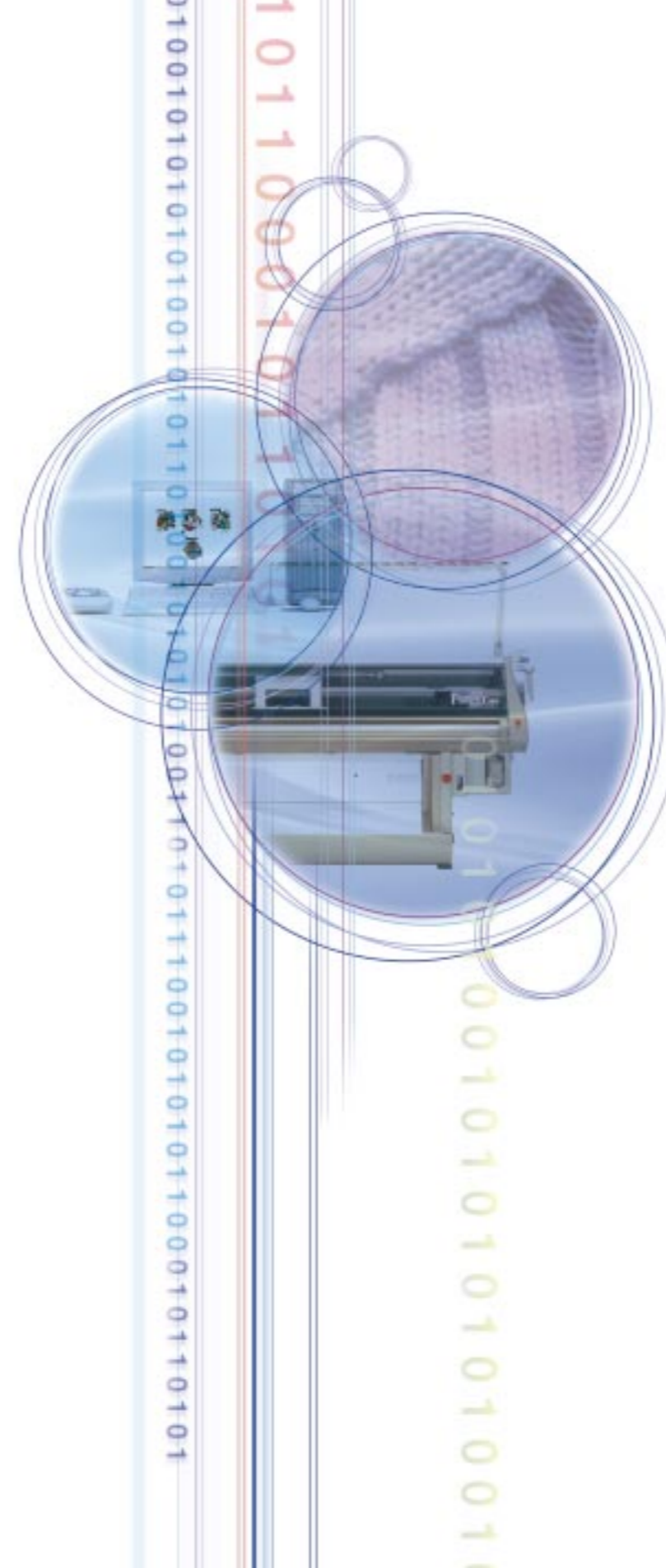




SHIMA SEIKI MFG., LTD.

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SHIMA SEIKI

Annual Report 2002

Profile



An essential part of our daily lives, textiles generally fall into one of two primary categories: woven cloth and knitted fabrics. Shima Seiki specializes in the development, manufacture, and marketing of computerized flatbed knitting machines for use in knitted fabric production. Since our establishment in 1961, we have used ingenuity in product development with a focus on user needs to make available highly advanced products at economical prices based on our corporate motto "Ever Onward."

In the field of apparel, a basic need in people's lives, a shift is taking place from labor-intensive to knowledge-intensive industrial practices. It is becoming important not only to produce comfortable, lightweight clothing, but also to introduce advantageous, new ways to make products and bring a new business model to the industry, which we are doing through the full-scale development of unique technologies. In addition to hardware and software, Shima Seiki aims to provide information and comprehensive services that extend to design and specialized expertise. Our contribution to the vitality of the fashion industry and other users helps to raise interest in apparel, which in turn leads to steady growth for the Company.

Today we maintain the top spot in market share for flatbed knitting machines and glove knitting machines. Business is vibrant, and our advanced technologies, such as WHOLEGARMENT® knitting machines, are being used by customers not only in the Japanese knitting industry, but in over 80 national markets, from Asia to Europe and the Americas.

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A Note Regarding Cautionary Statement on Forward-Looking Statements

The business plan, performance estimates, business strategy, and other areas that involve projections in this annual report are based on decisions made by the management at Shima Seiki from the data available at the time of writing. As a result, we suggest it would be wise not to depend completely on these projections. Many factors in the business environment are in flux, which can greatly affect the progress and results of business performance and strategies.

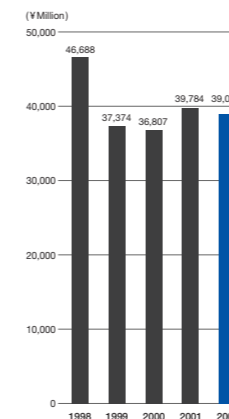
Consolidated Financial Highlights

Years ended March 31, 2002 and 2001

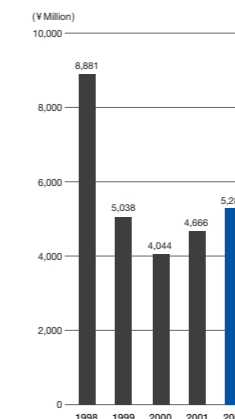
	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
For the Year:			
Net Sales.....	39,097	39,784	293,521
Operating Income.....	5,282	4,666	39,655
Net Income (Loss)	3,061	2,553	22,980
At Year-End:			
Total Assets	92,549	99,068	694,812
Total Shareholders' Equity	81,735	86,557	613,626
Per Share Data (in Yen and U.S. dollars):			
Net Income (Loss)	81.61	67.89	0.61
Shareholders' Equity.....	2,190.16	2,302.05	16.44

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥133.20 = U.S. \$1, the approximate Tokyo foreign exchange market rate as of March 31, 2002.

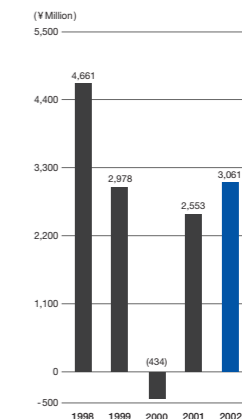
Net Sales



Operating Income



Net Income (Loss)



Message from the President

Performance Review

Two factors affecting the business environment in the year under review were the terrorist attacks on the United States in September 2001 and a major downturn in consumer spending on durable goods such as automobiles. Fortunately, however, the US economy did not drop off as much as expected, stock prices rebounded quickly, and consumer spending rose steadily again. Furthermore, the Asian economy has remained strong, bolstered by growth in the Chinese market. In contrast, the Japanese economy faces increasing severity in employment and income levels as we head toward deflation. Continued negative growth is being caused by a fall in consumer confidence, and lower capital investment as a result of conservative management, which harbors doubts about a quick economic recovery.

