

SHIMA SEIKI

annual report

2003



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WHOLEGARMENT®

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Profile

Ever Onward

Since Shima Seiki's founding in 1961, we have remained true to our corporate motto, Ever Onward. Applying ingenuity and innovation to deliver economically priced, high-performance products, we approach product development from the user's perspective to come up with products that anticipate users' needs.

Today we continue working to develop original technology designed to help the apparel industry make the shift from the traditional, labor-intensive model to a new, knowledge-intensive one, as well as to benefit the industry by bringing innovative product-development ideas and business models to the table. We provide a comprehensive package of hardware, software, services, and information that encompasses know-how and design, all intended to create wholly new genres of apparel products by breathing renewed life into the fashion sector and other user industries.

We have become the world's leading manufacturer of computerized flatbed knitting machines and glove/sock knitting machines. Our products, based on our WHOLEGARMENT® and other advanced technologies, are recognized in over 80 countries around the world.



Research and Development
We develop sophisticated systems and equipment built on the latest mechatronics technology.



Production System
We constantly update its production facilities to the state-of-the-art, producing hardware and software in a vertically integrated environment.



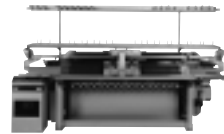
Network
We maintain a global sales and technical-support network that spans the Americas, Europe, and Asia.



User Training
We provide the know-how to help users around the world get the most out of the products and systems they buy from us.

1975
Development of a fully automated jacquard pattern glove knitting machine

1978
Establishing itself in the flatbed knitting machine industry with the release of the SNC Shimatronic computerized jacquard flatbed knitting machine



1982
Improving the seamless glove knitting machine through computerization and successes to make the gloves as the completed products

1980's

1981
Development of the SDS®-1000 Shimatronic Design System



1979
Development of the SEC the computerized flatbed knitting machine

1988
Development and introduction of the PGM-2 apparel CAD system



1990's

1991
Development of the SuperMicro SDS®

1995
Development of the SWG, the world's first commercially productive computerized WHOLEGARMENT® knitting machines

1996
Publicly listed on the First Section of the Tokyo Stock Exchange

2000's

2000
Development of an all-new design system, the SDS®-ONE, from our "All in One" concept

1997
Debut of the SWG-FIRST®, "Next Generation" computerized flatbed knitting machine featuring the newly developed Slide Needle, at the Sixth OTEMAS

1993
Introduction of the SES122RT computerized flatbed knitting machine with a 4-bed configuration

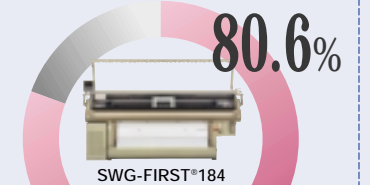
1992
Publicly listed on the First Section of the Osaka Securities Exchange
Introduction of the SES122-S computer-controlled flatbed knitting machine with a full-time spring-loaded sinker system
Development of the P-CAM computerized fabric cutting machine
Introduction of the high-definition Acrograph 482 high-end computer graphic design system, HyperPaint II, with real-time processing capability

1990
Publicly listed on the Second Section of the Osaka Securities Exchange

1989
Development of Shimatronic computerized flatbed knitting machine the SES-series



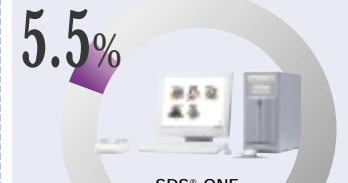
Flatbed knitting machines



SWG-FIRST®184

We have the top world market share in flatbed knitting machines. Our products range from the reputable SES, the world-standard computerized flatbed knitting machine, to the SWG-series of WHOLEGARMENT® flatbed knitting machines—a product line that meets just about every requirement imaginable.

Design systems



SDS®-ONE

Our computer graphics technology is utilized in many fields. Our CAD/CAM systems incorporate our Total Fashion System concept, providing smooth and efficient workflow in the production of garments from design to programming and production. The SDS®-ONE, developed from our All in One concept, combines user-friendly features for ease of operation even for beginners with the kind of advanced functionality demanded by professionals.

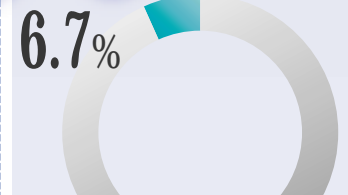
Glove/sock knitting machines



New SFG

Our share of the world market in glove/sock knitting machines now exceeds 80%—as you might expect, since the products were our first. Ultrafine-gauge gloves knitted with them are almost imperceptible to the wearer, so much so that they are widely used in areas where tactile sensitivity is crucial, such as in the handling of electronic and precision products and in the healthcare sector. A product knitted with our computerized sock knitting machines, the five-toe sock, is also widely used in health, sports, and other applications.

Other Businesses



Other businesses segment includes sales of components for flatbed knitting machines, glove/sock knitting machines, and design systems; sales of thread for glove/sock knitting machines; machine and system repair and maintenance; and the operation of a hotel (Hotel Marquise).

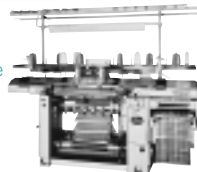
1960's



1962
Establishment of Shima Seiki Mfg., Ltd. in Wakayama-city, Wakayama Prefecture by the current president Shima, with the goal to develop and produce completely automated glove knitting machines

1965
Successful production of a fully automated glove knitting machine

1967
Beginning production of fully automated collar knitting machines, and extends its business into the flatbed knitting machine area



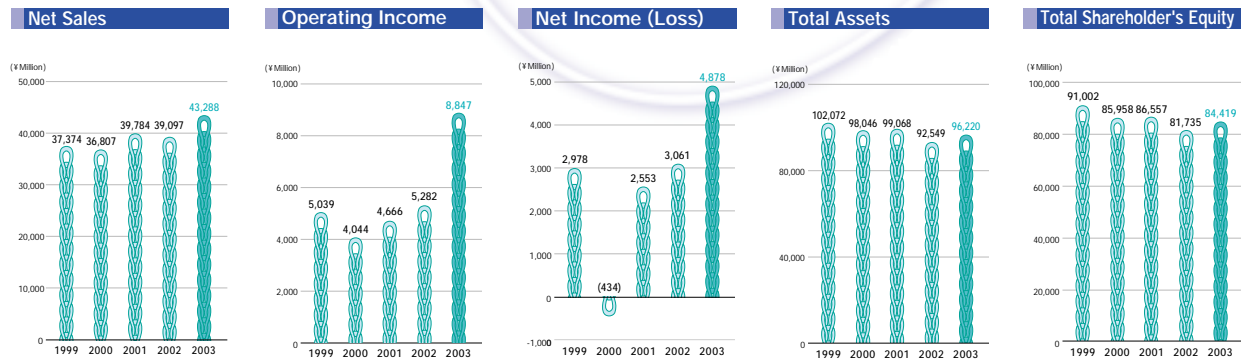
1970
Development and manufacturing of the world's first fully automated seamless glove knitting machines

1970's

Financial Highlights

As a member of the world apparel and fashion industries, the Shima Seiki Group has concentrated its management resources on advancing penetration and increasing sales of WHOLEGARMENT® knitting machines as well as expanding the market share of existing models. Overseas, sales mainly of conventional computerized flatbed knitting machine models were brisk in Turkey, China, and Hong Kong on strong local demand and active capital investment in these regions as industrialized countries' manufacturing bases. Although conditions remain challenging for the industry in Japan, progress in gaining penetration for WHOLEGARMENT® machines was steady thanks to their suitability for producing high value-added products.

