reach 100,000 units**

The SES® series, launched in 1989, has established its position as a machine that meets global standards. The SSG® and SIG® series, released in 2006 as the successors to the SES® series, have combined advanced productivity and economy and gained overwhelming support from users. Since the initial delivery of the SNC in 1978, Shima Seiki's cumulative shipments of computerized flat knitting machines had reached 100,000 units as of May 1, 2008.



SSG®



SIG®

## Design systems

### Support high-quality and efficient manufacturing from the design stage

In conjunction with our computerized flat knitting machines, the SDS®-ONE design tool provides total support, taking customers' product plans through manufacture of design samples to sales promotion. Facilitating on-screen simulation of different material and color combinations, the SDS®-ONE makes significant contributions to reductions in time and costs in processes from design to manufacture. During fiscal 2007, we developed the further-refined SDS®-ONE APEX. Proposals are also underway for a new business model that can facilitate WHOLEGARMENT® orders in-store.



## Design proposals

### Transmission of information fusing software and hardware

In addition to hardware and software, proposing and providing expertise are vital for users to fully leverage the performance of products. The Company has opened design centers in Japan, Italy (Milan) and the United States (New York) from which information is communicated to users throughout the world. The centers produce extensive samples that reflect the latest trends and fashions and transmit the design source directly. Furthermore, we are actively hosting fashion events in various countries around the world.



Total Design Center in Japan



# Design Systems

# Financial Highlights

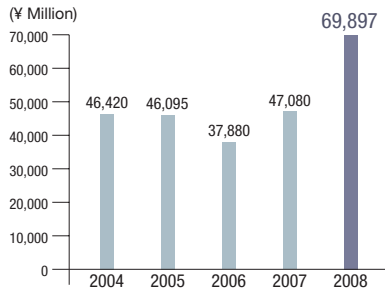
Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries  
Years ended March 31

	2008	2007	2006	2005	2004		2008	2008
<b>For the Year:</b>	Millions of yen					Percent change 2007/2008	Thousands of U.S. dollars	Thousands of euros
Net sales	<b>¥69,897</b>	¥47,080	¥37,880	¥46,095	¥46,420	<b>48.5%</b>	<b>\$697,644</b>	<b>€441,855</b>
Gross profit	<b>35,766</b>	22,066	16,780	20,818	22,346	<b>62.1%</b>	<b>356,982</b>	<b>226,095</b>
Operating income	<b>16,214</b>	7,709	4,023	9,258	10,972	<b>110.3%</b>	<b>161,833</b>	<b>102,497</b>
Income before income taxes and minority interests	<b>18,168</b>	6,183	5,293	9,518	9,520	<b>193.9%</b>	<b>181,335</b>	<b>114,849</b>
Net income	<b>9,959</b>	3,114	3,405	5,930	5,624	<b>219.8%</b>	<b>99,401</b>	<b>62,956</b>
<b>At Year-End:</b>	Millions of yen					Percent change 2007/2008	Thousands of U.S. dollars	Thousands of euros
Total assets	<b>¥133,746</b>	¥129,161	¥109,302	¥107,234	¥102,853	<b>3.5%</b>	<b>\$1,334,924</b>	<b>€845,477</b>
Net assets/ Shareholders' equity	<b>101,647</b>	92,810	95,331	92,115	87,903	<b>9.5%</b>	<b>1,014,542</b>	<b>642,563</b>
<b>Per Share Data:</b>	Yen					Percent change 2007/2008	U.S. dollars	Euros
Net income	<b>¥276.13</b>	¥86.17	¥91.92	¥159.97	¥150.64	<b>220.4%</b>	<b>\$2.76</b>	<b>€1.75</b>
Cash dividends applicable to the year	<b>55.00</b>	37.50	37.50	37.50	37.50	<b>46.7%</b>	<b>0.55</b>	<b>0.35</b>
Net assets/ Shareholders' equity	<b>2,677.47</b>	2,546.71	2,599.24	2,510.71	2,391.63	<b>5.1%</b>	<b>26.72</b>	<b>16.93</b>
<b>Ratios:</b>	%							
ROA	<b>7.6%</b>	2.6%	3.1%	5.6%	5.7%			
ROE	<b>10.6%</b>	3.4%	3.6%	6.6%	6.5%			

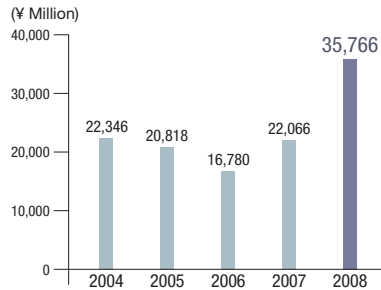
Notes: 1. Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥100.19=US\$1 and ¥158.19= €1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2008.

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.

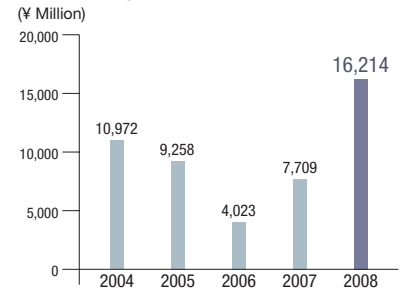
### Net sales



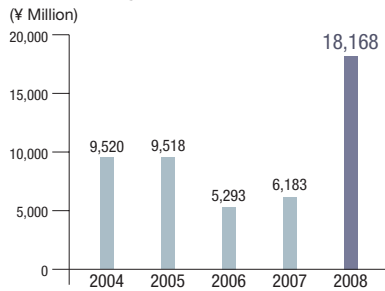
### Gross profit



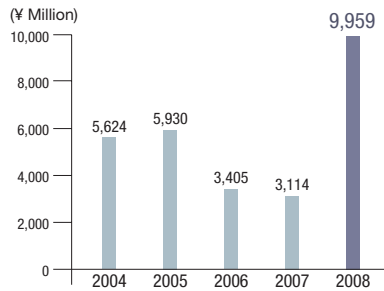
### Operating income



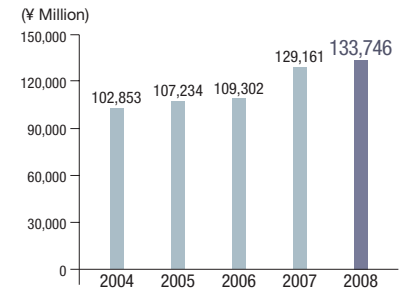
### Income before income taxes and minority interests



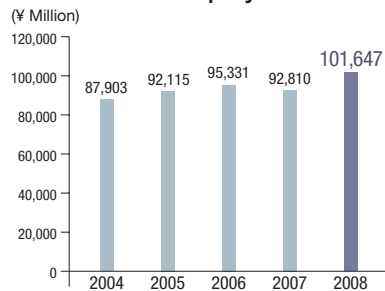
### Net income



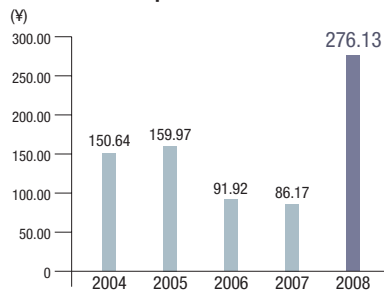
### Total assets



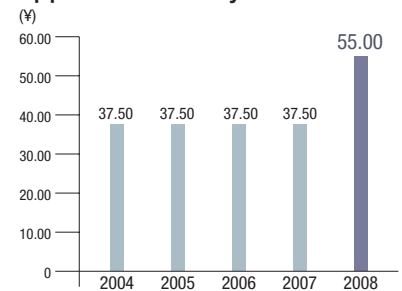
### Net assets/ Shareholders' equity



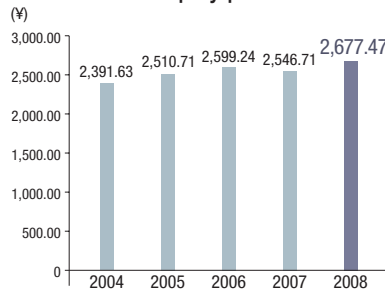
### Net income per share



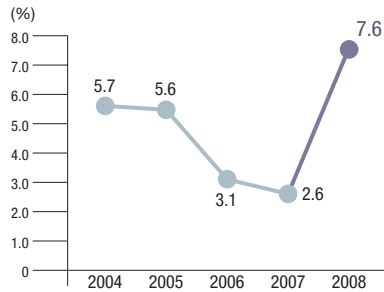
### Cash dividends per share applicable to the year



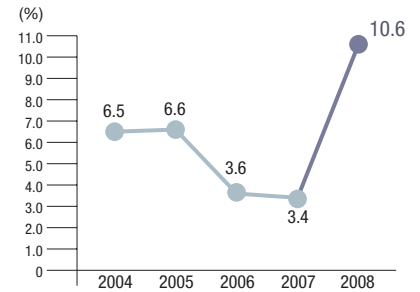
### Net assets/ Shareholders' equity per share



### ROA



### ROE



### Responding to Our Shareholders

During the fiscal year ended March 31, 2008, demand for our products grew substantially, spurred by active ongoing capital investment to counter rising labor costs in China and Hong Kong, our core markets.

Total sales and profits reached record highs, aided by the startup of direct sales in major markets worldwide.

During the year, we aggressively promoted the development of new models and systems.

#### Management Tasks

- 1 Expanding market share in Asia and strengthening sales management capabilities
- 2 Penetrating and expanding sales in consumer markets—Europe, the United States and Japan—for WHOLEGARMENT® flat knitting machines
- 3 Rejuvenating the apparel-related industries through the Total Fashion System
- 4 Solidifying our financial position and strengthening our risk management functions



#### 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 1** Can you summarize the Company's results for the year ended March 31, 2008?

In China and Hong Kong—the world's mass-production markets for knitwear—rising labor costs have made the retention of skilled workers a major issue, which accelerated the pace of replacement of manual flat knitting machines with computerized flat knitting machines.

We have been inundated with orders for our SSG® and SIG® computerized flat knitting machines that were released to critical acclaim in 2006. In response, the Company has raised productivity by focusing its manufacturing capabilities on these two models, stepping them up to full-scale operation. For the first time, annual production of flat knitting machines exceeded 10,000 units, a 60% year-on-year increase. Moreover, the cost benefits from manufacturing economies of scale translated to higher profitability.

The recovery in production in Italy, the hub of knitwear manufacturing for Europe, gained momentum on domestic demand. Aggressive follow-up activities by our sales subsidiaries ensured a recovery in sales. Turkey, which benefited from recovering exports to Europe and to Russia and South Korea replaced many

facilities in an effort to hone its competitiveness among users through better efficiency. As a result, the Company's consolidated overseas sales for the period under review climbed 53.6%, to ¥65,754 million.

Sales trends in Japan were influenced by disappointing capital investment in the knitting industry, which led to a 2.8% decline in consolidated domestic sales, to ¥4,143 million.

Nonetheless, Shima Seiki's consolidated net sales reached a historic high of ¥69,897 million, a leap of 48.5%. Overseas sales accounted for 94.1% of this figure, compared with 90.9% during the previous fiscal year.

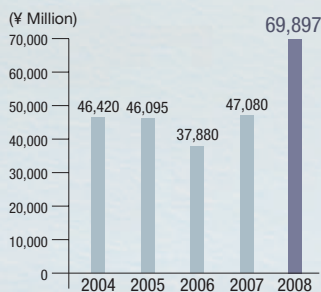
Operating income soared 110.3%, to ¥16,214 million, spurred by a lower cost of sales ratio and consolidation of overseas sales subsidiaries during the previous fiscal year. Net income also rocketed 219.8%, to ¥9,959 million, which resulted in historic high earnings at every level.



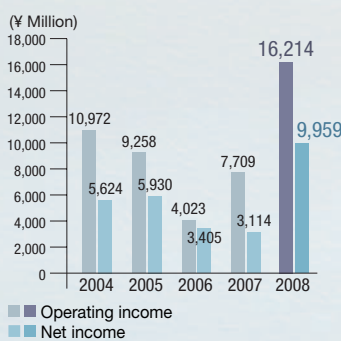
**Q 2** What is the Company's dividend policy?

Shima Seiki's basic policy is to maintain long-term stable dividends. As a result of robust

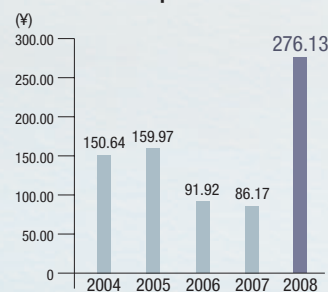
**Net sales**



**Operating income/ Net income**



**Net income per share**



# Message from Top Management



business performance, we revised the year-end dividend upward ¥10.00 for the year under review, to ¥30.00 per share. The interim dividend was ¥25.00 per share, including an increase from the previous year and a commemorative dividend to celebrate the 45th anniversary of the Company's establishment.

Accordingly, the dividend for the full business year was ¥55.00 per share, ¥12.50 higher than planned at the outset of the year and ¥17.50 more than for the previous year.

## Q3 How has Shima Seiki's business strategy for its major markets progressed and how will these markets evolve?

The sales subsidiaries we established in major global markets during the previous fiscal year have begun full-scale operations and have contributed to this year's expanded business performance.

China and Hong Kong represent key markets for Shima Seiki. During the year, we reinforced technological support for our sales subsidiary in Hong Kong, and in China achieved substantial sales expansion despite intensified competition by advancing a comprehensive

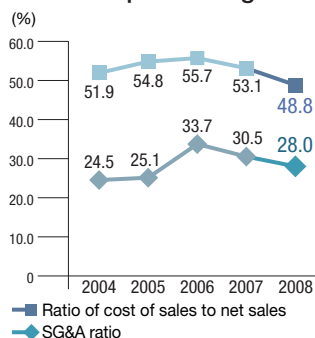
sales strategy throughout the country.