In overseas markets, Shima Seiki has met with harsh conditions in Europe and North and South America, but sales of computerized flatbed knitting machines and glove- and sock-knitting machines were strong in the Asian market, particularly in the Republic of Korea and Hong Kong. Sales were also strong in the Middle East, with a focus on Turkey. In the Japanese market, the use of WHOLEGARMENT® knitting machines has spread, but tough conditions prevailing in the knit and apparel business environment overall have resulted in a decline in net sales from the previous year.

As a result, consolidated net sales for the year were ¥39,097 million, down 1.7% from the previous year. But thanks to a recovery of retail prices and company-wide cost-cutting measures, operating income rose 13.2% over the previous year to ¥5,282 million. Including calculations for the appraisal loss on marketable securities, particularly in bank stocks,

net income for the year still rose 19.9% to ¥3,061 million. Net income per share rose ¥13.72 from last year to ¥81.61. Total annual dividend was ¥30.00 per share, which included an interim dividend of ¥15.00 per share.

Medium-Term Corporate Strategy

Eighty-five percent of Shima Seiki's net sales is composed of exports, which are susceptible to sales unit cost fluctuations caused by price competition with overseas manufacturers. Exchange rates and credit risks also exist, creating a persistently tough business environment.

On the one hand, our flatbed knitting-machine division has a reputation for advanced technology and creativity that has led to the development of appealing, high-value-added products, and it has further secured our position as the leading company in the industry.

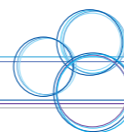
The following five points are areas that we shall emphasize as we work to improve the competitive strength of our products and boost profits, principally through the development of outstanding products.

1. Boosting share in the computerized flatbed knitting-machine industry

The main players in this industry are Shima Seiki and several non-Japanese companies. In order to further increase our share as the leading company in the industry, we are working to strengthen our product development and sales systems to match our product lines well with sales regions around the world. To accomplish this, we will strive to offer more robust software solutions and improve our user support system to take advantage of our unique expertise. In industrial countries we are establishing production bases close to regions of high consumer demand using WHOLEGARMENT® flatbed knitting machines. In developing countries and other regions we are working to increase knitting productivity and propose attractive knit products to make in order to develop new markets.

In the last several years, with our WHOLEGARMENT® knitting machines, beyond the exceptional hardware and proven quality, Shima Seiki has added value through the software, expertise, and design data that we provide. This is part of our effort to distinguish the Company from our competitors as we pursue even further growth in sales.





Current Term Outlook



Management Objectives

2. An aggressive design system proposal for knit- and apparel-related industries

Computer graphics has come to be widely used in the business world in recent years in the field of design. We are continuing its development based on many years of accumulated experience in hardware and software, and widely promoting the design system as a visual communication tool that can bring higher returns in users' industries.

Our design system SDS®-ONE provides integrated support for apparel goods from planning and design stages to production and sales promotion. It also serves as a core system for the production of attractive products that reflect fashion trends by providing a full complement of IT and networking functions and by improving operability and processing capabilities. Shima Seiki is proposing SDS®-ONE and working to expand sales of the system particularly to the domestic and overseas knit and apparel industry as a superb design system with high operating performance and cost performance.

3. Market expansion for glove- and sock-knitting machines

Shima Seiki's glove-knitting machines hold an overwhelming share of more than 80% of the global market. The demand for work gloves for domestic consumption in the Asian region is growing, and the tightening of safety regulations is keeping demand high in major industries in western countries.

However, we anticipate the development and production of low-performance, low-cost knitting machines by new companies in developing countries. For this reason we are looking to expand the functions of our machines and look beyond the field

of work gloves to developing products with new added value such as medical use. We aim to boost sales by providing ideas and know-how to the glove knitting industry.

4. Establishing a high-profit business structure

In order to boost profitability, we are working to reduce material and processing costs by consolidating models and making parts interchangeable, and reduce manufacturing costs by improving production efficiency throughout the Group.

We are reviewing all divisions in the company, including development, sales, and management, in addition to the production division, to establish a more cost competitive, high-profit business structure.

5. Risk management

We are pursuing foreign exchange risk hedges by increasing the ratio of yen-based transactions, factoring of trade receivable, forwarding exchange contracts, and other measures. In this manner we seek to reduce the impact of fluctuating exchange rates.

To deal with credit risks, we are working to distribute sales risks in developing countries, and where there is a heavy concentration of credit, such as with overseas sales agents and other buyers abroad we aim to look not only at the integrity of the buyer, but get a firm grasp of national and regional industry trends and examine the integrity of the end user to be able to respond with quick action.

In overseas markets, the feeling is beginning to surface that the economic downturn in Europe and the United States has bottomed out, accompanied by expectations for a gentle recovery in the Asian market.

In the Japanese market, strong concerns still remain regarding a rebound of the Japanese economy, and worsening income and employment conditions are keeping personal consumption stagnant. Combined with the high volume of imports of cheap foreign-made goods, the knit and apparel industry needs to switch over rapidly to the model of manufacturing retailers called "SPA" (Specialty store retailer of Private-label Apparel), and the use of supply chain management.

In such business environment, we are aggressively proposing to users an exceptional new way to produce garments—using our WHOLEGARMENT® knitting machines. Furthermore, we are trying to expand sales of SDS®-ONE as a core information technology system for apparel and retail, aiming to invigorate the industry as a whole.

We will continue with risk hedges based on our exchange rate risk management system, and do our best to ensure stable profits by streamlining operations across the board within the Group, and by boosting efficiency and productivity to lower production costs.

This company is run by a small, elite board of directors, which enables us to quickly and accurately assess situations and engage in flexible and rapid decision-making. We will continue to follow these basic principles, striving to strengthen our management practices, conceive new ideas for business development, and fully develop talent at the managerial level.

Also, one of the most important issues for management is returning profits for shareholders. We are working to improve shareholder value and maintain steady operations, and are actively employing measures of returning of profits reflecting to corporate earnings to shareholders with the goal of over ¥100 of net income per share this year as a managerial index through robust business operations.

Finally, we humbly express our hopes for the continuing support and understanding of our shareholders in the long term.

Masahiro Shima, President
June 2002

Ever Onward

Introducing a New Concept: New Prospects for the Fashion Industry

Shima Seiki has consistently worked to develop technologies recognized as “first in the world” and today the Company enjoys the world’s top share in industrial flatbed knitting machines and glove knitting machines. Yet we have not forgotten our founding spirit.

Using original knitwear technologies, we developed WHOLEGARMENT®, a seamless knitting machine, around which our efforts are based, aiming to stimulate the knit and apparel industry. We are active at the forefront of the industry, enabling the shift away from a labor-intensive textile and clothing industry model to a knowledge-intensive fashion information industry model.

The Ultimate in Knitwear: WHOLEGARMENT®

The WHOLEGARMENT® knitting machines developed by Shima Seiki are able to knit an entire garment from a single yarn three-dimensionally, eliminating the need for stitching and sewing knitwear garments such as sweaters and cardigans. This technology benefits not only producers and consumers, but the global environment as well in ways that conventional clothing did not.