- Consolidated net sales grew **10.7%** from fiscal 2001 to **¥43,288** million.
- Consolidated operating income grew **67.5%** from fiscal 2001 to **¥8,847** million.
- Consolidated net income grew **59.4%** from fiscal 2001 to **¥4,878** million.
- Consolidated total assets grew **4.0%** from fiscal 2001 to **¥96,220** million.
- Consolidated total shareholders' equity increased **3.3%** from fiscal 2001 to **¥84,419** million.
- Net income per share increased from **¥81.61** in fiscal 2001 to **¥129.61** in fiscal 2002.
- Cash dividend per share increased from **¥30** in fiscal 2001 to **¥35** in fiscal 2002.



Interview with the President

Q What were the most memorable events of the past year?

A In April 2002, Shima Seiki organized the largest international fashion show ever to be held in Japan at the Wakayama Big Whale to celebrate our 40th anniversary. We showcased samples of a Shimaseiki-original and of an Italian-brand WHOLEGARMENT®, which were well received by visitors from Japan and overseas. Making it a hands-on event where visitors could see WHOLEGARMENT® designs close up and feel the fabric proved to be highly effective in demonstrating the superior qualities of WHOLEGARMENT® apparel—three-dimensional knits that fit the wearer's body shape, what we call "knitwear with woven-fabric wearability." Organizing the whole show ourselves—we did everything from planning through to operation without using outside contractors—resulted in an event full of original ideas that we were able to incorporate in the program.

Q How was the operating environment for Shima Seiki in fiscal 2002?

A The Asian economies were generally on a recovery trend, while China recorded stable growth underpinned by robust domestic demand, whereas the rest of the world experienced economic slowdown triggered by the slide in U.S. stock markets and tensions culminating in the war in Iraq.

In Japan, the economy remained in a state of uncertainty, plagued by chronic deflation, falling share prices, financial turmoil, and a poor employment and income environment.



Interview with the President

Q Tell us about Shima Seiki's medium-term management plan.

A Production in the apparel and fashion industries is in the midst of a paradigm shift as developing countries see production expanding and industrialized countries focus on making high value-added products.

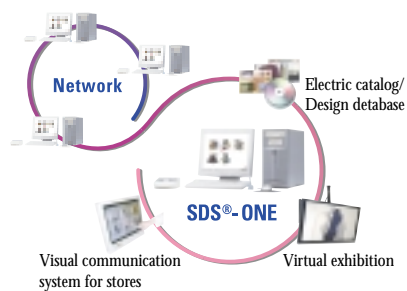
Since Shima Seiki exports over 85% of its products and markets them worldwide, we calmly assessed the situation and devised the following management strategies to ensure sustained growth going forward.

1. Increase market share of computerized flatbed knitting machines

We are adding further to our software range and strengthening our user support structure, which utilizes our unique know-how to enhance product development and sales in a way adapted to product range and sales region. In industrialized countries, our production structure for WHOLEGARMENT® flatbed knitting machines is based where consumption takes place; in developing countries, we are pioneering new markets by suggesting ways to improve knitwear productivity and produce best-selling knitwear products. Our efforts to present creative ideas to WHOLEGARMENT® flatbed knitting machine customers are being rewarded with growing awareness and appreciation of the high value-added attributes of WHOLEGARMENT® machines/apparel. We are also differentiating ourselves from our competitors by providing design information to customers.

2. Actively propose new ideas for design systems to the knitwear/apparel and related industries

We are providing a diverse range of visual communication tools that help enhance user industries' earnings. These tools are developed from the hardware and software technologies that Shima Seiki has acquired over the years. The performance and functionality of the SDS®-ONE design system are becoming increasingly sophisticated, and we are actively marketing the system to expand sales to the knitwear/apparel industry in Japan and overseas. In doing this, we have positioned SDS®-ONE as a business solutions tool suited for market-in, multi-product/small-lot production and meeting quick-response requirements, stressing its features as an advanced design tool that offers excellent cost performance.



3. Expand market for glove/sock knitting machines

Our glove/sock knitting machines dominate the world market with a share of over 80%. We are working to increase sales further by extending the range of functions and improving performance, as well as presenting new ideas to user industries for producing gloves with greater value-added. Such value-added includes the ability to produce gloves with high tactile sensitivity for the wearer for use in precision manufacture and healthcare, as well as traditional protective and thermal gloves.



New SFG

4. Develop a high-margin earnings structure

We are carrying out in-depth reviews of our earnings structure to improve margins. Moves include reducing materials and processing costs by using common components and achieving manufacturing-cost savings by improving production efficiency at all group companies. Not only in our manufacturing operations but also in development, sales, and administrative units, we are reviewing business processes to improve cost competitiveness and build a high-margin earnings structure.

5. Enhance risk management

We are minimizing the impact of foreign-exchange risk by increasing the share of yen-denominated transactions and actively hedging risk by increasing the liquidity of trade receivables and using forward contracts. We also diversify credit risk for selling in developing countries. With customers like overseas agencies for which concentration of credit risk is inevitable, we ensure that we can act quickly to any change in circumstances by staying abreast of such customers' respective local industry trends as well as the credit standing of agencies and end users.

Q How are overseas market conditions?

A The markets we are most interested in at present are China and Turkey, where sales increased sharply, primarily for conventional knitting machine models, on firm domestic knitwear demand.

We expect continued expansion of the growth potential of the Chinese economy and Chinese consumption trends and intend to maximize our business opportunities in China going forward. Turkey has become a production base for many industrialized countries, especially in Europe, as well as having relatively stable domestic demand. Product exports to Europe, Russia, and the Middle East are brisk because of weakness of the Turkish currency. Although the outlook depends on political and economic trends, both China and Turkey are important markets for Shima Seiki. We therefore consider it a priority to set up regional training centers to strengthen human resources development at the earliest opportunity.

Q What are your plans for WHOLEGARMENT® moving forward?

A Apparel products have changed little over the past century. When we developed the WHOLEGARMENT® knitting machine in 1995, knitwear makers could not fathom its advantages; but today there is greater awareness of the superior performance of these machines. Our goal is to use the WHOLEGARMENT® concept as a way of transforming the industry structure from a labor-intensive to a knowledge-intensive model. Although many see the WHOLEGARMENT® concept as a technology that eliminates waste and reduces cost in production, it is being taken up by big-name brands in Japan and overseas because of the smoothness of the seamless design, soft texture and lightness of the fabric, and extensive range of designs it offers. We are working to bring the freshest ideas to our customers by coming out with 60 new design proposals every week, setting up a communication space for knitwear makers and apparel companies, and developing "visual hanger systems" that show off WHOLEGARMENT® designs to their best advantage in a three-dimensional representation and assist in sales clerk training. We are also enthusiastic about using fashion shows and other events to publicize the WHOLEGARMENT® concept and increase public awareness of the brand.

Q How do you intend to enhance shareholder value?

A Our view is that enhancing shareholder value is founded on a relationship of trust between us and our customers, and by growing together with them, our accomplishment achieves the end result of returning profits to shareholders.

Thus our management target is net income per share of at least ¥150. To make this happen, we are strengthening and moving ahead with measures to build our know-how, patents, and human resources; develop new models; reduce costs for the whole company; and minimize foreign-exchange risks. Also, we are developing a system that allows corporate governance to function properly by ensuring that our existing board of directors and auditors perform their duties correctly, and working to improve the soundness and transparency of management and enhance the management structure to ensure that shareholders' interests are looked after. It is in this context that we continue to ask our shareholders for their understanding and support of our business activities.

