

## Interim Financial Results for the year ending March 31, 2008

October 31, 2007

### 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

Expected date of dividends payment: December 5, 2007

Expected date for filing semiannual report: December 20, 2007

(Amounts less than 1 million yen are omitted)

### 1. Consolidated results for FY2008 interim period (from April 1, 2007 to September 30, 2007)

#### (1) Consolidated operating results

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

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)
FY2008 interim	37,192	(80.1)	10,870	(278.0)	12,298	(287.0)	6,664	(-)
FY2007 interim	20,651	(-1.2)	2,876	(17.2)	3,177	(2.1)	600	(-66.3)
FY2007	47,079		7,709		9,450		3,113	

	Net income per share	Diluted net income per share
	Yen	Yen
FY2008 interim	188.35	173.62
FY2007 interim	16.37	-
FY2007	86.17	83.51

Reference: Investment profit or loss on equity method

FY2008 interim: N/A

FY2007 interim: N/A

FY2007: N/A

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2008 interim	141,712	104,607	70.8	2,722.96
FY2007 interim	110,744	94,718	82.6	2,495.83
FY2007	129,161	92,810	69.2	2,546.71

Reference: Shareholders' equity

FY2008 interim: 100,268 million yen

FY2007 interim: 91,502 million yen

FY2007: 89,315 million yen

### (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
FY2008 interim	14,252	(6,554)	(990)	22,698
FY2007 interim	5,971	(10,661)	2,858	7,299
FY2007	10,691	(16,222)	12,225	15,954

### 2. Cash dividends

	Cash dividends per share		
	Interim	Year-end	Annual
	Yen	Yen	Yen
FY2007	17.50	20.00	37.50
FY2008	25.00		
FY2008 (Forecast)		20.00	45.00

(Note) Interim dividend for FY2008 ordinary dividend:22.50yen commemorative dividend:2.50yen

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

	Net sales	Operating income	Ordinary income	Net income	Net income per share
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Yen
Full year	65,000 (38.1)	16,000 (107.5)	18,000 (90.5)	10,000 (221.2)	271.57

### 4. Other

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries that involve changes in scope of consolidation): No
- (2) Changes in accounting principles, procedures, presentation methods, and other practices for presenting interim consolidated financial statements (changes listed on "Significant changes in basis of presenting interim consolidated financial statements")
  - 1) Changes following revision of accounting standards: Yes
  - 2) Changes other than those above: No
- (3) Number of outstanding shares (common stock)
  - 1) Number of shares outstanding at the end of period (including treasury stock)  
FY2008 interim: 37,600,000 FY2007 interim: 37,600,000 FY2007: 37,600,000
  - 2) Number of shares of treasury stock at the end of period  
FY2008 interim: 776,644 FY2007 interim: 937,703 FY2007: 2,529,153

**Reference: Summarized non-consolidated financial results**

**1. Non-consolidated results for FY2008 interim period (from April 1, 2007 to September 30, 2007)**

(1) Non-consolidated operating results

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)
FY2008 interim	29,855 (48.8)	6,750 (145.3)	7,048 (102.6)	3,424 (232.8)
FY2007 interim	20,060 (-1.4)	2,752 (34.9)	3,478 (15.5)	1,029 (-45.4)
FY2007	43,754	7,024	8,737	3,607

	Net income per share
	Yen
FY2008 interim	96.80
FY2007 interim	28.07
FY2007	99.83

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2008 interim	121,301	90,785	74.8	2,465.43
FY2007 interim	102,098	85,339	83.6	2,327.71
FY2007	114,688	83,034	72.4	2,367.62

Reference: Shareholders' equity

FY2008 interim: 90,785 million yen    FY2007 interim: 85,339 million yen    FY2007: 83,034 million yen

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

	Net sales	Operating income	Ordinary income	Net income	Net income per share
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Yen
Full year	55,000 (25.7)	11,500 (63.7)	12,000 (37.3)	6,500 (80.2)	176.52

## **1. Operating Results**

### **(1) Analysis of operating results**

#### **[Operating results for the current fiscal year]**

With respect to the state of the economy in this interim term, the sense of insecurity surrounding the prospects for the global economy grew stronger, fueled in part by turmoil in financial markets attributed to concerns that the U.S. economy is slowing down due to various factors stemming from the subprime loan controversy. At the same time, the expansion of exports and investments in China, India and other emerging markets is accelerating, which is helping to sustain high rates of growth in these countries. In Japan, exports are slowing down, personal consumption is rising sluggishly and the pace of economic recovery is otherwise slow. Amid such a picture of the economy, our Group has focused our efforts on raising the level of production efficiency and developing and marketing new products and software that contribute to high caliber manufacturing to an even greater degree than before in order to promptly meet the array of needs expressed by clients around the world.