The conventional method of producing textile products required a post-production process of sewing on the sleeves, body panels, collar, or other sections. But because WHOLEGARMENT® eliminates the sewing process, lead times can be greatly reduced, less labor is required, and knits can be manufactured more efficiently. Also, time is saved and costs are reduced because there is no longer a need to move and transport items for a sewing process. Production volumes can also be managed easily to match requirements for products. This helps to significantly slash inventory, which is an important benefit for the producer. WHOLEGARMENT® is an effective means for responding quickly to consumer trends by enabling a production and supply system to be built to respond easily to the increasingly rapid changes taking place in the fashion industry in recent years.

WHOLEGARMENT® also provides many benefits for the consumer. Since knitwear is produced without seams, there is none of the bulk usually seen in the shoulders and underarms of sewn products. Items have a more natural fit and are more comfortable to

wear than conventionally stitched garments. Sewn seams make the elasticity for which conventional knits are known for uneven, but with seamless knits, the entire garment demonstrates elasticity and a beautiful silhouette. The seamless, one-piece construction gives the garment structural integrity that is resilient and durable, able to resist fraying and other wear and tear. To make the most of these properties, we expect to create universal fashion applications, including medical wear.

WHOLEGARMENT® is also environmentally friendly.

It leaves nothing to stitch together or sew up later, saving thread and material loss, and there is no more need to dispose unusable materials, thereby helping to prevent air waste and save energy in the production process.

Shima Seiki’s SWG-FIRST® series of flatbed seamless knitting machines was developed to produce WHOLEGARMENT® knitwear. In developing this series of machines, we first redesigned the knitting needle. Instead of using a conventional latch needle, in use for the last 150 years in the knitting

New SWG-FIRST® Flatbed Knitting Machine



Slide needle

For the last 150 years the conventional latch needle has been used as the knitting needle, the starting point of knitting composition. However, our company has developed the slide needle, which has doubled the number of knitting techniques, thereby enabling the formation of gentle and fine stitches and boosting production efficiency.



Gentle for the wearer

Since there are no sewn parts in the WHOLEGARMENT®, products have outstanding elasticity, are soft and comfortable to wear, create a good-looking silhouette, and are light. They therefore have great merits for the wearer.



Consideration for the global environment

When making 1,000 wool sweaters in the WHOLEGARMENT® range, we save wool from 48 sheep that would be used for the seam margins of knitted garments as well as the energy that would be required in this process.



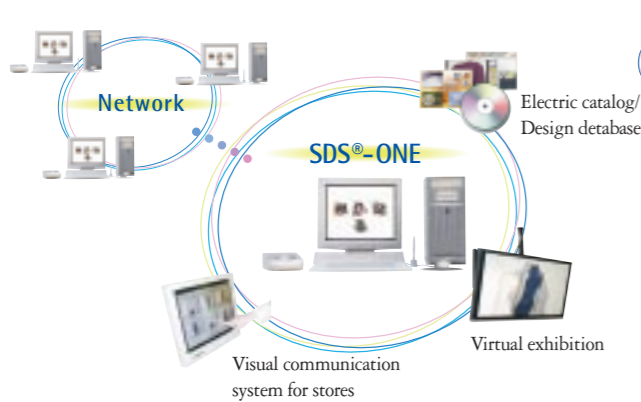
Shedding the labor-intensive approach

Shortening the sewing process is an effective means of building a production and supply setup that greatly reduces the lead-time in production and enables quick response to consumer trends in the fashion industry.



THE FIRST 184





Fashion Information Industry

industry, we developed the slide needle. The slide needle quadruples the number of possible knitting technique combinations. With the needle mounted in the center of the needle groove, the yarn is treated gently, and perfectly symmetrical loops are formed. Also, half the number of needle strokes are required, resulting in better efficiency and higher productivity.

SDS®-ONE is the computer graphics apparel design system we developed to bring out the best in the FIRST's capabilities. SDS®-ONE incorporates WHOLEGARMENT® software, and creates the data needed automatically, simply entering the desired dimensions. It also enables a database to be created for complex knitting styles, so the system can be used by both novices and experts. And its expanded IT functions integrate computer graphics and apparel CAD as a comprehensive, all-in-one system for the fashion industry.



Shima Seiki is prepared for the transformation of a labor-intensive textile and clothing industry into a knowledge-intensive fashion information industry.

Through the development of WHOLEGARMENT® we have created an entirely new understanding and approach within the company toward the clothing industry. We recognize the need to act quickly as the seller of WHOLEGARMENT® to convert the industry over to a knowledge-intensive model. For example, the seamless construction that WHOLEGARMENT® features will lead to considerable cost reductions, and based on this advantage a large number of products will follow. This will lead to the homogenization of knitwear and ultimately to competition with Chinese goods which can be produced more cheaply in China due to lower labor costs. WHOLEGARMENT® technology can produce a complete, three-dimensionally shaped and fitted garment, a step in quality far above that of the production of two-dimensional garments such as conventional sweaters. It follows that we must take advantage of the unique features that WHOLEGARMENT® offers to create added value for the price.

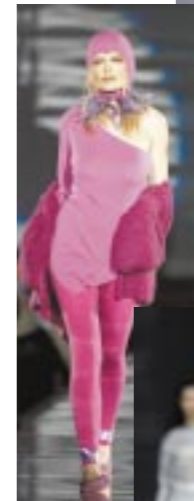
At the International Fashion Fair (IFF) held in July 2001, Shima Seiki avoided displaying conventional products and announced new-concept garments such as flared one-piece dresses to great acclaim from the woven cloth industry. The boundaries between knitted fabrics and woven cloth are now being swept away, bringing to the end consumer the advantages of lightweight, easy-to-wear clothing.

Shima Seiki plans to continue to assist in creating new fashion trends through new products made using WHOLEGARMENT® technology, in the process establishing a revolutionary business model in the textile industry.

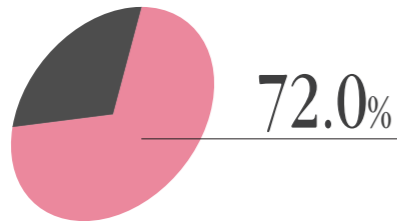
High Praises in Italy, the Home of Knitwear

WHOLEGARMENT® has already been adopted by many manufacturers and brands in Italy, the center of the world for knitwear. The Italian Yarn Rendezvous, a 2002-2003 fall/winter season exhibition organized by the fashion trend information company Pitti Imagine and the Italian Trade Commission Tokyo, was held in Japan and attended by 24 Italian knit manufacturers.

Shima Seiki exhibited about 34 knitwear items knitted using WHOLEGARMENT® and newly developed yarns from Italian manufacturers. Visitors were able to touch the fabrics, see how they look, and confirm their quality. High interest was generated in the good match between the yarns and WHOLEGARMENT® technology and in the rich variety of exhibited products.



Flatbed Knitting Machine Business



Our company was a latecomer in the field of flatbed knitting machines, but nevertheless we have managed to acquire the top share in the global market by fusing the high level of mechanics based on the technological strength that we nurtured in this field and computer technology, which we were quick to apply to the business. Today flatbed knitting machines account for 72% of our total sales. From the SFJ full jacquard flatbed knitting machine to the SES, which has earned high praise as the world standard machine, and the SWG-FIRST® series of WHOLEGARMENT® flatbed knitting machines, we have a product lineup to meet the various needs of users. From now on we will increasingly distinguish ourselves from competitors, centered on our WHOLEGARMENT® machines, and build production setups close to consumer areas in Europe, U.S.A. and elsewhere.