Q What is your vision for the future of Shima Seiki?

A I would like to continue developing revolutionary new products that make a big impact on the market in the way that WHOLEGARMENT® did in 1995; further refine our image-processing technology to consolidate our systems' presence in the fashion industry; and foster a highly competent and talented work force.

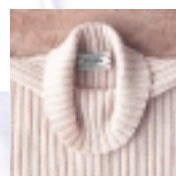
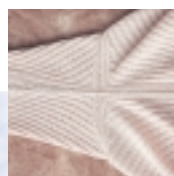
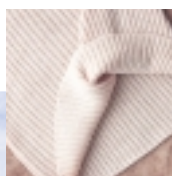
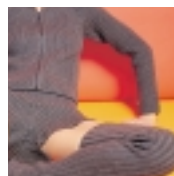
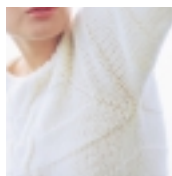
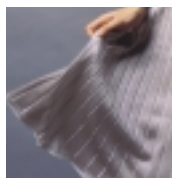
The high flyers that we're looking for are globally minded with entrepreneurial spirit, as well as having some artistic sensibility and creative flair. They are also multitalented individuals with something to offer in addition to professional expertise—engineers with language skills, for instance. I believe we need many employees of this caliber if we are to sustain growth over the longer term.

Masahiro Shima, President
June 2003

Shift from “apparel and fashion” to “fashion information” industry

Shima Seiki is presenting ideas for how to transform the traditionally labor-intensive structure of the apparel and fashion industry into a knowledge-intensive fashion information industry by using our WHOLEGARMENT® machines to greatest effect. As a supplier of manufacturing equipment for the fashion industry, Shima Seiki is taking the initiative in raising employees' awareness by presenting a clear vision for the industry's future and making sure that we are equipped to respond quickly to change.

WHOLEGARMENT® dramatically reduces the cutting and sewing processes from knitwear production by knitting the whole garment in a single piece. This results in the cutback in the number of production processes, shortens production time, lowers labor costs, and minimizes cut loss, the amount of scrap material generated when cutting out each pattern. A revolutionary production system, WHOLEGARMENT® makes outfits individually, rendering lead times irrelevant and paving the way for on-demand production and mass customization. WHOLEGARMENT® knitwear is designed as a three-dimensional outfit fitted to the shape of the body, producing garments of great appeal, creating high value-added, and inspiring a whole new way of making clothes.



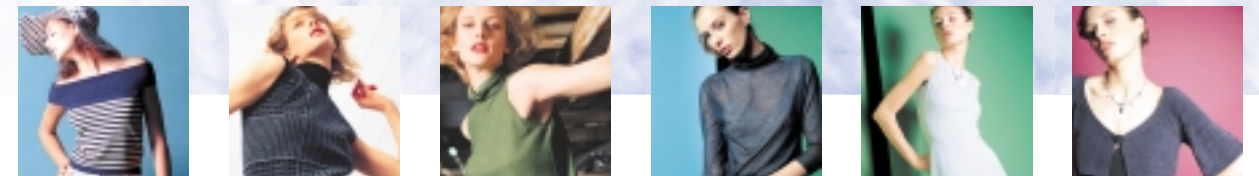
WHOLEGARMENT® Tags

WHOLEGARMENT®, which is getting popular worldwide, can be seen in clothing shops all over the world now. WHOLEGARMENT® tags are attached to most of the knitwear produced on our WHOLEGARMENT® machines and appeal the advantage of the complete-garment to consumers.



Comfortable to wear, WHOLEGARMENT® outfits offer many benefits to the consumer, including lightness, elasticity and durability of the fabric and the natural way it drapes around the body. As a result, we are seeing an increase in repeat customers.

Setting a new trend in knitwear fashion, WHOLEGARMENT® outfits are being received well in Japan and overseas, especially in Italy and Spain, where people are sensitive to the latest trends. WHOLEGARMENT® knitwear is also being incorporated into leading brands in Japan, where it is necessary to depart from the traditional industrial structure.



Globally acclaimed WHOLEGARMENT® outfits

In September 2002, SHIMA SEIKI U.S.A. entered a WHOLEGARMENT® sample design at the femme exhibit in New York, the largest U.S. apparel trade show, held three times a year. It beat over 1,500 other brands to win the Innovative Fashion Award for innovation in technology. Judges were impressed by the seamless technology that produces knitwear as one entire piece.

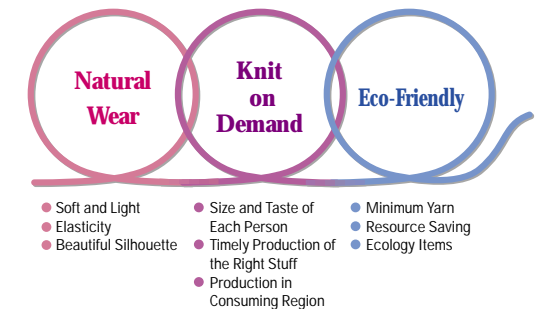
A WHOLEGARMENT® design also won the coveted International Style Award, one of the Profile Awards for best garment design at the January 2003 femme exhibit. This time, the award was given in recognition of the elegant outline and natural flow of WHOLEGARMENT® knitwear.



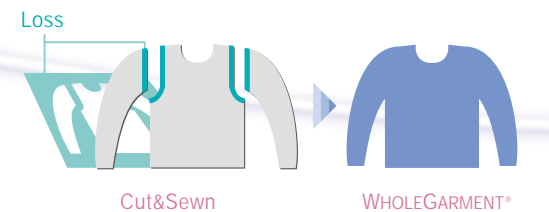
The Future of WHOLEGARMENT®

WHOLEGARMENT® machines are the most innovative textile machinery invention of recent years. Offering superior production efficiency, economy of operation, and versatility of design, it embodies numerous factors for ongoing technical innovation through further refinement. Many in the industry regard it as the future of knitting, and it promises to take over as the mainstay production method of the 21st century.

Features of WHOLEGARMENT®

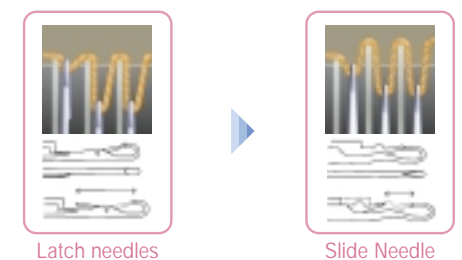


Cut & Sewn vs. WHOLEGARMENT®



Knitwear is traditionally made with the body and sleeves knitted separately, then cut and sewn together afterward. In contrast, WHOLEGARMENT® knitwear can be seamless.

The Slide Needle



Conventional latch needles and Sinker offset in grooves cause scuffing and yarn breaks.

Slide Needles and Contra Sinker centered in grooves reduce scuffing and thereby prevent yarn breaks.



Trade Fairs

Shima Seiki is enthusiastic about hosting fashion shows and participating in trade fairs featuring flatbed knitting machines, computer graphics systems, and CAD/CAM systems.

The fashion show held at the Wakayama Big Whale in April 2002 to celebrate the company's 40th anniversary was one of the largest international fashion shows ever held in Japan. We invited guests from Japan and abroad, as well as members of the local community, to publicize the exciting potential of WHOLEGARMENT® to a diverse audience.