Management of customer credit and accounts receivable are vital to attain stable growth, and our subsidiaries are contributing to our operations. We forecast a challenging business environment for the next year, with intensifying competition, including emerging local manufacturers, and changes in economic policies. However, considering the underlying labor-saving needs of users in these markets, Shima Seiki will differentiate itself from competitors by capitalizing on its advantages in quality and functionality, centered on the widely acclaimed SSG® and SIG® computerized flat knitting machine models.

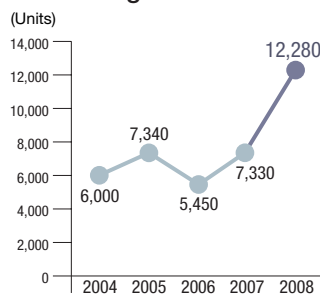
In other Asian markets, the shifting of production from China and Hong Kong to emerging areas such as Cambodia, India and Indonesia has stimulated capital investment. The Company is bolstering sales activities in these emerging regions and capitalizing on replacement demand, against the backdrop of the recovery in Turkey for exports to Russia.

In Europe, successful user follow-up activities by our newly established Italian sales subsidiary boosted the replacement of facilities. We are promoting proposals to manufacture products in consumer markets

### Trends in profit margins

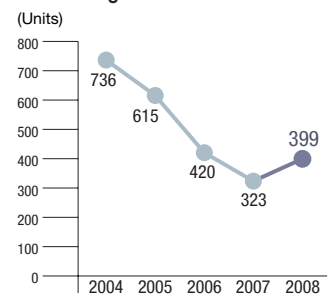


### Sales volume of flat knitting machines



Note: Sales include WHOLEGARMENT® flat knitting machines

### Sales volume of WHOLEGARMENT® flat knitting machines



using the WHOLEGARMENT® flat knitting machine. Moreover, demand should arise from upgrades to SIG®, which facilitates the manufacturing of high-value-added products. We will use these two opportunities to leverage demand and ensure a full-fledged recovery in the European market.

In the U.S. market, to dispel the misconception of “seamless = low cost” that has attached itself to WHOLEGARMENT®, we have been disseminating information from our Design Center of New York to change the attitude of U.S. designers. However, it may take more time for this campaign to reach fruition. Manufacturing subsidiaries for knitwear products have faced stagnant orders, arising from falling domestic personal consumption. However, we are striving to boost quality through technological tie-ups with our headquarters.

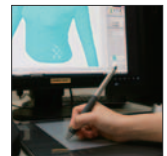
**Q** | How will WHOLEGARMENT® flat knitting machines proceed from here?  
**4**

In September 2007, Munich, Germany, hosted the International Exhibition of Textile Machinery (ITMA 2007), the world’s largest such event,

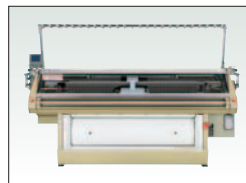
which is held every four years. Shima Seiki took this opportunity to display its full lineup of flat knitting machines and design systems, with approximately 300 exhibits of knitwear samples. In line with the event’s theme of “Innovation,” we also showcased numerous revolutionary new products (see page 19). Of the various attractions, the new model WHOLEGARMENT® flat knitting machine drew the greatest interest. This advanced machine has been developed to offer a 60% boost to productivity at even higher levels of quality.

By combining this new model, design system “SDS®-ONE APEX” and new software, we are developing a business model that can produce a truly unique knitwear product, customized to consumer preferences, from an urban store. After being displayed at ITMA, this model has been launched to users.

In light of its favorable reception, the new model WHOLEGARMENT® flat knitting machine are eagerly anticipated mass production. However, we do not plan to introduce this to the market until the second half of 2008, as a result of the intricacies arising from the high part count and degree of precision involved.



Scenes from ITMA 2007



New WHOLEGARMENT® machine (on sale from late 2008)



SDS®-ONE APEX

# Message from Top Management

Through this addition to the WHOLEGARMENT® flat knitting machine lineup, we can offer the market full lineup coverage, from fine-quality, high-productivity top range models to mini-versions for fashion accessories. Providing technical expertise assures us greater momentum in penetrating new markets.

In addition to hardware and software, users need advanced expertise and design skills to get full benefits from WHOLEGARMENT® flat knitting machines. Users gain great advantages by switching to direct sales to communicate advanced technologies. The Company is currently preparing campaigns to spread the use of its new models.

Bolstering production of flat knitting machines for the Chinese market was a key task during the year. Specifically, we spent the years in the pursuit of mass production. Next year, we will advance to a new stage and transfer our emphasis to the production of quality through our new model WHOLEGARMENT® flat knitting machines. As we refine products to meet domestic demand in the still underdeveloped markets of China and Hong Kong, the time is ripe to promote the widespread acceptance of the WHOLEGARMENT® flat knitting machine.



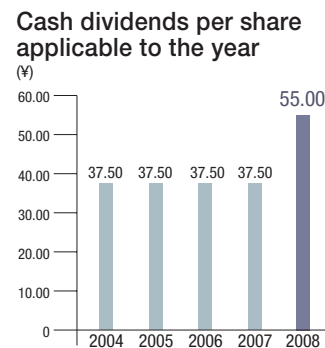
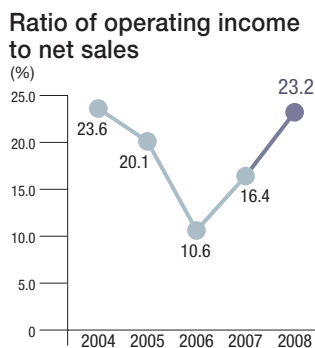
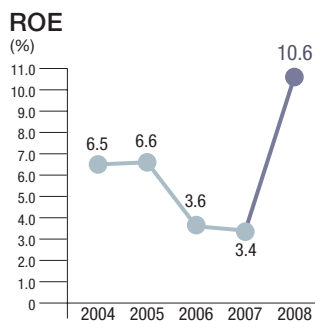
## Q 5 | What are the management indicators that the Company sets as targets?

Shima Seiki places great emphasis on consolidated return on equity (ROE). Through a dual thrust from raised profitability and technological development, we aim for a sustained ROE level of 10% or more. We achieved this level during the fiscal year, and we are working to do the same for the next term.

We are targeting a ratio of operating income to net sales of 25% or more. The Company is achieving this goal by pursuing productivity improvements based on consistent development and production systems.

## Q 6 | Can you describe the earnings forecast and dividend policy for the next period?

The business environment for the next fiscal year will be characterized by a greater sense of uncertainty. Key factors include increased operating costs arising from high raw material prices, a slowdown in the U.S. economy, fluctuations in exchange rates, and a turnaround in economic policy in China. Shima Seiki is



focusing on aggressive measures to ensure that the robust growth of the period under review is sustained into the next year.

A vital factor during the year will be implementing mass production and commencing sales of new models of the WHOLEGARMENT® flat knitting machines, while striking a balance in SSG® and SIG® production. We will also push forward with sales strategies, pivoting on sales subsidiaries, for markets and regions worldwide, including emerging markets. In terms of product development, we will exhibit products featuring the our top-level technologies to expand sales at ITMA ASIA + CITME 2008, which will be held in Shanghai in July 2008.

Successive product launches by the Company feature networking through the SDS®-ONE design system. We have now realized a Total Fashion System with a consistent flow, from design through production and sales, linking flat knitting machines and design system peripherals. This advance contributes to our problem-solving capabilities for customers.

By further stimulating the global knitwear/apparel industries and differentiating ourselves from our competitors, we are targeting net sales of ¥70.0 billion, up 0.1%, during the year ending March 31, 2009. Operating income is forecast to rise 11.0%, to

¥18.0 billion, and net income to edge up 0.4%, to ¥10.0 billion.

We will respond to risks associated with exchange rate fluctuations and reduce the impact of any sharp escalation of the yen through aggressive hedging activities, including highly competitive product development, increases in yen-based transactions and the use of forward-exchange contracts. The assumed exchange rates applied to our earnings forecast for the next year are US\$1 = ¥100 and €1 = ¥155.

As for dividends, based on a continued strong demand environment the Company plans to maintain an interim dividend of ¥25.00 per share, absorbing the ¥2.50 commemorative dividend paid during the year under review in next year's ordinary interim dividend. We plan to pay ¥30.00 for the year-end dividend, bringing the total payout for the year to ¥55.00 per share.

★ The above forecast was provided as of May 2, 2008.

Consequently, actual performance may differ from published forecasts as a result of factors such as changes in economic conditions.

★ The effects of the U.S. economic downturn and a monetary squeeze have caused capital investment conditions to worsen in the mainstay Chinese market. As a result, on July 31, 2008, we revised downward our operating performance forecast for the fiscal year ending March 31, 2009, to net sales of ¥62.0 billion, operating income of ¥14.0 billion and net income of ¥8.5 billion.



*Masahiro Shima*

Masahiro Shima, President

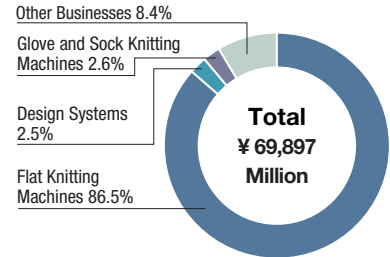
### Equipment Networkable Via the SDS®-ONE Design System

SDS®-ONE is an all-in-one design system that covers all processes from product planning through design and sample production to sales promotion. It allows for all operations necessary for the manufacture of products in the knitwear and apparel industry.



### Overview and Outlook for the Four Segments

The Company's core Flat Knitting Machine segment is engaged in the development, manufacture and sales of computerized flat knitting machines; the Design System segment in the development, manufacture and sales of design systems and peripheral equipment; and the Glove and Sock Knitting Machine segment in the development, manufacture and sales of glove and sock knitting machines. Shima Seiki's Other Business segment is principally involved in the manufacture and sales of parts for maintenance of the Company's products, and knitwear products.



## Flat Knitting Machine Segment

### Overview of the Year under Review (April 1, 2007 to March 31, 2008)

The Flat Knitting Machine segment maintained the same levels as during the previous year in the Japanese market, which continued to experience high imports of knitwear products. Nevertheless, sales enjoyed substantial increases in overseas markets.

Against a backdrop of abundant labor supply, China and Hong Kong, the largest center of knitwear production, faced escalating labor expenses in coastal regions, cost rises resulting from appreciation of the Chinese yuan and shortages of highly skilled apparel production workers. These factors have stimulated a demand shift from manual to computerized flat knitting machines since fall 2006, which in turn has led to robust capital expenditure that has continued into the year under review. Shima Seiki generated substantial sales by promoting the superior functionality of its core SSG® and SIG® series, strengthening tie-ups with local sales subsidiaries and other initiatives. Expansion of facilities also accelerated in Cambodia, India and other emerging markets in Asia.

In Italy, the hub of knitwear production for Europe, major users regained their competitive edge using WHOLEGARMENT® flat knitting machines to differentiate themselves from other market players and for original product design. The SIG®, a conventional computerized flat knitting machine that can manufacture high-value-added products, gained high acclaim, translated to substantial sales increases by



the follow-up activities of our local sales subsidiaries. Continued recovery in exports in Turkey boosted replacement demand.

Our manufacturing system reached an all-time high in output, with annual production of flat knitting machines surpassing 10,000 units, a 60% year-on-year increase. Moreover, the reduction of cost rate benefits from manufacturing economy of scale translated to rises in profitability.

As a result of these endeavors, the Flat Knitting Machine segment recorded a 56.0% jump in sales, to ¥60,446 million.

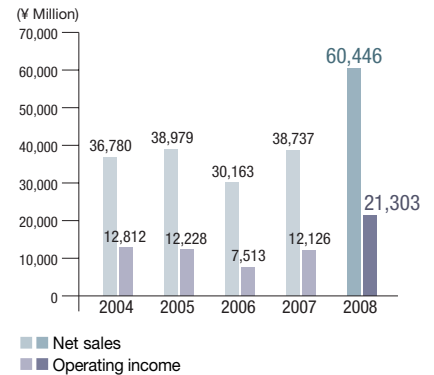
**Outlook for the Next Fiscal Year**  
(April 1, 2008 to March 31, 2009)

Backlog stood at a record high of ¥21,703 million as of March 31, 2008, 123.6% up from the previous year. Furthermore, robust demand trends are forecast to continue. However, the demand outlook for the key Chinese and Hong Kong markets is extremely unclear, obscured the economic slowdown in their prime export destination, the United States, unstable

exchange rates and possible changes in economic policy in China.

In the mainstay Chinese market, Shima Seiki has continued to boost its production of computerized flat knitting machines, mainly SSG®, since the preceding fiscal year. From the fiscal year ending March 31, 2009, we will promote a shift in emphasis from quantity to quality by developing our full lineup of WHOLEGARMENT® flat knitting machines. The Company is aiming to more than double sales of WHOLEGARMENT® flat knitting machines through a new model introduced during the second half and the launch of a mini-version. We will also commence intensive sales activities targeting leading manufacturers in the underdeveloped Chinese and Hong Kong markets.

**Flat Knitting Machines**



**TOPICS**

**Shima Seiki’s creative collection at anniversary event**

For three days from November 28, 2007, we hosted a 45th anniversary event at the Head Office (Wakayama City), featuring the Company’s latest technologies, spearheaded by WHOLEGARMENT® flat knitting machines. Approximately 1,200 visitors from Japan and overseas attended the event.

A Garden Fashion Show featured samples of Shima Seiki original knitwear, alongside a collection by renowned Italian designer Saverio Palatella and four leading Japanese apparel manufacturers. This display introduced a new collection that challenged preconceptions of knitwear as a medium by highlighting its attractions and possibilities.



Garden Fashion Show event at Shima Seiki’s headquarters



**WHOLEGARMENT® success on the Space Shuttle**

In March 2008, Japanese astronaut Takao Doi carried out his daily operations onboard the Space Shuttle Endeavor wearing clothing made on a WHOLEGARMENT® flat knitting machine.

