ANNUAL REPORT 2005

For the year ended February 28, 2005

Primed for Stable Growth

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 2005, there were 6 Japanese and 15 overseas subsidiaries. The total workforce numbered about 6,400, including non-consolidated companies.

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.

Contents

Forward-looking Statements

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

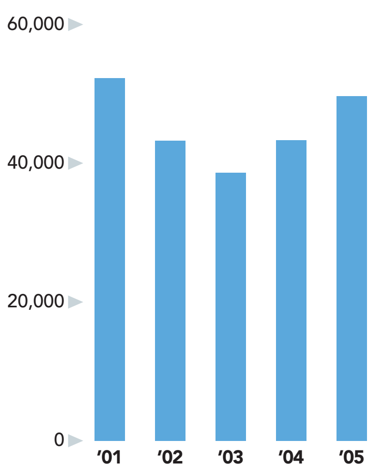
Financial Highlights

Star Micronics Co., Ltd. and Consolidated Subsidiaries

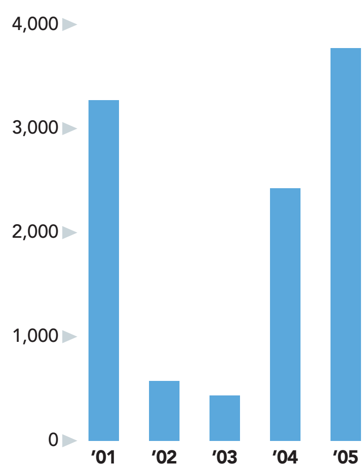
February 28, 2005 and February 29, 2004	Millions of yen 2005	Millions of yen 2004	Change (%) 2005/2004	Thousands of U.S. dollars 2005
For the year:				
Net sales	¥49,690	¥43,332	14.7%	$473,238
Net income	3,775	2,426	55.6	35,952
Return on sales	7.6%	5.6%		
Capital expenditures	2,396	2,058	16.4	22,819
Depreciation and amortization	2,492	2,854	(12.7)	23,733
At year-end:				
Total assets	¥60,013	¥57,898	3.7%	571,552
Shareholders' equity	47,754	44,613	7.0	454,799
Equity ratio	79.6%	77.1%		
Interest-bearing debt		1,403		
	Yen		Change (%)	U.S. dollars
Per share:				
Basic net income	¥70.13	¥ 44.12	59.0%	$0.67
Diluted net income	70.09			0.67
Cash dividends applicable to the year	15.00	11.00	36.4	0.14
Stock information:				
Common shares issued	54,533,234	56,533,234		
Number of shareholders	6,503	7,737		

Note: The rate of ¥105 to US$1, prevailing on February 28, 2005, has been used for translation into U.S. dollar amounts.

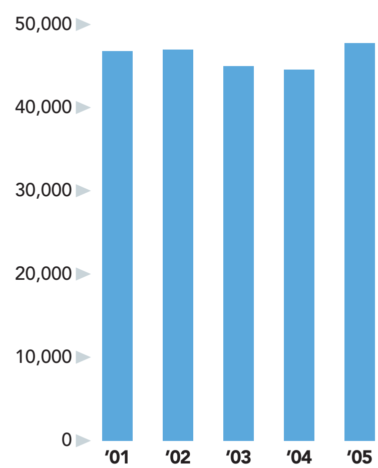
Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Shareholders' Equity
(Millions of yen)



To Our Shareholders

It's now one year since my predecessor Shozo Kasuya handed me the reins of the company. When I took over, Star Micronics was on the up, and my goal was to ensure the company continued to perform strongly. I am pleased to report that in fiscal 2005 Star Micronics posted its second successive year of top- and bottom-line growth.

Fiscal 2005 Results

In the year under review, which ended February 28, 2005, Star Micronics posted operating income of ¥6,343 million, up 78.7% year on year, and net income of ¥3,775 million, 55.6% higher, on net sales of ¥49,690 million, an increase of 14.7% compared to a year earlier. A strong performance by machine tools supported these robust results. Initiatives we have been taking for several years to offer a broader selection of products, along with the transfer of low-end machine tool manufacturing to overseas sites, enabled us to benefit fully from solid demand. At the same time, we now expect to see rising sales of components for mobile phones, which had been in decline over the last three periods and bottomed out in the previous fiscal year.

