Exceed and Deliver

ANNUAL REPORT 2008

For the year ended February 29, 2008

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, HDD 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 2008, there were 6 Japanese and 15 overseas consolidated subsidiaries. The total workforce numbered about 8,800.

Star Micronics constantly aims to be a global-facing business group that targets growth fields and regions, while at the same time seeking to fulfill its corporate social responsibility and increase corporate value.

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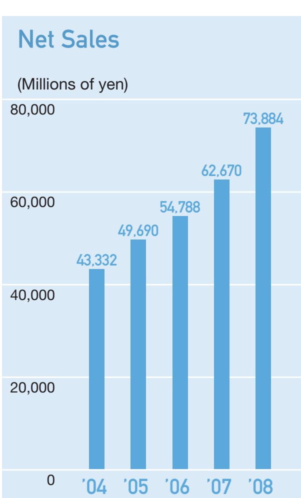
FORWARD-LOOKING STATEMENTS

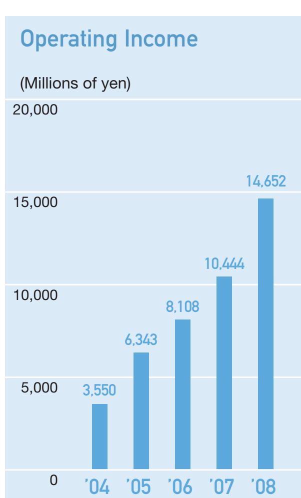
FINANCIAL HIGHLIGHTS

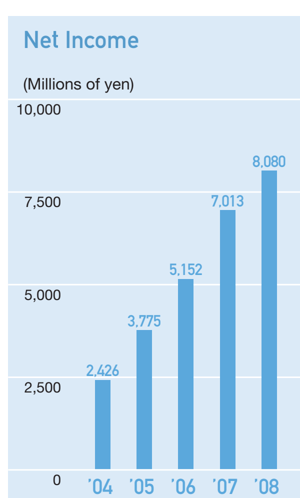
Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 29, 2008 and February 28, 2007

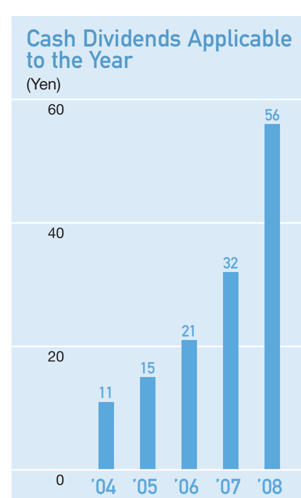
	Millions of yen		Change (%)	Thousands of U.S. dollars
	2008	2007	2008/2007	**2008**
For the year:				
Net sales	**¥73,884**	¥62,670	17.9%	**$703,657**
Operating income	**14,652**	10,444	40.3	**139,543**
Net income	**8,080**	7,013	15.2	**76,952**
Return on sales	**10.9%**	11.2%		
Capital expenditures	**5,084**	2,908	74.8	**48,419**
Depreciation and amortization	**3,212**	2,708	18.6	**30,590**
At year-end:				
Total assets	**¥86,375**	¥76,195	13.4%	**$822,619**
Total equity	**66,602**	61,396	8.5	**634,305**
Equity ratio	**76.2%**	79.9%		
	Yen		Change (%)	U.S. dollars
Per share:				
Basic net income	**¥150.74**	¥131.09	15.0%	**$1.44**
Diluted net income	**150.47**	130.73	15.1	**1.43**
Cash dividends applicable to the year	**56.00**	32.00	75.0	**0.53**
Stock information:				
Common stock issued	**54,533,234**	54,533,234		
Number of shareholders	**10,250**	5,777		

Note: The rate of ¥105 to US$1, prevailing on February 29, 2008, has been used for translation into U.S. dollar amounts.









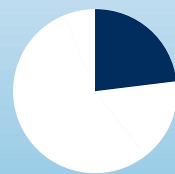
AT A GLANCE

[SEGMENT]	[MAIN PRODUCTS & SERVICES]

SPECIAL PRODUCTS

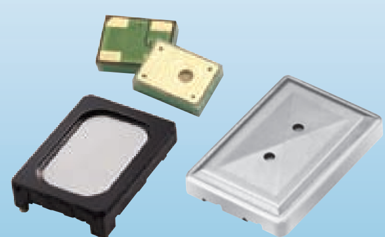
Sales by Segment

23.2%



This segment's main products are point-of-sale (POS) printers. The segment also supplies card reader/writer devices for shopping point cards and other writable card media.
Computer printers will be discontinued as of the end of 2008.

COMPONENTS



Sales by Segment

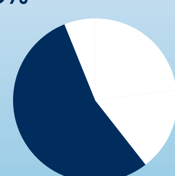
16.3%

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

MACHINE TOOLS

Sales by Segment

54.6%

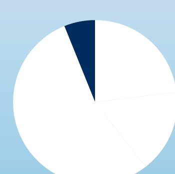


CNC automatic lathes capable of high-precision, complex geometry machining (high-end, mid-range and single-function models, and support software for machine tools, etc.)

PRECISION PRODUCTS

Sales by Segment

5.9%



Components for wristwatches, automobiles, medical equipment, fiber optic connectors, hard disk drives (HDDs) and other products.

[MAIN MARKETS]	[KEY ADVANTAGES]	[INDUSTRY OUTLOOK]
U.S./Europe: POS applications in the distribution, retailing and other sectors. Emerging markets: Tax collection systems, lottery terminals, kiosk terminals and other applications.	• A strong customer base and high brand awareness in the printer market. • Cost-competitive manufacturing based in China. • Product development with emphasis on distinctive software.	• Demand in the U.S. and European POS system markets is expected to be temporarily flat due to a downturn in market conditions. • Demand for special POS printer applications is large and expected to grow further in India, Russia, Brazil and other emerging markets.
Manufacturers of mobile phones, automobiles, digital equipment, medical equipment and other products.	• A broad lineup of micro audio components with a competitive edge in terms of compactness and thinness. • A proven track record as a supplier to leading overseas mobile phone manufacturers.	• Demand is expected to increase in fiscal 2009 on the back of further growth in the mobile phone market supported by expansion in China, India and other BRICs countries. • The digital equipment and automotive-related fields are forecast to continue growing strongly.
Manufacturers of components for automobiles, consumer electronics, industrial machinery, medical equipment, aircraft, precision devices and other products.	• A broad lineup of products from high-end to low-end models. • A high market share (approximately 35% based on Star Micronics' own data for 2008) anchored by a trusted global brand. • Cost-competitive manufacturing based in China (some models). • A global sales network and comprehensive after-sales services.	• Fiscal 2009 is expected to be another year of strong orders supported by firm demand in overseas markets, especially in Europe and Asia. • Demand is expected to grow further in emerging markets. • In the first half of fiscal 2009, demand is expected to be temporarily flat with improvement projected to begin as early as the second half.
Finished product manufacturers in related fields.	• A long history in this field since the establishment of Star Micronics. • Low-cost, stable production capabilities and advanced manufacturing technologies thanks to a high level of automation. • One of the few players in the industry with an integrated precision component manufacturing framework covering machining through assembly.	• Although the wristwatch component market is stable, it is a mature market with no prospects for significant growth over the long term. • Demand for 2.5-inch HDDs for laptop computers continues to grow. • Japanese manufacturers setting up factories in overseas markets increasingly need precision components supplied locally.

TO OUR SHAREHOLDERS

In fiscal 2008, we reported our fifth consecutive year of top- and bottom-line growth and record net income for the second consecutive year. This performance was driven by another year of continued buoyant orders for machine tools and special products. Although the operating environment was favorable, I believe that our success was mainly the result of continued efforts to establish a strong earnings base. With regards to returning profits to shareholders, reflecting our robust performance in fiscal 2008, we raised the annual dividend per share to ¥56 for the year under review, an increase of ¥24 from fiscal 2007. We have now raised dividends for five years running.

In the year ending February 28, 2009, we expect the sharp, ongoing improvement seen in the Components Segment from the third quarter of fiscal 2008 and strong performance in the Machine Tools Segment to deliver positive results. Although current worldwide economic conditions suggest that the operating environment will be extremely challenging, we will work to enhance profitability and increase our growth potential by maintaining a strategic focus and continuing to develop new business fields.

I ask for the continued support of our shareholders and other investors in this continuing endeavor.

May 2008

Toshihiro Suzuki
President and CEO

Q. What is your assessment of Star Micronics' fiscal 2008 performance?

A. I believe we surpassed expectations by achieving record earnings in fiscal 2008.

In the fiscal year ended February 29, 2008, Star Micronics posted consolidated operating income of ¥14,652 million, up 40.3% year on year, and net income of ¥8,080 million, up 15.2%, on 17.9% growth in net sales to ¥73,884 million. It was our fifth consecutive year of top- and bottom-line growth and net income reached a new high for the second year running.

Growth was mainly driven by stronger performances by the Machine Tools Segment and the Special Products Segment. This mainly reflected our efforts to capitalize on market growth, particularly in Brazil, Russia, India, and China (BRICs), and our success in increasing production and cutting costs by developing and utilizing overseas plants.

In the Machine Tools Segment, growth was boosted by a continued high level of orders in Europe from a broad range of industries, including the electrical and precision instrument and automobile sectors, and by our response to emerging markets and other measures. In terms of products, Star Micronics received strong customer responses for a diverse array of models, from high-end models featuring outstanding productivity and machine rigidity to highly cost-effective models. As a result, the Machine Tools Segment posted sales and earnings growth for the fourth consecutive year.

The Special Products Segment achieved significant sales growth in POS printers. This was mainly the result of growth in emerging markets, centered on the BRICs countries; business expansion into new domains such as lottery terminal applications; and the launch of new products incorporating proprietary software. Expansion in South America, especially Brazil, sales of lottery terminal applications in India, and sales in fiscal printer and kiosk terminal markets in Russia each made strong contributions to sales growth. We also decided to withdraw from the computer printer business following three consecutive years of operating losses, based on poor prospects for growth or improved profitability in this business. Going forward, we will focus our business resources on the POS printer market, which has stronger growth potential.

Against a backdrop of growth in global mobile phone sales volume, the Components Segment saw growth in orders and sales, but operating income declined year on year. This was because of a drop in sales prices and, in the first half of fiscal 2008, a decline in sales volumes. However, we have seen marked improvement in both sales and earnings due to increased orders from the third quarter.

In the Precision Products Segment, the wristwatch components and the non-wristwatch components businesses each posted year-on-year sales and earnings declines.

Although the Company achieved favorable results in fiscal 2008, I think we still have much more to do in terms of laying the groundwork for future growth. I believe that with the Company in good health, now is the time to carry out reforms that will form the basis of future growth.

Q. What is your outlook for Star Micronics' business performance and the business environment in fiscal 2009?

A. While I see no cause for excessive optimism, I'm expecting our results and conditions to improve from the second half.

For the fiscal year ending February 28, 2009, partly due to the expected impact of exchange rates, we are targeting consolidated net sales of ¥72,100 million (down 2.4% year on year); operating income of ¥12,100 million (down 17.4%), and net income of ¥8,100 million (up 0.2%). We certainly need to remain cautious about our business environment due to ongoing concerns since last year over a possible global recession, and exchange rate movements. However, I am not overly pessimistic about the outlook for our business environment.

I see significant global growth potential, especially in the BRICs nations, and expect high growth rates to continue. I believe the stronger yen and higher crude oil prices seen from 2007 are mainly the result of speculative demand and will not continue over the long term. Therefore, I expect these trends to begin subsiding in the not too distant future.

We cannot set overly optimistic targets in the prevailing operating environment. However, in fiscal 2009, I believe Star Micronics can generate earnings largely on a par with its record-high results of fiscal 2008.

Q. What are your views on the Components Segment, which is returning to strength?

A. I expect the Components Segment to make a significant contribution to fiscal 2009 earnings.

The Components Segment returned to the black in the third quarter of fiscal 2008 and restored a double-digit operating income ratio in the fourth quarter. While I do not expect the segment to maintain this level of profitability throughout fiscal 2009, I expect it can make a large contribution to earnings.