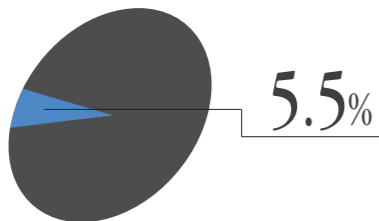
SES122RT



SWG-V



Design System Business



Shima Seiki's computer graphics technology started with the development of pattern-design devices for flatbed knitting machines. Because of their high-level functions and outstanding operability, these devices are used in a wide range of industrial design fields, including broadcasting, automobiles, and construction. Also, regarding apparel CAD/CAM (computer-aided design, computer-aided manufacturing) systems, we are endeavoring to build a "Total Fashion System" to respond to the needs of the apparel industry. Furthermore, the SDS®-ONE, which we developed under the concept of "All in One," combines both advanced functions required by the professional and easy operability for the beginner. Through the expansion of IT functions, we are positively proposing the SDS®-ONE as a core system for the visual communication in the fashion industry.

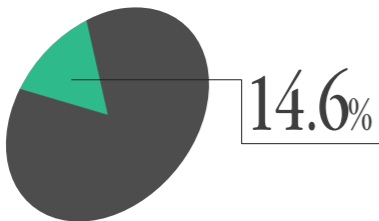
SDS-HP3 APEX



P-CAM182 Computerized Cutting System



Glove- and Sock-Knitting Machine Business



Regarding glove-knitting machines, the starting point of our company, we not only achieved full automation, which was our founding goal, but also succeeded in making seamless fingertips. We now have a world share of more than 80% in this field. Our superfine gauge gloves, whose fit and feel are comparable to that of bare hands, are widely used in such fields as electronic and precision work and medicine. Five-toe socks produced with our sock-knitting machines have attracted attention for a variety of uses, including health and sports.

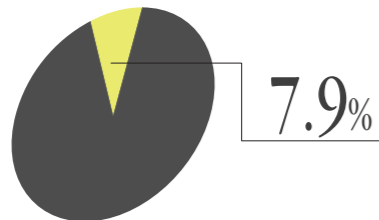
New SFG



SJF

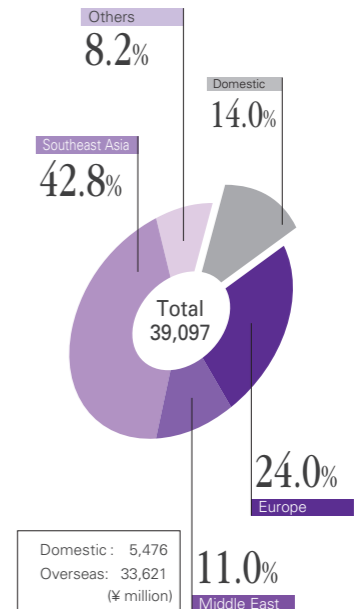
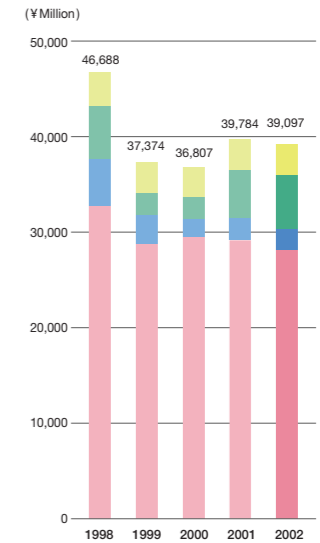


Other Businesses



Other businesses include the sales of parts for flatbed knitting machines, glove- and sock-knitting machines, and design systems, the sales of yarn for glove-knitting machines, machine repair and maintenance, and a hotel business.

Flatbed Knitting Machine Business
Design System Business
Glove- and Sock-Knitting Machine Business
Other Businesses

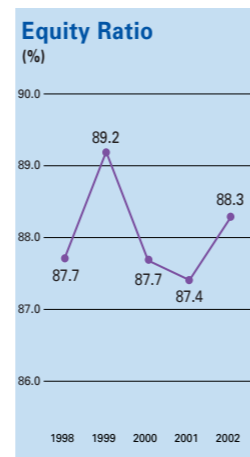
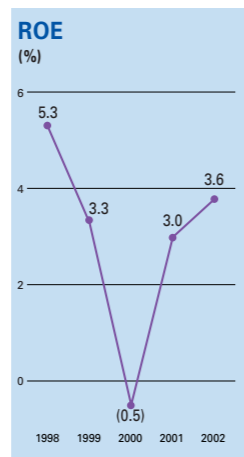
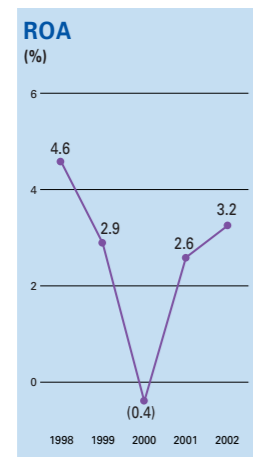


Five-Year Summary

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2002	2001	2000	1999	1998	2002
For the Year:						
Net Sales	39,097	39,784	36,807	37,374	46,688	293,521
Cost of Sales	22,939	24,208	22,220	22,159	25,218	172,215
Gross Profit	16,158	15,576	14,587	15,215	21,470	121,306
Selling, General and Administrative Expenses	10,876	10,910	10,543	10,176	12,588	81,651
Operating Income	5,282	4,666	4,044	5,039	8,882	39,655
Income (Loss) before Income Taxes and Minority Interests	5,212	4,314	(521)	5,086	8,670	39,129
Net Income (Loss)	3,061	2,553	(434)	2,978	4,661	22,980
Depreciation and Amortization	1,088	1,199	1,343	1,491	1,343	8,168
At Year-End:						
Total Assets	92,549	99,068	98,046	102,072	102,352	694,812
Total Shareholders' Equity	81,735	86,557	85,958	91,002	89,740	613,626
Per Share Data (in Yen and U.S. Dollars):						
Net Income (Loss)	81.61	67.89	(11.14)	75.21	117.69	0.61
Shareholders' Equity	2,190.16	2,302.05	2,286.12	2,298.05	2,266.17	16.44
Ratios:						
Return on Assets (%)	3.2	2.6	(0.4)	2.9	4.6	—
Return on Equity (%)	3.6	3.0	(0.5)	3.3	5.3	—
Equity Ratio (%)	88.3	87.4	87.7	89.2	87.7	—

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥133.20 = U.S. \$1, the approximate Tokyo foreign exchange market rate as of March 31, 2002.



Management Discussion and Analysis

Operating Results

Consolidated net sales for the year were ¥39,097 million, down 1.7% from the previous year. In overseas markets, operating environment was favorable in the Asian region, but the Japanese market which was still feeling the ill effects of a long recession resulted in the severe situation for the knit and apparel industry.

Cost of sales stood at ¥22,939 million, down 5.2% from the previous year, while the sales cost ratio dropped 2.1 points to 58.7%.

Selling, general and administrative expenses (SG&A expenses) amounted to ¥10,876 million, down 0.3% from the previous year. The sales to SG&A expenses ratio improved by 0.3 points to 27.8%.

