SHIMA SEIKI

Ever Onward

Annual Report 2009

Year Ended March 31, 2009

CONTENTS

Forward-looking statements:

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

Ever Onward

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

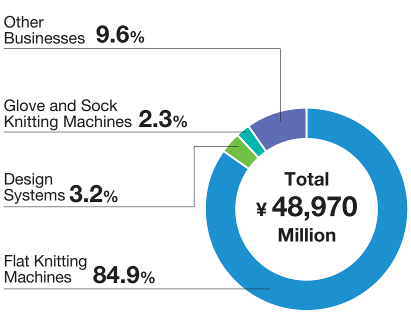
Shima Seiki was incorporated in 1962. Since then, our tireless sense of challenge toward ingenious technical development has resulted in a number of "world's firsts."

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

In the latter half of the 1970s, Japanese manufacturing underwent a major structural shift from mass production to the production of items in small, highly diverse lots. At the leading edge of this curve, Shima Seiki announced its development of sophisticated yet reasonably priced computerized flat knitting machines designed through the fusion of mechanical and electronic technologies. Dominating European manufacturers in the 1980s through its design-based development expertise, the Company became a global leader in its field only 20 years after its founding. In the 1990s, which were marked by a hollowing-out of the Japanese knitwear industry, Shima Seiki developed completely seamless WHOLEGARMENT® flat knitting machines. The impact on the knitwear industry was comparable to the advances made during the Industrial Revolution.

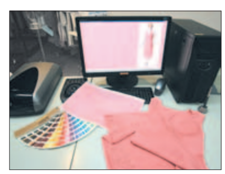
In the 21st century, the Company integrated its accumulated know-how in knitting machines and design systems into the development of Total Knitting Systems. Going forward, Shima Seiki will take on new and greater challenges as a global company, providing comprehensive technologies and services that will shape the clothing culture for customers throughout the world.

Business Segments



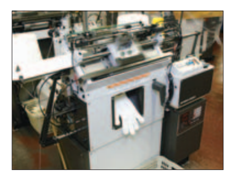
Flat Knitting Machine Segment

This segment is our core business, the manufacture and sales of computerized flat knitting machines, for which we hold the world's leading share. The segment provides such products as the SSG® and SIG® series, which have gained overwhelming support from customers throughout the world; SWG® and MACH2 series WHOLEGARMENT® flat knitting machines, which eliminate the need for seams; and other technically advanced machines.



Design System Segment

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



Glove and Sock Knitting Machine Segment

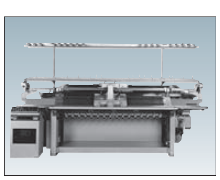
In this segment, we manufacture and sell machines for knitting gloves and socks with world-leading technology. By deploying advanced technologies to make finer-gauge products, we are expanding our domain of products to meet demand in healthcare and other fields.

Other Business Segment

This segment sells maintenance parts for the Company's products and participates in such businesses as spinning high-end cashmere yarn.

Segment Introduction and History

1965
Develops a fully automated glove knitting machine.



1978
Develops SNC computerized jacquard flat knitting machine.

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

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

2006
Develops the SSG® and SIG® series of flat knitting machines, offering superior cost performance.

2008
Introduces MACH2 ultrahigh-speed WHOLEGARMENT® flat knitting machines at the ITMA ASIA + CITME 2008.

Total support for the creation and production of knitwear fashions

Shima Seiki is the only integrated manufacturer in the world knitwear industry to combine know-how in software and hardware. Our product lineup stems from the combination of mechatronics and computer technologies.

Mechatronics
▼
Knitting Machines

Computers
▼
Design Systems

Knitting Machines

SSG® and SIG® computerized flat knitting machines

Overwhelming acceptance propels this series to the No.1 global market share

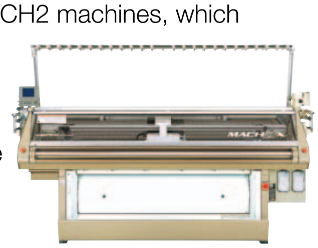
Since we commenced deliveries of SNC machines in 1978, our cumulative sales of computerized flat knitting machines now total 100,000 units. These machines have established a new global benchmark and driven production in the world knitwear industry. The SSG® and SIG® series, our current mainstays, have earned strong support from users for their quality, productivity, operability and economy.

SSG®

WHOLEGARMENT® series of computerized flat knitting machines

Innovative new products that lead the field globally

Some 14 years have passed since Shima Seiki amazed the world with WHOLEGARMENT® flat knitting machines for producing seamless, three-dimensional knitwear. For these global pioneering knitting machines, the Company has received more than 2,000 patents. In December 2008, we significantly raised the bar on productivity and quality when we commenced shipments of our new MACH2 machines, which feature innovative knitting equipment. We have begun shipping these products throughout the world, keeping a close watch on the Chinese market.



MACH2

Total production support through the provision of software and hardware

Design systems represent the culmination of technologies and know-how that we, a leader among the world's knitting machine manufacturers, can provide. In addition to supporting the creation of designs, these systems are closely linked with knitting machines to minimize waste during production and help users manufacture their products efficiently.

The SDS®-ONE is our core design system. Whereas in the past producing physical samples required a staggering investment of time and cost, our system allows users to produce virtual samples, with on-screen designs and evaluations. This approach significantly reduces time and cost from product planning through production. Our most recent model, the SDS®-ONE APEX, allows three-dimensional samples. This system paves the way for proposing a business model whereby consumers' original knitwear designs can be ordered at a shop that is networked to a factory.

SDS®-ONE APEX

Design Systems

Knitwear production using SDS®-ONE and WHOLEGARMENT® flat knitting machines

SDS®-ONE creates design data, allowing designers the freedom of creative expression. The resulting data is recorded on a WHOLEGARMENT® flat knitting machine, creating finished knitwear in short order.

Design planning
A design drawing is created, specifying such information as color, function, materials and other information.

Design creation
The design drawing and database are used to test patterns and colorways, showing virtual on-screen samples.

Knitting machine data changes
Automatic control functions are employed to revise the knitting data on computerized flat knitting machines.

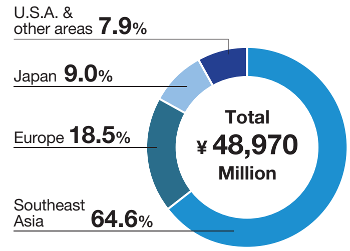
Setting
Yarns are set, knit programming data is read into the knitting machine and production commences.

Production
Using the leading-edge MACH2 machine, a sweater is knitted in about 20 minutes.

Finishing and inspecting
A high-quality knitwear product is completed. Simple post-processing of yarn ends is finished, and the product is ready for shipping.

Robust sales network linking Shima Seiki with customers throughout the world

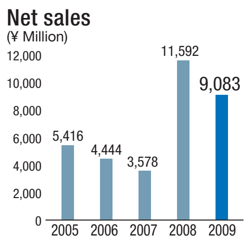
Shima Seiki is a global company, with most of its products sold overseas. We keep abreast of developments in the global knitwear industry through sales subsidiaries in the major knitwear production regions and design centers in the major consumer markets.



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

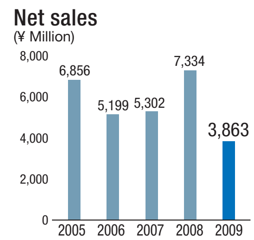
Europe

We maintain partnerships with four European subsidiaries, with a focus on Italy, a global center of knitwear fashion. We conduct sales activities in this market that are closely in tune with the markets for high-end and mass-produced products.



U.S.A. & other areas

We are restructuring our business in the United States, one of the largest consumer markets for knitwear products, to concentrate on the widespread penetration of WHOLEGARMENT®.



SHIMA - ORSI S.p.A.

Fashion show in Italy

Individual WHOLEGARMENT® show

Design Center of New York

Japan Creation 2009

ITMA ASIA + CITME 2008

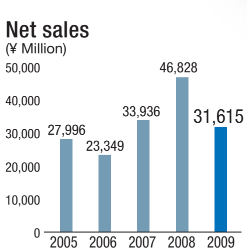
Training center in Shanghai

Total Design Center (Headquarters)

- Headquarters
- Local subsidiaries, branch offices
- Sales agents

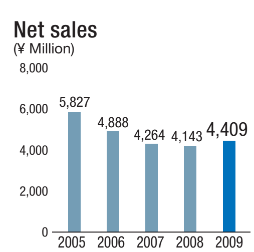
Southeast Asia

Our sales networks operate through our subsidiaries in the primary production region in China and Hong Kong. In addition to strategic SSG® and SIG® series, we have begun selling WHOLEGARMENT® flat knitting machines in this market.



Japan

We are proposing a business model that encourages a return of manufacturing to Japan, where our headquarters is located, and are working to expand domestic sales. At the same time, we are positioning Japan for customers throughout the world as a source of leading-edge fashion.



Sample Initiative 1
Fashion proposals

Fashion proposals that make a novel impression on consumers are an essential part about the developments taking place in the knitwear industry. With our Total Design Center in Japan as our hub, we operate design centers and showrooms, as well as training centers, in China, Italy and the United States. These facilities help plan and disseminate the latest trends, serving a prominent role in the fashion business.

We also regularly host fashion shows and exhibitions in major production regions throughout the world. In addition to business discussions, these events provide opportunities to propose advanced solutions and discover and cultivate designers who use WHOLEGARMENT®.

Sample Initiative 3
Training engineers

Taking advantage of the full range of functions that computerized flat knitting machines such as the WHOLEGARMENT® flat knitting machine make available requires a level of know-how that is difficult to put into a manual.

To impart such skills, Shima Seiki operates training centers in Japan, Italy and China where customers can get instruction from engineers. Each year, we train more than four hundred personnel from client companies around the world. After participating in courses lasting a few weeks, trainees are capable of handling factory responsibilities or working as engineers.

Sample Initiative 2
Total business model proposals

Knitting has a history of being a labor-intensive industry. The new business model we propose turns this into a highly sensitive, fashion industry.

Our business model links latest design systems and WHOLEGARMENT® flat knitting machines and integrates processes from product planning through design, production and sales, making it extremely labor-saving and streamlined. This model, which also encourages the shift of production back to consumer markets, has the potential to make a major impact on the industry's structure.

Sample Initiative 4
Technical support

Our products are not the type that can be sold and forgotten after delivery. Rather, we must provide regular technical support to help our customers make full use of advanced functions and ensure that our machines serve as efficient profit generators.

Throughout the world, we operate subsidiaries that provide thorough technical support in the regions where our customers are based. Our solid service structure provides high productivity for customers and ensures repeat orders.

Financial Highlights

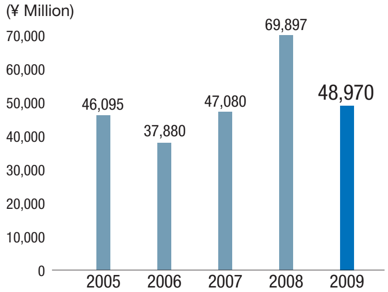
Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31

	2009	2008	2007	2006	2005		**2009**	**2009**
For the Year:			Millions of yen			Percent change 2008/2009	Thousands of U.S. dollars	Thousands of euros
Net sales	**¥48,970**	¥69,897	¥47,080	¥37,880	¥46,095	**-29.9%**	**$498,524**	**€377,157**
Gross profit	**24,652**	35,766	22,066	16,780	20,818	**-31.1%**	**250,962**	**189,864**
Operating income	**8,528**	16,214	7,709	4,023	9,258	**-47.4%**	**86,817**	**65,681**
Income before income taxes and minority interests	**4,057**	18,168	6,183	5,293	9,518	**-77.7%**	**41,301**	**31,246**
Net income	**1,766**	9,959	3,114	3,405	5,930	**-82.3%**	**17,978**	**13,601**
At Year-End:			Millions of yen			Percent change 2008/2009	Thousands of U.S. dollars	Thousands of euros
Total assets	**¥119,778**	¥133,746	¥129,161	¥109,302	¥107,234	**-10.4%**	**$1,219,363**	**€922,505**
Net assets/ Shareholders' equity	**91,064**	101,647	92,810	95,331	92,115	**-10.4%**	**927,049**	**701,356**
Per Share Data:			Yen			Percent change 2008/2009	U.S. dollars	Euros
Net income	**¥49.88**	¥276.13	¥86.17	¥91.92	¥159.97	**-81.9%**	**$0.51**	**€0.38**
Cash dividends applicable to the year	**40.00**	55.00	37.50	37.50	37.50	**-27.3%**	**0.41**	**0.31**
Net assets/ Shareholders' equity	**2,633.55**	2,677.47	2,546.71	2,599.24	2,510.71	**-1.6%**	**26.81**	**20.28**
Ratios:			%					
ROA	**1.4%**	7.6%	2.6%	3.1%	5.6%			
ROE	**1.9%**	10.6%	3.4%	3.6%	6.6%			

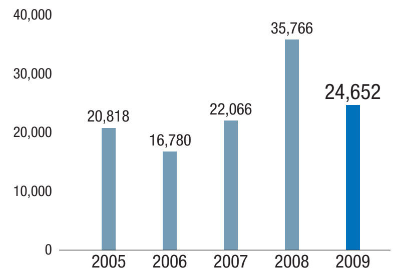
Notes: 1.Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥98.23=US$1 and ¥129.84=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2009.

2.Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted the accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. The figures in prior years have not been restated.

