STAR MICRONICS CO., LTD.

ANNUAL REPORT 2002

For the year ended February 28, 2002

Accomplishing...

STAR MICRONICS CO., LTD.

Profile

Founded in 1950 and based in Shizuoka prefecture, Star Micronics Co., Ltd. has consistently based its growth on its expertise in precision processing and assembly. The company's first business was components for wristwatches. This underpinned successful entries into markets for machine tools, printers and electronic buzzers. Today's Star Micronics has four core elements: components, mainly micro audio components; special products, mainly printers; machine tools, mainly CNC automatic lathes; and precision products, mainly wristwatch parts and optical connectors.

A global organization, Star Micronics has manufacturing and sales bases in Europe, North America, Asia and other parts of the world. As of February 2002, there were 6 Japanese and 14 overseas subsidiaries. Total employment is about 5,000, including non-consolidated companies.

Star Micronics adheres to a basic philosophy known as HUPAS, which stands for Humanity, User First, Profitable, Aggressive and Society. Successful management will become increasingly challenging as the IT revolution leads to still more intense competition worldwide. By following its HUPAS guidelines, Star Micronics is determined to draw on its precision processing and assembly capabilities to increase its value while contributing to society.

Contents

Forward-Looking Statements

Statements in this annual report with respect to Star Micronics' plans, strategies and beliefs as well as all other statements that are not historical facts are forward-looking statements involving risks and uncertainties. These forward-looking statements rely on a number of assumptions concerning future events. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, general worldwide economic conditions, competitive pressure on sales and pricing, and movements of currency exchange rates.

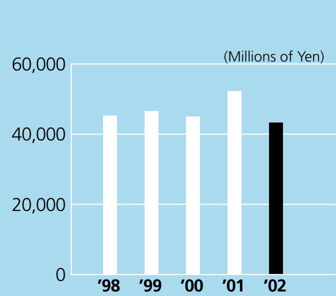
Financial Highlights

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2002 and 2001

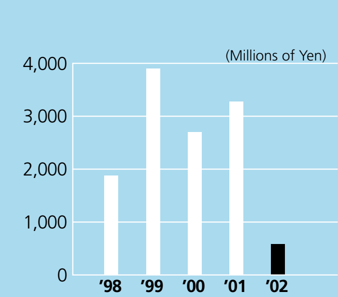
	Millions of yen		Change (%)	Thousands of U.S. dollars
	2002	2001	2002/2001	**2002**
For the year:				
Net sales	**¥43,265**	¥52,304	(17.3)%	**$322,873**
Net income	**577**	3,274	(82.4)	**4,306**
Return on sales	**1.3%**	6.3%		
Capital expenditures	**3,546**	6,381	(44.4)	**26,463**
Depreciation and amortization	**3,567**	3,195	11.6	**26,619**
At year-end:				
Total assets	**¥65,394**	¥72,211	(9.4)%	**$488,015**
Shareholders' equity	**46,978**	46,799	0.4	**350,582**
Equity ratio	**71.8%**	64.8%		
Interest-bearing debt	**5,755**	3,822	50.6	**42,948**
	Yen		Change (%)	U.S. dollars
Per share:				
Net income	**¥10.21**	¥57.91	(82.4)%	**$0.08**
Fully diluted net income	**–**	–	–	–
Cash dividends applicable to the year	**10.00**	10.00	0.0	**0.08**
Stock information:				
Common shares issued	**56,533,234**	56,533,234	0.0%	
Number of shareholders	**6,775**	5,810	16.6	

Note: The rate of ¥134 to US$1, prevailing on February 28, 2002, has been used for translation into U.S. dollar amounts.

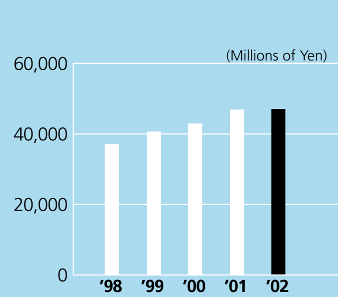
Net Sales



Net Income

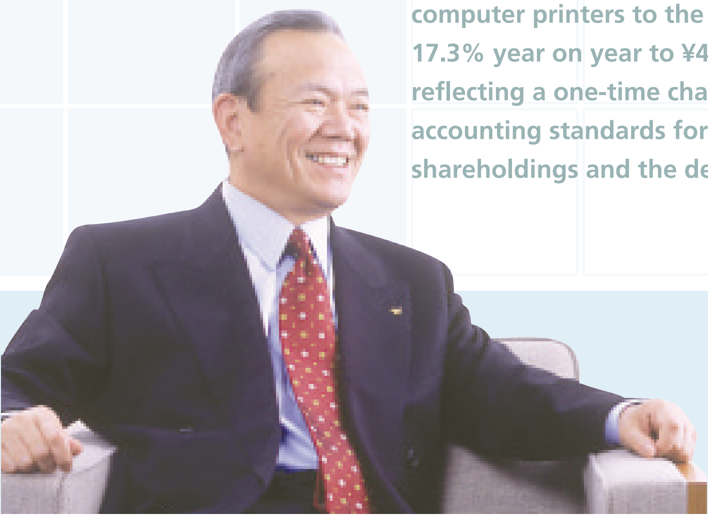


Shareholders' Equity



To Our Shareholders

Our performance during fiscal 2002, ended February 28, 2002, was significantly below our initial projections. This was due to two principal factors. First, with about 70% of our sales concentrated in IT-related markets, we took a hard hit from the global slowdown in the IT industry. Additionally, technical adjustments to the Chinese tax collection system meant we were forced to suspend shipments of computer printers to the Chinese market. Consequently, net sales fell 17.3% year on year to ¥43,265 million. Net income was ¥577 million, reflecting a one-time charge resulting from the adoption of new accounting standards for retirement benefits, mark-to-market losses on shareholdings and the deferral of income taxes on unrealized income.



Shozo Kasuya
President and CEO

An Increasingly Opaque Operating Environment

The Special Products Division, which primarily represents computer printers, the Components Division, Machine Tools Division and Precision Products Division, all had to contend with deteriorating operating environments during the year. Although the Components Division launched new microphone, speaker and receiver products, cellular phone manufacturers initiated production cutbacks in response to a slowing market, leading to weaker orders for electronic buzzers. In Machine Tools, the first half of the year saw relatively strong demand in Europe, especially from medical-related fields. However, moving into the latter half of the year, orders declined in tandem with Asian markets including Japan, where demand was particularly sluggish. In Precision Products, the slower-than-projected roll-out of fiber-optic networks led to reduced orders for optical connector parts.

Despite these difficulties, each market segment is expected to recover in the near-term. Electronic buzzer shipments are already showing signs of a turnaround and plans are afoot to resume sales in China of large-scale computer printers for tax collection systems.

Approximately 70% of net sales are reliant on IT-related demand. This reliance showed through in the company’s performance during the year as the global slowdown in the IT industry severely impacted our results. However, we believe that the three broad trends we have identified in our business environment—

the growing importance of IT, rising concerns about the environment, and globalization—will remain relevant. We see this downturn as a temporary setback and do not foresee any fundamental changes to our operating environment. Meanwhile, corporate management is becoming increasingly challenging as globalization leads to a single, worldwide market-driven economy and IT-related technology cycles become ever shorter. In this environment, merely selecting businesses and concentrating resources in IT-related areas will not always bring success. We must also base our decisions on the premise that the future is never certain.

An even higher level of risk management is essential to deal with the uncertainties we face. With these points in mind, we will work to implement the following two initiatives:

Strengthening Our Corporate Structure

One of the most important goals of our business strategy is enhancing the company's ability to respond to risks caused by shifts in the operating environment. We aim to do this by making our balance sheet more productive and enhancing asset turnover.

This involves, firstly, tighter control over inventories. For example, overseas subsidiaries of the Machine Tools Division has been managing inventory based on their own sales plans. Our new approach to inventory control will be more unified. Enabling the transfer of inventories among subsidiaries will contribute to a reduction in overall inventory levels. On the materials supply side, we aim to increase the proportion of locally procured materials at our manufacturing facility in Dalian, China—Star Micronics Manufacturing Dalian Co., Ltd. This move will bring about substantial cost savings.

Additionally, we are planning an even bolder overseas capital investment program. Our plans include the start of full-scale production in China of machine tools for the Asian market as one step in our efforts to manufacture all products in the most suitable locations. The company will also shorten the depreciation times for production equipment to more closely match the life cycles of products.

These kinds of measures will encourage operating divisions and subsidiaries to think more locally with more emphasis on frontline operations. This will result in a corporate structure more attuned to changes in the operating environment. This structure in turn will facilitate a more efficient mobilization of resources and improve Star Micronics' return on assets (ROA), our benchmark measure of performance.

Diversifying Our Product Lineup and Customer Base

Through this second initiative, we will work to reduce the risks that arise from our narrow focus on specific market segments and products. On the sales side, we will make our operations more stable by further diversifying our product lineup and customer base in fields where we are already strong.

In the Components Division, we are gradually transforming ourselves into a comprehensive supplier of micro audio components. This requires leveraging our current product lineup to move into new markets. Two examples are the use of speaker components in car navigation systems and receivers in disposable hearing aids. This year, the Components Division succeeded in developing the world's smallest microphone. This revolutionary technology holds the potential of becoming a core product for the cellular phone market alongside our electronic buzzers.

In computer printers, we are convinced that demand for our printers for tax collection systems in China is not transitory. Rather, we see this demand as offering the potential for long-term expansion in that market. The Chinese government's tax reforms are expected to apply first to large businesses, and then to medium- and small-sized enterprises in successive stages. The size of printers required by businesses will thus become progressively smaller. At the current stage of the tax system reforms, demand for computer printers is estimated to be approximately 1.3 million units. However, after the second stage of reforms is enacted in 2003, the number of companies needing compatible printers is expected to grow to several million. More promisingly, the final stage of the reforms, which is expected to be completed in 2007, the year before the Beijing Olympics, will see all of China's business community adopting printers as part of the tax collection system. With this massive growth potential in mind, we will leverage our current strengths in large-scale printers used for tax collection systems to further raise our dominance in the market.