The seamless properties of WHOLEGARMENT® apparel facilitates responsiveness to bodily transformations that arise from the gravitational irregularities of space travel. Other reasons for adopting WHOLEGARMENT® spacewear include wearer comfort and high mobility. This breakthrough represents the culmination of a joint development project lasting approximately one year for Shima Seiki.

In the future, our highly functional clothing development expertise is expected to find applications in the field of medical welfare, such as for relief from bedsores.



WHOLEGARMENT® apparel worn onboard the Space Shuttle Endeavor



# Design System Segment



## Overview of the Year under Review and Outlook for the Next Fiscal Year

The Design System segment was engaged in expanding promotion and sales of SDS®-ONE, our design tool to facilitate total solutions for the knitwear and apparel industries. We highlighted the “All-in-One” functionality of the SDS®-ONE and focused on marketing an integrated production system, a combination of apparel CAD and our P-CAM® series of automatic fabric cutting machines.



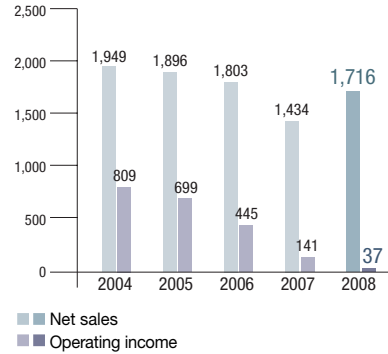
As a result, sales by the Design System segment rose 19.6%, to ¥1,716 million.



During the next fiscal year, the outlook for flat knitting machine sales in China and Hong Kong is extremely unclear. As this trend is integrally linked to performance of the Design System segment, we expect segment sales to be at least moderately affected.

## Design Systems

(¥ Million)



## TOPICS

### “Ordermade” business model promotion

Ordermade is Shima Seiki’s newly developed application that interfaces with the Company’s SDS®-ONE APEX top-end design system. We have developed a new business model to facilitate simple, swift in-store ordering. We began marketing this new product to apparel manufacturers in March 2008.

## Ordermade WHOLEGARMENT™





# Glove and Sock Knitting Machine Segment



## Overview of the Year under Review and Outlook for the Next Fiscal Year

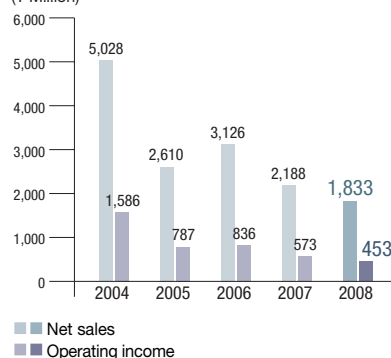
The Glove and Sock Knitting Machine segment posted a decline of 16.2%, to ¥1,833 million, during the year. This decrease was attributable to falling sales in such key markets as South Korea, despite substantial gains in Malaysia, Sri Lanka and other Asian emerging markets.

During the next year, although we

anticipate ongoing orders from emerging markets, we expect the impact of imitation machines on our major markets to prompt a substantial falloff in sales for the sector, despite focusing on developing the medical and precision application fields. We therefore expect segment sales to decrease year on year.

## Glove and Sock Knitting Machines

(¥ Million)



# Other Business Segment

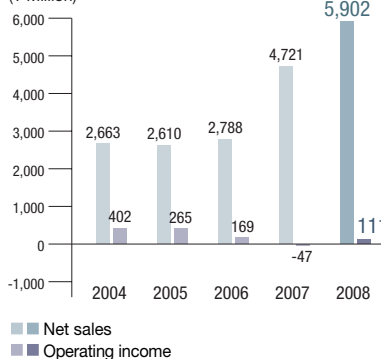
## Overview of the Year under Review and Outlook for the Next Fiscal Year

Sales of parts increased on the back of growth in sales of flat knitting machines. However, sales of knitwear products by our U.S. subsidiary decreased in the face of sluggish consumer demand. Sales by the Other Business segment overall grew 25.0%, to ¥5,902 million.

Despite reinforcing technological support from headquarters for sales of knitwear products, we expect sales of parts to decline in the upcoming fiscal year, resulting in an overall decline in sales in the Other Business segment.

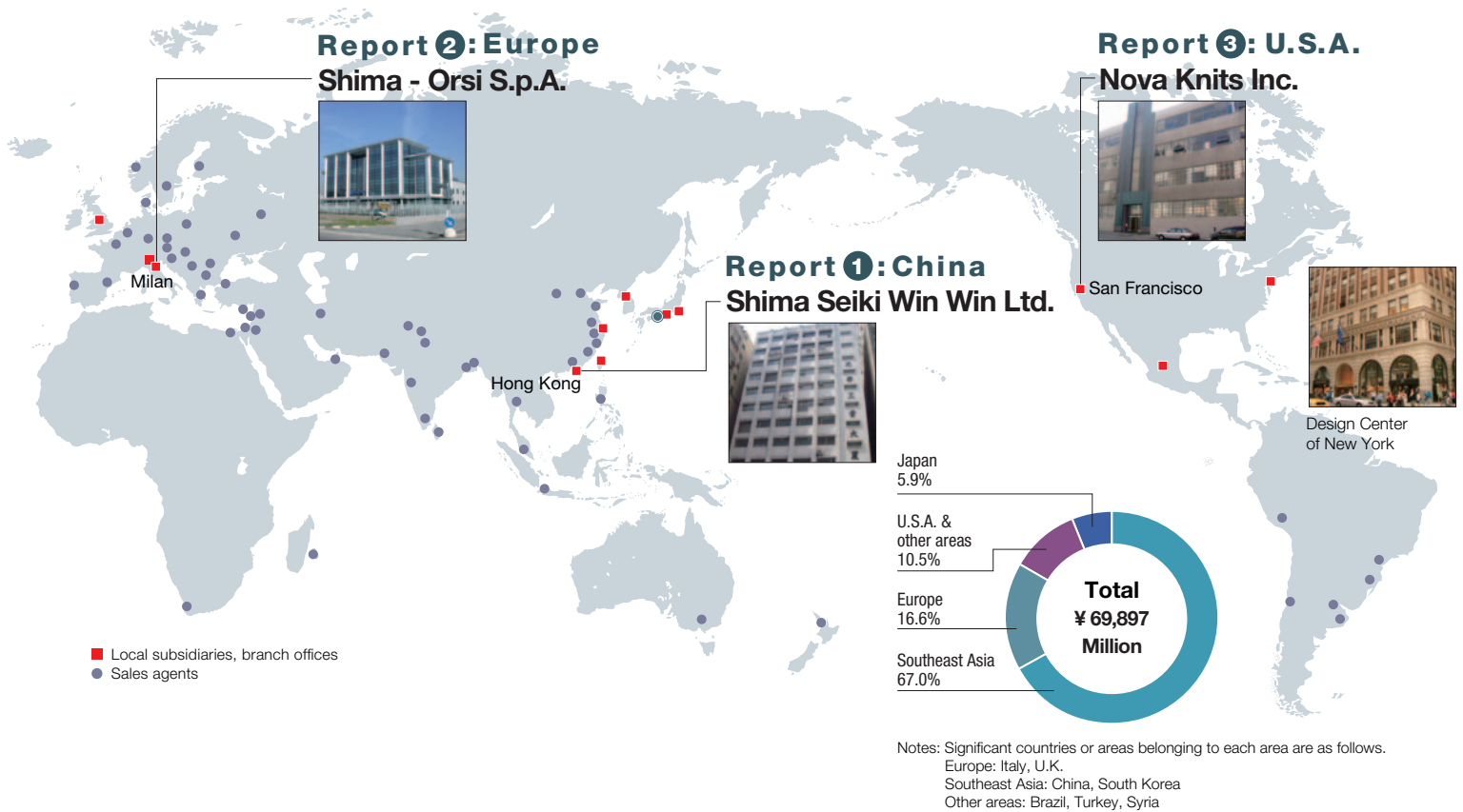
## Other Businesses

(¥ Million)

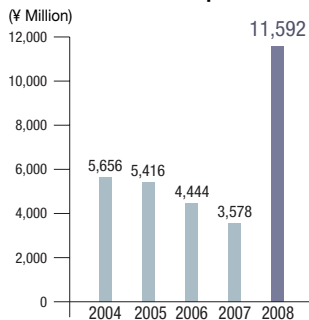


## Full-Fledged Commencement of Sales Activities That Are Closely Linked with the World's Major Markets

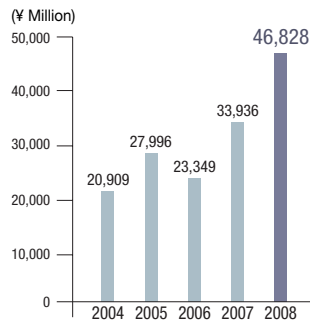
During the fiscal year ended March 31, 2007, Shima Seiki conducted M&A efforts in the world's major markets and established its own sales networks. These efforts contributed to the Company's overall progress in the fiscal year ended March 31, 2008. This section reports on the progress of various companies' operations.



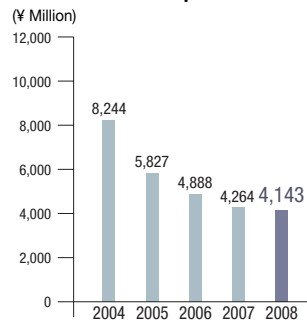
**Net sales in Europe**



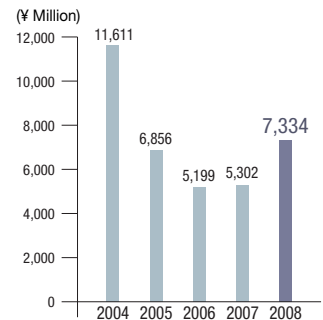
**Net sales in Southeast Asia**



**Net sales in Japan**



**Net sales in U.S.A. & other areas**



## Report ①: China



### Shima Seiki Win Win Ltd.



**Ikuto Umeda,**  
CEO

#### Please describe market trends and the company's business development during the year under review.

We are experiencing broad-based demand increases in China. In addition to customer demand from the South China region, which is the largest producer of knit products, rapid development is pushing up sales in the East China region\*. Driving this demand are firm exports to the United States—the principal export market—and Europe. Rising income levels in China is also boosting internal demand.

Although production volumes are increasing, there is a shortage of skilled sewing technicians, against a backdrop of more stringently enforced employment regulations and sharply higher labor costs. This situation is promoting mechanization by our customers in the region, with a corresponding surge in demand for personnel training.

Shima Seiki Win Win operates an extensive sales network in this region, and we take an approach that communicates product functions and expertise directly to customers. We have raised our performance by demonstrating product superiority.

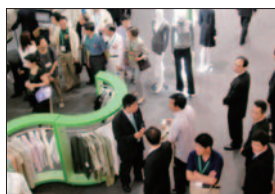
#### What business developments are you planning for the future?

Helping users make a technology shift is key to our ability to maintain an overwhelming market share amid increasingly stringent competition. In addition to a training center in Shanghai to handle a combination of functions including training personnel, disseminating information and providing parts quickly, we plan to offer workshops in various regions.

We expect market conditions to grow more challenging as U.S. consumption decelerates. On the other hand, we anticipate rises in European and internal demand. In this market environment, we expect sales of WHOLEGARMENT® flat knitting machines to commence.

\* Shima Seiki includes in the South China region Hong Kong, Guangdong Province and Fujian Province; while the East China region includes Shanghai, Zhejiang Province and Jiangsu Province.

#### Highlights in China



#### Participation in ShanghaiTex 2007

Shima Seiki took part in China's largest textile machinery exhibition, ShanghaiTex 2007, in June 2007.

The Chinese market has featured demand surges for computerized flat knitting machines, so the Company primarily showcased its core SSG® and SIG® series at the event. We promote the advantages of maintenance and technical service strengths arising from the start-up of direct sales coverage—a pivotal merit in penetrating the market and attaining sales growth. In July 2008, ITMA ASIA + CITME 2008 will also be held in Shanghai, attracting visitors from around the world. We have high expectations that exhibiting at this event will further boost our profile in China.

## Report ②: Europe



### Shima - Orsi S.p.A



**Toshio Nakashima,**  
President

#### Please describe market trends and the company's business development during the year under review.

Looking at the European market in general terms, Italy is focused on local production for the local market, centering on high-end products, whereas Eastern Europe tends toward mass production, and our sales activities span both.

As an advanced knitwear market, in Italy demand is shifting to high-value-added models that are capable of quick delivery of highly varied, small-lot orders. Also, in Eastern Europe, capital investment is currently robust. These factors are causing a resurgence in Italian demand.

For the SWG® series of WHOLEGARMENT® flat knitting machines, our company ensures customer satisfaction through such sales strategies as trial introductions and by providing technical

support. For the SSG® and SIG® series, we focus on product superiority at personal exhibitions and by offering samples. These sales approaches have proven successful in securing large orders from customers in Eastern Europe.

#### What business developments are you planning for the future?

Within the worldwide knitwear market, we will help raise the value of the Italian market—the production center for high-quality products—by expanding sales of the Company's high-value-added machines. At the same time, in Eastern Europe we will concentrate on taking advantage of sales opportunities by responding swiftly to production shifts.

We plan to boost sales in Europe by showing the most recent samples that promote the SDS®-ONE's functions and ability to express designs. Our proposals will be carefully gauged to meet individual customer needs and technical capabilities.

A handwritten signature in black ink, appearing to read "T. Nakashima".

### Highlights in Europe



#### New model debuts at the world's largest textile machinery exhibition

In September 2007, ITMA 2007 was held in Munich, Germany. Shima Seiki participated in this event, which is hosted only once every four years.