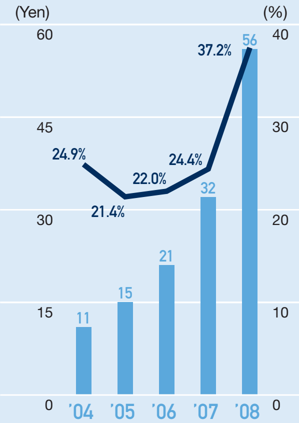
One factor behind improvement in this segment's performance was the major impact of narrowing down our product lineup to receivers and microphones, where we excel. Progress with rationalization of production, including the effective use of new production facilities in which we have been investing and the streamlining of production, also contributed to earnings growth. Another contributing factor was that unit component prices have become more stable, as major mobile phone manufacturers put stronger emphasis on ensuring a stable supply of components from suppliers.

With the global mobile phone market expected to continue expanding in fiscal 2009, we are forecasting growth in orders of related components. In the Components Segment, our priorities are to rationalize production and cut costs. In terms of individual products, increasing production yields and improving quality control of digital microphones are important. In addition, we plan to establish a sales channel for headsets, which the Company currently produces on an OEM basis, as part of efforts to diversify our sources of earnings. Star Micronics aims to strengthen its base while developing high added-value products by using a modular form of acoustic components for the future.

Q. Please explain your fundamental policy on returning profits to shareholders.

A. We are targeting a dividend payout ratio of 40% and dividend on equity (DOE) of 5% over the medium term, while giving priority to investment in future growth.

Annual Dividend per Share and Dividend Payout Ratio



■ Annual Dividend per Share
— Dividend Payout Ratio

At Star Micronics, we endeavor to conduct transparent and efficient management practices that continuously increase corporate value. We believe that it is our social responsibility as a company to then appropriately return this value to our shareholders and other stakeholders. Accordingly, value has been returned to shareholders through forward-looking initiatives, resulting in the steady increase of dividend payments over recent years.

In fiscal 2008, Star Micronics raised its annual dividend per share by ¥24 to ¥56, resulting in a dividend payout ratio of 37.2%, 12.8 points higher than in the previous year. This was largely in line with our medium-term goal of a dividend payout ratio of 35% and DOE of 4%. From fiscal 2009, we are therefore targeting a dividend payout ratio of 40% and DOE of 5% over the medium term.

Q. Please outline your vision for future growth.

A. We plan to further increase our activities in current business domains. M&As will be considered if necessary.

With markets for machine tools, POS printers, and components expanding, we see room for further business expansion in our current business domains.

In Machine Tools, for example, we can achieve further growth by redoubling efforts to develop sales channels in new developing markets where we have yet to make inroads, particularly in the BRICs countries. We also see many promising growth opportunities for special POS printer applications, such as tax-collecting systems for Russia and Brazil, and lottery systems for India. Other opportunities include printers for tax collection systems in China and new product launches.

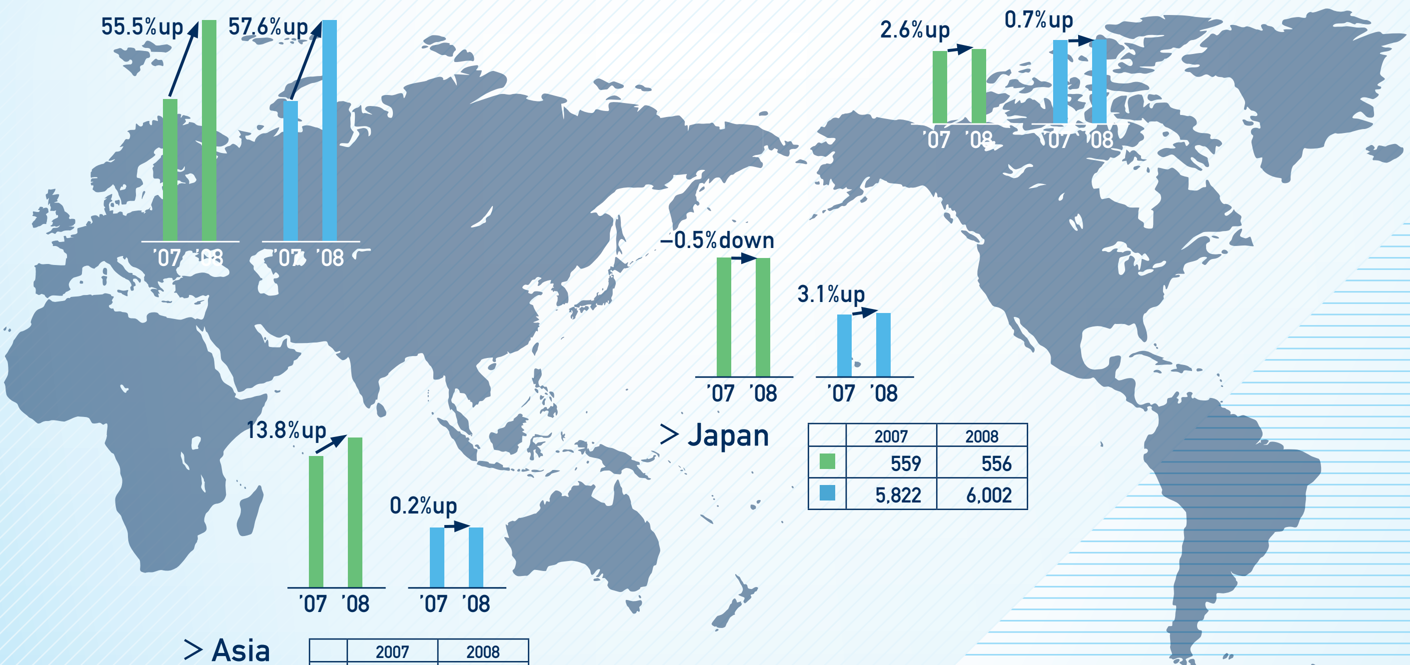
However, in addition to developing businesses on our own, we believe it is necessary to consider leveraging M&As to accelerate growth. We are currently considering various technology alliances and M&As in the field of POS printers. Our goal is to transform our business from the supply of only printers to one that can provide clients with systems. We believe this will allow us to deliver significant sales and earnings growth going forward.

In the Precision Products Segment, we aim to return to basics in order to reestablish world-class technologies in precision machining, pressing, molding and other areas. Going forward, we aim to relaunch precision pressing and molding operations alongside precision machining—which is currently the sole focus of the Precision Products Segment. In doing so, we hope to rebuild our compact precision processing technologies and thereby open up new business opportunities and develop high added-value products in existing businesses.

A Globally Expanding Machine

SHIPMENTS & SALES BY GEOGRAPHICAL REGION

■ Shipments by Geographical Region
■ Sales by Geographical Region



> Europe

	2007	2008
■	667	1,037
■	13,156	20,736

> North America

	2007	2008
■	342	351
■	7,855	7,910

> Japan

	2007	2008
■	559	556
■	5,822	6,002

> Asia

	2007	2008
■	618	703
■	5,644	5,654

In recent years, the machine tools market has witnessed various structural changes, including an expanding range of machine tool products and the development of emerging markets. These changes are causing demand to expand globally, over and above replacement demand. The broader product range reflects the growing demand for small precision components accompanying an increasingly diverse array of applications for small precision machine tools in the manufacture of mobile phones, digital cameras, HDDs and other products. The development of emerging markets refers to growth in new markets like the BRICs countries and Eastern Europe. For these reasons, the market today is less susceptible to the large fluctuations in machine tool orders seen in the past. Our business environment is projected to support a high level of orders in fiscal 2009, the year ending February 28, 2009, despite a temporary lull in projected demand.

Tools Market

KEY ADVANTAGES

High quality and performance match needs

The two main features of our machine tools are our full lineup of products and their high machine rigidity. Our product lineup is capable of meeting a wide variety of needs, from single-function models for simple parts processing to high-end and mid-range models that allow high-precision, complex-geometry machining of difficult-to-machine materials. High machine rigidity enables our machine tools to maintain fine machining accuracy even after a long period of continuous use. Another advantage is that we provide the high added-value option of improving productivity using the Star Motion Control System, our unique new-generation optimum control technology that can substantially reduce the amount of idle (non-machining) time.

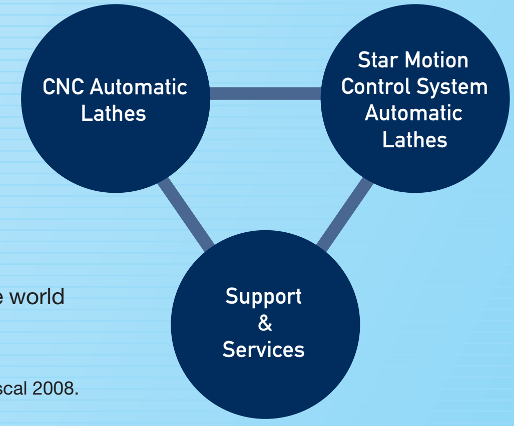
Globally established organization

Another advantage is that we are developing sales subsidiaries for machine tools in Europe, Asia and elsewhere throughout the globe, thereby establishing an extensive after-sales service organization around the world. We also have the substantial advantage of having established a production base overseas (in Dalian, China). Our proportion of overseas production has grown to currently account for approximately half of our total machine tool production. Another decisive advantage is that we have been quick to develop business overseas, and are steadily expanding our sales network and improving our overseas plants.

Trust in the Star brand underpinned by superior collective capabilities

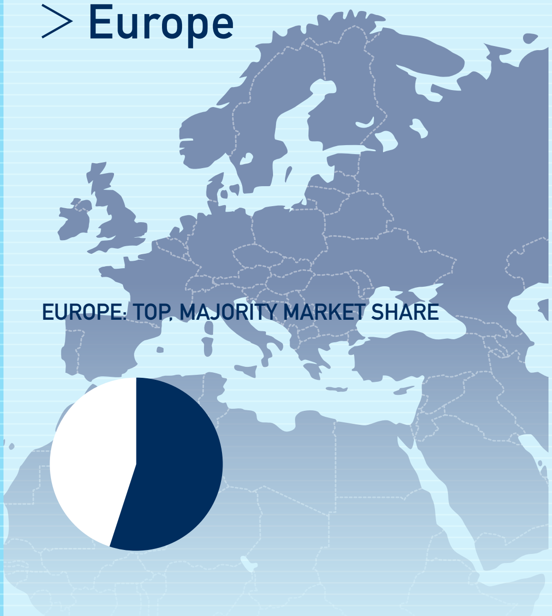
Our moveable-axis CNC swiss-type automatic lathes boast a 35%* share of the world market based on the number of units sold in fiscal 2008. We have acquired a particularly large share of the European market. This was achieved by our superior collective capabilities in terms of product lineup, machine performance, sales power and after-sales services. The strong trust placed in the Star brand by a wide range of customers around the world is our most valuable asset in the Machine Tools Segment.

*Based on Star Micronics' estimate of the total number of machine tools sold worldwide in fiscal 2008.



STAR MICRONICS HAS SECURED A HIGH MARKET SHARE WITH ROBUST ORDER LEVELS

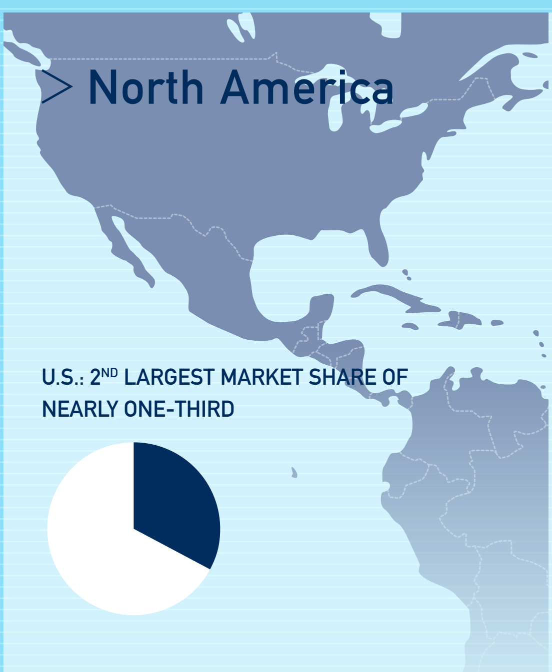
> Europe



EUROPE: TOP, MAJORITY MARKET SHARE

Our estimated market share for machine tools in Europe has surpassed 50%, giving us the largest share. On a unit volume basis, sales for fiscal 2008 substantially increased to 1,037 units, up 370 units year on year. Star Micronics is highly competitive in Europe, as attested by our large market share. Current order levels are below the same months of fiscal 2008 (when orders reached a new record), but are higher than in fiscal 2007, the year before last. The average results for the fourth business quarter of fiscal 2008 also reveal that our business in Europe is strongly rebounding. Looking at the breakdown of machine tool sales to major European customers by sector, sales for the electrical and precision instrument sectors accounted for roughly half of European sales, with the remaining sales accounted for by sales for the automotive parts and general machinery sectors, and sales for the medical equipment sector. These sales mainly comprise highly priced, high-end models.