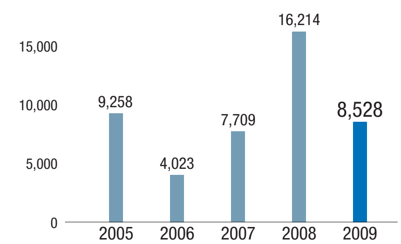
Net sales
(¥ Million)



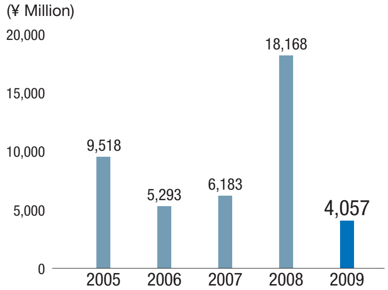
Gross profit
(¥ Million)



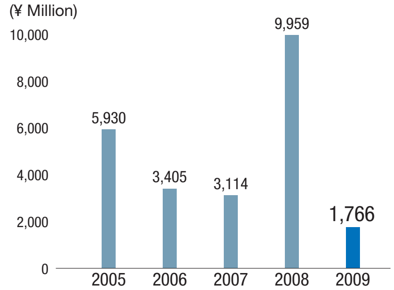
Operating income
(¥ Million)



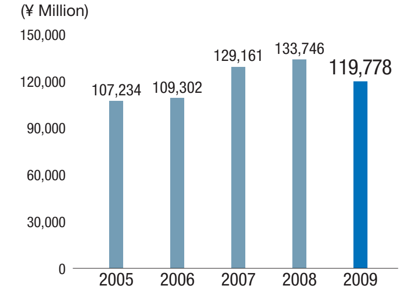
Income before income taxes and minority interests
(¥ Million)



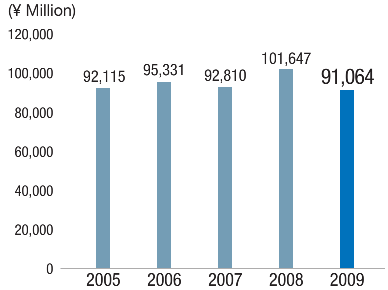
Net income
(¥ Million)



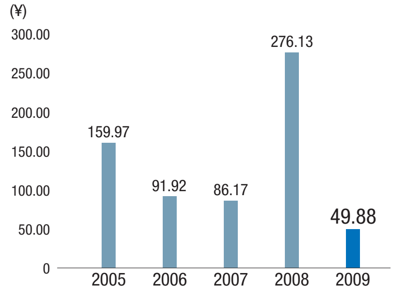
Total assets
(¥ Million)



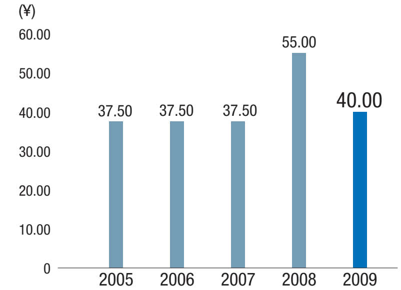
Net assets/Shareholders' equity
(¥ Million)



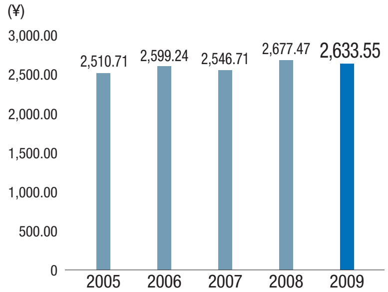
Net income per share
(¥)



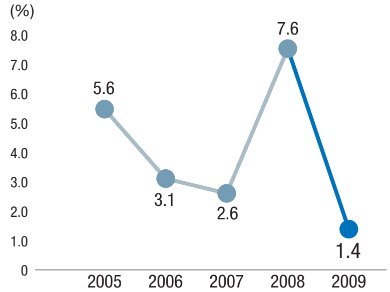
Cash dividends per share applicable to the year
(¥)



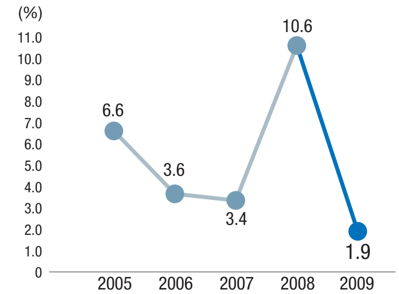
Net assets/Shareholders' equity per share
(¥)



ROA
(%)



ROE
(%)



Although the business recession pushed down sales and income during the year, we expect to achieve breakthrough expansion in the upcoming fiscal year, buoyed by our introduction of new types of machines on the global market.

During the fiscal year ended March 31, 2009, the impact of the financial crisis in the United States spread worldwide, resulting in a serious global recession. Our key Chinese and Hong Kong markets were affected by the consumption slump in the primary export destination for knitwear products, the United States. From the second quarter of the year onward, capital investment cooled substantially in China and Hong Kong. Exacerbated by exchange losses accompanying the dramatic escalation in the yen, this served to push down income. As a result of these factors, the Group's business performance during the year was beset by substantial drops in sales and profits.

In this severe operating environment, the Shima Seiki Group reinforced its sales and service systems in its major markets, promoted mass production of its cutting-edge machines, and implemented various other measures in preparation for the next-generation growth phase.

Masahiro Shima,
President

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

Q Could you summarize the Company's results for the year ended March 31, 2009?

A During the first quarter, which was carried by the impetus of backlog of orders from the previous fiscal year, operations continued at full pace, and we notched up our highest ever daily unit output. However, from the second quarter the financial crisis spread from its point of origin in the United States to impact real economies and extend the recession around the globe. This brought about a sudden fall in capital investment. Meanwhile, yen appreciation continued, consumption slowed worldwide and price competition intensified. This situation presented a harsh operating environment for Shima Seiki.

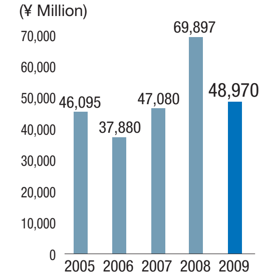
In the Group's core Chinese and Hong Kong markets, production of knitwear products dropped as a result of a slump in consumption in the United States, which is the primary export destination for these goods, leading to lackluster capital investment. This was also influenced by a drop in capital investment arising from financial tightening measures and other factors. In South Korea and Turkey that are hubs of knitwear production, capital investment was flat because of stagnant consumption, centered on Europe and the United States. Elsewhere in Europe, capital investment was relatively brisk, notably by major customers in Italy, gaining momentum on the back of partial recovery in production from China. However, the overall European market remained on a path of low growth. As a result of these trends, consolidated overseas net sales dropped 32.2%, to ¥44,561 million during the year under review.

Sales in Japan were affected by progressing polarization of consumption, with no expansion in knitwear production and no growth in capital investment. However, P-CAM® automatic fabric cutting machines for the textile industry enjoyed brisk sales, riding a wave of renewed demand. Accordingly, consolidated net sales in Japan rose 6.4%, to ¥4,409 million.

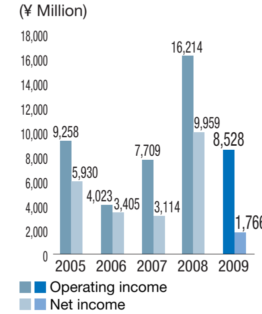
Shima Seiki's consolidated net sales for the year stood at ¥48,970 million, down 29.9%. Overseas net sales accounted for 91.0% of this total, compared with 94.1% during the previous year.

The gross margin declined as a result of falling net sales and production volumes. This led to a drop in operating income of 47.4%, to ¥8,528 million. Net income plummeted 82.3%, to ¥1,766 million, affected by substantial exchange losses and loss on devaluation of investment securities, which we recorded as extraordinary losses.

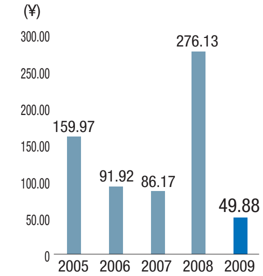
Net sales

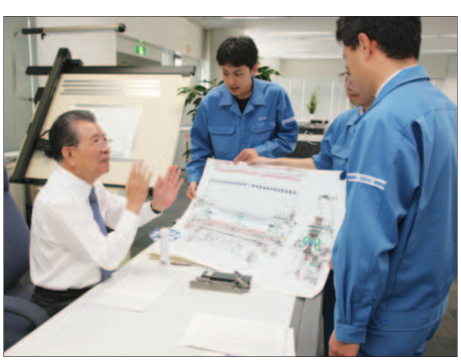


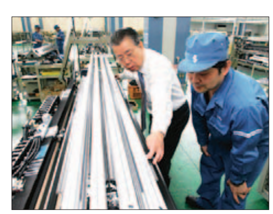
Operating income/ Net income



Net income per share

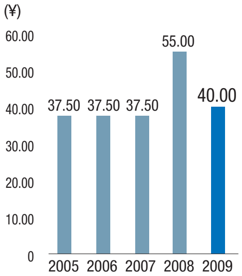




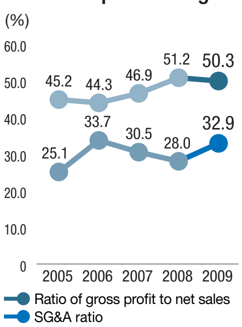


Q What is the Company's policy on dividends and returning profits to shareholders?

Cash dividends per share applicable to the year



Trends in profit margins



A Results for the year grossly undershot our original projections, so with deep regret we had to reduce our intended year-end dividends of ¥30.00 to ¥15.00 per share. Including interim dividends paid, this brought dividends per share for the full business year to ¥40.00 per share. Furthermore, to clarify management responsibilities in the face of the drastic declines in sales and income, we reduced remuneration for directors and refrained from paying bonuses to directors and statutory auditors for the fiscal year ended March 31, 2009.

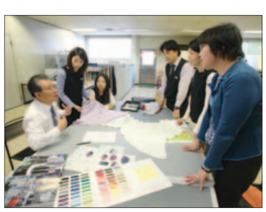
The demand situation for the next fiscal year remains uncertain. Accordingly, we plan to reduce interim dividends by ¥5.00 to ¥20.00 per share and raise year-end dividends by ¥5.00 to ¥20.00 per share. This will maintain dividends per share for the full business year at ¥40.00 per share.

Moreover, with the aim of returning of profits to shareholders, we purchased 2 million shares of treasury stock during the year to drive up value per share. At the same time, we retired 1 million shares of treasury stock to alleviate concerns over an aggravated share supply and demand situation. As of March 31, 2009, treasury stock totaled approximately 2.02 million shares and accounted for 5.5% of total common stock issued.

We consider return of profits to shareholders to be a priority management responsibility. In the future, we shall continue to emphasize the continuity of long-term stable dividends as we strive to raise shareholder value.

Q What measures and policies did the Company implement during the year?

A In terms of sales, we progressed with the fortification of our sales and service systems in our major markets. Shima Seiki Win Win Ltd., our Hong-Kong-based subsidiary, was purchased in 2006. During the year under review, we extended our stake to make the company a 100%-owned subsidiary. In February 2009, we established a training center in Guangdong Province, China's largest knitwear production region, in our drive to improve our service system. Moreover, the "China plus one" strategy is being implemented by multinational corporations in such newly emerging Asian countries as Cambodia. To maintain control over such trends, we have established a service outlet



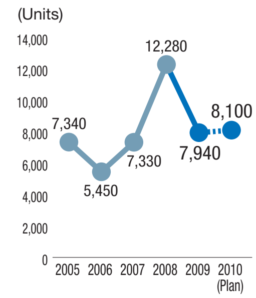
ITMA ASIA + CITME 2008

in Thailand. In Europe, we are promoting direct sales coverage in Spain, which is our second largest market in the region after Italy. Accordingly, we established a wholly owned subsidiary, Shima Seiki Spain, S.A.U., in November 2008. In the same month, we founded Shima Seiki Portugal LDA., further fortifying our sales capabilities in Europe.

Organizationally, we restructured our operations into Development Headquarters, Production Headquarters and Sales Headquarters in March 2009 to facilitate swift and flexible decision-making. I will personally take on the additional responsibility of General Manager of Sales Headquarters. Concurrently, we inaugurated four project teams, with the objectives of strengthening sales capabilities, reinforcing WHOLEGARMENT® technology, reducing costs and curtailing expenses. These teams have already commenced companywide activities to bolster profitability.

On the product front, we formally announced the launch of MACH2, the latest addition to our WHOLEGARMENT® flat knitting machine lineup, in July 2008. We have advanced with mass production of this ultrahigh-precision new model, and began shipments in the second half of the year.

Sales volume of flat knitting machines



Q Can you outline the current market trends?

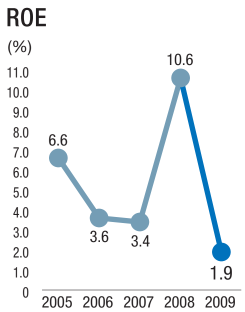
A In China, domestic demand is clearly growing, and knitwear product expansion among consumers is beginning to grow. The wealthier class, emergent and expanding over the past few years, has a particular penchant for high-end products, rendering the market environment ready for the spread of WHOLEGARMENT®.

The European market is centered on middle-grade and high-end products, and Italy—the hub of global high-end product manufacturing—is gaining momentum on the back of partial recovery in production from China. Medium-sized SPA manufacturers, capable of responding quickly to business fluctuations, are widespread in Italy, and have a high ratio of sales within the European Union. Accordingly, they are largely free from the impact of exchange rate fluctuations and have enjoyed relatively firm capital investment. The Italian industry is renowned for generating products with exquisite sensibilities, such as color and design, and is therefore an important market for our state-of-the-art MACH2. This new model has been highly acclaimed for its quick response in the production of high-value-added knitwear products.

Training center and showroom in Shanghai

Shima Seiki Spain, S.A.U.

Fashion show in Italy



The Japanese market is responding swiftly to the creation of new fashions. In terms of design and know-how, I believe there are many areas in which the Company can contribute.

Q What are Shima Seiki's strategies for growth?

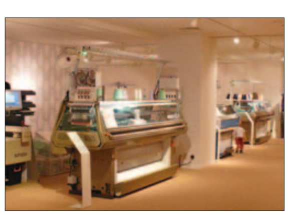
A The major challenge for the next year is the full-fledged introduction of WHOLEGARMENT® flat knitting machines to the global market. The launch of MACH2 enabled us to offer full lineup coverage through WHOLEGARMENT® flat knitting machines, from fine-quality, high-productivity top range models to mini-versions for fashion accessories. The time is ripe to expand in the as-yet undeveloped Chinese and Hong Kong markets. We will commence full-scale introduction in these areas from the next fiscal year. We are also planning sales expansion in the European markets, led by WHOLEGARMENT® flat knitting machines.