OVERSEAS

- [IKME 2003
(INTERNATIONAL KNITTING MACHINE EXHIBITION)]
Milano, ITALY (October 16-20, 2003)
- [CISMA 2003]
Shanghai, CHINA (October 21-24, 2003)
- [A+A 2003]
Dusseldorf, GERMANY (October 27-30, 2003)
- [SHANGHAI TEX]
Shanghai, CHINA (December 10-13, 2003)
- [PITTI FILATI]
Firenze, ITALY (February 4-6, 2004)

JAPAN

- [2003 APPAREL SOLUTION FAIR]
Tokyo TOC, Tokyo, JAPAN (August 26-27, 2003)
- [WAKAYAMA COMMERCE AND INDUSTRY FESTIVAL]
Wakayama Big Whale, Wakayama, JAPAN (October 11-12, 2003)
- [JAPAN CREATION 2004]
Tokyo BigSight, Tokyo, JAPAN (December 3-5, 2003)
- [The 9th IFF INTERNATIONAL FASHION FAIR/
The 2nd FASHION-PRODUCE BUSINESS FAIR]
Tokyo BigSight, Tokyo, JAPAN (January 14-16, 2004)

Newsletter

Our fashion technology report Assort is an industry newsletter widely distributed to users in the fashion industry and related fields. Assort covers a diverse range of fashion and related topics from knitwear, CAD/CAM systems, and apparel.



Knitwear Collection

At Shima Seiki's Total Design Center, sample knitwear outfits planned and designed in-house are made available to customers. A sample collection of carefully selected WHOLEGARMENT® designs from the past year is featured at right.



Network

Shima Seiki is pioneering new market needs and finding new customers through its global network. Our sales and marketing people are working to extend the penetration and increase sales of Shima Seiki products, which enjoy a solid reputation worldwide.



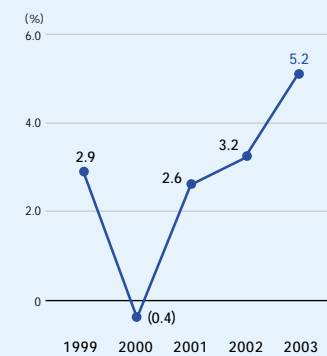
Five-Year Consolidated Financial Summary

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

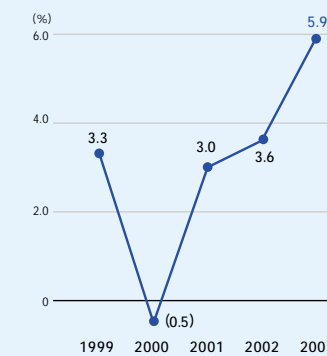
	Millions of yen					Thousands of U.S. dollars
	2003	2002	2001	2000	1999	2003
For the Year:						
Net Sales	43,288	39,097	39,784	36,807	37,374	360,133
Cost of Sales	23,200	22,939	24,208	22,220	22,159	193,012
Gross Profit	20,088	16,158	15,576	14,587	15,215	167,121
Selling, General and Administrative Expenses	11,241	10,876	10,910	10,543	10,176	93,519
Operating Income	8,847	5,282	4,666	4,044	5,039	73,602
Income (Loss) before Income Taxes and Minority Interests	8,801	5,212	4,314	(521)	5,086	73,220
Net Income (Loss)	4,878	3,061	2,553	(434)	2,978	40,582
Depreciation and Amortization	1,032	1,088	1,199	1,343	1,491	8,586
At Year-End:						
Total Assets	96,220	92,549	99,068	98,046	102,072	800,499
Total Shareholders' Equity	84,419	81,735	86,557	85,958	91,002	702,321
Per Share Data (in Yen and U.S. Dollars):						
	yen					U.S. dollars
Net Income (Loss)	129.61	81.61	67.89	(11.14)	75.21	1.08
Shareholders' Equity	2,280.85	2,190.16	2,302.05	2,286.12	2,298.05	18.98
Ratios:						
	%					
Return on Assets (%)	5.2	3.2	2.6	(0.4)	2.9	
Return on Equity (%)	5.9	3.6	3.0	(0.5)	3.3	
Equity Ratio (%)	87.7	88.3	87.4	87.7	89.2	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120.20 = U.S. \$1, the approximate Tokyo foreign exchange market rate as of March 31, 2003.

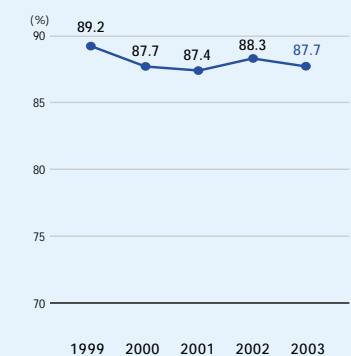
ROA



ROE



Equity Ratio



Website Information

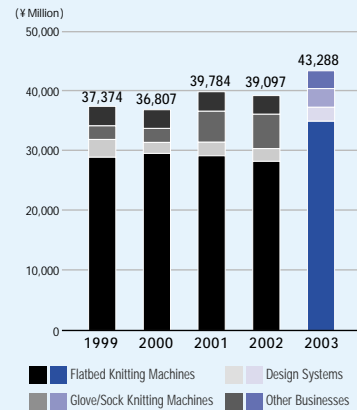
>> <http://www.shimaseiki.co.jp>

You can learn more about the company by visiting Shima Seiki's website. There you'll find a company profile, news on the latest products and knitwear design collections, news and document for investors, and other interesting information.

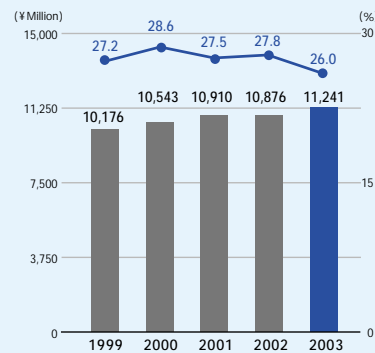


Management's Discussion and Analysis

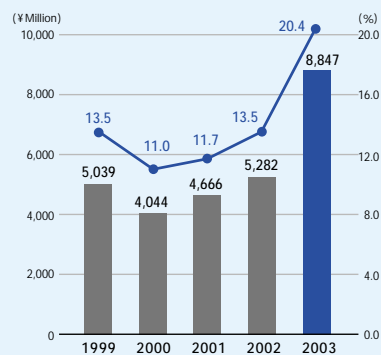
Net Sales



SG&A Expenses/SG&A Ratio



Operating Income/ Operating Income to Net Sales



Operating Results

In fiscal 2002, consolidated net sales grew 10.7% from the previous year to ¥43,288 million in a tough operating environment. Sales of computerized flatbed knitting machines, led by conventional models, increased strongly in overseas markets such as Turkey at Europe's southeastern edge and China and Hong Kong in Asia, where capital investment has been accelerating to meet robust domestic demand for knit products and these regions' expanding role as knitwear production bases for industrialized countries. As a result, overseas net sales increased 9.9% to ¥36,956 million.

Although the business conditions remained adverse for the industry as a whole, net sales in Japan grew 15.7% from the previous year to ¥6,332 million thanks to steady gains in penetration of WHOLEGARMENT® machines, which are suited to making high value-added products. Thus overseas sales accounted for 85.4% of consolidated net sales.

Cost of sales went up 1.1% from the previous year to ¥23,200 million. The cost-of-sales ratio fell 5.1 percentage points to 53.6%. Selling, general and administrative expenses increased 3.4% to ¥11,241 million, but fell 1.8 percentage points as a proportion of sales to 26.0%. Consequently, consolidated operating income grew 67.5% to ¥8,847 million as a result of cost reductions in addition to an increase of net sales.