> North America



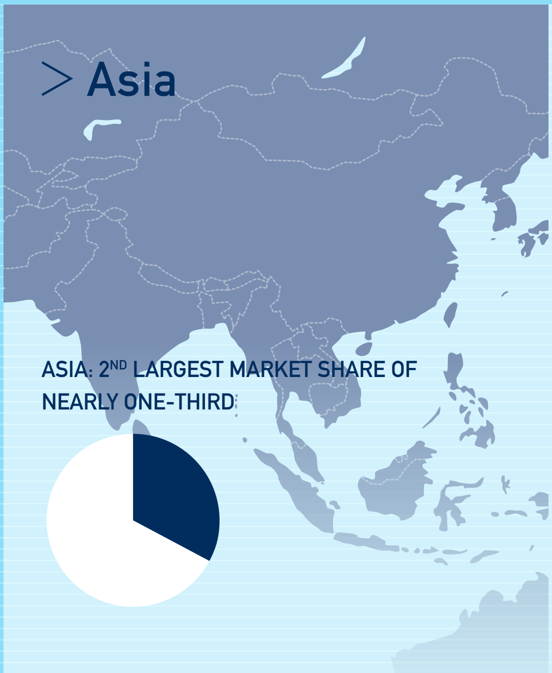
U.S.: 2ND LARGEST MARKET SHARE OF NEARLY ONE-THIRD

Our estimated market share in the U.S. is nearly one-third, which is the second largest share. Unit volume sales for fiscal 2008 increased 9 units year on year to 351 units. The number of orders received reached high levels, second only to our all-time record high. At this point, orders have not been especially impacted by concerns about a possible economic recession.

The breakdown of machine tool sales by major U.S. customers reveals that sales for the medical equipment sector accounted for over half of U.S. sales. Sales to the electrical and precision instrument sectors and sales for general machinery accounted for the remaining sales. The fact that the majority of our U.S. sales are for the medical equipment sector means this is a stable market that is not unduly affected by economic trends. Product sales mainly comprise highly priced, high-end models.

> Asia

ASIA: 2ND LARGEST MARKET SHARE OF NEARLY ONE-THIRD

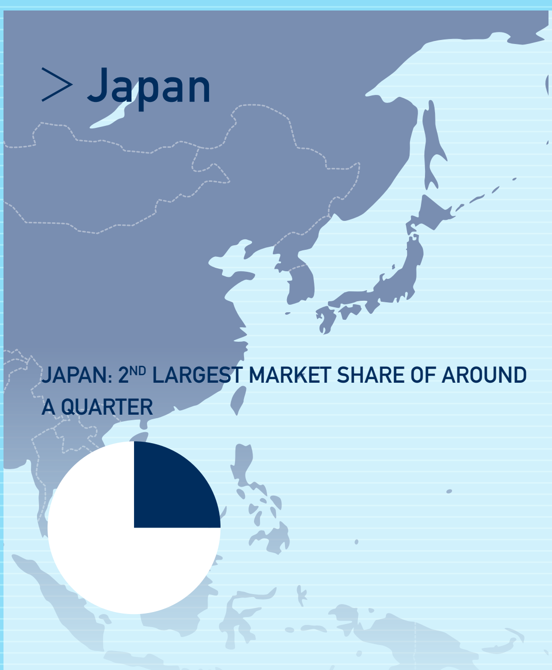


Our estimated market share in Asia is nearly one-third, which represents the second largest share. We have been steadily increasing our share since the launch of the SB-16 and other low-end machine tools. Unit volume sales for fiscal 2008 increased 85 units over the previous year to 703 units. Current order levels are robust, attesting that orders in Asia are on a sound footing. Current order levels in fiscal 2009 are higher both in terms of comparisons with the same months of fiscal 2008 and with the average for that fiscal year. We expect to achieve similarly high levels of orders for the remainder of fiscal 2009.

The breakdown of machine tool sales by major customers in Asia shows that sales to the electrical and precision instrument sectors accounted for just over one-third of Asian sales, while sales for the general machinery sector accounted for roughly a quarter of sales. The main products sold are the SB-16 and other low-end models that are produced at our plant in Dalian, China.

> Japan

JAPAN: 2ND LARGEST MARKET SHARE OF AROUND A QUARTER



Our estimated share in Japan is around a quarter of the market, which puts us in a tie for the second largest share. Unit volume sales for fiscal 2008 amounted to 556 units, down 3 units from fiscal 2007. We are expecting an upturn in the number of orders in the second half of fiscal 2009, despite the slowdown of orders since the second half of fiscal 2007 and declining orders in sectors other than machine tools for automotive parts.

Looking at machine tool sales by major customers in Japan, sales for the automotive parts sector accounted for more than one-third of sales in Japan, while sales for the electrical and precision instrument sectors and sales for the general machinery sector each accounted for around a quarter of sales. These sales mainly comprise middle-range models.

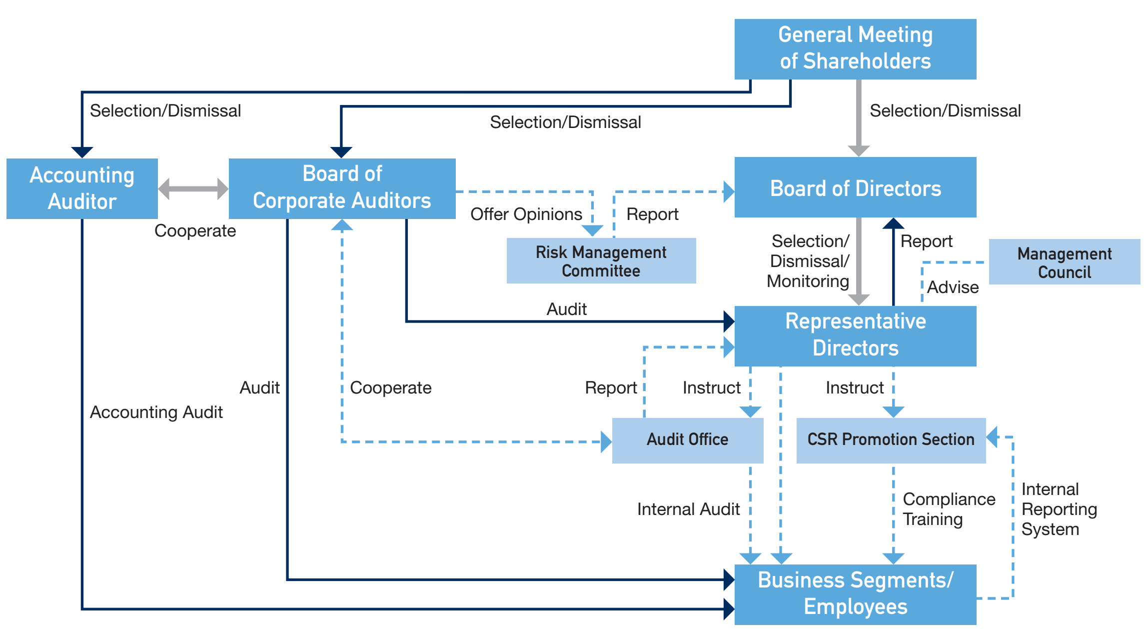
Corporate Governance Initiatives

At Star Micronics, our basic approach to corporate governance is based on fulfilling our responsibilities as a company by working to increase corporate value in a sustained manner through proper and efficient management, and appropriately distributing the resulting profits to shareholders and other stakeholders.

Star Micronics uses the corporate auditor system. Under this system, the Board of Directors is responsible for making rapid and reasoned management decisions and executing strategy in a flexible manner. To ensure proper decision-making and operational execution, we have appointed corporate auditors, including full-time auditors, all of whom are outside appointments. We have also concluded an audit contract with the accounting auditor, Deloitte Touche Tohmatsu. The accounting auditor works with the Board of Corporate Auditors to conduct appropriate audits of the Company.

In order to ensure compliance with all relevant laws and regulations and business ethics, we have established a dedicated internal organization to promote compliance as well as formulated the Star Micronics Charter of Corporate Conduct and a Code of Conduct. In addition, we are taking steps to enhance our internal control system, such as by establishing a Risk Management Committee, to mitigate and respond to risks faced by the Company.

[STAR MICRONICS' CORPORATE GOVERNANCE SYSTEM]



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)				
	2008	2007	2006	2005	2004
For the year:					
Net sales	**¥73,884**	¥62,670	¥54,788	¥49,690	¥43,332
Cost of sales	**42,207**	37,004	32,875	30,742	28,161
Selling, general and administrative expenses	**17,025**	15,222	13,805	12,605	11,621
Operating income	**14,652**	10,444	8,108	6,343	3,550
Other income (expenses) – net	**(271)**	410	(68)	(688)	(286)
Income before income taxes and minority interests	**14,381**	10,854	8,040	5,655	3,264
Income taxes	**6,190**	3,719	2,799	1,881	828
Minority interests in net income (loss)	**111**	122	89	(1)	10
Net income	**8,080**	7,013	5,152	3,775	2,426
Per share:					
Basic net income	**¥150.74**	¥131.09	¥95.60	¥70.13	¥44.12
Diluted net income	**150.47**	130.73	95.38	70.09	
At year-end:					
Current assets	**¥63,236**	¥53,620	¥44,615	¥40,170	¥36,355
Net property, plant and equipment	**17,727**	16,355	16,210	14,698	15,604
Total assets	**86,375**	76,195	66,826	60,013	57,898
Long-term liabilities	**696**	920	793	349	1,277
Total equity	**66,602**	61,396	54,295	47,754	44,613
	Yen				
Stock exchange price per share of common stock:					
Highest	**¥3,740**	¥2,710	¥2,090	¥1,030	¥830
Lowest	**1,506**	1,691	941	704	418

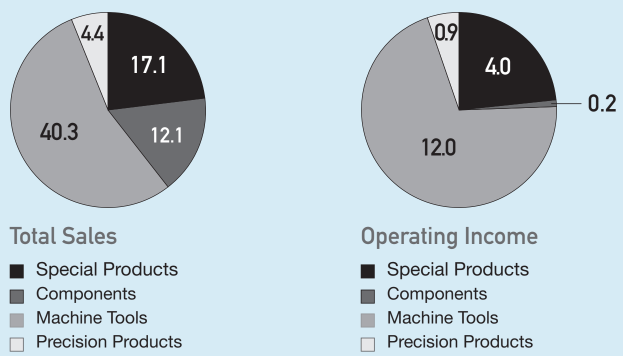
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEGMENT OVERVIEW

For accounting purposes, Star Micronics' operations are classified into four segments. Performance by segment is described below.

Sales and Operating Income by Segment

(Billions of yen)



Note: Corporate expenses of ¥2.4 billion have been included in operating income.

SPECIAL PRODUCTS SEGMENT

In the Special Products Segment, the main products are point-of-sale (POS) printers and other products. Sales rose 9.9% year on year to ¥17,149 million (US$163,324 thousand).

Sales of POS printers grew significantly, rising 18.3% year on year to ¥13,729 million. This was due to vigorous sales activities and the timely introduction of products in an expanding global marketplace, including major expansion in special-application niche markets in emerging economies. In addition to increased sales of our highly acclaimed TSP100 multifunctional thermal printers to sales agents, we secured large contracts in a broad range of fields such as POS printers, lottery ticket machines and kiosk terminals. This was achieved not only in the markets of North America and Europe, but also in India, Russia and other emerging markets.

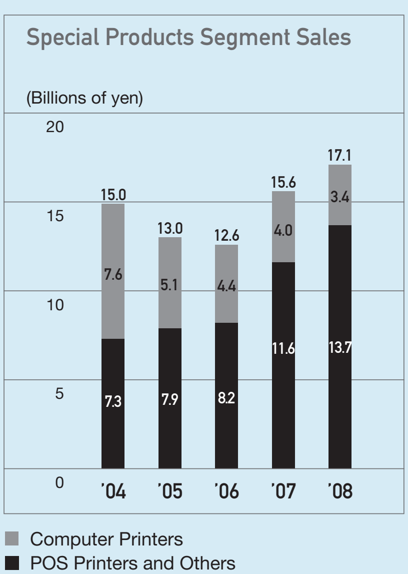
On a regional basis, sales in the U.S. and Asia showed strong growth. In China, the adoption of trials for local tax systems in parts of Beijing and Shanghai helped to increase sales in Asia, and the full-scale implementation of local tax systems is expected to lead to further growth going forward. We are also seeing many more earnings opportunities elsewhere around the world, such as in Russia, where legislation on fiscal printers is due to come into force.