The Company displayed more than 20 machines, led by the new model WHOLEGARMENT® flat knitting machine and its top-of-the-line design system, alongside approximately 300 knitwear samples. The theme of the exhibition was "Innovation," and the new model WHOLEGARMENT® flat knitting machine, which is targeting markets worldwide, attracted great interest from visitors on account of its revolutionary technologies that facilitate high efficiency and fine quality, in addition to a new business model that enables in-store ordering.

## Report ③: U.S.A.



### Nova Knits Inc.



**Tadashi Fujimura,**  
President

#### Please describe market trends and the company's business development during the year under review.

Nova Knits' business has developed in the arena of producing and selling knit products made on WHOLEGARMENT® flat knitting machines. The brands that we are consigned run the gamut from top designer brands to those for mass-market outlets.

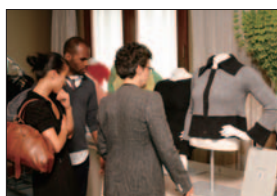
Prior to joining the Shima Seiki Group, we had concentrated on volume output, emphasizing high production throughput with limited product varieties. Since that time, however, we have been able to shift to a more efficient system of production by taking advantage of the added value that WHOLEGARMENT® flat knitting machines make possible and proposals that benefit from manufacturing within consumer market regions.

#### What business developments are you planning for the future?

The U.S. knitwear market is estimated to have annual sales topping 1.0 billion units, making it the world's largest. Compared with other countries' markets, the U.S. market emphasizes fit, and the diffusion of WHOLEGARMENT® has generated a substantial increase in brand awareness.

Our themes for the future are promoting the ability to manufacture a wide variety of products in small lots while minimizing losses in the ordering through production processes, introducing WHOLEGARMENT® benefits into the marketplace. We plan to work closely with our Design Center of New York to ensure well designed and comfortable knitwear that sells steadily, creating a more profit-driven sales structure.

### Highlights in the United States



#### Marketing WHOLEGARMENT® in collaborations with Group companies and beyond

Shima Seiki hosted the WHOLEGARMENT® Collection Exhibition in New York in July 2007. The event was primarily hosted by our Design Center of New York, in collaboration with Shima Seiki consolidated subsidiary Nova Knits Inc. and European yarn manufacturers.

The multitude of Company samples targeted U.S. designers, highlighting an array of WHOLEGARMENT® merits in addition to productivity, such as wearer comfort and design quality.

## R&D

### Features of Shima Seiki's Research and Development

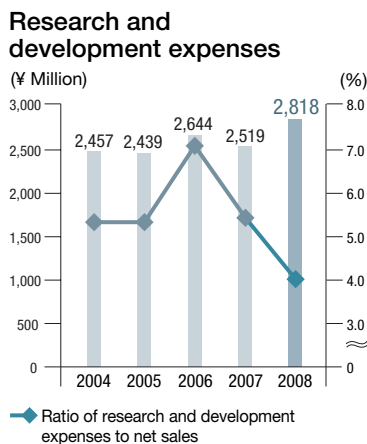
Since its establishment, the Company has adhered to a basic philosophy of "unique technological developments based upon creativity." In 2007, this creativity gained the Company the coveted Okochi Memorial Grand Production Prize, the most authoritative prize in the Japanese manufacturing industry. Our technologies development division comprises four departments, with a system characterized by flexible tie-ups with production divisions in the pursuit of swift product commercialization based on in-house hardware and software development.

Shima Seiki's intellectual property strategy has been to build its own database of related technologies, and the Company now holds more than 1,300 patents in Japan and overseas. In recognition of these achievements, we have been commended by the Japanese government as a corporation with a patent strategy of excellence.



### Activities This Year and Next

During the year under review, we exhibited a host of new products at ITMA 2007. We are currently developing products that feature both added value and raised efficiency to showcase at ITMA ASIA + CITME 2008 in Shanghai. R&D expenditure is estimated at around 5% of net sales. This percentage equated to ¥2,800 million during the year under review. We expect to maintain this figure in the upcoming fiscal year.



## Production

### Features of Shima Seiki's Production Functions

Our basic approach is to fully automate any process that can be done by a machine and to pass on expertise for any task that can only be done by a person. In accordance with this directive, we use flexible and efficient manufacturing methods based on cellular production, with a 75% rate of in-house processing and production of parts.

The Company is promoting original Market-in, Quality, Cost (MQC) activities to raise productivity and measures spanning all employees that utilize in-market ideas to improve quality and cost.



### Activities This Year and Next

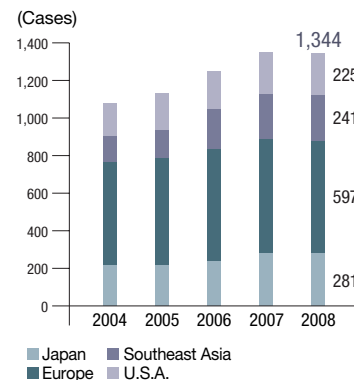
During the year, the Company boosted manufacture of flat knitting machines 60%, to an all time high in unit production. We achieved our daily production target of 55 units through raised staff proficiency, spurred by measures to cut lead times and other initiatives as part of our MQC activities.

From the second half of the next year, we plan to utilize this expanded production capacity for the manufacture of the new model WHOLEGARMENT® flat knitting machine. The next challenge facing the company is the shift in emphasis from quantity to quality.



FA Building No.2

### Trends in the number of patents held



The numbers for Southeast Asia and Europe consist of those of the following major countries and regions only:  
Southeast Asia: China, South Korea, Taiwan  
Europe: Germany, U.K., France, Italy, Spain

# Environmental Preservation

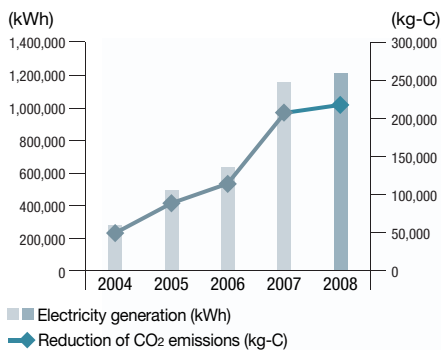
## Environmental Measures in the Production Process

The Company has incorporated global environmental protection into the Shima Seiki Group Code of Conduct. Accordingly, we recognize promotion of environmentally aware business activities and compliance with all environment-related laws and regulations as top management priorities.

The production division is promoting economy in energy use, in pursuit of a target of an average annual unit energy consumption reduction of 1% or more. We have introduced a large-scale solar power generation system at the Company's FA Building No. 2 assembly plant. This step boosts solar power output at the Group's production plants to 1,230kW—a top level for a Japanese private enterprise. We are thus effectively realizing 7% reduction in power consumption through deployment of natural energy resources.

Other Shima Seiki energy saving initiatives include installation of thermal storage air-conditioners, adoption of lighting systems using inverters and reuse of waste heat from machine tools.

### Photovoltaic generation capacity of the Company

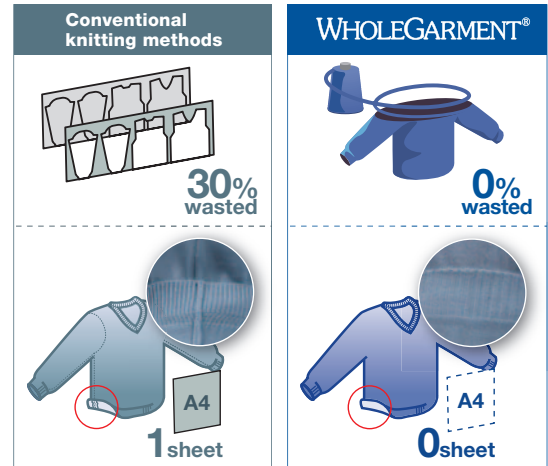


## Environmental Preservation Contributions through Products

WHOLEGARMENT® flat knitting machines eliminate the need for post-processing, such as cutting and sewing. This in turn saves the 30% wastage that arises from cutting using conventional methods. Effectively, knitting 1,000 sweaters using WHOLEGARMENT® flat knitting machines generates a savings equivalent to the

wool yarn collected from 48 sheep. Further, energy can be saved and CO<sub>2</sub> emissions reduced by not requiring incineration of cut parts.

WHOLEGARMENT® flat knitting machines contribute to lowering the environmental burden through resource-saving and providing knitwear that is friendly to the global environment.



Conventional knitting methods cannot avoid losses from cutting and seam allowance in the cutting and sewing of parts.

## Greening Efforts at Shima Seiki Factories

The Company's efforts to promote greenery at its factories have yielded a 32% green space ratio for its 88,000 m<sup>2</sup> of factory grounds. We have also planted some 12,000 trees, as part of our efforts to contribute to CO<sub>2</sub> reduction. In October 2007, Shima Seiki received the Outstanding Green Space Environment Factory Award from the Minister of Economy, Trade and Industry for its overall efforts to promote the greening of factories and its contributions to regional greening.



In the future, the Company will continue to promote and preserve the natural attributes that surround its factories. Further, we will strive to improve such facilities as roadways, street lighting and pedestrian walkways. We have also installed illuminations around the Head Office building, with additional crime-prevention benefits. Through such initiatives, we aim to contribute to local communities.



# Corporate Governance

## Upgrading Corporate Governance and Internal Control Systems

Shima Seiki has adopted a Board of Directors system and a Corporate Auditors system. Through the full functioning of these systems, we have formulated a system for appropriate and effective corporate governance.

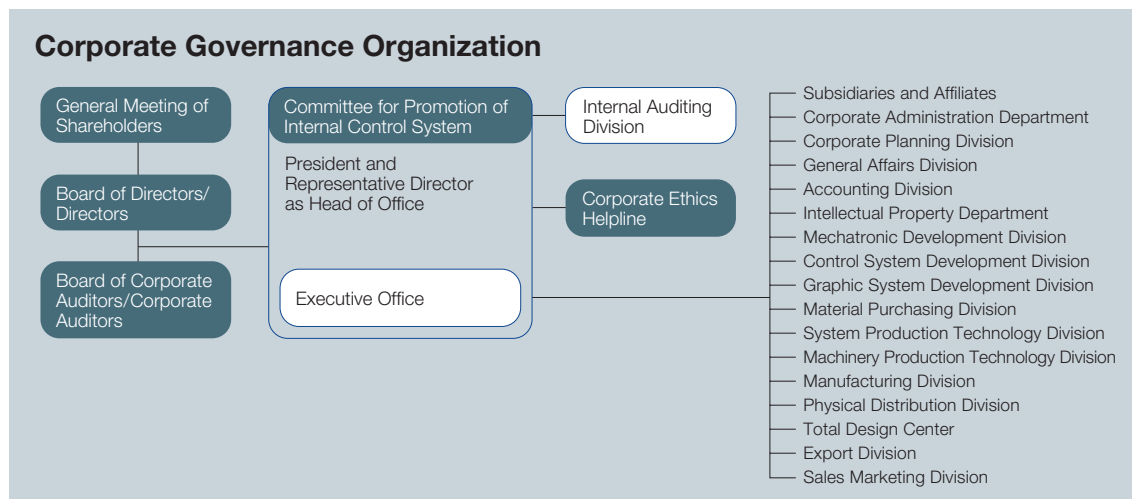
The Board of Directors is made up of 11 directors. The Board of Directors decides important management issues and serves as the institution that supervises business execution. Meetings of the Board of Directors are convened at least once a month and whenever additionally needed, on a timely basis. The Corporate Auditors system is executed by four corporate auditors, including two outside auditors, who monitor directors' execution of duties and audit the appropriateness of management. The Company has also established an Internal Auditing Division, which liaises with the corporate auditors and conducts internal audits throughout the Company's business operations. The Company has appointed Ohtemae Audit Corporation as its accounting auditor. Regular accounting audits by the auditing firm enhance the effectiveness of the audit system.

To improve the Internal Control System, the Company set up the Committee for the Promotion of the Internal Control System, headed

by the president. The Company also established the Basic Policies Related to Improvement of the Internal Control System in May 2006. In addition to legal compliance, we are positioning the committee as a body that is essential to realize our corporate philosophy and targets and promote measures to achieve these aims. In January 2008, a Basic Plan and Policy for Internal Control over Financial Reporting was resolved and a system was introduced accordingly. Further, we are preparing an Internal Control Report for the initial accounting year ending March 31, 2009.

## Efforts toward Compliance

The Company established 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. Furthermore, we have appointed a director responsible for ensuring thorough compliance throughout the Shima Seiki Group. In the event of discovery of violation of laws or other serious misconduct, we have introduced a Corporate Ethics Helpline to supplement conventional routes of reporting. During 2007, we endeavored to raise awareness of the Internal Control System structure through officer training.





# Board of Directors and Corporate Auditors



## President

Masahiro Shima

## Senior Managing Director

Masao Tanaka

General Manager of Accounting Division, concurrently overseeing General Affairs Division and Internal Auditing Division

## Managing Director

Kouichi Iwakura

General Manager of Corporate Administration Department, concurrently overseeing Sales Marketing Division

Mitsuhiro Shima

General Manager of Graphic System Development Division, concurrently overseeing Intellectual Property Department and Total Design Center

## Director

Minoru Kyotani

General Manager of Machinery Production Technology Division, concurrently overseeing System Production Technology Division

Toshiaki Morita

General Manager of Material Purchasing Division

Takashi Wada

General Manager of Manufacturing Division

Shojiro Katagiri

General Manager of Corporate Planning Division, concurrently overseeing Physical Distribution Division

Ikuto Umeda

General Manager of Export Division and CEO of Shima Seiki Win Win Ltd.