In the Machine Tools Division, steps will be taken to lessen the division's reliance on Europe and North America and put in place a sales structure that incorporates Asian markets. More specifically, we plan to enhance the manufacture and sale of low-end products that target customers in Asia. Up until now, the Machine Tools Division's strategy of offering the world's highest levels of performance and added value did not necessarily mesh with the needs of the Asian market. In 2002, however, a substantial part of the division's manufacturing base will be moved to China. This transfer, combined with an enhanced sales network, will allow the Machine Tools Division to provide a range of products that offer outstanding performance in relation to their cost.

Harnessing Precision Processing Technologies in China

China has earned itself the label of "the workshop of the world," and there is widespread agreement that China's manufacturing output will continue to climb over the long term. We believe that our manufacturing technology, dedicated to producing miniature precision devices, will lead to many opportunities for Star Micronics in the Chinese market.

During the past year, our Precision Products Division began overseas production for the first time following the establishment of a joint venture in Shanghai. The new company, which manufactures components for audio devices sold in China, has been consistently meeting operating targets. Our launch of precision component production in China yielded another benefit. We quickly discovered that substantial demand exists for many of our sophisticated products, including components used in applications other than audio devices. We are convinced that China has considerable promise as a market for our entire product lineup, including components, printers and machine tools. By focusing on our core strengths, we are confident that we can repeat our track record of success at home and in the Chinese market.

May 2002

Shozo Kasuya
President and CEO

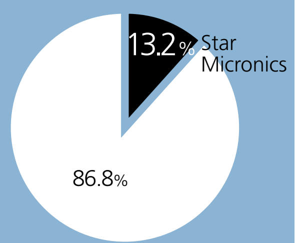
...and Delivering: Products and Results »

Since its establishment in 1950, Star Micronics has developed a succession of innovative and high-quality products by incorporating the latest electronics into technologies developed through precision processing. In the 1980s, a series of market-leading products helped to propel Star Micronics to the status of a global brand. Then, after identifying the trend toward miniaturization and greater functionality, the company began directing its energies into developing highly advanced technologies and products. At the dawn of the 21st century, Star Micronics is building a strong, invaluable presence in industry.

Star Micronics burst onto the scene in the printer market in 1981 with Gemini 10, a highly functional and competitively priced printer. This product drove rapid growth in the European and North American markets. 1986 saw Star Micronics' NL-10 win a RITA nomination for best peripheral device. This success was followed by explosive sales of the LC-10 (NX-1000) in 1988, aimed at the word processor market. The LC-10 soon captured 10% of the global market for serial impact printers. The LC Series won a number of awards for 'best buy' at PC shows around the world, and in its peak year in 1991, held a global market share of 13.2%.

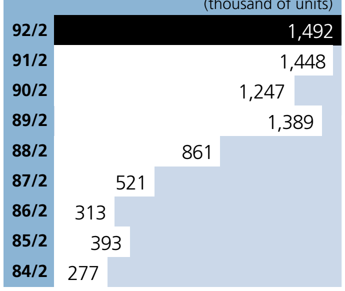
DOT PRINTERS

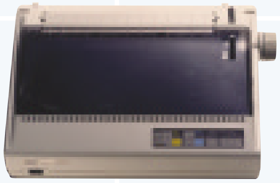
Global Market Share in Peak Year of Shipments of LC Series



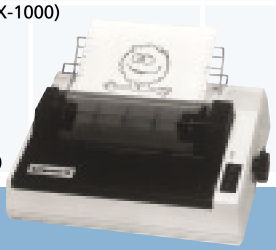
(1991) Source: Star Micronics

Shipment Volume of LC Series





LC-10 (NX-1000)



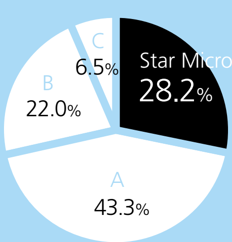
Gemini10

1980

1990

CNC AUTOMATIC LATHES

Recent Global Market Share in Swiss-Type CNC Automatic Lathes*



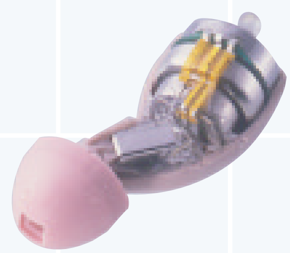
(Fiscal 2001) Source: Star Micronics

Star Micronics' production of automatic lathes stems from the need to use lathes in its own precision component manufacturing process. These products are acclaimed worldwide as machine tools made by the user, for the user. The company caused a sensation in the industry in 1976 with the launch of a computer-controlled lathe, and has focused thereafter on introducing a range of Swiss-type CNC automatic lathes. These tools meet the latest customer needs, such as the ability to automatically remove residual shavings and the option to employ the lathes in complex three-dimensional lathing processes. In fiscal 2001, Swiss-type CNC automatic lathes' global market share was 28.2%.

SNC-15

HEARING AIDS

Star Micronics has entered the market for disposable hearing aids, which were first developed by U.S.-based Songbird Medical Inc. Star Micronics began sales of this product in 2000. Nevertheless, the market still has vast, untapped potential.

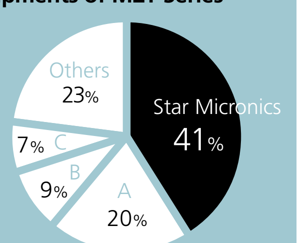


1997

2000

ELECTRONIC BUZZERS

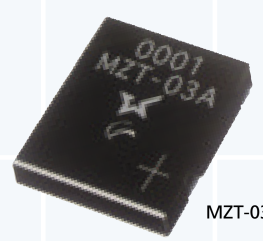
Recent Global Market Share in Shipments of MZT Series*



(Fiscal 2000) Source: Star Micronics

Monthly Shipment Volume of MZT Series (Thousands of units)

02/2	10,225
02/1	6,850
01/12	10,023
01/11	14,845
01/10	13,588
01/9	11,095
01/8	9,765
01/7	8,545
01/6	8,911
01/5	11,147
01/4	12,046
01/3	10,919
01/2	9,674
01/1	11,479



MZT-03A

Following the development of the contact-free buzzer in 1971, Star Micronics enjoyed a surge in popularity worldwide with the launch of automotive buzzers (TMX) in 1982. This was followed by entry into the cordless phone market in 1985 and the electronic pager market in 1989. Three years later, the company made its first foray into the electronic buzzer market for cellular phones, attracting interest from the telecommunications industry for its MUT Series. In 1997, a CWT series component achieved record cumulative sales of over 1 billion individual units. More recently, Star Micronics has developed the world's thinnest electronic buzzer, the MZT Series, boasting a thickness of only 2 mm. The MZT Series is acclaimed worldwide for its compactness and sound qualities, as well as its tone, which is well suited to its practical applications. These buzzers have won leading market share and are used in 41% of the world's cellular phones.

*The designations A, B and C represent peer companies.

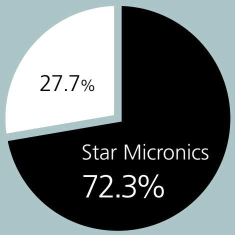
SHANGHAI PLANT

Star Micronics established a joint venture to manufacture audio components in Shanghai in 2001, following the completion of a manufacturing facility in Dalian in 1989. China is expected to see growing demand for precision components, mainly for use in automobiles. Star Micronics' facilities in this region will supply overseas markets and capture a greater share of the vast Chinese market.

2001

PRINTERS FOR CHINA

Market Share of Printers in China



(As of March 2002) Source: Star Micronics

NX-600

Large-scale printers capable of printing a diverse range of materials, such as passbooks and invoices, are valued especially highly in the Chinese market. With China's accession to the WTO, the Chinese government is pushing forward with a series of tax reforms. These reforms will require companies to issue formal invoices for transactions over 10,000 yuan (1 yuan = ¥15) using dot matrix printers with set specifications, by the end of 2002. Projected demand for dot matrix printers through 2003 is at roughly 1.3 million units. As of March 2002, Star Micronics had shipped 193,105 units, accounting for 72.3% of the Chinese market, which had an aggregate demand of 267,000 units.

This high-performance, multi-functional automatic lathe employing a hybrid control system was developed to produce complex geometric shapes rapidly. Demand is expected from a wide range of component sectors, including those for medical devices, connectors, automobiles and optical fiber equipment. Sales began in March 2002, with a monthly production level of 30 units.

ECAS-12/20

2002

PH-001A: INSERTION-TYPE STEREO HEADPHONE SET

The PH-001A, supplied to U.S. hearing aid manufacturers, is a compact, lightweight stereo headphone set featuring ultra-compact, magnetostatic receiver technology. This technology enables superior reproduction of musical and audio-visual content. Star Micronics commenced OEM sales of this product overseas in November 2001, and expects to ship 100,000 units annually.

MAA-03A-L

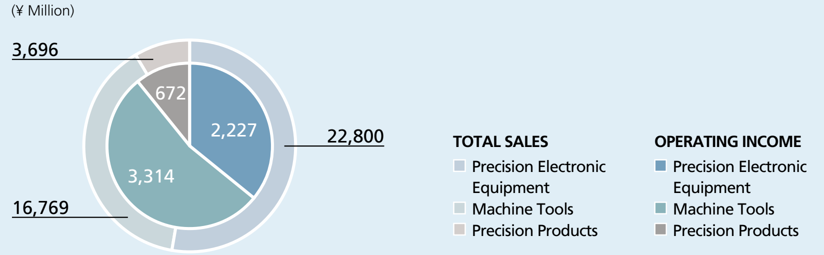
With a view to satisfying a wide range of audio recording needs, Star Micronics has created the world's smallest omni-directional micro audio component, measuring only 3 mm in diameter. Launch is scheduled for June 2002, with shipments of 500,000 units expected in the first year of production. The MAA-03A-L's minute dimensions are expected to attract substantial demand from cellular phone manufacturers.

Management's Discussion and Analysis

REVIEW OF OPERATIONS

Business Segments

Fiscal 2002 Sales & Operating Income Composition by Business Segment

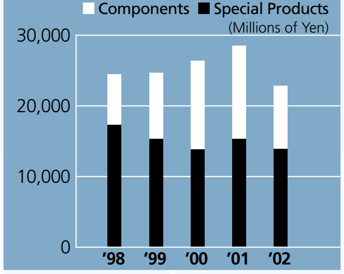


Note: Operating income excludes company-wide expenses of ¥2,150 million.