In terms of models, we aim to capture a larger market share by leveraging the competitiveness of our high-value-added products. With this goal in mind, we introduced the TSP700II, the latest addition to our highly acclaimed mainstay TSP700 series of POS models, and the SP700 receipt printer, which enables high-speed, high-quality printing of Chinese characters.

Computer printer sales decreased 14.5% year on year to ¥3,419 million, the third consecutive annual sales decline. This can be attributed partly to delays in the implementation of the much-anticipated Chinese tax collection system and a drop-off in demand for printers for local taxation projects.

As a result of the above, despite continued declines in computer printer sales, growth in POS printer sales and cost reductions led to an increase in operating income in the Special Products Segment of ¥1,286 million, or 47.7%, to ¥3,982 million (US$37,924 thousand).

The computer printer business was in the red for the third consecutive year and, taking into account limited growth and profitability prospects, the Group decided to withdraw from this business by the end of this year.



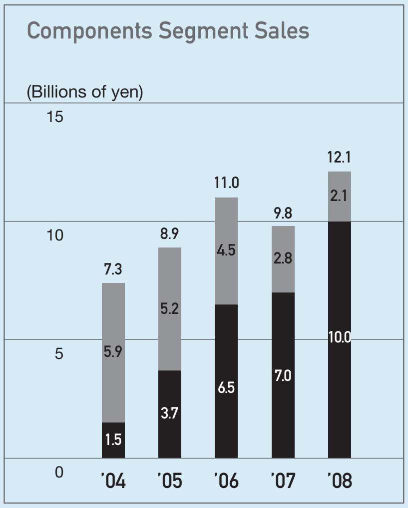
COMPONENTS SEGMENT

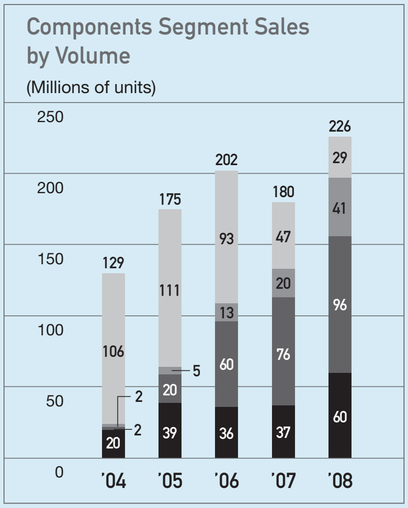
In this segment, Star Micronics is aiming to become a comprehensive manufacturer of micro audio components, and offers a broad lineup of products including microphones, receivers, speakers and electronic buzzers. Although this segment's business is currently centered on products for mobile phones, Star Micronics has been working to develop more new business domains. The result is that the Components Segment now supplies components for automobile ETC terminals, digital cameras, and other devices. We continue to make steady progress in this area.

Microphone unit sales jumped 1.7 times to 59 million units as a result of new compact, highly functional microphones being taken up for mid- to high-end mobile phones. Sales of receivers amounted to 96 million units, up 1.3 times year on year, on the back of strong demand for low-end mobile phones in emerging markets. Furthermore, sales of speakers doubled on a unit volume basis to 41 million units, reflecting the use of new compact speakers in mid- to high-end mobile phones adding to sales of conventional-sized speakers. Meanwhile, although electronic buzzers have won strong support in the automotive sector for being environmentally friendly and meeting required safety standards, unit sales dropped 38% to 29 million units, due to a rapid decrease in their use in the mainstay mobile phone market where they are used as sounders for incoming calls.

As a result, sales in the Components Segment increased ¥2,236 million, or 22.8%, to ¥12,062 million (US$114,876 thousand). Operating income decreased ¥201 million, or 46.0%, to ¥236 million (US$2,248 thousand) due to falling prices and a decrease in unit sales in the first half. However, increased sales drove an improvement in profitability in the second half.

Global shipments of mobile phones in 2007 increased 16% year on year to just over 1.1 billion units. In 2008, shipments are expected to increase, particularly to emerging markets, with growth forecasts exceeding 10%. Our goal is to attain a volume of shipments that exceeds the growth rate of the market as a whole. However, given the risk of too great a reliance on the mobile phone market and the possibility of falling unit prices, we plan to continue conducting marketing initiatives targeting new customers and expanding into other areas such as speakers for automobiles.





MACHINE TOOLS SEGMENT

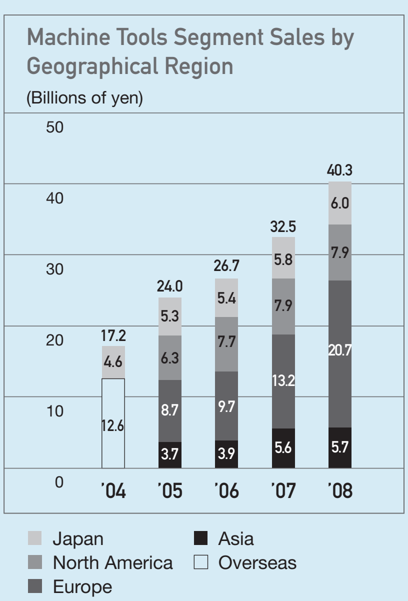
Star Micronics' CNC automatic lathes have earned worldwide acclaim. Key products are the SV series, ideal for the high-precision complex machining required in the manufacture of medical and other components; the top-of-the-range ECAS series, which incorporates a motion control system; and the SB series,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

We continued to receive a high level of overseas orders for CNC automatic lathes centered on a wide range of industries, particularly from customers in the electrical, precision instruments and automotive sectors in Europe. This was despite a temporary lull in domestic demand. In this operating environment, we continued to launch new models, enhance our product lineup, conduct vigorous marketing activities and reinforce our service structure through measures such as increasing the number of technicians. In terms of products, the SR series, which includes the new SR-20RIII, a highly acclaimed model for its high productivity and machine rigidity, and the SB-16 series, which offers outstanding cost effectiveness, each continued to garner a strong customer response, leading to significant growth in sales.

On the production side, we expanded factory space worldwide, while introducing more efficient manufacturing equipment. The aim is to respond to growing demand and boost production efficiency.

As a result of the above, sales in the Machine Tools Segment increased 24.1%, to ¥40,304 million (US$383,848 thousand), while operating income jumped 42.1% year on year, to ¥11,971 million (US$114,009 thousand) with both sales and operating income reaching record highs for the fourth consecutive year. In addition, the operating income ratio rose 3.8 points to 29.7%. The increase in profitability was chiefly attributable to the effects of the improved product mix, resulting in rising sales of higher margin models, and high levels of capacity utilization supported by strong orders.

Sales rose year on year by region as well, including in Japan, Asia, Europe and North America, as in the previous fiscal year. The number of units sold increased 21.1% year on year to 2,647 units, as orders reached record levels. Overseas sales, as a percentage of total segment sales, rose by 3.0 percentage points to 85.1%, due in part to marked sales increases in Europe.



Looking at the market environment in the year under review, demand from customers in the electrical and precision instruments sectors was very strong in Europe. In North America, while sales of machine tools for medical components were flat, sales of machine tools for electrical and precision instruments were strong in Asia. During the fiscal year ending February 28, 2009, although there is expected to be a temporary lull in demand, we expect demand over the year to continue rising supported by growth in emerging markets such as Russia, Eastern Europe and South America.

PRECISION PRODUCTS SEGMENT

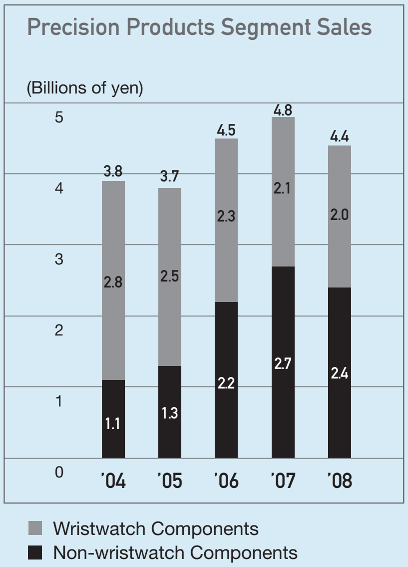
The products in this segment are divided into two main areas: wristwatch components, a business the Company has been involved in since it was founded, and precision components (also referred to as non-wristwatch components).

As the market for wristwatch components is mature, with little prospect for high growth over the long term, the segment is striving to increase earnings by strategically focusing on markets for non-wristwatch components. More specifically, Star Micronics is applying its precision processing technology to fields where precision components are difficult to manufacture: hard disk drive (HDD) components, dental drills and implant parts, medical components, such as bone screws for bone-setting, car audio components and optical fiber connector parts.

In wristwatch components, sales fell 6.7% year on year to ¥1,951 million due to the impact of a shrinking watch movement market in volume terms and a shift to small multi-lot production by Japanese manufacturers as they focus on high-value-added products.

In non-wristwatch components, sales of components for HDDs, the main market for this segment, were down as a result of decreases in sales of components for portable music players despite strong sales of HDD components for laptops and other products. Sales of components for car audio equipment produced by our Chinese subsidiary increased on the back of expansion in the Chinese automobile market. As a result, sales of non-wristwatch components fell 9.2% year on year to ¥2,417 million. Non-wristwatch components accounted for 55.3% of segment sales.

As a result of the above, segment sales decreased ¥388 million, or 8.2% year on year, to ¥4,369 million (US$41,609 thousand). Operating income also fell ¥390 million, or 31.5%, to ¥850 million (US$8,095 thousand) due to the decline



in sales and the burden of start-up costs for our newly established subsidiary in Thailand, while the operating income ratio decreased 6.6 percentage points to 19.5%.

INCOME ANALYSIS

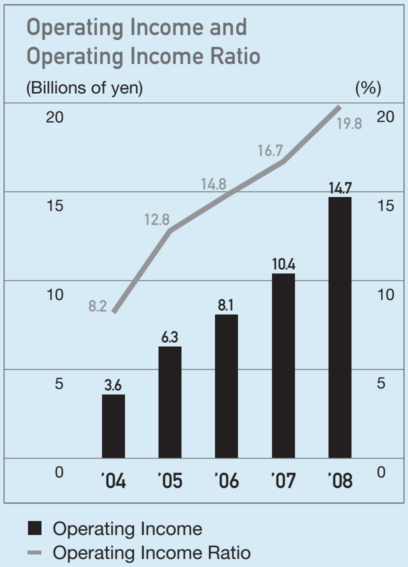
Net sales rose ¥11,214 million, or 17.9% year on year, to ¥73,884 million (US$703,657 thousand). Although the Precision Products Segment posted a decline in sales, the Company reported its fourth consecutive year of record sales in the Machine Tools Segment, while the Special Products Segment chalked up strong gains. Both these segments were the main sales drivers.

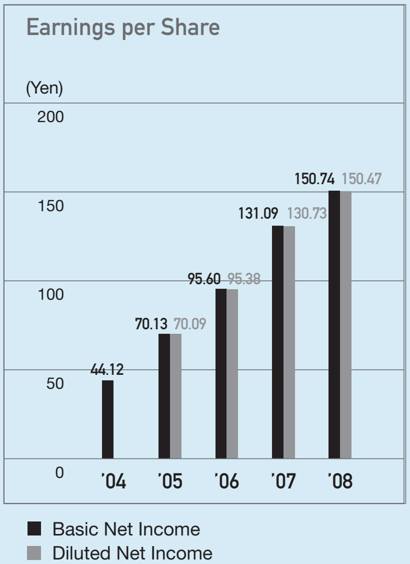
The cost of sales rose ¥5,203 million, or 14.1%, to ¥42,207 million (US$401,971 thousand). As a result, gross profit increased ¥6,011 million, or 23.4% year on year, to ¥31,677 million (US$301,686 thousand). The gross profit margin rose 1.9 percentage points to 42.9%. This was primarily due to the high-margin Machine Tools Segment accounting for a high share of total sales at 54.6%, and a major increase in sales of POS printers and others in the Special Products Segment.

Selling, general and administrative (SG&A) expenses increased ¥1,803 million, or 11.8%, to ¥17,025 million (US$162,143 thousand). This rise was due mainly to higher direct costs, such as sales commissions and other items that rose in line with sales, and higher labor costs.

As a result of the above, operating income climbed ¥4,208 million, or 40.3%, to ¥14,652 million (US$139,543 thousand), while the operating income ratio rose 3.1 percentage points to 19.8%.

