

**Interim Financial Results for the year ending March 31, 2007**

October 27, 2006

**Shima Seiki Mfg., Ltd.**Stock listings: Tokyo Stock Exchange and Osaka Securities Exchange (1<sup>st</sup> section)

Code number: 6222

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

Representative: Masahiro Shima, President

Adoption of U.S. Accounting Standard: No

(Amounts less than 1 million yen are omitted)

**1. Consolidated results for FY2007 interim period (from April 1, 2006 to September 30, 2006)****(1) Consolidated operating results**

(%: change from the same period of previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)
FY2007 interim	20,651	(-1.2)	2,876	(17.2)	3,177	(2.1)	600	(-66.3)
FY2006 interim	20,912	(-15.2)	2,453	(-56.4)	3,113	(-49.1)	1,782	(-52.6)
FY2006	37,879		4,023		5,634		3,404	

	Net income per share	Diluted net income per share
	Yen	Yen
FY2007 interim	16.37	-
FY2006 interim	48.61	-
FY2006	91.92	-

Reference: 1) Investment profit or loss on equity method

FY2007 interim: N/A FY2006 interim: N/A FY2006: N/A

2) Average number of shares during the period (consolidated)

FY2007 interim: 36,662,889 FY2006 interim: 36,665,003 FY2006: 36,664,398

3) Change in accounting method: No

**(2) Consolidated financial position**

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007 interim	110,744	94,718	82.6	2,583.55
FY2006 interim	108,823	93,691	86.1	2,555.37
FY2006	109,302	95,330	87.2	2,599.24

Reference: Number of shares outstanding at the end of period (consolidated)

FY2007 interim: 36,662,297 FY2006 interim: 36,664,487 FY2006: 36,663,377

(3) Consolidated cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2007 interim	5,971	(10,661)	2,858	7,299
FY2006 interim	(1,250)	115	(735)	7,296
FY2006	4,754	(3,512)	(1,386)	9,110

(4) Matters related to scope of consideration and application of the equity method

Number of consolidated subsidiaries: 9

Number of non-consolidated subsidiaries accounted for under the equity method: None

Number of affiliated companies accounted for under the equity method: None

(5) Change in scope of consolidation and application of the equity method

Consolidated (New): 1 (Excluded): None Equity method (New): None (Excluded): None