In the global economy, the Chinese and Hong Kong markets, which constitute the world's largest center of knitwear manufacturing, continue to raise their profile thanks to their overwhelming productivity and have been bolstered by active demand for capital investment since the second half of the previous fiscal year. In addition, sales of our flagship product – computerized flat knitting machines – increased substantially as the direct sales structure provided by Shima Seiki Win Win Ltd., which became a subsidiary of our company last year, contributed to improved results. While there is greater pressure felt in other regions to oppose increasing imports of Chinese-made knitwear, the trend towards a revival of a domestic production structure is on the rise and sales are recovering in Italy, a leading knitwear producing country in Europe.

Even in the domestic market, the domestic production of knitwear is staging a comeback and sales are picking up, albeit slowly, after having declined for a while.

In addition to the above, local Italian and American companies were added to our Group, such that consolidated net sales for the current interim term equaled 37,192 million yen (80.1% year-on-year increase over the same period), our highest such figure for an interim term, with the result that our foreign sales ratio came to 94.3%.

In terms of income, our Flat Knitting Machine segment posted a substantial increase in net sales and increased production and other factors led to reductions in cost. We posted operating income of 10,870 million yen (278.0% year-on-year increase over the same period), considerably higher ordinary income of 12,298 million yen (287.0% year-on-year increase over the same period) – which reflected in part foreign exchange gains from a weakened yen and net income for the interim term of 6,664 million yen (1,010.6% year-on-year increase over the same period). All of these figures reached record-high levels for an interim term.

Performance of each segment is as follows:

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

In our flagship Flat Knitting Machine segment, there has been a rise in laborsaving needs and an ongoing dynamic shift from manual knitting machines to computerized flat knitting machines against the backdrop of the steep rise in labor costs and the labor shortage in the textile industry, as well as increasing costs attributed to a strengthening yuan affecting our primary Chinese and Hong Kong markets. Our SSG and SIG series, which were strategically introduced in July of last year in line with this increasing degree of motivation towards capital investment, have raised the degree of customer satisfaction on the part of users who seek high levels of productivity, economic efficiency and operability as well as the ability to engage in high-quality manufacturing and have sustained a very robust level of business inquiries to go along with increased sales.

In the same region, our computerized flat knitting machines, designed to not only reduce costs but

also to raise levels of product quality, drew the attention of a large number of visitors and succeeded in helping us field more inquiries and orders at the 13<sup>th</sup> Shanghai International Textile Industry Exhibition (ShanghaiTex 2007) held in June. In addition, plants and equipment underwent expansion in South Korea, India and other surrounding Asian countries.

While the European market continued to face difficult circumstances as imports of Chinese-made products increased, there were signs of a recovery in capital investment in flat knitting machines owing to the improved light in which the production systems in Italy and eastern Europe, which have exceptional technical strengths and the ability to make product proposals, as well as to the development of active post-sales customer service through Shima - Orsi S.p.A (Italy)., which was incorporated into our Group in December of last year. In the same region, state-of-the-art WHOLEGARMENT<sup>®</sup> (seamless knitwear) flat knitting machines, which significantly reduce the time required for knitting, and other items belonging to a product line bringing together advanced proprietary technologies were displayed and favorably received at the International Exhibition of Textile Machinery (ITMA 2007), which is the largest trade show of its kind in the world and was held in Munich, Germany, between September 13 and 20.

Also in the domestic market, there are signs pointing to a willingness to reexamine the focus placed on Chinese production on the part of parties in the knitwear and apparel industry. A slight recovery occurred in sales over the same period last year, albeit not to the extent that would spur a full-fledged expansion of capital investment.

As a result of these factors, overall net sales for the Flat Knitting Machine segment rose considerably to 32,837 million yen (86.9% year-on-year increase over the same period).

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

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

In our Design System segment, we earned net sales of 929 million yen (14.8% year-on-year increase over the same period) as a result of adhering to an all-in-one philosophy by focusing on proposing and marketing SDS-ONE, which successfully shortens lead times and reduces costs as the core tool for total solutions in the knitwear and apparel industry and proposing and marketing an integrated production system based on the pairing with the SDS-ONE (P) for apparel CAD applications and the P-CAM series of computerized fabric cutting systems.

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

In our Glove and Sock Knitting Machine segment, sales declined in our primary South Korean and domestic markets but rose in emerging Asian countries for net sales of 998 million yen (10.1% year-on-year increase over the same period).

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

In our Other Business segment, net sales of 2,427 million yen (77.4% year-on-year increase over the same period) were posted in part due to the additional contributions provided by the knitwear sales business operated by Nova Knits Inc. (United States).

