STAR MICRONICS CO., LTD.

ANNUAL REPORT 2003

For the year ended February 28, 2003

A GUIDING FORCE

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, optical parts and other components.

A global organization, Star Micronics has manufacturing and sales bases in Europe, North America, Asia and other parts of the world. As of February 2003, there were 5 Japanese and 13 overseas subsidiaries. Total employment is about 4,500, 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.

To Our Shareholders

As a global company, the downturn in world markets during fiscal 2003, ended February 28, 2003, had a greater-than-expected impact on our performance—net sales fell 10.8% to ¥38,612 million, and net income declined 24.8% to ¥434 million. There were a number of reasons for these top- and bottom-line falls. One was the malaise in the IT sector, an area that we are heavily dependent on for our sales. Another was the growing deflationary trend in global markets, which was greater than anticipated. Although we have initiated a number of measures to tackle these and other issues, it will be some time before the effects begin to fully materialize. We were also forced to halt shipments of computer printers to the Chinese market, due to prolonged discussions by the Chinese government about technical changes to their new tax collection system.

With no expectation of an early recovery in our operating environment, we set about implementing various measures in fiscal 2003 to build an operating structure capable of generating profits even during a downturn. Our emphasis was on strengthening our balance sheet and fashioning an operating base that will be viable into the future. Star Micronics has a unique set of intangible assets that have taken years to cultivate—our inherent technological expertise, a powerful manufacturing framework in China and a customer base of leading companies. In fiscal 2003, we were able to develop exciting new products rooted in these underlying strengths. And we made progress in improving our financial position, with visible results such as asset reductions and improved cash flows. Together with our growing presence in Asian markets, I believe the future for Star Micronics is bright.

Although forecasts for fiscal 2004 suggest that it will be one of our toughest years yet, Star Micronics has already weathered the worst of the storm. Now, the intangible assets I have just touched on will be the force that guides us to further success.

May 2003

Shozo Kasuya
President and CEO

A Conversation With Senior Management

Although we were again buffeted by the storms in our operating environment, Star Micronics is capable of drawing on a range of inherent strengths to overcome the challenges it faces. These include strong and broad customer relationships; technological expertise fostered in China, where we derive our cost competitiveness from; and a corporate culture that doesn't fear failure. In the following conversation, President and CEO Shozo Kasuya and Senior Managing Director Toshihiro Suzuki talk about how Star Micronics leveraged these strengths.

Seeing the downturn as necessary to correct economic imbalances

KASUYA: Although Japan has been in a serious economic slump for more than a decade now, the last few years have been particularly challenging as other major economies have also slowed. I see this global sluggishness as a hangover of the IT bubble and the rapid pace of globalization, and more importantly, a necessary correction of economic imbalances.

SUZUKI: I agree. The consequences of the bubble of the late 80s and early 90s were so severe that Japan is still feeling the aftereffects. This has been compounded by the bursting of the global IT bubble, which has weighed heavily on our results. Although we have launched countermeasures, we are now waiting for their effects to kick in.

KASUYA: Yes, as a manufacturer, we can't change our product mix overnight. It takes time to plan, develop and launch products to respond to changing markets. Sure, we face difficulties at present, but I am upbeat about our long-term prospects. I believe three factors will drive growth—the information and communications field, globalization, and solutions for environmental issues. Our technological expertise in miniature, high-precision devices will be much in demand in respect of all these areas.

SUZUKI: Indeed. There is every reason to suggest that demand for the kind of technologies and products we specialize in will increase.

Building a powerful, profit-generating structure through reform

KASUYA: That said, we can't count on an improvement in our operating environment in the near term. That's why in fiscal 2003 we set about reforming our operating structure so that we can generate profits even in the kind of prolonged downturn we are experiencing now.

Shozo Kasuya

SUZUKI: This has involved both internally and externally focused reforms. Internally, we sought to strengthen our balance sheet and improve management efficiency. Externally, we moved to diversify our product lineup and our customer base; shift more production to China; and expand sales in the Asian region. I believe fiscal 2003 was a year of real progress.

KASUYA: In an economic downturn, there is a danger a company can lose its ability to compete, so I hope to see rapid results from the steps we took during fiscal 2003.

SUZUKI: Through better management of inventories, repayment of debt, and measures to reduce our costs by shifting more production to China, we have already seen a significant improvement in our financial position. In fiscal 2003, we also got a Supply Chain Management (SCM) system up and running in the Components Division, and put in place a framework to source even more components and materials locally for our manufacturing facilities in China. Progress is also being made on integrating inventory management systems at European facilities run by the Machine Tools Division.

KASUYA: I don't think we can overlook the progress we made mitigating risk as well. We are lucky to have leading companies as customers, but with that also comes inherent risks: a great deal rides on how these customers perform themselves and our ability to accurately meet their needs. Naturally, our products also have to meet the strictest standards. One area that we have been particularly dependent on has been electronic buzzers used in mobile phones. We recognized this potential weakness and took steps to spread the risk.

SUZUKI: Yes, we diversified our product range to include microphones, speakers and receivers, reducing the Components Division's high level of reliance on buzzers. I think this has helped us to combat cutbacks in mobile phone production and the shift away from electronic buzzers to speaker components. Investors should notice a change in the composition of our sales in fiscal 2004 as a result of these efforts to target other applications and diversify our customer base.

Leveraging our inherent strengths to lead the company back to growth

KASUYA: Our sophisticated technologies will also underpin our return to growth. We have proven our technological expertise with the consistent development of new products that rewrite the rules on size. New microphones and electronic buzzer components are just two examples.

Toshihiro Suzuki

SUZUKI: Yes, I agree. We have long-term efforts in strengthening our R&D capabilities to thank for this. We harbor high hopes for accelerometers, which demand advanced manufacturing technologies. As you know, this product is nearing commercialization and we are excited about the potential for its use in a wide range of applications in many markets. Another key focus going forward will be using our supply network to distribute next-generation flatbed printers in China and low-cost machine tools in Asia as a whole. This adds up to a greater focus on these growing markets.

KASUYA: China is unquestionably going to be a key market. I believe our long association with the country, and specifically Dalian, where we were the third Japanese company to establish a presence there, will stand us in good stead. Years of cultivating and integrating local manufacturing, technological and marketing capabilities have given us the ability to develop powerful products there.

SUZUKI: And China will become an even more important base for us in the future as we gradually shift the manufacturing operations of the Machine Tools Division and the Precision Products Division to the country. Production for the Special Products and the Components divisions is already centered in China. The next major step for these two divisions will be to transfer die assembly manufacturing to China as well.

KASUYA: That's right, and when we say transfer die assembly manufacturing, what we are actually doing is transferring technology. In this way, we can create a concentration of advanced technological expertise at Chinese subsidiaries to allow them to manufacture value-added-products, while encouraging them to outsource more basic manufacturing processes. Our operations in Japan will then be free to concentrate on planning and developing high-value-added devices and components. This is something still only possible at our facilities in Japan.

SUZUKI: China is important not just as a manufacturing base for machine tools, but also as a promising market for these products. China is often called "the workshop of the world," and we have targeted demand from the rapidly growing manufacturing sector there with a product specifically tailored to the needs of the market, the SB-16 automatic lathe. We appear to have read the market well—this product is selling well thanks to its robust design, simple functionality and highly competitive price.

KASUYA: China is just the starting point. This is a strategic product that we hope to sell throughout Asia.

SUZUKI: Yes, and we've already taken some important steps since the product was launched in October 2002 to respond to demand from potential customers, particularly in the auto industry. We've established a

sales office in China and strengthened our existing sales framework in Thailand. We expect to be producing this product completely in China by the end of 2003, helping to reduce costs and boost earnings.

KASUYA: On a different subject, we had great hopes for our printers designed for the Chinese government's new tax system. Unfortunately, we were forced to suspend shipments, and this hit us hard.

SUZUKI: Yes, the Chinese tax authorities were debating which format to adopt as the control board used in the new tax collection system. The good news is that we have already restarted shipments after the decision was made to select the PCI format. With a second stage of tax reforms soon to be initiated, we are also ready to meet the next surge in demand from China's business community with our powerful lineup of flatbed printers.

Harnessing our hunger for a challenge

KASUYA: Although our traditional area of expertise is in developing miniature, high-precision technologies, we are very aware that we have to move into other fields if we are to keep up with the times. We also understand that there are certain limits to what we can do alone, so we must consider M&As and business alliances. Leveraging our strong financial position and cash flows is one option open to us.

SUZUKI: I agree, and I think our corporate culture—our desire as a company to take on new challenges—is a strength we have to harness if we want to move into new fields. Our ability to develop new products and adapt to change relies, ultimately, on the individuals working at Star Micronics. Because we recognize the importance of our people, we put an emphasis on maintaining a personnel strategy that goes against the grain of current management thinking: that cutting back the workforce is the best way of restructuring a business. Conversely, we see a stable workforce as the best tool to take on new challenges and generate new corporate value.

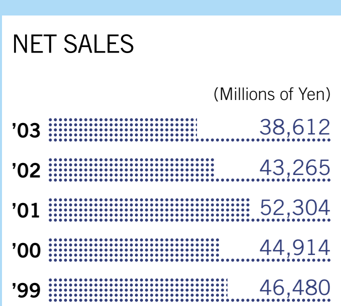
KASUYA: I think that's a very good point to close on—Star Micronics is lucky to have many quality intangible assets, like our employees. We stole a march on our rivals by being one of the first to invest in manufacturing facilities in China and we've consistently launched groundbreaking products thanks to long-term, incremental R&D programs. This is all underpinned by a corporate culture that is not afraid of failure and constantly seeks out the next challenge. I am confident these strengths, combined with the continuing shift of our manufacturing operations to low-cost China and a focus on developing high-quality, high-value-added products, mean even greater things await for Star Micronics.