The Chinese and Hong Kong markets are facing a major transition from mass production primarily for export to an emphasis on quality. The most appropriate model to effect this change is the MACH2, and we are aggressively conducting activities to promote this model to customers. As the market switches its focus to quality, raising our own product quality gains us an advantageous position in price competition with rival manufacturers.

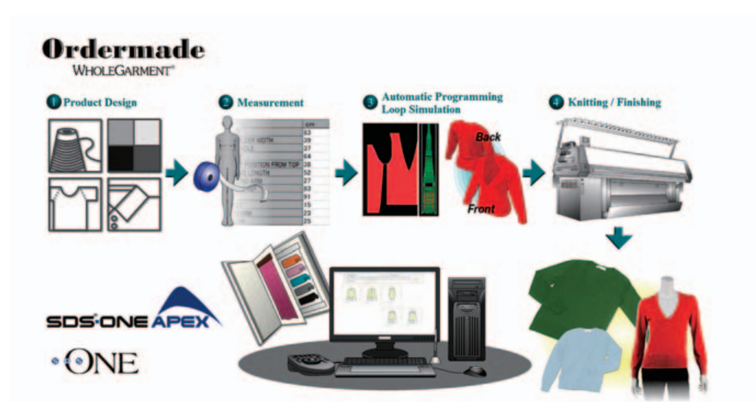
Our new business model, Ordermade, will also contribute to the spread of WHOLEGARMENT®. This interfaces between our design systems and WHOLEGARMENT® flat knitting machines to facilitate the speedy production of original seamless knitwear in-store. In addition, the system allows design data to be shared on a network. In April 2009, we established a Fusion Museum in the city of Wakayama, Japan, where we also set up a knitwear factory that showcase Ordermade's proposal capabilities. In the future, we plan to extend these services to markets worldwide.

Q What is the outlook and what challenges face the Company during the upcoming term?

A The major advanced nations, including the United States, Japan and the countries of Europe, face ongoing negative growth in the next fiscal year. Even China's growth rate is expected to slow. In addition to a worldwide slump in consumption, intensified competition in key



Fusion Museum Knit × Toys



The Ordermade business model

markets and uncertain exchange rate trends are all causes for concern.

For the fiscal year ending March 31, 2010, we anticipate that consolidated net sales will decline 2.0%, to ¥48.0 billion, with operating income decreasing 35.5%, to ¥5.5 billion, and net income increasing 41.6%, to ¥2.5 billion. Capital investment is expected to decrease to ¥1.6 billion, while depreciation and amortization will hover at the same basic level of ¥2.4 billion as in the year under review. We are hedging against the risks of exchange rate fluctuations by boosting yen-based transactions and the use of forward exchange contracts. Our assumed exchange rates for the year are ¥92 to the U.S. dollar and ¥126 to the euro.

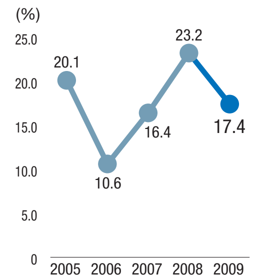
The primary issue for the next year is expanding sales of WHOLEGARMENT® flat knitting machines on the world market. Our key Chinese and Hong Kong markets are still undergoing a major turnabout in demand from manually operated machines to computerized flat knitting machines. Accordingly, we are promoting a balanced sales strategy, incorporating SSG® and SIG® series, both of which have enjoyed high user acclaim. Further, we anticipate extended applications of the P-CAM®, which primarily targets the textile industry, to the interior furnishings industry and other sectors.

The widespread adoption of WHOLEGARMENT® is contributing to the creation of new fashions that impress consumers anew through design proposals utilizing the Company’s proprietary know-how. For example, spring and summer knitwear products, with their pleasant cooling sensations, can also be produced leveraging the properties of WHOLEGARMENT®. If knitwear products as yet unleashed on the market can establish new genres, the dramatic seasonal fluctuations in knitwear production can be calmed, which in turn will spur the industry to further growth.

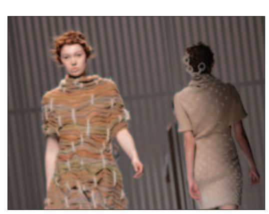
The severe operating environment is set to continue, and it is difficult to be optimistic about the road ahead. However, by returning to our basic motto of “Ever Onward,” we will overcome our current adversities to carve out major new demand niches and ensure next-generation growth.

Masahiro Shima, President

Ratio of operating income to net sales



Individual WHOLEGARMENT® show



WHOLEGARMENT® TOKYO 2009

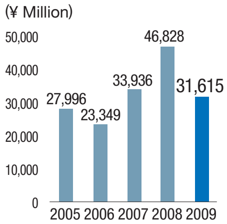
We are accelerating sales strategies that are tailored to individual markets.

During the year ended March 31, 2009, the world economy was directly impacted by severe recession. However, the Group is stepping up its growth-oriented activities in the world's major markets through the following activities.

China

Shima Seiki Win Win Ltd.
Ikuto Umeda,
CEO

Net sales in Southeast Asia
(¥ Million)



Growing internal demand turns China into one of the world's leading fashion consumer markets

As the global economic situation deteriorated from the second quarter of the fiscal year, China and Hong Kong experienced a drop in exports of knitted products, owing to overall market shrinkage. This situation, coupled with monetary restraints and yen appreciation, caused Shima Seiki's performance in these markets to drop significantly year on year.

In an effort to reduce costs, export-oriented customers in Hong Kong shifted some of their production to mainland China while remaining aware of the opportunity to manufacture products to satisfy internal demand. At the same time, demand from customers in Shanghai and other producers that concentrate primarily on the domestic market increased, as they shifted operations from manually operated machines to computerized flat knitting machines.

With rising levels of income creating a growing wealthy class, more customers in China and Hong Kong are refocusing from export sales toward growing domestic demand. In line with this trend, we unveiled our new MACH2 WHOLEGARMENT® flat knitting machines at an exhibition in Shanghai in July 2008, ahead of the rest of the world. The warm reception to this launch encouraged us to believe that this region will grow into a high-end market in the near future.

System configuration complete, now introducing WHOLEGARMENT® flat knitting machines

This year, we became a wholly owned subsidiary of Shima Seiki and, as its new base in Dongguan, Guangdong Province, China, we worked to expand our service offerings. Through our efforts to acquire skills and strengthen human resources, I believe that we succeeded in creating an organization capable of providing adequate support to our customers.

Shipments of MACH2 machines to customers in Hong Kong have just begun, but our rapid technical support should be sufficient to expand these sales. We will also work to increase sales by

Topics

Exhibiting at ITMA ASIA + CITME 2008

The world's largest international textile machinery exhibition, ITMA ASIA + CITME 2008, was held in Shanghai in July 2008. Here, we exhibited WHOLEGARMENT® flat knitting machines for the first time at an exhibition in China. We also introduced our newest model, the MACH2, before unveiling it to the rest of the world.

Given the slowdown in consumption in the United States and monetary tightening coupled with yen appreciation and other headwind effects on China, interest in WHOLEGARMENT® flat knitting machines was robust, outstripping our expectations, owing to their ability to achieve mass production of high-value-added products.

converting users of manually operated machines—estimated to make up 70% or more of the market—to SSG® and SIG® series machines, which lead the market in terms of functionality.

Although we are experiencing a temporary slump, China and Hong Kong represent the world's largest future growth markets. The outlook for next fiscal year remains unclear, and current difficulties may continue. However, we are making every effort to ready our products and our systems for future sales expansion.

Europe

Relatively marked tendency for domestic production to return to Italy

Italy is a global center of production for high-end knitted products, and an estimated two-thirds of the items manufactured there are sold within the European Union. The impact of exchange rate fluctuations is therefore slight. Also, quick-response manufacturing systems are being constructed, ensuring that this market remains relatively solid.

The European market is polarizing into high-end and mass-market products. Whereas high-end items tend to be manufactured within Europe, chiefly Italy, mass-market products are imported from China and other parts of Asia, and increasingly from production in Eastern Europe and North Africa. Italian manufacturers are building manufacturing bases in Eastern Europe, creating robust demand for equipment expansion.

Shima Seiki is promoting aggressive sales measures for WHOLEGARMENT® flat knitting machines, and unit sales in Italy are up year on year as a result. For the SSG® and SIG® series, by redoubling our efforts to sell equipment for upgrades, we have succeeded in raising profits, although net sales declined.

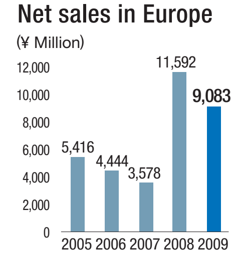
Promoting aggressive sales expansion measures centered on MACH2

Market development for our new MACH2 model will be a principal focus in the upcoming fiscal year. Even in Italy, which is a leader for WHOLEGARMENT® flat knitting machines, this model is highly regarded for its productivity, operability and quality. In the future, we plan to tailor our sales to meet customer needs by participating in individual exhibitions. We have also introduced WHOLEGARMENT® mini-series for producing fashion accessories. Through such efforts, we expect WHOLEGARMENT® application to increase.

Having established sales companies in Spain and Portugal, we have secured a group service structure that is a level above those of our competitors. As we do not anticipate any major downturn in the Italian market for high-end knitwear production, we are developing strategic sales measures to meet operating performance targets exceeding those of the current fiscal year.

Shima - Orsi S.p.A.
Toshio Nakashima,
President

Net sales in Europe



Topics

Agencies in Spain and Portugal converted to subsidiaries

On November 25, 2008, Shima Seiki acquired all the shares of its sales agent in Spain, converting the company to a wholly owned subsidiary by establishing Shima Seiki Spain, S.A.U. On the same day, we formed Shima Seiki Portugal LDA.

Europe is one of the important strategic markets for WHOLEGARMENT® flat knitting machines, as it is one of the world's high-end knitwear production bases. Following the Italian market, we are reinforcing our sales network by this establishment of direct sales coverage in Spain and Portugal.

Shima Seiki Spain, S.A.U.

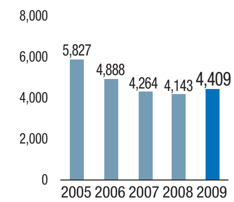
Japan

Japan's apparel consumer market continued to polarize toward high-end products and high-volume products. Consequently, demand for domestically manufactured knitwear goods, which is focused on the mid- to top-end range, saw no growth, with capital investment also flattening out. However, robust sales of our P-CAM® series of automatic fabric cutting machines for the textile industry resulted in a year-on-year increase in domestic net sales. Furthermore, we launched MACH2 at the end of the fiscal year to gain high acclaim both from existing and new Shima Seiki product users, stimulating a renewed sense of innovation throughout the Japanese knitwear industry.

During the fiscal year ending March 2010, we anticipate a continuation of the current negative growth trend. In addition to sales promotion centered on the MACH2, we will strive to penetrate the knitwear accessory sector, spearheaded by the WHOLEGARMENT® mini-series. We are guided in these efforts by our belief that Shima Seiki can contribute across a broad area in the creation of novel knitwear fashions.

Net sales in Japan

(¥ Million)



Topics

WHOLEGARMENT® TOKYO 2009

In March 2009, Shima Seiki hosted a fashion show in Tokyo Midtown, a leading source of cutting-edge fashion. In addition to highlighting the appeal of WHOLEGARMENT® products, the show provided an opportunity to discover and cultivate new designers. The show comprised three parts, including knitwear produced by new designers. Approximately 600 people attended the show, helping make it a success.

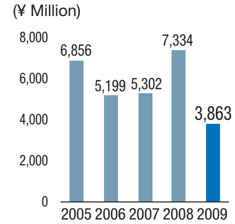
U.S.A.

The United States is estimated to be the world's largest knitwear market, with annual sales in excess of 1 billion units. However, the economic recession during the year, stemming from the financial crisis, brought about a drastic downturn in the personal consumer market. Furthermore, these trends in the U.S. economy extended significant influence to knitwear manufacturers worldwide.

During the year, the Group made efforts to promote the widespread adoption of WHOLEGARMENT®, such as through the personal exhibition of BIANCO 3D WHOLEGARMENT®, which was hosted in New York. Despite these endeavors, the deep-rooted slump in consumption caused a dramatic fall in sales for the consolidated subsidiaries that manufacture knitwear products. Accordingly, we conducted a review of facilities and are investigating business restructuring initiatives. Although the forecast for the next fiscal year is uncertain, the U.S. market has the capacity to facilitate expansion for WHOLEGARMENT®—provided that economic recovery arrives. We shall continue to emphasize the United States as a target for strategic development.

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

(¥ Million)



Topics

Individual WHOLEGARMENT® show

In September 2008, we hosted an individual show in New York dubbed BIANCO 3D WHOLEGARMENT® in conjunction with Nova Knits Inc. and a local design center. To raise awareness of WHOLEGARMENT® in the United States, the show featured a dance performance. This combination of cutting-edge fashion and advanced technology made an impact.

Creating user-friendly products based on the concept of total development

Reiji Arikita was appointed General Manager of Development Headquarters on March 1, 2009, with responsibilities led by development of the state-of-the-art MACH2. He explains Shima Seiki's current and future development directions.

Reiji Arikita
Director and General Manager of Development Headquarters

Status of Development during the Year under Review

The MACH2 dominated the year's development milestones, which also included the WHOLEGARMENT® mini-series and a leather cutting machine in the P-CAM® series. With productivity of more than twice that of conventional WHOLEGARMENT® flat knitting machines, the MACH2 has raised capped working speeds through the incorporation of i-DSCS (Digital Stitch Control System with Intelligence) to realize smooth thread supply to knitting machines. In addition, the maximum speed of the driving parts has been boosted from 1 to 1.6 meters per second with uninterrupted operation, facilitating a significant upgrade to production efficiency and improvements in quality and operability.

The Company conducts its development under a "First let's try and see!" approach. Our breakthroughs are due more to a deep-rooted positive mind-set toward development than to our comprehensive technological prowess.