### **[Outlook for the following period]**

In respect to the global economy of tomorrow, instability is expected to continue plaguing the foreign exchange and equity markets in response to concerns over the slowing economy in the United States. Nevertheless, it is believed that high rates of growth in China and other Asian countries will be maintained for the time being. There are concerns in the Japanese economy that currency volatility, rising costs of raw materials and other factors will have an impact on corporate earnings, such that the relevant signs point to an ongoing state of uncertainty regarding the outlook for the economy.

Amid such a picture of the economy, our Group aims to invigorate the industry as a whole and achieve growth for the Group by continuing to provide the global markets with products infused with high added value facilitated by a high level of technology.

In overseas markets, it is expected that the robust demand for computerized flat knitting machines will persist while the need for streamlining production systems will remain steady against the backdrop of the steep rise in labor costs and the labor shortage in China and Hong Kong. While we have set up a system for increasing production and are accommodating a busy stream of orders, we will endeavor to further reinforce our production system beginning in the second half of the current fiscal year.

In this market, we will attempt to promptly respond to user needs and increase our market share in the face of fierce competition by fortifying our company-led technological support system and actively deploying a comprehensive marketing strategy across the whole of China through our bases comprised of local corporations in Hong Kong and Shanghai.

In turning our attention to Europe, it is expected that a highly streamlined consumption area-based production system will expand through the use of WHOLEGARMENT<sup>®</sup> knitting machines and SDS-ONE as a program of meticulous post-sales customer service is deployed by a local corporation in Italy, where capital investment is rebounding. In the Italian and eastern European market, sales of new models belonging to the SSG and SIG series of machines, which boast high levels of production efficiency and which were met with critical acclaim at ITMA 2007, are also projected to increase.

In the United States, home of the world's largest consumer market, we will promote increased sales of WHOLEGARMENT<sup>®</sup> knitting machines and SDS-ONE by taking advantage of a collaboration between Shima Seiki Design Center of New York and Shima Seiki U.S.A. Inc. to effectively communicate the advantages of the latest WHOLEGARMENT<sup>®</sup> knitwear, the high-quality designs of which offer a comfortable fit while satisfying environmental considerations.

In the domestic market, we will harness communication space in our Tokyo and Osaka offices to propose a highly efficient knitwear production system and support moves to revive domestic production in the knitwear and apparel industry.

A positive state of sales and orders is expected to continue for the time being, primarily in the Chinese and Hong Kong markets through the deployment of these measures. However, the outlook for results for the fiscal year as a whole is such that our projections call for consolidated net sales of 65,000 million yen, consolidated operating income of 16,000 million yen, consolidated ordinary income of 18,000 million yen and consolidated net income for the term of 10,000 million yen, as well as non-consolidated net sales of 55,000 million yen, non-consolidated operating income of 11,500 million yen, non-consolidated ordinary income of 12,000 million yen and non-consolidated net income for the term of 6,500 million yen, in accordance with our pronouncement of revised figures made on July 27, 2007, to reflect such factors pointing to an uncertain future as the slowing U.S. economy and currency trends.

Exchange rates assumed for the performance forecasts are 113 yen to the US dollar and 155 yen to the Euro.

## **(2) Analysis of financial position**

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

Total assets as of the end of the current interim term increased by 12,550 million yen over the end of the previous fiscal year to 141,712 million yen. The key factors accounting for this increase include an increase in cash and deposits and an increase in negotiable securities. Liabilities increased by 753 million yen over the end of the previous fiscal year to 37,104 million yen. The key factors accounting for an increase in liabilities include an increase in trade accounts and notes payable and an increase in accrued income taxes, whereas the key factors accounting for a decrease in liabilities include a reduction in convertible bonds with stock acquisition rights owing to the conversion to shares. Net assets, including minority shareholders' interest, increased by 11,797 million yen over the end of the

previous fiscal year to 104,607 million yen. The key factors accounting for this increase consist of an increase in retained earnings and a decrease in treasury stocks.

In addition, cash and cash equivalents increased by 6,744 million yen over the end of the previous fiscal year, such that the balance thereof as of the end of the current interim term equaled 22,698 million yen.

Cash flow status for each activity is as stated below.

**[Cash flow from operating activities]**

In addition to an increase in income before income taxes and minority interests for the interim term, an increase in accounts payable and a decrease in inventory assets were some of the factors causing funds obtained through operating activities to increase by 8,280 million yen over the same period in the last fiscal year to 14,252 million yen.

**[Cash flow from investing activities]**

Funds used for investment activities, including the acquisition of negotiable securities and the acquisition of tangible fixed assets, decreased by 4,106 million yen over the same period in the last fiscal year to 6,554 million yen.

**[Cash flow from financing activities]**

Funds used for financing activities, including payments of dividends, equaled 990 million yen. (Proceeds of 2,858 million yen correspond to the same period in the last fiscal year.)