**2. Forecast of consolidated financial results for FY2007 (from April 1, 2006 to March 31, 2007)**

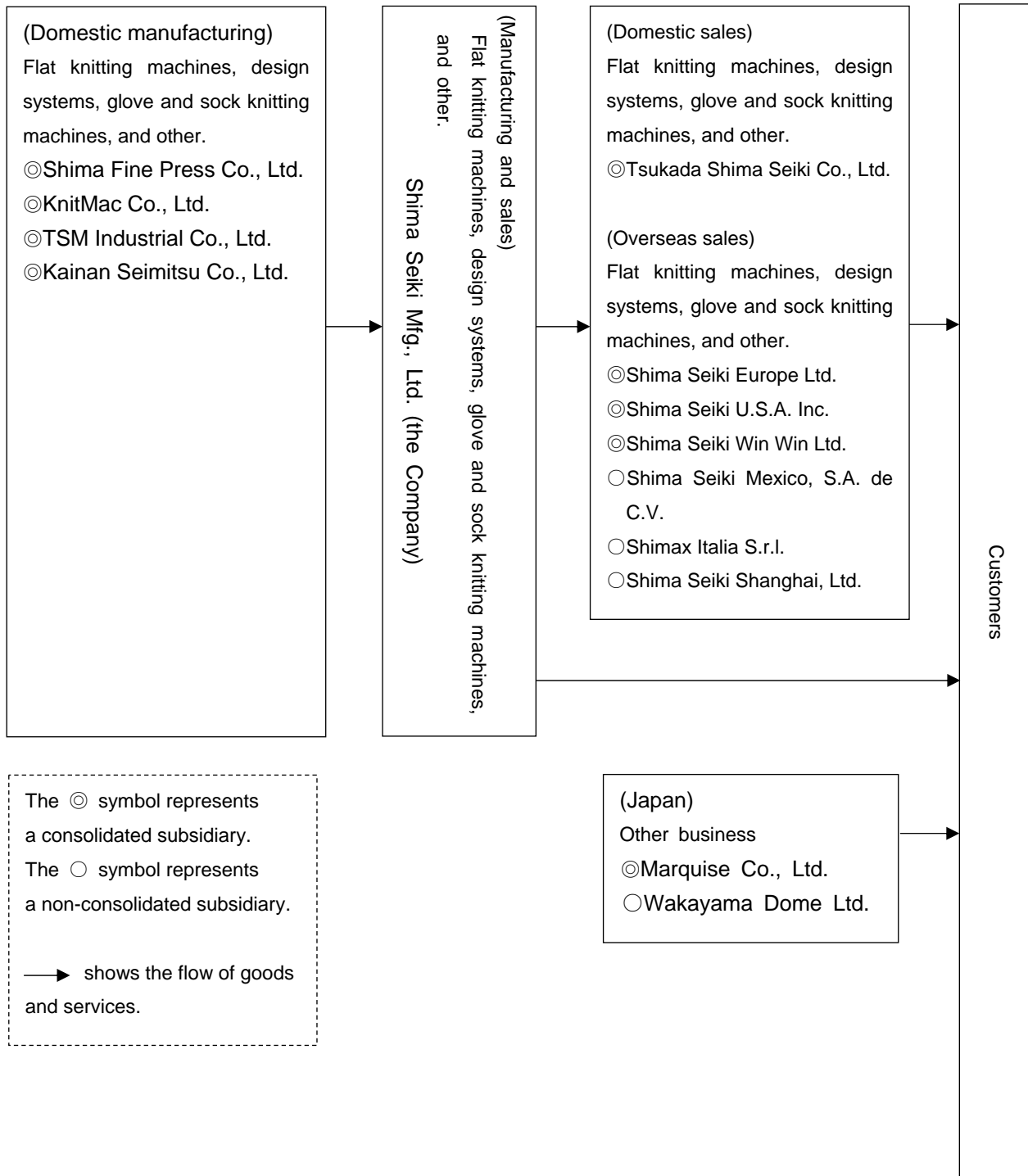
	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Full year	43,000	6,000	2,500

Reference: Estimated net income per share (full year): 68.19 yen

## 1. Status of Shima Seiki Group

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

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



## **2. Operating Results and Financial Position**

### **▀ Operating results**

#### **(1) Performance**

In the overseas markets, capital investment picked up in China and Hong Kong during the current interim period because the turmoil in the production market during the previous period triggered by uncertainty over the status of the textile products trade was settled following the conclusion of the U.S. China Textile Agreement in November 2005, which clarified the possible level of export volume limits for Chinese-made textile products over the medium to long term. Sales in Turkey in the Middle East decreased significantly due to the effects of price competition with Chinese exports of products to Europe and Russia. In Europe, the Company focused particular attention on the strategic expansion of sales of the WHOLEGARMENT<sup>®</sup> flat knitting machines primarily in Italy since IKME (the International Exhibition of Finishing and Knitting Technology, the world's largest international knitting machines trade show) held in autumn 2005, though without a full recovery of orders. Glove and sock knitting machines recorded negative sales growth due to the effects of Chinese imitation machines in the core Korean and Chinese markets.

In the domestic market, despite a partial return of knitwear production to the domestic market, capital investment remained weak reflecting the still high product import ratio and severe downturn in the industry.

As a result, net sales for the current interim period totaled 20,651 million yen (a 1.2% year-on-year decrease). On the earnings side, a decline in SG&A (selling, general, and administrative) expenses resulted in operating income of 2,876 million yen (a 17.2% year-on-year increase). Ordinary income amounted to 3,177 million yen (a 2.1% year-on-year increase) because exchange gains absorbed the increase in non-operating expenses for the transfer of the allowance for doubtful accounts in the US subsidiary. The allowance for doubtful accounts of 2,020 million yen as extraordinary loss on receivables from the sales agent to build a stronger position for future business in the European markets including Italy, pushed interim net income down to 600 million yen (a 66.3% year-on-year decrease).

