STAR MICRONICS CO., LTD.

ANNUAL REPORT 2004

For the year ended February 29, 2004

Strength in Depth

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 2004, there were 5 Japanese and 13 overseas subsidiaries. Total employment is about 5,100, 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.

A New Leader for the Next Stage of Growth

Effective May 27, 2004, Shozo Kasuya, formerly Star Micronics president and CEO, was appointed to the position of chairman, while Toshihiro Suzuki was chosen as his successor. During the last two years as senior managing director, Mr. Suzuki has supported the president and been directly involved in the management of the company, overseeing the General Administration Headquarters and driving forward the research and development of new products.

At Star Micronics, we have successfully overcome a number of issues in the past few years raised by the bursting of the IT bubble and changes to accounting procedures. Now, after making significant progress in strengthening the company's financial position during the year under review, we are finally ready to take Star Micronics toward our long-held goal—the next stage of growth. Challenges await: changes in our operating environment are rapid, competition is intensifying as barriers to global trade disappear, and the needs of our customers have become increasingly diverse. Guided by our new president, we will take a global approach to the development of our business in identified growth fields and regions, working, as always, to further raise the enterprise value of your company.

To Our Shareholders

We posted a marked improvement in profitability in fiscal 2004, mainly due to a significant increase in demand for machine tools on the back of rising global capital investment. However, we know that we have to keep expanding our customer base and product lineup if we are to create an operating structure capable of weathering downturns in the market. In short, a company with Strength in Depth. In the past year, we saw the first benefits of this approach begin to emerge.

During fiscal 2004, ended February 29, 2004, Star Micronics posted a significant improvement in both top- and bottom-line performance. Operating income rose 47.4% to ¥3,550 million and net income surged 459.0% to ¥2,426 million, on net sales of ¥43,332 million, 12.2% higher than the previous year. There were two key reasons for these stronger results: sales of machine tools grew, supported by rising capital investment in many of the world's key markets, and in an area that concerned us, shipments of printers for the new Chinese tax collection system finally resumed. As a result, we reported full-year results that were well ahead of our initial forecasts. In other business segments, orders for wristwatch components in the Precision Products Segment were steady, but the decline in unit prices was severe, resulting in a dip in sales year on year. In non-wristwatch components, part of the same segment, sales rose significantly on the back of strong demand for HDD and other components.

In the Components Division, part of the Precision Electronic Equipment Segment, sales of electronic buzzers fell as shipment volumes and unit prices both declined. The division also reported an operating loss. On a more optimistic note, there were positive signs following the full-scale launch of new microphones, receivers and other components during the year under review. Supported by these new products, I believe the Components Division will move ahead strongly next year. Also during fiscal 2004, the first benefits of steps to reinforce the company's financial position over the past few years started to emerge. Building on this momentum, we will continue to pare back costs going forward to create an even more competitive operating profile.

Effective May 27, 2004, changes were made to your company's senior management team. With our new appointments, we are now more aware than ever of the expectations on us to tackle the issues facing Star Micronics. Together with the entire Star Micronics team, we will strive to deliver higher levels of satisfaction to all our stakeholders. Join us as we work to take Star Micronics to the next stage of growth.

May 2004

Shozo Kasuya
Chairman

Toshihiro Suzuki
President and CEO

Left : **Shozo Kasuya** Chairman Right : **Toshihiro Suzuki** President and CEO

A Conversation With President and CEO Toshihiro Suzuki

Product diversification and a wider customer base translates into stable earnings

In fiscal 2004, ended February 29, 2004, we achieved a significant improvement in profitability on net sales of ¥43,332 million, 12.2% up year on year. Operating income rose 47.4% to ¥3,550 million and net income increased by over four times to ¥2,426 million. The single biggest factor behind this performance was sharp growth for our machine tool products, reflecting a global increase in capital investment, particularly in the automotive and digital equipment industries. Responding to the cyclical downturn in its market, the Machine Tools Segment has successfully diversified its product lineup and expanded its customer base to create a more stable operating profile.

QUESTION: How exactly did machine tools drive growth during the year?

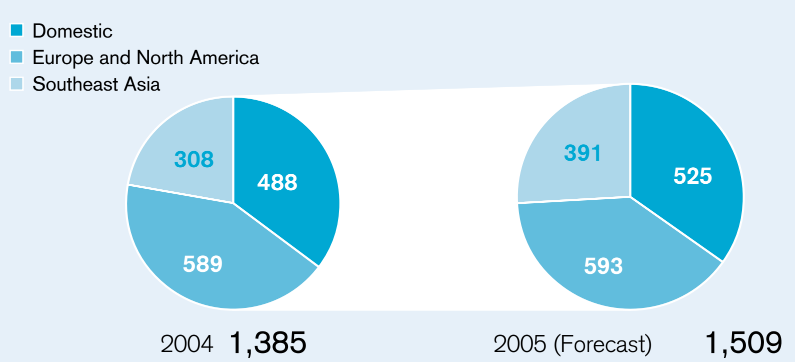
ANSWER: In fiscal 2004, we witnessed a recovery in demand for machine tools in the automotive, medical and precision equipment industries in the U.S., Europe and Asia. Both high-end and mid-range products benefited. In the past, Star Micronics has earned a reputation for supplying high-end complex machine tools to industry in the U.S. and Europe. However, we've now reinforced our lineup of mid-range complex models with the SB-16, a machine offering superior cost-performance aimed at the lower end of the market. The SB-16 has also been designed to meet the manufacturing requirements of customers in the automotive industry, enabling us to expand our customer base in this field in both Japan and Southeast Asia. Overall sales growth was also supported by solid demand for high-end complex models on the back of higher capital investment by digital consumer electronics manufacturers in Japan, and medical equipment and precision equipment makers in the U.S. and Europe.

QUESTION: How did machine tools perform by product?

ANSWER: Shipments of our high-end complex models, traditionally products that we've been strong in, grew 19% year on year on a monetary basis. In the past year, in addition to the U.S. and Europe, this growth was supported by rising demand from the domestic market, as automotive manufacturers boosted capital investment and consumer electronics makers invested in digital products such as flat-screen TVs and digital cameras. We expect this demand to remain at high levels for the foreseeable future. In response to these changes in the market landscape, we are broadening our high-end model product range to satisfy emerging needs. One example is the ECAS-20. Selling well since its launch in the spring of 2003, this product is capable of complex geometry machining, and also offers greater productivity, thanks to a design that reduces non-machining time. In a similar vein, we have developed the top-of-the-range ECAS-32T, which we plan to launch in the first half of fiscal 2005. We aim to further increase sales by using these machines to target manufacturers of high-value-added components in Japan, North America and Europe.

MACHINE TOOL ORDERS BY REGION

(Units)



THE SB-16 ACCOUNTED FOR 40% OF OUR MACHINE TOOL SHIPMENTS IN UNIT TERMS IN FISCAL 2004, AND 20% OF SALES IN THE MACHINE TOOLS SEGMENT.

QUESTION: What about mid-range complex models?

ANSWER: Shipments of these models were up 75% year on year in monetary terms. Until recently, we'd mainly focused on high-end models to avoid price competition in this market. But thanks to our SB-16 model, which is manufactured in China, we've enhanced our ability to compete on price and aggressively moved into the lower end of the mid-range market. The figures speak for themselves: the SB-16 accounted for 40% of our machine tool shipments in unit terms in fiscal 2004, and 20% of sales in the Machine Tools Segment. In short, it's now one of our strategic products.

When we launched the SB-16 in October 2002 it was initially manufactured in Japan. From June 2003, we gradually began moving production processes to a manufacturing subsidiary based in Dalian, China. With this transfer completed in March 2004, we expect to see further improvements in SB-16

Financial Highlights

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2004 and February 28, 2003

	Millions of yen		Change (%)	Thousands of U.S. dollars
	2004	2003	2004/2003	2004
For the year:				
Net sales	¥43,332	¥38,612	12.2%	$393,927
Net income	2,426	434	459.0	22,055
Return on sales	5.6%	1.1%		
Capital expenditures	2,058	2,162	(4.8)	18,709
Depreciation and amortization	2,854	3,248	(12.1)	25,945
At year-end:				
Total assets	¥57,898	¥62,403	(7.2)%	$526,345
Shareholders' equity	44,613	45,024	(0.9)	405,573
Equity ratio	77.1%	72.2%		
Interest-bearing debt	1,403	4,760	(70.5)	12,754
	Yen		Change (%)	U.S. dollars
Per share:				
Net income	¥44.12	¥ 7.77	468.0%	$0.40
Cash dividends applicable to the year	11.00	10.00	10.0	0.10

Note: The rate of ¥110 to US$1, prevailing on February 29, 2004, has been used for translation into U.S. dollar amounts.

SOME LEADING OVERSEAS MOBILE PHONE MAKERS ADOPTED OUR MICROPHONE AND RECEIVER COMPONENTS BASED ON OUR TRACK RECORD WITH BUZZERS AND OUR PROVEN PRODUCT DEVELOPMENT CAPABILITIES.

profitability in the year ending February 28, 2005. Because our rivals still haven't taken similar steps, I believe we've secured a significant cost advantage.

QUESTION: There seems to be some room for optimism in the Components Division, which had been an area of concern. Can you comment on this?

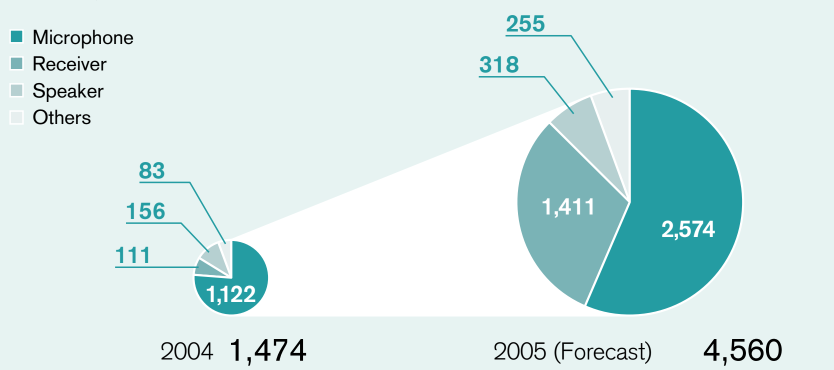
ANSWER: Yes, I'm very pleased with the progress we've made in this area. Results in this division, part of the Precision Electronic Equipment Segment, had been deteriorating as it struggled to respond to two challenges: falling shipments of electronic buzzers for mobile phones as makers shifted from these components to speakers, and unrelenting downward price pressure. However, in the year under review, some leading overseas mobile phone makers also adopted our microphone and receiver components based on our track record with buzzers and our proven product development capabilities, giving a shot in the arm to new micro audio component sales. Capitalizing on success in winning these new orders, we also closed a number of similar deals with Japanese manufacturers, helping us to further broaden our customer base. Thanks to these developments, we expect to see an upturn in Components Division sales. The ratio of new micro audio component sales saw a marked improvement in fiscal 2004: around 20% of micro audio component shipments were in this category, primarily microphones, receivers and speakers. We expect this ratio to increase further to exceed 50% in the fiscal year ending February 28, 2005.