Trends in Company cash flow indicators are shown below.

	FY2004	FY2005	FY2006	FY2007	FY2008 interim
Equity ratio	85.5%	85.9%	87.2%	69.2%	70.8%
Market-to-market equity ratio	153.2%	112.1%	110.0%	84.2%	160.6%
Ratio of cash flow to interest-bearing liabilities	-	75.3%	52.9%	71.4%	51.9%
Interest coverage ratio	-	218.0	147.8	145.8	328.4

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

Equity ratio	Shareholders' equity/Total assets
Market-to-market equity ratio	Market capitalization/Total assets
Ratio of cash flow to interest-bearing liabilities	Interest-bearing liabilities/Cash flow
Interest coverage ratio	Cash flow/Interest payment

- 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).
- Cash flow constitutes cash flow from operating activities as indicated in the statement of consolidated cash flow.
- Interest-bearing liabilities include all liabilities on the consolidated balance sheet upon which interest is paid. In addition, interest payments equal the amount of interest paid as indicated in the statement of consolidated cash flow.
- Ratio of cash flow to interest-bearing liabilities and interest coverage ratio for the year ended March 31, 2004 are not available due to negative cash flow from operating activities.

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

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

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

While we initially planned to increase cash dividends for the current interim term by 5.00 yen per share in total, which broken down equals an additional 2.50 yen for an ordinary dividend and an additional 2.50 yen for a commemorative dividend marking the 45th anniversary of the founding of the company, we will further supplement the ordinary dividend by 2.50 yen for a total increase of 7.50 yen per share in cash dividends upon taking into account our strong performance for the current interim term. Consequently, our interim cash dividends will be 25 yen per share. Combined with a planned year-end dividend of 20 yen, we are slated to provide 45 yen per share in dividends for the year.

### **(4) Business risks and uncertainties**

As no new risks have emerged from our most recent financial report (submitted on June 29, 2007), this section will be omitted. You can peruse the financial report in question by visiting the following website:

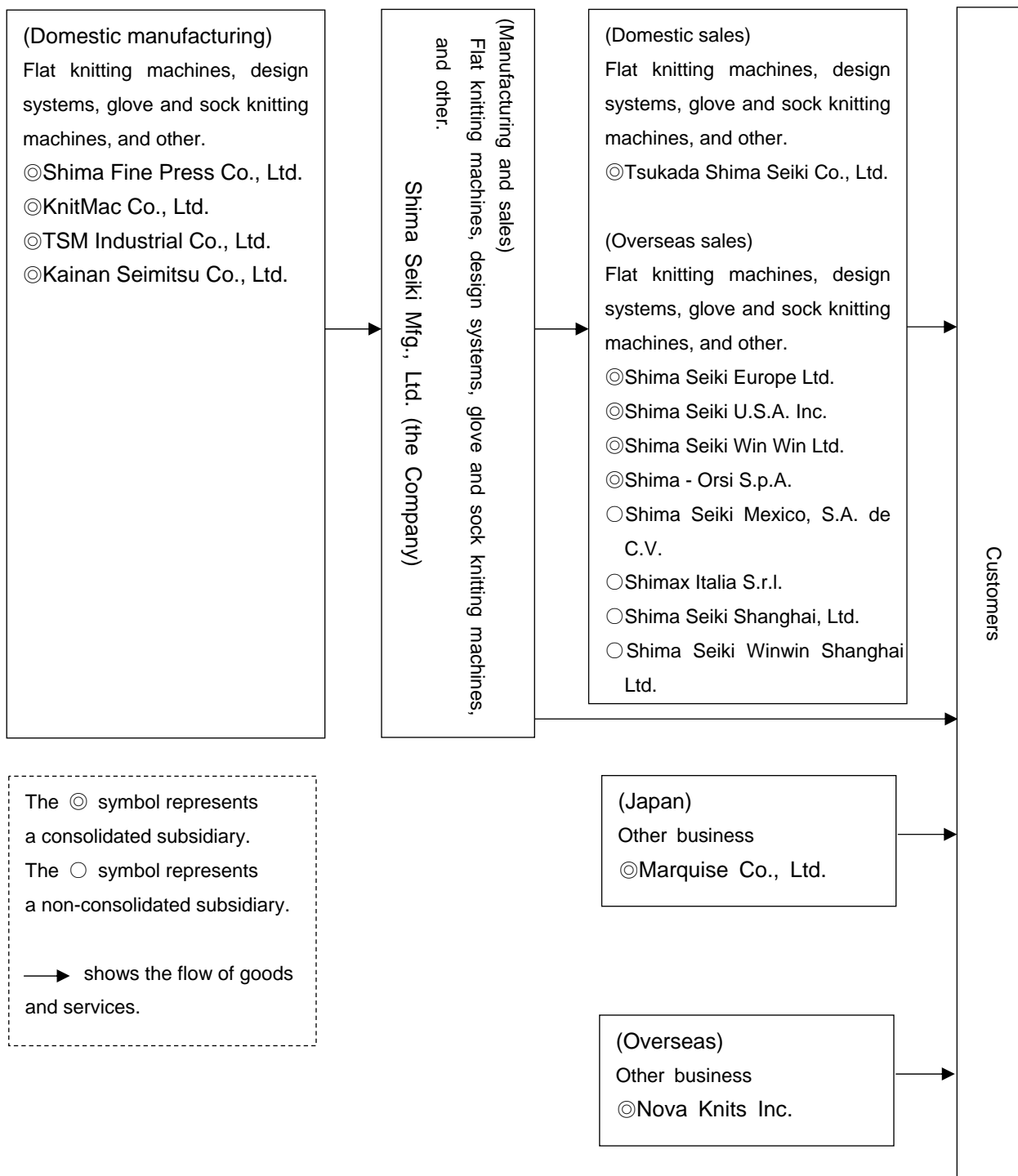
<<http://www.shimaseiki.co.jp/ire/ire.html>>