Performance of each segment is as follows:

#### ***Flat Knitting Machine Segment***

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

The Company demonstrated the innovative and creative edge of WHOLEGARMENT<sup>®</sup> and, as a company capable of formulating plans to provide products, offered a total solution to the knitwear and apparel industries in consumer regions to revitalize the industry. In July, the Company opened a Design Center in New York, U.S.A., the world's greatest consumer region and fashion center, to initiate activities to promote the penetration and expansion of sales of WHOLEGARMENT<sup>®</sup> flat knitting machines and design systems that create novel and attractive knitwear products. In the Asian region, an important labor-intensive production center, sales of computerized flat knitting machines remained strong due to recovery in capital investment underpinned by the growing need for an efficient production system and settlement of trade conflicts. The Company released new SSG122, SIG122, and SIG123 models, which provide high cost performance, at the ShanghaiTex held in July. These three models enhanced production efficiency of high-volume knitwear products and were highly evaluated in the market as next-generation global standard machines with higher operability, safety, and cost efficiency.

In the domestic market, in spite of the still high ratio of import products, the appetite for more products that deliver higher quality in the fashion market, together with leading-edge technologies and quick response solutions provided by Japanese manufacturers, invoked a return to the domestic production

market. Manufacture of products leveraging WHOLEGARMENT<sup>®</sup> in consumer regions offered by the Company at the International Knitting Arts Exhibition (IKAE) in Tokyo in June encouraged partial revitalization of the industry, although capital investment remained weak under generally difficult market conditions. As a result, the entire Flat Knitting Machine segment recorded sales of 17,567 million yen (a 2.7% year-on-year increase).

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

### ***Design System Segment***

The Design System segment was engaged in the aggressive sales of the SDS-ONE, the core tool offering total solutions that cover the processes from planning and design to the manufacture and distribution of products to the knitwear and apparel industries. However, these efforts have not resulted in a substantial increase in sales, which was 809 million yen (a 3.7% year-on-year increase), for the entire Design System segment.

### ***Glove and Sock Knitting Machine Segment***

The Glove and Sock Knitting Machine segment offers methods of achieving advanced functionality, such as fine-gauge technology for manufacturing gloves used in precision manufacturing and medical applications, as well as developing high fashion products, and expanding the market for five-toed socks, which have attracted wider media attention in the field of sports and health as well as comfortable footwear. In spite of these efforts, this segment recorded sales of only 906 million yen (a 42.4% year-on-year decrease) due to a slowdown in the Korean and Chinese markets, the core work glove markets, which have been affected by Chinese imitation knitting machines.

### ***Other Business Segment***

The Other Business segment, which is mainly involved in the parts business, recorded sales of 1,368 million yen (a 5.5% year-on-year decrease).

## **(2) Profit sharing for the current interim period**

The Company will pay an interim dividend of 17.50 yen per share as originally planned.

## **(3) Outlook for the full fiscal year**

Despite the orderly restorations of conditions in the production market, which has been in a state of turmoil following the textile agreement reached between the EU and China in June and the U.S. China Textile Agreement concluded in November 2005 in the knitwear and apparel industries, the leading industrialized countries are expected to remain highly dependent on imports of apparel products. Even in China, the knitwear and apparel industry cannot be optimistic due to downward pressure on the income of manufacturers in the industry exerted by a slowdown in exports to the United States and EU together with higher Renminbi exchange rate and labor costs.

Amidst further polarization of the global market, the Group established a sales subsidiary, Shima Seiki Win Win Ltd., for the Chinese and Hong Kong market, the world's largest knitwear production center, and initiated direct sales operations through the subsidiary to further increase market share, despite the severe competition, by offering intensified technical support under the Company's initiative and an accelerated comprehensive sales strategy throughout China. In Europe and the United States, which are consumer markets, the Company leveraged its design centers in Milan and New York as base stations for fashion information and reinforced technical support to promote the manufacture of products by taking full advantage of WHOLEGARMENT<sup>®</sup> flat knitting machines and design systems that create novel and attractive knitwear products in leading industrialized countries.

The full-year performance forecast under these measures was revised due to expected strong sales in the Asian region and accelerated bad debt write-offs in Italy and the United States for the interim fiscal period. As stated in the revision announced on October 20, 2006, the Company projects consolidated net sales of 43,000 million yen, operating income of 6,000 million yen, ordinary income of 6,000 million yen, and net income of 2,500 million yen, and on a non-consolidated basis, net sales of 40,000 million yen, operating income of 5,600 million yen, ordinary income of 6,000 million yen, and net income of 3,000 million yen. Exchange rates assumed for the performance forecasts are 115 yen to the US dollar and 145 yen to the Euro.