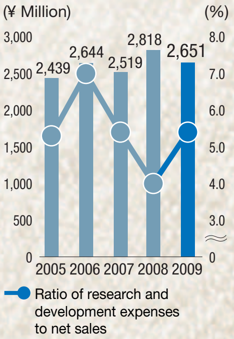
Future Development Directions

Shima Seiki's development is characterized by the slogan "start with nothing, create it by ourselves if not available." Our hardware, our software—we developed them all in-house. Furthermore, we maintain a ratio of 75% of internally produced parts for our products.

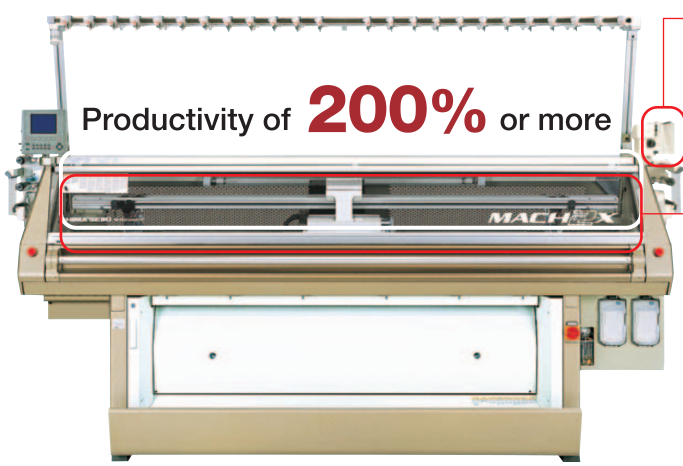
In addition to these development features, in March 2009 we merged our four development divisions to establish the Development Headquarters. This new body provides a framework for conceptually consistent development spanning all processes, from board design through knitwear design. In addition to stepping up development speed, this initiative facilitates development of products to a higher degree of completion.

In the knitwear sector, we are unrivalled among manufacturers in our all-embracing development ideology. Although potential development themes are unlimited, the objective remains to supply users with superior performance. In order to support our customers' businesses, we are working toward the development of products that feature ease of use, high quality and economical operation, and look forward to the results of these endeavors in the future.

Research and development expenses

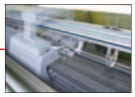


Two technical points supporting the ultrafast operation of MACH2



POINT1 i-DSCS

Using an original Shima Seiki structure indispensable to raising WHOLEGARMENT® quality, motor control of the yarn feed contributes to raising productivity.

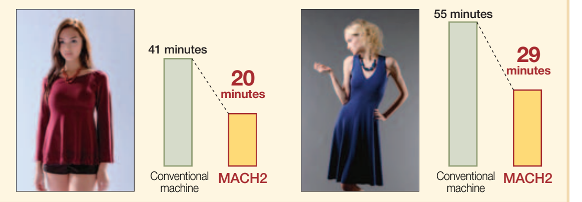


POINT2 R2 CARRIAGE

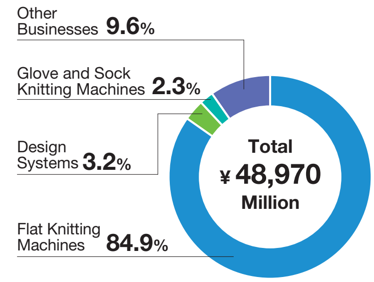
This is the core system for raising production efficiency. Upgrading the carriage acceleration and deceleration performance and raising maximum speed enable radical reductions to knitting time.

Through various technological innovations, MACH2 offers both high quality and high productivity. This opens up possibilities for greater satisfaction for consumers and manufacturers.

Comparison of knitting time between conventional machines and MACH2



Overview and outlook

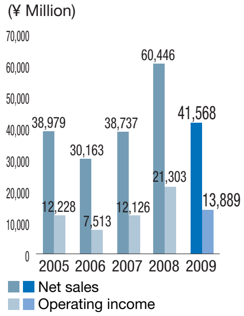


The Company categorizes its business into four segments. The Flat Knitting Machine segment, which engages in the development, manufacture and sales of computerized flat knitting machines, accounts for more than 80% of net sales and is core to Shima Seiki's operations.

Flat Knitting Machine Segment

Flat Knitting Machines

(¥ Million)



Overview of the Year under Review

Confronted by a severe operating environment characterized by lackluster consumer spending around the world, the Flat Knitting Machine segment posted sales declines in overseas and Japanese markets.

Recently, the segment's mainstay Chinese and Hong Kong markets have been undergoing a major shift from manually operated flat knitting machines to computerized flat knitting machines. As part of this shift, first-quarter sales were robust, as the Company worked through its significant balance of orders received as of the end of the preceding term. However, after the second quarter sluggish U.S. consumer spending caused a sharp downturn in exports of knitwear products, and capital investment levels plunged, owing to monetary tightening. Furthermore, yen appreciation accelerated competition for market share and suppressed the Company's profits.

The slump in exports also prompted a major slowdown in capital investment in South Korea, Turkey and other knitwear-producing countries. However, among Southeast Asian emerging nations, sales increased in Cambodia, which is part of the "China-plus-one" trend.

As the hub of the European market, Italy is regaining its competitive edge. Sales in this market were relatively firm, centered on WHOLEGARMENT® flat knitting machines, but marketwide the industry suffered from sluggish capital equipment upgrades. We established sales subsidiaries in Spain and Portugal, forming a direct sales coverage. Although the Spanish market delivered slow performance during the year, as the region's largest market after Italy, we believe Spain represents strong potential demand. Accordingly, we look forward to steady capital investment in this market.

In Japan, sales of mass-market apparel were buoyant. However, domestic production of high-end knitwear products were lackluster, and capital investment increases failed to materialize.

As a result, the Flat Knitting Machine segment recorded a 31.2% drop in net sales, to ¥41,568 million.

MACH2

SIG®




Outlook for the Next Fiscal Year

WHOLEGARMENT® flat knitting machines are pivotal to this segment, which is experiencing a shift in emphasis from quantity to quality. Once full-fledged sales of our newest model, the MACH2, begin next year, we will be able to offer a full product lineup that includes WHOLEGARMENT® mini-series. From the WHOLEGARMENT® series overall, we plan to sell 980 machines in the fiscal year ending March 31, 2010.

The MACH2 is eliciting strong interest from customers in many countries because of its suitability for mass production. The increase of wealthy class in China and Hong Kong is boosting demand for high-end products, and the MACH2 is considered suitable to meet burgeoning internal demand. In Japan, we will add WHOLEGARMENT® mini-series to our new proposals to customers in the field of knitwear accessories and expand sales. In Europe, we will also base our sales activities on WHOLEGARMENT® flat knitting machines.

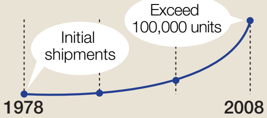
Backed by the demand shift away from manually operated machine, mainly in the Chinese and Hong Kong markets, the recovery of capital equipment upgrades can be expected depending on U.S. consumer spending trends.

Topics

Shipments of computerized flat knitting machines reach 100,000 units

In May 2008, cumulative shipments of computerized flat knitting machines topped 100,000 units. These machines have evolved substantially since the first machine was shipped in 1978. Shima Seiki has earned its position as the industry leader in flat knitting machines, owing to proprietary technical developments that made possible highly varied, small-lot orders and short cycle times.

Cumulative shipments of computerized flat knitting machines reached 80,000 units in May 2006. Achieving 100,000 units only two years later is largely the result of accelerating sales against a backdrop of the growing Chinese market. We also believe that these results speak to the market's valuation of the Company's motto of providing highly advanced products at economical prices.




Shipping the 100,000th unit

We will promote a balanced offering of computerized flat knitting machines, SSG® and SIG® series together with WHOLEGARMENT® flat knitting machines in this market. The appealing SIG® series, which can manufacture high-value-added products, attracts significant attention from a wide range of markets, from advanced countries such as Italy and Japan to Bangladesh and other emerging nations. We expect sales of this series to expand accordingly.

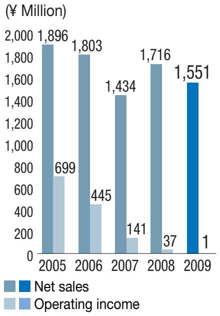
Through these efforts, in the fiscal year ending March 31, 2010, we expect to sell 8,100 flat knitting machines, resulting in net sales of ¥40.4 billion, 2.8% less than in the previous year.

WHOLEGARMENT®
mini-series


Design System Segment

Design Systems

(¥ Million)



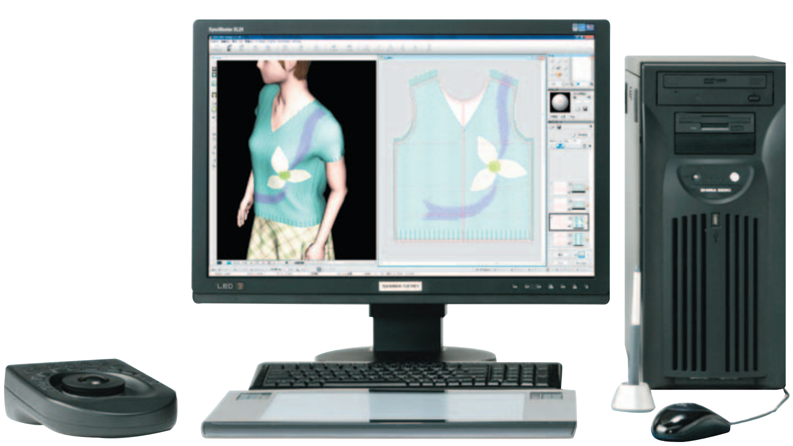
Overview of the Year under Review and Outlook for the Next Fiscal Year

During the year, the Design System segment promoted business deployment attuned to user needs, centered on the Japanese market. The results of this were manifest in the growth in sales of our P-CAM® series of automatic fabric cutting machines for the textile industry. Although this increase was attributable in part to many users approaching the period for upgrading their automatic fabric cutting machine, new users also contributed, including from the interior furnishings industry and other sectors.

In our key area of design systems, we began to offer a new business model to clients, combining the Company's SDS®-ONE APEX top-end design tool with our Ordermade software interface. Design data for WHOLEGARMENT® seamless knitwear, matched to consumer tastes and sizes, can be shared on a network, facilitating swift in-store ordering. This new business was pioneered at the Company's knitwear factory, which was established in April 2009. In the future, we aim to expand promotion of this new business model throughout our global markets.

Sales by the segment overall tend to be integrally linked with sales of computerized flat knitting machines. Accordingly, overseas markets were lackluster, led by China, our core market. As a result, net sales by the Design System segment declined 9.6%, to ¥1,551 million.

During the next fiscal year, the influence of capital investment, which is stagnant in overseas markets, will be a critical factor. In the domestic market, we anticipate continued robust sales performance by the P-CAM® series, boosting net sales 9.6%, to ¥1.7 billion.



Topics

Automatic fabric cutting machines popular in the textile industry

For the textile industry, Shima Seiki develops and sells the P-CAM® series of automatic fabric cutting machines, classified as its Design System segment.

During the year, strong sales proved the popularity of our multi-ply models that achieve high-speed cutting. We have also developed a new compact model and a single-ply cutting machine of leather. Combining the P-CAM® series with the SDS®-ONE creates an efficient production environment, allowing us to cultivate sales in interiors and other new fields of business.

P-CAM® series

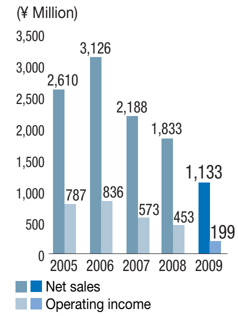
Glove and Sock Knitting Machine Segment

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

During the first half of the fiscal year, the Glove and Sock Knitting Machine segment enjoyed brisk capital investment for processed glove manufacturing. Demand expanded for work gloves for the U.S. automobile industry and the electronics industry. This caused expansion in capital investment, led by fine-gauged machines capable of finer knitting. The Company established a subsidiary in the key South Korean market in a bid to bolster its marketing capacity, and consequently increased orders. However, the second half brought extremely depressed conditions, with the financial crisis generating a drastic falloff in production, exacerbated by exchange rate fluctuations. Capital investment was lackluster in such newly emerging Asian countries as Malaysia and Sri Lanka and our vital Chinese market was plagued by the spread of imitation machines. As a result of these factors, the Glove and Sock Knitting Machine segment posted net sales of ¥1,133 million during the year, a drop of 38.2% from the previous year.

During the next year, we plan to focus on aggressively expanding applications in such fields as the precision and medical industries. However, demand for the processed gloves these industries require is directly linked to economic recovery in the North American market, which accounts for the majority of end users. We anticipate that sales will bounce back after the substantial falls in performance during the year under review, with net sales climbing 14.7%, to ¥1.3 billion. However, the ongoing impact of economic recovery trends and exchange rate fluctuations mean that the severe operating environment is set to continue.

Glove and Sock Knitting Machines



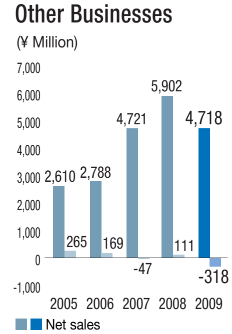
Other Business Segment

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

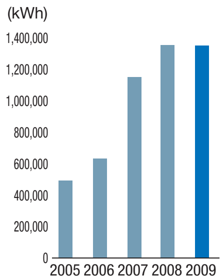
Sales of parts are dependent on the performance of the Group as a whole, and consequently fell during the year under review. Sales of knitwear products dropped off in the key U.S. market, prompting investigations into realignment of our business plans. In the field of spinning high-quality cashmere yarn, a business area which was brought within the scope of consolidation from the year under review, we jointly developed high-end thread optimized for WHOLEGARMENT® flat knitting machines, which has gained much attention at exhibitions in Japan. During the year, overall net sales by the Other Business segment diminished 20.1%, to ¥4,718 million.

During the next fiscal year, we forecast a further reduction of 2.5%, to ¥4.6 billion.