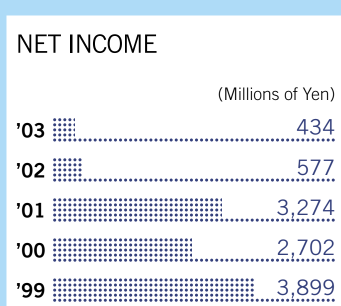
Financial Highlights

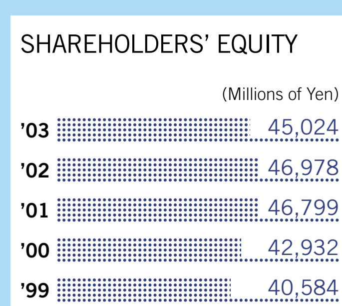
Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2003 and 2002

	Millions of yen		Change (%)	Thousands of U.S. dollars
	2003	2002	2003/2002	**2003**
For the year:				
Net sales	**¥38,612**	¥43,265	(10.8)%	**$327,220**
Net income	**434**	577	(24.8)	**3,678**
Return on sales	**1.1%**	1.3%		
Capital expenditures	**2,162**	3,546	(39.0)	**18,322**
Depreciation and amortization	**3,248**	3,567	(8.9)	**27,525**
At year-end:				
Total assets	**¥62,403**	¥65,394	(4.6)%	**$528,839**
Shareholders' equity	**45,024**	46,978	(4.2)	**381,559**
Equity ratio	**72.2%**	71.8%		
Interest-bearing debt	**4,760**	5,755	(17.3)	**40,339**
	Yen		Change (%)	U.S. dollars
Per share:				
Net income	**¥ 7.77**	¥10.21	(23.9)%	**$0.07**
Fully diluted net income				
Cash dividends applicable to the year	**10.00**	10.00	0.0	**0.09**
Stock information:				
Common shares issued	**56,533,234**	56,533,234	0.0%	
Number of shareholders	**7,354**	6,775	8.5	

Note: The rate of ¥118 to US$1, prevailing on February 28, 2003, has been used for translation into U.S. dollar amounts.







Financial Review

INCOME ANALYSIS

Affected by weakness in all core segments–Precision Electronics Equipment, Machine Tools, and Precision Products–net sales decreased ¥4,653 million, or 10.8%, to ¥38,612 million (US$327,220 thousand) while the cost of sales declined only ¥2,070 million, or 7.6%, to ¥25,225 million (US$213,771 thousand). As a consequence, gross profit fell ¥2,583 million, or 16.2%, to ¥13,387 million (US$113,449 thousand). The company's gross profit margin edged down 2.2 percentage points, compared to the previous fiscal year, to 34.7%. This reflects a slight decline in the share of sales of the high-margin Machine Tools Segment and the negative impact of a stronger yen on the profit margin of this export-heavy segment.

Selling, general and administrative (SG&A) expenses fell ¥928 million, or 7.8%, to ¥10,979 million (US$93,042 thousand). Despite a challenging business environment, significant cost reductions were achieved, a result of concerted company-wide efforts to enhance efficiency.

Operating income declined ¥1,655 million or 40.7%, to ¥2,408 million (US$20,407 thousand). The operating income ratio fell 3.2 percentage points to 6.2%, as lower sales lifted the weight of SG&A expenses.

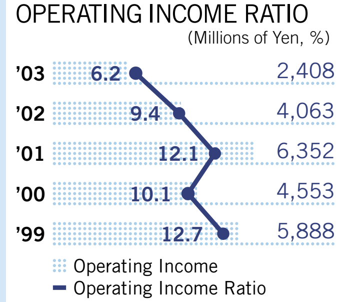
Other expenses–net were ¥980 million (US$8,305 thousand), ¥931 million lower than in the previous fiscal year. This was mainly because transitional obligations of ¥1,607 million arising from a change in accounting standards for retirement benefits was not a factor in the current fiscal year. Foreign exchange loss–net totaled ¥635 million compared with a foreign exchange gain of ¥114 million in the previous fiscal year. Despite the steep decline in stock prices, mark-to-market loss on marketable and investment securities was ¥412 million, down from ¥647 million recorded in the previous fiscal year.

Income before income taxes and minority interest accordingly decreased ¥724 million, or 33.6%, to ¥1,428 million (US$12,102 thousand). Total income taxes were ¥997 million. Net income, adjusted for minority interest, was down ¥143 million, or 24.8%, to ¥434 million (US$3,678 thousand). Star Micronics' effective tax rate is high at 69.8% because non-consolidated tax is relatively low and a certain portion of the taxes on unrealized gains cannot be deferred under Japanese tax laws.

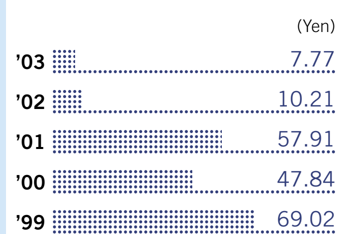
Net income per share fell ¥2.44 to ¥7.77. Star Micronics' management, however, will pay an annual dividend of ¥10.00 per share.

Affected by weakness in all core segments–Precision Electronics Equipment, Machine Tools, and Precision Products–net sales decreased ¥4,653 million, or 10.8%, to ¥38,612 million (US$327,220 thousand)

OPERATING INCOME & OPERATING INCOME RATIO



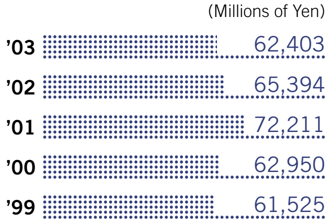
EARNINGS PER SHARE



The principal factor contributing to increased current assets was a ¥4,459 million, or 75.5%, increase to ¥10,366 million in cash and marketable securities. On the other hand, the decline in inventories outpaced the decrease in sales as the company pursued policies to enhance operational efficiency.

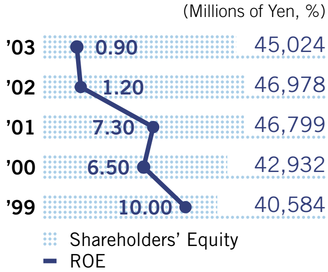
TOTAL ASSETS

(Millions of Yen)



SHAREHOLDERS' EQUITY & RETURN ON EQUITY

(Millions of Yen, %)



FINANCIAL POSITION & LIQUIDITY

Total current assets as of Feburuary 28, 2003 were ¥38,424 million (US$325,627 thousand), an increase of ¥445 million, or 1.2%, from the previous fiscal year-end. The principal factor contributing to increased current assets was a ¥4,459 million, or 75.5%, increase to ¥10,366 million in cash and marketable securities. On the other hand, the decline in inventories outpaced the decrease in sales as the company pursued policies to enhance operational efficiency. Although sales declined only 10.8%, inventories fell 16.3%, or ¥3,294 million, to ¥16,931 million. Other initiatives, including curbs on capital investment and disposal of investment securities, boosted cash flow.

Net property, plant and equipment declined ¥1,828 million, or 9.4%, to ¥17,602 million (US$149,170 thousand). Machinery and equipment declined ¥1,579 million as capital investment was held down in the Components Division and the Machine Tool Segment.

Total investment and other assets declined ¥1,608 million, or 20.1%, to ¥6,377 million (US$54,042 thousand). Investment securities declined ¥974 million to ¥2,428 million. Domestic equity securities with market quotations are marked-to-market, with unrealized holding gain or loss included directly in shareholders' equity. Unrealized loss on available-for-sale securities thus amounted to ¥169 million and is presented as a component of shareholders' equity.

The cumulative effect of the above factors was to decrease total assets by ¥2,991 million, or 4.6%, to ¥62,403 million (US$528,839 thousand).

Total current liabilities fell ¥1,331 million, or 8.3%, to ¥14,715 million (US$124,704 thousand), mainly owing to a decrease in short-term bank loans of ¥769 million, to ¥2,803 million. The current portion of long-term debt also declined ¥1,172 million, to ¥53 million.

Total long-term liabilities increased ¥348 million, or 15.6%, to ¥2,575 million (US$21,822 thousand). The major component was long-term debt, up ¥946 million to ¥1,904 million. The liability for retirement benefits declined by ¥587 million. Shareholders' equity declined ¥1,954 million, or 4.2%, to ¥45,024 million (US$381,559 thousand), mainly due to ¥774 million for foreign currency translation adjustments, a decline of ¥1,073 million from the previous fiscal year. The company also aggressively repurchased stock, resulting in treasury stock of ¥784 million (1,184,524 shares). At year-end, shareholders' equity per share declined ¥17.77 to ¥813.45.

CASH FLOWS

Net cash provided by operating activities was ¥8,085 million (US$68,517 thousand), an increase of ¥8,370 million from the previous fiscal year. Income taxes paid declined by ¥1,866 million. Trade receivables, trade payables and inventories provided total cash of ¥3,310 million, reflecting an improvement of ¥7,026 million in cumulative net balance.

Net cash used in investing activities was ¥1,606 million (US$13,610 thousand), ¥2,823 million less than in the previous fiscal year.

This figure included a cutback in purchases of property, plant and equipment of ¥1,692 million to ¥1,765 million. The investment in Dalian Sande Electronics Co., Ltd. of ¥2,069 million, for its conversion into a consolidated subsidiary, recorded as a payment for purchase of a consolidated subsidiary, net of acquired, was not a factor affecting investment cash flow in the current fiscal year.