Income before income taxes and minority interest rose 68.8% to ¥8,801 million. Income taxes also rose 83.4% to ¥3,945 million.

Net income increased 59.4% from the previous year to ¥4,878 million, despite a book loss posted on investment securities. Net income per share increased ¥48 to ¥129.61.

Segment information follows.

Flatbed knitting machines

In the flatbed knitting machine segment, our core business, Shima Seiki experienced growing appreciation of WHOLEGARMENT® in Japan and overseas after the WHOLEGARMENT® Fashion Show held in April 2004 as part of Shima Seiki's 40th anniversary celebrations, and the number of leading apparel companies incorporating WHOLEGARMENT® outfits into their mainstay brands is on the rise. We worked to achieve greater penetration for WHOLEGARMENT® knitting machines by taking advantage of the comfortable feel of WHOLEGARMENT® knitwear to supply innovative sample garments, as well as original know-how, designs, and data for total customer support.

In overseas markets, despite slowdowns in much of Europe (especially Italy) and the U.S. due to weakening consumption, sales increased sharply in Turkey, primarily for conventional knitting machine models, on brisk knitwear exports to Russia combined with firm domestic

knitwear demand. In Asian markets, which account for 50% of overseas demand for flatbed knitting machines, China recorded strong sales growth as capital investment picked up in response to brisk domestic knitwear demand and the country's expanding role as a knitwear production base for industrialized countries, and Hong Kong also experienced growth in the second half. High sales levels in these two markets led to an increase in overseas net sales from the previous year.

Sales in Japan were also higher than in the previous year as a result of promoting consulting-style sales to revitalize the industry; these efforts were led by the Total Design Center at Shima Seiki's headquarters in cooperation with our Communication Spaces in Tokyo and Osaka.

The segment posted record sales volume with both domestic and overseas markets improving their performance over the previous year: segment sales grew 23.8% to ¥34,872 million.

Design systems

Our design systems segment focused on selling the SDS®-ONE communication tool for the knitwear/apparel industry based on our All in One concept. Sales volume increased as users awarded SDS®-ONE high marks for its superior performance and ease of use in design and product-proposal presentation as well as in speeding up and automating production.

Net sales were firm in Japan and overseas markets, increasing 10.9% overall to ¥2,360 million.

Shima Seiki is also extending the product line in this segment by developing the P-CAM100 ultra-high speed, single-ply "made to measure" fabric cutting machine and the SIP-100F on-demand, full-color inkjet printing system, which obviates printing film and plates.

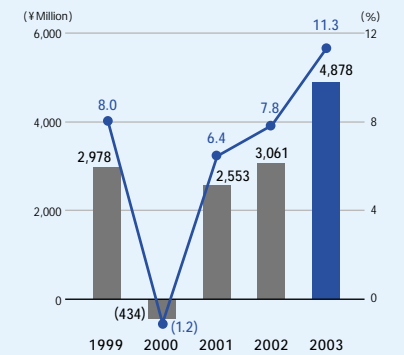
Glove/sock knitting machines

Segment net sales declined 45.2% from the previous year to ¥3,135 million. Demand in overseas markets (mainly Asian countries like South Korea) had been brisk until fiscal 2001, but the demand phase of the cycle had run full course in fiscal 2002. This combined with the continuing slump in Japan to pull sales down.

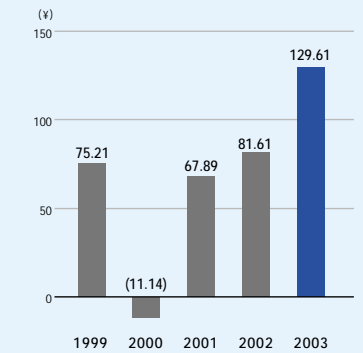
Other businesses

Other businesses, which focuses on components, posted a 5.5% decline in net sales from the previous year to ¥2,921 million.

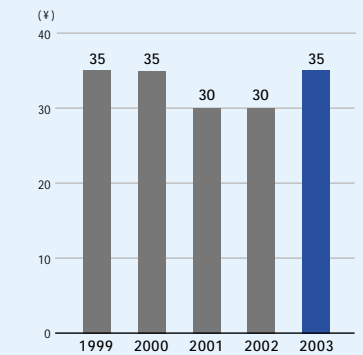
Net Income (Loss)/Net Income (Loss) to Net Sales



Net Income (Loss) per Share

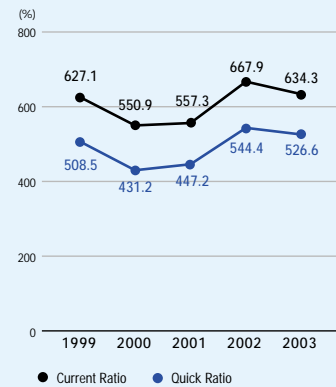


Cash Dividend per Share

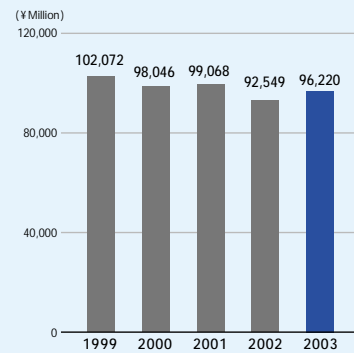


Management's Discussion and Analysis

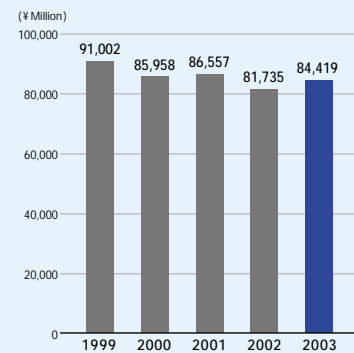
Current Ratio/Quick Ratio



Total Assets



Total Shareholder's Equity



Financial Position

Total assets in fiscal 2002 increased 4.0% over the previous year to ¥96,220 million. Current assets grew 4.9% to ¥63,940 million as a result of increases in trade accounts and notes receivable. Total investments and other assets rose 6.8% to ¥13,513 million mainly due to an increase in investments in securities. Property, plant and equipment was almost unchanged, but slightly dropped 0.9% to ¥18,767 million.

Current liabilities grew 10.5% from the previous year to ¥10,081 million as a result of an increase in accrued income taxes. Long-term liabilities grew 4.9% to ¥1,542 million.

Minority interests declined 18.0% to ¥178 million.

Total shareholders' equity grew 3.3% from the previous year to ¥84,419 million due to an increase in retained earnings. Total shareholders' equity ratio fell 0.6 percentage points to 87.7%. Total shareholders' equity per share rose 4.1% to ¥2,280.85.

Cash Flow

Net cash provided by operating activities amounted to ¥3,677 million, down ¥282 million from the previous year. Net income before taxes and other adjustments was higher than in the previous year, but this was more than offset by increases in trade receivables and inventory.

Net cash used in investing activities totaled ¥1,920 million, down ¥1,215 million from the previous year due to acquisition of investment securities.

Net cash used in financing activities was ¥1,978 million, up ¥289 million from the previous year due to share repurchase and payment of dividends.