QUESTION: How did the Components Division perform on the profit side?

ANSWER: Despite steadily falling prices for electronic buzzers, we continued to work to reduce material and manufacturing costs, successfully halting the rising cost of sales ratio. For example, we've started to transfer our Japan-based die assembly manufacturing to China, and we expect to complete this process in June 2004. With this shift, we will eliminate the distance between die assembly manufacturing lines and production facilities and the related time issues, and further reduce costs and the ratio of defective products.

Compared to electronic buzzers, microphones and receivers are a relatively new product segment for us, so there are still a number of frontline manufacturing issues that need to be ironed out, such as reducing the ratio of defective products and

SALES OF NEW COMPONENTS
(Millions of yen)



A HIGHER WEIGHTING OF THESE PRODUCTS (MICROPHONES AND RECEIVERS) IN THE OVERALL PRODUCT MIX WILL TRANSLATE INTO IMPROVED PROFITABILITY FOR THE COMPONENTS DIVISION.

COMPREHENSIVE GROUNDWORK AND OUR BROADER PRODUCT LINEUP MEANS WE ARE READY TO QUICKLY RESPOND TO THE FURTHER ROLL OUT OF THE TAX COLLECTION SYSTEM.

normalizing production lines. So there is room for further cost savings by making improvements in these areas. And because microphones and receivers are expected to have higher unit prices and profit margins in comparison to electronic buzzers, a higher weighting of these products in the overall product mix will translate into improved profitability for the Components Division. In the long run, we aim to enhance our presence as a comprehensive maker of micro audio components by winning new customers in the automotive, digital consumer electronics and other fields.

QUESTION: Can you tell us how printer products performed in the year under review?

ANSWER: The printers we make are divided broadly into two types: computer printers centered on flatbed dot-printers, which have already been introduced in China as part of the country's new tax collection system, and are now being targeted at the Chinese business community; and point-of-sale (POS) printers, primarily thermal printers used for POS applications in Europe and the U.S., and dot-printers aimed at China.

Our sales of printers in the Chinese market depend on the pace the government implements its new tax collection system. Because the Chinese tax authorities no longer accept handwritten tax returns in many cases, businesses and state-run organizations covered by the new tax collection regime are introducing systems that require new printers. However, we've found it difficult to predict developments in this market due to delays in the roll out of the tax collection system itself and a string of changes to printer specifications. Finally, in the first half of fiscal 2004, we resumed shipments of printers for the first stage of implementation. This translated into a significant rise in shipments of computer printers from the previous fiscal year. However, it's still difficult to gain an accurate picture of the market as, at the moment, there are a great many uncertainties on the part of the Chinese tax authorities regarding the planned second stage of implementation and the introduction of the system at local tax offices.

It was against this background that we launched a competitively priced and compact 15-inch flatbed dot-printer in July 2003. This addition to our lineup means we are now better placed than our rivals to satisfy demand from a wide base of customers in China. In related moves in the market, we are currently negotiating with a Chinese systems integration firm on a sales agent deal, and talking with a local retailer about selling them printers. This kind of groundwork and our broader product lineup means we are ready to quickly respond to the further roll out of the tax collection system.

In 2002, we shifted production of thermal printers for the European and U.S. markets to China. This move has given us a strategic cost advantage and competitive prices to pitch to leading global retailers. We also aim to boost sales volumes of these printers through alliances with systems integration firms.

QUESTION: Are you concerned about the many uncertainties that could impact on earnings, such as a cyclical downturn in the machine tools market and demand for printers from China?

ANSWER: Demand for machine tools is inextricably linked to levels of corporate capital investment, and in the past, our earnings have been severely impacted by cyclical movements in this area. In response, we

IT'S IMPORTANT TO POINT OUT THAT STAR MICRONICS IS DIVERSIFYING ITS SOURCES OF EARNINGS.

WITH THE LAUNCH OF THE SB-16 IN THE MACHINE TOOLS SEGMENT, WE'VE SUCCESSFULLY BROKEN INTO THE SMALL-LOT MARKET SEGMENT, WHICH HAS A MORE STABLE DEMAND CYCLE.

have to improve our reading of the market and better anticipate demand trends in the manufacturing industry.

Global orders for machine tools have been on the rise. At the end of March 2004, we had posted 19 consecutive months of rising orders on a year-on-year basis. Demand in the machine tools market moves on approximately a two-year cycle, so we estimate at the moment that we can still expect solid orders until around August this year. While we're projecting higher sales and profits for the fiscal year ending February 28, 2005 due to this, there is a risk of rapid market contraction in the months ahead. However, there is another view that projected long-term rising demand for digital consumer electronics products such as digital cameras could sustain demand in this segment of the market.

In answering the question though, it's important to point out that Star Micronics is diversifying its sources of earnings. In the past, we'd been too reliant on single products like printers and electronic buzzers that only had one market or a handful of major customers. We've put a lot of effort into changing our earnings structure by diversifying our product lineup and broadening our customer base. The fruits of this approach finally started to show through in fiscal 2004.

In the Components Division, as I mentioned earlier, we've broadened our product lineup to reduce our reliance on electronic buzzers. At the same time, we've also won new customers in digital consumer electronics and other industries for our buzzers. In the Special Products Division, the other part of our Precision Electronic Equipment Segment, primarily handling printers, the transfer of production of thermal printers to China has given us the ability to expand sales by pricing our products more competitively. And with the launch of the SB-16 in the Machine Tools Segment, we've successfully broken into the small-lot market segment, which has a more stable demand cycle, thereby diversifying our customer base.

In this way, we've taken some major steps to improve what had been an unsteady earnings structure.

QUESTION: As part of further diversification, how is the development of next-generation components progressing?

ANSWER: In the Components Division, we're focusing on our triaxial accelerometer. This sensor is capable of detecting shock, vibration and pitch, offering a dramatic improvement in functionality over conventional accelerometers. We're working to win new orders for this component in the game console and automotive fields. We hope to boost sales in the future by encouraging existing customers to upgrade from mono-axial and biaxial accelerometers.

In the Special Products Division, we are steadily widening our customer base for card reader/writer devices. Our products are now being increasingly installed in card processing equipment for ticket machines at entertainment facilities. In the Machine Tools Segment, we are moving out of our traditional domain of Swiss-type lathes and have started developing machines that will help us move into new areas of industrial processing. By maximizing our brand power and low-cost manufacturing technologies, I'm confident we can further diversify our customer base going forward.

I THINK NOW IS THE RIGHT TIME TO REAFFIRM OUR STRENGTHS IN PRECISION TECHNOLOGIES AND MECHATRONICS AND RETURN TO OUR GRASS ROOTS AS A MANUFACTURER.

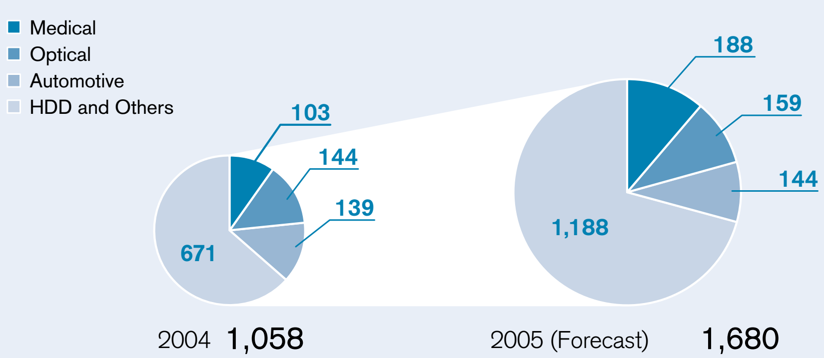
QUESTION: What issues does Star Micronics face now? What strategy does the company have mapped out to overcome these challenges?

ANSWER: Star Micronics has two key elements in its technological armory: mechanical technologies nurtured over many years, and more recently acquired electronic technology. In the last few years, we may have been caught up in the IT era and focused too much on electronic technology. Learning from this, I think now is the right time to reaffirm our strengths in precision technologies and mechatronics and return to our grass roots as a manufacturer.

Thanks to our background in mechanical technologies, I'm confident we can create a new generation of products our rivals will find hard to emulate. And by making even greater use of our unique reservoir of know-how in the field, nurtured over many years, we can further enhance our strengths. At the same time, fine-tuning our electronic technologies, which can generate overnight successes, will be vital if we are to create new products. One example is in the field of audio components, where I think we can utilize our vibration technologies to develop new products outside the micro audio component field.

SALES OF NON-WRISTWATCH COMPONENTS

(Millions of yen)



One of the biggest issues we face as a company is our relative lack of marketing capabilities. Originating technologically advanced products is not the be all and end all of our business; we naturally have to get out into the market and sell them too. In order to maintain the best sales channels and methods, we have to carefully analyze the market landscape and market needs, and understand how they do or don't match the characteristics of our products. To give an example, precision components for the medical equipment sector are highly specialized and command high profit margins. With high expectations for this field, we are seeking to boost manufacturing efficiency to produce small lots of different products and cut delivery times. But how this business develops will depend on whether we can secure strong sales channels.

M&As, including international deals, is one way I think we can reinforce our marketing capabilities. Using this approach, I believe we can create a large, stand-alone medical equipment division in the Precision Products Segment, along the lines of the Components Division in the Precision Electronic Equipment Segment.

At a Glance

BUSINESS SEGMENT	SALES BY SEGMENT	PRODUCTS AND SERVICES

PRECISION ELECTRONIC EQUIPMENT SEGMENT

Manufacturing Subsidiaries
- Star Micronics Manufacturing Dalian Co., Ltd.*
- Star Precisions Ltd.*
- Micro Takemi Company

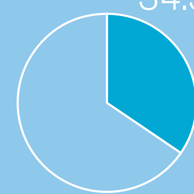
Sales Company
- Star Micronics Co., Ltd.