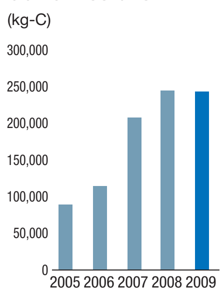
Other Businesses



Photovoltaic generation capacity of the Company



Reduction of CO_2 emissions



Environmental Preservation Efforts

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

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

Companywide activities include guidelines initiated in May 2007 for the full-fledged promotion of green purchasing, prioritizing goods and services that have low environmental impact. This is one example of efforts to work effectively toward creating a recycling-based society. Green product purchase ratios differ by division, but in general we achieve a ratio of 80%.

Global warming prevention is an urgent issue. Doing our part to ensure the beautiful environment we pass on to the next generation, we propose eco-friendly knitwear made with WHOLEGARMENT® machines, as well as aggressively promoting other environmental preservation activities.

Products Designed for Safety and Operability

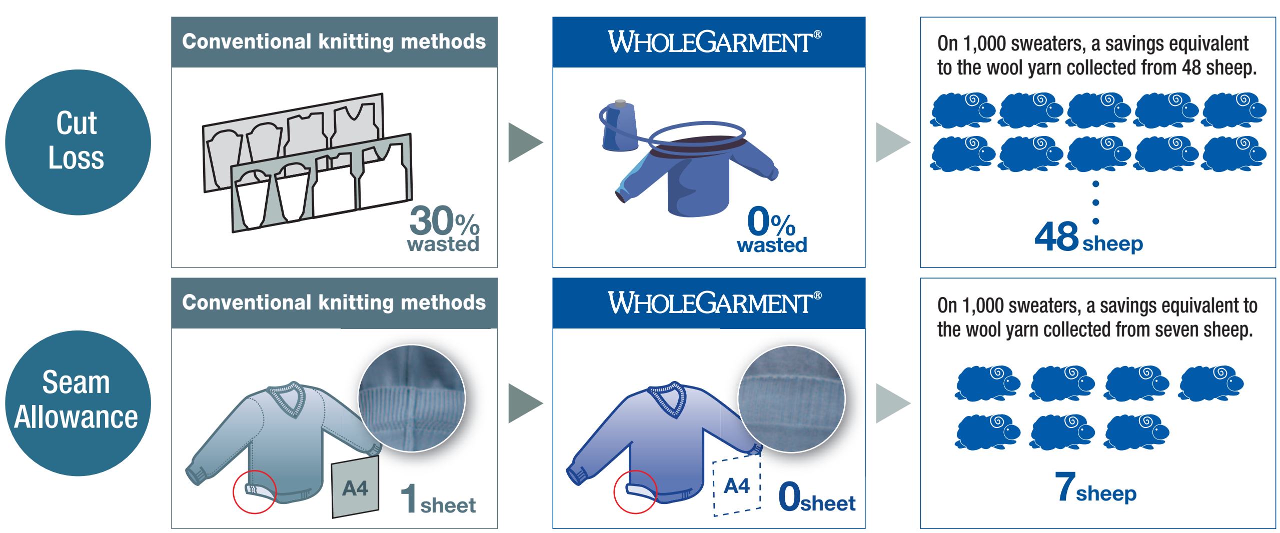
We are devising numerous ways of introducing operator safety and operability into our product designs. To prevent accidents, safety covers are fitted over the drive parts of our knitting machines which will automatically stop the machine when opened. To improve operability, we have reduced by 10 cm the height of all knitting machines sold since 2006.

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

Environmentally Friendly WHOLEGARMENT® Machines

WHOLEGARMENT® flat knitting machines require no cutting or sewing process. The knitting methods of this machine can reduce losses from seam allowance and save the approximately 30% of materials that conventional machines turned into material waste. Effectively, knitting 1,000 sweaters using WHOLEGARMENT® flat knitting machines generates a savings equivalent to the wool yarn collected from 48 sheep. Furthermore, energy can be saved and CO_2 emissions reduced by not requiring incineration of cut parts.

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



Basic Policies and Systems

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

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

Governance Structure

Directors, Board of Directors

The Company has 10 directors, who meet at least once each month at Board of Directors meetings to decide important management issues and supervise the execution of business. During the year ended March 31, 2009, the Board of Directors met 20 times.

Corporate Auditors, Board of Corporate Auditors

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

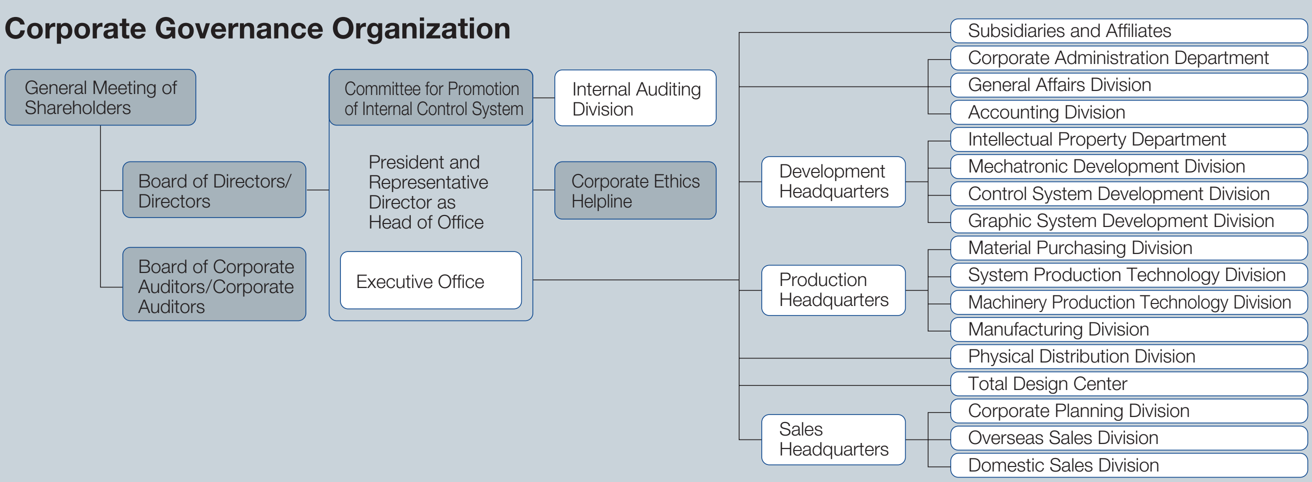
Internal Auditing Division

The Company has established an Internal Auditing Division to conduct internal audits throughout the Company's business operations and strengthen internal control. The Internal Auditing Division comprises four members, who conduct internal audits of conditions including the status of compliance and risk management, based on an annual audit plan. This division reports its findings to the president and provides feedback on audit content to individual divisions. While preserving its independence, this division meets regularly and liaises with the Board of Corporate Auditors. The Internal Auditing Division also conducts periodic audits of other consolidated companies.

Accounting Audits

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.

Corporate Governance Organization



Internal Control System

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

We established the Committee for the Promotion of the Internal Control System and formulated the Basic Policies Related to Improvement of the Internal Control System that we are striving to enhance. This basic policy establishes eight items for improvement, including the development and maintenance of a compliance system, the storage and management of information, and the systematic promotion of risk management.

The Company initiated an Internal Control over Financial Reporting to apply from the accounting year under review. We endeavored to create a system to rationally ensure the reliability of financial reporting from the standpoint of protecting investors, and promote fair and impartial disclosure. We set up a system to appropriately evaluate the scope of companywide internal controls, the financial reporting process and the business processes. As of March 31, 2009, we judged the Group's internal control over financial reporting to be effective. We will continue to maintain and operate these systems, as well as construct a structure to foster ongoing improvement.

Compliance

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

During the year, we revised the Shima Seiki Group Code of Conduct as the Compliance Manual to clarify our corporate motto and other compliance-related standards to ensure even more thorough compliance. At the same time, we established a Compliance Committee as part of our initiative to raise awareness of compliance throughout the Group. Furthermore, we put in place a Risk Management Committee to handle items related to risk management throughout the Group. The committee has begun driving specific initiatives, and assessed risk conditions at each division during the year. In the future, the committee will specify and analyze risks that require groupwide management, formulate risk countermeasures and create a system that counters risk on an ongoing basis.

Furthermore, we have introduced internal and external Corporate Ethics Helplines to communicate information about employees found to have violated laws or to have been involved in other serious misconduct, or to report cases of human rights violations, sexual harassment or power harassment.

Message from an Outside Auditor

Yuuki Matoba

(attorney), Outside Auditor

In the past, I have served as advisory counsel to many companies in relation to corporate legal work, and I have worked as a company reorganization administrator. Based on this experience, since I was appointed outside corporate auditor of Shima Seiki in 1994 I have provided advice on a potential risk issues in terms of corporate management, such as trade receivables and inventories. On a daily basis, I am also asked for my opinions, which I provide, concerning compliance.

I believe that one of a corporate auditor's duties is to make proactive suggestions to corporate management. Accordingly, I participate actively in Board of Directors meetings, consistently query items about which I have doubts and state my opinions candidly.

At present, I am not aware of any particular issues that exist in the Company. In the future, I anticipate major personnel exchanges, and consider it important to cultivate personnel who can make management decisions from a comprehensive perspective.

Board of Directors and Corporate Auditors

President

Masahiro Shima
General Manager of Sales Headquarters

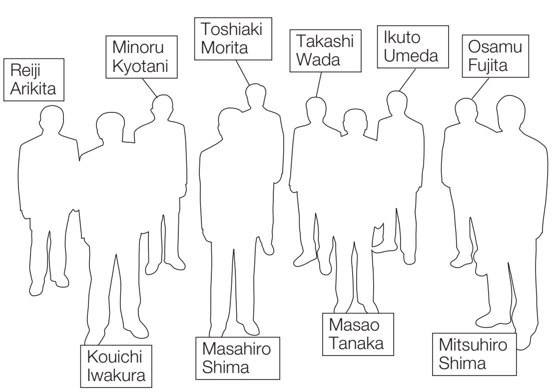
Senior Managing Director

Masao Tanaka
Overseeing General Affairs Division, Internal Auditing Division and Accounting Division

Managing Director

Kouichi Iwakura
General Manager of Corporate Administration Department, concurrently overseeing Corporate Planning Division and Physical Distribution Division

Mitsuhiro Shima
General Manager of Production Headquarters, concurrently overseeing 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

Ikuto Umeda
CEO of Shima Seiki Win Win Ltd.

Osamu Fujita
General Manager of General Affairs Division

Reiji Arikita
General Manager of Development Headquarters

Corporate Auditor

Toshiyuki Okidono
Standing Corporate Auditor

Yuuki Matoba
Corporate Auditor

Shojiro Katagiri
Standing Corporate Auditor

Masatoshi Yasugi
Corporate Auditor

(As of June 26, 2009)

Financial Section

Five-Year Financial Summary

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

	2009	2008	2007	2006	2005	**2009**
For the Year:			Millions of yen			Thousands of U.S. dollars
Net sales	**¥48,970**	¥69,897	¥47,080	¥37,880	¥46,095	**$498,524**
Cost of sales	**24,318**	34,131	25,014	21,100	25,277	**247,562**
Gross profit	**24,652**	35,766	22,066	16,780	20,818	**250,962**
Selling, general and administrative expenses	**16,124**	19,552	14,357	12,757	11,560	**164,145**
Operating income	**8,528**	16,214	7,709	4,023	9,258	**86,817**
Income before income taxes and minority interests	**4,057**	18,168	6,183	5,293	9,518	**41,301**
Net income	**1,766**	9,959	3,114	3,405	5,930	**17,978**
Capital investment	**4,147**	2,496	1,753	2,474	1,397	**42,217**
Depreciation and amortization	**2,358**	2,454	1,542	1,026	997	**24,005**
Research and development expenses	**2,651**	2,818	2,519	2,644	2,439	**26,988**
At Year-End:			Millions of yen			Thousands of U.S. dollars
Total assets	**¥119,778**	¥133,746	¥129,161	¥109,302	¥107,234	**$1,219,363**
Net assets/Shareholders' equity	**91,064**	101,647	92,810	95,331	92,115	**927,049**
Per Share Data:			Yen			U.S. dollars
Net income	**¥49.88**	¥276.13	¥86.17	¥91.92	¥159.97	**$0.51**
Cash dividends applicable to the year	**40.00**	55.00	37.50	37.50	37.50	**0.41**
Net assets/Shareholders' equity	**2,633.55**	2,677.47	2,546.71	2,599.24	2,510.71	**26.81**
Ratios:			%			
Ratio of operating income to net sales	**17.4%**	23.2%	16.4%	10.6%	20.1%	
ROA	**1.4%**	7.6%	2.6%	3.1%	5.6%	
ROE	**1.9%**	10.6%	3.4%	3.6%	6.6%	
Equity ratio	**76.0%**	73.2%	69.2%	87.2%	85.9%	

Notes: 1.Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥98.23=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2009.
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.

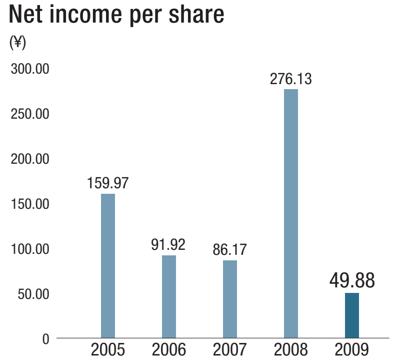
Overview

During the consolidated fiscal year under review, the financial crisis that began in the United States spread worldwide, seriously affecting the real economy and culminating in a recession on a global scale. The Shima Seiki Group felt the effects of the difficult management environment, which was characterized by reduced capital investment due to the downturn in consumer spending, ongoing yen appreciation that surpassed expectations and increasingly intense price competition.

In the main Chinese and Hong Kong markets, the propensity toward capital investment dropped off suddenly from the second quarter, causing sales of computerized flat knitting machines to fall significantly. Consequently, consolidated net sales for the year decreased 29.9%, to ¥48,970 million. On the profit front, consolidated operating income fell 47.4%, to ¥8,528 million, and consolidated net income dropped 82.3%, to ¥1,766 million. This performance, marked by declines in sales and income, was a major divergence from the preceding term, when we posted record-level performance in all areas.