Net cash used in financing activities was ¥2,218 million (US$18,796 thousand), a decline of ¥3,437 million from the previous fiscal year. The ample cash flow in the current fiscal year was used to reduce borrowings by ¥794 million and the purchase of treasury stock valued at ¥772 million. Dividends of ¥563 million exceeded net income, reflecting management's policy of maintaining stable dividends.

Foreign currency translation adjustments on cash and cash equivalents provided an additional ¥3,889 million, down ¥372 million from the previous fiscal year. Along with the inclusion of ¥41 million in cash from a newly consolidated subsidiary, cash and cash equivalents at the end of the fiscal year totaled ¥9,837 million (US$83,364 thousand).

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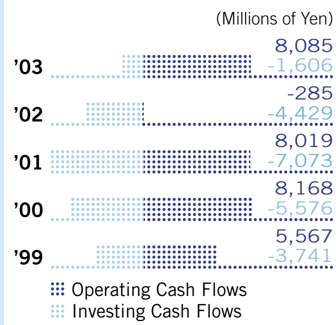
CASH FLOWS



CAPITAL EXPENDITURES AND R&D EXPENSES

Group-wide capital expenditures totaled ¥2,162 million, a decline of ¥1,384 million, or 39.0%, from the previous fiscal year due to shrinking markets. Expenditures for the Components Division, Special Products Division, Machine Tools, Precision Products and Head Office, were ¥488 million, ¥951 million, ¥118 million, ¥162 million, and ¥443 million, respectively.

In the fiscal year ending February 2004, group-wide capital expenditures are estimated at ¥3,500 million. A higher level of capital expenditures will be needed for a number of reasons. The Components Division expects a sharp increase in shipments of components, excluding electronic buzzers. The Special Products Division plans to ramp up shipments of computer printers for China's new tax collection system. The Machine Tools Segment plans to shift production of SB-16 to China. The Precision Products Segment intends to shift some watch-part production overseas and also expects accelerated sales of medical equipment.

R&D expenses for the year were ¥2,171 million, which was ¥199 million, or 8.4%, lower than in the previous fiscal year. R&D expenses represented 5.6% of total net sales, the same level as the previous year. The overriding theme for the company's R&D has been the development of production technologies that

In Japan, Star Micronics is focused on the development of value-added products, such as the Tri-Axial Accelerometer that is expected to start contributing to profits.

realize improved cost performance and greater miniaturization of products. Following the optimization of production and sales bases in the most appropriate locations around the world, Star Micronics is focusing on doing the same for R&D. The company has already achieved an impressive track record in overseas R&D. Successful development of printer software in China and the development of a new disposable hearing aid through a strategic alliance with a U.S. research institute are among the successes. In Japan, Star Micronics is focused on the development of value-added products, such as the Tri-Axial Accelerometer that is expected to start contributing to profits.

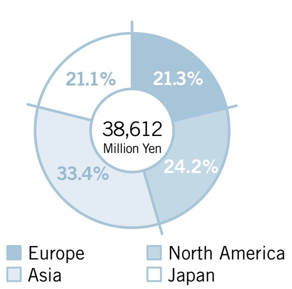
Led by machine tools, net sales in Asia recovered from a decline in the previous year and rose ¥588 million to ¥12,887 million (US$109,212 thousand). This accounted for 33.4% of total sales, up 5.0 percentage points.

Sales System and Net Sales by Geographic Region

A large proportion of Star Micronics' products are sold overseas. To provide customer support worldwide, the company operates a network of overseas bases (see table).

	Great Britain	Germany	France	Switzerland	U. S.	Hong Kong	China (Shanghai)
Precision Electronic Equipment	Star Micronics U.K. Ltd.				Star Micronics America, Inc.	Star Micronics Asia Ltd.	
Machine Tools	A&S Precision Machine Tools Ltd.	LAGRO WH GmbH & Co. KG	Star Machine Tools France SA	Star Micronics AG	Star CNC Machine Tools Corporation		Shanghai Xingang Machinery Co., Ltd.

SALES BY REGION



In the fiscal year under review, overseas sales climbed 0.7 of a percentage point to 78.9% of total sales, representing the highest level to date.

In the U.S. and European markets, net sales plunged, mainly due to sluggish demand for machine tools that pushed down the sales of the Machine Tools Segment. However, machine tool sales rose in Asia. This factor, combined with declining sales in Japan, helped the share of overseas sales to edge up.

In Europe, net sales declined ¥2,914 million to ¥8,239 million (US$69,822 thousand), sliding 4.5 percentage points to 21.3% of total sales.

In North America, net sales fell ¥1,026 million to ¥9,336 million (US$79,119 thousand), representing 24.2% of total sales, an increase of 0.2 percentage points over the previous fiscal year.

Led by machine tools, net sales in Asia recovered from a decline in the previous year and rose ¥588 million to ¥12,887 million (US$109,212 thousand). This accounted for 33.4% of total sales, up 5.0 percentage points. In the fiscal year ending February 2004, Asia's share in total sales is expected to increase further as shipments of computer printers and machine tools to the region are likely to rise.

In Japan, core products are machine tools and precision products. Domestic sales declined ¥1,301 million to ¥8,150 million (US$69,067 thousand), representing 21.1% of total sales, down 0.7 percentage points.

PRECISION BUILT ON EXCELLENCE

Prompted by the continuing shift from electronic buzzers to speaker components in the mobile phone market, the Components Division is breaking away from its reliance on buzzers to transform itself into a

PRECISION ELECTRONIC

comprehensive maker of micro audio components. The result is a broader product lineup and customer base. Today, an increasing proportion of sales are being generated by hearing aids, medical equipment and other products not related to mobile phones. Meanwhile, the Special Products Division has been given a boost with movement again on the project to supply large-scale printers for the Chinese government's new tax collection system. This development, together with the introduction of a competitive thermal printer to enhance our powerful lineup of small printers, means the Special Products Division is firmly back on the path to growth.

EQUIPMENT

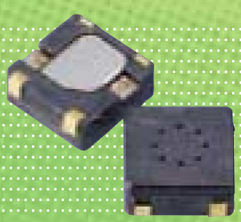
NX-500

The NX-500 flatbed printer was specifically developed for the Chinese market, based on a design concept with rigorous parameters for size, weight and price. Since its launch, the NX-500 has won plaudits for its reliability, compactness and innovative design. And coupled with the restart of shipments targeting China's new tax collection system, sales are already outpacing initial forecasts. We expect to see a significant increase in sales of this strategic product, spurred by demand related to the ongoing implementation of China's new tax system.

NFT-03A

The NFT-03A is the world's smallest* reflow-type magnetic sounder. Already used in digital cameras and compact remote-control devices, the NFT-03A is expected to be adopted in a wide range of fields, notably in electronic health devices such as blood pressure sensors and thermometers.

*Star Micronics' data.



MAB-04A-T

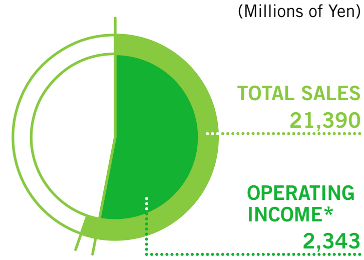
Star Micronics achieved another first with this product, the world's first* reflow-type electret condenser microphone. Designed to meet the exacting specifications of mobile phone manufacturers and other customers, the MAB-04A-T is compact and wafer-thin, and also boasts reflow capability. Looking ahead, we hope to use the excellent reliability of the component as a selling point to encourage wider adoption in other application areas, such as automotive devices.

*Based on an August 2002 survey carried out by Star Micronics.

Precision Electronic Equipment

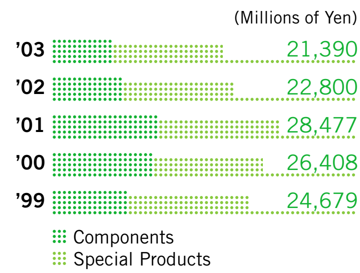
FISCAL 2003 SALES & OPERATING INCOME COMPOSITION BY BUSINESS SEGMENT

Precision Electronic Equipment



* Note: Operating income includes company-wide expenses of ¥2,012 million.

SALES IN PRECISION ELECTRONIC EQUIPMENT SEGMENT



The Precision Electronic Equipment Segment comprises two business divisions: the Components Division, which manufactures and markets electronic buzzers for mobile 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 fell 14.9% from the previous fiscal year to ¥7,538 million. Electronic buzzers for mobile phones represent the largest share of divisional sales. Although production of mobile phones is recovering at European phone manufacturers, the principal customers, shipments of electronic buzzers were sluggish, since there is a pronounced shift of the alarm system to the phone speaker. With prices also in decline, sales were forced down to the levels shown above. The trend in electronic buzzers is unlikely to change.

In a bid to transform itself into a general audio components manufacturer, this division is expanding its lineup of compact audio devices, ranging from speakers to microphones to receivers and other products. Leveraging a broader product lineup, the Components Division looks to serve a diversified customer base. One notable breakthrough was development of the world's smallest and thinnest micro-speaker and receiver. Star Micronics expects products like these to support differentiation from the competition.