Sales Subsidiaries
- Star Micronics America, Inc.*
- Star Micronics Europe Ltd.*
- Star Micronics Asia Ltd.*

** Consolidated subsidiaries*

Special Products Division

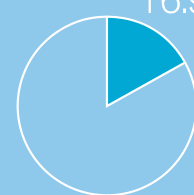
34.5%



This division's main products are computer printers and point-of-sale (POS) printers. Computer printers are of the dot-type variety, while POS printers are focused on thermal printers and dot-printers, mainly mechanisms. The division also offers other types of products such as card reader/writer devices.

Components Division

16.9%



Micro audio components such as electronic buzzers, microphones, speakers and receivers

MACHINE TOOLS SEGMENT

Manufacturing Company
- Star Micronics Co., Ltd.

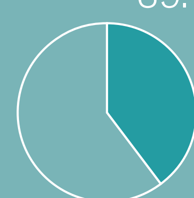
Manufacturing Subsidiaries
- Toshin Seiki Company*
- OS Metal Company*
- Star Micronics Manufacturing Dalian Co., Ltd.*

Sales Company
- Star Micronics Co., Ltd.

Sales Subsidiaries
- Star CNC Machine Tool Corporation*
- Star Micronics AG*
- Star Micronics GB Ltd.*
- LAGRO WH GmbH & Co. KG* (Scheduled to be merged into Star Micronics Manufacturing Deutschland GmbH with two other German subsidiaries in May 2004. The new company will be renamed Star Micronics GmbH*)
- Star Machine Tool France SA*
- Shanghai Xingang Machinery Co., Ltd.

** Consolidated subsidiaries*

39.7%



CNC automatic lathes capable of high-precision complex geometry machining (high-end, mid-range and single function models; support software for machine tools, etc.)

PRECISION PRODUCTS SEGMENT

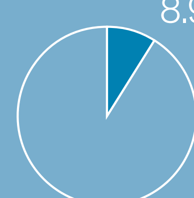
Manufacturing Company
- Star Micronics Co., Ltd.

Manufacturing Subsidiaries
- Micro Sapporo Company*
- Micro Kikugawa Company*
- Shanghai S&E Precision Co., Ltd.

Sales Company
- Star Micronics Co., Ltd.

** Consolidated subsidiaries*

8.9%



Components for wristwatches, automobiles, medical equipment, fiber optic equipment, HDDs and other products

MARKETS SERVED	KEY ADVANTAGES	INDUSTRY OUTLOOK
• Dot-printers: The Chinese business community (for VAT and local tax systems) • Thermal printers: European and U.S. retailers	• A strong customer base and high brand awareness through its comprehensive range of printers	• The roll out of a new tax collection system in China means there is significant potential demand in the market, but at this stage the outlook for shipments is still difficult to gauge with any certainty. • Further moves to implement this tax system can be expected from around the latter half of 2004.
• Manufacturers of mobile phones, automobiles, digital equipment, medical equipment and other products	• A product lineup including some of the world's smallest and thinnest electronic components • A proven track record as a supplier to leading manufacturers, and a high market share indicative of those relationships	• Although a more diversified product lineup is driving demand and a consequential recovery in unit shipments, unit prices are on a downward trend. • Growth is forecast in new fields such as digital consumer electronics and automotive security.
• Manufacturers of components for automobiles, consumer electronics, industrial hardware, medical equipment, precision devices and other products	• A broad lineup of products from high-end through to low-end models • A high market share of approximately 20% anchored by a trusted global brand • A manufacturing base established in China, a pioneering step in the machine tool industry	• This segment usually has to contend with cyclical demand. As of the end of March 2004, the segment had posted 19 consecutive months of rising orders on a year-on-year basis. This growth is expected to continue until around August 2004. • Strong sales of digital consumer electronics products such as digital cameras are expected to drive demand for machine tools from the consumer electronics industry over the long term.
• Finished product manufacturers in the above fields	• A long history of involvement in this field since the company's establishment • Low-cost, high-output manufacturing technologies underpinned by a high level of automation • One of the few players in the industry with an integrated manufacturing framework for precision components covering machining through assembly	• Although the wristwatch component market is stable, it is a mature market currently experiencing a long-term downturn. • In non-wristwatch components, growth is expected in the digital equipment, communications equipment and medical equipment fields.

Environmental Activities

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, so as to play an active role as a responsible member of society.

Basic Environmental Policy

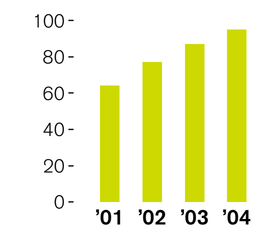
1. Based on the above philosophy, we have clearly identified, and work to respond to, a range of important environmental issues related to our company-wide activities, products and services. Targeting these issues, outlined below, every Star Micronics manufacturing facility has formulated an environmental policy underpinned by concrete action plans.

    - Encourage the reduction, reuse and recycling of industrial waste
    - Promote energy conservation and the effective use of resources
    - Reduce the use of harmful substances and appropriately manage chemical substances
    - Promote environmentally conscious product development, manufacturing and services
    - Encourage green purchasing
    - Promote communication of environmental matters internally and externally

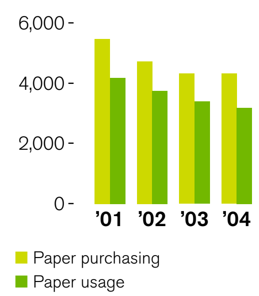
2. Continually improve the environmental management system and carry out activities to prevent industrial pollution
3. Comply with all relevant environmental laws, regulations and regional treaties, and formulate and enforce voluntary standards
4. Review this policy based on an understanding of the status of group-wide environmental activities and the needs of society and stakeholders

As well as encouraging all Star Micronics employees to familiarize themselves with this environmental charter, the company also discloses it to the public.

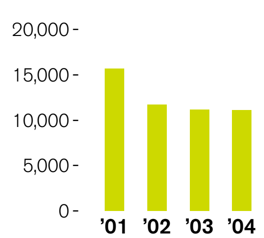
RECYCLING RATE
(%)



PAPER PURCHASING/
PAPER USAGE
(Thousands of sheets)



ELECTRICITY USAGE
(Kwh)



Reducing Industrial Waste and Boosting Recycling

Star Micronics is working to ensure all its domestic operating facilities reach its zero emissions target—ensuring a recycling rate* of more than 98% of total waste generated—by fiscal 2005.

In the year under review, we attained a 95% recycling rate for waste generated by our domestic operating facilities. In the year ahead, we will work to close the 3 percentage-point gap to achieve our goal.

*Recycling rate = (Recycled waste volume / total waste volume) x 100

Resource Conservation

"Efficiently use the world's limited resources" is the phrase that guides us in our efforts to reduce the consumption of paper, water, and fuel, as well as the amount of raw materials we use in our products. In fiscal 2004, we introduced a great many improvements in this area, including cutting the volume of handouts at meetings, making wider use of LAN networks, and introducing a paperless accounting system.

Energy Conservation

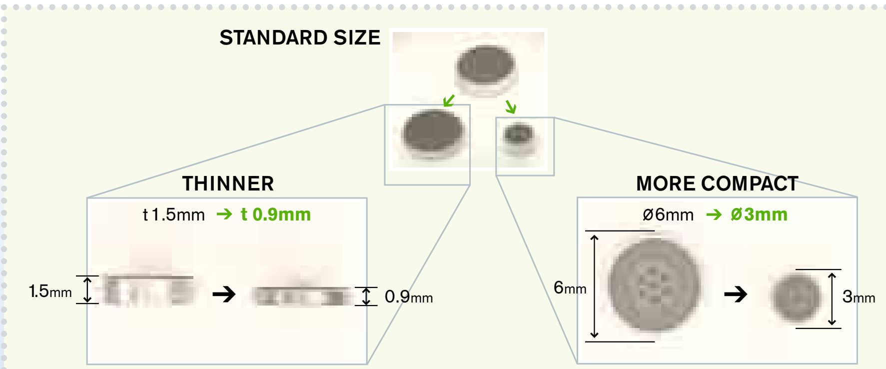
A number of small measures together, such as cutting back on the usage of air conditioners and heaters, turning off lights during lunch breaks, and adopting energy-saving equipment, helped to steadily reduce our overall consumption of electricity in fiscal 2004.

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 more compact products. This dovetails well with our long-held mission of developing environmentally friendly products. Our microphones are just one example of how we design and develop these products.

Microphones

As consumer electronics products such as mobile phones and digital cameras become more compact, thinner and complex, requirements are growing for devices that take up less space and use less energy—with obvious benefits for the environment. Components are key to achieving this. Star Micronics exceeds manufacturers' requirements for compact components, thereby making a significant contribution to overall energy conservation. These products also maintain existing levels of functionality and are developed to conform to regulations such as the European RoHS Directive (Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment).



Financial Section

Contents

Consolidated Five-Year Summary

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

	Millions of yen (Except for per share data)				
	2004	2003	2002	2001	2000
For the year:					
Net sales	¥43,332	¥38,612	¥43,265	¥52,304	¥44,914
Cost of sales	28,161	25,225	27,295	33,863	28,852
Selling, general and administrative expenses	11,621	10,979	11,907	12,089	11,509
Operating income	3,550	2,408	4,063	6,352	4,553
Other expenses – net	(286)	(980)	(1,911)	(1,036)	(1,321)
Income before income taxes and minority interests	3,264	1,428	2,152	5,316	3,232
Income taxes	828	997	1,557	2,014	511
Minority interests in net income (loss)	10	(3)	18	28	19
Net income	2,426	434	577	3,274	2,702
Per share:					
Net income	¥ 44.12	¥ 7.77	¥ 10.21	¥ 57.91	¥ 47.84
Fully diluted net income					47.81
At year-end:					
Current assets	¥36,355	¥38,424	¥37,979	¥48,053	¥40,119
Property, plant and equipment	15,604	17,602	19,430	17,626	14,633
Total assets	57,898	62,403	65,394	72,211	62,950
Long-term liabilities	1,277	2,575	2,227	1,442	2,587
Shareholders' equity	44,613	45,024	46,978	46,799	42,932

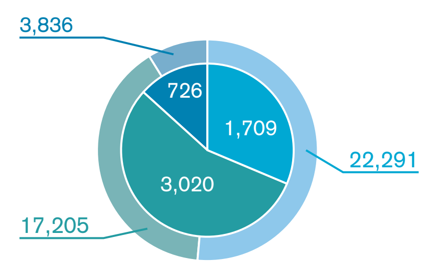
	Yen				
Stock exchange price per share of common stock:					
Highest	¥830	¥1,120	¥1,704	¥2,120	¥1,917
Lowest	418	420	490	1,024	505

Management's Discussion and Analysis

SEGMENT OVERVIEW

FISCAL 2004 SALES AND OPERATING INCOME COMPOSITION BY BUSINESS SEGMENT

(Millions of Yen)



Note: Operating income includes company-wide expenses of ¥1,905 million.