Machine Tools Segment Drives Results

As of February 2005, the machine tools market had experienced 29 consecutive months of year-on-year order growth. Demand in Japan has been supported by a period of equipment renewal coinciding with rising capital expenditure, and particularly by demand from companies in the automotive and digital consumer electronics fields. The picture overseas has also been generally good, with demand rising in all key markets: Asia, the U.S. and Europe. In particular, exports to emerging markets such as China and Eastern Europe have grown significantly, while tax incentives in the U.S. have fueled rising demand.

Although demand driven by this global capital investment has underpinned the Machine Tools Segment's stronger results, I believe our strategic approach of expanding the lineup of low-end machine tools also played a significant role. The SB-16 has been profitable from the early days of production, thanks to a strong order book that has enabled us to benefit from economies of scale in manufacturing. And the complete transfer of SB-16 production to Dalian, China, in March 2004 in particular substantially improved our margins.

Point-of-sale (POS) printers also contributed to higher profits in the year under review. In the last few years, POS printer sales have been strong on the back of a shift to thermal printers in the U.S. and Europe. However, the complete transfer of key product manufacturing to China, beginning in the previous fiscal year, has added a new impetus to growth. Meanwhile, micro audio components, which were unprofitable in the previous fiscal year, moved into the black at the beginning of fiscal 2005 as new products such as microphones, receivers and speakers finally began to contribute to results.

Issues and Initiatives

The company is currently performing strongly. However, looking at the company's profit structure and its potential for growth, there are still some issues that need to be resolved. Now, when things are going well, is the time to implement initiatives that preempt any problems, and build a more robust operating structure.

Issue One: Responding to Downturns in the Machine Tools Market

Mitigating any change in demand due to fluctuations in the economy is central to business. At Star Micronics, we are working to achieve as soft a landing as possible during any downturn by creating a more diversified product lineup, expanding the number of industries that use our products, and increasing our geographic sales reach by moving into emerging markets, especially China.

On the product front, following on from the launch of the SB-16 in the previous fiscal year, sales of the SC-20, launched in the year under review, got off to a strong start. In this way, we are further expanding our product lineup with new low-end products to support our existing high-end machines—the main source of profits until recently. This expansion is also leading to a more diverse customer base. Going forward, we will focus on building a global sales network centered on China and Southeast Asia and on upgrading our after-sales service support. We are also seeing success in our high-end Machine Tools Segment with the launch of the ECAS-32T and other products that performed well in the U.S. and Europe last year. We expect to see rising demand for these products as awareness grows of Star Micronics' proprietary machine tool control technology, which is ideal for complex machining tasks and improves productivity by reducing idle machine time. In response to this higher demand, we plan to transfer more production to China, as well as increase the efficiency of factories in Japan and raise manufacturing capacity for high-end machines.

Issue Two: Printers for China and a Stronger POS Printer Business

Star Micronics has put considerable effort into a project to supply computer printers for China's new tax collection system. However, there is still little progress on the planned second stage of implementation, and the current outlook is uncertain. Nevertheless, there is significant potential demand for POS printers associated with China's new local tax system. Following the ratification of unified standards for this system in November 2004, the Chinese government is now selecting electronic cash register (ECR) system manufacturers. With implementation expected to begin in summer 2005 at the earliest, Star Micronics is putting in place the necessary systems to respond rapidly to user needs and capture a large share of the market.

As I mentioned earlier, demand for thermal printers in the U.S. and Europe is healthy. Consequently, with the goal of accelerating growth in our POS printer business, we plan to realign internal company structures in fiscal 2006 so that we can focus more on POS printer products. By leveraging our competitively priced products—thanks to our manufacturing base in China—we will target not only existing markets, but also emerging markets such as Eastern Europe and South America. In these markets we plan to boost sales by securing new sales routes and winning more business from leading retail systems companies.

Issue Three: Achieving Consistent Growth Potential Across the Company

All of Star Micronics' businesses—printers, micro audio components and machines tools—have experienced steep ups and downs in the past. External factors affecting these businesses have had a substantial impact on Star Micronics' results. In short, the greatest management issue we face is how to deliver stable and consistent growth. To achieve this goal, we need to expand our lineup and increase the number of models and growth rate in each product category. At the same time, we must minimize the impact of fluctuations in sales and earnings in individual product categories on our overall results.