## 2. Status of Shima Seiki Group

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

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



### **3. Management policy**

Since no material changes to the content disclosed through the brief announcement of financial results for the year ended March 31, 2007 (released on May 10, 2007) in respect to (1) the basic management policies of the company, (2) the targeted management benchmarks and (3) the medium- to long-term management strategies of the company and the issues that need to be addressed over this time period have occurred, the disclosure thereof shall be omitted.

You can peruse the financial report in question by visiting the following website:

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

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	FY2007 interim (As of Sep. 30, 2006)		FY2008 interim (As of Sep. 30, 2007)		FY2007 (As of Mar. 31, 2007)	
	Amount	%	Amount	%	Amount	%
<i>Assets</i>						
<b>I . Current assets</b>	<b>71,772</b>	<b>64.8</b>	<b>93,602</b>	<b>66.1</b>	<b>81,239</b>	<b>62.9</b>
Cash and deposits	7,768		22,967		15,212	
Trade accounts and notes receivables	49,431		44,702		43,706	
Short-term investments	999		7,125		2,554	
Inventories	11,714		15,219		16,200	
Other	7,203		6,244		5,891	
Allowance for doubtful accounts	(5,345)		(2,656)		(2,325)	
<b>II . Fixed assets</b>	<b>38,971</b>	<b>35.2</b>	<b>48,110</b>	<b>33.9</b>	<b>47,921</b>	<b>37.1</b>
<b>1. Property, plant, and equipment</b>	<b>19,968</b>	<b>18.0</b>	<b>21,828</b>	<b>15.4</b>	<b>21,500</b>	<b>16.6</b>
Buildings and structures	6,771		6,651		6,534	
Land	10,664		10,669		10,668	
Other	2,532		4,507		4,297	
<b>2. Intangible fixed assets</b>	<b>8,686</b>	<b>7.9</b>	<b>10,527</b>	<b>7.4</b>	<b>10,921</b>	<b>8.5</b>
Goodwill	8,540		10,368		10,767	
Other	145		159		154	
<b>3. Investments and other assets</b>	<b>10,317</b>	<b>9.3</b>	<b>15,753</b>	<b>11.1</b>	<b>15,499</b>	<b>12.0</b>
Investments in securities	5,528		9,067		9,579	
Other	5,965		8,181		7,018	
Allowance for doubtful accounts	(1,176)		(1,494)		(1,098)	
<b>Total assets</b>	<b>110,744</b>	<b>100.0</b>	<b>141,712</b>	<b>100.0</b>	<b>129,161</b>	<b>100.0</b>