Osamu Fujita

General Manager of General Affairs Division

Reiji Arikita

General Manager of Mechatronic Development Division, concurrently overseeing Control System Development Division

## Corporate Auditor

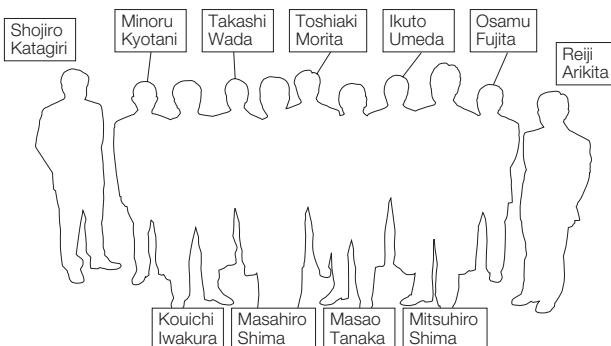
Osamu Okawa  
Standing Corporate Auditor

Yuuki Matoba  
Corporate Auditor

Toshiyuki Okidono  
Standing Corporate Auditor

Masatoshi Yasugi  
Corporate Auditor

(As of June 27, 2008)





# Financial Section

- 26 Five-Year Financial Summary
- 27 Management's Discussion and Analysis of Financial Condition and Results of Operations
- 30 Business Risks and Uncertainties
- 31 Consolidated Balance Sheets
- 33 Consolidated Statements of Income
- 34 Consolidated Statements of Changes in Net Assets
- 35 Consolidated Statements of Cash Flows
- 36 Notes to the Consolidated Financial Statements
- 45 Report of Independent Certified Public Accountants

# Five-Year Financial Summary

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

	2008	2007	2006	2005	2004	2008
<b>For the Year:</b>	Millions of yen					Thousands of U.S. dollars
Net sales	<b>¥69,897</b>	¥47,080	¥37,880	¥46,095	¥46,420	<b>\$697,644</b>
Cost of sales	<b>34,131</b>	25,014	21,100	25,277	24,074	<b>340,662</b>
Gross profit	<b>35,766</b>	22,066	16,780	20,818	22,346	<b>356,982</b>
Selling, general and administrative expenses	<b>19,552</b>	14,357	12,757	11,560	11,374	<b>195,149</b>
Operating income	<b>16,214</b>	7,709	4,023	9,258	10,972	<b>161,833</b>
Income before income taxes and minority interests	<b>18,168</b>	6,183	5,293	9,518	9,520	<b>181,335</b>
Net income	<b>9,959</b>	3,114	3,405	5,930	5,624	<b>99,401</b>
Capital investment	<b>2,496</b>	1,753	2,474	1,397	904	<b>24,913</b>
Depreciation and amortization	<b>2,454</b>	1,542	1,026	997	1,021	<b>24,493</b>
Research and development expenses	<b>2,818</b>	2,519	2,644	2,439	2,457	<b>28,127</b>
<b>At Year-End:</b>	Millions of yen					Thousands of U.S. dollars
Total assets	<b>¥133,746</b>	¥129,161	¥109,302	¥107,234	¥102,853	<b>\$1,334,924</b>
Net assets/Shareholders' equity	<b>101,647</b>	92,810	95,331	92,115	87,903	<b>1,014,542</b>
<b>Per Share Data:</b>	Yen					U.S. dollars
Net income	<b>¥276.13</b>	¥86.17	¥91.92	¥159.97	¥150.64	<b>\$2.76</b>
Cash dividends applicable to the year	<b>55.00</b>	37.50	37.50	37.50	37.50	<b>0.55</b>
Net assets/Shareholders' equity	<b>2,677.47</b>	2,546.71	2,599.24	2,510.71	2,391.63	<b>26.72</b>
<b>Ratios:</b>	%					
Ratio of operating income to net sales	<b>23.2%</b>	16.4%	10.6%	20.1%	23.6%	
ROA	<b>7.6%</b>	2.6%	3.1%	5.6%	5.7%	
ROE	<b>10.6%</b>	3.4%	3.6%	6.6%	6.5%	
Equity ratio	<b>73.2%</b>	69.2%	87.2%	85.9%	85.5%	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥100.19=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2008.

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.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

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

## Overview

With respect to the global economy during the consolidated fiscal year under review, the effects of the slowdown in the U.S. economy arising from the sub-prime loan issue spread to the countries of the European Union, while the emerging countries of Asia, the Middle East and Russia maintained high overall growth, despite the impact of cutbacks in exports to the United States. Recovery of the Japanese economy was temporarily stalled by high raw material prices and an escalating yen, which eroded corporate profits.

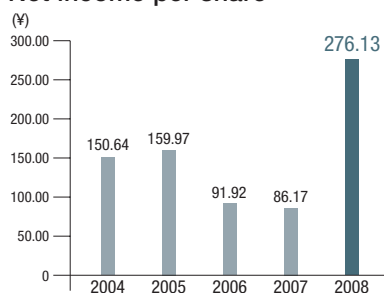
Under these economic circumstances, the Shima Seiki Group focused its business thrust on swiftly responding to unprecedented levels of diversifying user needs worldwide, raising production efficiency, and developing and marketing products that contribute to the manufacture of quality goods.

We posted substantial growth in sales during the year, supported by robust demand for computerized flat knitting machines from the world's premium mass-production markets for knitwear, China and Hong Kong. In Italy, the hub of knitwear production for Europe, aggressive business expansion by our sales subsidiary established during the previous fiscal year led to a recovery in sales. Furthermore, steps to boost production system efficiency promoted upgrades to facilities by users in Turkey and South Korea. As a result, consolidated net sales hit a historic high of ¥69,897 million, rising 48.5% from the previous fiscal year. Earnings also delivered record performances, with consolidated operating income soaring 110.3%, to ¥16,214 million, and net income surging 219.8%, to ¥9,959 million.

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. The year-end dividend for the year under review was ¥30.00 per share, which combined with an

interim dividend of ¥25.00 per share, brings the dividend for the full business year to ¥55.00. Furthermore, net earnings per share jumped to ¥276.13, from ¥86.17 during the previous fiscal year.

### Net income per share



## Net Sales

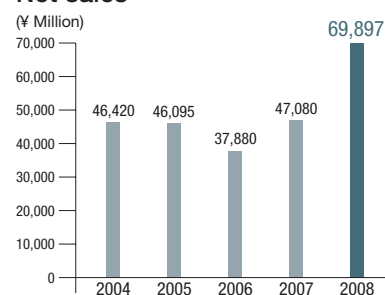
Shima Seiki's consolidated net sales posted a historic high of ¥69,897 million, an increase of 48.5%.

In the world's leading mass-production markets for knitwear, China and Hong Kong, rising labor costs resulted in brisk demand arising from replacement of manually operated machines with computerized flat knitting machines. Furthermore, sales of our widely acclaimed SSG® and SIG® series of computerized flat knitting machines recorded significant sales increases, spurred by the establishment of a sales subsidiary in September 2006, coupled with the implementation of user follow-up activities. Additionally, upward momentum in sales recovery in Italy, Turkey and South Korea aided a 53.6% advance in consolidated overseas sales for the period under review, to ¥65,754 million. Accordingly, overseas sales accounted for 94.1% of net sales during the year, a 3.2-percentage-point rise from the previous year. By geographical region, overseas sales consisted of 71.2% to Southeast Asia (compared with 79.3% during the previous year), 17.6% to Europe (8.3%), and 11.2% to other regions (12.4%). These results represented a notable recovery in the European markets, led by Italy, and a slight dispersion of the sales concentration in Southeast Asia.

In the domestic market, there was a partial return of production to Japan in the knitwear and apparel market from its concentration

in China, but this situation failed to create a full-blown recovery in capital investment. As a result, consolidated domestic sales eased 2.8%, to ¥4,143 million.

### Net sales

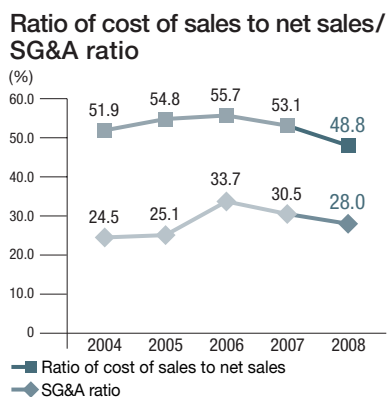


## Cost of Sales and SG&A Expenses

We activated systems to boost production to meet brisk orders throughout the year, and as a result annual production of flat knitting machines exceeded 10,000 units for the first time, realized through a 60% year-on-year increase. Cost of sales rose 36.5% as a result, to ¥34,131 million. However, this growth represents a 4.3 percentage point improvement in the ratio of cost of sales to net sales, to

48.8%, due to the effect of increased production.

In addition, the performance of consolidated subsidiaries established during the previous fiscal year contributed to a 36.2% rise in SG&A expenses, to ¥19,552 million. Nevertheless, the SG&A ratio improved 2.5 percentage points, to 28.0%.



## Operating Income

Operating income grew 110.3%, to ¥16,214 million. Principal contributors were a 48.5% rise in net sales, the 4.3 percentage point improvement in the ratio of cost of sales to net sales and the 2.5 percentage point improvement in the SG&A ratio. As a result, the ratio of operating income to net sales was 6.8 percentage points higher than during the previous year, at 23.2%.

In terms of operating income by segment, the Flat Knitting Machine segment recorded a net increase of 75.7%, to ¥21,303 million, the Design System segment posted a 73.8% fall, to ¥37 million, the Glove and Sock Knitting Machine segment saw a 21.0% decrease, to ¥453 million, while operating income from other business segments rose ¥158 million, to ¥111 million.

## Other Income and Expenses

Other income exceeded other expenses by ¥1,954 million, leading to a ¥3,480 million increase. This change was largely attributable to the absence of extraordinary losses posted during the preceding term, such as loss on support to a customer and bad debt expense as a result of business restructuring in overseas markets.

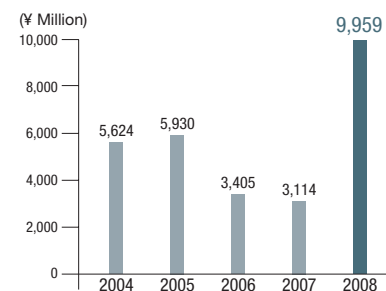
## Net Income

Consolidated income before income taxes and minority interests for the period under review jumped 193.9%, to ¥18,168 million.

Corporate income, residential and enterprise taxes totaled ¥8,489 million, representing a year-on-year increase of ¥5,108 million, or 151.1%. Corporate income tax adjustments for the period under review were a negative ¥1,151 million, down ¥536 million from the previous year. As a result, the Company's tax burden after the application of tax effect accounting increased ¥4,572 million, to ¥7,338 million, resulting in an effective tax rate of 40.4%. Minority interests were ¥871 million, up ¥568 million compared with the previous year.

As a result of the above factors, consolidated net income for the current year amounted to ¥9,959 million, up 219.8% year on year.

## Net income



## Liquidity and Capital Resources

Cash and cash equivalents were ¥22,644 million as of March 31, 2008, an increase of ¥6,690 million, or 41.9%, from one year earlier. Robust sales supported a major increase in cash from operating activities, which significantly exceeded capital investment expenditures to bolster production capacity, the repayment of short-term loans and expenditures on purchases of treasury stock.

Net cash provided by operating activities was ¥21,747 million during the year, compared with ¥10,691 million in the previous year. Income before income taxes and minority interests jumped from ¥6,183 million to ¥18,168 million, and depreciation and amortization rose from ¥1,542 million to ¥2,454 million. We recorded an increase in trade payables of ¥4,297 million, compared with a decrease of ¥183 million in the previous year, and income taxes paid were ¥3,524 million, compared with ¥2,059 million in the previous year.

Net cash used in investing activities amounted to ¥3,321 million, compared with ¥16,223 million used in these activities during the preceding fiscal year. These expenditures mainly went toward machinery and other purchases of property, plant and equipment to raise production capacity, totaling ¥2,082 million, compared with ¥819 million in the preceding term.

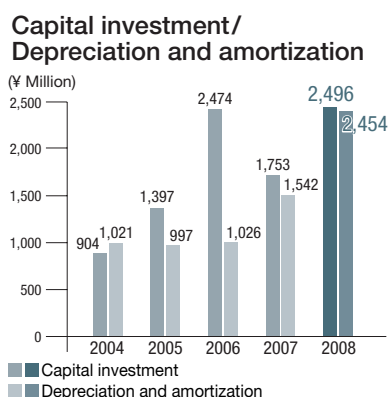
Net cash used in financing activities was ¥10,883 million, compared to net cash provided by financing activities of

# Management's Discussion and Analysis of Financial Condition and Results of Operations

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

¥12,226 million in the previous year. Principal expenditures were a ¥4,402 million decrease in short-term loans, compared with a ¥1,866 million increase for the previous year, and ¥4,784 million in purchases of treasury stock, up from ¥4,309 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.



## Assets, Liabilities and Net Assets

Consolidated total assets as of March 31, 2008, were ¥133,746 million, up ¥4,585 million from a year earlier.

In terms of short-term assets and liabilities, current assets increased ¥5,678 million, to ¥86,918 million, which represents a 7.0% increase from the previous year. Major reasons for the rise included increases of ¥6,690 million in cash and cash equivalents and ¥2,358 million in short-term investments, offsetting such opposing factors as a ¥2,502 million decrease in trade accounts and notes receivable arising from advance settlement of receivables and liquidation. Current liabilities, on the other hand, increased ¥2,858 million, to ¥23,368 million, up 13.9% from the previous year. The main reasons for this growth were increases of ¥4,841 million in accrued income taxes and ¥2,293 million in trade accounts and notes payable. These increases more than offset decreases derived principally from a ¥4,418 million falloff in short-term loans.

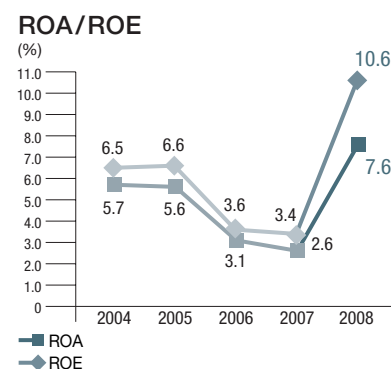
With regard to long-term assets, property, plant and equipment increased ¥1,360 million, compared to the previous year, to ¥22,860 million, a year-on-year rise of 6.3%, while investments and other assets declined ¥2,453 million, or 9.3%, to ¥23,968 million. Principal contributors were a ¥1,702 million decrease in goodwill, a ¥1,117 million rise in allowance for doubtful accounts, and a ¥2,179 million reduction in investments in securities. Long-term liabilities decreased

¥7,110 million, or 44.9%, to ¥8,731 million. This arose largely from a ¥7,136 million decrease from the conversion of bonds with stock acquisition rights.