## ▪ Financial position

Cash and cash equivalents at the end of the current interim period decreased by 1,810 million yen compared to the previous period to 7,299 million yen.

Cash flow status for each activity is as stated below.

### [Cash flow from operating activities]

While interim income before income taxes and minority interests was 1,181 million yen, cash flows from operating activities generated a net cash inflow of 5,971 million yen due to the increase in allowance for doubtful accounts and decrease in trade receivables.

### [Cash flow from investing activities]

Cash flows from investing activities resulted in a cash outflow of 10,661 million yen expenditure due to payments of 8,559 million yen for business transfers as a result of establishment of Shima Seiki Win Win Ltd., a Hong Kong local subsidiary, in September.

### [Cash flow from financing activities]

Cash flows from financing activities generated a net cash inflow of 2,858 million yen primarily attributable to proceeds from long-term loans and from issuing shares to minority shareholders of Shima Seiki Win Win Ltd. despite payments resulting from financing activities such as repayment of short-term loans and cash dividend payment.

Trends in Company cash flow indicators are shown below.

	FY2003	FY2004	FY2005	FY2006	FY2007 interim
Equity ratio	87.7%	85.5%	85.9%	87.2%	82.6%
Market-to-market equity ratio	125.3%	153.2%	112.1%	110.0%	90.7%
Debt redemption period	0.0years	-	0.8years	0.5years	0.5years
Interest coverage ratio	98.3	-	218.0	147.8	1,174.8

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

Equity ratio	(Net assets – minority interests)/Total assets
Market-to-market equity ratio	Market capitalization/Total assets
Debt redemption period	Interest-bearing liabilities/Operating cash flows
Interest coverage ratio	Operating cash flows/Interest payment

2. Market capitalization is calculated by multiplying the closing price of Company shares at the end of the period by the number of shares outstanding at the end of the period (net of any treasury stock).

3. Interest bearing liabilities include all liabilities on the consolidated balance sheet upon which interest is paid.
4. "Cash flows from operating activities" and "interest expense paid" as presented on the consolidated statements of cash flows are used as operating cash flows and interest payments.
5. Debt redemption period and interest coverage ratio for the year ended March 31, 2004 are not available due to negative "Cash flows from operating activities,"

### 3. Consolidated Statements of Income

(Millions of yen)

	FY2007 interim (Apr. 1, 2006- Sep. 30, 2006)			FY2006 interim (Apr. 1, 2005- Sep. 30, 2005)		FY2006 (Apr. 1, 2005- Mar. 31, 2006)	
	Amount	%	% change	Amount	%	Amount	%
<b>I. Net sales</b>	<b>20,651</b>	<b>100.0</b>	<b>(1.2)</b>	<b>20,912</b>	<b>100.0</b>	<b>37,879</b>	<b>100.0</b>
<b>II. Cost of sales</b>	<b>11,666</b>	<b>56.5</b>	<b>(1.2)</b>	<b>11,803</b>	<b>56.4</b>	<b>21,100</b>	<b>55.7</b>
<b>Gross profit</b>	<b>8,985</b>	<b>43.5</b>	<b>(1.4)</b>	<b>9,108</b>	<b>43.6</b>	<b>16,779</b>	<b>44.3</b>
<b>III. Selling, general, and administrative expenses</b>	<b>6,109</b>	<b>29.6</b>	<b>(8.2)</b>	<b>6,655</b>	<b>31.9</b>	<b>12,756</b>	<b>33.7</b>
<b>Operating income</b>	<b>2,876</b>	<b>13.9</b>	<b>17.2</b>	<b>2,453</b>	<b>11.7</b>	<b>4,023</b>	<b>10.6</b>
<b>IV. Non-operating income</b>	<b>856</b>	<b>4.2</b>	<b>21.9</b>	<b>702</b>	<b>3.4</b>	<b>1,699</b>	<b>4.5</b>
Interest income	207			165		356	
Dividend income	55			72		104	
Exchange gains	454			420		1,150	
Other	139			44		88	
<b>V. Non-operating expenses</b>	<b>554</b>	<b>2.7</b>	<b>-</b>	<b>42</b>	<b>0.2</b>	<b>87</b>	<b>0.2</b>
Interest expense	5			17		32	
Sales discount	176			-		-	
Provision for allowance for doubtful accounts	363			-		-	
Other	9			25		55	
<b>Ordinary income</b>	<b>3,177</b>	<b>15.4</b>	<b>2.1</b>	<b>3,113</b>	<b>14.9</b>	<b>5,634</b>	<b>14.9</b>
<b>VI. Extraordinary gains</b>	<b>50</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Gain on sales of fixed assets	50			-		-	
<b>VII. Extraordinary losses</b>	<b>2,046</b>	<b>9.9</b>	<b>811.9</b>	<b>224</b>	<b>1.1</b>	<b>341</b>	<b>0.9</b>
Extraordinary provision for allowance for doubtful accounts	2,020			-		-	
Impairment loss on fixed assets	-			187		271	
Other	26			37		69	
<b>Income before income taxes and minority interests</b>	<b>1,181</b>	<b>5.7</b>	<b>(59.1)</b>	<b>2,888</b>	<b>13.8</b>	<b>5,293</b>	<b>14.0</b>
Income taxes (current)	1,650	8.0	26.6	1,304	6.2	2,202	5.8
Income taxes (deferred)	(1,047)	(5.1)	-	(185)	(0.9)	(302)	(0.8)
Minority interests in losses	(21)	(0.1)	-	(11)	(0.0)	(11)	(0.0)
<b>Net income</b>	<b>600</b>	<b>2.9</b>	<b>(66.3)</b>	<b>1,782</b>	<b>8.5</b>	<b>3,404</b>	<b>9.0</b>