Precision Electronic Equipment

The division began shipping microphones for mobile phones to leading manufacturers in Europe and Japan. Monthly production rose to around 3 million units and annual sales reached ¥1.0 billion.

This segment comprises two business divisions: the Components Division, which handles micro audio components such as electronic buzzers for mobile phones, and the Special Products Division, which focuses on computer printers, point-of-sale (POS) printers and other products.

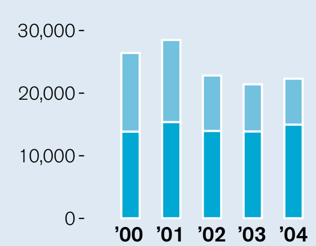
Sales in the Components Division fell 2.6% year on year to ¥7,340 million, despite a robust mobile phone market that lifted shipments by approximately 11% year on year. Although electronic buzzers still account for more than half the sales in this business division, in recent years mobile phone makers have been shifting from these components to speakers, and unit prices for electronic buzzers have continued to drop. Faced with these challenges, this division is working to transform itself into a comprehensive maker of micro audio components, manufacturing a full lineup of microphones, speakers, receivers and other products. This will enable the division to reduce its reliance on existing electronic buzzer customers by breaking into new markets and diversifying its customer base.

During the year under review, Star Micronics' shipments of electronic buzzers in Japan were down 20% year on year to 98 million units, while unit prices fell approximately 12%. As a result, sales of electronic buzzers declined 18.2% to ¥5,866 million.

In promising new micro audio component categories, the division began shipping microphones for mobile phones to leading manufacturers in Europe and Japan. Monthly production rose to around 3 million units and annual sales reached ¥1.0 billion. Although this helped to boost sales of new micro audio components overall to ¥1,474 million, four times the level in the previous year, it failed to cover

SALES BY THE PRECISION ELECTRONIC EQUIPMENT SEGMENT

(Millions of Yen)



MICROPHONE MAB-04A-T

The so-called first stage of implementation of China's new tax collection system, covering the country's largest businesses, was almost completed during the fiscal year under review. Preliminary figures show that Star Micronics captured around 40% of printer sales in this market segment.

the drop in sales of electronic buzzers. Consequently, total sales in the Components Division declined.

In the past year, existing European customers in the mobile phone industry decided to adopt Star Micronics microphone and receiver components. Capitalizing on this success and a broader product lineup, the division also closed a number of contracts with Japanese manufacturers for microphone, speaker and receiver component sets. These developments are expected to boost the contribution of new micro audio components to earnings in fiscal 2005. This division's increasingly diverse product menu is also raising Star Micronics' presence as a maker of micro audio components, as suggested by rising sales in the automotive, digital consumer electronics—particularly digital cameras—and other fields outside mobile phones.

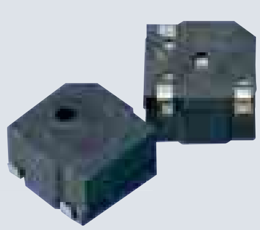
In the Special Products Division, where the main products are computer and POS printers, sales were up 7.9% to ¥14,951 million. In computer printers, which are mainly targeted at the Chinese market, Star Micronics has put in place an integrated local operating structure, covering everything from manufacturing to sales. This, together with the resumption of printer shipments for the new tax collection system in China, translated into a large 27.1% increase in sales of computer printers to ¥7,638 million.

The so-called first stage of implementation of China's new tax collection system, covering the country's largest businesses, was almost completed during the fiscal year under review. Preliminary figures show that Star Micronics captured around 40% of printer sales in this market segment. With the imminent roll out of the second stage, aimed at medium-sized enterprises, and Chinese tax authority plans to overhaul the local tax infrastructure, demand for printers used in tax systems is expected to expand. Star Micronics aims to capitalize on these developments and maintain its leading position in the market. Although the timetable for the next stage of implementation is still unclear, the company believes that this market presents an excellent opportunity for securing earnings over the long term.

In POS printers and other products, sales of thermal printers, particularly to customers in Europe, were strong. This robust demand meant that thermal printers accounted for nearly half the sales in the Special Products Division during the year. Despite this performance, because of falling sales of dot-printers in Asian markets and other factors, sales of POS printers and other products declined 6.7% year on year to ¥7,313 million.

As a result of the aforementioned, net sales in the Precision Electronic Equipment Segment increased ¥901 million, or 4.2%, to ¥22,291 million (US$202,645 thousand).

ELECTRONIC BUZZER NFT-03A



POS PRINTER TSP700

During the past year, this segment continued to take steps to centralize its manufacturing operations in China, primarily at the company's core subsidiary Star Micronics Manufacturing Dalian Co., Ltd. Initiatives were also taken to boost productivity and reduce costs, including shifting more materials procurement from Japan to China. In the Components Division, meanwhile, a new supply chain management (SCM) system came fully on line. This has helped to reduce inventories and boost profitability by shortening the order cycle from a monthly to weekly timeframe.

However, despite an increase in segment sales, operating income in the Precision Electronic Equipment Segment dropped ¥634 million, or 27.1%, to ¥1,709 million (US$15,536 thousand), primarily due to declining profitability in electronic buzzers and other factors. The operating margin declined 3.3 percentage points to 7.7%.

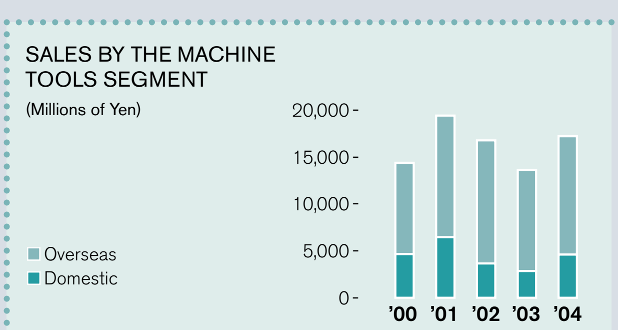
Machine Tools

Orders also rose strongly, posting a 65% increase compared to the previous period, to 1,385 units. Orders were running at around 130 units per month, close to peak levels.

Star Micronics' CNC automatic lathes have earned worldwide acclaim. Key products are the SV series, ideal for high-precision complex machining required in the manufacture of medical and other components; the top-of-the-range ECAS series, which incorporates a hybrid control system; and the SB-16, a machine tool that offers manufacturers superior cost-performance.

In the year under review, capital investment recovered in Japan, Europe, the U.S. and Asia. This rebound in all markets was reflected in higher demand for machine tools, which fueled a ¥3,578 million, or 26.3%, increase in segment net sales, to ¥17,205 million (US$156,409 thousand). Orders also rose strongly, posting a 65% increase compared to the previous period, to 1,385 units. Orders were running at around 130 units per month, close to peak levels.

In fiscal 2004, sales of the SB-16 model gained momentum, achieving strong growth in Japan, Europe and the U.S., as well as the strategic Asian market. This performance was reflected in figures for this segment, where the SB-16 accounted for 40% of shipments in unit terms, and 20% of total machine tool sales. During the course of the year, production of this model was gradually shifted from Japan to a Star Micronics manufacturing subsidiary in Dalian, China, with the process being completed in March 2004. The SB-16 is now the first Star Micronics machine tool product to be entirely manufactured in China. With this move, the company has enhanced production capabilities and reduced



SWISS TYPE AUTOMATIC LATHE ECAS-20

costs, allowing it to target more opportunities in the market and satisfy demands for lower-priced machine tools. Other players in the industry have yet to begin complete production of machine tools in China, giving Star Micronics a competitive edge in the market.

As a ratio of total segment sales, overseas sales declined 5.8 percentage points, to 73.3%. This reflected rising sales in Japan on the back of strong capital investment in the automotive, digital equipment and other industries.

The net result of the aforementioned was a ¥1,534 million, or 103.2%, improvement in operating income, to ¥3,020 million (US$27,455 thousand), while the operating margin rose 6.7 percentage points to 17.6%.

Looking at orders for fiscal 2004 in more detail, orders rose in all markets, including Japan, Europe and the U.S, as well as Asia. Although the machine tool market is sensitive to underlying economic trends, as of March 31, 2004, Star Micronics had posted 19 consecutive months of rising orders in this segment on a year-on-year basis. In fiscal 2005, robust demand is forecast to continue, supported by capital investment in the automotive industry, investment in the consumer electronics industry related to the development of new digital products, and general investment to replace aging equipment.

Demand for machine tools is on the rise, fueled by capital investment at domestic automotive and digital consumer electronics makers, as well as the transfer of manufacturing operations to continental Asia. Going forward, Machine Tools plans to win a greater market share with its strategic SB-16 model and the newly launched SR-20RⅡ.

In Europe and the U.S., where orders started to rebound in 2003, Star Micronics will also work to capture a greater market share based on aggressive sales activities. Growth will be driven by the ECAS series, which incorporates a unique proprietary control system, the SR-20RⅡ, and the launch of new models in the SV series.

In China, efforts in fiscal 2005 will enhance sales activities at sales subsidiary Shanghai Xingang Machinery Co., Ltd., and reinforce the sales support framework at offices in Shenzhen, China, and Thailand. This will go hand in hand with steps to reduce costs at the machine tool manufacturing subsidiary in Dalian. In short, Star Micronics will continue to focus on China, a market demonstrating remarkable growth, by enhancing manufacturing and sales capabilities.

**CNC SWISS TYPE
AUTOMATIC LATHE
SB-16**

Initiatives to reduce management costs will also be rolled out. In Germany, machine tools sales subsidiary, LAGRO WH GmbH & Co. KG, will be merged into Star Micronics Manufacturing Deutschland GmbH with two other local subsidiaries—Star Micronics Management Services GmbH and LAGRO GmbH. The new sales company will be renamed Star Micronics GmbH. In other developments, the benefits of a newly opened warehouse in the Netherlands, which integrates inventory control for machine tools in the entire European region, are starting to emerge with lower inventory levels.