Shima Seiki treats return of profits to shareholders as a priority management issue. With regard to profit distribution, the Company aggressively strives to maintain long-term stable dividends, taking into account business performance during the year, forecasts for future profits and business expansion for the future. We also take an aggressive stance toward purchases of treasury stock, to implement our capital policy expeditiously in response to changes in the operating environment and raise stock value per share. However, as results for the year were substantially lower than our initial projections, we reduced our intended year-end cash dividend of ¥30.00 to ¥15.00 per share. Combined with an interim dividend of ¥25.00 per share, this brought the dividends for the full business year to ¥40.00. Consolidated net income per share dropped significantly, from ¥276.13 in the preceding term to ¥49.88 in the year under review.

Net income per share



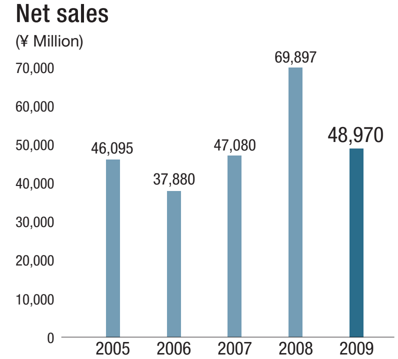
Net Sales

Shima Seiki's consolidated net sales fell 29.9% from the previous year's historic high, to ¥48,970 million.

Expansion of the world's leading production markets for knitwear, China and Hong Kong, led to an ample backlog of orders. Working through the previous year's backlog got business off to a solid start in the first quarter. However, from the second quarter sluggish U.S. consumer spending caused a sharp downturn in exports of knitwear products, and capital investment levels plunged, owing to monetary tightening. Furthermore, significant yen appreciation against the euro prompted severe price competition with European manufacturers, having a significant negative effect on net sales in that market. However, net sales increased in Cambodia, in line with the "China-plus-one" trend. In Europe, core customers in Italy are continuing a shift back to production within that country. Despite aggressive efforts to expand our customer following, expenditures on upgrade equipment were sluggish. Sales in the Design System segment fell in linked with the decline in net sales of computerized flat knitting machines. Net sales in the Glove and Sock Knitting Machine segment fell substantially overall, with demand in emerging countries remaining lackluster. Overall, overseas net sales fell 32.2%, to ¥44,561 million, and overseas net sales accounted for 91.0% of net sales during the year, a 3.1-percentage-point decrease from the previous year. By geographical region, overseas sales consisted of 70.9% to Southeast Asia (compared with 71.2% during the previous year), 20.4% to Europe (17.6%) and 8.7% to other areas (11.2%), indicating no significant change in the regional composition.

In the Japanese market, amid a growing shift toward lower prices the manufacture of high-end knitted products failed to expand, and capital investment stagnated. On the other hand, the Design System segment posted an increase in sales of the P-CAM® series of automatic fabric cutting machines, which target the textile industry. This factor, plus the addition of Toyoboshi Kogyo Co., Ltd., as a

Net sales



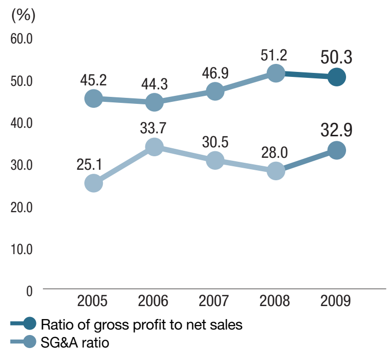
consolidated subsidiary during the year, helped push up domestic net sales 6.4%, to ¥4,409 million.

Cost of Sales and SG&A Expenses

Unit production of flat knitting machines fell off sharply from the second quarter. As capacity utilization decreased, fixed costs became an increasingly burdensome, and severe competition led to reduced unit selling prices on mainstay machines, pushing up the percentage of manufacturing cost. Cost of sales amounted to ¥24,318 million, and the ratio of gross profit to net sales worsened 0.9 percentage point, to 50.3%.

Selling, general and administrative (SG&A) expenses fell 17.5%, to ¥16,124 million, owing to decreases in the provision for doubtful accounts and such direct selling costs as freight and packing costs. However, due to the decline in net sales the SG&A ratio worsened 4.9 percentage points, to 32.9%.

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



Operating Income

Operating income dropped 47.4%, to ¥8,528 million. Principal factors were a 29.9% decline in net sales, an increase in the ratio of cost of sales to net sales and the worsening of the SG&A ratio. As a result, the ratio of operating income to net sales was 5.8 percentage points lower than during the previous year, at 17.4%.

In terms of operating income by segment, the Flat Knitting Machine segment recorded a 34.8% decline, to ¥13,889 million; the Design System segment experienced a 96.5% fall, to ¥1 million; the Glove and Sock Knitting Machine segment saw a 56.1% drop, to ¥199 million; and the Other Business segment posted an operating loss of ¥318 million, down ¥429 million from the operating income figure in the preceding term.

Other Income and Expenses

Other expenses exceeded other income, leading to net other expenses of ¥4,471 million, ¥6,425 million lower than the net other income figure in the preceding term. Rapid yen appreciation resulted in exchange losses of ¥4,489 million, stemming from such factors as loss on valuation of receivables denominated in foreign currencies, as well as a ¥317 million loss on devaluation of investment securities and a ¥326 million loss on devaluation of investment in an overseas subsidiary.

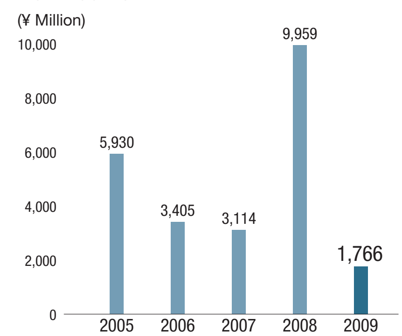
Net Income

Consolidated income before income taxes and minority interests for the period under review fell 77.7%, to ¥4,057 million.

Corporate income, residential and enterprise taxes totaled ¥371 million, representing a year-on-year decrease of ¥8,118 million, or 95.6%. Corporate income tax adjustments for the period under review were ¥1,233 million, up ¥2,384 million from the previous year. As a result, the Company's tax burden after the application of tax effect accounting fell ¥5,734 million, to ¥1,604 million, resulting in an effective tax rate of 39.5%. Minority interests were ¥687 million, down ¥184 million compared with the previous year.

As a result of the above factors, consolidated net income for the current year amounted to ¥1,766 million, down 82.3% year on year.

Net income



Liquidity and Capital Resources

Cash and cash equivalents were ¥19,311 million as of March 31, 2009, a decrease of ¥3,333 million, or 14.7%, from one year earlier. Operating and investing activities provided cash, but the cash used in financing activities exceeded their combined cash provision.

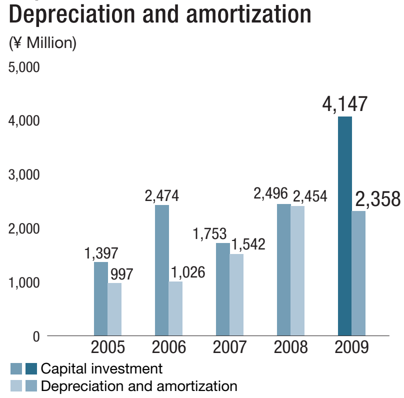
Net cash provided by operating activities was ¥1,978 million during the year, compared with ¥21,747 million in the previous year. Income before income taxes and minority interests provided ¥4,057 million, down substantially from the ¥18,168 million provided in the preceding term. Depreciation and amortization provided ¥2,358 million (compared with ¥2,454 million in the previous fiscal year), the decrease in trade receivables provided ¥3,452 million (compared with a ¥1,522 million increase in receivables). Income taxes paid used ¥9,726 million (compared with ¥3,524 million).

Net cash provided by investing activities was ¥70 million, compared with ¥3,321 million used in these activities in the previous year. The difference between proceeds from sales of short-term investments and purchases of short-term investments was cash provided of ¥3,504 million (compared with cash used of ¥1,860 million). Purchases of property, plant and equipment, such as machinery, used ¥3,208 million (compared with ¥2,082 million).

Net cash used in financing activities was ¥4,294 million, compared with ¥10,883 million used in these activities during the preceding fiscal year. Major factors included a ¥6,382 million increase in short-term loans (compared with a decrease of ¥4,402 million) and purchases of treasury stock ¥5,096 million (compared with ¥4,784 million). Cash used for the acquisition of shares from minority interests in a consolidated subsidiary was ¥4,614 million.

The Shima Seiki Group's funding activities combine various procurement methods, including cash flows from operating activities and loans from financial institutions, in an effort to secure low-cost, stable capital in response to uses of funds required to pursue the Group's objectives.

Capital investment/ Depreciation and amortization



Assets, Liabilities and Net Assets

Consolidated total assets as of March 31, 2009, were ¥119,778 million, down ¥13,968 million from a year earlier.

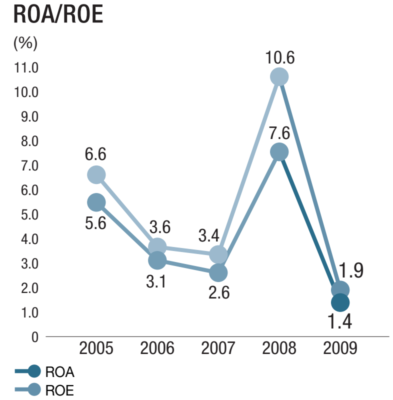
In terms of short-term assets and liabilities, current assets decreased ¥12,649 million, to ¥74,269 million, which represents a 14.6% decrease from the previous year. Major reasons for the decline include a ¥3,333 million drop in cash and cash equivalents; a ¥5,538 million reduction in trade accounts and notes receivable, owing to such factors as settlement prior to due dates and liquidation; and a ¥3,510 million decrease in short-term investments. Meanwhile, current liabilities fell 8.6%, or ¥2,004 million, to ¥21,364 million. The main reasons for this drop were ¥7,193 million less in accrued income taxes and a ¥4,563 million decline in trade accounts and notes payable. Increases included short-term loans, which grew ¥6,356 million, and the current portion of long-term debt, which increased ¥3,000 million.

With regard to long-term assets, property, plant and equipment decreased ¥125 million compared to the previous year, to ¥22,735 million, a year-on-year drop of 0.5%. Investments and other assets fell ¥1,194 million, to ¥22,774 million, representing a 5.0% decline, owing to such factors as a ¥1,155 million decrease in investments in securities. Long-term liabilities decreased 15.8%, or ¥1,381 million, to ¥7,350 million. Principal factors included ¥1,000 million in new funding, booked as proceeds from long-term loans, and ¥3,000 million in long-term loans that moved into category of current liabilities. In addition, we posted new lease obligations of ¥799 million.

Net assets were down ¥10,583 million, or 10.4%, from the end of the previous fiscal year, to ¥91,064 million. Factors serving to decrease net assets included cash dividends of ¥1,971 million, purchases of treasury stock of ¥5,096 million and ¥3,793 million decrease in minority interests. As a result, the equity ratio rose 2.8 percentage points, to 76.0%.

Return on assets fell from 7.6% to 1.4%, as a result of the significant drop in net income during the year. Return on equity declined from 10.6% to 1.9%.

ROA/ROE



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, tax systems, and trade friction with other regions in this market, which could lead to a decline in orders, and thus affect the performance and financial position of the Group.

2. Risks associated with fluctuations in currency exchange rates

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

3. Risks associated with credit and accounts receivable recovery

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

4. Risks associated with the protection of intellectual property rights

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

5. Risks associated with overconcentration of production on a particular production site

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

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

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

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

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

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

Consolidated Balance Sheets

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥19,311**	¥22,644	**$196,590**
Time deposits	**384**	425	**3,909**
Short-term investments (Note 4)	**403**	3,913	**4,103**
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	**153**	159	**1,558**
Other	**35,514**	41,046	**361,539**
Inventories (Note 5)	**15,303**	16,178	**155,787**
Deferred tax assets (Note 11)	**2,085**	3,219	**21,226**
Prepaid expenses and other current assets	**3,952**	1,560	**40,232**
Less: allowance for doubtful accounts	**(2,836)**	(2,226)	**(28,872)**
Total current assets	**74,269**	86,918	**756,072**
Investments and other assets:			
Investments in unconsolidated subsidiaries	**1,002**	1,788	**10,201**
Investments in securities (Note 4)	**6,245**	7,400	**63,575**
Long-term loans receivable	**35**	35	**356**
Deferred tax assets (Note 11)	**2,421**	2,205	**24,646**
Goodwill	**9,121**	9,066	**92,854**
Other	**6,076**	6,266	**61,855**
Less: allowance for doubtful accounts	**(2,126)**	(2,216)	**(21,643)**
Less: allowance for investment loss	**—**	(576)	**—**
Total investments and other assets	**22,774**	23,968	**231,844**
Property, plant and equipment:			
Land	**10,917**	10,491	**111,137**
Buildings and structures	**21,321**	21,388	**217,052**
Machinery and equipment	**6,997**	8,332	**71,231**
Tools, furniture and fixtures	**6,549**	6,424	**66,670**
Leased assets	**960**	—	**9,773**
Construction in progress	**546**	38	**5,559**
	47,290	46,673	**481,422**
Less: accumulated depreciation	**(24,555)**	(23,813)	**(249,975)**
Property, plant and equipment, net	**22,735**	22,860	**231,447**
Total assets	**¥119,778**	¥133,746	**$1,219,363**