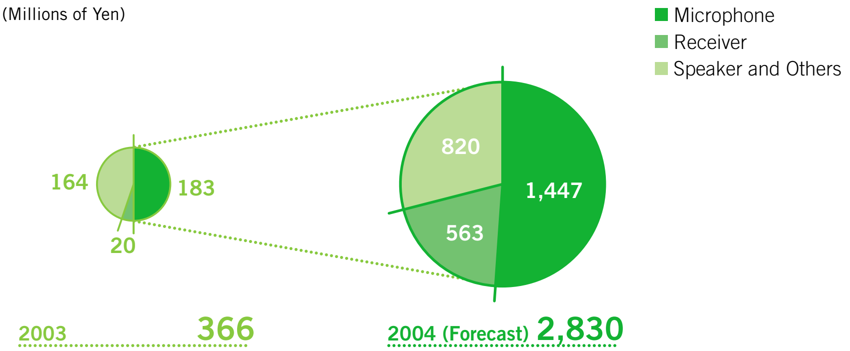
A major European mobile phone manufacturer has already selected Star Micronics' micro-speakers and receivers for its mobile phones. Following completion of an expanded product lineup, and the signing up of this major customer, the company has succeeded in signing up several medium- to small-scale domestic mobile phone manufacturers for its speakers, receivers and microphones. Star Micronics expects these new products to start making a significant contribution to earnings from the fiscal year ending February 2004. Product diversification has also raised Star Micronics' profile as a supplier of micro audio devices, increasing the possibility of opening up new marketing opportunities in the automotive, digital camera and medical equipment sectors. The Components Division has firmly positioned itself for medium-term growth.

The Special Products Division's mainstay products are computer printers and POS printers. Divisional sales declined 0.6% to ¥13,851 million.

The principal target market for the company's computer printers is China, where it has an integrated system from production through to sales. The full-scale introduction of a value-added tax system by the Chinese government is expected to spur rapid growth of sales by the Special Products Division, especially in flat-bed printers equipped with a copying function, which are well-suited for invoice printing. However, shipments so far have been limited, due to temporary suspension of the system by the Chinese government. Full-scale shipments

SALES OF NEW COMPONENTS

(Millions of Yen)



resumed in January, with monthly shipments already totaling 30,000 units in a market currently estimated at 600,000 units.

The scope of China's revised tax collection system is not restricted to large companies. This constitutes only the first stage of implementation. The Chinese government's tax reforms are set to apply to medium- and small-sized enterprises in successive stages. Star Micronics' general-purpose flatbed printer NX-500 released last year offers performance comparable to large-sized printers designed to print six copies simultaneously. This printer is being redesigned to make it more compact and inexpensive, to meet the needs of the second stage of implementation. As the system extends to cover the entire Chinese business community, systems for local tax offices are also being developed. Star Micronics is confident of maintaining its position as a leading supplier and of being able to capitalize on an expanding market.

Star Micronics also sells thermal POS printers, sales of which have been particularly strong in Europe. Sales of thermal printer models have grown to the point where they now account for roughly half of sales by the Special Products Division, and Star Micronics expects sales of these products to continue to grow steadily.

Net sales by the Precision Electronic Equipment Segment declined ¥1,410 million, or 6.2%, to ¥21,390 million (US$181,271 thousand).

The majority of this segment's sales are to overseas customers. Accordingly, Star Micronics is working to center its production activities on Star Micronics Manufacturing Dalian Co., Ltd., the company's main production base in China. As a part of ongoing cost-cutting measures, the company switched procurement of manufacturing materials from Japan to China.

The Components Division's supply chain management system became fully operational in the current term. This has allowed the company to shorten its production management cycle from a monthly to a weekly period. This system is yielding dramatic reductions in inventory and boosting profit.

Operating income in the Precision Electronic Equipment Segment increased ¥116 million, or 5.2%, to ¥2,343 million. (US$19,856 thousand). The operating income ratio rose 1.2 percentage points to 11.0%.

In fiscal 2002, machine tools for the Asian market with fewer advanced functions accounted for a sharply increased share of sales. This prompted us to develop a machine tool specifically tailored to the

MACHINE TOOLS

needs of manufacturers in the region—the SB-16. Consideration of regional requirements has resulted in a competitively priced machine with more emphasis on fundamental lathing functions and performance. We expect to see strong demand for the product, and accordingly we are strengthening our marketing and support network in China and other Asian markets. This year will also see the completion of the transfer of SB-16 manufacturing operations to China, helping to reduce costs and ultimately boost sales and earnings. We have great hopes for the product as a dependable source of earnings even during a downturn.

SB-16

The SB-16 is our strategic weapon in the battle for sales in the Asia market. Sold at a highly competitive price and equipped only with the most essential functions, it has redefined the industry and attracted considerable attention from businesses in the component manufacturing field since its launch. Although advanced functions available with other Star Micronics products have been pared from the SB-16, it still boasts an impressive array of specifications—a highly durable machining tool post, a powerful AC spindle rotor, and an extended headstock stroke for shaft machining. The result is a machine capable of carrying out both heavy machining and complex part production. And thanks to a large chip-disposal tank, it can be used for long unmanned periods of operation. The SB-16 is already employed in a wide range of industries, particularly automotive parts manufacturing, and we expect it to be a major driver of orders and sales going forward.

ECAS-12/20

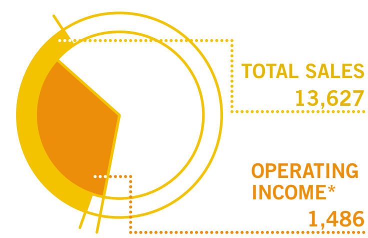
The ECAS-12/20 models are high production volume, advanced geometry automatic lathes, developed to deliver complex geometry machining at higher speeds. High-speed, high-accuracy turning and efficient simultaneous machining are achieved with a dual control system and a counter-face gang-type tool post. With the ECAS-12/20 units, we have also succeeded in developing automatic lathes with greater usability and productivity, thanks to a CNC system that controls chucking unit arrangements and Star Micronics-developed motion control technology that reduces cycle times in continuous operation. Underpinned by widespread use in numerous component manufacturing fields, including the medical, communications and automotive components areas, the ECAS-12/20 range is rapidly winning friends in the industry.

Machine Tools

FISCAL 2003 SALES & OPERATING INCOME COMPOSITION BY BUSINESS SEGMENT

Machine Tools

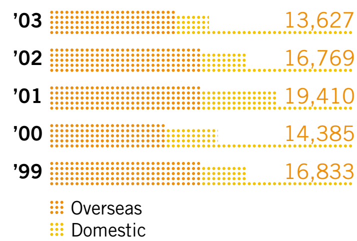
(Millions of Yen)



* Note: Operating income includes company-wide expenses of ¥2,012 million.

SALES IN MACHINE TOOLS SEGMENT

(Millions of Yen)



Star Micronics' CNC automatic lathes have earned many accolades, particularly the SV series, which features a high-precision complex machining capability well suited to fabricating a range of components, including those for medical equipment, and ECAS, a state-of-the-art machine-tool model mounting a hybrid control system. Another winner is the SI-12, a mono-functional lathe that employs a proprietary motion-control system that substantially shortens machining time. As a result, the company's CNC automatic lathes enjoy a stable market share of around 30%.

However, reduced capital investment in the U. S. and a slowdown in European markets from the second half of the previous fiscal year severely affected segment sales.

Sales in the Machine Tools Segment declined ¥3,142 million, or 18.7%, to ¥13,627 million (US$115,483 thousand).

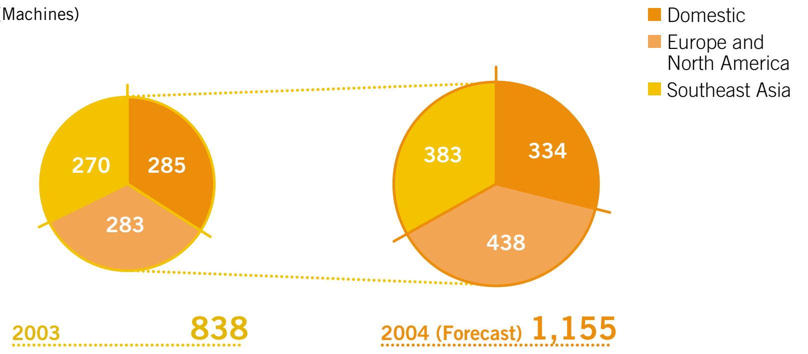
Demand for low-priced machine tools with limited functions is extremely strong in Asia, particularly in China, which is emerging as the world's manufacturing center. To adequately meet this demand, Star Micronics in October 2002 introduced the SB-16, a low-priced model offering features unheard of in hybrid models. The success of this strategy is evidenced by the extremely favorable order trends for this model that immediately followed its launch. The SB-16 was well received in Asian markets and also won high praise in the U.S. and European markets, opening up the possibility of developing yet another market.

Overseas sales rose to 79.1% of total segment sales, reflecting weakening demand at home and rising exports to the Asian markets.

The exchange rate of the yen has an important bearing on the segment's performance as it relies mainly on domestic production and overseas sales. Unlike the previous fiscal year, when the segment benefited from the yen's depreciation, the segment was adversely affected this year by the yen's appreciation.

MACHINE TOOL ORDERS BY REGION

(Machines)



Operating income fell ¥1,828 million, or 55.2%, to ¥1,486 million (US$12,593 thousand). The operating income ratio slipped 8.9 percentage points to 10.9%.

The machine tool market is fundamentally cyclical in nature. A close look at order trends (units) suggests that Asian markets, as well as the domestic market, have entered an up cycle. Orders from the European market have also been on the upswing since the beginning of the year, suggesting that the down cycle in the machine tool market noted from the second half of the previous fiscal year may have finally bottomed out. In effect, this means that sales in major markets – Japan, the U. S., Europe and Asia – are likely to rise in the next fiscal year ending February 2004. A rebound in the global market will not be far behind, assuming that the war in Iraq does not have a significant impact on the global economy.