PRECISION ELECTRONIC EQUIPMENT

One notable success was the development of the world's smallest microphone this year. This revolutionary microphone holds the potential of becoming a core product for the cellular phone market alongside electronic buzzers.

Sales by the Precision Electronic Equipment Segment



The Precision Electronic Equipment Segment comprises two business divisions: the Components Division, which manufactures and sells electronic buzzers for cellular phones and other micro audio components, and the Special Products Division, which focuses on computer printers, POS printers and other specialty products.

In the Components Division, net sales of electronic buzzers, which made up the largest share of sales, fell 32.5% from the previous year to ¥8,862 million. This was attributable to prolonged production cutbacks by cellular phone manufacturers in response to a slowing global market. While worldwide demand for cellular phones is back on a recovery footing, shipments and net sales for fiscal 2003, the year ending February 2003, are expected to remain largely unchanged from the year under review.

The Components Division is diversifying its lineup of compact audio devices. It is transforming itself into a comprehensive supplier of micro audio components, ranging from speakers to microphones, receivers and other products. Leveraging a broader product lineup, the Components Division looks to serve a diversified customer base and establish new marketing channels.

One notable success was the development of the world's smallest microphone this year. This revolutionary microphone holds the potential of becoming a core product for the cellular phone market alongside electronic buzzers. Other breakthroughs included an insertion-type stereo headphone set featuring magnetostatic receiver technology developed through our disposable hearing aid operations, and micro-speaker components for use in car navigation systems. Star Micronics expects these new products to become a significant source of earnings in the future.

The Special Products Division's mainstay products are computer printers and POS printers. The principal target market for the company's computer printers is China, where it has an integrated system, from production through sales.

From midway through the year ended February 28, 2001, the full-scale introduction of a value-added tax system by the Chinese government spurred rapid growth in sales by the Special Products Division, especially in flatbed printers equipped with a copying function, which are well suited to invoice printing. This was expected to significantly improve earnings through fiscal 2002. In March 2001, however, the company was forced to suspend computer printer shipments due to technical adjustments made by the Chinese government to the tax system. As a result, shipments of the relevant model were held to 240,000 units, impacting heavily on overall divisional sales. At present, plans are in place to resume shipments shortly.

The scope of China's revised tax collection system is not restricted to large companies. This constitutes only the first of three stages of implementation. The Chinese government's tax reforms are set to apply to medium- and small-sized enterprises in successive stages, with the second stage commencing in April 2003. By 2007, the new tax collection system is expected to cover the entire Chinese business community. As the system applies to medium- and small-sized companies, progressively smaller printers will be required. Building on its competitive advantages in current models of printers, Star Micronics hopes to capitalize on the vast potential of this market.

Star Micronics also sells thermal POS printers, mainly to European and U.S. markets. Sales of thermal printer models accounted for 30% of sales by the Special Products Division.

The Special Products Division also manufactures and sells card readers/writers for business applications such as loyalty cards for frequent shopper programs. These readers/writers have yet to make a material contribution to the company's results.

Sales by the Special Products Division fell 9.2% to ¥13,937 million year on year.

Net sales by the Precision Electronic Equipment Segment decreased ¥5,677 million or 19.9% to ¥22,800 million (US$170,149 thousand).

The majority of this segment's sales are to overseas customers. Accordingly, Star Micronics is working to concentrate production in China. Dalian Sande Electronics Co., Ltd. was made into a consolidated subsidiary to form a strong production base in China, alongside Star Micronics Manufacturing Dalian Co., Ltd., the company's main manufacturing plant there. As part of ongoing cost-cutting measures, the company integrated five domestic subsidiaries during fiscal 2002.

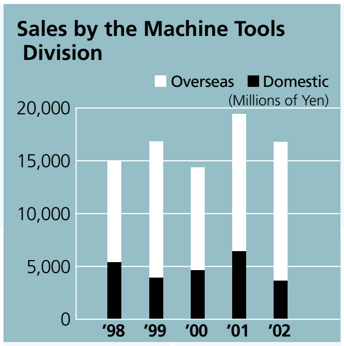
Star Micronics reviewed its capital investment program in light of lower demand for electronic buzzers. Scheduled capital expenditures of ¥2,700 million by the Component Division were reduced to ¥1,224 million during fiscal 2002. Furthermore, the company placed strict curbs on increases in fixed expenses.

The company introduced a supply chain management system during fiscal 2001. The system is used to forecast demand from its major clientele, European cellular phone manufacturers. This has in turn allowed the company to shorten its production management cycle from a monthly to a weekly period. Star Micronics expects this system to yield dramatic reductions in delivery times and inventories.

Operating income in the Precision Electronic Equipment Division decreased ¥2,188 million, or 49.6% to ¥2,227 million (US$16,619 thousand). Despite every effort to curtail costs, the company was unable to offset the decline in electronic buzzer and printer sales. The operating income ratio fell 5.7 percentage points to 9.8%, reflecting an upswing in the ratio of fixed expenses to sales. For fiscal 2003 however, the operating income ratio is expected to improve substantially, buoyed by a significant contribution from computer printer sales.

MACHINE TOOLS

In this environment, Star Micronics will adopt a new strategy for the Machine Tools Segment, focusing closely on the Asian market. With its greatest strength in production technologies, Star Micronics truly excels in developing products with superior cost performance.



Star Micronics' CNC automatic lathes have earned many accolades from markets, especially for the SV series, which features a high-precision complex machining capability well suited to fabricating a range of components, including those for medical equipment. Another winner is the SI-12, a state-of-the-art lathe that employs a proprietary motion-control system that substantially shortens machining time.

For fiscal 2002, sales were propelled by extremely strong demand from European manufacturers of medical components and equipment. In the first half of the year, the Machine Tools Division reported record sales. In the second half, however, orders received fell significantly as demand cooled. Capital investment fell sharply in Asia, particularly in Japan due to the IT downturn. As a result, IT investment-related demand for the company's products slumped, dragging down second half sales by more than 50% year on year.

The Machine Tools Division's overseas sales climbed to 78.2% of divisional sales, reflecting the drop-off in domestic sales.

The Machine Tools Division posted sales of ¥16,769 million (US$125,142 thousand), down ¥2,641 million, or 13.6%, from the previous year.

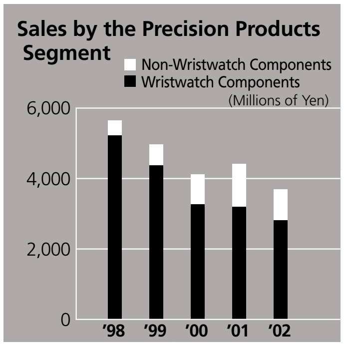
During the year under review, the Machine Tools Division benefited from the yen's depreciation, as the Division mainly relies on domestic production and export sales. Operating income edged down to ¥3,314 million (US$24,731 thousand), a decline of ¥38 million or 1.1%. The favorable exchange rate, however, limited the fall in operating income. The operating income ratio improved 2.5 percentage points to 19.8% over the previous year.

The machine tools market is fundamentally cyclical in nature. While orders received by Star Micronics jumped by 15% from the October-December period in 2001 to the January-March period in 2002, a full-fledged recovery is not anticipated until the fiscal year ending February 2004. The Machine Tools Division, accordingly, is expected to continue to face an uphill struggle for some time.

In this environment, Star Micronics will adopt a new strategy for the Machine Tools Segment, focusing closely on the Asian market. The top priority of the Machine Tools Division's strategy, until now, has been to build a strong presence in European and U.S. markets by delivering products with world-class performance. This priority, however, has prevented Star Micronics from sufficiently meeting the needs of Asian markets for machine tools enabling low-cost production. With its greatest strength in production technologies, Star Micronics truly excels in developing products with superior cost performance. That is why a substantial part of the division's manufacturing operations will be shifted to China to establish a production base for machine tools favoring low-cost production. The company is looking to bolster its sales network by establishing bases in Shanghai and South China. Furthermore, it will convert its representative office in Bangkok, Thailand, into a local subsidiary. Star Micronics' goal is to commence sales of machine tools favoring low-cost production by the end of 2002.

PRECISION PRODUCTS **In recent years, the global manufacturing industry has been shifting production to China. As a result, the country's production capacity has been expanding at a significant annual rate. Consequently, Star Micronics' precision technologies are extremely useful in this setting, and many of its products are in strong demand.**

This Segment's products can be classified into two main areas: wristwatch components, a mainstay business since the founding of the company, and precision products other than wristwatch components.



With the gradual decline in domestic demand for wristwatch components, Star Micronics' strategy is to develop new markets for precision products other than wristwatch components to raise earnings. The company stands to apply the strengths of its precision processing technology in fields where precision components are difficult to manufacture. More specifically, these fields include optical fiber connector parts, dental drill and implant parts, medical equipment including bone screws for bonesetting, as well as PC peripherals and automotive components.

In the year under review, sales of wristwatch components fell 12.0% to ¥2,807 million, reflecting production cutbacks by wristwatch manufacturers. Other precision product sales fell 27.4% to ¥889 million. Star Micronics' heavy reliance on IT-related products was to blame. Sales in the Precision Products Division decreased ¥721 million, or 16.3%, to ¥3,696 million (US$27,582 thousand). Operating income declined ¥159 million, or 19.1%, to ¥672 million (US$5,015 thousand). The operating income ratio for this division was 18.2%, down 0.6 of a percentage point.

As Japan's Internet use grows, optical fiber will eventually find its way into Japanese households. For this reason, demand for optical fiber connector parts holds considerable promise. At the current stage of development, however, strong demand is not expected for some time. Accordingly, the Precision Products Division's earnings outlook for fiscal 2003 lacks visibility.