Precision Products

Sales of non-wristwatch components jumped 52.9% year on year, to ¥1,058 million, led by strong sales of optical fiber connector parts, medical equipment and automotive components.

This segment's products can be broadly divided into two main areas: wristwatch components, a mainstay business since the creation of the company; and precision components other than wristwatch components (also referred to as non-wristwatch components).

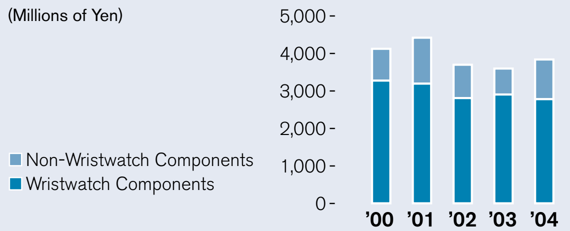
Because wristwatch components are a mature market, this segment is striving to increase earnings by strategically focusing on non-wristwatch component markets. More specifically, Star Micronics is applying its strengths in precision processing technology to fields where precision components are difficult to manufacture: optical fiber connector parts, dental drill and implant parts, medical equipment such as bone screws for bone-setting, and PC peripheral, automotive components and other areas.

In wristwatch components, orders from manufacturers were comparatively stable during the year under review. However, continuing demands for further price discounts and other factors meant the operating environment remained challenging, resulting in a 4.3% drop in sales of these components, to ¥2,777 million. In contrast, sales of non-wristwatch components jumped 52.9% year on year, to ¥1,058 million, led by strong sales of optical fiber connector parts, medical equipment and automotive components. HDD components sold particularly well. Consequently, the ratio of non-wristwatch component sales in the Precision Products Segment rose to 27.6%.

As a result of the above, operating income increased ¥135 million, or 22.8%, to ¥726 million (US$6,600 thousand), on total segment sales of ¥3,836 million (US$34,873 thousand), up ¥241 million, or 6.7%, compared to the previous period. The operating margin increased 2.5 percentage points to 18.9%.

Looking to fiscal 2005, in wristwatch components, demands for further price reductions from manufacturers are expected to continue. In response, this segment will take steps to further raise

SALES BY THE PRECISION PRODUCTS SEGMENT
(Millions of Yen)



OPTICAL FIBER CONNECTOR PARTS

productivity by shifting production overseas to reduce costs, and investing in new manufacturing equipment to boost output.

In non-wristwatch components, the segment is projecting strong growth for optical fiber connector parts, medical equipment and automotive components. HDD components for digital equipment are expected to be in particularly strong demand. As such, the company plans to expand sales in all these markets. Breaking into new markets for precision components used in medical equipment will be of particular importance, and M&As will be one option the company will consider to achieve this and boost sales.

In other developments during the year under review, Shanghai S&E Precision Co., Ltd., a joint venture set up in April 2001 to produce and market components for car audio products in China, succeeded in further expanding its customer base of consumer electronics manufacturers and car audio equipment makers. Operations continue to proceed smoothly.

Sales Framework and Net Sales by Region

A significant proportion of Star Micronics' products are sold in overseas markets. To provide customer support on a global basis, the company operates an extensive network of overseas bases (see table).

	United Kingdom	Germany	France	Switzerland	U.S.	Hong Kong	China (Shanghai)
Precision Electronic Equipment	Star Micronics Europe Ltd.				Star Micronics America, Inc.	Star Micronics Asia Ltd.	
Machine Tools	Star Micronics GB Ltd.	*LAGRO WH GmbH & Co. KG	Star Machine Tool France SA	Star Micronics AG	Star CNC Machine Tool Corporation		Shanghai Xingang Machinery Co., Ltd.

* (Scheduled to be merged into Star Micronics Manufacturing Deutschland GmbH with two other German subsidiaries in May 2004. The new company will be renamed Star Micronics GmbH")

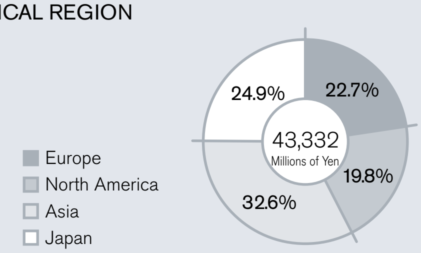
In the fiscal year under review, overseas sales declined 3.8 percentage points from 78.9% to 75.1% of total sales. This marginal decline was primarily the result of robust demand for machine tools in Japan.

In Europe, net sales increased ¥1,585 million to ¥9,824 million (US$89,309 thousand), representing 22.7% of total sales, 1.4 percentage points higher than the previous year.

In North America, net sales declined ¥763 million to ¥8,573 million (US$77,936 thousand), representing 19.8% of total sales, a decrease of 4.4 percentage points year on year.

SALES BY GEOGRAPHICAL REGION

(%)



Although net sales in Asia increased ¥1,237 million to ¥14,124 million (US$128,400 thousand), the ratio of total sales slipped 0.8 of a percentage point to 32.6%. Sales were boosted by a substantial increase in shipments of computer printers in the first half of the year under review.

In Japan, main products are machine tools and precision products. In the year under review, sales of mid-range complex machine tools surged on the back of rising capital investment by domestic automotive and digital consumer electronics manufacturers. This was reflected in a ¥2,661 million increase in domestic sales to ¥10,811 million (US$98,281 thousand), representing 24.9% of total sales, up 3.8 percentage points year on year.

INCOME ANALYSIS

Operating income jumped ¥1,142 million, or 47.4%, to ¥3,550 million (US$32,273 thousand), and the operating margin rose 2.0 percentage points to 8.2%.

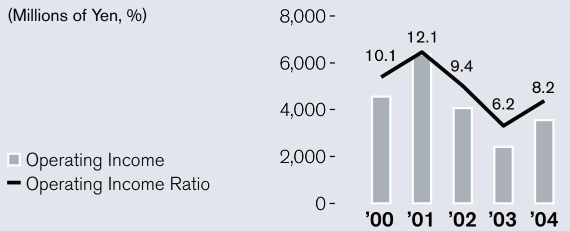
Net sales rose ¥4,720 million, or 12.2%, to ¥43,332 million (US$393,927 thousand). All segments—Precision Electronic Equipment, Machine Tools and Precision Products—recorded increases in sales compared to fiscal 2003. The cost of sales rose ¥2,936 million, or 11.6%, to ¥28,161 million (US$256,009 thousand). As a result, gross profit increased ¥1,784 million, or 13.3%, to ¥15,171 million (US$137,918 thousand), and the gross profit margin rose slightly by 0.3 of a percentage point to 35.0%. This was chiefly the result of an increase in the ratio of higher margin machine tools in total net sales, and reduced costs with the transfer of production for some components to China.

Selling, general and administrative (SG&A) expenses increased ¥642 million, or 5.8%, to ¥11,621 million (US$105,645 thousand). This increase was kept to a minimum thanks to energetic efforts to reduce costs, despite higher sales commissions and the cost of components sold, which rose in line with sales.

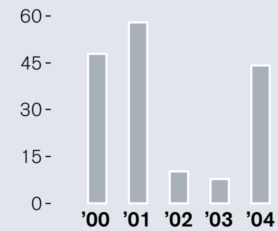
As a result of the above, operating income jumped ¥1,142 million, or 47.4%, to ¥3,550 million (US$32,273 thousand), and the operating margin rose 2.0 percentage points to 8.2%.

Other expenses—net improved ¥694 million over the previous year, to ¥286 million (US$2,600 thousand), chiefly for two reasons: a ¥406 million loss on valuation of investment securities was recorded in the previous year; and there was a significant reduction in the exchange loss—net from ¥635 million to ¥181 million. These declines outweighed a 126.7% increase in loss on disposals of property, plant and equipment, primarily to replace aging equipment, to ¥365 million.

OPERATING INCOME AND OPERATING INCOME RATIO
(Millions of Yen, %)



NET INCOME PER SHARE
(Yen)



Consequently, income before income taxes and minority interests rose ¥1,836 million, or 128.6%, to ¥3,264 million (US$29,673 thousand), while total income taxes were ¥828 million. After the deduction of income before minority interests in net income, net income was ¥2,426 million (US$22,055 thousand), a ¥1,992 million, or 459.0%, increase compared to the previous year. Due to a reversal of deferred tax assets on unrealized profit, the effective tax rate dropped substantially from 69.8% to 25.4%. This was another important factor behind the significant improvement in the company's bottom-line performance.

Net income per share increased ¥36.35 to ¥44.12. Reflecting the strong results reported for the year, Star Micronics plans to increase the annual dividend for the next fiscal year by ¥1.00 to ¥12.00 per share.

FINANCIAL POSITION AND LIQUIDITY

The main factor behind the decline in total current assets was progress in optimizing inventory levels, and more specifically, a significant increase in shipments of computer printers to China.

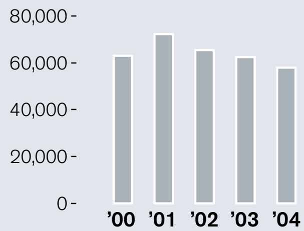
Total current assets as of February 29, 2004, were ¥36,355 million (US$330,500 thousand), a decline of ¥2,069 million, or 5.4%, compared to the previous fiscal year-end. The main factor behind this decline was progress in optimizing inventory levels, and more specifically, a significant increase in shipments of computer printers to China. As a result, inventories declined ¥4,209 million, or 24.9%, to ¥12,722 million. Net property, plant and equipment declined ¥1,998 million, or 11.4%, to ¥15,604 million (US$141,855 thousand), primarily due to a company-wide fall in capital investment and the sale and disposal of aging machinery and equipment. Total investments and other assets declined ¥438 million, or 6.9%, to ¥5,939 million (US$53,990 thousand).

The cumulative effect of the above factors was a drop in total assets of ¥4,505 million, or 7.2%, to ¥57,898 million (US$526,345 thousand).

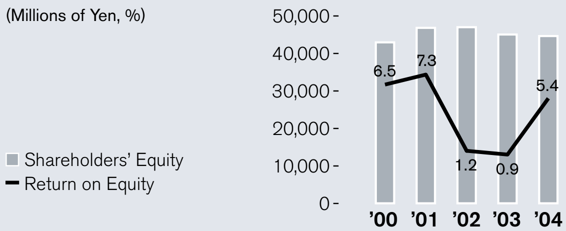
On the other side of the balance sheets, current liabilities fell ¥2,796 million, or 19.0%, to ¥11,919 million (US$108,355 thousand), mainly due to a 16.6% drop in payables—trade notes and accounts to ¥5,909 million, related to the decline in inventories and other factors; a decrease in short-term bank loans of ¥2,403 million, to ¥400 million (US$3,636 thousand); and a ¥50 million drop in the current portion of long-term debt, to ¥3 million (US$27 thousand).