#### 4. Consolidated Statements of Changes in Shareholders' Equity

FY2007 interim period (from April 1, 2006 to September 30, 2006)

(Millions of yen)

	Shareholders' equity					Valuation and translation adjustments			Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders equity	Net unrealized holding gain (loss) on securities	Land revaluation difference	Foreign currency translation adjustments		
Balance as of March 31, 2006	14,859	21,724	65,008	(2,687)	98,905	913	(4,493)	5	191	95,522
Changes during the interim accounting period										
Dividends of surplus			(733)		(733)					(733)
Bonuses to directors and statutory auditors			(34)		(34)					(34)
Interim net income			600		600					600
Purchases of treasury stock				(3)	(3)					(3)
Retirement of treasury stock		0		0	0					0
(Net) change in items other than shareholders' equity during the interim accounting period						(715)	(3,024)	82	3,024	(632)
Total change during the interim accounting period	-	0	(167)	(3)	(170)	(715)	(3,024)	82	3,024	(803)
Balance as of September 30, 2006	14,859	21,724	64,841	(2,690)	98,734	197	(7,518)	87	3,216	94,718

#### 5. Consolidated Statement of Surplus

(Millions of yen)

	FY2006 interim (Apr.1, 2005- Sep. 30, 2005)	FY2006 (Apr.1, 2005- Mar. 31, 2006)
	Amount	Amount
<b>(Capital surplus)</b>		
<b>I. Capital surplus at beginning of year</b>	<b>21,724</b>	<b>21,724</b>
<b>II. Increase in capital surplus</b>	<b>-</b>	<b>0</b>
Gain on appropriation of treasury stock	-	0
<b>III. Decrease in capital surplus</b>	<b>0</b>	<b>-</b>
Losses from appropriation of treasury stock	0	-
<b>IV. Capital surplus at end of interim period (year)</b>	<b>21,724</b>	<b>21,724</b>
<b>(Retained earnings)</b>		
<b>I. Retained earnings at beginning of year</b>	<b>63,381</b>	<b>63,381</b>
<b>II. Increase in retained earnings</b>	<b>2,082</b>	<b>3,704</b>
Interim (current) net income	1,782	3,404
Increase resulting from increase in consolidated subsidiaries	299	299
<b>III. Decrease in retained earnings</b>	<b>1,298</b>	<b>2,076</b>
Cash dividends	733	1,374
Bonuses to directors and statutory auditors	59	59
Reversal of land revaluation difference	505	642
<b>IV. Retained earnings at end of interim period (year)</b>	<b>64,164</b>	<b>65,008</b>

## 6. Consolidated Balance Sheets

(Millions of yen)