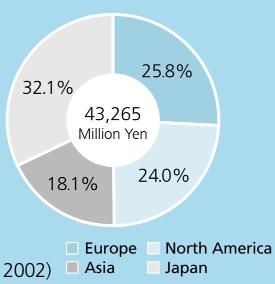
During fiscal 2002, the Precision Products Division began overseas production for the first time. In April 2001, a joint venture was established in Shanghai. Called Shanghai S&E Precision Co., Ltd., it manufactures components for car audio systems sold in China. Operations have been proceeding smoothly. In recent years, the global manufacturing industry has been shifting production to China. As a result, the country's production capacity has been expanding at a significant annual rate. Consequently, Star Micronics' precision technologies are extremely useful in this setting, and many of its products are in strong demand. The company is convinced that China represents a promising market for the Precision Products Division.

Sales System and Net Sales by Geographical Region

A large proportion of Star Micronics' products are sold overseas. To provide customer support worldwide, the company operates a network of overseas bases. The company has 2 sales subsidiaries in the UK and 2 in the U.S., as well as 1 each in Germany, Switzerland, and Hong Kong.

In the previous fiscal year, over 75.0% of products were sold overseas. In fiscal 2002, this share fell to 67.9%, reflecting the sharp drop in sales in Asia.

Sales by Geographical Region



(Fiscal 2002)

In Europe, sales to foreign customers were up ¥201 million at ¥11,153 million (US$83,231 thousand), climbing 4.8 percentage points to 25.8% of total sales.

In North America, sales to foreign customers fell ¥1,367 million to ¥10,362 million (US$77,329 thousand) representing 24.0% of net sales, an increase of 1.6 percentage points over the previous fiscal year.

In fiscal 2002, sales to foreign customers in Asia, where sales grew rapidly in fiscal 2001, dropped ¥8,882 million to ¥7,854 million (US$58,612 thousand), making up 18.1% of net sales, down 13.9 percentage points. Two factors were responsible: lower demand for machine tools, which fared well last year, due to the IT downturn and the suspension of computer printer shipments for tax collection systems in China.

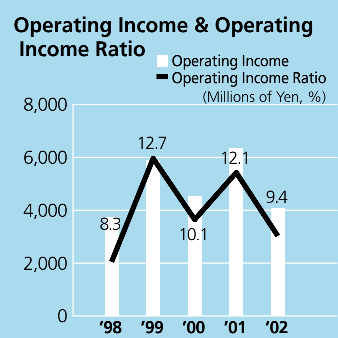
Looking ahead, Star Micronics will resume sales of computer printers to China in the fiscal year ending February 2003. As a result, sales in Asia and its share of overall sales are expected to recover.

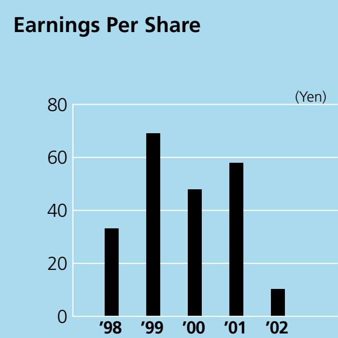
In Japan, sales to foreign customers increased ¥1,009 million to ¥13,896 million (US$103,701 thousand). Domestic sales contributed 32.1% to net sales, up 7.5 percentage points compared with the previous year.

INCOME ANALYSIS

Net income per share fell ¥47.70 to ¥10.21. Star Micronics' management, however, will pay an interim dividend of ¥5.00 per share, same as the second half of last year, bringing the full-year dividend to ¥10.00 per share.

Net sales decreased ¥9,039 million, or 17.3%, to ¥43,265 million (US$322,873 thousand). Cost of sales fell ¥6,568 million, or 19.4%, to ¥27,295 million (US$203,694 thousand). Gross profit on sales declined ¥2,471 million, or 13.4%, to ¥15,970 million (US$119,179 thousand) tracking the decline in net sales. During fiscal 2002, the increase in Star Micronics' share of





high-margin machine tool sales and the yen's ongoing depreciation more than offset the drop in the Precision Electronic Equipment Division's profit margin. On balance, the company's gross profit margin edged up 1.6 percentage points to 36.9%.

Selling, general and administrative (SG&A) expenses fell ¥182 million, or 1.5%, to ¥11,907 million (US$88,858 thousand).

Operating income declined 36.0%, or ¥2,289 million, to ¥4,063 million (US$30,321 thousand) due to the above. The operating income ratio fell 2.7 percentage points to 9.4% as lower sales lifted the weight of SG&A expenses.

Other expenses net were ¥1,911 million (US$14,261 thousand), compared with ¥1,036 million (US$8,931 thousand) the previous fiscal year. Principal components included a transitional obligation of ¥1,607 million arising from a change in accounting standards for retirement benefits and mark-to-market losses of ¥511 million on marketable and investment securities.

Star Micronics also incurred a loss of ¥136 million on the sales of marketable and investment securities totaling ¥1,358 million. On a positive note, the company recorded a net exchange gain of ¥114 million after posting a ¥180 million loss the previous year.

Income before income taxes and minority interest accordingly decreased ¥3,164 million, or 59.5%, to ¥2,152 million (US$16,060 thousand). Total income taxes were ¥1,557 million. Net income was down ¥2,697 million, or 82.4%, at ¥577 million (US$4,306 thousand). Net income per share fell ¥47.70 to ¥10.21. Star Micronics' management, however, will pay an interim dividend of ¥5.00 per share, same as the second half of last year, bringing the full-year dividend to ¥10.00 per share.

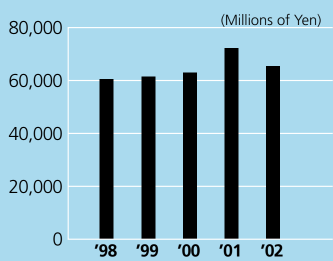
FINANCIAL POSITION & LIQUIDITY

Net property, plant and equipment rose ¥1,804 million, or 10.2%, to ¥19,430 million (US$145,000 thousand) due primarily to a ¥2,388 million increase in buildings and structures associated with the conversion of Dalian Sande Electronics Co., Ltd. to a consolidated subsidiary.

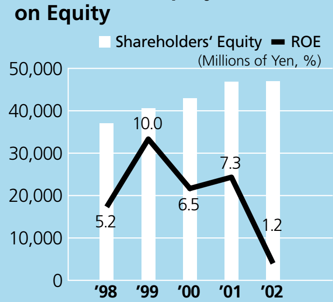
Current assets at year-end stood at ¥37,979 million (US$283,425 thousand), a decrease of ¥10,074 million, or 21.0%, from the balance at the beginning of the year. The main reason was that trade notes and trade accounts receivable decreased by ¥4,577 million to ¥9,793 million, tracking the decline in net sales. On the other hand, inventories increased ¥2,400 million to ¥20,225 million, reflecting the buildup of inventories following the suspension of computer printer shipments for use in tax collection systems in China. There was a nil year-end balance of marketable securities, down from ¥3,392 million last year, following the reclassification of marketable securities as investment securities in accordance with a change in accounting standards.

Net property, plant and equipment rose ¥1,804 million, or 10.2%, to ¥19,430 million (US$145,000 thousand) due primarily to a ¥2,388 million increase in buildings and structures associated with the conversion of Dalian Sande Electronics Co., Ltd. to a consolidated subsidiary.

Total Assets



Shareholders' Equity & Return on Equity



Total investments and other assets rose ¥1,453 million, or 22,2%, to ¥7,985 million (US$59,590 thousand). The significant components of investment securities of ¥3,402 million were marketable equity securities of ¥1,759 million, as reported at fair value, and bonds and other investments. Goodwill increased by ¥1,786 million due to an investment in Dalian Sande Electronics for its conversion into a consolidated subsidiary. Goodwill will be amortized over ten years at ¥206 million annually until the fiscal year ending February 2011. Investments in non-consolidated subsidiaries and associated companies fell to ¥240 million, from ¥1,715 million last year, mainly reflecting the conversion of Dalian Sande Electronics into a consolidated subsidiary.

The cumulative effect of the above factors was to decrease total assets by ¥6,817 million, or 9.4%, to ¥65,394 million (US$488,015 thousand).

Meanwhile, current liabilities fell ¥7,822 million, or 32.8%, to ¥16,046 million (US$119,747 thousand), mainly owing to a decrease in trade notes and trade accounts payable of ¥6,946 million to ¥6,595 million, in line with the contraction in net sales during the year.

Long-term liabilities increased substantially to ¥2,227 million (US$16,619 thousand), up ¥785 million, or 54.4%. The major components were long-term debt, down ¥322 million to ¥958 million and a ¥1,244 million liability for retirement benefits arising from the adoption of a change in accounting standards.

Shareholders' equity edged up ¥179 million, or 0.4%, to ¥46,978 million (US$350,582 thousand). From fiscal 2002, investment securities have been stated at market value with net unrealized gains or losses reported in shareholders' equity. Accordingly, the company posted a ¥188 million net unrealized loss for the period. At year-end, equity per share appreciated ¥3.38 to ¥831.22

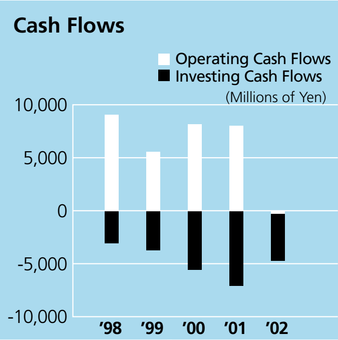
CASH FLOWS

Net cash used in investing activities was ¥4,429 million (US$33,052 thousand), ¥2,644 million less than the previous year. This figure included a cutback in purchases of property, plant and equipment of ¥3,457 million, down ¥2,834 million from last year.

Net cash used in operating activities was ¥285 million (US$2,127 thousand), compared with net cash provided of ¥8,019 million last year.

The main components were income before income taxes, down ¥3,164 million to ¥2,152 million, and income taxes–paid of ¥2,651 million, up ¥1,290 million. The cumulative total of trade receivables and payables used net cash of ¥2,218 million, compared with net cash provided of ¥2,554 million a year ago.

Net cash used in investing activities was ¥4,429 million (US$33,052 thousand), ¥2,644 million less than the previous year.



This figure included a cutback in purchases of property, plant and equipment of ¥3,457 million, down ¥2,834 million from last year. The total investment in Dalian Sande Electronics of ¥2,069 million, for its conversion into a consolidated subsidiary was recorded as a payment for purchase of consolidated subsidiaries, net of acquired. Sales of investment securities totaled ¥1,047 million.