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 7)	**¥6,499**	¥143	**$66,161**
Current portion of long-term debt (Note 7)	**3,000**	—	**30,541**
Lease obligations	**140**	—	**1,425**
Trade accounts and notes payable	**5,211**	9,774	**53,049**
Accrued expenses	**1,150**	1,650	**11,707**
Accrued income taxes	**32**	7,225	**326**
Other current liabilities	**5,332**	4,576	**54,281**
Total current liabilities	**21,364**	23,368	**217,490**
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	**3,806**	5,910	**38,746**
Lease obligations	**799**	—	**8,134**
Allowance for retirement benefits (Note 8)	**1,574**	1,674	**16,023**
Deferred tax liabilities for land revaluation (Note 6)	**33**	60	**336**
Allowance for directors' and statutory auditors' retirement benefits	**1,138**	1,087	**11,585**
Total long-term liabilities	**7,350**	8,731	**74,824**
Contingent liabilities (Note 9)			
Net assets:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2009 — 36,600,000 shares			
2008 — 37,600,000 shares	**14,860**	14,860	**151,278**
Capital surplus	**21,724**	22,397	**221,154**
Retained earnings	**71,511**	74,924	**727,995**
Treasury stock, at cost			
2009 — 2,021,620 shares			
2008 — 1,052,466 shares	**(6,395)**	(5,323)	**(65,102)**
Net unrealized holding loss on securities	**(1,210)**	(573)	**(12,318)**
Land revaluation difference (Note 6)	**(7,433)**	(7,392)	**(75,669)**
Foreign currency translation adjustments	**(1,993)**	(1,039)	**(20,289)**
Minority interests	**—**	3,793	**—**
Total net assets	**91,064**	101,647	**927,049**
Total liabilities and net assets	**¥119,778**	¥133,746	**$1,219,363**

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

Shima Seiki Mfg., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Net sales	**¥48,970**	¥69,897	**$498,524**
Cost of sales	**24,318**	34,131	**247,562**
Gross profit	**24,652**	35,766	**250,962**
Selling, general and administrative expenses (Note 12)	**16,124**	19,552	**164,145**
Operating income	**8,528**	16,214	**86,817**
Other income (expenses):			
Interest and dividend income	**741**	1,197	**7,543**
Interest expense	**(137)**	(103)	**(1,395)**
Other, net	**(5,075)**	860	**(51,664)**
Income before income taxes and minority interests	**4,057**	18,168	**41,301**
Income taxes (Note 11)**:**			
Current	**371**	8,489	**3,777**
Deferred	**1,233**	(1,151)	**12,552**
	1,604	7,338	**16,329**
Income before minority interests	**2,453**	10,830	**24,972**
Minority interests in gain of consolidated subsidiaries	**687**	871	**6,994**
Net income	**¥1,766**	¥9,959	**$17,978**

	Yen		U.S. dollars
Per share:			
Net income	**¥49.88**	¥276.13	**$0.51**
Diluted net income	**48.56**	261.43	**0.49**
Cash dividends applicable to the year	**40.00**	55.00	**0.41**

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, 2009 and 2008

	Thousands	Millions of yen								
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Land revaluation difference	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at April 1, 2007	37,600	¥14,860	¥21,725	¥66,713	¥(6,996)	¥270	¥(7,518)	¥262	¥3,494	¥92,810
Net income	—	—	—	9,959	—	—	—	—	—	9,959
Cash dividends	—	—	—	(1,622)	—	—	—	—	—	(1,622)
Purchases of treasury stock	—	—	—	—	(4,784)	—	—	—	—	(4,784)
Disposal of treasury stock	—	—	672	—	6,457	—	—	—	—	7,129
Reversal of land revaluation difference	—	—	—	(126)	—	—	—	—	—	(126)
Other changes, net	—	—	—	—	—	(843)	126	(1,301)	299	(1,719)
Balance at March 31, 2008	37,600	14,860	22,397	74,924	(5,323)	(573)	(7,392)	(1,039)	3,793	101,647
Net income	**—**	**—**	**—**	**1,766**	**—**	**—**	**—**	**—**	**—**	**1,766**
Cash dividends	**—**	**—**	**—**	**(1,971)**	**—**	**—**	**—**	**—**	**—**	**(1,971)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(5,096)**	**—**	**—**	**—**	**—**	**(5,096)**
Disposal of treasury stock	**—**	**—**	**(67)**	**(1)**	**170**	**—**	**—**	**—**	**—**	**102**
Retirement of treasury stock	**(1,000)**	**—**	**(606)**	**(3,248)**	**3,854**	**—**	**—**	**—**	**—**	**—**
Reversal of land revaluation difference	**—**	**—**	**—**	**41**	**—**	**—**	**—**	**—**	**—**	**41**
Other changes, net	**—**	**—**	**—**	**—**	**—**	**(637)**	**(41)**	**(954)**	**(3,793)**	**(5,425)**
Balance at March 31, 2009	**36,600**	**¥14,860**	**¥21,724**	**¥71,511**	**¥(6,395)**	**¥(1,210)**	**¥(7,433)**	**¥(1,993)**	**—**	**¥91,064**

	Thousands of U.S. dollars								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding loss on securities	Land revaluation difference	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2008	$151,278	$228,006	$762,740	$(54,189)	$(5,833)	$(75,252)	$(10,577)	$38,613	$1,034,786
Net income	**—**	**—**	**17,978**	**—**	**—**	**—**	**—**	**—**	**17,978**
Cash dividends	**—**	**—**	**(20,065)**	**—**	**—**	**—**	**—**	**—**	**(20,065)**
Purchases of treasury stock	**—**	**—**	**—**	**(51,878)**	**—**	**—**	**—**	**—**	**(51,878)**
Disposal of treasury stock	**—**	**(683)**	**(10)**	**1,731**	**—**	**—**	**—**	**—**	**1,038**
Retirement of treasury stock	**—**	**(6,169)**	**(33,065)**	**39,234**	**—**	**—**	**—**	**—**	**—**
Reversal of land revaluation difference	**—**	**—**	**417**	**—**	**—**	**—**	**—**	**—**	**417**
Other changes, net	**—**	**—**	**—**	**—**	**(6,485)**	**(417)**	**(9,712)**	**(38,613)**	**(55,227)**
Balance at March 31, 2009	**$151,278**	**$221,154**	**$727,995**	**$(65,102)**	**$(12,318)**	**$(75,669)**	**$(20,289)**	**—**	**$927,049**

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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥4,057**	¥18,168	**$41,301**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**2,358**	2,454	**24,005**
Amortization of goodwill	**502**	173	**5,110**
Increase in allowance for doubtful accounts	**529**	1,293	**5,385**
Increase (decrease) in allowance for losses on guarantees	**(246)**	362	**(2,504)**
Decrease in allowance for retirement benefits	**(167)**	(182)	**(1,700)**
Increase in allowance for directors' and statutory auditors' retirement benefits	**51**	75	**519**
Increase in allowance for investment loss	**—**	576	**—**
Interest and dividend income	**(740)**	(1,197)	**(7,533)**
Interest expense	**137**	103	**1,395**
Foreign exchange loss	**1,131**	—	**11,514**
Loss (gain) on sales and disposal of property, plant and equipment, net	**(94)**	119	**(957)**
Decrease (increase) in trade receivables	**3,452**	(1,522)	**35,142**
Decrease (increase) in inventories	**22**	(914)	**224**
Increase (decrease) in trade payables	**(2,025)**	4,297	**(20,615)**
Other	**2,161**	466	**21,999**
Subtotal	**11,128**	24,271	**113,285**
Interest and dividend income received	**721**	1,107	**7,340**
Interest expense paid	**(145)**	(107)	**(1,476)**
Income taxes paid	**(9,726)**	(3,524)	**(99,013)**
Net cash provided by operating activities	**1,978**	21,747	**20,136**
Cash flows from investing activities:			
Decrease (increase) in time deposits, net	**41**	(168)	**417**
Purchases of short-term investments	**(4,696)**	(14,993)	**(47,806)**
Proceeds from sales of short-term investments	**8,200**	13,133	**83,478**
Purchases of property, plant and equipment	**(3,208)**	(2,082)	**(32,658)**
Proceeds from sales of property, plant and equipment	**1,144**	497	**11,646**
Purchases of investments in securities	**(238)**	(76)	**(2,423)**
Proceeds from sales of investments in securities	**25**	912	**255**
Payments for acquisition of subsidiaries	**(214)**	—	**(2,179)**
Payment for acquisition of business	**(457)**	—	**(4,652)**
Extension in loans receivable	**(1)**	(141)	**(10)**
Collection in loans receivable	**—**	131	**—**
Other	**(526)**	(534)	**(5,355)**
Net cash provided by (used in) investing activities	**70**	(3,321)	**713**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	**6,382**	(4,402)	**64,970**
Proceeds from long-term loans	**1,000**	—	**10,180**
Repayment of long-term loans	**—**	(76)	**—**
Purchases of treasury stock	**(5,096)**	(4,784)	**(51,878)**
Proceeds from sales of treasury stock	**2**	—	**20**
Acquisition of shares from minority interests in a consolidated subsidiary	**(4,614)**	—	**(46,971)**
Cash dividends paid	**(1,968)**	(1,621)	**(20,035)**
Net cash used in financing activities	**(4,294)**	(10,883)	**(43,714)**
Effect of exchange rate changes on cash and cash equivalents	**(1,087)**	(853)	**(11,066)**
Net increase (decrease) in cash and cash equivalents	**(3,333)**	6,690	**(33,931)**
Cash and cash equivalents at beginning of year	**22,644**	15,954	**230,521**
Cash and cash equivalents at end of year	**¥19,311**	¥22,644	**$196,590**

See the accompanying notes to the consolidated financial statements.

1. Basis of presenting consolidated financial statements

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

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

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the exchange rate prevailing at March 31, 2009, which was ¥98.23 to US$1. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions are eliminated.

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

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

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

(b) Translation of foreign currencies

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

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

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

(c) Cash and cash equivalents

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

(d) Short-term investments and investments in securities

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

(e) Inventories

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

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

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

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

Property, plant and equipment are stated at cost. Depreciation of the Company and its domestic consolidated subsidiaries are computed principally by the declining-balance method based on the estimated useful lives of assets, except that the straight-line method is applied to buildings, but not to fixtures attached to the buildings, acquired after April 1, 1998. Depreciation of foreign consolidated subsidiaries 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	2 to 12 years
Tools, furniture and fixtures	2 to 20 years

(Additional information)

The Company and its domestic consolidated subsidiaries changed the useful life for machinery and equipment from 3-12 years to 2-12 years for the year ended March 31, 2009 after reviewing the current usage of machinery and equipment in line with the revised Corporation Tax Law of Japan.

As a result, the effect was immaterial for the year ended March 31, 2009.

(g) Leased assets

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

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

(h) Allowance for doubtful accounts

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

(i) Allowance for retirement benefits

The Company and 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 10 years by the straight-line method from the year subsequent to the year in which such gains and losses are incurred.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

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

(l) Derivatives and hedging activities

The Company and its consolidated subsidiaries have entered into derivatives transactions in order to manage the risk arising from adverse 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. Changes in accounting policies

Adoption of Accounting Standard for Measurement of Inventories

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9; issued July 5, 2006).

As a result, the effect of this change on operating income and income before income taxes and minority interests is immaterial.

Adoption of Accounting Standard for Lease Transactions

Financial leases other than those that were deemed to transfer the ownership of leased assets to the lessees have previously been accounted for in a similar way to operating leases.

However, the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13; originally issued by the Corporate Accounting Council June 17, 1993 and revised by the ASBJ March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16; issued by the Japanese Institute of Certified Public Accountants January 18, 1994 and revised by the ASBJ March 30, 2007) became applicable to fiscal years beginning on or after April 1, 2008, and the Company and its consolidated subsidiaries adopted this accounting standard and practical guideline starting in this fiscal year. Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees are accounted for in a similar way to purchases and depreciation for leased assets is computed under the straight-line method with zero residual value over the lease term.

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

As a result, the effect of this change on operating income and income before income taxes and minority interests is immaterial.

Change in method of accounting for translation of revenue and expense accounts of foreign subsidiaries

Effective the year ended March 31, 2009, the Company has changed its method of accounting for translation of revenue and expense accounts of foreign subsidiaries to applying average exchange rates during the year from exchange rates prevailing on the balance sheet date. This change was made in order to recognize more accurate profit and loss by using annual average rates of exchange that reflect the exchange rates applied throughout the fiscal year.

As a result, the effect of this change in method of accounting was to increase net sales by ¥3,042 million ($30,968 thousand), operating income by ¥1,608 million ($16,370 thousand) and income before income taxes and minority interests by ¥277 million ($2,820 thousand) from the corresponding amounts which would have been recorded under the previous method.

The effect on segment information is described in Note 14.

4. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2009 and 2008 were as follows:

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

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

	Thousands of U.S. dollars 2009 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	**$2,260**	**$3,166**	**$906**
Subtotal	**$2,260**	**$3,166**	**$906**
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	**$29,227**	**$17,734**	**$(11,493)**
Bond	**11,148**	**10,832**	**(316)**
Other	**37,483**	**27,751**	**(9,732)**
Subtotal	**$77,858**	**$56,317**	**$(21,541)**
Total	**$80,118**	**$59,483**	**$(20,635)**

Other securities without quoted market prices at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2009	2008	**2009**
Held-to-maturity securities	**¥399**	¥899	**$4,062**
Other securities	**¥406**	¥3,594	**$4,133**

5. Inventories

Inventories at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Finished goods	**¥10,749**	¥11,549	**$109,427**
Work in process	**792**	1,107	**8,063**
Raw materials	**3,453**	3,160	**35,152**
Supplies and others	**309**	362	**3,145**
	¥15,303	¥16,178	**$155,787**

6. 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, 2009 were as follows:

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

7. Short-term loans and long-term debt

Short-term loans at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Average rate of 0.86% unsecured loans from banks	**¥6,499**	¥143	**$66,161**

Long-term debt at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Average rate of 1.25% unsecured loans from banks	**¥4,000**	¥3,000	**$40,721**
Zero coupon convertible bonds due November 26, 2010	**2,806**	2,910	**28,566**
Less current portion	**(3,000)**	—	**(30,541)**
	¥3,806	¥5,910	**$38,746**

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 ($31.15) per share.