	FY2007 interim (As of Sep. 30, 2006)		FY2008 interim (As of Sep. 30, 2007)		FY2007 (As of Mar. 31, 2007)	
	Amount	%	Amount	%	Amount	%
<i>Liabilities</i>						
<b>I . Current liabilities</b>	<b>10,495</b>	<b>9.5</b>	<b>26,580</b>	<b>18.8</b>	<b>20,509</b>	<b>15.9</b>
Trade accounts and notes payables	4,441		10,118		7,481	
Short-term loans	88		4,320		4,561	
Accrued bonuses to employees	981		1,183		879	
Allowance for losses on debt guarantees	819		353		331	
Other	4,164		10,603		7,256	
<b>II . Long-term liabilities</b>	<b>5,529</b>	<b>5.0</b>	<b>10,524</b>	<b>7.4</b>	<b>15,841</b>	<b>12.2</b>
Convertible bonds	-		4,673		10,045	
Long-term loans	3,000		3,080		3,071	
Allowance for retirement benefits	1,538		1,707		1,711	
Allowance for directors' and statutory auditors' retirement benefits	991		1,063		1,012	
<b>Total liabilities</b>	<b>16,025</b>	<b>14.5</b>	<b>37,104</b>	<b>26.2</b>	<b>36,351</b>	<b>28.1</b>
<i>Net assets</i>						
<b>I . Shareholders' equity</b>	<b>98,734</b>	<b>89.2</b>	<b>107,617</b>	<b>75.9</b>	<b>96,301</b>	<b>74.6</b>
Common stock	14,859	13.4	14,859	10.5	14,859	11.5
Capital surplus	21,724	19.6	22,233	15.7	21,724	16.8
Retained earnings	64,841	58.6	72,676	51.2	66,713	51.7
Treasury stock	(2,690)	(2.4)	(2,152)	(1.5)	(6,995)	(5.4)
<b>II . Valuation and translation adjustments</b>	<b>(7,232)</b>	<b>(6.6)</b>	<b>(7,348)</b>	<b>(5.2)</b>	<b>(6,986)</b>	<b>(5.4)</b>
Net unrealized holding gain on securities	197	0.1	(69)	(0.0)	269	0.2
Land revaluation difference	(7,518)	(6.8)	(7,518)	(5.3)	(7,518)	(5.8)
Foreign currency translation adjustments	87	0.1	239	0.1	262	0.2
<b>III . Minority interests</b>	<b>3,216</b>	<b>2.9</b>	<b>4,338</b>	<b>3.1</b>	<b>3,494</b>	<b>2.7</b>
<b>Total net assets</b>	<b>94,718</b>	<b>85.5</b>	<b>104,607</b>	<b>73.8</b>	<b>92,810</b>	<b>71.9</b>
<b>Total liabilities and net assets</b>	<b>110,744</b>	<b>100.0</b>	<b>141,712</b>	<b>100.0</b>	<b>129,161</b>	<b>100.0</b>

## (2) Consolidated Statements of Income

(Millions of yen)

	FY2007 interim (Apr. 1, 2006- Sep. 30, 2006)		FY2008 interim (Apr. 1, 2007- Sep. 30, 2007)		FY2007 (Apr. 1, 2006- Mar. 31, 2007)	
	Amount	%	Amount	%	Amount	%
<b>I. Net sales</b>	<b>20,651</b>	<b>100.0</b>	<b>37,192</b>	<b>100.0</b>	<b>47,079</b>	<b>100.0</b>
<b>II. Cost of sales</b>	<b>11,666</b>	<b>56.5</b>	<b>16,836</b>	<b>45.3</b>	<b>25,013</b>	<b>53.1</b>
<b>Gross profit</b>	<b>8,985</b>	<b>43.5</b>	<b>20,355</b>	<b>54.7</b>	<b>22,066</b>	<b>46.9</b>
<b>III. Selling, general, and administrative expenses</b>	<b>6,109</b>	<b>29.6</b>	<b>9,484</b>	<b>25.5</b>	<b>14,357</b>	<b>30.5</b>
<b>Operating income</b>	<b>2,876</b>	<b>13.9</b>	<b>10,870</b>	<b>29.2</b>	<b>7,709</b>	<b>16.4</b>
<b>IV. Non-operating income</b>	<b>856</b>	<b>4.2</b>	<b>1,559</b>	<b>4.2</b>	<b>2,039</b>	<b>4.3</b>
Interest income	207		363		448	
Dividend income	55		158		139	
Exchange gains	454		947		1,236	
Other	139		89		214	
<b>V. Non-operating expenses</b>	<b>554</b>	<b>2.7</b>	<b>132</b>	<b>0.3</b>	<b>297</b>	<b>0.6</b>
Interest expense	5		58		77	
Loss on sale of notes	-		40		-	
Provision for doubtful accounts	363		20		-	
Sales discount	176		-		176	
Other	9		13		43	
<b>Ordinary income</b>	<b>3,177</b>	<b>15.4</b>	<b>12,298</b>	<b>33.1</b>	<b>9,450</b>	<b>20.1</b>
<b>VI. Extraordinary gains</b>	<b>50</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>1,607</b>	<b>3.4</b>
Gain on sales of fixed assets	50		-		57	
Other	-		-		1,550	
<b>VII. Extraordinary losses</b>	<b>2,046</b>	<b>9.9</b>	<b>215</b>	<b>0.6</b>	<b>4,874</b>	<b>10.4</b>
Amortization of goodwill	-		162		429	
Special provision for doubtful accounts	2,020		-		-	
Other	26		53		4,445	
<b>Income before income taxes and minority interests</b>	<b>1,181</b>	<b>5.7</b>	<b>12,082</b>	<b>32.5</b>	<b>6,182</b>	<b>13.1</b>
Income taxes (current)	1,650	8.0	4,884	13.1	3,381	7.2
Income taxes (deferred)	(1,047)	(5.1)	(362)	(0.9)	(615)	(1.3)
Minority interests in gains or losses	(21)	(0.1)	896	2.4	302	0.6
<b>Net income</b>	<b>600</b>	<b>2.9</b>	<b>6,664</b>	<b>17.9</b>	<b>3,113</b>	<b>6.6</b>