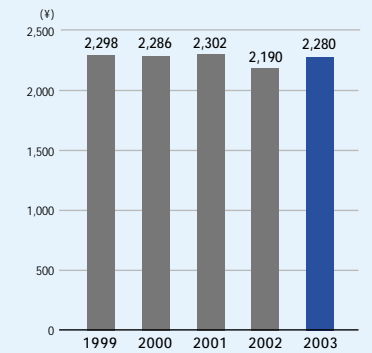
Outlook for FY2003

We expect the operating environment to remain challenging both in Japan and in overseas markets on continued economic uncertainty and little prospect of real economic recovery. Despite these difficult conditions, Shima Seiki will continue to present ideas to customers for making innovative and appealing products based on its WHOLEGARMENT® machines. This entails pioneering a new fashion market that breaks down the barriers between the knitwear and woven-fabric segments with knitwear featuring the woven-fabric wearability made possible by WHOLEGARMENT® systems' three-dimensional capability. WHOLEGARMENT® items are as lightweight, comfortable, and elegant in outline as similar items of cut fabric, and highly fashionable in their own right as well. We will also step up our work to help breath new life into the industry by expanding sales of SDS®-ONE as a core system for bringing the advantages of IT to the apparel industry by linking apparel makers and retailers into closer working relationships.

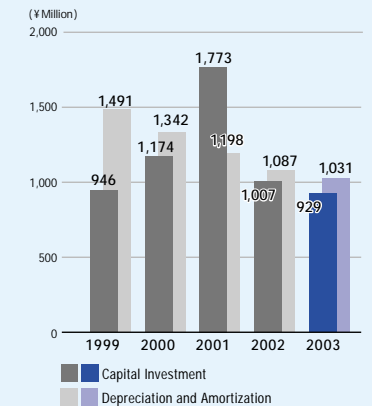
Forward-looking Statements

References to future performance contained in this annual report, including business plans, earnings forecasts, management strategies, and other forward-looking statements, are based on management's assessment of currently available information. Readers are therefore advised not to rely solely on these forecasts for their investment decisions. Changes in the operating environment could bring about earnings results and progress in management strategies that vary significantly from the forecasts contained in this report.

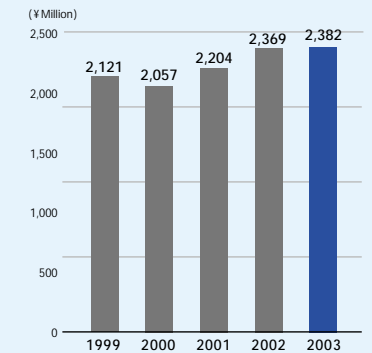
Total Shareholders' Equity per Share



Capital Investment/ Depreciation and Amortization



Research and Development



Consolidated Balance Sheets

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
ASSETS			
Current assets:			
Cash and cash equivalents	¥9,967	¥10,247	\$82,920
Time deposits	207	516	1,722
Short-term investments (Note 3)	200	160	1,664
Trade accounts and notes receivable:			
Unconsolidated subsidiaries	282	205	2,346
Other	42,424	38,554	352,946
Inventories (Note 4)	10,411	10,300	86,614
Deferred tax assets (Note 10)	752	721	6,256
Prepaid expenses and other current assets	871	696	7,246
Less: allowance for doubtful accounts	(1,174)	(442)	(9,767)
Total current assets	63,940	60,957	531,947
Investments and other assets:			
Investments in unconsolidated subsidiaries and an affiliate	1,782	1,788	14,826
Investments in securities (Note 3)	4,241	3,064	35,283
Long-term loans receivable	329	343	2,737
Deferred tax assets (Note 10)	746	1,175	6,206
Deferred tax assets for land revaluation (Note 5)	4,530	4,677	37,687
Other	2,945	3,362	24,501
Less: allowance for doubtful accounts	(1,060)	(1,753)	(8,819)
Total investments and other assets	13,513	12,656	112,421
Property, plant and equipment:			
Land	10,265	10,267	85,400
Buildings and structures	19,208	18,987	159,800
Machinery and equipment	3,788	3,669	31,514
Tools, furniture and fixtures	5,463	5,587	45,449
Construction in progress	32	11	266
	38,756	38,521	322,429
Less: accumulated depreciation	(19,989)	(19,585)	(166,298)
Property, plant and equipment, net	18,767	18,936	156,131
Total assets	¥96,220	¥92,549	\$800,499

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 6)	¥20	¥30	\$166
Trade accounts and notes payable:			
Unconsolidated subsidiaries	18	16	150
Other	4,504	4,457	37,471
Accrued expenses	865	876	7,196
Accrued income taxes	2,411	1,553	20,058
Other current liabilities	2,263	2,194	18,827
Total current liabilities	10,081	9,126	83,868
Long-term liabilities:			
Allowance for retirement benefits (Note 7)	1,542	1,471	12,829
Total long-term liabilities	1,542	1,471	12,829
Minority interests	178	217	1,481
Contingent liabilities (Note 8)			
Shareholders' equity:			
Common stock:			
Authorized- 142,000,000 shares			
Issued- 37,600,000 shares	14,860	14,860	123,627
Additional paid-in capital	21,724	21,724	180,732
Retained earnings (Notes 9 and 14)	56,241	52,514	467,895
Land revaluation difference (Note 5)	(6,675)	(6,528)	(55,532)
Net unrealized holding loss on securities	(165)	(262)	(1,373)
Foreign currency translation adjustments	(85)	59	(707)
Treasury stock, at cost			
(610,610 shares in 2003 and 280,950 shares in 2002)	(1,481)	(632)	(12,321)
Total shareholders' equity	84,419	81,735	702,321
Total liabilities and shareholders' equity	¥96,220	¥92,549	\$800,499

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales	¥43,288	¥39,097	\$360,133
Cost of sales	23,200	22,939	193,012
Gross profit	20,088	16,158	167,121
Selling, general and administrative expenses (Note 11)	11,241	10,876	93,519
Operating income	8,847	5,282	73,602
Other income (expenses):			
Interest and dividend income	240	356	1,998
Interest expense	(37)	(5)	(308)
Other, net	(249)	(421)	(2,072)
Income before income taxes and minority interests	8,801	5,212	73,220
Income taxes (Note 10):			
Current	3,656	2,471	30,416
Deferred	289	(320)	2,405
	3,945	2,151	32,821
Income before minority interests	4,856	3,061	40,399
Minority interests in losses of consolidated subsidiaries	22	0	183
Net income	¥4,878	¥3,061	\$40,582
Per share:	Yen		U.S. dollars
Net income	¥129.61	¥81.61	\$1.08
Cash dividends applicable to the year	35.00	30.00	0.29

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

SHIMA SEIKI MFG., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Thousands		Millions of yen					Treasury stock
	Number of shares of common stock issued	Common stock	Additional paid-in capital	Retained earnings	Land revaluation difference	Net unrealized holding loss on securities	Foreign currency translation adjustments	
Balance at April 1, 2001	37,600	¥14,860	¥21,724	¥50,611	-	¥(321)	¥(317)	¥(0)
Net income	-	-	-	3,061	-	-	-	-
Cash dividends	-	-	-	(1,128)	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(30)	-	-	-	-
Land revaluation difference	-	-	-	-	(6,528)	-	-	-
Net unrealized holding loss on securities	-	-	-	-	-	59	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	376	-
Increase in treasury stock	-	-	-	-	-	-	-	(632)
Balance at March 31, 2002	37,600	14,860	21,724	52,514	(6,528)	(262)	59	(632)
Net income	-	-	-	4,878	-	-	-	-
Cash dividends	-	-	-	(1,120)	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(31)	-	-	-	-
Land revaluation difference	-	-	-	-	(147)	-	-	-
Net unrealized holding loss on securities	-	-	-	-	-	97	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(144)	-
Increase in treasury stock	-	-	-	-	-	-	-	(849)
Balance at March 31, 2003	37,600	¥14,860	¥21,724	¥56,241	¥(6,675)	¥(165)	¥(85)	¥(1,481)