Total long-term liabilities declined ¥1,298 million, or 50.4%, to ¥1,277 million (US$11,609 thousand). Long-term debt was reduced by ¥904 million, to ¥1,000 million (US$9,091 thousand), primarily through internal fund procurement measures, while liability for retirement benefits declined by ¥403 million, to ¥254

TOTAL ASSETS
(Millions of Yen)



SHAREHOLDERS' EQUITY AND RETURN ON EQUITY
(Millions of Yen, %)



million (US$2,309 thousand), due to an increase in contributions related to the tax qualified pension plan.

Although retained earnings increased by ¥1,877 million, total shareholders' equity declined ¥411 million, or 0.9%, to ¥44,613 million (US$405,573 thousand). This was chiefly due to foreign currency translation adjustments of ¥2,068 million (US$18,801 thousand), ¥1,294 million more than the previous year due to the appreciation of the yen. During the year under review, the company continued its share buyback program, which resulted in treasury stock—at cost of ¥2,253 million, a 187.4% increase on the previous year. Unrealized gain on available-for-sale securities, directly credited to shareholders' equity, increased by ¥475 million, to ¥306 million (US$2,782 thousand), reversing the unrealized loss of the previous fiscal year. Equity per share increased ¥22.68 to ¥836.13.

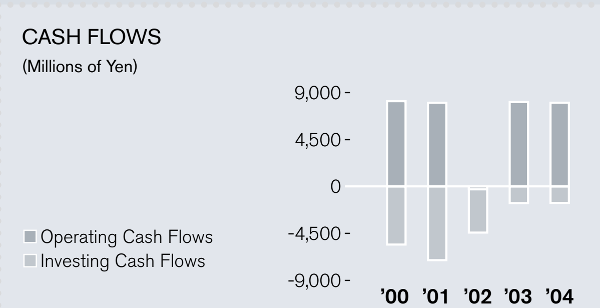
CASH FLOWS

The abundant operating cash flows in fiscal 2004 were used effectively to reduce borrowings by ¥3,248 million and purchase treasury stock of ¥1,470 million.

Net cash provided by operating activities was ¥8,024 million (US$72,945 thousand), a decrease of ¥61 million from the previous fiscal year. Income before income taxes and minority interests increased by ¥1,836 million, reflecting the strong results for the year. Changes in trade receivables, trade payables and inventories provided cash of ¥1,783 million, ¥1,527 million less than the previous year. In other operating cash flow items, there was a ¥13 million gain on devaluation of marketable and investment securities, compared with a ¥406 million loss in the previous year. Loss on sales and disposals of property, plant and equipment increased ¥206 million, to ¥345 million (US$3,136 thousand).

Net cash used in investing activities was ¥1,582 million (US$14,382 thousand), ¥24 million less than in the previous fiscal year. This was chiefly due to a ¥434 million increase in purchases of property, plant and equipment to ¥2,199 million (US$19,991 thousand), offset by proceeds from sales of property, plant and equipment of ¥225 million (US$2,045 thousand), ¥173 million higher, and proceeds from sales of marketable and investment securities of ¥584 million (US$5,309 thousand), ¥416 million more than the previous period.

Net cash used in financing activities was ¥5,265 million (US$47,864 thousand), ¥3,047 million more than the previous fiscal year. The abundant operating cash flows in fiscal 2004 were used effectively to reduce borrowings by ¥3,248 million and purchase treasury stock of ¥1,470 million (US$13,364 thousand). Dividends paid to shareholders were ¥549 million (US$4,991 thousand), as the company continued to pay a stable dividend.



After foreign currency translation adjustments on cash and cash equivalents of ¥296 million (US$2,690 thousand), the net increase in cash and cash equivalents for the year was ¥881 million (US$8,009 thousand). Cash and cash equivalents at end of year totaled ¥10,718 million (US$97,436 thousand).

CAPITAL EXPENDITURES AND R&D EXPENSES

Star Micronics is maximizing its vast array of high-precision miniature component processing and assembly technologies to develop and launch new high-value-added products.

Capital expenditures in fiscal 2004 totaled ¥2,058 million (US$18,709 thousand), a decline of ¥104 million, or 4.8%, from the previous fiscal year.

Expenditures for the Components Division increased ¥229 million to ¥717 million. In fiscal 2005, the company is budgeting expenditures in this division of ¥880 million, related to the start of full-scale shipments of new micro audio components such as microphones and receivers.

In the Special Products Division, capital expenditures fell ¥469 million to ¥482 million, mainly due to lower investment in dies. However, investment in these items is planned to rise in the year ahead, taking expenditures to ¥1,090 million for the year ending February 28, 2005.

Expenditures in Machine Tools rose ¥241 million to ¥359 million, primarily due to costs related to the transfer of SB-16 production to China. In the next fiscal year, investment is planned to rise to ¥880 million as steps are taken to enhance production capabilities and streamline facilities.

In Precision Products, expenditures increased ¥77 million to ¥239 million. In fiscal 2005, the company plans to increase investment to ¥350 million in response to rising sales of non-wristwatch components.

R&D expenses for the year totaled ¥2,188 million (US$19,891 thousand), ¥17 million, or 0.8%, higher than fiscal 2003. R&D expenses represented 5.0% of total net sales, a slight decline compared to the previous fiscal year. In addition to creating innovative products, R&D programs have been focused on the development of production technologies that achieve improved cost performance and greater miniaturization of products. The company is also working to ensure production, sales and R&D activities are carried out in optimal global locations. Specific steps include the transfer of die assembly manufacturing to China, and the joint development of new micro audio components with research institutes in the U.S. In Japan, Star Micronics is maximizing its vast array of high-precision miniature component processing and assembly technologies to develop and launch new high-value-added products. One example of a prototype component currently under development is a diaphragm micro pump that can deliver minute amounts of liquid or gas to power ultracompact fuel cells.

Consolidated Balance Sheets

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 29, 2004 and February 28, 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2004	2003	2004
Current assets:			
Cash and cash equivalents	¥ 10,718	¥ 9,837	$ 97,436
Marketable securities (Note 3)	212	529	1,927
Short-term investments (Note 4)	15	15	136
Receivables:			
Trade notes	1,353	1,043	12,300
Trade accounts (Note 11)	9,008	8,330	81,891
Non-consolidated subsidiaries and associated companies	378	390	3,436
Other	805	836	7,318
Allowance for doubtful receivables	(422)	(413)	(3,836)
Inventories (Note 5)	12,722	16,931	115,655
Deferred tax assets (Note 10)	882	386	8,018
Prepaid expenses and other	684	540	6,219
Total current assets	36,355	38,424	330,500
Property, plant and equipment (Note 6)**:**			
Land	2,664	2,712	24,218
Buildings and structures	11,975	12,295	108,864
Machinery and equipment	33,981	36,291	308,918
Construction in progress	65	322	591
Total	48,685	51,620	442,591
Accumulated depreciation	(33,081)	(34,018)	(300,736)
Net property, plant and equipment	15,604	17,602	141,855
Investments and other assets:			
Investment securities (Note 3)	2,986	2,428	27,145
Investments in non-consolidated subsidiaries and associated companies	228	228	2,073
Goodwill	1,485	1,719	13,500
Deferred tax assets (Note 10)	223	831	2,027
Other assets	1,040	1,190	9,454
Allowance for doubtful receivables	(23)	(19)	(209)
Total investments and other assets	5,939	6,377	53,990
Total	¥ 57,898	¥ 62,403	$ 526,345

See notes to consolidated financial statements.

Liabilities and Shareholders' equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:			
Short-term bank loans (Note 6)	¥ 400	¥ 2,803	$ 3,636
Current portion of long-term debt (Note 6)	3	53	27
Payables:			
Trade notes	120	109	1,091
Trade accounts	5,789	6,974	52,627
Non-consolidated subsidiaries and associated companies	42	50	382
Other	918	1,151	8,346
Income taxes payable (Note 10)	826	319	7,509
Accrued expenses	1,667	1,291	15,155
Other (Note 7)	2,154	1,965	19,582
Total current liabilities	11,919	14,715	108,355
Long-term liabilities:			
Long-term debt (Note 6)	1,000	1,904	9,091
Liability for retirement benefits (Note 8)	254	657	2,309
Other	23	14	209
Total long-term liabilities	1,277	2,575	11,609
Minority interests	89	89	808
Contingent liabilities (Notes 13 and 16)			
Shareholders' equity (Notes 9, 17 and 19):			
Common stock, — authorized, 160,000,000 shares; issued 56,533,234 shares in 2004 and 2003	12,722	12,722	115,655
Capital surplus	13,877	13,877	126,155
Retained earnings	22,029	20,152	200,264
Unrealized gain (loss) on available-for-sale securities	306	(169)	2,782
Foreign currency translation adjustments	(2,068)	(774)	(18,801)
Total	46,866	45,808	426,055
Treasury stock — at cost 3,206,117 shares in 2004 and 1,184,524 shares in 2003	(2,253)	(784)	(20,482)
Total shareholders' equity	44,613	45,024	405,573
Total	¥57,898	¥62,403	$526,345

Consolidated Statements of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2004 and February 28, 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales (Note 11)	¥43,332	¥38,612	$393,927
Cost of sales (Note 8)	28,161	25,225	256,009
Gross profit	15,171	13,387	137,918
Selling, general and administrative expenses (Notes 8 and 12)	11,621	10,979	105,645
Operating income	3,550	2,408	32,273
Other income (expenses):			
Interest and dividend income	126	133	1,145
Interest expense (Note 6)	(48)	(74)	(436)
Exchange loss – net	(181)	(635)	(1,645)
Gain on sales of property, plant and equipment	20	23	182
Loss on disposals of property, plant and equipment	(365)	(161)	(3,318)
Loss on valuation of investment securities		(406)	
Other – net (Note 14)	162	140	1,472
Other expenses – net	(286)	(980)	(2,600)
Income before income taxes and minority interests	3,264	1,428	29,673
Income taxes (Note 10):			
Current	1,141	388	10,373
Deferred	(313)	609	(2,845)
Total	828	997	7,528
Income before minority interests	2,436	431	22,145
Minority interests in net income (loss)	10	(3)	90
Net income	¥ 2,426	¥ 434	$ 22,055