As a result, operating income increased to ¥5,282 million, up 13.2% over the previous year.

Income before income taxes and minority interest rose 20.8% to ¥5,212 million. Income taxes also rose 22.1% to ¥2,151 million.

Net income for the term rose 19.9% to ¥3,061 million despite the declaration of special losses, including an appraisal loss on marketable securities, particularly in bank stocks. Net income per share was ¥81.61, a rise of 20.2% over the previous year.

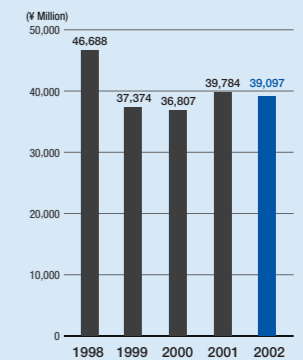
Segment Analysis

Flatbed knitting machines

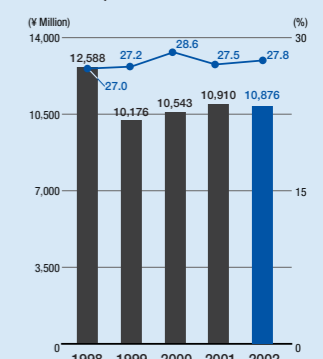
In the flatbed knitting machine business, which is Shima Seiki's main product, we participated in the 7th Osaka International Textile Machinery Show (OTEMAS), the International Fashion Fair (IFF), and other shows, to significant acclaim. By providing attractive new samples and supporting users with our unique expertise, the company is working as a whole to spread the use of WHOLEGARMENT® (seamless) flatbed knitting machines in the market. In the Japanese market, the number of visitors to communication spaces established in Tokyo and Osaka is steadily on the rise, but the operating environment for the industry as a whole has yet to recover, resulting in lower performance than the previous year.

In overseas markets, amidst increased competition primarily in conventional machines, for the Asian market we are seeing a high level of sales in Hong Kong, the Republic of Korea, and China, as well as continued

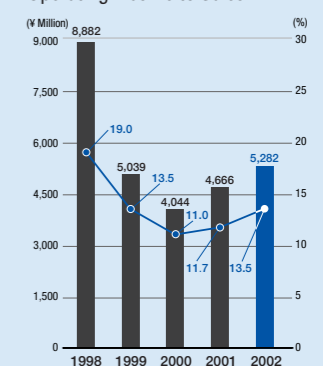
Net Sales



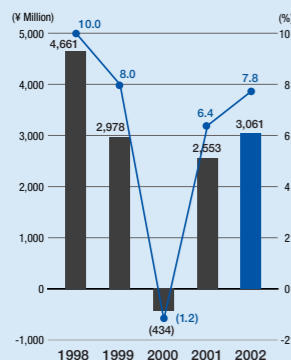
SG&A Expenses/SG&A Ratio



Operating Income/ Operating Income to Sales



Net Income/Net Income to Sales



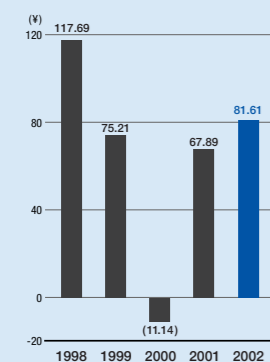
strong sales in Turkey for the Middle Eastern market. The European market, notably Italy and Spain, is slowing, however, and the South American market is similarly weak.

As a result, sales declined 3.3% from the previous year to ¥28,161 million, but operating income rose 4.7% to ¥7,447 million.

Design systems

In the design systems business, we put great effort into sales of our SDS®-ONE system as a core system for the knit and apparel industry as it incorporates IT capabilities, based on the "All in One" concept. The system has received excellent feedback for its superb functionality and easy operation, leading to strong sales in the overseas market. The Japanese market, however, has been hit by a decline in capital investment spending. As a result, sales declined 7.1% to ¥2,128 million, but operating income rose ¥119 million over the previous year to ¥59 million.

Net Income per share



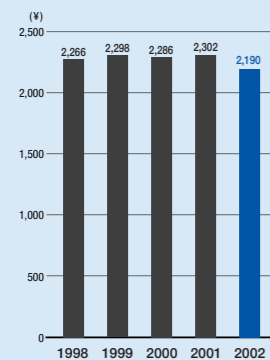
Glove- and sock-knitting machines

In the glove- and sock-knitting machine business, sales continued to stagnate in the Japanese market due to the prolonged recession, but in overseas markets, striking growth in sales was seen in Asian countries, primarily in the Republic of Korea. As a result, sales rose 10.9% to ¥5,718 million to the highest levels ever, while operating income rose 36.2% over the previous year to ¥1,691 million.

Other businesses

Sales of parts for flatbed knitting machines and glove- and sock-knitting machines and other products amounted to ¥3,090 million, down 3.9% from the previous year, while operating income for these items was ¥301 million, down 18.4%.

Total Shareholders' Equity per share



Financial Position

Total assets at the end of March 2002 stood at ¥92,549 million, a decrease of 6.6% from the previous year.

Current assets amounted to ¥60,957, up 0.9%. This was the result of a reduction in stock and an increase in cash and time deposits and short-term investments.

Total investments and other assets rose 57.7% to ¥12,656 million mainly due to an increase in deferred tax assets for land revaluation. Property, plant and equipment dropped 38.2% to ¥18,936 million mainly due to a decrease in land.

Current liabilities also decreased, by 15.8% from the previous year to ¥9,126 million. This was the result of a decrease in notes payable and accounts payable, and short-term loans payable.

Long-term liabilities rose 2.0% to ¥1,471 million.

Minority interests dropped 4.0% to ¥217 million. Shareholders' equity dropped 5.6% to ¥81,735 million as a result of a declaration of difference in revaluation. Equity ratio rose 0.9 points to 88.3%.

Shareholders' equity per share was down 4.9% from the previous year to ¥2,190.16.

Cash Flow

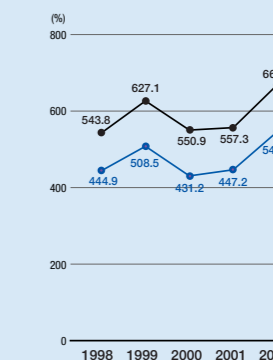
Cash flows from operating activities amounted to ¥3,959 million, down 28.0% from the previous year. The main reasons for this decrease were, despite an increase in net income before income taxes, a decrease in capital due primarily to decrease in trade payables and the payment of income taxes.

Cash flows from investing activities dropped 56.1% from the previous year to ¥705 million yen. This was the result of outlays for capital investment and investment securities.

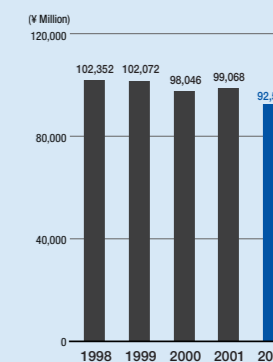
Cash flows from financing activities dropped 34.4% over the previous year to ¥2,267 million, largely as a result of the acquisition of treasury stock and the dividends paid out to shareholders.

As a result, cash and cash-equivalent at the end of the year were up 12.4% to ¥10,247 million.