Other expenses–net totaled ¥271 million (US$2,581 thousand) compared to other income–net of ¥410 million in the previous fiscal year. This mainly reflected a loss on impairment of long-lived assets of ¥721 million (US$6,867 thousand) and a loss on business restructuring of ¥127 million (US$1,210 thousand), despite the fact that interest and dividend income increased ¥320 million, or 81.8%, to ¥711 million (US$6,771 thousand). The exchange loss–net increased ¥128 million, or 85.9%, to ¥277 million (US$2,638 thousand).





As a result, income before income taxes and minority interests increased ¥3,527 million, or 32.5%, to ¥14,381 million (US$136,962 thousand), while total income taxes were ¥6,190 million (US$58,952 thousand). Net income after deducting minority interests increased ¥1,067 million, or 15.2% year on year, to ¥8,080 million (US$76,952 thousand). Basic net income per share increased ¥19.65 to ¥150.74 (US$1.44) and diluted net income per share increased ¥19.74 to ¥150.47 (US$1.43).

As a result of this strong performance, Star Micronics has decided to raise the annual dividend for the year under review by ¥24 to ¥56 (US$0.53) per share, representing a dividend payout ratio of 37.2%, an increase of 12.8 percentage points year on year. Total dividends increased ¥1,290 million, or 75.4%, to ¥3,002 million.

Regarding future dividends, the Company, after taking its future operating environment and other factors into account, aims to achieve a dividend payout ratio of at least 30% of consolidated net income. Dividend on equity (DOE), which reflects capital efficiency and the dividend payout ratio, will also be considered in setting future dividends. For fiscal 2009, we plan to raise the annual dividend by ¥4 to ¥60, a dividend payout ratio of 39.7%. In the medium term, we will aim for either a dividend payout ratio of at least 40% or a DOE ratio of 5.0% or higher.

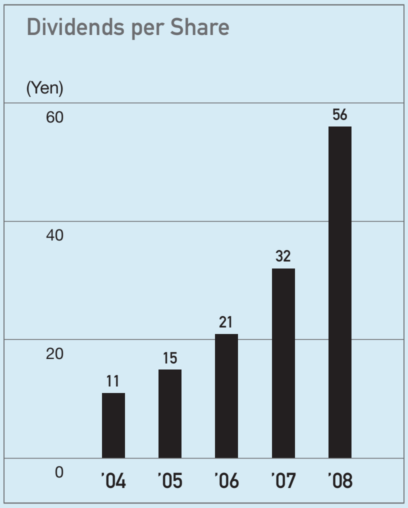
FINANCIAL POSITION & LIQUIDITY

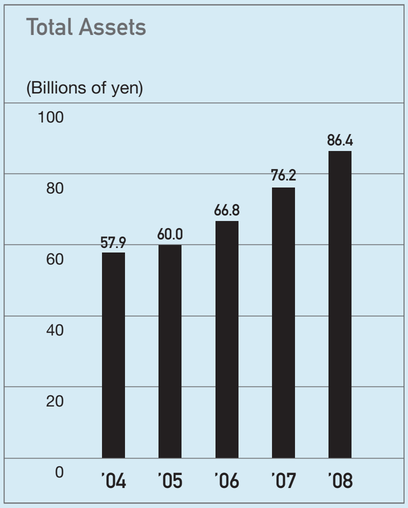
Total current assets as of February 29, 2008 were ¥63,236 million (US$602,248 thousand), an increase of ¥9,616 million, or 17.9% compared with the previous fiscal year-end. This rise reflected increases in trade notes and accounts receivable of ¥2,845 million, or 18.8%, to ¥18,004 million (US$171,467 thousand) as a result of higher sales. Inventories increased ¥2,907 million, up 23.2% year on year, to ¥15,437 million (US$147,019 thousand).

Net property, plant and equipment increased ¥1,372 million, or 8.4%, to ¥17,727 million (US$168,828 thousand).

Total investments and other assets decreased ¥808 million, or 13.0% year on year, to ¥5,412 million (US$51,543 thousand).

As a result of the above, total assets increased ¥10,180 million, or 13.4% year on year, to ¥86,375 million (US$822,619 thousand).





On the other side of the balance sheet, current liabilities increased ¥5,198 million, or 37.5%, to ¥19,077 million (US$181,686 thousand). This rise reflected increases in trade notes and accounts payable of ¥1,967 million, or 33.1%, to ¥7,909 million (US$75,324 thousand) as a result of higher sales. Total long-term liabilities decreased ¥224 million, or 24.3%, to ¥696 million (US$6,628 thousand).

Equity rose ¥4,952 million, or 8.1%, to ¥65,843 million (US$627,076 thousand), mainly as a result of higher retained earnings. Total equity including minority interests was ¥66,602 million (US$634,305 thousand). The equity ratio fell 3.7 percentage points to 76.2%, while equity per share increased ¥90.54 to ¥1,227.59.

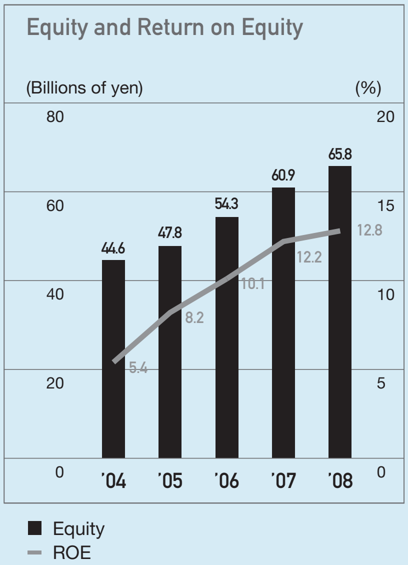
CASH FLOWS

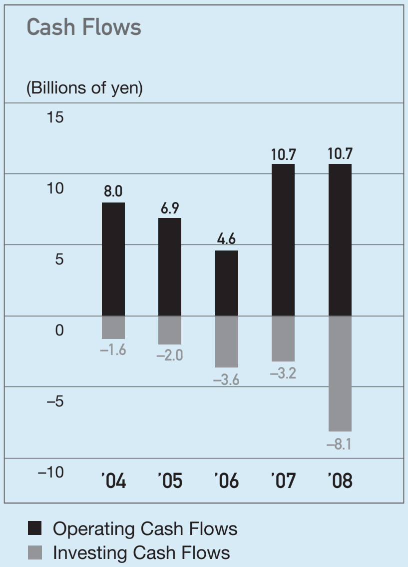
Net cash provided by operating activities decreased ¥45 million to ¥10,666 million (US$101,581 thousand). The main source of cash was income before income taxes and minority interests of ¥14,381 million, up ¥3,527 million, reflecting favorable operating results. However, this was offset by a net cash outflow of ¥3,948 million from changes in trade receivables, trade payables, and inventories, ¥4,357 million more than in the previous fiscal year.

Net cash used in investing activities was ¥8,072 million (US$76,876 thousand), an increase of ¥4,903 million year on year. This chiefly reflected an increase in cash used for purchases of marketable and investment securities of ¥3,330 million to ¥3,582 million and an increase of ¥1,678 million in cash used for purchases of property, plant and equipment to ¥4,426 million.

Net cash used in financing activities was ¥2,152 million (US$20,495 thousand), an increase of ¥821 million. This was mainly the result of an increase of ¥968 million in dividends paid to shareholders to ¥2,358 million.

As a result of the above, after foreign currency translation adjustments on cash and cash equivalents of ¥186 million, cash and cash equivalents as of February 29, 2008 totaled ¥21,824 million (US$207,848 thousand), a net increase of ¥628 million year on year.





CAPITAL EXPENDITURES AND R&D EXPENSES

Capital expenditures for the year totaled ¥5,084 million (US$48,419 thousand), an increase of ¥2,176 million, or 74.8%, compared to the previous fiscal year.

Expenditures in the Special Products Segment rose ¥396 million to ¥880 million. In fiscal 2009, the Company is budgeting expenditures in this segment in the amount of ¥604 million, mainly for dies for new models due to be rolled out going forward.

Expenditures in the Components Segment increased ¥763 million to ¥1,737 million. In fiscal 2009, we estimate that ¥1,316 million will be spent on initiatives such as increasing production capacity for micro audio components.

In the Machine Tools Segment, expenditures rose ¥504 million year on year to ¥1,537 million. In fiscal 2009, we anticipate that ¥1,263 million will be spent on initiatives such as increasing production capacity.

In the Precision Products Segment, expenditures increased ¥469 million to ¥818 million. ¥1,000 million is budgeted for fiscal 2009.

Research and development (R&D) expenses in fiscal 2008 increased ¥69 million, or 3.2%, to ¥2,214 million (US$21,086 thousand). This represented 3.0% of total sales, a slight decline from the previous year. In addition to creating innovative products, our R&D program has been focused on the development of production technologies that achieve improved cost performance and greater miniaturization.

In product development, following progress with ongoing product evaluations of micro pumps for gases and liquids, and fluid components and devices for sensors by customers, certain products for special applications in the fuel cell and health care fields, are now at the product specification stage.

In basic and applied research, Star Micronics is collaborating with universities and research institutes worldwide to acquire new technologies, especially leading-edge technologies applicable to sensors and actuators, as well as micromachining technologies. These technologies are now being applied to the development of fluid components and devices.

Going forward, we plan to pursue product development activities aimed at commercializing fluid components and devices.

SALES FRAMEWORK AND NET SALES BY REGION

A significant proportion of Star Micronics' products are sold in international markets. To provide customer support globally, the Company operates an extensive network of overseas sites. (See table)

	U.K.	Germany	France	Switzerland	Sweden	U.S.	Thailand	Hong Kong	China
Special Products	Star Micronics Europe Ltd.					Star Micronics America, Inc.*1		Star Micronics Asia Ltd.	
Machine Tools	Star Micronics GB Ltd.	Star Micronics GmbH	Star Machine Tool France SAS	Star Micronics AG	Star Micronics AB*2	Star CNC Machine Tool Corporation	Star Micronics (Thailand) Co., Ltd.		Shanghai Xingang Machinery Co., Ltd.

*1 Star Micronics America, Inc. markets components in addition to special equipment.
*2 Star Micronics AB was established as a wholly owned subsidiary of Star Micronics GmbH in April 2008.

In the fiscal year under review, overseas sales as a proportion of total sales increased 3.6 percentage points to reach 83.9%. The main reasons for this rise were strong demand in Europe in the Machine Tools Segment, and increased sales in the Special Products Segment in Europe and North America, as well as in emerging markets such as India and Russia.

In Europe, net sales increased ¥7,296 million to ¥27,470 million (US$261,619 thousand), representing 37.2% of total sales, a 5.0 percentage point increase over the previous year.

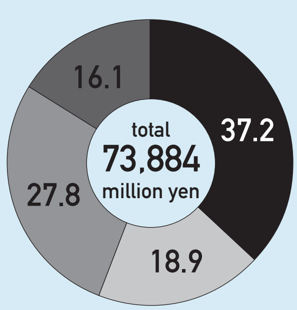
In North America, net sales rose ¥344 million to ¥13,964 million (US$132,991 thousand). The share of total sales in North America dropped 2.8 percentage points to 18.9%.

Net sales in Asia increased ¥4,058 million to ¥20,567 million (US$195,876 thousand). The share of total sales in Asia increased 1.4 percentage points to 27.8%.

In Japan, the main products are machine tools and precision products. Domestic sales decreased ¥484 million to ¥11,883 million (US$113,171 thousand), representing 16.1% of total sales, down 3.6 percentage points year on year.