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2. n and 9):			
Net income	¥44.12	¥ 7.77	$0.40
Cash dividends applicable to the year	11.00	10.00	0.10

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2004 and February 28, 2003

	Thousands	Millions of yen					
	Issued number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain/loss on available-for-sale securities	Foreign currency translation adjustments	Treasury stock – at cost
Balance, March 1, 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)
Net income				2,426			
Cash dividends, ¥11.0 per share				(549)			
Net decrease in unrealized loss on available-for-sale securities					475		
Net decrease in foreign currency translation adjustments						(1,294)	
Treasury stock acquired – net (2,021,593 shares)							(1,469)
Balance, February 29, 2004	**56,533**	**¥12,722**	**¥13,877**	**¥22,029**	**¥ 306**	**¥(2,068)**	**¥(2,253)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Unrealized gain/loss on available-for-sale securities	Foreign currency translation adjustments	Treasury stock – at cost
Balance, February 28, 2003	$115,655	$126,155	$183,200	$(1,536)	$ (7,036)	$ (7,127)
Net income			22,055			
Cash dividends, $0.10 per share			(4,991)			
Net decrease in unrealized loss on available-for-sale securities				4,318		
Net decrease in foreign currency translation adjustments					(11,765)	
Treasury stock acquired – net (2,021,593 shares)						(13,355)
Balance, February 29, 2004	**$115,655**	**$126,155**	**$200,264**	**$ 2,782**	**$(18,801)**	**$(20,482)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2004 and February 28, 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Operating activities:			
Income before income taxes and minority interests	¥ 3,264	¥ 1,428	$ 29,673
Adjustments for:			
Income taxes – paid	(640)	(785)	(5,818)
Income taxes – refunded	114	419	1,036
Depreciation and amortization	3,088	3,475	28,073
Provision for (reversal of) doubtful receivables	35	(75)	318
Reversal of retirement benefits	(402)	(579)	(3,655)
(Gain) loss on devaluation of marketable and investment securities	(13)	406	(118)
(Gain) loss on sales of marketable and investment securities	(13)	6	(118)
Loss on sales and disposals of property, plant and equipment	345	139	3,136
Changes in assets and liabilities:			
Increase in trade receivables	(1,346)	(334)	(12,236)
Decrease in inventories	3,503	2,391	31,845
(Decrease) increase in trade payables	(374)	1,253	(3,400)
Other–net	463	341	4,209
Total adjustments	4,760	6,657	43,272
Net cash provided by operating activities	8,024	8,085	72,945
Investing activities:			
Purchases of property, plant and equipment	(2,199)	(1,765)	(19,991)
Proceeds from sales of property, plant and equipment	225	52	2,045
Purchases of marketable and investment securities	(4)	(87)	(36)
Proceeds from sales of marketable and investment securities	584	168	5,309
Payments for loans receivable	(6)	(15)	(55)
Collection of loans receivable	8	16	73
Other–net	(190)	25	(1,727)
Net cash used in investing activities	(1,582)	(1,606)	(14,382)
Financing activities:			
Increase in short-term bank loans–net	(2,294)	(569)	(20,854)
Proceeds from long-term debt		1,000	
Repayments of long-term debt	(954)	(1,225)	(8,673)
Dividends paid to shareholders	(549)	(563)	(4,991)
Payments for purchase of treasury stock	(1,470)	(772)	(13,364)
Other–net	2	(89)	18
Net cash used in financing activities	(5,265)	(2,218)	(47,864)
Foreign currency translation adjustments on cash and cash equivalents	(296)	(372)	(2,690)
Net increase in cash and cash equivalents	881	3,889	8,009
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year		41	
Cash and cash equivalents at beginning of year	9,837	5,907	89,427
Cash and cash equivalents at end of year	¥10,718	¥ 9,837	$ 97,436

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2004 and February 28, 2003

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 2003 consolidated financial statements to conform to the classifications used in 2004.

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 ¥110 to $1, the approximate rate of exchange at February 29, 2004. 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 29, 2004 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. To provide for the payment of retirement benefits and pension plan payment to employees, the Company had recorded a reserve equivalent to the amounts recognized as necessary at the end of the period under review based on the estimated retirements benefit obligation and the fair value of the pension plan assets at the fiscal year-end.

Actuarial gain and loss is amortized in the years following the year in which the gain or loss is recognized by the straight-line-method within a specific period (14 years) which falls within the average remaining years of service of the eligible employees.

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 shareholders' 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 as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income 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 statements of income.

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

For the year ended February 29, 2004, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standard Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The average number of common shares used in the computation was 54,417,374 shares for 2004 and 55,928,271 shares for 2003. Stock options were not included in the calculation of diluted earnings per share for the years ended February 29, 2004 and February 28, 2003 as their effect would be 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 29, 2004 and February 28, 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current:			
Corporate and other bonds	¥ 212	¥ 426	$ 1,927
Trust fund investment and other		103	
Total	¥ 212	¥ 529	$ 1,927
Non-current:			
Equity securities	¥2,231	¥1,618	$20,282
Corporate and other bonds	80	278	727
Trust fund investment and other	675	532	6,136
Total	¥2,986	¥2,428	$27,145

Information regarding the category of securities classified as available-for-sale at February 29, 2004 and February 28, 2003, was as follows:

	Millions of yen			
2004	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,735	¥579	¥177	¥2,137
Corporate and other bonds	283	8		291
Trust fund investments and other	578	99	2	675

	Millions of yen			
2003	Cost	Unrealized gains	Unrealized losses	Fair value
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

	Thousands of U.S. dollars (Note 1)			
2004	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	$15,773	$5,263	$1,609	$19,427
Corporate and other bonds	2,572	73		2,645
Trust fund investments and other	5,254	900	18	6,136

Available-for-sale securities whose fair value is not readily determinable as of February 29, 2004 and February 28, 2003, were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Available-for-sale:			
Equity securities	¥93	¥97	$845
Total	¥93	¥97	$845

Proceeds from sales of available-for-sale securities for the year ended February 29, 2004 and February 28, 2003, were ¥584 million ($5,309 thousand) and ¥149 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 29, 2004 were ¥15 million ($136 thousand) and ¥0 million ($0 thousand), and for the year ended February 28, 2003 were ¥0 million and ¥6 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 29, 2004 and February 28, 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Due within one year	¥212	¥ 529	$1,927
Due after one year through five years	510	544	4,637
Due after five years through ten years		75	
Total	¥722	¥1,148	$6,564

4. Short-term Investments

Short-term investments at February 29, 2004 and February 28, 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Deposits over 3-month period	¥15	¥15	$136

5. Inventories

Inventories at February 29, 2004 and February 28, 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Merchandise	¥ 258	¥ 234	$ 2,346
Finished products	7,704	10,752	70,036
Work in process	2,371	2,421	21,555
Raw materials and supplies	2,389	3,524	21,718
Total	¥12,722	¥16,931	$115,655

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

Short-term bank loans at February 29, 2004 and February 28, 2003 consisted of notes to banks, and collateralized bank loans. The annual interest rates applicable to the short-term bank loans ranged from 0.8% to 1.575% and 0.58% to 2.22% at February 29, 2004 and February 28, 2003, respectively.

Long-term debt at February 29, 2004 and February 28, 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Loans principally from banks due serially to 2009 with interest rates ranging from 0.8% to 12.0% (2004) and from 0.7% to 12.0% (2003):			
Collateralized	¥1,000	¥1,950	$9,091
Unsecured	3	7	27
Total	1,003	1,957	9,118
Less current portion	(3)	(53)	(27)
Long-term debt, less current portion	¥1,000	¥1,904	$9,091

Annual maturities of long-term debt at February 29, 2004 were as follows:

Year ending the last day of February	Millions of yen	Thousands of U.S. dollars (Note 1)
2005		
2006	¥1,000	$9,091
2007		
2008		
2009		
Total	¥1,000	$9,091

The carrying amounts of assets pledged as collateral for the above collateralized short-term bank loans and long-term debt at February 29, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Property, plant and equipment – net of accumulated depreciation	¥3,799	$34,536

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 ¥1,892 million ($17,200 thousand) and ¥1,784 million at February 29, 2004 and February 28, 2003, 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 plans, employees terminating their employment are, in most circumstances, entitled to pension payments.

The liability for employees' retirement benefits at February 29, 2004 and February 28, 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Projected benefit obligation	¥(7,611)	¥(7,672)	$(69,191)
Fair value of plan assets	6,513	5,276	59,209
Unrecognized actuarial loss	1,030	1,926	9,364
Net liability	¥ (68)	¥ (470)	$ (618)

The components of net periodic benefit costs for the year ended February 29, 2004 and February 28, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Service cost	¥ 329	¥ 348	$ 2,991
Interest cost	153	150	1,391
Expected return on plan assets	(132)	(152)	(1,200)
Recognized actuarial loss	145	99	1,318
Net periodic benefit costs	¥ 495	¥ 445	$ 4,500

Assumptions used for the year ended February 29, 2004 and February 28, 2003 were set forth as follows:

	2004	2003
Discount rate	2%	2%
Expected rate of return on plan assets	2.5%	3%
Recognition period of actuarial gain/loss	14 years	14 years

The liability for retirement benefits at February 29, 2004 and February 28, 2003 for directors and corporate auditors is ¥186 million ($1,691 thousand) and ¥187 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 various amendments have become effective since 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 the 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 ¥15,762 million ($143,291 thousand) as of February 29, 2004, 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.

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 29, 2004 and February 28, 2003. Due to a change in the enterprise tax rate in Japan, effective for years beginning March 1, 2005, the normal effective statutory tax rate is scheduled to be changed.

The effect of the change in the tax rate on the balance of deferred tax assets and liabilities reduced the net deferred assets by approximately ¥7 million ($64 thousand) as of February 29, 2004, increased unrealized gain on available-for-sale securities by approximately ¥7 million ($64 thousand) and increased income tax expenses by approximately ¥15 million ($136 thousand) for the year ended February 29, 2004.