Meanwhile, the benefits of research and development in micro audio components are now emerging, allowing us to diversify our product lineup and offer devices for more applications. For example, the rising ratio of non-buzzer components to electronic buzzer components in sales demonstrates that we are finally reducing our reliance on buzzers. We are also beginning to see the adoption of our non-buzzer micro audio components in digital music players and other products outside the mobile phone field. Going forward, we plan to supply products for more diverse applications, centered on the automotive and digital consumer electronics fields.

With sales declining in the Precision Products Segment, one of our key objectives is to put this business back on the road to growth. We are seeing a steady improvement in the performance of Shanghai S&E Precision Co., Ltd., a joint venture established in 2001 in China to manufacture car audio components and other products. In fact, as the Asian region continues to post robust economic growth, there is a shortage of this kind of component supplier. Large companies that assemble finished products are finding it difficult to procure high-quality components. Using this situation to our advantage, I believe we can recreate our business model at Shanghai S&E Precision to build more factories across Asia, and use them to drive growth.

At the same time, we will continue our efforts to boost productivity across the Group and optimize our asset portfolio to build a stronger financial base. Together with initiatives to upgrade our corporate social responsibility framework, this will help us to create a robust company more resistant to changes in the operating environment.

As ever, your support in these endeavors will be vital.

May 2005

Toshihiro Suzuki
President and CEO

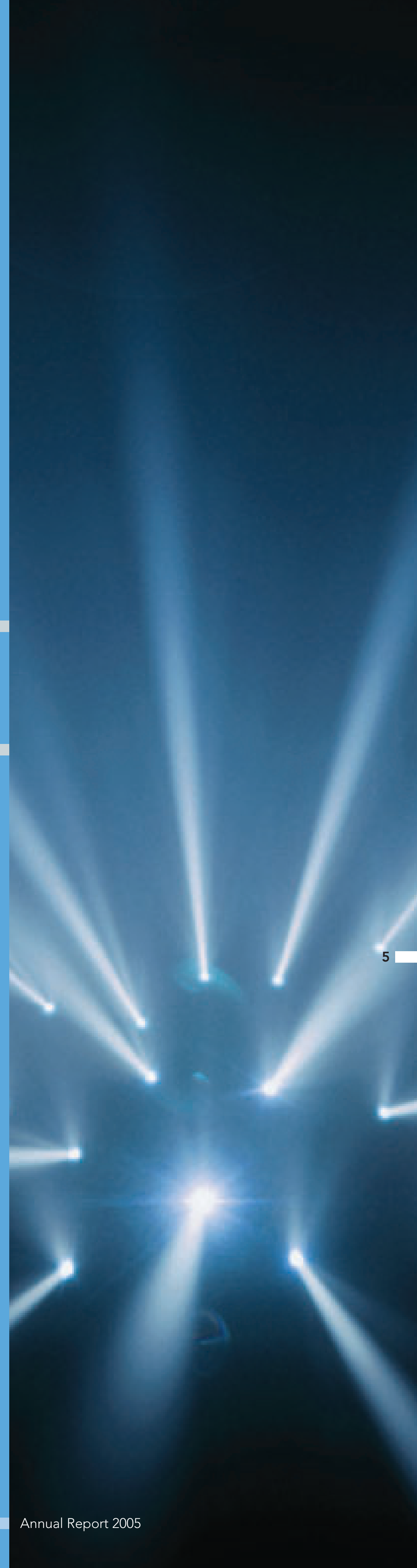
The Ingredients for Stable Growth

Setting our sights on achieving stable growth, we are shifting to a profit structure that is resistant to downturns in the machine tool market, and focusing on fields that offer greater potential for growth.

Star Micronics has already succeeded in increasing profit-earning opportunities by expanding its lineup of machine tools. Now, in the printer business, we are reinforcing our position in POS printers and targeting emerging markets such as Brazil, Russia, India and China (BRICs) and other new markets. In micro audio components, we are diversifying the product lineup and offering devices for more applications.

Looking ahead, we plan to create an optimum global production and sales network by taking full advantage of our manufacturing framework in China. In addition to transferring more production to this country, we will target China and other Asian countries as markets for our products by strengthening our local sales networks.