Net assets advanced ¥8,837 million, or 9.5%, from the end of the previous fiscal year, to ¥101,647 million. Factors serving to increase net assets included net income for the year of ¥9,959 million and the retirement of ¥7,129 million in treasury stock to appropriate treasury stock for conversion of bonds with stock acquisition rights. Negative factors include payments of ¥4,784 million for purchases of treasury stock and ¥1,622 million in cash dividends. As a result, the equity ratio rose 4.0

percentage points, to 73.2%.

Return on assets grew from 2.6% to 7.6% as a result of the 219.8% leap in net income during the year. Return on equity climbed from 3.4% to 10.6%.



# 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**

Export sales account for more than 90% of the Group's total sales, with sales to China and Hong Kong accounting for approximately 70% of export sales. There is a concern over economic and political changes, including changes in monetary policies, import tariffs, 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 currently conducts sales, which have been conducted through indirect sales by overseas agents, through direct sales in China, Hong Kong and the European market, which represent major markets in the Group's global sales strategy. This 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 over concentration of production on a particular production site**

The Company promotes efficiency by concentrating its product production in Wakayama Prefecture, where the Headquarters is located, to allow all operations, from development to manufacturing, to be integrated into one process. Therefore, 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 rising cost of raw materials**

Emerging requests to raise material purchase price reflecting persistently high crude oil prices and rises in steel product prices are expected to push up manufacturing costs for the Group's products. Despite the Group's efforts to promote a reduction in the cost ratio by reducing costs from the development and design stages and maintaining a self-manufacturing rate of 75% or higher for parts processing, any prolonged and constant increases in raw material costs could affect the performance and financial position of the Group.

## **7. Risks associated with social and institutional changes in business areas**

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

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

## **8. 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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥22,644	¥15,954	\$226,011
Time deposits	425	258	4,242
Short-term investments (Note 3)	3,913	1,555	39,056
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	159	137	1,587
Other	41,046	43,570	409,682
Inventories (Note 4)	16,178	16,200	161,473
Deferred tax assets (Note 10)	3,219	2,488	32,129
Prepaid expenses and other current assets	1,560	3,404	15,570
Less: allowance for doubtful accounts	(2,226)	(2,326)	(22,218)
<b>Total current assets</b>	<b>86,918</b>	<b>81,240</b>	<b>867,532</b>
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and an affiliate	1,788	1,675	17,846
Investments in securities (Note 3)	7,400	9,579	73,860
Long-term loans receivable	35	—	349
Deferred tax assets (Note 10)	2,205	1,232	22,008
Deferred tax assets for land revaluation (Note 5)	—	25	—
Goodwill	9,066	10,768	90,488
Other	6,266	4,241	62,541
Less: allowance for doubtful accounts	(2,216)	(1,099)	(22,118)
Less: allowance for investment loss	(576)	—	(5,749)
<b>Total investments and other assets</b>	<b>23,968</b>	<b>26,421</b>	<b>239,225</b>
<b>Property, plant and equipment:</b>			
Land	10,491	10,669	104,711
Buildings and structures	21,388	20,857	213,474
Machinery and equipment	8,332	6,648	83,162
Tools, furniture and fixtures	6,424	6,127	64,118
Construction in progress	38	55	379
	46,673	44,356	465,844
Less: accumulated depreciation	(23,813)	(22,856)	(237,677)
<b>Property, plant and equipment, net</b>	<b>22,860</b>	<b>21,500</b>	<b>228,167</b>
<b>Total assets</b>	<b>¥133,746</b>	<b>¥129,161</b>	<b>\$1,334,924</b>

See the accompanying notes to the consolidated financial statements.



	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term loans (Note 6).....	<b>¥143</b>	¥4,561	<b>\$1,427</b>
Trade accounts and notes payable.....	<b>9,774</b>	7,481	<b>97,555</b>
Accrued expenses.....	<b>1,650</b>	1,533	<b>16,469</b>
Accrued income taxes.....	<b>7,225</b>	2,384	<b>72,113</b>
Other current liabilities.....	<b>4,576</b>	4,551	<b>45,674</b>
<b>Total current liabilities</b> .....	<b>23,368</b>	20,510	<b>233,238</b>
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 6).....	<b>5,910</b>	13,117	<b>58,988</b>
Allowance for retirement benefits (Note 7).....	<b>1,674</b>	1,712	<b>16,708</b>
Deferred tax liabilities for land revaluation (Note 5).....	<b>60</b>	—	<b>599</b>
Allowance for directors' and statutory auditors' retirement benefits.....	<b>1,087</b>	1,012	<b>10,849</b>
<b>Total long-term liabilities</b> .....	<b>8,731</b>	15,841	<b>87,144</b>
<b>Contingent liabilities (Note 8)</b>			
<b>Net assets:</b>			
Common stock:			
Authorized— 142,000,000 shares			
Issued— 37,600,000 shares.....	<b>14,860</b>	14,860	<b>148,318</b>
Capital surplus.....	<b>22,397</b>	21,725	<b>223,545</b>
Retained earnings.....	<b>74,924</b>	66,713	<b>747,819</b>
Treasury stock, at cost			
(1,052,466 shares in 2008 and 2,529,153 shares in 2007).....	<b>(5,323)</b>	(6,996)	<b>(53,129)</b>
Net unrealized holding gain (loss) on securities.....	<b>(573)</b>	270	<b>(5,719)</b>
Land revaluation difference (Note 5).....	<b>(7,392)</b>	(7,518)	<b>(73,780)</b>
Foreign currency translation adjustments.....	<b>(1,039)</b>	262	<b>(10,370)</b>
Minority interests.....	<b>3,793</b>	3,494	<b>37,858</b>
<b>Total net assets</b> .....	<b>101,647</b>	92,810	<b>1,014,542</b>
<b>Total liabilities and net assets</b> .....	<b>¥133,746</b>	¥129,161	<b>\$1,334,924</b>

See the accompanying notes to the consolidated financial statements.

# Consolidated Statements of Income

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
<b>Net sales</b> .....	<b>¥69,897</b>	¥47,080	<b>\$697,644</b>
<b>Cost of sales</b> .....	<b>34,131</b>	25,014	<b>340,662</b>
<b>Gross profit</b> .....	<b>35,766</b>	22,066	<b>356,982</b>
<b>Selling, general and administrative expenses</b> (Note 11) .....	<b>19,552</b>	14,357	<b>195,149</b>
<b>Operating income</b> .....	<b>16,214</b>	7,709	<b>161,833</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>1,197</b>	588	<b>11,947</b>
Interest expense .....	<b>(103)</b>	(77)	<b>(1,028)</b>
Other, net .....	<b>860</b>	(2,037)	<b>8,583</b>
<b>Income before income taxes and minority interests</b> .....	<b>18,168</b>	6,183	<b>181,335</b>
<b>Income taxes</b> (Note 10):			
Current .....	<b>8,489</b>	3,381	<b>84,729</b>
Deferred .....	<b>(1,151)</b>	(615)	<b>(11,488)</b>
	<b>7,338</b>	2,766	<b>73,241</b>
<b>Income before minority interests</b> .....	<b>10,830</b>	3,417	<b>108,094</b>
<b>Minority interests in gain of consolidated subsidiaries</b> .....	<b>871</b>	303	<b>8,693</b>
<b>Net income</b> .....	<b>¥9,959</b>	¥3,114	<b>\$99,401</b>
<b>Per share:</b>		Yen	U.S. dollars
Net income .....	<b>¥276.13</b>	¥86.17	<b>\$2.76</b>
Diluted net income .....	<b>261.43</b>	83.51	<b>2.61</b>
Cash dividends applicable to the year .....	<b>55.00</b>	37.50	<b>0.55</b>

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, 2008 and 2007

	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
<b>Balance at April 1, 2006</b> .....	37,600	¥14,860	¥21,725	¥65,009	¥(2,688)	¥913	¥(4,493)	¥5	—	¥95,331
Reclassified balance .....	—	—	—	—	—	—	—	—	¥191	191
Net income .....	—	—	—	3,114	—	—	—	—	—	3,114
Cash dividends .....	—	—	—	(1,376)	—	—	—	—	—	(1,376)
Bonuses to directors and statutory auditors.....	—	—	—	(34)	—	—	—	—	—	(34)
Purchases of treasury stock ..	—	—	—	—	(4,309)	—	—	—	—	(4,309)
Retirement of treasury stock..	—	—	0	—	1	—	—	—	—	1
Other changes, net.....	—	—	—	—	—	(643)	(3,025)	257	3,303	(108)
<b>Balance at March 31, 2007</b> ....	37,600	14,860	21,725	66,713	(6,996)	270	(7,518)	262	3,494	92,810
Net income .....	—	—	—	<b>9,959</b>	—	—	—	—	—	<b>9,959</b>
Cash dividends .....	—	—	—	<b>(1,622)</b>	—	—	—	—	—	<b>(1,622)</b>
Purchases of treasury stock ..	—	—	—	—	<b>(4,784)</b>	—	—	—	—	<b>(4,784)</b>
Retirement of treasury stock..	—	—	<b>672</b>	—	<b>6,457</b>	—	—	—	—	<b>7,129</b>
Reversal of land revaluation difference.....	—	—	—	<b>(126)</b>	—	—	—	—	—	<b>(126)</b>
Other changes, net.....	—	—	—	—	—	<b>(843)</b>	<b>126</b>	<b>(1,301)</b>	<b>299</b>	<b>(1,719)</b>
<b>Balance at March 31, 2008</b> ....	<b>37,600</b>	<b>¥14,860</b>	<b>¥22,397</b>	<b>¥74,924</b>	<b>¥(5,323)</b>	<b>¥(573)</b>	<b>¥(7,392)</b>	<b>¥(1,039)</b>	<b>¥3,793</b>	<b>¥101,647</b>

	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	
<b>Balance at March 31, 2007</b> .....	\$148,318	\$216,838	\$665,865	\$(69,828)	\$2,695	\$(75,037)	\$2,615	\$34,874	\$926,340	
Net income .....	—	—	<b>99,401</b>	—	—	—	—	—	<b>99,401</b>	
Cash dividends .....	—	—	<b>(16,189)</b>	—	—	—	—	—	<b>(16,189)</b>	
Purchases of treasury stock .....	—	—	—	<b>(47,749)</b>	—	—	—	—	<b>(47,749)</b>	
Retirement of treasury stock.....	—	<b>6,707</b>	—	<b>64,448</b>	—	—	—	—	<b>71,155</b>	
Reversal of land revaluation difference..	—	—	<b>(1,258)</b>	—	—	—	—	—	<b>(1,258)</b>	
Other changes, net .....	—	—	—	—	<b>(8,414)</b>	<b>1,257</b>	<b>(12,985)</b>	<b>2,984</b>	<b>(17,158)</b>	
<b>Balance at March 31, 2008</b> .....	<b>\$148,318</b>	<b>\$223,545</b>	<b>\$747,819</b>	<b>\$(53,129)</b>	<b>\$(5,719)</b>	<b>\$(73,780)</b>	<b>\$(10,370)</b>	<b>\$37,858</b>	<b>\$1,014,542</b>	

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥18,168	¥6,183	\$181,335
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	2,454	1,542	24,493
Amortization of goodwill	173	429	1,727
Increase in allowance for doubtful accounts	1,293	1,271	12,905
Increase in allowance for losses on guarantees	362	94	3,613
Decrease in allowance for retirement benefits	(182)	(180)	(1,817)
Increase in allowance for directors' and statutory auditors' retirement benefits	75	87	749
Increase in allowance for investment loss	576	—	5,749
Interest and dividend income	(1,197)	(588)	(11,947)
Interest expense	103	77	1,028
Loss (gain) on sales and disposal of property, plant and equipment, net	119	(3)	1,188
Bad debt expense	—	1,037	—
Loss on support to a customer	—	3,246	—
Reversal of allowance for doubtful accounts	—	(1,550)	—
Increase in trade receivables	(1,522)	(1,502)	(15,191)
Decrease (increase) in inventories	(914)	76	(9,123)
Increase (decrease) in trade payables	4,297	(183)	42,889
Other	466	2,255	4,652
Subtotal	24,271	12,291	242,250
Interest and dividend income received	1,107	532	11,049
Interest expense paid	(107)	(73)	(1,068)
Income taxes paid	(3,524)	(2,059)	(35,173)
<b>Net cash provided by operating activities</b>	<b>21,747</b>	<b>10,691</b>	<b>217,058</b>
<b>Cash flows from investing activities:</b>			
Increase in time deposits, net	(168)	(891)	(1,677)
Purchases of short-term investments	(14,993)	(7,943)	(149,646)
Proceeds from sales of short-term investments	13,133	7,004	131,081
Purchases of property, plant and equipment	(2,082)	(819)	(20,781)
Proceeds from sales of property, plant and equipment	497	166	4,961
Purchases of investments in securities	(76)	(5,128)	(759)
Proceeds from sales of investments in securities	912	249	9,103
Proceeds due to a newly consolidated subsidiary	—	438	—
Payments for acquisition of business	—	(8,584)	—
Extension in loans receivable	(141)	(762)	(1,407)
Collection in loans receivable	131	3	1,308
Other	(534)	44	(5,330)
<b>Net cash used in investing activities</b>	<b>(3,321)</b>	<b>(16,223)</b>	<b>(33,147)</b>
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term loans, net	(4,402)	1,866	(43,936)
Proceeds from long-term loans	—	3,000	—
Repayment of long-term loans	(76)	(7)	(759)
Proceeds from issuing bond	—	10,027	—
Proceeds from issuing shares for minority shareholders	—	3,022	—
Purchases of treasury stock	(4,784)	(4,309)	(47,749)
Proceeds from sales of treasury stock	—	1	—
Cash dividends paid	(1,621)	(1,374)	(16,179)
<b>Net cash provided by (used in) financing activities</b>	<b>(10,883)</b>	<b>12,226</b>	<b>(108,623)</b>
Effect of exchange rate changes on cash and cash equivalents	(853)	150	(8,514)
Net increase in cash and cash equivalents	6,690	6,844	66,774
Cash and cash equivalents at beginning of year	15,954	9,110	159,237
Cash and cash equivalents at end of year	¥22,644	¥15,954	\$226,011

See the accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries

## 1. Basis of presenting consolidated financial statements

Shima Seiki Mfg., Ltd. (the “Company”) and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Corporation Law of Japan and the Financial Instruments and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different from 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, 2008, which was ¥100.19 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.