### (3) Consolidated Statements of Changes in Net Assets

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	Total valuation and translation adjustments		
Balance as of March 31, 2006	14,859	21,724	65,008	(2,687)	98,905	913	(4,493)	5	(3,574)	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	(3,657)	3,024	(632)
Total change during the interim accounting period	-	0	(167)	(3)	(170)	(715)	(3,024)	82	(3,657)	3,024	(803)
Balance as of September 30, 2006	14,859	21,724	64,841	(2,690)	98,734	197	(7,518)	87	(7,232)	3,216	94,718

FY2008 interim period (from April 1, 2007 to September 30, 2007)

(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	Total valuation and translation adjustments		
Balance as of March 31, 2007	14,859	21,724	66,713	(6,995)	96,301	269	(7,518)	262	(6,986)	3,494	92,810
Changes during the interim accounting period											
Dividends of surplus			(701)		(701)						(701)
Interim net income			6,664		6,664						6,664
Purchases of treasury stock				(14)	(14)						(14)
Retirement of treasury stock		509		4,858	5,367						5,367
(Net) change in items other than shareholders' equity during the interim accounting period						(339)		(23)	(362)	844	481
Total change during the interim accounting period	-	509	5,962	4,843	11,315	(339)	-	(23)	(362)	844	11,797
Balance as of September 30, 2007	14,859	22,233	72,676	(2,152)	107,617	(69)	(7,518)	239	(7,348)	4,338	104,607

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

(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	Total valuation and translation adjustments		
Balance as of March 31, 2006	14,859	21,724	65,008	(2,687)	98,905	913	(4,493)	5	(3,574)	191	95,522
Changes during the consolidated fiscal year											
Dividends of surplus			(1,374)		(1,374)						(1,374)
Bonuses to directors and statutory auditors			(34)		(34)						(34)
Net income			3,113		3,113						3,113
Purchases of treasury stock				(4,308)	(4,308)						(4,308)
Retirement of treasury stock		0		0	0						0
(Net) change in items other than shareholders' equity during the consolidated fiscal year						(643)	(3,024)	256	(3,411)	3,303	(108)
Total change during the consolidated fiscal year	-	0	1,704	(4,308)	(2,603)	(643)	(3,024)	256	(3,411)	3,303	(2,711)
Balance as of March 31, 2007	14,859	21,724	66,713	(6,995)	96,301	269	(7,518)	262	(6,986)	3,494	92,810

**(4) Consolidated Statements of Cash Flows**

(Millions of yen)

	FY2007 interim (Apr. 1, 2006- Sep. 30, 2006)	FY2008 interim (Apr. 1, 2007- Sep. 30, 2007)	FY2007 (Apr. 1, 2006- Mar. 31, 2007)
	Amount	Amount	Amount
<b>I. Cash flow from operating activities</b>			
Income before income taxes and minority interests	1,181	12,082	6,182
Depreciation and amortization	555	1,113	1,541
Amortization of goodwill	-	162	429
Increase in allowance for doubtful accounts	2,473	941	1,270
Increase in allowance for losses on debt guarantees	281	21	93
Interest and dividend income	(262)	(522)	(587)
Decrease (increase) in trade receivables	2,105	(1,690)	(1,501)
Decrease in inventories	173	1,147	76
Increase (decrease) in trade payables	(548)	1,887	(183)
Other	697	621	4,969
<b>Subtotal</b>	<b>6,656</b>	<b>15,765</b>	<b>12,291</b>
Interest and dividend income received	249	457	531
Interest expense paid	(5)	(43)	(73)
Income taxes paid	(928)	(1,927)	(2,058)
<b>Net cash provided by operating activities</b>	<b>5,971</b>	<b>14,252</b>	<b>10,691</b>
<b>II. Cash flow from investing activities</b>			
Net decrease (increase) in time deposits	397	(10)	(891)
Net increase in short-term investments	(439)	(5,575)	(939)
Purchases of property, plant, and equipment	(465)	(758)	(818)
Proceeds from sales of property, plant, and equipment	106	153	166
Purchases of investments in securities	(981)	(28)	(5,128)
Proceeds from sales of investments in securities	112	32	249
Payments for acquisition of business	(8,559)	-	(8,583)
Other	(831)	(366)	(277)
<b>Net cash used in investing activities</b>	<b>(10,661)</b>	<b>(6,554)</b>	<b>(16,222)</b>
<b>III. Cash flow from financing activities</b>			
Net increase (decrease) in short-term loans	(2,426)	(261)	1,865
Proceeds from long-term loans	3,000	-	3,000
Proceeds from issuance of bonds	-	-	10,027
Proceeds from issuing shares to minority shareholders	3,021	-	3,021
Purchases of treasury stock	(3)	(14)	(4,308)
Cash dividends paid	(732)	(701)	(1,373)
Other	0	(13)	(6)
<b>Net cash used in financing activities</b>	<b>2,858</b>	<b>(990)</b>	<b>12,225</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	<b>19</b>	<b>37</b>	<b>149</b>
<b>V. Net increase (decrease) in cash and cash equivalents</b>	<b>(1,810)</b>	<b>6,744</b>	<b>6,843</b>
<b>VI. Cash and cash equivalents at beginning of period</b>	<b>9,110</b>	<b>15,954</b>	<b>9,110</b>
<b>VII. Cash and cash equivalents at end of period</b>	<b>7,299</b>	<b>22,698</b>	<b>15,954</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) FY2008 interim period (from April 1, 2007 to September 30, 2007)