	FY2007 interim (As of Sep. 30, 2006)			FY2006 (As of Mar. 31, 2006)		FY2006 interim (As of Sep. 30, 2005)	
	Amount	%	% change	Amount	%	Amount	%
<i>Assets</i>							
<b>I . Current assets</b>	<b>71,772</b>	<b>64.8</b>	<b>(6.3)</b>	<b>76,573</b>	<b>70.1</b>	<b>78,478</b>	<b>72.1</b>
Cash and deposits	7,768			9,976		8,319	
Trade accounts and notes receivables	49,431			53,624		58,924	
Inventories	11,714			12,133		10,893	
Other	8,203			3,747		2,924	
Allowance for doubtful accounts	(5,345)			(2,909)		(2,582)	
<b>II . Fixed assets</b>	<b>38,971</b>	<b>35.2</b>	<b>19.1</b>	<b>32,729</b>	<b>29.9</b>	<b>30,345</b>	<b>27.9</b>
<b>1. Property, plant, and equipment</b>	<b>19,968</b>	<b>18.0</b>	<b>2.7</b>	<b>19,449</b>	<b>17.8</b>	<b>18,833</b>	<b>17.3</b>
Buildings and structures	6,771			6,707		5,262	
Land	10,664			10,645		10,607	
Other	2,532			2,097		2,964	
<b>2. Intangible fixed assets</b>	<b>8,686</b>	<b>7.9</b>	<b>-</b>	<b>143</b>	<b>0.1</b>	<b>155</b>	<b>0.2</b>
Goodwill	8,540			-		-	
Other	145			143		155	
<b>3. Investments and other assets</b>	<b>10,317</b>	<b>9.3</b>	<b>(21.5)</b>	<b>13,136</b>	<b>12.0</b>	<b>11,356</b>	<b>10.4</b>
Investments in securities	5,528			5,785		4,354	
Other	5,965			8,492		8,122	
Allowance for doubtful accounts	(1,176)			(1,141)		(1,120)	
<b>Total assets</b>	<b>110,744</b>	<b>100.0</b>	<b>1.3</b>	<b>109,302</b>	<b>100.0</b>	<b>108,823</b>	<b>100.0</b>

	FY2007 interim (As of Sep. 30, 2006)			FY2006 (As of Mar. 31, 2006)		FY2006 interim (As of Sep. 30, 2005)	
	Amount	%	% change	Amount	%	Amount	%
<i>Liabilities</i>							
<b>I . Current liabilities</b>	<b>10,495</b>	<b>9.5</b>	<b>(7.2)</b>	<b>11,307</b>	<b>10.3</b>	<b>12,503</b>	<b>11.5</b>
Trade accounts and notes payables	4,441			4,231		4,839	
Short-term loans	88			2,515		2,520	
Accrued income taxes	1,688			1,025		1,328	
Accrued bonuses to employees	981			778		1,017	
Allowance for losses on debt guarantees	819			542		402	
Other	2,475			2,214		2,396	
<b>II . Long-term liabilities</b>	<b>5,529</b>	<b>5.0</b>	<b>123.6</b>	<b>2,472</b>	<b>2.3</b>	<b>2,448</b>	<b>2.2</b>
Long-term loans	3,000			-		-	
Allowance for retirement benefits	1,538			1,547		1,542	
Allowance for directors' and statutory auditors' retirement benefits	991			925		905	
<b>Total liabilities</b>	<b>16,025</b>	<b>14.5</b>	<b>16.3</b>	<b>13,780</b>	<b>12.6</b>	<b>14,952</b>	<b>13.7</b>
<i>Minority interests</i>							
<b>Minority interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>191</b>	<b>0.2</b>	<b>180</b>	<b>0.2</b>
<i>Shareholders' equity</i>							
<b>I . Common stock</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,859</b>	<b>13.6</b>	<b>14,859</b>	<b>13.7</b>
<b>II . Capital surplus</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,724</b>	<b>19.9</b>	<b>21,724</b>	<b>20.0</b>
<b>III . Retained earnings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,008</b>	<b>59.5</b>	<b>64,164</b>	<b>59.0</b>
<b>IV . Land revaluation difference</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,493)</b>	<b>(4.1)</b>	<b>(4,630)</b>	<b>(4.3)</b>
<b>V . Net unrealized holding gain (loss) on securities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>913</b>	<b>0.8</b>	<b>367</b>	<b>0.3</b>
<b>VI . Foreign currency translation adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>0.0</b>	<b>(111)</b>	<b>(0.1)</b>
<b>VII . Treasury stock</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,687)</b>	<b>(2.5)</b>	<b>(2,683)</b>	<b>(2.5)</b>
<b>Total shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>95,330</b>	<b>87.2</b>	<b>93,691</b>	<b>86.1</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>109,302</b>	<b>100.0</b>	<b>108,823</b>	<b>100.0</b>
<i>Net assets</i>							
<b>I . Shareholders' equity</b>	<b>98,734</b>	<b>89.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Common stock	14,859	13.4	-	-	-	-	-
Capital surplus	21,724	19.6	-	-	-	-	-
Retained earnings	64,841	58.6	-	-	-	-	-
Treasury stock	(2,690)	(2.4)	-	-	-	-	-
<b>II . Valuation and translation adjustments</b>	<b>(7,232)</b>	<b>(6.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net unrealized holding gain (loss) on securities	197	0.1	-	-	-	-	-
Land revaluation difference	(7,518)	(6.8)	-	-	-	-	-
Foreign currency translation adjustments	87	0.1	-	-	-	-	-
<b>III . Minority interests</b>	<b>3,216</b>	<b>2.9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net assets</b>	<b>94,718</b>	<b>85.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and net assets</b>	<b>110,744</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 7. Consolidated Statements of Cash Flows