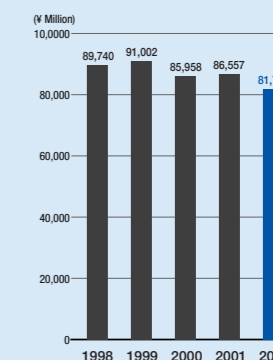
Current Ratio/Quick Ratio



Total Assets



Shareholders' Equity



Consolidated Balance Sheets

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
ASSETS			
Current assets:			
Cash and cash equivalents.....	¥10,247	¥9,120	\$76,929
Time deposits.....	516	710	3,874
Short-term investments (Note 3).....	160	255	1,201
Trade accounts and notes receivable:			
Unconsolidated subsidiaries.....	205	181	1,539
Other.....	38,554	38,220	289,445
Inventories (Note 4).....	10,300	11,140	77,327
Deferred tax assets (Note 10).....	721	729	5,413
Prepaid expenses and other current assets.....	696	367	5,225
Less: allowance for doubtful accounts.....	(442)	(299)	(3,318)
Total current assets	60,957	60,423	457,635
Investments and other assets:			
Investments in unconsolidated subsidiaries and an affiliate.....	1,788	1,788	13,424
Investments in securities (Note 3).....	3,064	3,287	23,003
Long-term loans receivable.....	343	367	2,575
Deferred tax assets (Note 10).....	1,175	841	8,821
Deferred tax assets for land revaluation (Note 5).....	4,677	—	35,113
Other.....	3,362	3,544	25,240
Less: allowance for doubtful accounts.....	(1,753)	(1,804)	(13,161)
Total investments and other assets	12,656	8,023	95,015
Property, plant and equipment:			
Land.....	10,267	21,454	77,080
Buildings and structures.....	18,987	18,626	142,545
Machinery and equipment.....	3,669	3,898	27,545
Tools, furniture and fixtures.....	5,587	5,688	41,944
Construction in progress.....	11	257	83
	38,521	49,923	289,197
Less: accumulated depreciation.....	(19,585)	(19,301)	(147,035)
Property, plant and equipment, net.....	18,936	30,622	142,162
Total assets	¥92,549	¥99,068	\$694,812

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 6).....	¥30	¥530	\$225
Trade accounts and notes payable:			
Unconsolidated subsidiaries.....	16	15	120
Other.....	4,457	5,051	33,461
Accrued expenses.....	876	890	6,577
Accrued income taxes.....	1,553	1,741	11,659
Other current liabilities.....	2,194	2,615	16,471
Total current liabilities	9,126	10,842	68,513
Long-term liabilities			
Long-term debt, less current portion (Note 6).....	—	6	—
Allowance for retirement benefits (Note 7).....	1,471	1,437	11,044
Total long-term liabilities	1,471	1,443	11,044
Minority interests	217	226	1,629
Contingent liabilities (Note 8)			
Shareholders' equity:			
Common stock:			
Authorized- 142,000,000 shares.....			
Issued- 37,600,000 shares.....	14,860	14,860	111,562
Additional paid-in capital.....	21,724	21,724	163,093
Land revaluation difference (Note 5).....	(6,528)	—	(49,009)
Retained earnings (Notes 9 and 14).....	52,514	50,611	394,249
Net unrealized holding loss on securities.....	(262)	(321)	(1,967)
Foreign currency translation adjustments.....	59	(317)	443
Less: treasury stock, at cost.....	(632)	(0)	(4,745)
Total shareholders' equity	81,735	86,557	613,626
Total liabilities and shareholders' equity	¥92,549	¥99,068	\$694,812

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash flows from operating activities:			
Income before income taxes and minority interests	¥5,212	¥4,314	\$39,129
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	1,087	1,199	8,161
Increase in allowance for doubtful accounts	524	1,154	3,934
Increase in allowance for retirement benefits	34	447	255
Interest and dividend income	(356)	(539)	(2,673)
Interest expense	5	139	38
Foreign currency exchange loss (gain)	(20)	137	(150)
Loss on sales and disposal of property, plant and equipment, net	207	32	1,554
Increase in trade receivables	(589)	(2,877)	(4,422)
Decrease in inventories	1,179	1,071	8,851
Decrease in trade payables	(1,008)	(178)	(7,568)
Other	(17)	335	(127)
Subtotal	6,258	5,234	46,982
Interest and dividend income received	359	541	2,695
Interest expense paid	(5)	(119)	(38)
Income taxes paid	(2,653)	(157)	(19,917)
Net cash provided by operating activities	3,959	5,499	29,722
Cash flows from investing activities:			
Decrease in time deposits, net	248	170	1,862
Purchases of short-term investments	(1,360)	(1,504)	(10,210)
Proceeds from sales of short-term investments	1,455	1,501	10,923
Purchases of property, plant and equipment	(797)	(1,610)	(5,983)
Proceeds from sales of property, plant and equipment	186	38	1,396
Purchases of investments in securities	(276)	(316)	(2,072)
Proceeds from sales of investments in securities	14	63	105
Decrease (increase) in long-term loans receivable, net	24	(100)	180
Other	(199)	151	(1,494)
Net cash used in investing activities	(705)	(1,607)	(5,293)
Cash flows from financing activities:			
Decrease in short-term loans, net	(500)	(2,128)	(3,754)
Repayments of long-term debt	(7)	(14)	(53)
Net of purchases and proceeds from sales of treasury stock	(632)	0	(4,745)
Cash dividends paid	(1,128)	(1,315)	(8,468)
Net cash used in financing activities	(2,267)	(3,457)	(17,020)
Effect of exchange rate changes on cash and cash equivalents	140	82	1,052
Net increase in cash and cash equivalents	1,127	517	8,461
Cash and cash equivalents at beginning of year	9,120	8,603	68,468
Cash and cash equivalents at end of year	¥10,247	¥9,120	\$76,929

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

SHIMA SEIKI MFG., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the "Code") and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted and applied in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The Company's foreign subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile. The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its significant subsidiaries (the "Group"), which were filed with the Director of Kanto Local Finance Bureau as required by the Securities and Exchange Law. 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, 2002, which was ¥133.20 to US\$1.00. 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.

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

(b) Foreign currency translation

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

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. Shareholders' equity is translated at historical rates. Revenue and expenses accounts of foreign subsidiaries are translated at the exchange rates in effect at the respective balance sheet dates.

Translation adjustments resulting from translation of foreign currency financial statements are reported as "Foreign currency translation adjustments"

in a separate component of the shareholders' equity.

(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 shareholders' equity 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

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

(f) Property, plant and equipment and depreciation

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

The principal estimated useful lives are as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	3 to 12 years
Tools, furniture and fixtures	2 to 20 years

(g) Allowance for doubtful accounts

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

(h) Allowance for retirement benefits

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

Allowance for retirement benefits has been provided for employees' retirement

benefits, based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the balance sheet date. The actuarial gains and losses recognized in the fiscal year under review is being amortized over a ten-year period by the straight-line method from the year subsequent to the year in which such gains and losses are incurred.

(i) Leases

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

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under

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

(l) Appropriation of retained earnings

Cash dividends, transfers to legal reserve and bonuses to directors and statutory auditors are recorded in the financial year in which a proposed appropriation of retained earnings is approved by shareholders.

(m) Per share information

Net income per share is based on the weighted average number of shares of common stock outstanding during the relevant year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of year.