Net Sales by Region

(%)



Europe
North America
Asia
Japan

CONSOLIDATED BALANCE SHEETS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 29, 2008 and February 28, 2007

Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current assets:			
Cash and cash equivalents	**¥ 21,824**	¥ 21,196	**$ 207,848**
Marketable securities (Note 3)	**2,279**		**21,705**
Short-term investments (Note 4)	**1,926**	1,239	**18,343**
Receivables:			
Trade notes and accounts receivable	**18,004**	15,159	**171,467**
Unconsolidated subsidiaries and associated companies	**304**	83	**2,895**
Other	**1,013**	1,056	**9,648**
Allowance for doubtful receivables	**(287)**	(313)	**(2,733)**
Inventories (Note 5)	**15,437**	12,530	**147,019**
Deferred tax assets (Note 10)	**2,166**	2,204	**20,628**
Prepaid expenses and other	**570**	466	**5,428**
Total current assets	**63,236**	53,620	**602,248**
Property, plant and equipment (Note 6)			
Land	**2,442**	2,457	**23,257**
Buildings and structures	**14,376**	13,450	**136,915**
Machinery and equipment	**35,328**	34,483	**336,457**
Construction in progress	**73**	58	**695**
Total	**52,219**	50,448	**497,324**
Accumulated depreciation	**(34,492)**	(34,093)	**(328,496)**
Net property, plant and equipment	**17,727**	16,355	**168,828**
Investments and other assets:			
Investment securities (Note 3)	**3,543**	3,474	**33,743**
Investments in and advances to unconsolidated subsidiaries and associated companies	**156**	56	**1,486**
Goodwill (Note 6)	**155**	849	**1,476**
Deferred tax assets (Note 10)	**52**	44	**495**
Other assets	**1,506**	1,797	**14,343**
Total investments and other assets	**5,412**	6,220	**51,543**
Total	**¥ 86,375**	¥ 76,195	**$ 822,619**

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Payables:			
Trade notes and accounts payable	**¥ 7,909**	¥ 5,942	**$ 75,324**
Other	**2,115**	1,417	**20,143**
Income taxes payable (Note 10)	**3,146**	2,441	**29,962**
Accrued expenses	**2,554**	2,137	**24,324**
Other	**3,353**	1,942	**31,933**
Total current liabilities	**19,077**	13,879	**181,686**
Long-term liabilities:			
Liability for retirement benefits (Note 7)	**30**	255	**286**
Deferred tax liabilities (Note 10)	**427**	652	**4,066**
Other	**239**	13	**2,276**
Total long-term liabilities	**696**	920	**6,628**
Contingent liabilities (Notes 12 and 14)			
Equity (Notes 8, 9 and 17)**:**			
Common stock – authorized, 158,000,000 shares;			
issued, 54,533,234 shares in 2008 and 2007	**12,722**	12,722	**121,162**
Capital surplus	**13,962**	13,938	**132,971**
Retained earnings	**39,327**	33,605	**374,543**
Unrealized gain on available-for-sale securities	**390**	917	**3,714**
Foreign currency translation adjustments	**159**	487	**1,514**
Treasury stock – at cost			
897,383 shares in 2008 and 981,544 shares in 2007	**(717)**	(778)	**(6,828)**
Total	**65,843**	60,891	**627,076**
Minority interests	**759**	505	**7,229**
Total equity	**66,602**	61,396	**634,305**
Total	**¥86,375**	¥76,195	**$822,619**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2008 and February 28, 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Net sales	**¥73,884**	¥62,670	**$703,657**
Cost of sales (Note 7)	**42,207**	37,004	**401,971**
Gross profit	**31,677**	25,666	**301,686**
Selling, general and administrative expenses (Notes 7 and 11)	**17,025**	15,222	**162,143**
Operating income	**14,652**	10,444	**139,543**
Other income (expenses):			
Interest and dividend income	**711**	391	**6,771**
Interest expense	**(1)**		**(9)**
Exchange loss – net	**(277)**	(149)	**(2,638)**
Gain on sales of property, plant and equipment	**159**	55	**1,514**
Loss on disposals of property, plant and equipment	**(199)**	(136)	**(1,895)**
Loss on impairment of long-lived assets (Note 6)	**(721)**		**(6,867)**
Loss on business restructuring	**(127)**		**(1,210)**
Other – net	**184**	249	**1,753**
Other income (expenses) – net	**(271)**	410	**(2,581)**
Income before income taxes and minority interests	**14,381**	10,854	**136,962**
Income taxes (Note 10)**:**			
Current	**5,978**	4,145	**56,933**
Deferred	**212**	(426)	**2,019**
Total	**6,190**	3,719	**58,952**
Income before minority interests	**8,191**	7,135	**78,010**
Minority interests in net income	**111**	122	**1,058**
Net income	**¥ 8,080**	¥ 7,013	**$ 76,952**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.p, 8 and 15)**:**			
Basic net income	**¥150.74**	¥131.09	**$1.44**
Diluted net income	**150.47**	130.73	**1.43**
Cash dividends applicable to the year	**56.00**	32.00	**0.53**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2008 and February 28, 2007

	Thousands	Millions of yen								
	Outstanding 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	Total	Minority Interests	Total Equity
Balance, February 28, 2006	53,443	¥12,722	¥13,909	¥28,033	¥932	¥(487)	¥(814)	¥54,295		¥54,295
Reclassified balances as of February 28, 2006 (Note 2.j)									¥367	367
Net income				7,013				7,013		7,013
Cash dividends, ¥32.0 per share				(1,390)				(1,390)		(1,390)
Bonuses to directors and corporate auditors				(51)				(51)		(51)
Net decrease in unrealized gain on available-for-sale securities					(15)			(15)		(15)
Net increase in foreign currency translation adjustments						974		974		974
Purchase of treasury stock	(33)						(74)	(74)		(74)
Disposal of treasury stock	142		29				110	139		139
Net change in the year									138	138
Balance, February 28, 2007	53,552	¥12,722	¥13,938	¥33,605	¥917	¥ 487	¥(778)	¥60,891	¥505	¥61,396
Net income				**8,080**				**8,080**		**8,080**
Cash dividends, ¥56.0 per share				**(2,358)**				**(2,358)**		**(2,358)**
Net decrease in unrealized gain on available-for-sale securities					**(527)**			**(527)**		**(527)**
Net increase in foreign currency translation adjustments						**(328)**		**(328)**		**(328)**
Purchase of treasury stock	**(3)**						**(9)**	**(9)**		**(9)**
Disposal of treasury stock	**87**		**24**				**70**	**94**		**94**
Net change in the year									**254**	**254**
Balance, February 29, 2008	**53,636**	**¥12,722**	**¥13,962**	**¥39,327**	**¥390**	**¥ 159**	**¥(717)**	**¥65,843**	**¥759**	**¥66,602**

	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	Total	Minority Interests	Total Equity
Balance, February 28, 2007	$121,162	$132,743	$320,048	$8,733	$4,638	$(7,410)	$579,914	$4,810	$584,724
Net income			**76,952**				**76,952**		**76,952**
Cash dividends, $0.53 per share			**(22,457)**				**(22,457)**		**(22,457)**
Net decrease in unrealized gain on available-for-sale securities				**(5,019)**			**(5,019)**		**(5,019)**
Net increase in foreign currency translation adjustments					**(3,124)**		**(3,124)**		**(3,124)**
Purchase of treasury stock						**(85)**	**(85)**		**(85)**
Disposal of treasury stock		**228**				**667**	**895**		**895**
Net change in the year								**2,419**	**2,419**
Balance, February 29, 2008	**$121,162**	**$132,971**	**$374,543**	**$3,714**	**$1,514**	**$(6,828)**	**$627,076**	**$7,229**	**$634,305**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2008 and February 28, 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Operating activities:			
Income before income taxes and minority interests	**¥14,381**	¥10,854	**$136,962**
Adjustments for:			
Income taxes – paid	**(5,199)**	(3,172)	**(49,514)**
Depreciation and amortization	**3,212**	2,920	**30,590**
Loss on impairment of long-lived assets	**721**		**6,867**
Loss on business restructuring	**127**		**1,210**
Provision for (reversal of) doubtful receivables	**(9)**	12	**(86)**
Provision for retirement benefits	**6**	1	**57**
Loss on sales and disposals of property, plant and equipment	**40**	80	**381**
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	**(3,232)**	438	**(30,781)**
Increase in inventories	**(3,207)**	(742)	**(30,543)**
Increase in trade payables	**2,491**	713	**23,724**
Other – net	**1,335**	(393)	**12,714**
Total adjustments	**(3,715)**	(143)	**(35,381)**
Net cash provided by operating activities	**10,666**	10,711	**101,581**
Investing activities:			
Purchases of property, plant and equipment	**(4,426)**	(2,748)	**(42,152)**
Proceeds from sales of property, plant and equipment	**182**	78	**1,733**
Purchases of marketable and investment securities	**(3,582)**	(252)	**(34,114)**
Proceeds from sales of marketable and investment securities	**300**	218	**2,857**
Other – net	**(546)**	(465)	**(5,200)**
Net cash used in investing activities	**(8,072)**	(3,169)	**(76,876)**
Financing activities:			
Dividends paid to shareholders	**(2,358)**	(1,390)	**(22,457)**
Dividends paid to minority shareholder of consolidated subsidiaries	**(5)**	(6)	**(48)**
Proceeds from minority interest shareholders	**126**		**1,200**
Payments for purchase of treasury stock	**(9)**	(74)	**(85)**
Disposal of treasury stock	**94**	139	**895**
Net cash used in financing activities	**(2,152)**	(1,331)	**(20,495)**
Foreign currency translation adjustments on cash and cash equivalents	**186**	561	**1,771**
Net increase in cash and cash equivalents	**628**	6,772	**5,981**
Cash and cash equivalents at beginning of year	**21,196**	14,424	**201,867**
Cash and cash equivalents at end of year	**¥21,824**	¥21,196	**$207,848**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2008 and February 28, 2007

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 Financial Instruments and Exchange Law (formerly, the Securities and Exchange Law) in Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2007 consolidated financial statements to conform to the classifications used in 2008.

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 ¥105 to $1, the approximate rate of exchange at February 29, 2008. 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 Unconsolidated Subsidiaries and Associated Companies

The accompanying consolidated financial statements as of February 29, 2008 include the accounts of the Company and its 21 significant (20 in 2007) 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 a 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 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 unconsolidated subsidiaries and associated companies are accounted for on a 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, certificates 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 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.

Property, plant and equipment of the Company and its consolidated subsidiaries in Japan acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007.

The effect of this treatment was to decrease income before income taxes and minority interests for the year ended February 29, 2008 by ¥104 million ($990 thousand).

f. Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. 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 recorded a reserve equivalent to the amounts recognized as necessary at the end of the period under review based on the projected 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. Unrecognized prior service cost is amortized in the years 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.

h. Bonuses to Directors and Corporate Auditors

In the year ended February 28, 2007, bonuses to directors and corporate auditors were subject to approval by the shareholders, and the Company provided ¥70 million for the anticipated admission. Later the Company adopted a profit-sharing bonus payment to directors on the shareholders' meeting held on May 24, 2007, and the amount of bonuses is decided by the level of the net profit automatically within the designated limit.

Consequently, in the year ended February 29, 2008, the Company recognized ¥100 million ($952 thousand) as the accrued expenses.

i. 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.

j. Presentation of Equity

On December 9, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of February 28, 2006 were reclassified as separate components of equity as of March 1, 2006 in the consolidated statement of changes in equity.

k. Research and Development Costs

Research and development costs are charged to income as incurred.

l. 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.

m. 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.

n. 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 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 equity.

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

o. Derivatives

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does 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.

p. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised. Diluted net income per share of common stock assumes full conversion of the outstanding stock acquisition rights at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense and net of tax.

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.

q. New Accounting Pronouncements

Measurement of Inventories

Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 31, 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions”, which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements”. The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at February 29, 2008 and February 28, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Current:			
Corporate and other bonds	**¥1,596**		**$15,200**
Trust fund investment and other	**683**		**6,505**
Total	**¥2,279**		**$21,705**
Non-current:			
Equity securities	**¥2,357**	¥3,216	**$22,448**
Corporate and other bonds	**1,138**	193	**10,838**
Trust fund investment and other	**48**	65	**457**
Total	**¥3,543**	¥3,474	**$33,743**

Information regarding the category of securities classified as available-for-sale at February 29, 2008 and February 28, 2007, was as follows:

	Millions of yen			
2008	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,573**	**¥645**		**¥2,218**
Corporate and other bonds	**1,133**	**5**		**1,138**
Trust fund investments and other	**50**	**(2)**		**48**

	Millions of yen			
2007	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,568	¥1,507		¥3,075
Corporate and other bonds	193			193
Trust fund investments and other	50	15		65

	Thousands of U.S. dollars (Note 1)			
2008	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$14,981**	**$6,143**		**$21,124**
Corporate and other bonds	**10,790**	**48**		**10,838**
Trust fund investments and other	**476**	**(19)**		**457**

Available-for-sale securities whose fair value is not readily determinable as of February 29, 2008 and February 28, 2007, were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Available-for-sale:			
Equity securities	**¥ 140**	¥141	**$ 1,333**
Corporate and other bonds	**1,596**		**15,200**
Trust fund investments and other	**683**		**6,505**
Total	**¥2,419**	¥141	**$23,038**

Proceeds from sales of available-for-sale securities for the years ended February 29, 2008 and February 28, 2007, were ¥300 million ($2,857 thousand) and ¥218 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 29, 2008 were ¥0 million ($0 thousand), and for the year ended February 28, 2007 were ¥73 million.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 29, 2008 and February 28, 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Due within one year	**¥2,196**		**$20,914**
Due after one year through five years	**1,138**	¥193	**10,838**
Total	**¥3,334**	¥193	**$31,752**

4. SHORT-TERM INVESTMENTS

Short-term investments at February 29, 2008 and February 28, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Deposits over 3-month period	**¥1,127**	¥ 540	**$10,733**
Other	**799**	699	**7,610**
Total	**¥1,926**	¥1,239	**$18,343**

5. INVENTORIES

Inventories at February 29, 2008 and February 28, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Merchandise	**¥ 281**	¥ 260	**$ 2,676**
Finished products	**9,975**	7,346	**95,000**
Work in process	**3,032**	2,886	**28,876**
Raw materials and supplies	**2,149**	2,038	**20,467**
Total	**¥15,437**	¥12,530	**$147,019**

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended February 28, 2007, and no impairment loss was recognized. For the fiscal year ended February 29, 2008, the Group performed the impairment review, and, as a result, recognized an impairment loss of ¥721 million ($6,867 thousand) as other expenses for certain unutilized property and goodwill due to a decision to withdraw from the computer printer business, and the carrying amounts of the relevant property and goodwill were written down to the recoverable amounts.