Finally, in order to launch the products and businesses that will drive our future growth, we will place priority on developing and introducing promising products that are rooted in our renowned precision processing and assembly technologies.



Expansion Centered on China

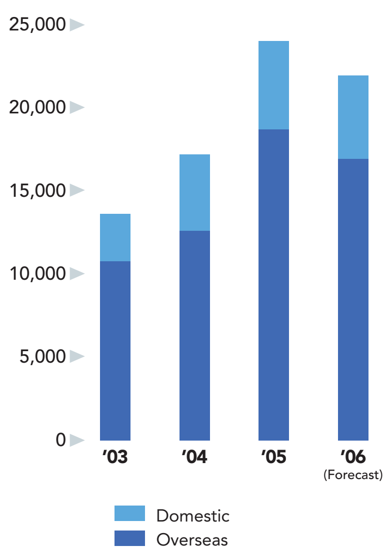
Enhancing Star Micronics' Position in Asia With a Focus on China

In recent years, economic growth in China and Southeast Asia has been striking, and there are rising expectations that this growth can be sustained for many more years. One of our aims at Star Micronics has been to mitigate the impact of any downturn in the machine tools market by creating a more extensive model range and offering products for more markets. Fully achieving this goal means both expanding our production capacity in these countries and targeting them as promising markets for our products, so we are strengthening our sales network and after-sales service support.

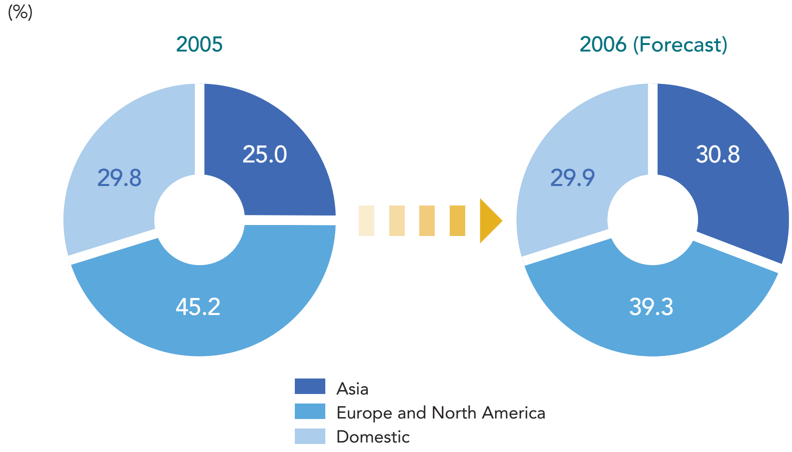
Boosting Margins by Transferring Production to China

In fiscal 2004, Star Micronics transferred production of the strategic low-end SB-16 machine tool from Japan to consolidated manufacturing subsidiary Star Micronics Manufacturing Dalian Co., Ltd. in Dalian, China. This move has led to higher margins thanks to improved production efficiency, making a significant contribution to profitability in the year under review. We also launched the low-end SC-20 machine tool, which helps users reduce the volume of waste material produced during the machining

Machine Tool Sales
(Millions of yen)



Machine Tool Orders by Region
(%)



process. Targeting the automotive industry, this product received a better-than-expected response from users following its launch. We plan to shift production of the SC-20 to Dalian in the summer of 2005 to reduce manufacturing costs, boost output and enhance the model's market stature. This step will see the start of full-scale volume production of machine tools at our Dalian plant, in addition to the manufacture of printers and micro audio components already carried out there, thereby leading to further improvements in margins.

Strengthening the Sales Network

Local sales subsidiary Shanghai Xingang Machinery Co., Ltd. has been carrying out sales activities in China since its establishment in Shanghai in 2002. Targeting higher sales in a market that has shown remarkable growth in recent years, this subsidiary is now focusing on creating and developing a network of sales agents and increasing personnel at service support sites. Primarily targeting the automotive industry, the subsidiary is aiming to boost sales of automatic lathes to 500 units in 2007, around 2.5 times the current level.

Star Micronics established a machine tool sales subsidiary in the suburbs of Bangkok, Thailand, in March 2005. Although there has been a representative office in the country since 2000, this office provided only technical services such as maintenance and repairs. Sales agents conducted all sales activities. From now on, however, this new subsidiary will sell products directly to customers, thereby reinforcing the sales network and enabling better service through the faster provision of spare parts and other improvements. Thailand is the primary location for automotive manufacturing in Southeast Asia, and it is expected to become an exporter to global markets. Through the creation of this Thai sales subsidiary, we plan to double sales of machine tools in the country over the next two years by primarily targeting automotive companies—our key customer segment.