(n) Consumption tax

The consumption tax is not included in the amount of net sales and cost of sales.

3. Short-term investments and investments in securities

Securities with quoted market prices at March 31, 2002 and 2001 were as follows:

Held-to-maturity securities with quoted market prices

	Millions of yen					
	2002			2001		
	Amount recorded in the balance sheet	Quoted market price	Difference	Amount recorded in the balance sheet	Quoted market price	Difference
Held-to-maturity securities whose market values do not exceed the amounts recorded in the balance sheet:						
Debt securities	-	-	-	¥155	¥155	-

Other securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			2002		
	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference	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	¥526	¥631	¥105	¥408	¥513	¥105	\$3,949	\$4,737	\$788
Other	10	10	0	10	10	0	75	75	0
Subtotal	¥536	¥641	¥105	¥418	¥523	¥105	\$4,024	\$4,812	\$788
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:									
Equity securities	¥1,125	¥889	¥(236)	¥1,637	¥1,232	¥(405)	\$8,446	\$6,674	\$(1,772)
Debt securities	100	68	(32)	100	78	(22)	751	511	(240)
Other	926	641	(285)	932	704	(228)	6,952	4,812	(2,140)
Subtotal	¥2,151	¥1,598	¥(553)	¥2,669	¥2,014	¥(655)	\$16,149	\$11,997	\$(4,152)
Total	¥2,687	¥2,239	¥(448)	¥3,087	¥2,537	¥(550)	\$20,173	\$16,809	\$(3,364)

Other securities without quoted market prices at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S.dollars
	Amount recorded in the balance sheet		
	2002	2001	2002
Held-to-maturity securities			
Debt securities	¥160	¥100	\$1,201
Other securities			
Unlisted equity securities	¥825	¥750	\$6,194

4. Inventories

Inventories at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S.dollars
	Amount recorded in the balance sheet		
	2002	2001	2002
Finished goods	¥6,602	¥6,927	\$49,565
Work in process	742	843	5,570
Raw materials	2,344	2,627	17,597
Supplies and others	612	743	4,595
	¥10,300	¥11,140	\$77,327

5. Land revaluation

Under the "Law of Land Revaluation", promulgated on March 31, 1998 and revised on March 31, 1999 and 2001, 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 shareholders' equity. There is no effect on the statement of income. The details of the one-time revaluation as of March 31, 2002 were as follows.

	Millions of yen	Thousands of U.S.dollars
Land before revaluation	¥21,201	\$159,167
Land after revaluation	9,996	75,045
Land revaluation difference	11,205	84,122
Deferred tax assets for land revaluation	4,677	35,113
Net land revaluation difference	¥6,528	\$49,009

6. Short-term Loans and Long-term Debt

Short-term loans and long-term debt at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S.dollars
	Amount recorded in the balance sheet		
	2002	2001	2002
Short-term loans:			
0.64% to 2.12% unsecured loans from banks	¥30	¥530	\$225
Long-term debt:			
2.5% to 3.5% unsecured loans from banks	¥1	¥8	\$8
Less: current portion	(1)	(2)	(8)
	-	¥6	-

As is customary in Japan, substantially all loans (including short-term loans) from banks are made under general agreements, which provide that, at the request of the relevant banks, the Company be required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect

to such loans, and that all assets pledged as collateral under such agreements be applicable to all present and future indebtedness to the banks concerned. The general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by reason of default, to offset deposits at such banks against any indebtedness due to the banks. However, the Company has never received any such request from any bank.

7. Allowance for retirement benefits

The allowance for retirement benefits at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	Retirement benefit obligation at March 31, 2002 and 2001:		
	2002	2001	2002
Projected benefit obligation	¥(3,430)	¥(2,912)	\$(25,751)
Fair value of plan assets	1,749	1,657	13,131
Benefit obligation in excess of plan assets	(1,681)	(1,255)	(12,620)
Unrecognized actuarial loss (gain)	210	(182)	1,576
Obligation recognized in the consolidated balance sheets	(1,471)	(1,437)	(11,044)
Prepaid pension cost	-	-	-
Allowance for retirement benefits	¥(1,471)	¥(1,437)	\$(11,044)

Components of net periodic benefit cost for the year ended March 31, 2002 and 2001:

	Millions of yen		Thousands of U.S.dollars
	2002		
	2002	2001	2002
Service cost	¥179	¥196	\$1,344
Interest cost	102	103	766
Expected return on plan assets	(19)	(18)	(143)
Amortization:			
Transition obligation at date of adoption	-	345	-
Actuarial gain	(18)	-	(135)
Net periodic benefit cost	¥244	¥626	\$1,832

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2002 and 2001 is as follows:

	2002	2001
Method of attributing benefit to periods of service	straight-line basis	straight-line basis
Discount rate	2.5%	3.5%
Expected rate of return on fund assets	1.15%	1.15%
Amortization period for actuarial gain (loss)	10years	10years

8. Contingent liabilities

Contingent liabilities at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2002		
	2002	2001	2002
Trade notes discounted	¥4,721	¥994	\$35,443
Guarantees of customers' loans and lease obligations	5,304	6,395	39,819
	¥10,025	¥7,389	\$75,262

9. Retained earnings

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until such reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2002, included the Company's legal reserve of ¥2,124 million (\$15,946 thousand).

10. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate result in statutory tax rates of approximately 41.7% for the years ended March 31, 2002 and 2001.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Allowance for retirement benefits	¥305	¥273	\$2,290
Loss on write-down of investments in securities	246	-	1,847
Accrued bonuses to employees	163	126	1,224
Accrued enterprise tax	135	156	1,013
Tax loss carryforwards	361	420	2,710
Unrealized holding loss on securities	187	230	1,404
Intercompany profit	269	279	2,020
Other	369	282	2,770
Total gross deferred tax assets	2,035	1,766	15,278
Less valuation allowance	(95)	(155)	(714)
Net deferred tax assets	1,940	1,611	14,564
Deferred tax liabilities:			
Tax deductible reserves	(28)	(20)	(210)
Other	(16)	(21)	(120)
Total gross deferred tax liabilities	(44)	(41)	(330)
Net deferred tax assets	¥1,896	¥1,570	\$14,234

11. Research and development costs

Research and development costs charged to income were ¥2,369 million (\$17,785 thousand) and ¥2,204 million for the years ended March 31, 2002 and 2001, respectively.

12. Lease

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥692 million (\$5,195 thousand) and ¥752 million for the years ended March 31, 2002 and 2001, respectively.