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 29, 2004 and February 28, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current:			
Deferred tax assets			
Unrealized profit on inventories	¥ 505	¥ 114	$ 4,591
Accrued bonuses	242	142	2,200
Inventories	68	106	618
Accrued business taxes	50	5	455
Allowance for doubtful receivables	11	11	100
Other	80	32	727
Total deferred tax assets	¥ 956	¥ 410	$ 8,691
Deferred tax liabilities			
Undistributed earnings of associated companies	¥ 72	¥ 103	$ 655
Tax-deductible inventory losses	21	40	191
Enterprise taxes		5	
Allowance for doubtful receivables	3	7	27
Other	31	40	282
Total deferred tax liabilities	¥ 127	¥ 195	$ 1,155
Net deferred tax assets	¥ 829	¥ 215	$ 7,536
Non-Current:			
Deferred tax assets			
Write-down of investment securities	¥ 277	¥ 410	$ 2,518
Depreciation	100	90	909
Retirement benefits for directors and corporate auditors	74	77	673
Pension and severance costs	27	193	245
Net unrealized loss on available-for-sale securities		118	
Other	165	165	1,500
Less valuation allowance	(182)	(183)	(1,654)
Total deferred tax assets	¥ 461	¥ 870	$ 4,191
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	¥ 202		$ 1,836
Property, plant and equipment	36	¥ 39	327
Other	19	0	173
Total deferred tax liabilities	¥ 257	¥ 39	$ 2,336
Net deferred tax assets	¥ 204	¥ 831	$ 1,855

A reconciliation between the normal effective statutory tax rate for the year ended February 29, 2004 and February 28, 2003 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2004	2003
Normal effective statutory tax rate	41.2%	41.2%
Reversal of deferred tax assets on unrealized profit	(18.5)	23.5
Amortization of excess cost of investments in consolidated subsidiaries	3.0	6.6
Other	(0.3)	(1.5)
Actual effective tax rate	25.4%	69.8%

The normal effective tax rate reflected in the accompanying consolidated statements of income for the years ended February 29, 2004 and February 28, 2003 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 16.6% and 15.3% of the voting shares of the Company at February 29, 2004 and February 28, 2003, respectively, and related transactions for the years ended were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Citizen Watch Co., Ltd.			
Transaction:			
Sales	¥1,816	¥1,912	$16,509
Balance at year-end:			
Trade accounts receivable	621	750	5,645

12. Research and Development Costs

Research and development costs charged to income were ¥2,188 million ($19,891 thousand) and ¥2,171 million for the years ended February 29, 2004 and February 28, 2003, 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 ¥92 million ($836 thousand) and ¥90 million for the years ended February 29, 2004 and February 28, 2003, 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 29, 2004 and February 28, 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Acquisition cost	¥488	¥545	$4,436
Accumulated depreciation	333	320	3,027
Net leased property	¥155	¥225	$1,409

The pro forma depreciation expenses computed by the straight-line method were ¥92 million ($836 thousand) and ¥90 million for the years ended February 29, 2004 and February 28, 2003, respectively.

Obligations under financial leases at February 29, 2004 and February 28, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Due within one year	¥ 74	¥ 89	$ 673
Due after one year	81	136	736
Total	¥155	¥225	$1,409

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 29, 2004 and February 28, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Due within one year	¥ 77	¥ 44	$ 700
Due after one year	362	367	3,291
Total	¥439	¥411	$3,991

14. Other Income (Expenses) — Other–net

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Patent income	¥ 94	¥ 7	$ 855
Rental income	23	16	209
Cost for rental income	(19)	(19)	(173)
Other	64	136	581
Other–net	¥162	¥140	$1,472

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 29, 2004 and February 28, 2003 are as follows:

	Millions of yen					
	2004			2003		
	Contracted amount	Fair value	Unrealized gain (loss)	Contracted amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:						
Receivables:	**¥4,794**	**¥4,894**	**¥(100)**	¥3,523	¥3,475	¥48
Payables:				73	72	(1)
Total			**¥(100)**			¥47

	Thousands of U.S. dollars (Note 1)		
	2004		
	Contracted amount	Fair value	Unrealized gain (loss)
Receivables:	**$43,582**	**$44,491**	**$(909)**
Payables:			
Total			**$(909)**

16. Contingent Liabilities

As of February 29, 2004 and February 28, 2003, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Guarantees of bank loans	**¥77**	¥127	**$700**

17. Stock Option Plan

As of February 29, 2004, the Company has the following stock option plans approved by the shareholders in accordance with the Commercial Code:

Date of approval by shareholders	May 23, 2002	May 22, 2003
Grantees	Directors, key employees, directors of consolidated subsidiaries	Directors, key employees, directors of consolidated subsidiaries
Nature of stocks with warrant granted	Common stock	Common stock
Number of stocks with warrant granted	157,000	146,000
Option price per warrant	¥1,020	¥725
Exercisable period	May 24, 2004–May 23, 2008	May 23, 2005–May 22, 2009

18. 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 29, 2004 and February 28, 2003 was as follows:

(1) Operations in Different Industries

	Millions of yen				
2004	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	¥22,291	¥17,205	¥3,836		¥43,332
Intersegment sales					
Total sales	22,291	17,205	3,836		43,332
Operating expenses	20,582	14,185	3,110	¥ 1,905	39,782
Operating income	¥ 1,709	¥ 3,020	¥ 726	¥(1,905)	¥ 3,550
Assets	¥25,917	¥17,134	¥5,150	¥ 9,697	¥57,898
Depreciation and amortization	1,947	347	395	165	2,854
Capital expenditures	1,199	359	239	261	2,058

	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

	Thousands of U.S. dollars (Note 1)				
2004	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	$202,645	$156,409	$34,873		$393,927
Intersegment sales					
Total sales	202,645	156,409	34,873		393,927
Operating expenses	187,109	128,954	28,273	$ 17,318	361,654
Operating income	$ 15,536	$ 27,455	$ 6,600	$(17,318)	$ 32,273
Assets	$235,609	$155,764	$46,818	$ 88,154	$526,345
Depreciation and amortization	17,700	3,154	3,591	1,500	25,945
Capital expenditures	10,900	3,263	2,173	2,373	18,709

* 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:	Wristwatch 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 ¥1,905 million ($17,318 thousand) and ¥2,012 million for the years ended February 29, 2004 and February 28, 2003, 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 ¥9,697 million ($88,154 thousand) and ¥8,632 million at February 29, 2004 and February 28, 2003, respectively.

(2) Foreign Operations

	Millions of yen					
2004	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Outside customers	**¥17,467**	**¥8,436**	**¥8,375**	**¥ 9,054**		**¥43,332**
Inter-area transfers	**19,837**	**5**	**5**	**10,279**	**¥(30,126)**	
Total	**37,304**	**8,441**	**8,380**	**19,333**	**(30,126)**	**43,332**
Operating expenses	**33,443**	**7,618**	**7,890**	**19,652**	**(28,821)**	**39,782**
Operating income (loss)	**¥ 3,861**	**¥ 823**	**¥ 490**	**¥ (319)**	**¥ (1,305)**	**¥ 3,550**
Assets	**¥49,706**	**¥7,736**	**¥5,704**	**¥14,792**	**¥(20,040)**	**¥57,898**

	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 (loss)	¥ 3,002	¥ 418	¥ 509	¥ (259)	¥ (1,262)	¥ 2,408
Assets	¥50,667	¥6,182	¥6,157	¥20,970	¥(21,573)	¥62,403

	Thousands of U.S. dollars (Note 1)					
2004	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Outside customers	**$158,791**	**$76,691**	**$76,136**	**$ 82,309**		**$393,927**
Inter-area transfers	**180,336**	**45**	**46**	**93,446**	**$(273,873)**	
Total	**339,127**	**76,736**	**76,182**	**175,755**	**(273,873)**	**393,927**
Operating expenses	**304,027**	**69,254**	**71,727**	**178,655**	**(262,009)**	**361,654**
Operating income (loss)	**$ 35,100**	**$ 7,482**	**$ 4,455**	**$ (2,900)**	**$ (11,864)**	**$ 32,273**
Assets	**$451,873**	**$70,327**	**$51,854**	**$134,473**	**$(182,182)**	**$526,345**

* The segments consist of the following countries:

Europe: United Kingdom, Germany, France 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 ¥1,905 million ($17,318 thousand) and ¥2,012 million for the years ended February 29, 2004 and February 28, 2003, 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 ¥9,697 million ($88,154 thousand) and ¥8,632 million at February 29, 2004 and February 28, 2003, respectively.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Europe	¥ 9,824	¥ 8,239	$ 89,309
North America	8,573	9,336	77,936
Asia	14,124	12,887	128,400
Total	¥32,521	¥30,462	$295,645

* 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.

19. Subsequent Event

The following appropriations of retained earnings at February 29, 2004 were approved at the Company's shareholders' meeting held on May 27, 2004:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥6 ($0.055) per share	¥320	$2,909

On May 27, 2004, 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 150,000 shares of common stock, which are exercisable from May 28, 2006 to May 27, 2010.

Independent Auditors' Report

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Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Star Micronics Co., Ltd. and consolidated subsidiaries as of February 29, 2004 and February 28, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Star Micronics Co., Ltd. and consolidated subsidiaries as of February 29, 2004 and February 28, 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits 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 27, 2004

Corporate Data

DIRECTORS AND AUDITORS

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

(as of May 27, 2004)

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 56,533,234
Paid-in Capital	12,721,939,515 yen
Number of Shareholders	7,737
Stock Listings	First Section of the Tokyo and Nagoya Stock Exchanges

(as of February 29, 2004)

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 Europe Ltd.	Star House, Peregrine Business Park, Gomm Road, High Wycombe, Bucks, HP13 7DL, UK Tel. +44-1494-47-1111
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Star Micronics Manufacturing Dalian Co., Ltd.	2, Huang Hai Street, Dalian Economic and Technical Development Zone, Dalian, PRC Tel. +86-411-87611-535
Star Micronics AG	Lauetstrasse 3 CH-8112 Otelfingen Bruettisellen, Zurich, Switzerland Tel. +41-43-411-6060
Star Micronics GB Ltd.	Chapel Street, Melbourne, Derbyshire, DE73 1EH, UK Tel. +44-1332-864455
Star Micronics GmbH	Untere Reute 44, 75305 Neuenburg, Germany Tel. +49-7082-7920-0
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Dalian Sande Electronics Co., Ltd.	18, West Huai He Road, Dalian Economic and Technical Development Zone, Dalian, PRC Tel. +86-411-87614-659
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 SA	53 Av. du Crozet FR-74950 Scionzier, France Tel. +33-450-96-05-97
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Japanese Subsidiaries

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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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