Net cash provided by financing activities was ¥1,219 million (US$9,097 thousand), compared with net cash of ¥1,135 million used last year. The main component was an increase in short-term bank loans of ¥2,172 million, which outweighed dividends paid of ¥10.00 per share, or ¥565 million, ¥85 million more than last year.

The effect of foreign currency translation adjustments on cash and cash equivalents provided an additional ¥539 million, and ¥53 million in cash was included from a newly consolidated company. The net decrease in cash and cash equivalents was ¥2,956 million. Cash and cash equivalents at the end of the year stood at ¥5,907 million (US$44,082 thousand).

CAPITAL EXPENDITURES AND R&D EXPENSES

The overriding theme for the company's R&D has been the development of production technologies that improve cost performance, and greater miniaturization of products.

Group-wide capital expenditures totaled ¥3,546 million for fiscal 2002. Expenditures for the Components Division, Special Products Division, Machine Tools, Precision Products and Head Office, were ¥1,224 million, ¥1,135 million, ¥591 million, ¥342 million, and ¥253 million, respectively. The Components Division curtailed scheduled capital expenditures of ¥2,700 million after a sharp drop in electronic buzzer orders.

In fiscal 2003, capital expenditures are likely to remain on a par with fiscal 2002 due to two factors. First, capital expenditures will be needed to meet the demand for computer printers for China's new tax collection system. Second, the Components Division will continue to diversify its product lineup in the current fiscal year.

R&D expenses for the year were ¥2,370 million, roughly the same level as the previous year. The overriding theme for the company's R&D has been the development of production technologies that improve cost performance, and greater miniaturization of products. Currently, Star Micronics is looking not only to develop optimal production and sales bases in the most appropriate locations worldwide, but also to do the same for its R&D network. The company is already chalking up a strong track record in overseas R&D. It is developing computer printer software in China and has formed a strategic alliance with the SARNOFF Corp. Research Institute to develop a new disposable hearing aid.

Financial Section

Contents

Consolidated Five-Year Summary

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Five years ended the last day of February

	Millions of yen (Except for per share data)				
	2002	2001	2000	1999	1998
For the year:					
Net sales	**¥43,265**	¥52,304	¥44,914	¥46,480	¥45,220
Cost of sales	**27,295**	33,863	28,852	28,269	28,698
Selling, general and administrative expenses	**11,907**	12,089	11,509	12,323	12,768
Operating income	**4,063**	6,352	4,553	5,888	3,754
Other expenses	**(1,911)**	(1,036)	(1,321)	(1,041)	(1,166)
Income before income taxes and minority interest	**2,152**	5,316	3,232	4,847	2,588
Income taxes	**1,557**	2,014	511	912	689
Minority interest	**18**	28	19	36	25
Net income	**577**	3,274	2,702	3,899	1,874
Per share:					
Net income	**¥ 10.21**	¥ 57.91	¥ 47.84	¥ 69.02	¥ 33.17
Fully diluted net income			47.81	69.00	
At year - end:					
Current assets	**¥37,979**	¥48,053	¥40,119	¥38,885	¥40,764
Property, plant and equipment	**19,430**	17,626	14,633	15,289	14,551
Total assets	**65,394**	72,211	62,950	61,525	60,646
Long - term liabilities	**2,227**	1,442	2,587	1,864	2,405
Shareholders' equity	**46,978**	46,799	42,932	40,584	37,024

	Yen				
Stock exchange price per share of common stock:					
Highest	**¥1,704**	¥2,120	¥1,917	¥860	¥790
Lowest	**490**	1,024	505	413	315

Consolidated Balance Sheets

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 28, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2002**	2001	**2002**
Current assets:			
Cash and cash equivalents	**¥ 5,907**	¥ 8,810	**$ 44,082**
Marketable securities (Note 3)		3,392	
Short-term investments (Note 4)	**15**	60	**112**
Receivables:			
Trade notes	**1,020**	1,909	**7,612**
Trade accounts (Note 11)	**8,773**	12,461	**65,470**
Non-consolidated subsidiaries and associated companies	**33**	378	**246**
Other	**1,157**	1,257	**8,634**
Allowance for doubtful receivables	**(475)**	(435)	**(3,545)**
Inventories (Note 5)	**20,225**	17,825	**150,933**
Deferred tax assets (Note 10)	**845**	1,870	**6,306**
Prepaid expenses and other	**479**	526	**3,575**
Total current assets	**37,979**	48,053	**283,425**
Property, plant and equipment (Note 6):			
Land	**2,713**	2,767	**20,246**
Buildings and structures	**12,541**	10,153	**93,590**
Machinery and equipment	**37,870**	35,274	**282,612**
Construction in progress	**53**	93	**395**
Total	**53,177**	48,287	**396,843**
Accumulated depreciation	**(33,747)**	(30,661)	**(251,843)**
Net property, plant and equipment	**19,430**	17,626	**145,000**
Investments and other assets:			
Investment securities (Notes 3 and 6)	**3,402**	1,775	**25,388**
Investments in non-consolidated subsidiaries and associated companies	**240**	1,715	**1,791**
Deferred tax assets (Note 10)	**921**	88	**6,873**
Foreign currency translation adjustments		1,514	
Goodwill	**1,895**	109	**14,142**
Other assets	**1,527**	1,331	**11,396**
Total investments and other assets	**7,985**	6,532	**59,590**
Total	**¥ 65,394**	¥ 72,211	**$ 488,015**

See notes to consolidated financial statements.

Liabilities and shareholders' equity	Millions of yen 2002	2001	Thousands of U.S. dollars (Note 1) 2002
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 3,572**	¥ 1,411	**$ 26,657**
Current portion of long-term debt (Note 6)	**1,225**	1,131	**9,142**
Payables:			
Trade notes	**738**	1,996	**5,507**
Trade accounts (Note 11)	**5,857**	11,545	**43,709**
Non-consolidated subsidiaries and associated companies	**43**	288	**321**
Other	**841**	1,508	**6,276**
Income taxes payable (Note 10)	**496**	1,463	**3,701**
Accrued expenses	**1,356**	1,475	**10,119**
Other (Note 7)	**1,918**	3,051	**14,315**
Total current liabilities	**16,046**	23,868	**119,747**
Long-term liabilities:			
Long-term debt (Note 6)	**958**	1,280	**7,149**
Liability for retirement benefits (Note 8)	**1,244**	159	**9,283**
Other	**25**	3	**187**
Total long-term liabilities	**2,227**	1,442	**16,619**
Minority interest	**143**	102	**1,067**
Contingent liabilities (Notes 13 and 16)			
Shareholders' equity (Notes 9 and 18):			
Common stock, – authorized, 160,000,000 shares; issued 56,533,234 shares in 2002 and 2001	**12,722**	12,722	**94,940**
Additional paid-in capital	**13,877**	13,877	**103,560**
Retained earnings (Note 2.j)	**20,281**	20,202	**151,351**
Unrealized loss on available-for-sale securities	**(188)**		**(1,403)**
Foreign currency translation adjustments	**299**		**2,231**
Total	**46,991**	46,801	**350,679**
Treasury stock – at cost 16,684 shares in 2002 and 1,903 shares in 2001	**(13)**	(2)	**(97)**
Total shareholders' equity	**46,978**	46,799	**350,582**
Total	**¥65,394**	¥72,211	**$488,015**

Consolidated Statements of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Net sales (Note 11)	**¥43,265**	¥52,304	**$322,873**
Cost of sales (Notes 8 and 11)	**27,295**	33,863	**203,694**
Gross profit	**15,970**	18,441	**119,179**
Selling, general and administrative expenses (Notes 8 and 12)	**11,907**	12,089	**88,858**
Operating income	**4,063**	6,352	**30,321**
Other income (expenses):			
Interest and dividend income	**279**	268	**2,082**
Interest expense (Note 6)	**(131)**	(168)	**(978)**
Exchange gain (loss) – net	**114**	(180)	**851**
Gain on sales of property, plant and equipment	**68**	24	**507**
Loss on disposals of property, plant and equipment	**(189)**	(424)	**(1,410)**
Prior service cost of pension plan		(739)	
Charge for full amount of transitional obligations for retirement benefits	**(1,607)**		**(11,993)**
Other – net (Note 14)	**(445)**	183	**(3,320)**
Other expenses – net	**(1,911)**	(1,036)	**(14,261)**
Income before income taxes and minority interests	**2,152**	5,316	**16,060**
Income taxes (Note 10)			
Current	**1,200**	2,105	**8,955**
Deferred	**357**	(91)	**2,665**
Total	**1,557**	2,014	**11,620**
Income before minority interests	**595**	3,302	**4,440**
Minority interests in net income	**18**	28	**134**
Net income	**¥ 577**	¥3,274	**$ 4,306**

	Yen		U.S. dollars
Per share of common stock (Notes 2.n and 9):			
Net income	**¥10.21**	¥57.91	**$0.08**
Cash dividends applicable to the year	**10.00**	10.00	**0.08**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Star Micronics Co., Ltd. and consolidated subsidiaries
Years ended February 28, 2002 and 2001