(Millions of yen)

	<b>FY2007 interim (Apr. 1, 2006- Sep. 30, 2006)</b>	FY2006 interim (Apr. 1, 2005- Sep. 30, 2005)	FY2006 (Apr. 1, 2005- Mar. 31, 2006)
	Amount	Amount	Amount
<b>I. Cash flow from operating activities</b>			
Income before income taxes and minority interests	1,181	2,888	5,293
Depreciation and amortization	555	472	1,026
Impairment loss on fixed assets	-	187	271
Increase in allowance for doubtful accounts	2,473	458	796
Increase in allowance for losses on debt guarantees	281	402	542
Interest and dividend income	(262)	(237)	(460)
Decrease (increase) in trade receivables	2,105	(3,274)	2,065
Decrease (increase) in inventories	173	65	(1,152)
Decrease in trade payables	(548)	(1,338)	(1,194)
Other	697	310	(244)
<b>Subtotal</b>	<b>6,656</b>	<b>(64)</b>	<b>6,942</b>
Interest and dividend income received	249	245	470
Interest expense paid	(5)	(17)	(32)
Income taxes paid	(928)	(1,414)	(2,626)
<b>Net cash provided by operating activities</b>	<b>5,971</b>	<b>(1,250)</b>	<b>4,754</b>
<b>II. Cash flow from investing activities</b>			
Net decrease in time deposits	397	228	400
Net increase in short-term investments	(439)	(179)	(279)
Purchases of property, plant, and equipment	(465)	(437)	(2,495)
Proceeds from sales of property, plant, and equipment	106	87	129
Purchases of investments in securities	(981)	(929)	(1,831)
Proceeds from sales of investments in securities	112	1,225	1,547
Payments for business transfers	(8,559)	-	-
Other	(831)	121	(983)
<b>Net cash used in investing activities</b>	<b>(10,661)</b>	<b>115</b>	<b>(3,512)</b>
<b>III. Cash flow from financing activities</b>			
Net decrease in short-term loans	(2,426)	-	(5)
Proceeds from long-term loans	3,000	-	-
Proceeds from issuing shares to minority shareholders	3,021	-	-
Purchases of treasury stock	(3)	(3)	(8)
Cash dividends paid	(732)	(732)	(1,374)
Other	0	0	1
<b>Net cash used in financing activities</b>	<b>2,858</b>	<b>(735)</b>	<b>(1,386)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>19</b>	<b>72</b>	<b>159</b>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	<b>(1,810)</b>	<b>(1,798)</b>	<b>15</b>
<b>VI. Cash and cash equivalents at beginning of year</b>	<b>9,110</b>	<b>8,998</b>	<b>8,998</b>
<b>VII. Increase in cash and cash equivalents due to a newly consolidated subsidiary</b>	<b>-</b>	<b>96</b>	<b>96</b>
<b>VIII. Cash and cash equivalents at end of interim period (year)</b>	<b>7,299</b>	<b>7,296</b>	<b>9,110</b>

**(Segment information)**

**1. Business segment information**

(1) FY2007 interim period (from April 1, 2006 to September 30, 2006)