In this environment, Star Micronics will adopt a new strategy for the Machine Tools Segment focusing on expanding the sales of SB-16 while boosting operating efficiency.

Like other conventional products, SB-16 is manufactured in Japan. However, in June 2003 we will shift a substantial part of manufacturing operations to Dalian, China, a move that will be completed by the end of the fiscal year to February 2004. This will be the first time any of our machine tool models will be produced entirely in China. Doing so will achieve two purposes: lower cost of sales and lower foreign exchange risk.

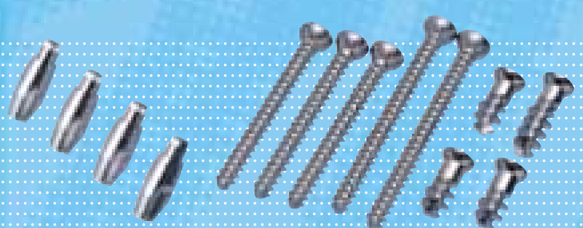
The company has bolstered its sales network in China by establishing a subsidiary in Shanghai (Shanghai Xingang Machinery Co., Ltd., which was established in December 2002) and a representative office in Shenzhen in January 2003. Furthermore, it will convert the representative office in Bangkok, Thailand into a local subsidiary with a view to better responding to growing demand in the region.

In Europe, marketing bases in Switzerland, Germany and Great Britain have undertaken local inventory management. In January 2003, inventory management for the pan-European market was consolidated at a facility in the Netherlands, as part of a move to reduce inventory from the current level of 4-5 months of sales to about 2.5 months of sales.

As we continue to shift production of external wristwatch components to Dalian in China, domestically we are working to expand our non-wristwatch side of the business by enhancing our capability to manu-

PRECISION PRODUCTS

facture precision components for other industries. One step in this area included the installation of specialist equipment to manufacture components for medical equipment. We have also gradually built up an R&D capability in the medical equipment field, and we are now ready to make a full-scale move into this highly specialized area. Because of the complexity endemic to these components, they will be produced domestically, thereby becoming an important part of Star Micronics' manufacturing operations in Japan. Meanwhile, operations at Shanghai S&E Precision Co., Ltd., a manufacturer of components for car audio systems for the Chinese market, continue to progress smoothly. With this facility now up and running, we have in place the capability to mass produce audio components for our customers in the region.



Dental Implants Bone Screws

MEDICAL EQUIPMENT COMPONENTS

Star Micronics manufactures medical equipment components on an outsourcing basis. These components include bone screws used in orthopedic treatments, dental implants and reinforcing components for joints. As Japanese society ages, we expect to see rising demand for these kinds of products. This market presents an opportunity to leverage our traditional skills in high-precision manufacturing to undercut expensive imported products, which until recently had a stranglehold on the market. In short, by producing high-quality, cost-competitive components, we are confident we can win a greater share of the domestic market for medical equipment components.

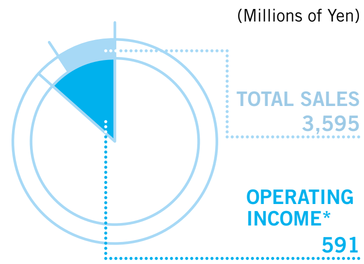
SHANGHAI S&E PRECISION CO., LTD.

Established in Shanghai in April 2001, Shanghai S&E Precision is a joint venture primarily engaged in the manufacture of components for car audio systems, formed with a maker of precision audio components. With strong demand for other precision components from the Chinese market, we also see Shanghai S&E Precision as an important launch-pad for our ambitions to expand overseas sales of non-audio precision components.

Precision Products

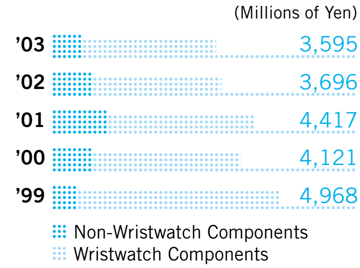
FISCAL 2003 SALES & OPERATING INCOME COMPOSITION BY BUSINESS SEGMENT

Precision Products



* Note: Operating income includes company-wide expenses of ¥2,012 million.

SALES IN PRECISION PRODUCTS SEGMENT



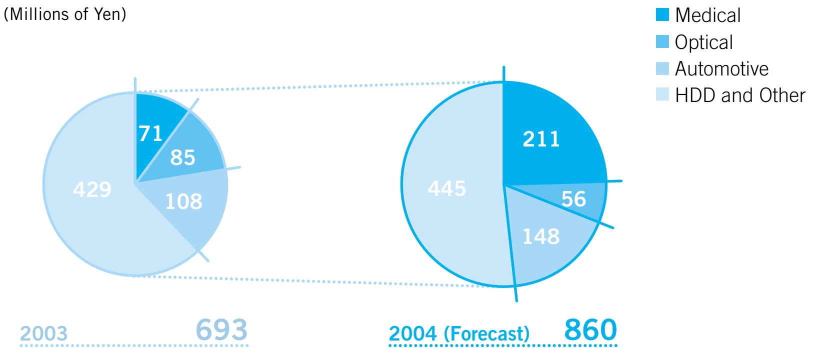
The segment's products can be classified into two main areas: wristwatch components, a mainstay business since the founding of the company; and precision products other than wristwatch components.

With the gradual decline in domestic demand for wristwatch components, Star Micronics' strategy is to raise earnings by developing new markets for precision products other than wristwatch components. The company applies its strengths in precision processing technology to fields where precision components are difficult to manufacture, including optical fiber connector parts, dental drill and implant parts, medical equipment, including bone screws for bone-setting, and PC peripheral and automotive components.

In the year under review, sales of wristwatch components, led by watch movements, recovered marginally, increasing sales 3.4%, to ¥2,902 million. Other precision product sales fell 22.2% to ¥692 million, due mainly to continuing weakness in IT-related products. Overall sales in the Precision Products Segment decreased ¥101 million, or 2.7%, to ¥3,595 million (US$30,466 thousand). Operating income decreased ¥81 million, or 12.1%, to ¥591 million (US$5,008 thousand). The operating income ratio slipped 1.8 percentage points to 16.4%.

Japan's watch manufacturers are expected to continue to shift assembly operations for watch casings to overseas bases. To improve productivity, Star Micronics has shifted production of watch casing components to its plant in Dalian, China.

SALES OF NON-WRISTWATCH COMPONENTS
(Millions of Yen)

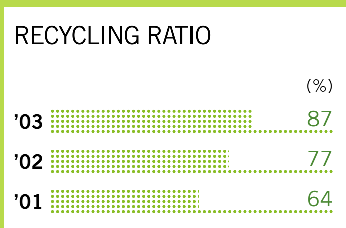


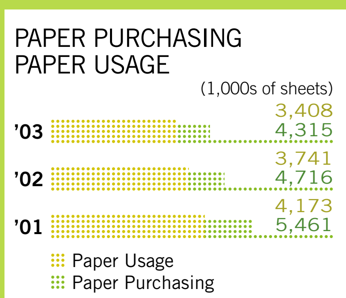
In precision products other than wristwatch components, demand for PC-related products was relatively favorable, but signs of demand recovery have yet to appear in optical fiber connector parts. Meanwhile, sales of medical equipment parts are getting off the ground and should see significant growth in the fiscal year to February 2004. Although imports dominate this sector domestically, Star Micronics is confident of being able to supply locally made products with superior cost-performance, as doing so eliminates the exchange rate factor and does away with commissions paid to import agents.

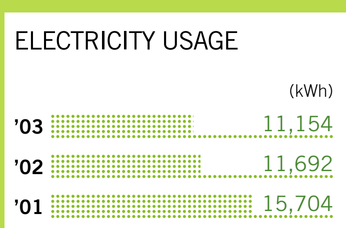
Led by medical equipment parts, earnings in the Precision Products Segment should head toward recovery in the next fiscal year to February 2004.

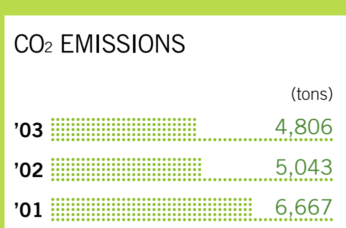
In April 2001, a Shanghai-based joint venture was established, Shanghai S&E Precision Co., Ltd., to manufacture components for car audio systems sold in China. Operations commenced on target and have been proceeding smoothly. In recent years, the global manufacturing industry has been shifting production to China, and China's production capacity has expanded at a significant annual rate. Consequently, Star Micronics' precision technologies have a competitive advantage in this setting, and many of its products are in strong demand. Star Micronics is confident that China represents a promising market for the Precision Products Segment.

Environmental Activities









Star Micronics attaches considerable importance to environmental issues, seen in our formulation of an environmental action plan titled, The Star Micronics Environmental Charter. Familiar to all employees and disclosed to the public, this Charter underpins all our environmental activities.

1. THE STAR MICRONICS ENVIRONMENTAL CHARTER

Our Environmental Philosophy

As a company heavily involved in IT-related technologies and the manufacture and assembly of miniature, high-precision devices, Star Micronics has positioned environmental management activities as an integral part of its operations. This thinking forms the basis of our efforts to carry out operations in harmony with the global environment and local communities, so as to play an active role as a responsible member of society.

Fundamental Environmental Policy

Based on the above philosophy, we have clearly set out, and work to respond to, a range of important environmental issues. These include priority environmental management issues, ongoing improvements to environmental management systems, measures to prevent pollution, and strict adherence to relevant environmental laws and regulations.

2. REDUCING INDUSTRIAL WASTE AND BOOSTING RECYCLING

At Star Micronics, we are working to improve recycling activities at all our facilities in order to meet our target for zero emissions by fiscal 2005.