(Millions of yen)

	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Other	Total	Corporate/elimination	Consolidated
Sales							
(1) Sales to customers	32,837	929	998	2,427	37,192	-	37,192
(2) Intersegment sales or transfer	-	-	-	-	-	-	-
Total	32,837	929	998	2,427	37,192	-	37,192
Operating costs and expenses	19,452	910	748	2,408	23,520	2,801	26,321
Operating income (loss)	13,385	19	249	18	13,672	(2,801)	10,870

(3) FY2007 (from April 1, 2006 to March 31, 2007)

(Millions of yen)

	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Other	Total	Corporate/elimination	Consolidated
Sales							
(1) Sales to customers	38,736	1,433	2,188	4,720	47,079	-	47,079
(2) Intersegment sales or transfer	-	-	-	-	-	-	-
Total	38,736	1,433	2,188	4,720	47,079	-	47,079
Operating costs and expenses	26,610	1,292	1,614	4,768	34,286	5,084	39,370
Operating income (loss)	12,126	141	573	(47)	12,793	(5,084)	7,709

Note: Main products of each segment

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

## 2. Geographical segment information

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

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

### (2) FY2008 interim period (from April 1, 2007 to September 30, 2007)

(Millions of yen)

	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales							
(1) Sales to customers	5,930	26,317	4,132	812	37,192	-	37,192
(2) Intersegment sales or transfers	24,157	6	8	-	24,172	(24,172)	-
Total	30,087	26,323	4,141	812	61,364	(24,172)	37,192
Operating costs and expenses	19,115	22,628	3,693	1,223	46,659	(20,337)	26,321
Operating income (loss)	10,972	3,695	448	(410)	14,705	(3,834)	10,870

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

- (1) Europe.....U.K. and Italy
- (2) Southeast Asia...China
- (3) North America...U.S.A.

### (3) FY2007 (from April 1, 2007 to March 31, 2007)

(Millions of yen)

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

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

- (1) Europe.....U.K. and Italy
- (2) Southeast Asia...China
- (3) North America...U.S.A.

### 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) FY2008 interim period (from April 1, 2007 to September 30, 2007) (Millions of yen)

	Europe	Southeast Asia	Other areas	Total
I . Overseas sales	4,103	28,850	2,107	35,061
II . Consolidated sales				37,192
III . Ratio of overseas sales to consolidated sales	11.0%	77.6%	5.7%	94.3%

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

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

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	FY2008 interim	FY2007
Flat Knitting Machine	17,577	25,836	36,458
Design System	718	420	1,165
Glove and Sock Knitting Machine	833	825	1,987
Total	19,129	27,082	39,611

### (2) Orders

(Millions of yen)

Name of segment	FY2007 interim		FY2008 interim		FY2007	
	Orders	Order backlog	Orders	Order backlog	Orders	Order backlog
Flat Knitting Machine	15,593	3,502	35,566	12,437	42,968	9,707
Design System	817	60	961	187	1,537	155
Glove and Sock Knitting Machine	675	128	1,112	474	2,188	360
Total	17,086	3,691	37,640	13,099	46,694	10,224

### (3) Sales

(Millions of yen)

Name of segment	FY2007 interim	FY2008 interim	FY2007
Flat Knitting Machine	17,567	32,837	38,736
Design System	809	929	1,433
Glove and Sock Knitting Machine	906	998	2,188
Other	1,368	2,427	4,720
Total	20,651	37,192	47,079