(Millions of yen)

	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Other	Total	Corporate/elimination	Consolidated
Sales							
(1) Sales to customers	17,567	809	906	1,368	20,651	-	20,651
(2) Intersegment sales or transfer	-	-	-	-	-	-	-
Total	17,567	809	906	1,368	20,651	-	20,651
Operating costs and expenses	12,502	634	712	1,305	15,155	2,620	17,775
Operating income (loss)	5,064	175	193	62	5,496	(2,620)	2,876

(2) FY2006 interim period (from April 1, 2005 to September 30, 2005)

(Millions of yen)

	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Other	Total	Corporate/elimination	Consolidated
Sales							
(1) Sales to customers	17,110	781	1,573	1,447	20,912	-	20,912
(2) Intersegment sales or transfer	-	-	-	-	-	-	-
Total	17,110	781	1,573	1,447	20,912	-	20,912
Operating costs and expenses	12,854	614	1,122	1,353	15,944	2,514	18,459
Operating income (loss)	4,256	166	450	93	4,967	(2,514)	2,453

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

(Millions of yen)

	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Other	Total	Corporate/elimination	Consolidated
Sales							
(1) Sales to customers	30,163	1,802	3,126	2,787	37,879	-	37,879
(2) Intersegment sales or transfer	-	-	-	-	-	-	-
Total	30,163	1,802	3,126	2,787	37,879	-	37,879
Operating costs and expenses	22,650	1,358	2,290	2,618	28,916	4,939	33,856
Operating income (loss)	7,513	444	835	169	8,962	(4,939)	4,023

Note: Main products of each segment

- (1) Flat Knitting Machine . . . . . Computerized flat knitting machine and computerized semi-jacquard flat knitting machine
- (2) Design System . . . . . Computer graphic apparel design system, knitting CAD system, and apparel CAD/CAM system
- (3) Glove and Sock Knitting Machine . . . . . Computerized seamless glove and sock knitting machine  
Parts for knitting machines and design systems, yarn for
- (4) Other . . . . . glove knitting machines, machine repair and maintenance, and hotel business

## 2. Geographical segment information

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

## 3. Overseas sales

(1) FY2007 interim period (from April 1, 2006 to September 30, 2006) (Millions of yen)

	Europe	Middle East	Southeast Asia	Other areas	Total
I . Overseas sales	2,081	874	15,113	713	18,783
II . Consolidated sales					20,651
III . Ratio of overseas sales to consolidated sales	10.1%	4.2%	73.2%	3.5%	91.0%

(2) FY2006 interim period (from April 1, 2005 to September 30, 2005) (Millions of yen)

	Europe	Middle East	Southeast Asia	Other areas	Total
I . Overseas sales	2,181	2,787	12,682	667	18,318
II . Consolidated sales					20,912
III . Ratio of overseas sales to consolidated sales	10.4%	13.3%	60.7%	3.2%	87.6%

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

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

Note: Significant countries or areas belonging to each area are as follows:

- (1) Europe.....Italy, Spain, and U.K.
- (2) Middle East.....Turkey and Syria
- (3) Southeast Asia...China, South Korea, and Taiwan
- (4) Other areas.....Brazil and U.S.A.

## Status of production, orders, and sales

### (1) Production

(Millions of yen)

Name of segment	FY2007 interim	FY2006 interim	FY2006
Flat Knitting Machine	17,577	15,367	29,163
Design System	718	983	2,173
Glove and Sock Knitting Machine	833	1,434	2,856
Total	19,129	17,785	34,193

### (2) Orders

(Millions of yen)

Name of segment	FY2007 interim		FY2006 interim		FY2006	
	Orders	Order backlog	Orders	Order backlog	Orders	Order backlog
Flat Knitting Machine	15,593	3,502	14,832	1,391	31,969	5,475
Design System	817	60	777	70	1,780	52
Glove and Sock Knitting Machine	675	128	1,736	449	3,200	360
Total	17,086	3,691	17,346	1,911	36,950	5,888

### (3) Sales

(Millions of yen)

Name of segment	FY2007 interim	FY2006 interim	FY2006
Flat Knitting Machine	17,567	17,110	30,163
Design System	809	781	1,802
Glove and Sock Knitting Machine	906	1,573	3,126
Other	1,368	1,447	2,787
Total	20,651	20,912	37,879