The difference between the cost of investments in subsidiaries and equity in subsidiaries’ net assets at dates of acquisition is amortized over 20 years on a straight-line basis.

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. Revenue 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 expenses accounts of foreign subsidiaries are translated at the exchange rates in effect at the respective balance sheet dates.

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

### (c) Cash and cash equivalents

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

### (d) Short-term investments and investments in securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of net assets and is reflected as “Net unrealized holding gain (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.

# Notes to the Consolidated Financial Statements

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries

## (e) Inventories

Inventories are stated at the lower of cost or market. The cost of finished goods, work in process and raw materials is determined principally by the moving-average method. The cost of purchased goods held by foreign consolidated subsidiaries is determined by the specific method. The cost of supplies is determined by the first-in first-out method.

## (f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of the Company and 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 are 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	3 to 12 years
Tools, furniture and fixtures	2 to 20 years

(change in accounting policy)

Effective from the fiscal year beginning April 1, 2007, in accordance with the revised Corporation Tax Law of Japan, the Company and domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired since April 1, 2007. As a result, operating income and income before income taxes and minority interests decreased by the ¥73 million (\$729 thousand), respectively.

In addition, property, plant and equipment acquired before March 31, 2007 and depreciated to their respective allowable limit has been depreciated residual value equally over five years. As a result, operating income decreased by the ¥79 million (\$789 thousand) and income before income taxes and minority interests decreased by the ¥76 million (\$759 thousand), respectively.

## (g) 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 and on 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.

## (h) Allowance for retirement benefits

The Company and its 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 is being amortized over a ten-year period by the straight-line method from the year subsequent to the year in which such gains and losses are incurred.

## (i) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer the ownership of the leased property to lessees are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

## (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 fluctuation in foreign currency exchange rates and interest rates.

Derivatives are stated at fair value and changes in the 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 per share is computed by dividing net income 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.

### 3. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2008 and 2007 were as follows:

	Millions of yen		
	<b>2008</b>		
	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities .....	<b>¥291</b>	<b>¥600</b>	<b>¥309</b>
Other .....	<b>284</b>	<b>287</b>	<b>3</b>
Subtotal .....	<b>¥575</b>	<b>¥887</b>	<b>¥312</b>
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities .....	<b>¥2,459</b>	<b>¥1,704</b>	<b>¥(755)</b>
Bond .....	<b>1,297</b>	<b>1,189</b>	<b>(108)</b>
Other .....	<b>3,450</b>	<b>3,040</b>	<b>(410)</b>
Subtotal .....	<b>¥7,206</b>	<b>¥5,933</b>	<b>¥(1,273)</b>
Total .....	<b>¥7,781</b>	<b>¥6,820</b>	<b>¥(961)</b>

	Millions of yen		
	<b>2007</b>		
	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities .....	¥310	¥923	¥613
Bond .....	297	306	9
Other .....	2,560	2,620	60
Subtotal .....	¥3,167	¥3,849	¥682
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities .....	¥2,447	¥2,281	¥(166)
Bond .....	1,000	973	(27)
Other .....	1,942	1,897	(45)
Subtotal .....	¥5,389	¥5,151	¥(238)
Total .....	¥8,556	¥9,000	¥444

# Notes to the Consolidated Financial Statements

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries

	Thousands of U.S. dollars		
	2008		
	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities .....	\$2,904	\$5,988	\$3,084
Other .....	2,835	2,865	30
Subtotal .....	\$5,739	\$8,853	\$3,114
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities .....	\$24,543	\$17,007	\$(7,536)
Bond .....	12,945	11,867	(1,078)
Other .....	34,435	30,343	(4,092)
Subtotal .....	\$71,923	\$59,217	\$(12,706)
Total .....	\$77,662	\$68,070	\$(9,592)

Other securities without quoted market prices at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Held-to-maturity securities .....	¥899	¥999	\$8,973
Other securities .....	¥3,594	¥1,135	\$35,873

## 4. Inventories

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods .....	¥11,549	¥11,961	\$115,271
Work in process .....	1,107	896	11,049
Raw materials .....	3,160	2,892	31,540
Supplies and others .....	362	451	3,613
	¥16,178	¥16,200	\$161,473

## 5. Land revaluation

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of their 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, 2008 were as follows:

Land before revaluation	¥15,939 million
Land after revaluation	¥8,607 million
Land revaluation difference	¥7,392 million
	(net of deferred tax liabilities of ¥60 million)

## 6. Short-term loans and long-term debt

Short-term loans at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Unsecured loans from banks .....	¥143	¥4,561	\$1,427
Average rate of unsecured loans from bank as of March 31, 2008:1.41%			

Long-term debt at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Unsecured loans from banks .....	¥3,000	¥3,071	\$29,943
Zero coupon convertible bonds due November 26, 2010 .....	2,910	10,046	29,045
Less current portion .....	—	—	—
	¥5,910	¥13,117	\$58,988

Average rate of unsecured loans from bank as of March 31, 2008:1.25%

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 (\$30.54) per share.

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2009	—	—
2010	¥3,000	\$29,943
2011	2,910	29,045
2012	—	—
2013	—	—
Thereafter	—	—
<b>Total</b>	<b>¥5,910</b>	<b>\$58,988</b>



## 7. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2008 and 2007 consisted of the following:

Retirement benefit obligation at March 31, 2008 and 2007:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Projected benefit obligation	¥ (4,995)	¥(4,569)	\$(49,855)
Fair value of plan assets	3,743	3,621	37,359
Benefit obligation in excess of plan assets	(1,252)	(948)	(12,496)
Unrecognized actuarial gain (loss)	226	(271)	2,255
Net retirement benefit obligation	(1,026)	(1,219)	(10,241)
Prepaid pension cost	648	493	6,467
Allowance for retirement benefits	¥(1,674)	¥(1,712)	\$(16,708)

Components of net periodic benefit cost for the year ended March 31, 2008 and 2007:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Service cost	¥225	¥238	\$2,246
Interest cost	87	86	868
Expected return on plan assets	(42)	(37)	(419)
Amortization:			
Actuarial loss	(16)	(1)	(160)
Net periodic benefit cost	¥254	¥286	\$2,535

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2008 and 2007 were as follows:

	2008	2007
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)	10years	10years

## 8. Contingent liabilities

Contingent liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Guarantees of customers' loans and lease obligations	¥3,784	¥4,062	\$37,768

## 9. 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.

Summarized below are the contract amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2008 and 2007.

Currency—related transactions

	Millions of yen		
	Contract amounts	Fair value	Unrealized gain(loss)
	<b>2008</b>		
<b>Forward foreign exchange contracts:</b>			
Sell:			
Euro	¥488	¥471	¥17
<b>Currency options contracts:</b>			
Sell(Call):			
Euro	4,710	87	123 (36)
Buy(Put):			
Euro	4,500	87	65 (22)
Total			¥(41)

	Millions of yen		
	Contract amounts	Fair value	Unrealized loss
	<b>2007</b>		
<b>Forward foreign exchange contracts:</b>			
Sell:			
Euro	¥652	¥794	¥(142)

	Thousands of U.S. dollars		
	Contract amounts	Fair value	Unrealized gain(loss)
	<b>2008</b>		
<b>Forward foreign exchange contracts:</b>			
Sell:			
Euro	\$4,871	\$4,701	\$170
<b>Currency options contracts:</b>			
Sell(Call):			
Euro	47,011	868	1,227 (359)
Buy(Put):			
Euro	44,915	868	648 (220)
Total			\$(409)

# Notes to the Consolidated Financial Statements

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries

## 10. 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, 2008 and 2007.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
<b>Deferred tax assets:</b>			
Allowance for doubtful accounts.....	<b>¥2,527</b>	¥1,414	<b>\$25,222</b>
Intercompany profit.....	<b>1,175</b>	460	<b>11,728</b>
Tax loss carryforwards.....	<b>794</b>	419	<b>7,925</b>
Accrued enterprise tax.....	<b>462</b>	—	<b>4,611</b>
Allowance for directors' and statutory auditors' retirement benefits.....	<b>440</b>	409	<b>4,392</b>
Unrealized holding loss on securities	<b>389</b>	—	<b>3,883</b>
Loss on devaluation of inventories...	<b>360</b>	—	<b>3,593</b>
Accrued bonuses to employees.....	<b>348</b>	357	<b>3,473</b>
Allowance for retirement benefits....	<b>320</b>	392	<b>3,194</b>
Allowance for losses on guarantees	<b>277</b>	—	<b>2,765</b>
Impairment loss on fixed assets.....	<b>243</b>	240	<b>2,425</b>
Allowance for investment loss.....	<b>233</b>	—	<b>2,326</b>
Loss on devaluation of shares of subsidiaries.....	—	310	—
Adjustment for difference of an accounting period.....	—	199	—
Other.....	<b>153</b>	725	<b>1,527</b>
Total gross deferred tax assets.....	<b>7,721</b>	4,925	<b>77,064</b>
Less valuation allowance.....	<b>(1,329)</b>	(807)	<b>(13,265)</b>
Net deferred tax assets.....	<b>6,392</b>	4,118	<b>63,799</b>
<b>Deferred tax liabilities:</b>			
Adjustment for allowance for doubtful accounts.....	<b>(940)</b>	—	<b>(9,383)</b>
Tax deductible reserves.....	<b>(28)</b>	(32)	<b>(279)</b>
Unrealized holding gain on securities.....	—	(183)	—
Other.....	—	(183)	—
Total gross deferred tax liabilities...	<b>(968)</b>	(398)	<b>(9,662)</b>
Net deferred tax assets.....	<b>¥5,424</b>	¥3,720	<b>\$54,137</b>

## 11. Research and development costs

Research and development costs charged to income were ¥2,818 million (\$28,127 thousand) and ¥2,519 million for the years ended March 31, 2008 and 2007, respectively.

## 12. Lease

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥1,146 million (\$11,438 thousand) and ¥1,014 million for the years ended March 31, 2008 and 2007, respectively.

Proforma information of leased property under finance leases that are not deemed to transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of	
	2008	2007	U.S. dollars	2008
	Acquisition cost	Accumulated depreciation	Net leased property	Net leased property
Machinery and equipment.....	<b>¥6,032</b>	<b>¥2,803</b>	<b>¥3,229</b>	<b>\$32,229</b>
Tools, furniture and fixtures.....	<b>121</b>	<b>37</b>	<b>84</b>	<b>838</b>
Total.....	<b>¥6,153</b>	<b>¥2,840</b>	<b>¥3,313</b>	<b>\$33,067</b>

	Millions of yen		
	2007		
	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment.....	¥5,532	¥2,638	¥2,894
Tools, furniture and fixtures.....	124	92	32
Total.....	¥5,656	¥2,730	¥2,926

Obligations under such finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Due within one year.....	<b>¥901</b>	¥1,017	<b>\$8,993</b>
Due after one year.....	<b>2,535</b>	2,132	<b>25,302</b>
Total.....	<b>¥3,436</b>	¥3,149	<b>\$34,295</b>

Depreciation expense and imputed interest expense for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
Depreciation expense.....	<b>¥1,020</b>	¥974	<b>\$10,181</b>
Imputed interest expense.....	<b>¥64</b>	¥103	<b>\$639</b>

### 13. Segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen						
	2008						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
<b>Sales and operating income:</b>							
Sales to customers.....	¥60,446	¥1,716	¥1,833	¥5,902	¥69,897	—	¥69,897
Intersegment sales.....	—	—	—	—	—	—	—
Total.....	60,446	1,716	1,833	5,902	69,897	—	69,897
Operating costs and expenses.....	39,143	1,679	1,380	5,791	47,993	¥5,690	53,683
Operating income.....	¥21,303	¥37	¥453	¥111	¥21,904	¥(5,690)	¥16,214
<b>Assets, depreciation and capital expenditures:</b>							
Assets.....	¥79,501	¥2,625	¥958	¥6,948	¥90,032	¥43,714	¥133,746
Depreciation.....	1,722	44	31	230	2,027	427	2,454
Capital expenditures.....	1,480	45	21	171	1,717	779	2,496

	Millions of yen						
	2007						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
<b>Sales and operating income:</b>							
Sales to customers.....	¥38,737	¥1,434	¥2,188	¥4,721	¥47,080	—	¥47,080
Intersegment sales.....	—	—	—	—	—	—	—
Total.....	38,737	1,434	2,188	4,721	47,080	—	47,080
Operating costs and expenses.....	26,611	1,293	1,615	4,768	34,287	¥5,084	39,371
Operating income (loss).....	¥12,126	¥141	¥573	¥(47)	¥12,793	¥(5,084)	¥7,709
<b>Assets, depreciation and capital expenditures:</b>							
Assets.....	¥85,928	¥3,608	¥1,592	¥6,180	¥97,308	¥31,853	¥129,161
Depreciation.....	1,053	16	39	82	1,190	352	1,542
Capital expenditures.....	1,059	40	44	332	1,475	278	1,753