The aggregate annual maturities of long-term debt at March 31, 2009 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2010	**¥3,000**	**$30,541**
2011	**3,806**	**38,746**
2012	**—**	**—**
2013	**—**	**—**
2014	**—**	**—**
Thereafter	**—**	**—**
Total	**¥6,806**	**$69,287**

8. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2009 and 2008 consisted of the following:

Retirement benefit obligation at March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	**¥(4,971)**	¥(4,995)	**$(50,606)**
Fair value of plan assets	**3,715**	3,743	**37,820**
Benefit obligation in excess of plan assets	**(1,256)**	(1,252)	**(12,786)**
Unrecognized actuarial gain	**463**	226	**4,713**
Net retirement benefit obligation	**(793)**	(1,026)	**(8,073)**
Prepaid pension cost	**781**	648	**7,950**
Allowance for retirement benefits	**¥(1,574)**	¥(1,674)	**$(16,023)**

Components of net periodic benefit cost for the years ended March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥287**	¥225	**$2,922**
Interest cost	**95**	87	**967**
Expected return on plan assets	**(43)**	(42)	**(438)**
Amortization:			
Actuarial gain (loss)	**32**	(16)	**326**
Net periodic benefit cost	**¥371**	¥254	**$3,777**

Assumption used in the accounting for the defined benefit plans for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
Method of attributing benefit to periods of service	**straight-line basis**	straight-line basis
Discount rate	**2.0%**	2.0%
Expected rate of return on fund assets	**1.15%**	1.15%
Amortization period for actuarial gain (loss)	**10 years**	10 years

9. Contingent liabilities

Contingent liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Guarantees of customers' loans and lease obligations	**¥3,237**	¥3,784	**$32,953**

10. Derivatives

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

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

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

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

Currency—related transactions

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

Option premiums within the above schedules are disclosed in brackets ([ ]). As these option transactions are Zero Cost Options, they are not charged.

11. Income taxes

The Company and its consolidated subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a normal effective statutory tax rate of approximately 40.4% for the years ended March 31, 2009 and 2008.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Allowance for doubtful accounts	**¥2,708**	¥2,527	**$27,568**
Unrealized holding loss on securities	**822**	389	**8,368**
Tax loss carryforwards	**810**	794	**8,246**
Intercompany profit	**634**	1,175	**6,454**
Allowance for directors' and statutory auditors' retirement benefits	**460**	440	**4,683**
Loss on devaluation of investment in an affiliate	**364**	—	**3,706**
Impairment loss on fixed assets	**306**	243	**3,115**
Accrued bonuses to employees	**273**	348	**2,779**
Allowance for retirement benefits	**261**	320	**2,657**
Tax credit for research and development cost	**245**	—	**2,494**
Allowance for losses on guarantees	**164**	277	**1,670**
Loss on devaluation of inventories	**117**	360	**1,191**
Accrued enterprise tax	**—**	462	**—**
Allowance for investment loss	**—**	233	**—**
Other	**173**	153	**1,761**
Total gross deferred tax assets	**7,337**	7,721	**74,692**
Less valuation allowance	**(1,529)**	(1,329)	**(15,565)**
Net deferred tax assets	**5,808**	6,392	**59,127**
Deferred tax liabilities:			
Adjustment for allowance for doubtful accounts	**(1,104)**	(940)	**(11,239)**
Accrued enterprise tax	**(157)**	—	**(1,598)**
Tax deductible reserves	**(21)**	(28)	**(214)**
Other	**(20)**	—	**(204)**
Total gross deferred tax liabilities	**(1,302)**	(968)	**(13,255)**
Net deferred tax assets	**¥4,506**	¥5,424	**$45,872**

12. Research and development costs

Research and development costs charged to income were ¥2,651 million ($26,988 thousand) and ¥2,818 million for the years ended March 31, 2009 and 2008, respectively.

13. Lease

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

Total lease payments under financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees were ¥906 million ($9,223 thousand) and ¥1,146 million for the years ended March 31, 2009 and 2008, respectively.

Proforma information of leased assets under financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees on an "as if capitalized" basis for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009			**2009**
	Acquisition cost	Accumulated depreciation	Net leased assets	Net leased assets
Machinery and equipment	**¥4,930**	**¥2,562**	**¥2,368**	**$24,107**
Tools, furniture and fixtures	**121**	**65**	**56**	**570**
Total	**¥5,051**	**¥2,627**	**¥2,424**	**$24,677**

	Millions of yen		
	2008		
	Acquisition cost	Accumulated depreciation	Net leased assets
Machinery and equipment	¥6,032	¥2,803	¥3,229
Tools, furniture and fixtures	121	37	84
Total	¥6,153	¥2,840	¥3,313

Obligations under such financial leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Due within one year	**¥791**	¥901	**$8,053**
Due after one year	**1,717**	2,535	**17,479**
Total	**¥2,508**	¥3,436	**$25,532**

Depreciation expense and imputed interest expense for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Depreciation expense	**¥852**	¥1,020	**$8,674**
Imputed interest expense	**¥36**	¥64	**$366**

14. Segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 were as follows:

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

	Millions of yen						
	2008						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
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
Assets, depreciation and capital expenditures:							
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

	Thousands of U.S. dollars						
	2009						
	Flat knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**$423,170**	**$15,790**	**$11,534**	**$48,030**	**$498,524**	**—**	**$498,524**
Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**423,170**	**15,790**	**11,534**	**48,030**	**498,524**	**—**	**498,524**
Operating costs and expenses	**281,777**	**15,780**	**9,508**	**51,267**	**358,332**	**$53,375**	**411,707**
Operating income (loss)	**$141,393**	**$10**	**$2,026**	**$(3,237)**	**$140,192**	**$(53,375)**	**$86,817**
Assets, depreciation, impairment loss on fixed assets and capital expenditures:							
Assets	**$779,405**	**$21,572**	**$8,674**	**$79,670**	**$889,321**	**$330,042**	**$1,219,363**
Depreciation	**15,097**	**570**	**296**	**2,779**	**18,742**	**5,263**	**24,005**
Impairment loss on fixed assets	**—**	**—**	**—**	**2,504**	**2,504**	**—**	**2,504**
Capital expenditures	**28,993**	**570**	**407**	**4,286**	**34,256**	**7,961**	**42,217**

Notes: 1. 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

2. As set forth in the Changes in accounting policies, effective the year ended March 31, 2009, the Company changed its method of translation of the revenue and expense accounts of its foreign consolidated subsidiaries into Japanese yen. The effect of this change for the year ended March 31, 2009 was to increase on the Flat knitting machines net sales by ¥2,616 million ($26,631 thousand) and operating income by ¥1,551 million ($15,790 thousand), on the Design systems net sales by ¥56 million ($570 thousand) and operating income by ¥19 million ($193 thousand), on the Glove and sock knitting machines net sales by ¥38 million ($387 thousand) and operating income by ¥21 million ($214 thousand), on the Other net sales by ¥332 million ($3,380 thousand) and operating income by ¥17 million ($173 thousand) from the corresponding amounts which would have been recorded under the previous method.

Geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 were as follows:

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

	Millions of yen						
	2008						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:							
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
Assets	¥83,072	¥26,662	¥19,283	¥1,584	¥130,601	¥3,145	¥133,746

	Thousands of U.S. dollars						
	2009						
	Japan	Southeast Asia	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	**$118,905**	**$275,089**	**$91,489**	**$13,041**	**$498,524**	**—**	**$498,524**
Intersegment sales	**293,097**	**550**	**2,301**	**31**	**295,979**	**$(295,979)**	**—**
Total	**412,002**	**275,639**	**93,790**	**13,072**	**794,503**	**(295,979)**	**498,524**
Operating costs and expenses	**301,222**	**251,990**	**92,955**	**20,289**	**666,456**	**(254,749)**	**411,707**
Operating income (loss)	**$110,780**	**$23,649**	**$835**	**$(7,217)**	**$128,047**	**$(41,230)**	**$86,817**
Assets	**$765,133**	**$240,202**	**$175,445**	**$11,952**	**$1,192,732**	**$26,631**	**$1,219,363**

Notes: 1. Significant countries or areas belonging to each segment are as follows:
Europe: U.K., Italy, Spain   Southeast Asia: China   North America: U.S.A.

2. As set forth in the Changes in accounting policies, effective the year ended March 31, 2009, the Company changed its method of translation of the revenue and expense accounts of its foreign consolidated subsidiaries into Japanese yen. The effect of this change for the year ended March 31, 2009 was to increase net sales by ¥1,339 million ($13,631 thousand) and operating income by ¥165 million ($1,680 thousand) in Southeast Asia, to increase net sales by ¥1,564 million ($15,922 thousand) and operating income by ¥61 million ($621 thousand) in Europe, and to increase net sales by ¥150 million ($1,527 thousand) and operating loss by ¥88 million ($896 thousand) in North America. In the corporate/elimination category, the effect was to reduce net sales by ¥11 million ($112 thousand) and to increase operating income by ¥1,470 million ($14,965 thousand) from the corresponding amounts which would have been recorded under the previous method.

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 were as follows:

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

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

	Thousands of U.S. dollars			
	2009			
	Europe	Southeast Asia	Other areas	Total
Overseas sales	**$92,466**	**$321,847**	**$39,326**	**$453,639**
Total sales				**$498,524**
Ratio of overseas sales to total sales	**18.5%**	**64.6%**	**7.9%**	**91.0%**

Notes: 1. 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

2. As set forth in the Changes in accounting policies, effective the year ended March 31, 2009, the Company changed its method of translation of the revenue and expense accounts of its foreign consolidated subsidiaries into Japanese yen. The effect of this change for the year ended March 31, 2009 was to increase sales of Europe by ¥1,554 million ($15,820 thousand), sales of Southeast Asia by ¥1,339 million ($13,631 thousand) and sales of Other areas by ¥149 million ($1,517 thousand) from the corresponding amounts which would have been recorded under the previous method.

15. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 26, 2009.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥519	$5,284

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, 2009 and 2008, 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, 2009 and 2008, 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.

Supplemental Information
As described in Note 3, effective the year ended March 31, 2009, the Company has changed its method of accounting for translation of revenue and expense accounts of foreign subsidiaries.

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 26, 2009

Ohtemae Audit Co.
Ohtemae Audit Corporation

Corporate Information (As of March 31, 2009)

Company Name	Shima Seiki Mfg., Ltd.	
Headquarters	85 Sakata, Wakayama City, Wakayama 641-8511, Japan Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267	
Date of Establishment	February 4, 1962	
Capital	¥14,859,800,000	
Total Number of Employees	Consolidated	1,708
	Non-consolidated	1,125
URL	Corporate Information	http://www.shimaseiki.com
	IR Information	http://www.shimaseiki.co.jp/ire/ire.html
Consolidated Subsidiaries	Shima Fine Press Co., Ltd. KnitMac Co., Ltd. TSM Industrial Co., Ltd. Kainan Seimitsu Co., Ltd. Toyoboshi Kogyo Co., Ltd. Tsukada Shima Seiki Co., Ltd. Marquise Co., Ltd.	Shima Seiki Europe Ltd. Shima Seiki U.S.A. Inc. Shima Seiki Win Win Ltd. Shima - Orsi S.p.A. (*) Nova Knits Inc. Shima Seiki Winwin Shanghai Ltd. Shima Seiki Spain, S.A.U.

(*) On July 17, 2009, Shima - Orsi S.p.A. changed its name to Shima Seiki Italia S.p.A.

Investor Information (As of March 31, 2009)

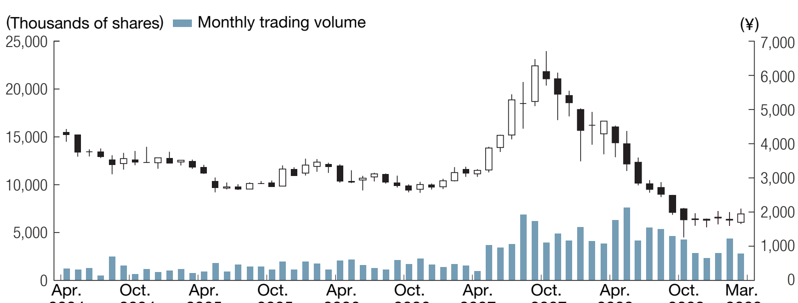
Accounting Year-End	March 31
Month of General Shareholders' Meeting	June
Authorized Common Stocks	142,000,000
Issued Common Stocks	36,600,000
Number of Shareholders	18,234
Stock Exchange Listing	The First Section of Tokyo Stock Exchange The First Section of Osaka Securities Exchange
Auditing Corporation	Ohtemae Audit Corporation

Major Shareholders

Name	Number of shares held (thousands)	Percentage of shares held (%)
Masahiro Shima	3,670	10.61
Mitsuhiro Shima	1,825	5.28
Japan Trustee Services Bank, Ltd. (Trust Account)	1,813	5.25
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	1,409	4.08
The Kiyo Bank, Ltd.	1,310	3.79
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.54
The Master Trust Bank of Japan, Ltd. (Trust Account)	871	2.52
Wajima Kosan Co., Ltd.	850	2.46
Shima Seiki Employees Shareholding Association	829	2.40
The Senshu Bank, Ltd.	700	2.02

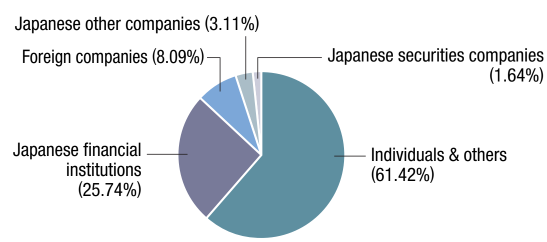
Notes: 1. The Company, which owns 2,021 thousand shares of treasury stock, or 5.52% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.
2. Holdings of less than 1,000 shares have been omitted.

Share price and trading volume on the Osaka Securities Exchange

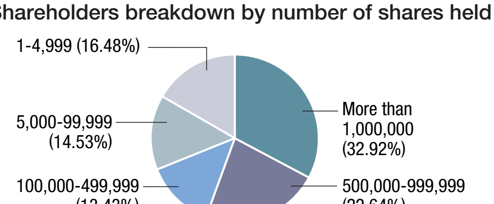


Stock Ownership

Shareholders breakdown by type



Shareholders breakdown by number of shares held



Shima Seiki Mfg., Ltd.

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