3. RESOURCE CONSERVATION

"Efficient use of the world's limited resources" is the phrase that guides us in our efforts to reduce consumption of paper, water, and fuel, as well as the amount of materials we use in our products.

4. ENERGY CONSERVATION

Energy conservation measures during fiscal 2003 focused on reducing consumption of electricity, gasoline and gas through a range of company-wide activities.

5. DESIGNING AND DEVELOPING ENVIRONMENTALLY FRIENDLY PRODUCTS

As a maker of precision devices, an inherent part of our operating activities is the design and manufacture of compact products. Although this dovetails well with our mission to develop environmentally friendly products, we are not resting on our laurels—as part of our commitment to the environment, we are actively seeking other ways of creating products with less impact on the environment at an early stage in the design and development process. These include using lead-free solder; employing arc-welding and thermo-compression techniques that do not use lead; extending the useful life of products; making use of recyclable plastics; conserving energy with low-voltage drive trains in lathes and other machine tools; reducing our business footprint by miniaturizing where possible and conserving resources; paring back the number of components used in products; and reducing noise pollution.

6. ISO 14001 CERTIFICATION

Motivated by our declaration in 2000 to work toward company-wide ISO 14001 accreditation, we reached an important milestone in fiscal 2003 with our remaining domestic factories securing certification. Overseas, Star Micronics Manufacturing Dalian Co., Ltd. also received ISO 14001 certification in May 2002.

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)				
	2003	2002	2001	2000	1999
For the year:					
Net sales	**¥38,612**	¥43,265	¥52,304	¥44,914	¥46,480
Cost of sales	**25,225**	27,295	33,863	28,852	28,269
Selling, general and administrative expenses	**10,979**	11,907	12,089	11,509	12,323
Operating income	**2,408**	4,063	6,352	4,553	5,888
Other expenses	**(980)**	(1,911)	(1,036)	(1,321)	(1,041)
Income before income taxes and minority interests	**1,428**	2,152	5,316	3,232	4,847
Income taxes	**997**	1,557	2,014	511	912
Minority interests	**(3)**	18	28	19	36
Net income	**434**	577	3,274	2,702	3,899
Per share:					
Net income	**¥7.77**	¥10.21	¥57.91	¥47.84	¥69.02
Fully diluted net income				47.81	69.00
At year-end:					
Current assets	**¥38,424**	¥37,979	¥48,053	¥40,119	¥38,885
Property, plant and equipment	**17,602**	19,430	17,626	14,633	15,289
Total assets	**62,403**	65,394	72,211	62,950	61,525
Long-term liabilities	**2,575**	2,227	1,442	2,587	1,864
Shareholders' equity	**45,024**	46,978	46,799	42,932	40,584

	Yen				
Stock exchange price per share of common stock:					
Highest	**¥1,120**	¥1,704	¥2,120	¥1,917	¥860
Lowest	**420**	490	1,024	505	413

Consolidated Balance Sheets

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents	**¥ 9,837**	¥ 5,907	**$ 83,364**
Marketable securities (Note 3)	**529**		**4,483**
Short-term investments (Note 4)	**15**	15	**127**
Receivables:			
Trade notes	**1,043**	1,020	**8,839**
Trade accounts (Note 11)	**8,330**	8,773	**70,593**
Non-consolidated subsidiaries and associated companies	**390**	33	**3,305**
Other	**836**	1,157	**7,085**
Allowance for doubtful receivables	**(413)**	(475)	**(3,500)**
Inventories (Note 5)	**16,931**	20,225	**143,483**
Deferred tax assets (Note 10)	**386**	845	**3,271**
Prepaid expenses and other	**540**	479	**4,577**
Total current assets	**38,424**	37,979	**325,627**
Property, plant and equipment (Note 6)**:**			
Land	**2,712**	2,713	**22,983**
Buildings and structures	**12,295**	12,541	**104,195**
Machinery and equipment	**36,291**	37,870	**307,551**
Construction in progress	**322**	53	**2,729**
Total	**51,620**	53,177	**437,458**
Accumulated depreciation	**(34,018)**	(33,747)	**(288,288)**
Net property, plant and equipment	**17,602**	19,430	**149,170**
Investments and other assets:			
Investment securities (Notes 3 and 6)	**2,428**	3,402	**20,576**
Investments in non-consolidated subsidiaries and associated companies	**228**	240	**1,932**
Deferred tax assets (Note 10)	**831**	921	**7,042**
Goodwill	**1,719**	1,895	**14,568**
Other assets	**1,171**	1,527	**9,924**
Total investments and other assets	**6,377**	7,985	**54,042**
Total	**¥ 62,403**	¥ 65,394	**$ 528,839**

See notes to consolidated financial statements.

Liabilities and shareholders' equity	Millions of yen **2003**	2002	Thousands of U.S. dollars (Note 1) **2003**
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 2,803**	¥ 3,572	**$ 23,754**
Current portion of long-term debt (Note 6)	**53**	1,225	**449**
Payables:			
Trade notes	**109**	738	**924**
Trade accounts	**6,974**	5,857	**59,102**
Non-consolidated subsidiaries and associated companies	**50**	43	**424**
Other	**1,151**	841	**9,754**
Income taxes payable (Note 10)	**319**	496	**2,703**
Accrued expenses	**1,291**	1,356	**10,941**
Other (Note 7)	**1,965**	1,918	**16,653**
Total current liabilities	**14,715**	16,046	**124,704**
Long-term liabilities:			
Long-term debt (Note 6)	**1,904**	958	**16,136**
Liability for retirement benefits (Note 8)	**657**	1,244	**5,568**
Other	**14**	25	**118**
Total long-term liabilities	**2,575**	2,227	**21,822**
Minority interests	**89**	143	**754**
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 2003 and 2002	**12,722**	12,722	**107,813**
Additional paid-in capital	**13,877**	13,877	**117,602**
Retained earnings	**20,152**	20,281	**170,779**
Unrealized loss on available-for-sale securities	**(169)**	(188)	**(1,432)**
Foreign currency translation adjustments	**(774)**	299	**(6,559)**
Total	**45,808**	46,991	**388,203**
Treasury stock – at cost 1,184,524 shares in 2003 and 16,684 shares in 2002	**(784)**	(13)	**(6,644)**
Total shareholders' equity	**45,024**	46,978	**381,559**
Total	**¥62,403**	¥65,394	**$528,839**

Consolidated Statements of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net sales (Note 11)	**¥38,612**	¥43,265	**$327,220**
Cost of sales (Note 8)	**25,225**	27,295	**213,771**
Gross profit	**13,387**	15,970	**113,449**
Selling, general and administrative expenses (Notes 8 and 12)	**10,979**	11,907	**93,042**
Operating income	**2,408**	4,063	**20,407**
Other income (expenses):			
Interest and dividend income	**133**	279	**1,127**
Interest expense (Note 6)	**(74)**	(131)	**(627)**
Exchange gain (loss) – net	**(635)**	114	**(5,381)**
Gain on sales of property, plant and equipment	**23**	68	**195**
Loss on disposals of property, plant and equipment	**(161)**	(189)	**(1,364)**
Loss on valuation of investment securities	**(406)**	(511)	**(3,441)**
Charge for full amount of transitional obligations for retirement benefits		(1,607)	
Other–net (Note 14)	**140**	66	**1,186**
Other expenses – net	**(980)**	(1,911)	**(8,305)**
Income before income taxes and minority interests	**1,428**	2,152	**12,102**
Income taxes (Note 10):			
Current	**388**	1,200	**3,288**
Deferred	**609**	357	**5,161**
Total	**997**	1,557	**8,449**
Income before minority interests	**431**	595	**3,653**
Minority interests in net income (loss)	**(3)**	18	**(25)**
Net income	**¥ 434**	¥ 577	**$ 3,678**

	Yen		U.S. dollars
Per share of common stock (Notes 2.n and 9):			
Net income	**¥ 7.77**	¥10.21	**$0.07**
Cash dividends applicable to the year	**10.00**	10.00	**0.09**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2003 and 2002