	Thousands of U.S. dollars						
	Common stock	Additional paid-in capital	Retained earnings	Land revaluation difference	Net unrealized holding loss on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	\$123,627	\$180,732	\$436,889	\$(54,309)	\$(2,180)	\$491	\$(5,258)
Net income	-	-	40,582	-	-	-	-
Cash dividends	-	-	(9,318)	-	-	-	-
Bonuses to directors and statutory auditors	-	-	(258)	-	-	-	-
Land revaluation difference	-	-	-	(1,223)	-	-	-
Net unrealized holding loss on securities	-	-	-	-	807	-	-
Foreign currency translation adjustments	-	-	-	-	-	(1,198)	-
Increase in treasury stock	-	-	-	-	-	-	(7,063)
Balance at March 31, 2003	\$123,627	\$180,732	\$467,895	\$(55,532)	\$(1,373)	\$(707)	\$(12,321)

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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interests	¥8,801	¥5,212	\$73,220
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	1,031	1,087	8,577
Increase in allowance for doubtful accounts	48	524	399
Increase in allowance for retirement benefits	71	34	591
Interest and dividend income	(240)	(356)	(1,997)
Interest expense	37	5	308
Foreign currency exchange loss (gain)	30	(20)	250
Loss on sales and disposal of property, plant and equipment, net	39	207	324
Increase in trade receivables	(4,078)	(589)	(33,927)
Decrease (Increase) in inventories	(192)	1,179	(1,597)
Increase (Decrease) in trade payables	205	(1,008)	1,705
Other	519	(17)	4,318
Subtotal	6,271	6,258	52,171
Interest and dividend income received	244	359	2,030
Interest expense paid	(37)	(5)	(308)
Income taxes paid	(2,801)	(2,653)	(23,302)
Net cash provided by operating activities	3,677	3,959	30,591
Cash flows from investing activities:			
Decrease in time deposits, net	309	248	2,571
Purchases of short-term investments	(3,200)	(1,360)	(26,622)
Proceeds from sales of short-term investments	3,160	1,455	26,289
Purchases of property, plant and equipment	(767)	(797)	(6,381)
Proceeds from sales of property, plant and equipment	6	186	50
Purchases of investments in securities	(1,571)	(276)	(13,070)
Proceeds from sales of investments in securities	23	14	191
Decrease (increase) in long-term loans receivable, net	(57)	24	(474)
Other	177	(199)	1,473
Net cash used in investing activities	(1,920)	(705)	(15,973)
Cash flows from financing activities:			
Decrease in short-term loans, net	(10)	(500)	(83)
Repayments of long-term debt	(1)	(7)	(9)
Net of purchases and proceeds from sales of treasury stock	(849)	(632)	(7,063)
Cash dividends paid	(1,118)	(1,128)	(9,301)
Net cash used in financing activities	(1,978)	(2,267)	(16,456)
Effect of exchange rate changes on cash and cash equivalents	(59)	140	(492)
Net increase (decrease) in cash and cash equivalents	(280)	1,127	(2,330)
Cash and cash equivalents at beginning of year	10,247	9,120	85,250
Cash and cash equivalents at end of year	¥9,967	¥10,247	\$82,920

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, 2003, which was ¥120.20 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) Translation of foreign currencies

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

and amortized over the periods of the respective contracts. Revenue and expenses are translated at the rates of exchange prevailing when transactions are recorded.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. 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

Notes to the Consolidated Financial Statements

(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

3. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2003 and 2002 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2003		2002		2003		2003		Difference
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	¥153	¥203	¥50	¥526	¥631	¥105	\$1,273	\$1,689	\$416
Other	50	50	0	10	10	0	416	416	0
Subtotal	¥203	¥253	¥50	¥536	¥641	¥105	\$1,689	\$2,105	\$416
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:									
Equity securities	¥1,396	¥1,151	¥(245)	¥1,125	¥889	¥(236)	\$11,614	\$9,576	\$(2,038)
Debt securities	149	147	(2)	100	68	(32)	1,240	1,223	(17)
Other	729	649	(80)	926	641	(285)	6,064	5,399	(665)
Subtotal	¥2,274	¥1,947	¥(327)	¥2,151	¥1,598	¥(553)	\$18,918	\$16,198	\$(2,720)
Total	¥2,477	¥2,200	¥(277)	¥2,687	¥2,239	¥(448)	\$20,607	\$18,303	\$(2,304)

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

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period.

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.

Other securities without quoted market prices at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars
	Amount recorded in the balance sheet		
	2003	2002	2003
Held-to-maturity securities			
Debt securities	¥200	¥160	\$1,664
Other securities			
Unlisted equity securities	¥2,041	¥825	\$16,980

4. Inventories

Inventories at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	2003
Finished goods	¥6,641	¥6,602	\$55,250
Work in process	794	742	6,606
Raw materials	2,370	2,344	19,717
Supplies and others	606	612	5,041
	¥10,411	¥10,300	\$86,614

5. Land revaluation

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of their own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation difference represents the net unrealized depreciation of land values and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the statement of income. The details of the one-time revaluation for land remaining as of March 31, 2003 were as follows:

Land before revaluation	¥21,201million
Land after revaluation	¥9,996million
Land revaluation difference	¥6,675million (net of deferred tax assets of ¥4,530)

6. Short-term loans and long-term debt

Short-term loans and long-term debt at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	2003
Short-term loans:			
2.00% to 2.12% unsecured loans from banks	¥20	¥30	\$166
Long-term debt:			
2.5% unsecured loans from banks	-	¥1	-
Less: current portion	-	(1)	-
	-	-	-

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, 2003 and 2002 consisted of the following:

Retirement benefit obligation at March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	2003
Projected benefit obligation	¥(3,794)	¥(3,430)	\$(31,564)
Fair value of plan assets	1,822	1,749	15,158
Benefit obligation in excess of plan assets	(1,972)	(1,681)	(16,406)
Unrecognized actuarial loss	430	210	3,577
Obligation recognized in the consolidated balance sheets	(1,542)	(1,471)	(12,829)
Prepaid pension cost	-	-	-
Allowance for retirement benefits	¥(1,542)	¥(1,471)	\$(12,829)

Components of net periodic benefit cost for the year ended March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	2003
Service cost	¥203	¥179	\$1,689
Interest cost	86	102	715
Expected return on plan assets	(20)	(19)	(166)
Amortization:			
Actuarial loss (gain)	19	(18)	158
Net periodic benefit cost	¥288	¥244	\$2,396

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2003 and 2002 is as follows:

	2003	2002
Method of attributing benefit to periods of service	straight-line basis	straight-line basis
Discount rate	2.5%	2.5%
Expected rate of return on fund assets	1.15%	1.15%
Amortization period for actuarial gain (loss)	10years	10years

Notes to the Consolidated Financial Statements

8. Contingent liabilities

Contingent liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	2003
Trade notes discounted	¥3,133	¥4,721	\$26,065
Guarantees of customers' loans and lease obligations	4,750	5,304	39,517
	¥7,883	¥10,025	\$65,582

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, 2003, included the Company's legal reserve of ¥2,124 million (\$17,671 thousand).

10. Income taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a normal effective statutory tax rates of approximately 41.7% for the years ended March 31, 2003 and 2002.