	Thousands	Millions of yen					
	Outstanding number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized loss on available-for-sale securities	Foreign currency translation adjustments	Treasury stock-at cost
Balance, March 1, 2000	56,533	¥12,722	¥13,877	¥16,342			¥ (9)
Cumulative effect of deferred taxes to the retained earnings				1,092			
Net income				3,274			
Cash dividends, ¥8.5 per share				(481)			
Bonuses to directors and corporate auditors				(25)			
Treasury stock sold – net (3,606 shares)							7
Balance, February 28, 2001	56,533	12,722	13,877	20,202			(2)
Adjustment of retained earnings for newly consolidated subsidiaries				**97**			
Net income				**577**			
Cash dividends, ¥10.0 per share				**(565)**			
Bonuses to directors and corporate auditors				**(30)**			
Net increase in unrealized loss on available-for-sale securities					**¥(188)**		
Net increase in foreign currency translation adjustments						**¥299**	
Treasury stock acquired – net (14,781 shares)							**(11)**
Balance, February 28, 2002	**56,533**	**¥12,722**	**¥13,877**	**¥20,281**	**¥(188)**	**¥299**	**¥(13)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock-at cost
Balance, March 1, 2001	$94,940	$103,560	$150,761			$(15)
Adjustment of retained earnings for newly consolidated subsidiaries			724			
Net income			4,306			
Cash dividends, $0.075 per share			(4,216)			
Bonuses to directors and corporate auditors			(224)			
Net increase in unrealized loss on available-for-sale securities				$(1,403)		
Net increase in foreign currency translation adjustments					$2,231	
Treasury stock acquired - net (14,781 shares)						(82)
Balance, February 28, 2002	**$94,940**	**$103,560**	**$151,351**	**$(1,403)**	**$2,231**	**$(97)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Operating activities:			
Income before income taxes and minority interests	**¥ 2,152**	¥ 5,316	**$16,060**
Adjustments for:			
Income taxes – paid	**(2,651)**	(1,361)	**(19,783)**
Depreciation and amortization	**3,823**	3,268	**28,523**
Provision for doubtful receivables	**11**	181	**83**
Provision for retirement benefits	**1,049**		**7,829**
Loss on devaluation of marketable and investment securities	**511**	94	**3,814**
Loss (gain) on sales of marketable and investment securities	**136**	(106)	**1,015**
Loss on sales and disposals of property, plant and equipment	**120**	400	**896**
Payments of bonuses to directors and corporate auditors	**(30)**	(25)	**(224)**
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Decrease (increase) in trade receivables	**6,472**	(2,044)	**48,299**
Increase in inventories	**(720)**	(2,752)	**(5,373)**
Increase (decrease) in interest and dividend receivables	**13**	(4)	**98**
Decrease (increase) in trade payables	**(9,468)**	4,598	**(70,656)**
Increase (decrease) in interest payable	**1**	(7)	**8**
Other – net	**(1,704)**	461	**(12,716)**
Total adjustments	**(2,437)**	2,703	**(18,187)**
Net cash provided by (used in) operating activities	**(285)**	8,019	**(2,127)**
Investing activities:			
Purchases of property, plant and equipment	**(3,457)**	(6,291)	**(25,799)**
Proceeds from sales of property, plant and equipment	**246**	285	**1,836**
Purchases of marketable and investment securities	**(408)**	(3,149)	**(3,045)**
Proceeds from sales of marketable and investment securities	**1,047**	2,319	**7,813**
Payments for loans receivable	**(29)**	(53)	**(216)**
Collection of loans receivable	**41**	5	**306**
Payment for purchase of consolidated subsidiaries, net of acquired	**(2,069)**		**(15,440)**
Other – net	**200**	(189)	**1,493**
Net cash used in investing activities	**(4,429)**	(7,073)	**(33,052)**
Financing activities:			
Increase (decrease) in short-term bank loans-net	**2,172**	(396)	**16,209**
Proceeds from long-term debt	**900**	15	**6,716**
Repayments of long-term debt	**(1,143)**	(268)	**(8,530)**
Dividends paid to shareholders	**(565)**	(481)	**(4,216)**
Dividends paid to minority shareholder of consolidated subsidiaries	**(84)**	(9)	**(627)**
Other – net	**(61)**	4	**(455)**
Net cash provided by (used in) financing activities	**1,219**	(1,135)	**9,097**
Foreign currency translation adjustments on cash and cash equivalents	**539**	372	**4,022**
Net increase (decrease) in cash and cash equivalents	**(2,956)**	183	**(22,060)**
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	**53**		**396**
Cash and cash equivalents at beginning of year (Note 2.b)	**8,810**	8,627	**65,746**
Cash and cash equivalents at end of year (Note 2.b)	**¥ 5,907**	¥ 8,810	**$ 44,082**
Additional information:			
Purchase of consolidated subsidiaries:			
Assets acquired	**¥ 2,139**		**$15,963**
Liabilities assumed	**82**		**612**
Minority interest	**98**		**731**
Investments at beginning of year	**1,591**		**11,873**
Cash paid for the capital	**2,424**		**18,090**
Goodwill	**2,056**		**15,343**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2002 and 2001

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by Star Micronics Co., Ltd. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these 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.

In accordance with accounting procedures generally accepted in Japan , certain comparative disclosures are not required to be and have not been presented herein.

Certain reclassifications have been made in the 2001 consolidated financial statements to conform to the classifications used in 2002.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan and have been made at the rate of ¥134 to $1, the approximate rate of exchange at February 28, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation and Investments in Non-consolidated Subsidiaries and Associated Companies

The accompanying consolidated financial statements as of February 28, 2002 include the accounts of the Company and its eighteen (seventeen in 2001) significant subsidiaries (together, the "Group").

Under the control or influence concept, a company in which the parent company, directly or indirectly, is able to exercise control over operations is fully consolidated, and another company over which the Group has the ability to exercise significant influence is accounted for by the equity method.

The fiscal periods of consolidated subsidiaries in Japan end on the last day of February, and those of consolidated subsidiaries outside of Japan end on December 31.

Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

The excess of cost of investments in consolidated subsidiaries over the fair value of the net assets of the acquired subsidiary at the dates of acquisition is being amortized mainly over 5 or 10 years.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profits resulting from intercompany transactions were eliminated.

Investments in non-consolidated subsidiaries and associated companies are accounted for on the cost basis. The effect on the consolidated financial statements of not applying the equity method is not material.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits and investment trusts in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Inventories

Inventories are substantially stated at cost determined by the average method, except for inventories held by certain consolidated subsidiaries, and are generally stated at the lower of cost (first-in, first-out) or market.

d. Marketable and Investment Securities

Prior to March 1, 2001, current and non-current marketable securities listed on stock exchanges were stated at the lower of cost, determined by the moving-average method, or market. Effective for the fiscal year commencing after April 1, 2000, the Group adopted a new accounting standard for financial instruments. Under this standard, all securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. The effect of adoption of the new standard was to increase income before income taxes and minority interests by

¥182 million ($1,358 thousand) for the year ended February 28, 2002. Marketable securities classified as current assets decreased by ¥3,383 million ($25,246 thousand) and investment securities increased by the same amount as of March 1, 2001.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed by the declining-balance method for the Company and its consolidated subsidiaries in Japan and by the straight-line method for substantially all of the consolidated subsidiaries outside of Japan.

Depreciation is based on the estimated useful lives, ranging from 15 to 47 years for buildings and structures and from 2 to 15 years for machinery and equipment.

f. Retirement and Pension Plans

The Company has a non-contributory funded pension plan covering substantially all of its employees. Prior to March 1, 2001, the amounts contributed to the fund, including past service costs amortized over 3 years, were charged to income when paid. Effective for the fiscal year commencing after April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employee's retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The full amount of transitional obligation of ¥1,607 million ($11,993 thousand) at the beginning of the year was charged to income and presented as other expense in the consolidated income statement. As a result of adopting this new standard, net periodic benefit costs as compared with the prior method, increased by ¥17 million ($127 thousand) and income before income taxes decreased by ¥1,049 million ($7,828 thousand).

g. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee 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 consolidated financial statements.

h. Research and Development Costs

Research and development costs are charged to income as incurred.

i. Income Taxes

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

j. Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the consolidated financial statements in the period in which shareholder's approval has been obtained.

k. Foreign Currency Transactions

Prior to March 1, 2001, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective for the fiscal year commencing after April 1, 2000, the Group adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated income statement.

l. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Prior to March 1, 2001, differences arising from such translation were shown as "Foreign currency translation adjustments" as either assets or liabilities in the consolidated balance sheet.

Effective for the fiscal year commencing after April 1, 2000, such differences are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions. (The prior year's amount, which was included in assets, has not been reclassified.)

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

m. Derivatives

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Companies to reduce foreign currency exchange risks. The Companies do not enter into derivatives for trading or speculative purposes. Effective for the fiscal year commencing after April 1, 2000, the Companies adopted a new accounting standard for derivative financial instruments and a revised accounting standard for foreign currency transactions. These standards require that all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated income statement.

The foreign exchange forward contracts employed to hedge foreign exchange exposures for export sales are measured at the fair value and the unrealized gains/losses are recognized in income.

The adoption of the new accounting standards for derivative financial instruments did not have a material effect on the Companies' consolidated financial statements.

n. Per Share Information

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 56,528,016 shares for 2002 and 56,530,452 shares for 2001.

Diluted net income per share is not disclosed because it is anti-dilutive.

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 the year.

3. Marketable and Investment Securities

Marketable and investment securities at February 28, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Current:			
Marketable equity securities		¥ 594	
Corporate bonds		1,058	
Trust fund investments and other		1,740	
Total		¥3,392	
Non-current:			
Equity securities	**¥1,830**	¥1,775	**$13,657**
Corporate and other bonds	**807**		**6,022**
Trust fund investments and other	**765**		**5,709**
Total	**¥3,402**	¥1,775	**$25,388**

Information regarding the category of securities classified as available -for -sale at February 28, 2002, was as follows:

	Millions of yen			
2002	Cost	Unrealized Gains	Unrealized Losses	Value Fair
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,973**	**¥34**	**¥248**	**¥1,759**
Corporate and other bonds	**810**	**7**	**10**	**807**
Trust fund investment and other	**867**		**102**	**765**

2002	Thousand of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Value Fair
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$14,724**	**$254**	**$1,851**	**$13,127**
Corporate and other bonds	**6,045**	**52**	**75**	**6,022**
Trust fund investment and other	**6,470**		**761**	**5,709**

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2002, were as follows:

	Carrying Amount	
	Millions of yen	Thousands of U.S. dollars
Available-for-sale:		
Equity securities	¥71	$530
Total	¥71	$530

Proceeds from sales of available-for-sale securities for the year ended February 28, 2002, were ¥1,358 million ($10,134 thousand). Gross realized losses on these sales, computed on the moving average cost basis, was ¥136 million ($1,015 thousand).