The recoverable amounts of these properties and goodwill were measured at their net selling prices determined by estimated amounts on the transfer-of-asset agreement between the Company and the counterparty.

7. RETIREMENT AND PENSION PLANS

The Company and certain of its consolidated subsidiaries have severance payment plans for employees. 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, 2008 and February 28, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Projected benefit obligation	**¥(7,789)**	¥(7,861)	**$(74,181)**
Fair value of plan assets	**8,277**	9,265	**78,828**
Unrecognized actuarial loss	**382**	(627)	**3,638**
Unrecognized past service cost	**(226)**	(246)	**(2,152)**
Net amount recognized	**¥ 644**	¥ 531	**$ 6,133**
Amounts recognized in the balance sheets consist of:			
Prepaid pension expense	**¥ 674**	¥ 555	**$ 6,419**
Liability for retirement benefits	**(30)**	(24)	**(286)**
Net amount recognized	**¥ 644**	¥ 531	**$ 6,133**

The components of net periodic benefit costs for the years ended February 29, 2008 and February 28, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Service cost	**¥ 401**	¥ 380	**$ 3,819**
Interest cost	**157**	152	**1,495**
Expected return on plan assets	**(232)**	(217)	**(2,210)**
Recognized net actuarial loss	**(15)**	4	**(143)**
Amortization of prior service cost	**(20)**	(20)	**(190)**
Net periodic benefit costs	**¥ 291**	¥ 299	**$ 2,771**

Assumptions used for the years ended February 29, 2008 and February 28, 2007 were set forth as follows:

	2008	2007
Discount rate	**2%**	2%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**14 years**	14 years
Amortization period of prior service cost	**14 years**	14 years

Prior to the year ended February 28, 2007, retirement benefits to directors and corporate auditors were provided at the amount which would have been required if they retired at balance sheet date. The liability for those benefits at February 28, 2007 was ¥231 million. However, such plan was abolished in May 2007, and there was no provision for the year ended February 29, 2008.

The amount already accrued by the time of abolition was ¥208 million ($1,981 thousand), and such amount was transferred to long-term liabilities because those benefits were intended to be paid at the point of actual retirement.

8. EQUITY

Since May 1, 2006, Japanese companies are subject to the corporate law of Japan (the “Corporate Law”) , which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting, if companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation. The Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. STOCK OPTIONS

The stock options outstanding as of February 29, 2008 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2002 Stock Option	10 directors 19 employees 12 directors of subsidiaries	157,000 shares	June 14, 2002	¥1,020	From May 24, 2004 To May 23, 2008
2003 Stock Option	9 directors 16 employees 13 directors of subsidiaries	146,000 shares	July 1, 2003	¥ 725	From May 23, 2005 To May 22, 2009
2004 Stock Option	8 directors 18 employees 13 directors of subsidiaries	140,000 shares	July 20, 2004	¥ 967	From May 28, 2006 To May 27, 2010
2005 Stock Option	8 directors 15 employees 16 directors of subsidiaries	140,000 shares	June 20, 2005	¥1,142	From May 27, 2007 To May 26, 2011

The stock option activity was as follows:

	Shares			
	2002 Stock Option	2003 Stock Option	2004 Stock Option	2005 Stock Option
For the year ended February 28, 2007				
Non-vested				
February 28, 2006 – Outstanding			140,000	140,000
Granted				
Canceled				
Vested			140,000	
February 28, 2007 – Outstanding				140,000
Vested				
February 28, 2006 – Outstanding	53,000	16,000		
Vested			140,000	
Exercised	43,000	9,000	89,000	
Canceled				
February 28, 2007 – Outstanding	10,000	7,000	51,000	
For the year ended February 29, 2008				
Non-vested				
February 28, 2007 – Outstanding				140,000
Granted				
Canceled				
Vested				140,000
February 29, 2008 – Outstanding				

	Shares			
	2002 Stock Option	2003 Stock Option	2004 Stock Option	2005 Stock Option
Vested				
February 28, 2007 – Outstanding	10,000	7,000	51,000	
Vested				
Exercised	4,000	5,000	22,000	56,000
Canceled				
February 29, 2008 – Outstanding	6,000	2,000	29,000	84,000
Exercise price	¥1,020	¥ 725	¥ 967	¥1,142
Average stock price at exercise	¥2,474	¥2,840	¥2,869	¥3,171

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 40% for the years ended February 29, 2008 and February 28, 2007, respectively.

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, 2008 and February 28, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Current:			
Deferred tax assets			
Unrealized profit on inventories	**¥1,426**	¥1,305	**$13,581**
Accrued bonuses	**450**	408	**4,286**
Inventories	**194**	212	**1,848**
Accrued business taxes	**142**	167	**1,352**
Allowance for doubtful receivables	**20**	22	**190**
Other	**252**	275	**2,400**
Total deferred tax assets	**¥2,484**	¥2,389	**$23,657**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 295**	¥ 169	**$ 2,810**
Tax-deductible inventories losses	**94**	44	**895**
Other	**92**	70	**876**
Total deferred tax liabilities	**¥ 481**	¥ 283	**$ 4,581**
Net deferred tax assets	**¥2,003**	¥2,106	**$19,076**
Non-Current:			
Deferred tax assets			
Write-down of investment securities	**¥ 158**	¥ 157	**$ 1,505**
Depreciation	**140**	126	**1,333**
Other	**352**	307	**3,352**
Less valuation allowance	**(425)**	(303)	**(4,047)**
Total deferred tax assets	**¥ 225**	¥ 287	**$ 2,143**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	**¥ 257**	¥ 605	**$ 2,448**
Prepaid pension expense	**268**	220	**2,552**
Property, plant and equipment	**28**	30	**267**
Other	**47**	40	**447**
Total deferred tax liabilities	**¥ 600**	¥ 895	**$ 5,714**
Net deferred tax liabilities	**¥ (375)**	¥ (608)	**$ (3,571)**

A reconciliation between the normal effective statutory tax rate for the years ended February 29, 2008 and February 28, 2007 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2008	2007
Normal effective statutory tax rate	**39.8%**	39.8%
Effect of foreign tax rate differences	**(2.4)**	(2.9)
Tax credit for research and development costs		(1.6)
Impairment loss	**1.8**	
Transfer pricing taxation	**4.3**	
Other	**(0.5)**	(1.0)
Actual effective tax rate	**43.0%**	34.3%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,214 million ($21,086 thousand) and ¥2,145 million for the years ended February 29, 2008 and February 28, 2007, respectively.

12. LEASES

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

Lease payments under financial leases were ¥45 million ($429 thousand) and ¥49 million for the years ended February 29, 2008 and February 28, 2007,respectively.

Pro forma information of leased property of which ownership was deemed not to be transferred to the lessee on an “as if capitalized“ basis at February 29, 2008 and February 28, 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Acquisition cost	**¥230**	¥246	**$2,190**
Accumulated depreciation	**107**	148	**1,019**
Net leased property	**¥123**	¥ 98	**$1,171**

The pro forma depreciation expenses computed by the straight-line method were ¥45 million ($429 thousand) and ¥49 million for the years ended February 29, 2008 and February 28, 2007, respectively.

Obligations under financial leases at February 29, 2008 and February 28, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Due within one year	**¥ 44**	¥38	**$ 419**
Due after one year	**79**	60	**752**
Total	**¥123**	¥98	**$1,171**

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, 2008 and February 28, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Due within one year	**¥ 94**	¥ 64	**$ 895**
Due after one year	**333**	424	**3,172**
Total	**¥427**	¥488	**$4,067**

13. DERIVATIVES

The Group 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 Group 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 values of the Group's derivative financial instruments at February 29, 2008 and February 28, 2007 were as follows:

	Millions of yen					
	2008			2007		
	Contracted amount	Fair value	Unrealized gain/loss	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:						
Receivables:	**¥4,299**	**¥4,130**	**¥169**	¥5,485	¥5,528	¥(43)
Payables:	**2,217**	**2,224**	**7**	958	942	(16)
Total			**¥176**			¥(59)

	Thousands of U.S. dollars (Note 1)		
	2008		
	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:			
Receivables:	**$40,942**	**$39,333**	**$1,609**
Payables:	**21,114**	**21,181**	**67**
Total			**$1,676**

14. CONTINGENT LIABILITIES

As of February 29, 2008 and February 28, 2007, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Guarantees of bank loans	**¥41**	¥68	**$390**

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended February 29, 2008 and February 28, 2007 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average shares	EPS	
For the year ended February 29, 2008				
Basic EPS				
Net income available to common shareholders	**¥8,080**	**53,605**	**¥150.74**	**$1.44**
Effect of dilutive securities				
Stock acquisition rights		**94**		
Diluted EPS				
Net income for computation	**¥8,080**	**53,699**	**¥150.47**	**$1.43**
For the year ended February 28, 2007				
Basic EPS				
Net income available to common shareholders	¥7,013	53,496	¥131.09	$1.11
Effect of dilutive securities				
Stock acquisition rights		144		
Diluted EPS				
Net income for computation	¥7,013	53,640	¥130.73	$1.11

16. SEGMENT INFORMATION

Information regarding industry segments, geographical segments and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended February 29, 2008 and February 28, 2007 was as follows:

(1) Industry Segments

	Millions of yen					
2008	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**¥17,149**	**¥12,062**	**¥40,304**	**¥4,369**		**¥73,884**
Intersegment sales						
Total sales	**17,149**	**12,062**	**40,304**	**4,369**		**73,884**
Operating expenses	**13,167**	**11,826**	**28,333**	**3,519**	**¥ 2,387**	**59,232**
Operating income	**¥ 3,982**	**¥ 236**	**¥11,971**	**¥ 850**	**¥ (2,387)**	**¥14,652**
Total assets	**¥13,460**	**¥12,773**	**¥36,685**	**¥6,050**	**¥17,407**	**¥86,375**
Depreciation and amortization	**776**	**1,204**	**752**	**374**	**106**	**3,212**
Loss on impairment of long-lived assets	**721**					**721**
Capital expenditures	**880**	**1,737**	**1,537**	**818**	**112**	**5,084**

	Millions of yen					
2007	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	¥15,608	¥ 9,826	¥32,479	¥4,757		¥62,670
Intersegment sales						
Total sales	15,608	9,826	32,479	4,757		62,670
Operating expenses	12,912	9,389	24,052	3,517	¥ 2,356	52,226
Operating income	¥ 2,696	¥ 437	¥ 8,427	¥1,240	¥ (2,356)	¥10,444
Total assets	¥15,587	¥10,328	¥29,680	¥5,550	¥15,050	¥76,195
Depreciation and amortization	593	1,003	643	355	114	2,708
Capital expenditures	484	974	1,033	349	68	2,908

	Thousands of U.S. dollars (Note 1)					
2008	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**$163,324**	**$114,876**	**$383,848**	**$41,609**		**$703,657**
Intersegment sales						
Total sales	**163,324**	**114,876**	**383,848**	**41,609**		**703,657**
Operating expenses	**125,400**	**112,628**	**269,839**	**33,514**	**$ 22,733**	**564,114**
Operating income	**$ 37,924**	**$ 2,248**	**$114,009**	**$ 8,095**	**$ (22,733)**	**$139,543**
Total assets	**$128,190**	**$121,648**	**$349,381**	**$57,619**	**$165,781**	**$822,619**
Depreciation and amortization	**7,390**	**11,467**	**7,162**	**3,562**	**1,009**	**30,590**
Loss on impairment of long-lived assets	**6,867**					**6,867**
Capital expenditures	**8,381**	**16,543**	**14,638**	**7,790**	**1,067**	**48,419**

* The segments consist of the following products:

Special Products: Computer printers, POS printers, Visual cards, Readers/Writers, etc.
Components: Electronic buzzers, Microphones, Speakers, Receivers, 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 ¥2,387 million ($22,733 thousand) and ¥2,356 million for the years ended February 29, 2008 and February 28, 2007, 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 ¥17,407 million ($165,781 thousand) and ¥15,050 million at February 29, 2008 and February 28, 2007, respectively.