Due to a change in enterprise tax rate in Japan, effective for years beginning April 1, 2004, the normal effective statutory tax rate is

scheduled to be changed. The effect of this change was to decrease deferred tax assets and deferred tax assets on land revaluation by ¥18 million (\$150 thousand) and ¥147 million (\$1,223 thousand), respectively, and to increase income taxes-deferred, net unrealized holding loss on securities and land revaluation difference by ¥15 million (\$125 thousand), ¥4 million (\$33 thousand) and ¥147 million (\$1,223 thousand), respectively, for the year ended March 31, 2003.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	2003
Deferred tax assets:			
Allowance for retirement benefits	¥408	¥305	\$3,394
Loss on write-down of investments in securities	–	246	–
Accrued bonuses to employees	223	163	1,855
Accrued enterprise tax	211	135	1,755
Tax loss carryforwards	354	361	2,945
Unrealized holding loss on securities	112	187	932
Intercompany profit	268	269	2,230
Other	238	369	1,980
Total gross deferred tax assets	1,814	2,035	15,091
Less valuation allowance	(266)	(95)	(2,213)
Net deferred tax assets	1,548	1,940	12,878
Deferred tax liabilities:			
Tax deductible reserves	(23)	(28)	(191)
Other	(27)	(16)	(225)
Total gross deferred tax liabilities	(50)	(44)	(416)
Net deferred tax assets	¥1,498	¥1,896	\$12,462

11. Research and development costs

Research and development costs charged to income were ¥2,383 million (\$19,825 thousand) and ¥2,369 million for the years ended March 31, 2003 and 2002, respectively.

12. Lease

Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee were ¥670 million (\$5,574 thousand) and ¥692 million for the years ended March 31, 2003 and 2002, 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, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars	Millions of yen		
	2003			2003	2002		
	Acquisition cost	Accumulated depreciation	Net leased property	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	¥4,133	¥2,188	¥1,945	\$16,181	¥4,478	¥2,083	¥2,395
Tools, furniture and fixtures	175	116	59	491	161	81	80
Total	¥4,308	¥2,304	¥2,004	\$16,672	¥4,639	¥2,164	¥2,475

Obligations under such finance leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	2003
Due within one year	¥609	¥652	\$5,066
Due after one year	1,464	1,823	12,180
Total	¥2,073	¥2,475	\$17,246

Depreciation expense and imputed interest expense for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	2003
Depreciation expense	¥612	¥692	\$5,092
Imputed interest expense	¥51	–	\$424

The amount of obligations and depreciation under finance leases for the year ended March 31, 2003 was calculated excluding the imputed interest portion due to the increase in the portion for obligations under finance leases in the total amount of the obligations and property, plant and equipment as of March 31, 2003, while the amount of obligations and depreciation for the years ended March 31, 2002 was calculated including the imputed interest portion.

13. Segment information

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 was as follows:

	Millions of yen					
	2003					
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination Consolidated
Sales and operating income:						
Sales to customers	¥34,872	¥2,360	¥3,135	¥2,921	¥43,288	– ¥43,288
Intersegment sales	–	–	–	–	–	–
Total	34,872	2,360	3,135	2,921	43,288	– 43,288
Operating costs and expenses	23,648	1,649	2,266	2,576	30,139	¥4,302 34,441
Operating income	¥11,224	¥711	¥869	¥345	¥13,149	¥(4,302) ¥8,847
Assets, depreciation and capital expenditures:						
Assets	¥61,206	¥4,102	¥3,193	¥4,371	¥72,872	¥23,348 ¥96,220
Depreciation	477	18	36	41	572	460 1,032
Capital expenditures	468	6	21	35	530	400 930

	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

Notes to the Consolidated Financial Statements

	Thousands of U.S. dollars						
	2003						
	Flatbed knitting machines	Design systems	Glove and sock knitting machines	Other	Total	Corporate / elimination	Consolidated
Sales and operating income:							
Sales to customers	\$290,116	\$19,634	\$26,082	\$24,301	\$360,133	-	\$360,133
Intersegment sales	-	-	-	-	-	-	-
Total	290,116	19,634	26,082	24,301	360,133	-	360,133
Operating costs and expenses	196,738	13,719	18,852	21,431	250,740	35,791	286,531
Operating income	\$93,378	\$5,915	\$7,230	\$2,870	\$109,393	\$(35,791)	\$73,602
Assets, depreciation and capital expenditures:							
Assets	\$509,201	\$34,127	\$26,564	\$36,364	\$606,256	\$194,243	\$800,499
Depreciation	3,968	150	300	341	4,759	3,827	8,586
Capital expenditures	3,893	50	175	291	4,409	3,328	7,737

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, 2003 and 2002 was as follows:

	Millions of yen					
	2003					
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	¥40,486	¥1,221	¥1,581	¥43,288	-	¥43,288
Intersegment sales	1,521	-	7	1,528	¥(1,528)	-
Total	42,007	1,221	1,588	44,816	(1,528)	43,288
Operating costs and expenses	29,012	1,086	1,654	31,752	2,689	34,441
Operating income (loss)	¥12,995	¥135	¥(66)	¥13,064	¥(4,217)	¥8,847
Assets	¥71,393	¥913	¥1,840	¥74,146	¥22,074	¥96,220

	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

	Thousands of U.S. dollars					
	2003					
	Japan	Europe	North America	Total	Corporate / elimination	Consolidated
Sales and operating income:						
Sales to customers	\$336,822	\$10,158	\$13,153	\$360,133	-	\$360,133
Intersegment sales	12,654	-	58	12,712	\$(12,712)	-
Total	349,476	10,158	13,211	372,845	(12,712)	360,133
Operating costs and expenses	241,365	9,035	13,760	264,160	22,371	286,531
Operating income (loss)	\$108,111	\$1,123	\$(549)	\$108,685	\$(35,083)	\$73,602
Assets	\$593,951	\$7,596	\$15,308	\$616,855	\$183,644	\$800,499

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, 2003 and 2002 were as follows:

	Millions of yen				
	2003				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	¥7,479	¥8,522	¥18,941	¥2,014	¥36,956
Total sales					¥43,288
Ratio of overseas sales to total sales	17.3%	19.7%	43.8%	4.6%	85.4%

	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%

	Thousands of U.S. dollars				
	2003				
	Europe	The Middle East	Southeast Asia	Other areas	Total
Overseas sales	\$62,221	\$70,899	\$157,579	\$16,755	\$307,454
Total sales					\$360,133
Ratio of overseas sales to total sales	17.3%	19.7%	43.8%	4.6%	85.4%

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

Europe: Italy, Spain, U.K.

The Middle East: Turkey, Syria

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, 2003.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥740	\$6,156
Bonuses to directors and statutory auditors	50	416

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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, 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, procedures and practices generally accepted and applied 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, 2003 and 2002, 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.

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, 2003

Ohtemae Audit Co.
Ohtemae Audit Corporation

Investor Information

Corporate Information

(As of March 31, 2003)

Company Name	SHIMA SEIKI MFG., LTD.
Representative Director	Masahiro Shima, President
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	1,004
URL	http://www.shimaseiki.co.jp

Stock Information

(As of March 31, 2003)

Accounting	Year-End March 31
Month of General Shareholders' Meeting	June
Authorized Common Stocks	142,000,000
Issued Common Stocks	37,600,000
Number of Shareholders	14,089
Stock Exchange Listing	The First Section of Tokyo Stock Exchange The First Section of Osaka Stock Exchange
Auditing Corporation	Ohtemae Audit Corporation



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