	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, 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)
Net income				**434**			
Cash dividends, ¥10.0 per share				**(563)**			
Net decrease in unrealized loss on available-for-sale securities					**19**		
Net decrease in foreign currency translation adjustments						**(1,073)**	
Treasury stock acquired – net (1,167,840 shares)							**(771)**
Balance, February 28, 2003	**56,533**	**¥12,722**	**¥13,877**	**¥20,152**	**¥(169)**	**¥ (774)**	**¥(784)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Unrealized loss on available-for-sale securities	Foreign currency translation adjustments	Treasury stock-at cost
Balance, February 28, 2002	$ 107,813	$ 117,602	$ 171,872	$ (1,593)	$ 2,534	$ (110)
Net income			3,678			
Cash dividends, $0.09 per share			(4,771)			
Net decrease in unrealized loss on available-for-sale securities				161		
Net decrease in foreign currency translation adjustments					(9,093)	
Treasury stock acquired – net (1,167,840 shares)						(6,534)
Balance, February 28, 2003	**$107,813**	**$117,602**	**$170,779**	**$(1,432)**	**$(6,559)**	**$(6,644)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Operating activities:			
Income before income taxes and minority interests	**¥ 1,428**	¥ 2,152	**$ 12,102**
Adjustments for:			
Income taxes – paid	**(785)**	(2,651)	**(6,653)**
Income taxes – refunded	**419**		**3,551**
Depreciation and amortization	**3,475**	3,823	**29,449**
Provision for doubtful receivables	**(75)**	11	**(636)**
Provision for retirement benefits	**(579)**	1,049	**(4,907)**
Loss on devaluation of marketable and investment securities	**406**	511	**3,441**
Loss on sales of marketable and investment securities	**6**	136	**51**
Loss on sales and disposals of property, plant and equipment	**139**	120	**1,178**
Payments of bonuses to directors and corporate auditors		(30)	
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	**(334)**	6,472	**(2,831)**
Decrease (increase) in inventories	**2,391**	(720)	**20,263**
Decrease (increase) in interest and dividend receivables	**0**	13	**0**
Increase (decrease) in trade payables	**1,253**	(9,468)	**10,619**
Increase in interest payable	**2**	1	**17**
Other–net	**339**	(1,704)	**2,873**
Total adjustments	**6,657**	(2,437)	**56,415**
Net cash provided by (used in) operating activities	**8,085**	(285)	**68,517**
Investing activities:			
Purchases of property, plant and equipment	**(1,765)**	(3,457)	**(14,958)**
Proceeds from sales of property, plant and equipment	**52**	246	**441**
Purchases of marketable and investment securities	**(87)**	(408)	**(737)**
Proceeds from sales of marketable and investment securities	**168**	1,047	**1,424**
Payments for loans receivable	**(15)**	(29)	**(127)**
Collection of loans receivable	**16**	41	**135**
Payments for purchases of consolidated subsidiaries, net of acquired		(2,069)	
Other–net	**25**	200	**212**
Net cash used in investing activities	**(1,606)**	(4,429)	**(13,610)**
Financing activities:			
Decrease (increase) in short-term bank loans–net	**(569)**	2,172	**(4,822)**
Proceeds from long-term debt	**1,000**	900	**8,474**
Repayments of long-term debt	**(1,225)**	(1,143)	**(10,381)**
Dividends paid to shareholders	**(563)**	(565)	**(4,771)**
Dividends paid to minority shareholder of consolidated subsidiaries		(84)	
Payments for purchases of treasury stocks	**(772)**	(41)	**(6,542)**
Other–net	**(89)**	(20)	**(754)**
Net cash used in (provided by) financing activities	**(2,218)**	1,219	**(18,796)**
Foreign currency translation adjustments on cash and cash equivalents	**(372)**	539	**(3,153)**
Net increase (decrease) in cash and cash equivalents	**3,889**	(2,956)	**32,958**
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	**41**	53	**347**
Cash and cash equivalents at beginning of year	**5,907**	8,810	**50,059**
Cash and cash equivalents at end of year	**¥ 9,837**	¥ 5,907	**$ 83,364**
Additional information:			
Purchase of consolidated subsidiaries:			
Assets acquired		¥ 2,139	
Liabilities assumed		82	
Minority interest		98	
Investments at beginning of year		1,591	
Cash paid for the capital		2,424	
Goodwill		2,056	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2003 and 2002

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 Financial Reporting 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.

Certain reclassifications have been made in the 2002 consolidated financial statements to conform to the classifications used in 2003.

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 ¥118 to $1, the approximate rate of exchange at February 28, 2003. 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, 2003 include the accounts of the Company and its eighteen 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 at the end of February, and those of consolidated subsidiaries outside of Japan end on December 31. Significant transactions that occur for the period from January 1 to the end of February are reflected in the accompanying consolidated financial statements.

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. The inventories held by certain consolidated subsidiaries are generally stated at the lower of cost (first-in, first-out) or market.

d. Marketable and Investment Securities

All securities are classified as available-for-sale securities.

Marketable securities 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.

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.

Effective for the fiscal year commencing after March 1, 2001, 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 as of March 1, 2001 was charged to income and presented as other expense in the consolidated income statement for the year ended February 28, 2002.

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

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated income statement to the extent that they are not hedged by forward exchange contracts.

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.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

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.

All derivatives are 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.

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 55,928,271 shares for 2003 and 56,528,016 shares for 2002.

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, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Current:			
Corporate and other bonds	**¥ 426**		**$ 3,610**
Trust fund investment and other	**103**		**873**
Total	**¥ 529**		**$ 4,483**
Non-current:			
Equity securities	**¥1,618**	¥1,830	**$13,712**
Corporate and other bonds	**278**	807	**2,356**
Trust fund investment and other	**532**	765	**4,508**
Total	**¥2,428**	¥3,402	**$20,576**

Information regarding the category of securities classified as available-for-sale at February 28, 2003 and 2002, was as follows:

	Millions of yen			
2003	Cost	Unrealized Gains	Unrealized Losses	Value Fair
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,767**	**¥26**	**¥272**	**¥1,521**
Corporate and other bonds	**700**	**8**	**4**	**704**
Trust fund investments and other	**678**	**3**	**46**	**635**

	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 investments and other	867		102	765

	Thousands of U.S. Dollars			
2003	Cost	Unrealized Gains	Unrealized Losses	Value Fair
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$14,975**	**$220**	**$2,305**	**$12,890**
Corporate and other bonds	**5,932**	**68**	**34**	**5,966**
Trust fund investments and other	**5,746**	**25**	**390**	**5,381**

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2003 and 2002, were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Available-for-sale:			
Equity securities	**¥97**	¥71	**$822**
Total	**¥97**	¥71	**$822**

Proceeds from sales of available-for-sale securities for the year ended February 28, 2003 and 2002, were ¥149 million ($1,263 thousand) and ¥1,358 million, respectively. Gross realized losses on these sales, computed on the moving average cost basis, was ¥6 million ($51 thousand) and ¥136 million, for the year ended February 28, 2003 and 2002, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 28, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	**¥ 529**	¥ 228	**$4,483**
Due after one year through five years	**544**	1,055	**4,610**
Due after five years through ten years	**75**	102	**636**
Total	**¥1,148**	¥1,385	**$9,729**

4. Short-term Investments

Short-term investments at February 28, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deposits over 3-month period	**¥15**	¥15	**$127**

5. Inventories

Inventories at February 28, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Merchandise	**¥ 234**	¥ 326	**$ 1,983**
Finished products	**10,752**	12,740	**91,119**
Work in process	**2,421**	2,877	**20,517**
Raw materials and supplies	**3,524**	4,282	**29,864**
Total	**¥16,931**	¥20,225	**$143,483**

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

Short-term bank loans at February 28, 2003 and 2002 consisted of notes to banks, bank overdrafts and collateralized bank loans. The collateralized bank loans were ¥620 million at February 28, 2002. The annual interest rates applicable to the short-term bank loans ranged from 0.58% to 2.22% and 0.5% to 5.5625% at February 28, 2003 and 2002, respectively.

Long-term debt at February 28, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Loans principally from banks due serially to 2008 with interest rate ranging from 0.7% to 12.0% (2003) and from 1.14% to 12.0% (2002):			
Collateralized	**¥1,950**	¥ 2,155	**$16,526**
Unsecured	**7**	28	**59**
Total	**1,957**	2,183	**16,585**
Less current portion	**(53)**	(1,225)	**(449)**
Long-term debt, less current portion	**¥1,904**	¥ 958	**$16,136**

Annual maturities of long-term debt at February 28, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending the last day of February		
2004	¥ 53	$ 449
2005	904	7,661
2006	1,000	8,475
2007		
2008		
Total	¥1,957	$16,585

The carrying amounts of assets pledged as collateral for the above collateralized short-term bank loans and long-term debt at February 28, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment – net of accumulated depreciation	¥4,199	$35,585
Investment securities	79	669
Total	¥4,278	$36,254

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 ¥1,784 million ($15,119 thousand) and ¥1,631 million at February 28, 2003 and 2002, 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.

Effective for the fiscal year commencing after March 1, 2001, the Group adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at February 28, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation	**¥(7,672)**	¥(7,516)	**$(65,017)**
Fair value of plan assets	**5,276**	5,080	**44,712**
Unrecognized actuarial loss	**1,926**	1,387	**16,322**
Net liability	**¥ (470)**	¥(1,049)	**$ (3,983)**

The components of net periodic benefit costs for the year ended February 28, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥ 348**	¥ 288	**$ 2,949**
Interest cost	**150**	189	**1,271**
Expected return on plan assets	**(152)**	(141)	**(1,288)**
Recognized actuarial loss	**99**		**839**
Charge of transitional obligation		1,607	
Net periodic benefit costs	**¥ 445**	¥1,943	**$ 3,771**

Assumptions used for the year ended February 28, 2003 and 2002 were set forth as follows:

	2003	2002
Discount rate	**2%**	2%
Expected rate of return on plan assets	**3%**	3%
Recognition period of actuarial gain/loss	**14 years**	14 years
Amortization period of transitional obligation		1 year

The liability for retirement benefits at February 28, 2003 and 2002 for directors and corporate auditors is ¥187 million ($1,585 thousand) and ¥195 million, respectively. 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.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥14,551 million ($123,314 thousand) as of February 28, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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

The company has a stock option plan. On May 23, 2002, the shareholders of the Company approved the issurance of new stock acquisition rights of 157,000 shares as a stock option plan for directors and key employees of the Company and directors of its consolidated subsidiaries, which are exercisable from May 24, 2004 to May 23, 2008 at an exercise price of ¥1,020.