	Thousands of U.S. dollars						
	2008						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
<b>Sales and operating income:</b>							
Sales to customers.....	\$603,314	\$17,127	\$18,295	\$58,908	\$697,644	—	\$697,644
Intersegment sales.....	—	—	—	—	—	—	—
Total.....	603,314	17,127	18,295	58,908	697,644	—	697,644
Operating costs and expenses.....	390,688	16,758	13,774	57,799	479,019	\$56,792	535,811
Operating income.....	\$212,626	\$369	\$4,521	\$1,109	\$218,625	\$(56,792)	\$161,833
<b>Assets, depreciation and capital expenditures:</b>							
Assets.....	\$793,502	\$26,200	\$9,562	\$69,349	\$898,613	\$436,311	\$1,334,924
Depreciation.....	17,187	439	309	2,297	20,232	4,261	24,493
Capital expenditures.....	14,772	449	210	1,706	17,137	7,776	24,913

Notes: 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

# Notes to the Consolidated Financial Statements

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries

Geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen						
	2008						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
<b>Sales and operating income:</b>							
Sales to customers.....	¥16,186	¥39,420	¥12,066	¥2,225	¥69,897	—	¥69,897
Intersegment sales.....	44,989	38	9	5	45,041	¥(45,041)	—
Total.....	61,175	39,458	12,075	2,230	114,938	(45,041)	69,897
Operating costs and expenses.....	37,453	34,784	12,623	2,831	87,691	(34,008)	53,683
Operating income (loss).....	¥23,722	¥4,674	¥(548)	¥(601)	¥27,247	¥(11,033)	¥16,214
<b>Assets</b> .....	¥83,072	¥26,662	¥19,283	¥1,584	¥130,601	¥3,145	¥133,746

	Millions of yen						
	2007						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
<b>Sales and operating income:</b>							
Sales to customers.....	¥26,263	¥16,664	¥1,389	¥2,764	¥47,080	—	¥47,080
Intersegment sales.....	17,797	2	2	401	18,202	¥(18,202)	—
Total.....	44,060	16,666	1,391	3,165	65,282	(18,202)	47,080
Operating costs and expenses.....	30,561	14,947	2,232	2,856	50,596	(11,225)	39,371
Operating income (loss).....	¥13,499	¥1,719	¥(841)	¥309	¥14,686	¥(6,977)	¥7,709
<b>Assets</b> .....	¥80,756	¥30,127	¥17,278	¥1,790	¥129,951	¥(790)	¥129,161

	Thousands of U.S. dollars						
	2008						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
<b>Sales and operating income:</b>							
Sales to customers.....	\$161,553	\$393,452	\$120,431	\$22,208	\$697,644	—	\$697,644
Intersegment sales.....	449,037	379	90	50	449,556	\$(449,556)	—
Total.....	610,590	393,831	120,521	22,258	1,147,200	(449,556)	697,644
Operating costs and expenses.....	373,820	347,180	125,991	28,256	875,247	(339,436)	535,811
Operating income (loss).....	\$236,770	\$46,651	\$(5,470)	\$(5,998)	\$271,953	\$(110,120)	\$161,833
<b>Assets</b> .....	\$829,145	\$266,114	\$192,464	\$15,810	\$1,303,533	\$31,391	\$1,334,924

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

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen			
	<b>2008</b>			
	Europe	Southeast Asia	Other areas	Total
Overseas sales.....	<b>¥11,592</b>	<b>¥46,828</b>	<b>¥7,334</b>	<b>¥65,754</b>
Total sales.....				<b>¥69,897</b>
Ratio of overseas sales to total sales.....	<b>16.6%</b>	<b>67.0%</b>	<b>10.5%</b>	<b>94.1%</b>

	Millions of yen			
	2007			
	Europe	Southeast Asia	Other areas	Total
Overseas sales.....	¥3,578	¥33,936	¥5,302	¥42,816
Total sales.....				¥47,080
Ratio of overseas sales to total sales.....	7.6%	72.1%	11.2%	90.9%

	Thousands of U.S. dollars			
	<b>2008</b>			
	Europe	Southeast Asia	Other areas	Total
Overseas sales.....	<b>\$115,700</b>	<b>\$467,392</b>	<b>\$73,201</b>	<b>\$656,293</b>
Total sales.....				<b>\$697,644</b>
Ratio of overseas sales to total sales.....	<b>16.6%</b>	<b>67.0%</b>	<b>10.5%</b>	<b>94.1%</b>

Notes: 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

## 14. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 27, 2008.

	Millions of yen	Thousands of U.S. dollars
Cash dividends.....	¥1,096	\$10,939

# 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, 2008 and 2007, 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, 2008 and 2007, 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 27, 2008

*Ohtomae Audit Co.*  
Ohtomae Audit Corporation

# History

**1962** The current president, Masahiro Shima, establishes Shima Seiki Mfg., Ltd., in Wakayama City, Wakayama Prefecture, with the goal of developing and producing glove knitting machines that are completely automated.

**1965** Successful production of a fully automated glove knitting machine.

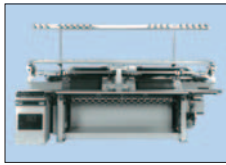


The world's first fully automated glove knitting machine

**1967** Begins producing the world's first fully automated collar-knitting machines and extends its business into the flat knitting machine industry.

**1970** Begins mass-producing and marketing fully automated seamless glove knitting machines.

**1978** Establishes its position in the flat knitting machine industry with the development of the SNC computerized jacquard flat knitting machine.



Fresh ideas double the functions at half the price

**1981** Develops the SDS®-1000 design system.



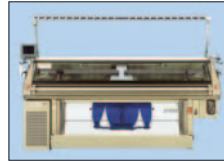
Computer graphics radically boost designer program speed

**1989** Develops the SES® series of computerized flat knitting machines, earning critical acclaim from the knitting industry.



Global standard machines that aspire to high functionality and productivity

**1995** Introduces the SWG® series, the world's first completely seamless computerized flat knitting machines, at the ITMA exhibition in Milan.



WHOLEGARMENT® flat knitting machines shake up the knitting world

**1997** Develops the SWG-FIRST® series of WHOLEGARMENT® flat knitting machine featuring the newly developed SlideNeedle®.

**2000** Develops SDS®-ONE, a new design system based on an all-in-one concept.



An all-in-one design tool to facilitate new business models

**2001** Establishes a design center in Milan, Italy.

**2005** A fashion show is held to commemorate the 10th anniversary of the launch of the WHOLEGARMENT® flat knitting machine.



Showcasing the features of WHOLEGARMENT® to users from countries around the world

**2006** Begins direct sales coverage of markets in China and Europe (Italy). We acquire a U.S. knitwear manufacturer and establish a design center in New York. The SSG® and SIG® series of flat knitting machines are launched.



Demand for machines in these series, which combine efficiency and economy, is expanding in China, which serves as the world's knitting factory.

**2007** The cutting-edge WHOLEGARMENT® flat knitting machine and the SDS®-ONE APEX design system with 3D representation are exhibited at ITMA 2007.

## Corporate Information (As of March 31, 2008)

<b>Company Name</b>	Shima Seiki Mfg., Ltd.	
<b>Headquarters</b>	85 Sakata, Wakayama City, Wakayama 641-8511, Japan Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267	
<b>Date of Establishment</b>	February 4, 1962	
<b>Capital</b>	¥14,859,800,000	
<b>Total Number of Employees</b>	Consolidated	1,680
	Non-consolidated	1,086
<b>URL</b>	Corporate Information	<a href="http://www.shimaseiki.co.jp">http://www.shimaseiki.co.jp</a>
	IR Information	<a href="http://www.shimaseiki.co.jp/ire/ire.html">http://www.shimaseiki.co.jp/ire/ire.html</a>

## Consolidated Subsidiaries

### 1 Shima Fine Press Co., Ltd.

Location: Wakayama City, Wakayama  
Business description: Machine parts manufacturing  
Shareholding ratio: 100%

### 2 KnitMac Co., Ltd.

Location: Wakayama City, Wakayama  
Business description: Machine parts manufacturing  
Shareholding ratio: 100%

### 3 TSM Industrial Co., Ltd.

Location: Wakayama City, Wakayama  
Business description: Machine parts manufacturing  
Shareholding ratio: 100%

### 4 Kainan Seimitsu Co., Ltd.

Location: Kainan City, Wakayama  
Business description: Machine parts manufacturing  
Shareholding ratio: (100%)

### 5 Tsukada Shima Seiki Co., Ltd.

Location: Ohta City, Gunma  
Business description: Textile machinery sales  
Shareholding ratio: 100%

### 6 Marquise Co., Ltd.

Location: Wakayama City, Wakayama  
Business description: Hotel administration  
Shareholding ratio: 100%  
<http://www.shimaseiki.co.jp/related/marquisee.html>

### 7 Shima Seiki Europe Ltd.

Location: United Kingdom  
Business description: Textile machinery sales  
Shareholding ratio: 100%

### 8 Shima Seiki U.S.A. Inc.

Location: U.S.A.  
Business description: Textile machinery sales  
Shareholding ratio: 100%  
<http://www.shimaseikiusa.com>

### 9 Shima Seiki Win Win Ltd.

Location: Hong Kong, China  
Business description: Textile machinery sales  
Shareholding ratio: 70%  
<http://www.shimawinwin.com>

### 10 Shima-Orsi S.p.A.

Location: Italy  
Business description: Textile machinery sales  
Shareholding ratio: 100%

### 11 Nova Knits Inc.

Location: U.S.A.  
Business description: Knit garment manufacturing and sales  
Shareholding ratio: (100%)

### 12 Shima Seiki Winwin Shanghai Ltd.

Location: China  
Business description: Machine parts sales  
Shareholding ratio: (70%)

Note: Figures in parentheses indicate indirect ownership ratios.





# Investor Information

## Investor Information (As of March 31, 2008)

<b>Accounting Year-End</b>	March 31	<b>Number of Shareholders</b>	14,093
<b>Month of General Shareholders' Meeting</b>	June	<b>Stock Exchange Listing</b>	The First Section of Tokyo Stock Exchange The First Section of Osaka Securities Exchange
<b>Authorized Common Stocks</b>	142,000,000	<b>Auditing Corporation</b>	Ohtemae Audit Corporation
<b>Issued Common Stocks</b>	37,600,000		

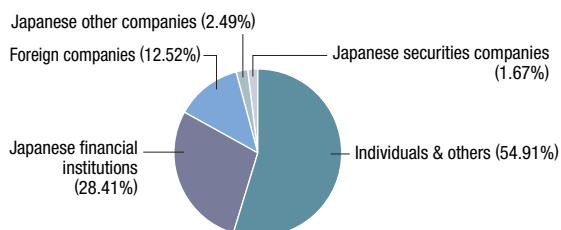
## Major Shareholders

Name	Number of shares held (thousand)	Percentage of shares held (%)
Masahiro Shima	4,750	13.00
Japan Trustee Services Bank, Ltd. (Trust Account)	2,424	6.63
Mitsuhiro Shima	1,875	5.13
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,816	4.97
The Kiyo Bank, Ltd.	1,220	3.34
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.41
Shima Seiki Employees Shareholding Association	863	2.36
Setsuko Shima	726	1.99
Wajima Kosan Co., Ltd.	720	1.97
Hiromi Goto	697	1.91

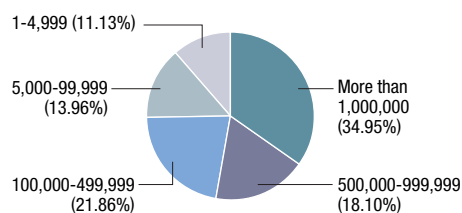
Notes: 1. The Company, which owns 1,052 thousand shares of treasury stock, or 2.80% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.  
2. Holdings of less than 1,000 shares have been omitted.

## Stock Ownership

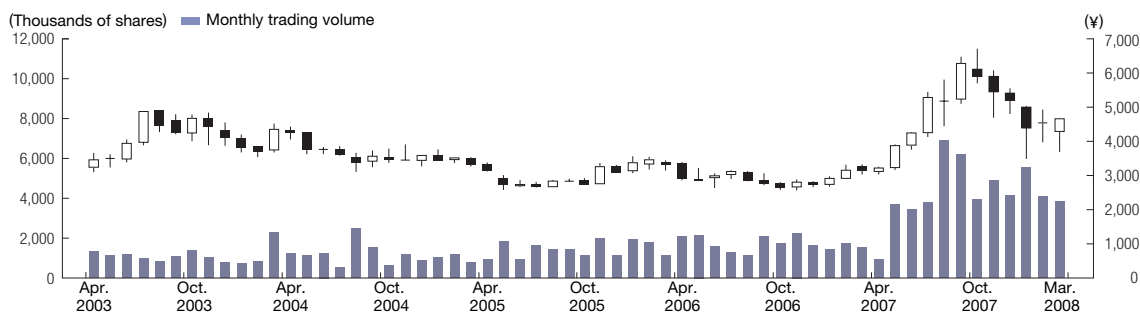
### Shareholders breakdown by type



### Shareholders breakdown by number of shares held



## Share price and trading volume on the Osaka Securities Exchange





Shima Seiki Mfg., Ltd.

Headquarters: 85 Sakata, Wakayama City,

Wakayama 641-8511, Japan

Phone: +81-73-471-0511 Facsimile: +81-73-474-8267

[ir@shimaseiki.co.jp](mailto:ir@shimaseiki.co.jp)

<http://www.shimaseiki.co.jp>

SlideNeedle, P-CAM, SDS, SES, SSG, SIG, SWG, FIRST and WHOLEGARMENT  
are registered trademarks of Shima Seiki Mfg., Ltd.



Printed in Japan on recycled paper