Pro forma information of leased property under finance leases that are not deemed to transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars	Millions of yen		
	2002			2002	2001		
	Acquisition cost	Accumulated depreciation	Net leased property	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥4,478	¥2,083	¥2,395	\$17,980	¥4,499	¥2,195	¥2,304
Tools, furniture and fixtures	161	81	80	601	255	133	122
Total	¥4,639	¥2,164	¥2,475	\$18,581	¥4,754	¥2,328	¥2,426

Obligations under such finance leases as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Due within one year	¥652	¥641	\$4,895
Due after one year	1,823	1,785	13,686
Total	¥2,475	¥2,426	\$18,581

13. Segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 was as follows:

	Millions of yen						
	2002						
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥28,161	¥2,128	¥5,718	¥3,090	¥39,097	-	¥39,097
Intersegment sales	-	-	-	-	-	-	-
Total	28,161	2,128	5,718	3,090	39,097	-	39,097
Operating costs and expenses	20,714	2,069	4,027	2,789	29,599	¥4,216	33,815
Operating income	¥7,447	¥59	¥1,691	¥301	¥9,498	¥(4,216)	¥5,282
Assets, depreciation and capital expenditures:							
Assets	¥55,602	¥4,533	¥4,868	¥4,568	¥69,571	¥22,978	¥92,549
Depreciation	474	22	76	55	627	461	1,088
Capital expenditures	343	13	55	334	745	262	1,007

	Millions of yen						
	2001						
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	¥29,120	¥2,291	¥5,157	¥3,216	¥39,784	-	¥39,784
Intersegment sales	-	-	-	-	-	-	-
Total	29,120	2,291	5,157	3,216	39,784	-	39,784
Operating costs and expenses	22,007	2,351	3,915	2,848	31,121	¥3,997	35,118
Operating income (loss)	¥7,113	¥(60)	¥1,242	¥368	¥8,663	¥(3,997)	¥4,666
Assets, depreciation and capital expenditures:							
Assets	¥58,112	¥6,020	¥5,514	¥4,781	¥74,427	¥24,641	¥99,068
Depreciation	546	23	76	61	706	493	1,199
Capital expenditures	1,246	89	189	132	1,656	117	1,773

	Thousands of U.S. dollars						
	2002						
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	\$211,419	\$15,976	\$42,928	\$23,198	\$293,521	-	\$293,521
Intersegment sales	-	-	-	-	-	-	-
Total	211,419	15,976	42,928	23,198	293,521	-	293,521
Operating costs and expenses	155,511	15,533	30,233	20,938	222,215	\$31,651	253,866
Operating income	\$55,908	\$443	\$12,695	\$2,260	\$71,306	\$(31,651)	\$39,655
Assets, depreciation and capital expenditures:							
Assets	\$417,432	\$34,032	\$36,547	\$34,294	\$522,305	\$172,507	\$694,812
Depreciation	3,559	165	570	413	4,707	3,461	8,168
Capital expenditures	2,575	98	413	2,507	5,593	1,967	7,560

Note: Main products of each segment are as follows.

Flatbed knitting machines: Computerized flat knitting machine, computerized semi-jacquard flat knitting machine

Design systems: Computer graphic apparel design system, knitting CAD system, apparel CAD / CAM system

Glove and sock knitting machines: Computerized seamless glove and sock knitting machine

Other: Parts for flatbed knitting machines and design systems, yarn for glove knitting machines, machine repair and maintenance, hotel business

Geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 was as follows:

	Millions of yen					
	2002					
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	¥35,354	¥1,860	¥1,883	¥39,097	-	¥39,097
Intersegment sales	1,310	-	44	1,354	¥(1,354)	-
Total	36,664	1,860	1,927	40,451	(1,354)	39,097
Operating costs and expenses	27,401	1,796	1,920	31,117	2,698	33,815
Operating income	¥9,263	¥64	¥7	¥9,334	¥(4,052)	¥5,282
Assets	¥67,628	¥1,005	¥1,773	¥70,406	¥22,143	¥92,549

	Millions of yen					
	2001					
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	¥36,639	¥1,119	¥2,026	¥39,784	-	¥39,784
Intersegment sales	2,366	4	25	2,395	¥(2,395)	-
Total	39,005	1,123	2,051	42,179	(2,395)	39,784
Operating costs and expenses	30,415	1,087	2,006	33,508	1,610	35,118
Operating income	¥8,590	¥36	¥45	¥8,671	¥(4,005)	¥4,666
Assets	¥72,631	¥1,636	¥1,835	¥76,102	¥22,966	¥99,068

	Thousands of U.S. dollars					
	2002					
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	\$265,420	\$13,964	\$14,137	\$293,521	-	\$293,521
Intersegment sales	9,835	-	330	10,165	\$(10,165)	-
Total	275,255	13,964	14,467	303,686	(10,165)	293,521
Operating costs and expenses	205,713	13,483	14,415	233,611	20,255	253,866
Operating income	\$69,542	\$481	\$52	\$70,075	\$(30,420)	\$39,655
Assets	\$507,717	\$7,545	\$13,311	\$528,573	\$166,239	\$694,812

Note: Significant country or area belonging to each segment is as follows.
 Europe: U.K.
 North America: U.S.A.

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen				
	2002				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	¥9,401	¥4,300	¥16,731	¥3,189	¥33,621
Total sales					¥39,097
Ratio of overseas sales to total sales	24.0%	11.0%	42.8%	8.2%	86.0%

	Millions of yen				
	2001				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	¥9,776	¥4,092	¥15,063	¥4,506	¥33,437
Total sales					¥39,784
Ratio of overseas sales to total sales	24.6%	10.3%	37.8%	11.3%	84.0%

	Thousands of U.S. dollars				
	2002				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	\$70,578	\$32,282	\$125,608	\$23,942	\$252,410
Total sales					\$293,521
Ratio of overseas sales to total sales	24.0%	11.0%	42.8%	8.2%	86.0%

Note: Significant countries or areas belonging to each area are as follows.
 Europe: Italy, Spain, U.K.
 The Middle East: Turkey, Syrian
 Southeast Asia: China, Korea, Taiwan
 Other areas: Brazil, U.S.A.

14. Subsequent events

Shareholders approved the following appropriation of retained earning at the annual meeting held on June 27, 2002.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥560	\$4,204
Bonuses to directors and statutory auditors	30	225

Report of Independent Certified Public Accountants

To the Board of Directors of SHIMA SEIKI MFG., Ltd.

We have examined the accompanying consolidated balance sheets of SHIMA SEIKI MFG., Ltd. and its consolidated subsidiaries at March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in Japanese yen, present fairly the consolidated financial position of SHIMA SEIKI MFG., Ltd. and its consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

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

Osaka, Japan
June 27, 2002

Ohtemae Audit Co.
Ohtemae Audit Corporation

Corporate Data

(As of March 31, 2002)

Company Name	SHIMA SEIKI MFG., LTD.
Date of Establishment	February 4, 1962
Capital	¥14,859,800,000
Number of Shares Outstanding	37,600,000 Shares
Accounting Year-End	March 31
Headquarters	85 Sakata, Wakayama City 641-8511, Japan
Telephone	81-73-471-0511
Facsimile	81-73-474-8267
Representative Director	Masahiro Shima President
Total Number of Employees	1,011
Business Activities	Development, manufacturing and sales of computerized flatbed knitting machines, computerized glove and sock knitting machines and computerized design systems
Consolidated Subsidiaries	Shima Fine Press Co., Ltd. Knit Mac Co., Ltd. T.S.M. Industrial Co., Ltd Tsukada Sima Seiki Co., Ltd. Marquise Co., Ltd. Shima Seki U.S.A. Inc. Shima Seiki Europe Ltd.
Main Banks	UFJ Bank Limited, The Senshu Bank, Ltd. The Shoko Chukin Bank, The Kiyo Bank, Ltd. The Bank of Tokyo-Mitsubishi, Ltd. UFJ Trust Bank Limited Sumitomo Mitsui Banking Corporation