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, 2003 and 2002. 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Current:			
Deferred tax assets			
Unrealized profit on inventories	**¥ 114**	¥757	**$ 966**
Accrued bonuses	**142**	102	**1,203**
Loss on disposal of inventories	**106**	57	**898**
Tax loss carryforwards		31	
Allowance for doubtful receivables	**11**	16	**94**
Other	**37**	40	**314**
Less valuation allowance		(29)	
Total deferred tax assets	**¥ 410**	¥974	**$ 3,475**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 103**	¥ 86	**$ 873**
Tax-deductible inventories	**40**	53	**339**
Enterprise taxes	**5**	17	**43**
Allowance for doubtful receivables	**7**	12	**59**
Other	**40**	42	**339**
Total deferred tax liabilities	**¥ 195**	¥210	**$ 1,653**
Net deferred tax assets	**¥ 215**	¥764	**$ 1,822**
Non-Current:			
Deferred tax assets			
Pension and severance costs	**¥ 193**	¥432	**$ 1,636**
Write-down of investment securities	**410**	284	**3,475**
Net unrealized loss on available-for-sale securities	**118**	132	**1,000**
Retirement benefits for directors and corporate auditors	**77**	80	**652**
Depreciation	**90**	73	**763**
Other	**165**	27	**1,398**
Less valuation allowance	**(183)**	(64)	**(1,551)**
Total deferred tax assets	**¥ 870**	¥964	**$ 7,373**
Deferred tax liabilities			
Property, plant and equipment	**39**	43	**331**
Other	**0**	3	**0**
Total deferred tax liabilities	**¥ 39**	¥ 46	**$ 331**
Net deferred tax assets	**¥ 831**	¥918	**$ 7,042**

A reconciliation between the normal effective statutory tax rate for the year ended February 28, 2003 and 2002 and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2003	2002
Normal effective statutory tax rate	**41.2%**	41.2%
Reversal of deferred tax assets on unrealized profit	**23.5**	26.6
Amortization of excess cost of investments in consolidated subsidiaries	**6.6**	4.9
Other	**(1.5)**	(0.3)
Actual effective tax rate	**69.8%**	72.4%

The normal effective tax rate reflected in the accompanying consolidated statements of income for the years ended February 28, 2003 and 2002 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, 2003 and 2002, and related transactions for the years ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
(1) Citizen Watch Co., Ltd.			
Transaction:			
Sales	**¥1,912**	¥1,852	**$16,203**
Balance at year-end:			
Trade accounts receivable	**750**	677	**6,356**

12. Research and Development Costs

Research and development costs charged to income were ¥2,171 million ($18,398 thousand) and ¥2,370 million for the years ended February 28, 2003 and 2002, 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 ¥90 million ($763 thousand) and ¥108 million for the years ended February 28, 2003 and 2002, 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, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Acquisition cost	**¥545**	¥615	**$4,619**
Accumulated depreciation	**320**	392	**2,712**
Net leased property	**¥225**	¥223	**$1,907**

The pro forma depreciation expenses computed by the straight-line method were ¥90 million ($763 thousand) and ¥108 million for the years ended February 28, 2003 and 2002, respectively.

Obligations under financial leases at February 28, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 89**	¥ 79	**$ 754**
Due after one year	**136**	144	**1,153**
Total	**¥225**	¥223	**$1,907**

The 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 44**	¥ 94	**$ 373**
Due after one year	**367**	471	**3,110**
Total	**¥411**	¥565	**$3,483**

14. Other Income (Expenses) – Other-net

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Loss on sales of marketable and investment securities	**¥ (6)**	¥(136)	**$ (51)**
Other	**146**	202	**1,237**
Other – net	**¥140**	¥ 66	**$1,186**

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 primarily the responsibility of 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, 2003 and 2002 are as follows:

	Millions of yen		
2003	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:			
Receivables:	**¥3,523**	**¥3,475**	**¥48**
Payables:	**73**	**72**	**(1)**
Total			**¥47**

	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, 2003 and 2002, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Guarantees of bank loans	**¥127**	¥95	**$1,076**

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, 2003 and 2002 was as follows:

(1) Operations in Different Industries

	Millions of yen				
2003	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**¥21,390**	**¥13,627**	**¥3,595**		**¥38,612**
Intersegment sales					
Total sales	**21,390**	**13,627**	**3,595**		**38,612**
Operating expenses	**19,047**	**12,141**	**3,004**	**¥ 2,012**	**36,204**
Operating income	**¥ 2,343**	**¥ 1,486**	**¥ 591**	**¥(2,012)**	**¥ 2,408**
Assets	**¥33,198**	**¥15,219**	**¥5,354**	**¥ 8,632**	**¥62,403**
Depreciation and amortization	**2,238**	**429**	**433**	**148**	**3,248**
Capital expenditures	**1,439**	**118**	**162**	**443**	**2,162**

	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

	Thousands of U.S. Dollars				
2003	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**$181,271**	**$115,483**	**$30,466**		**$327,220**
Intersegment sales					
Total sales	**181,271**	**115,483**	**30,466**		**327,220**
Operating expenses	**161,415**	**102,890**	**25,457**	**$ 17,051**	**306,813**
Operating income	**$ 19,856**	**$ 12,593**	**$ 5,009**	**$(17,051)**	**$ 20,407**
Assets	**$281,339**	**$128,975**	**$45,373**	**$ 73,152**	**$528,839**
Depreciation and amortization	**18,966**	**3,636**	**3,669**	**1,254**	**27,525**
Capital expenditures	**12,195**	**1,000**	**1,373**	**3,754**	**18,322**

* 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 ¥2,012 million ($17,051 thousand) and ¥2,150 million for the years ended February 28, 2003 and 2002, 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 ¥8,632 million ($73,152 thousand) and ¥8,602 million at February 28, 2003 and 2002, respectively.

(2) Foreign Operations

	Millions of yen					
2003	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Outside customers	**¥16,869**	**¥6,546**	**¥8,425**	**¥ 6,772**		**¥38,612**
Inter-area transfers	**17,701**	**21**	**0**	**10,313**	**¥(28,035)**	
Total	**34,570**	**6,567**	**8,425**	**17,085**	**(28,035)**	**38,612**
Operating expenses	**31,568**	**6,149**	**7,916**	**17,344**	**(26,773)**	**36,204**
Operating income	**¥ 3,002**	**¥ 418**	**¥ 509**	**¥ (259)**	**¥ (1,262)**	**¥ 2,408**
Assets	**¥50,667**	**¥6,182**	**¥6,157**	**¥20,970**	**¥(21,573)**	**¥62,403**

	Millions of yen					
2002	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
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

	Thousands of U.S. dollars					
2003	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Outside customers	**$142,958**	**$55,474**	**$71,398**	**$ 57,390**		**$327,220**
Inter-area transfers	**150,008**	**179**	**0**	**87,398**	**$(237,585)**	
Total	**292,966**	**55,653**	**71,398**	**144,788**	**(237,585)**	**327,220**
Operating expenses	**267,525**	**52,111**	**67,084**	**146,983**	**(226,890)**	**306,813**
Operating income	**$ 25,441**	**$ 3,542**	**$ 4,314**	**$ (2,195)**	**$ (10,695)**	**$ 20,407**
Assets	**$429,381**	**$52,390**	**$52,178**	**$177,712**	**$(182,822)**	**$528,839**

* 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 ¥2,012 million ($17,051 thousand) and ¥2,150 million for the years ended February 28, 2003 and 2002, 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 ¥8,632 million ($73,152 thousand) and ¥8,602 million at February 28, 2003 and 2002, respectively.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Europe	**¥ 8,239**	¥11,153	**$ 69,822**
North America	**9,336**	10,362	**79,119**
Asia	**12,887**	12,299	**109,212**
Total	**¥30,462**	¥33,814	**$258,153**

* 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, 2003 were approved at the Company's Shareholders' meeting held on May 22, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥5 ($0.042) per share	¥277	$2,347

On May 22, 2003, the shareholders of the Company approved the issuance of new stock acquisition rights as a stock option plan for directors and key employees of the Company and directors of its consolidated subsidiaries. Under this approval, the maximum number of shares to be issued is 160,000 shares of common shares, which are exercisable from May 23, 2005 to May 22, 2009.

Independent Auditors' Report

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Agora Shizuoka
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Deloitte
Touche
Tohmatsu

INDEPENDENT AUDITORS' REPORT

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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. 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, 2003 and 2002, 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.

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 22, 2003

Directors and Auditors

President and CEO	Shozo Kasuya
Senior Managing Director	Toshihiro Suzuki
Managing Directors	Hajime Sato Noriaki Okamoto
Directors	Masahiro Kato Tomohiko Okitsu Kanji Suzuki Chiaki Fushimi Satomi Jojima
Corporate Auditors	Katsuji Ito Osamu Yamada Hirofumi Odo

(as of May 22, 2003)

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	7,354
Stock Listings	First Section of the Tokyo and Nagoya Stock Exchanges Frankfurt Stock Exchange

(as of February 28, 2003)

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.	19/F., Enterprise Square Ⅱ, 3 Sheung Yuet Road, Kowloon Bay, 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., Enterprise Square Ⅱ, 3 Sheung Yuet Road, Kowloon Bay, 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. +41-43-411-6060
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
Star America Holding, Inc.	Suite 100, 30 Old Rudnick Lane, Dover Kent, DE 19901, USA
Dalian Sande Electronics Co., Ltd.	18, West Huai He Road, Dalian Economic & Technical Development Zone, Dalian, PRC Tel. +86-411-7614-659
Shanghai S&E Precision Co., Ltd.*	1-39, East Kangqiao Road, Kangqiao Industrial Zone, Pudong, Shanghai, PRC Tel. +86-21-6813-0222
Star Machine Tool France	53 Av. du Crozet FR-74950 Scionzier, France Tel. +33-450-96-05-97
Shanghai Xingang Machinery Co., Ltd.*	229 Fute Road (N), Waigaoqiao Free Trade Zone, Shanghai 200131, PRC Tel. +86-21-5868-2100

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

* Non-consolidated

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