(2) Geographical Segments

	Millions of yen					
2008	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	**¥20,132**	**¥26,596**	**¥14,144**	**¥13,012**		**¥73,884**
Inter-area transfers	**36,854**	**16**	**20**	**15,978**	**¥(52,868)**	
Total	**56,986**	**26,612**	**14,164**	**28,990**	**(52,868)**	**73,884**
Operating expenses	**46,868**	**21,641**	**12,657**	**28,407**	**(50,341)**	**59,232**
Operating income	**¥10,118**	**¥ 4,971**	**¥ 1,507**	**¥ 583**	**¥ (2,527)**	**¥14,652**
Assets	**¥63,220**	**¥19,914**	**¥ 9,843**	**¥21,469**	**¥(28,071)**	**¥86,375**

	Millions of yen					
2007	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	¥20,339	¥18,511	¥13,527	¥10,293		¥62,670
Inter-area transfers	30,084	48	25	13,074	¥(43,231)	
Total	50,423	18,559	13,552	23,367	(43,231)	62,670
Operating expenses	41,298	15,630	12,055	23,018	(39,775)	52,226
Operating income	¥ 9,125	¥ 2,929	¥ 1,497	¥ 349	¥ (3,456)	¥10,444
Assets	¥59,346	¥14,567	¥ 9,737	¥17,824	¥(25,279)	¥76,195

	Thousands of U.S. dollars (Note 1)					
2008	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	**$191,733**	**$253,295**	**$134,705**	**$123,924**		**$703,657**
Inter-area transfers	**350,991**	**153**	**190**	**152,171**	**$(503,505)**	
Total	**542,724**	**253,448**	**134,895**	**276,095**	**(503,505)**	**703,657**
Operating expenses	**446,362**	**206,105**	**120,542**	**270,543**	**(479,438)**	**564,114**
Operating income	**$ 96,362**	**$ 47,343**	**$ 14,353**	**$ 5,552**	**$ (24,067)**	**$139,543**
Assets	**$602,095**	**$189,657**	**$ 93,743**	**$204,467**	**$(267,343)**	**$822,619**

* The segments consist of the following countries:

Europe: United Kingdom, Germany, France and Switzerland

North America: United States of America

Asia: China and Thailand

* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥2,387 million ($22,733 thousand) and ¥2,356 million for the years ended February 29, 2008 and February 28, 2007, 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 ¥17,407 million ($165,781 thousand) and ¥15,050 million at February 29, 2008 and February 28 2007, respectively.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Europe	**¥27,470**	¥20,174	**$261,619**
North America	**13,964**	13,620	**132,991**
Asia	**20,567**	16,509	**195,876**
Total	**¥62,001**	¥50,303	**$590,486**

* 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, Thailand, Australia, etc.

17. SUBSEQUENT EVENT

The following appropriation of retained earnings at February 29, 2008 was approved at the Company's shareholders' meeting held on May 29, 2008:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥30 ($0.286) per share	**¥1,609**	**$15,324**

Deloitte.

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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, 2008 and February 28, 2007, and the related consolidated statements of income, changes in 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 generally accepted 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, 2008 and February 28, 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles 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 29, 2008.

STOCK INFORMATION

as of February 29, 2008

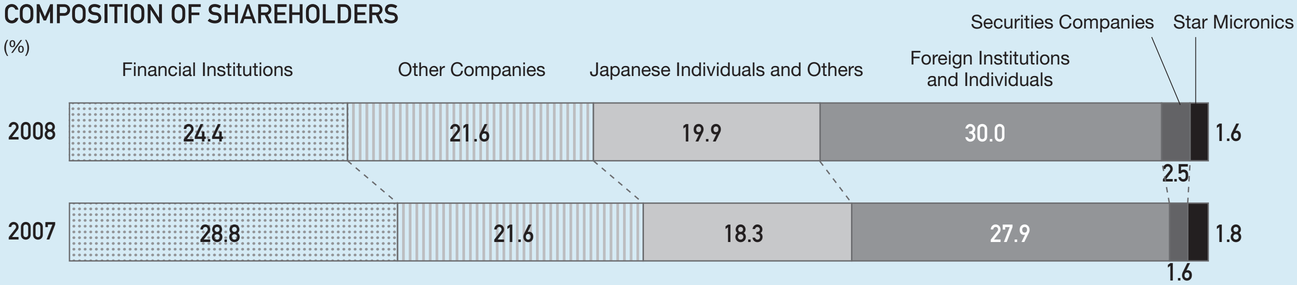
Common Stock	Authorized	158,000,000
	Issued	54,533,234
Paid-in Capital		12,721,939,515 yen
Number of Shareholders		10,250

Stock Listing
First Section of the Tokyo Stock Exchange

Transfer Agent
Tokyo Securities Transfer Agent Co., Ltd.
2-6-2 Otemachi, Chiyoda-ku,
Tokyo 100-0004, Japan

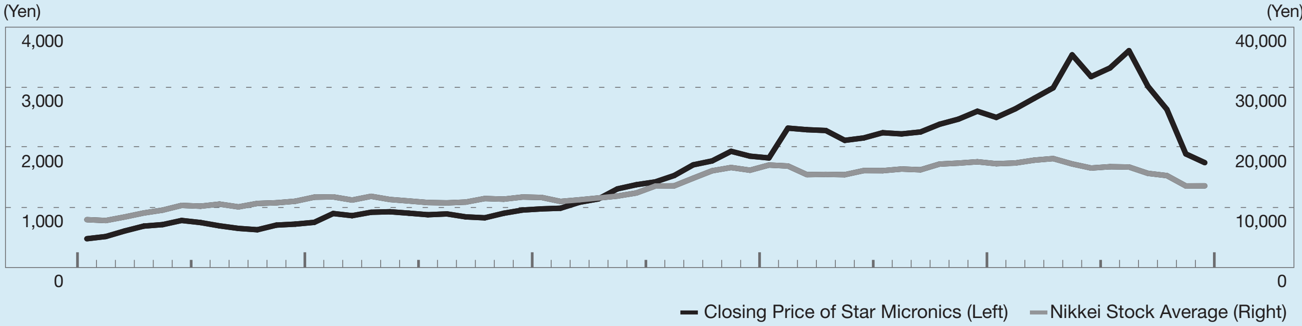
COMPOSITION OF SHAREHOLDERS

(%)



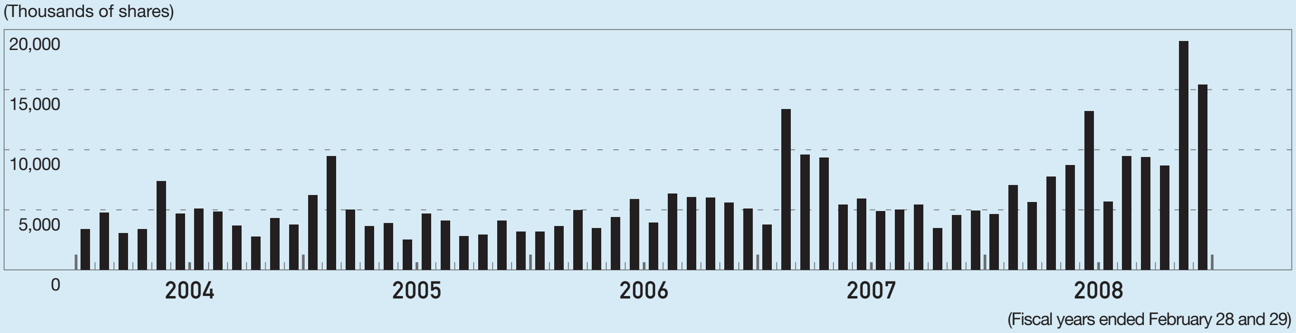
STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)

(Yen) (Yen)



TRADING VOLUME

(Thousands of shares)



Notes: 1. This trading volume shows the monthly volume of trade on the Tokyo Stock Exchange. Each fiscal year starts in March and ends in February.
2. Stock prices of Star Micronics and the Nikkei Stock Average are based on a simple average of daily closing prices for each day of every month at the Tokyo Stock Exchange.

STOCK PRICE

(Yen)

(Years ended February)

Year	2004	2005	2006	2007	2008
At year-end	723	981	1,801	2,540	1,701
High	830	1,030	2,090	2,710	3,740
Low	418	704	941	1,691	1,506

CORPORATE DATA

DIRECTORS AND AUDITORS

President and CEO	Toshihiro Suzuki
Senior Managing Director	Hajime Sato
Managing Director	Tomohiko Okitsu
Directors	Chiaki Fushimi
	Satomi Jojima
	Hiroshi Tanaka
	Takashi Kuramae
	Junichi Murakami
	Mamoru Sato
Corporate Auditors	Hiroyuki Sawada
	Katsuji Ito
	Osamu Yamada

(as of May 29, 2008)

CORPORATE DATA

Corporate Name	Star Micronics Co., Ltd.
Head Office	20-10 Nakayoshida, Suruga-ku, Shizuoka 422-8654, Japan Tel. +81-54-263-1111 Fax. +81-54-263-1057
Established	July 6, 1950

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. +44-1494-471111
Star Precisions Ltd.	18/F., Enterprise Square II, 3 Sheung Yuet Road, Kowloon Bay, Hong Kong Tel. +852-3412-0700
Star Micronics Manufacturing Dalian Co., Ltd.	2, Huang Hai Street, Dalian Economic and Technical Development Zone, Dalian, PRC Tel. +86-411-87611535
Star Micronics AG	Lauetstrasse 3 CH-8112 Otelfingen, Zurich, Switzerland Tel. +41-43-411-6060
Star Micronics GB Ltd.	Chapel Street, Melbourne, Derbyshire, DE74 8JF, UK Tel. +44-1332-864455
Star Micronics GmbH	Untere Reute 44, 75305 Neuenburg, Germany Tel. +49-7082-7920-0
Star CNC Machine Tool Corporation	123 Powerhouse Road, Roslyn Heights, NY 11577, USA Tel. +1-516-484-0500
Star America Holding, Inc.	Suite 100, 30 Old Rudnick Lane, Dover, DE 19901, USA
Shanghai S&E Precision Co., Ltd.	1-39, East Kangqiao Road, Kangqiao Industrial Zone, Pudong, Shanghai, PRC Tel. +86-21-68130222
Star Machine Tool France SAS	55 Avenue du Mont Blanc, F-74950 Scionzier, France Tel. +33-450-96-05-97
Shanghai Xingang Machinery Co., Ltd.	229 Fute Road (N), Waigaoqiao Free Trade Zone, Shanghai 200131, PRC Tel. +86-21-58682100
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S&K Precision Technologies (Thailand) Co., Ltd.	42 Moo 4 Rojana Industrial Park, Tambol Banchang, Amphur U-Thai, Ayutthaya 13210, Thailand Tel. +66-3-574-6569
Star Micronics AB*	Skrittvägen 3, S-567 92 Vaggeryd, Sweden Tel. +46-393-614110

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Toshin Seiki Company	1500-35 Kitanoya, Misawa, Kikugawa, Shizuoka 439-0023 Tel. +81-537-35-6415
Micro Sapporo Company	3-705-2 Shinkouminami, Ishikari, Hokkaido 061-3244 Tel. +81-133-64-3663
Micro Fujimi Company	20-10 Nakayoshida, Suruga-ku, Shizuoka 422-8654 Tel. +81-54-263-1523
OS Metal Company	1500-133 Kitanoya, Misawa, Kikugawa, Shizuoka 439-0023 Tel. +81-537-35-0026
Micro Kikugawa Company	1500-133 Kitanoya, Misawa, Kikugawa, Shizuoka 439-0023 Tel. +81-537-37-2000

* Established in April 2008.

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