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 28, 2002, are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥ 228	$ 1,702
Due after one year through five years	1,055	7,873
Due after five years through ten years	102	761
Total	¥1,385	$10,336

Carrying amounts and aggregate market values of current and non-current marketable securities included in marketable securities and investment securities at February 28, 2001 were as follows:

	Millions of yen
	2001
Current:	
Carrying amount	¥3,382
Aggregate market value	3,296
Unrealized loss	¥ (86)
Non-current:	
Carrying amount	¥1,693
Aggregate market value	1,863
Unrealized gain	¥ 170

The difference between the above carrying amounts and the amounts shown in the accompanying consolidated balance sheets principally consists of commercial paper and non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

4. Short-term Investments

Short-term investments at February 28, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Deposits over 3-month period	**¥15**	¥60	**$112**

5. Inventories

Inventories at February 28, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Merchandise	**¥ 326**	¥ 368	**$ 2,433**
Finished products	**12,740**	10,321	**95,075**
Work in process	**2,877**	3,538	**21,470**
Raw materials and supplies	**4,282**	3,598	**31,955**
Total	**¥20,225**	¥17,825	**$150,933**

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans at February 28, 2002 and 2001 consisted of notes to banks, bank overdrafts and collateralized bank loans. The collateralized bank loans were ¥620 million ($4,627 thousand) and ¥150 million at February 28, 2002 and 2001, respectively. The annual interest rates applicable to the short-term bank loans ranged from 0.5% to 5.5625% and 2.25% to 7.5% at February 28, 2002 and 2001, respectively.

Long-term debt at February 28, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Loans principally from banks due serially to 2007 with interest rate ranging from 1.14% to 12.0% (2002) and from 1.14% to 12.0% (2001):			
Collateralized	**¥2,155**	¥2,398	**$16,082**
Unsecured	**28**	13	**209**
Total	**2,183**	2,411	**16,291**
Less current portion	**(1,225)**	(1,131)	**(9,142)**
Long-term debt, less current portion	**¥ 958**	¥1,280	**$ 7,149**

Annual maturities of long-term debt at February 28, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending the last day of February		
2003	¥ 54	$ 403
2004	904	6,746
2005	0	0
2006		
2007		
Total	¥958	$7,149

The carrying amounts of assets pledged as collateral for the above collateralized short-term bank loans and long-term debt at February 28, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment – net of accumulated depreciation	¥4,386	$32,731
Investment securities	102	761
Total	¥4,488	$33,492

7. Other Current Liabilities

Liabilities arising from the adjustment of the difference in closing dates of consolidated subsidiaries outside of Japan, which were included in other current liabilities were ¥1,631 million ($12,172 thousand) and ¥2,717 million at February 28, 2002 and 2001, respectively.

8. Retirement and Pension Plans

The Company and certain of its consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors. Under the pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments. The amounts contributed to the fund which were charged to income for the year ended February 28, 2001 were ¥1,063 million.

Effective for the fiscal year commencing after April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at February 28, 2002, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥(7,516)	$(56,089)
Fair value of plan assets	5,080	37,910
Unrecognized actuarial loss	1,387	10,351
Net liability	¥(1,049)	$ (7,828)

The components of net periodic benefit costs for the year ended February 28, 2002, are as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 288	$ 2,149
Interest cost	189	1,410
Expected return on plan assets	(141)	(1,052)
Charge of transitional obligation	1,607	11,993
Net periodic benefit costs	¥1,943	$14,500

Assumptions used for the year ended February 28, 2002, are set forth as follows:

Discount rate	2%
Expected rate of return on plan assets	3%
Recognition period of actuarial gain/loss	14 years
Amortization period of transitional obligation	1 year

The liability for retirement benefits at February 28, 2002 for directors and corporate auditors is ¥195 million ($1,455 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

9. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which was made as an appropriation of retained earnings applicable to each fiscal period was appropriated and set aside as a legal reserve until such reserve equaled 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥764 million ($5,701 thousand) and ¥729 million as of February 28, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31,2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At February 28, 2002, retained earnings recorded on the Company's books were ¥15,535 million ($115,933 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

10. Income Taxes

The Company and its consolidated subsidiaries in Japan are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended February 28, 2002 and February 28, 2001. Consolidated subsidiaries outside of Japan are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Current:			
Deferred tax assets			
Unrealized profit on inventories	**¥757**	¥1,397	**$5,649**
Accrued bonuses	**102**	72	**761**
Loss on disposal of inventories	**57**	185	**425**
Tax loss carryforwards	**31**	21	**231**
Allowance for doubtful receivables	**16**	11	**119**
Write-down of marketable securities		100	
Enterprize taxes		97	
Other	**40**	56	**299**
Less valuation allowance	**(29)**	(43)	**(216)**
Total deferred tax assets	**¥974**	¥1,896	**$7,268**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 86**		**$ 642**
Tax-deductible of inventories	**53**	¥ 36	**395**
Enterprize taxes	**17**		**127**
Allowance for doubtful receivables	**12**	26	**90**
Other	**42**	27	**313**
Total deferred tax liabilities	**¥210**	¥ 89	**$1,567**
Net deferred tax assets	**¥764**	¥1,807	**$5,701**
Non-Current:			
Deferred tax assets			
Pension and severance costs	**¥432**		**$3,224**
Write-down of investment securities	**284**	¥ 34	**2,119**
Net unrealized loss on available-for-sale securities	**132**		**985**
Retirement benefits for directors and corporate auditors	**80**	65	**597**
Depreciation	**73**	61	**545**
Other	**27**	22	**202**
Less valuation allowance	**(64)**	(48)	**(478)**
Total deferred tax assets	**¥964**	¥ 134	**$7,194**
Deferred tax liabilities			
Property, plant and equipment	**43**	46	**321**
Other	**3**	3	**22**
Total deferred tax liabilities	**¥ 46**	¥ 49	**$ 343**
Net deferred tax assets	**¥918**	¥ 85	**$6,851**

A reconciliation between the normal effective statutory tax rate for the year ended February 28, 2002 and 2001 and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2002	2001
Normal effective statutory tax rate	**41.2%**	41.2%
Reversal of deferred tax assets on unrealized profit	**26.6**	
Amortization of excess cost of investments in consolidated subsidiaries	**4.9**	
Effect of foreign tax rate differences		(4.9)
Other	**(0.3)**	1.6
Actual effective tax rate	**72.4%**	37.9%

The normal effective tax rate reflected in the accompanying consolidated statement of income for the year ended February 28, 2001 differs from the actual effective tax rate, primarily due to the effect of permanently non-deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

11. Related Party Transactions

The balances due to or from Citizen Watch Co., Ltd., which owned 15.3% of shares of the Company, non-consolidated subsidiary and associated company at February 28, 2002 and 2001, and related transactions for the years ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
(1) Citizen Watch Co., Ltd.			
Transaction:			
Sales	**¥1,852**	¥2,049	**$13,821**
Balance at year-end:			
Trade accounts receivable	**677**	783	**5,052**
(2) Non-consolidated subsidiary			
Transaction:			
Purchases		689	
Balance at year-end:			
Trade accounts payable		104	
(3) Associated Company			
Transaction:			
Sales		964	
Balance at year-end:			
Trade accounts receivable		376	

12. Research and Development Costs

Research and development costs charged to income were ¥2,370 million ($17,687 thousand) and ¥2,446 million for the years ended February 28, 2002 and 2001, respectively.

13. Leases

The Company and its consolidated subsidiaries lease certain machinery, computer equipment, office space and other assets.

Lease payments under financial leases were ¥108 million ($806 thousand) and ¥122 million for the years ended February 28, 2002 and 2001, respectively.

Pro forma information of lease property of which ownership is deemed not to be transferred to the lessee on an" as if capitalized" basis at February 28, 2002 and 2001 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Acquisition cost	**¥615**	¥641	**$4,590**
Accumulated depreciation	**392**	384	**2,926**
Net leased property	**¥223**	¥257	**$1,664**

Pro forma depreciation expense computed by the straight-line method is ¥108 million ($806 thousand) and ¥122 million for the years ended February 28, 2002 and 2001, respectively.

Obligations under financial leases at February 28, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Due within one year	**¥ 79**	¥ 94	**$ 589**
Due after one year	**144**	163	**1,075**
Total	**¥223**	¥257	**$1,664**

Pro forma information above does not exclude the imputed interest portion because the remaining financial lease obligations are not material compared with the book values of property, plant and equipment.

Obligations under non-cancelable operating leases at February 28, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Due within one year	**¥ 94**	¥105	**$ 701**
Due after one year	**471**	532	**3,515**
Total	**¥565**	¥637	**$4,216**

14. Other Income (Expenses) – Other – net

Other income (expenses) – other – net consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Loss on devaluation of marketable and investment securities	**¥(511)**	¥ (94)	**$(3,813)**
Gain on sales of marketable and investment securities		106	
Loss on sales of marketable and investment securities	**(136)**		**(1,015)**
Other	**202**	171	**1,508**
Other – net	**¥(445)**	¥183	**$(3,320)**

15. Derivatives

The Company enters into derivative financial instruments ("derivatives"), including foreign currency forward contracts, currency swaps and currency options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies in the normal course of business.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

After discussion with the relevant sections, control of derivatives is controlled mainly by the Finance Department. Each derivative transaction is periodically reported to the management.

Fair Value of Derivative Financial Instruments:

The fair value of the Companies' derivative financial instruments at February 28, 2002 are as follows:

	Millions of yen		
2002	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:			
Receivables:	**¥10,123**	**¥11,034**	**¥(911)**
Payables:	**362**	**336**	**(26)**
Total			**¥(937)**

16. Contingent Liabilities

As of February 28, 2002 and 2001, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Guarantees of bank loans	**¥95**	¥12	**$709**

17. Segment Information

Information regarding operations in different industry segments, foreign operations and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended February 28, 2002 and 2001 was as follows:

(1) Operations in Different Industries

	Millions of yen				
2002	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**¥22,800**	**¥16,769**	**¥3,696**		**¥43,265**
Intersegment sales					
Total sales	**22,800**	**16,769**	**3,696**		**43,265**
Operating expenses	**20,573**	**13,455**	**3,024**	**¥ 2,150**	**39,202**
Operating income	**¥ 2,227**	**¥ 3,314**	**¥ 672**	**(2,150)**	**¥ 4,063**
Assets	**¥36,058**	**¥15,219**	**¥5,515**	**¥ 8,602**	**¥65,394**
Depreciation and amortization	**2,346**	**502**	**499**	**220**	**3,567**
Capital expenditures	**2,359**	**592**	**342**	**253**	**3,546**

	Millions of yen				
2001	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	¥28,477	¥19,410	¥4,417		¥52,304
Intersegment sales					
Total sales	28,477	19,410	4,417		52,304
Operating expenses	24,062	16,058	3,586	¥ 2,246	45,952
Operating income	¥ 4,415	¥ 3,352	¥ 831	(2,246)	¥ 6,352
Assets	¥37,750	¥16,099	¥5,989	¥12,373	¥72,211
Depreciation and amortization	1,978	443	532	242	3,195
Capital expenditures	3,786	1,578	796	221	6,381

2002	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
	Thousands of U.S. Dollars				
Sales to customers	**$170,149**	**$125,142**	**$27,582**		**$322,873**
Intersegment sales					
Total sales	**170,149**	**125,142**	**27,582**		**322,873**
Operating expenses	**153,530**	**100,411**	**22,567**	**$ 16,044**	**292,552**
Operating income	**$ 16,619**	**$ 24,731**	**$ 5,015**	**(16,044)**	**$ 30,321**
Assets	**$269,090**	**$113,575**	**$41,157**	**$ 64,193**	**$488,015**
Depreciation and amortization	**17,507**	**3,746**	**3,724**	**1,642**	**26,619**
Capital expenditures	**17,605**	**4,418**	**2,552**	**1,888**	**26,463**

*The segments consist of the following products:
Precision Electronic Equipment: Electronic buzzers, Microphones, Speakers, Receivers, Computer printers, POS printers, Visual cards, Reader/Writer etc.
Machine Tools: CNC automatic lathes etc.
Precision Products: Watch parts, Optical connector parts, Automotive parts, Medical parts etc.
*Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥2,150 million ($16,045 thousand) and ¥2,246 million for the years ended February 28, 2002 and 2001, respectively.
*Assets in the eliminations or corporate column include assets maintained by the Administration Headquarters of the Company, and consist principally of excess funds under management (cash and marketable securities) and long-term investments (investment securities). The amount were ¥8,602 million ($64,194 thousand) and ¥12,483 million at February 28, 2002 and 2001, respectively.

(2) Foreign Operations

2002	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
	Millions of yen					
Sales:						
Outside customers	**¥18,862**	**¥8,404**	**¥8,914**	**¥ 7,085**		**¥43,265**
Inter-area transfers	**21,630**	**5**	**21**	**11,196**	**¥(32,852)**	
Total	**40,492**	**8,409**	**8,935**	**18,281**	**(32,852)**	**43,265**
Operating expenses	**36,435**	**7,305**	**8,114**	**18,257**	**(30,909)**	**39,202**
Operating income	**¥ 4,057**	**¥1,104**	**¥ 821**	**¥ 24**	**¥ (1,943)**	**¥ 4,063**
Assets	**¥50,579**	**¥6,492**	**¥5,571**	**¥23,186**	**¥(20,434)**	**¥65,394**

2001	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
	Millions of yen					
Sales:						
Outside customers	¥26,709	¥6,700	¥9,370	¥ 9,525		¥ 52,304
Inter-area transfers	28,612	195	11	14,577	¥(43,395)	
Total	55,321	6,895	9,381	24,102	(43,395)	52,304
Operating expenses	46,816	6,508	8,780	23,243	(39,395)	45,952
Operating income	¥ 8,505	¥ 387	¥ 601	¥ 859	¥ (4,000)	¥ 6,352
Assets	¥56,424	¥5,207	¥5,639	¥20,236	¥(15,295)	¥72,211

2002	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
	Thousands of U.S. dollars					
Sales:						
Outside customers	**$140,761**	**$62,717**	**$66,522**	**$ 52,873**		**$322,873**
Inter-area transfers	**161,418**	**37**	**157**	**83,552**	**$(245,164)**	
Total	**302,179**	**62,754**	**66,679**	**136,425**	**(245,164)**	**322,873**
Operating expenses	**271,903**	**54,515**	**60,552**	**136,246**	**(230,664)**	**292,552**
Operating income	**$ 30,276**	**$ 8,239**	**$ 6,127**	**$ 179**	**$ (14,500)**	**$ 30,321**
Assets	**$377,455**	**$48,448**	**$41,575**	**$173,030**	**$(152,493)**	**$488,015**

*The segments consist of the following countries:
Europe: United Kingdom, Germany and Switzerland
North America: United States of America
Asia: China
*Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥2,150 million ($16,045 thousand) and ¥2,246 million for the years ended February 28, 2002 and 2001, respectively.
*Assets in the eliminations or corporate column include assets maintained by the Administration Headquarters of the Company, and consist principally of excess funds under management (cash and marketable securities) and long-term investments (investment securities). The amounts were ¥8,602 million ($64,194 thousand) and ¥12,483 million at February 28, 2002 and 2001, respectively.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Europe	**¥11,153**	¥10,952	**$ 83,231**
North America	**10,362**	11,729	**77,329**
Asia	**12,299**	16,736	**91,784**
Total	**¥33,814**	¥39,417	**$252,343**

*The segments consist of the following countries:
Europe: United Kingdom, Germany, Switzerland, Finland, Hungary, etc.
North America: United States of America, Mexico, etc.
Asia: China, Republic of Korea, Taiwan, Singapore, Australia, etc.

18. Subsequent Event

The following appropriations of retained earnings at February 28, 2002 were approved at the Company's shareholders' meeting held on May 23, 2002:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥5 ($0.037) per share	¥283	$2,112

Independent Auditors' Report

**Deloitte
Touche
Tohmatsu**

To the Board of Directors and Shareholders of Star Micronics Co., Ltd.:

We have examined the consolidated balance sheets of Star Micronics Co., Ltd. and consolidated subsidiaries as of February 28, 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 present fairly the financial position of Star Micronics Co., Ltd. and consolidated subsidiaries as of February 28, 2002 and 2001, and the 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.

As discussed in Note 2, effective for the fiscal year commencing after April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employee's retirement benefits and financial instrument and a revised accounting standards for foreign currency transactions.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 23, 2002
Tokyo, Japan

Directors and Auditors

President and CEO	Shozo Kasuya
Senior Managing Director	Toshihiro Suzuki
Managing Directors	Hajime Sato Noriaki Okamoto
Directors	Tadakuni Kaneko Hideo Fujiwara Masahiro Kato Tomohiko Okitsu Kanji Suzuki Chiaki Fushimi
Corporate Auditors	Katsuji Ito Isao Imabayashi Hiroshi Ishii Katsuoki Numata

(as of May 23, 2002)

Investor Information

Corporate Name	Star Micronics Co., Ltd.
Head Office	20-10, Nakayoshida, Shizuoka 422-8654 Japan Tel +81-54-263-1111 Fax +81-54-263-1057
Established	July 6, 1950
Common Stock	Authorized 160,000,000 Issued and Outstanding 56,533,234
Paid-in Capital	12,721,939,515 yen
Number of Shareholders	6,775
Stock Listings	First Section of the Tokyo and Nagoya Stock Exchanges Frankfurt Stock Exchange

(as of February 28, 2002)

Group Network

Overseas Subsidiaries

Star Micronics America, Inc.	1150 King Georges Post Road, Edison, NJ 08837, USA Tel. +1-732-623-5500
Star Micronics Asia Ltd.	18/F., Tower 2 Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong Tel. +852-2796-2727
Star Micronics U.K. Ltd.	Star House, Peregrine Business Park, Gomm Road, High Wycombe, Bucks, HP13 7DL, UK Tel. +44-1494-47-1111
Star Precisions Ltd.	18/F., Tower 2 Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong Tel. +852-2799-9141
Star Micronics Manufacturing Dalian Co., Ltd.	2,Huang Hai Street, Dalian Economic and Technical Development Zone, PRC Tel. +86-411-7611-535
Star Micronics AG	Lauetstrasse 3 CH-8112 Otelfingen Bruettisellen, Zurich, Switzerland Tel. +43-411-6060
A&S Precision Machine Tools Ltd.	Chapel Street, Melbourne, Derbyshire DE73 1EH, UK Tel. +44-1332-864455
Star Micronics Manufacturing Deutschland GmbH	Otto-Lilienthal Strasse 2, D-55232 Alzey, Germany Tel. +49-6731-8401
Star Micronics Management Services GmbH	Westerbachstrasse 59, D-60489 Frankfurt, Germany Tel. +49-6978-9990
Star CNC Machine Tool Corporation	123 Powerhouse Road, Roslyn Heights, NY 11577, USA Tel. +1-516-484-0500
LAGRO Werkzeugmachinen-Handels GmbH & Co. KG	Untere Reute 44, 75305 Neuenburg, Germany Tel. +49-7082-7920-0
Dalian Sande Electronics Co., Ltd.	18, West Huai He Road, Dalian Economic & Technical Development Zone, Dalian, PRC Tel. +86-411-7614-659 Fax. +86-411-7616-457
Shanghai S&E Precision Co., Ltd.	1-39, East Kangqiao Road, Kangqiao Industrial Zone, Pudong, Shanghai, PRC
Star America Holding, Inc.	Suite 100, 30 Old Rudnick Lane, Dover Kent, DE 19901, USA

Japanese Subsidiaries

Micro Takemi Company	13-32, Takemi, Shizuoka 420-0934 Tel. +81-54-247-6533
Toshin Seiki Company	1500-17, Kitanoya, Misawa, Kikugawa, Ogasa, Shizuoka 439-0023 Tel. +81-537-35-6415
Micro Sapporo Company	705-2, Shinkouminami 3-chome, Ishikari, Hokkaido 061-3244 Tel. +81-133-64-3663
Micro Fujimi Company	29-33, Senagawa 2-chome, Shizuoka 420-0913 Tel. +81-54-263-1523
OS Metal Company	1500-133, Misawa, Kikugawa, Ogasa, Shizuoka 439-0023 Tel. +81-537-35-0026
Micro Kikugawa Company	1500-133, Misawa, Kikugawa, Ogasa, Shizuoka 439-0023 Tel. +81-537-37-2000

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