Together with Shanghai Xingang Machinery and the Shenzhen representative office, this new sales subsidiary in Thailand increases Star Micronics' machine tool sales and service network in Asia to three locations.

Supplying Precision Products to Asia

Shanghai S&E Precision Co., Ltd., a non-consolidated precision components manufacturing company based in Shanghai, will become a consolidated subsidiary in fiscal 2006. The company has been performing well, posting earnings of ¥140 million in the year under review, only its fifth year of operations. Companies in China and other parts of Asia that assemble finished products are experiencing component procurement problems as they struggle to find locally based manufacturers with sophisticated technologies. In fact, customers are now increasingly calling on Star Micronics to set up other local manufacturing sites outside the Shanghai area. Taking into account the robust results and profitability of Shanghai S&E Precision, as well as market needs and other factors, Star Micronics sees significant opportunities for the overseas expansion of its Precision Products Segment. Taking into account the favorable market conditions, we hope to expand our manufacturing network in Asia going forward.

Shanghai S&E Precision Co., Ltd.
Established in 2001 to mainly produce car audio components.

A Stream of New Products

Reinforcing Product Development Capabilities by Leveraging Core Technologies

Star Micronics is working to deliver more stable earnings by aggressively developing new products that utilize core precision processing and assembly technologies, and by increasing sales outside the Machine Tools Segment. In fiscal 2005, our lineup of micro audio components became more diverse, allowing us to target a broader range of finished products. We are now moving quickly to boost sales by ensuring that our products are used for even more applications. This approach goes hand in hand with our ongoing efforts to develop promising next-generation products.

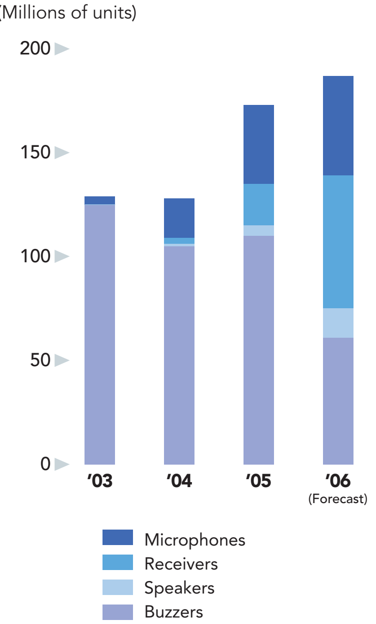
Diversifying the Micro Audio Components Lineup

Together with rising sales and earnings in machine tools, one of the highlights of Star Micronics' performance in fiscal 2005 was the higher sales and more diverse lineup in micro audio components.

Star Micronics' micro audio components business has won acclaim for its marketing efforts and R&D activities that have led to more compact and functional products. This is underlined by the increasing adoption of Star Micronics microphones, receivers and

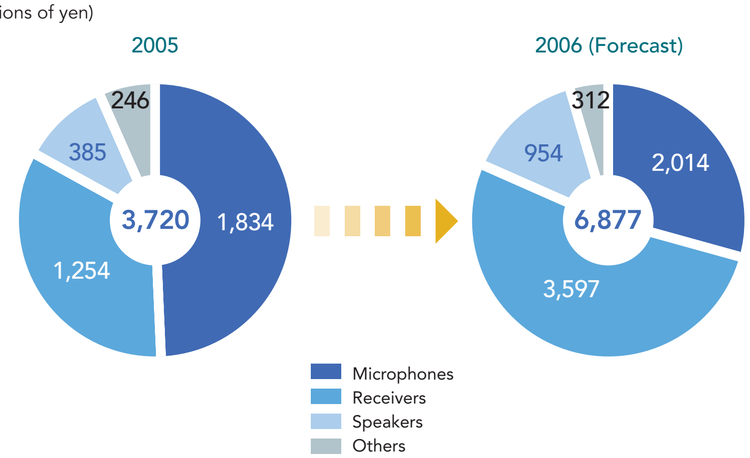
Sales of Micro Audio Components

(Millions of units)



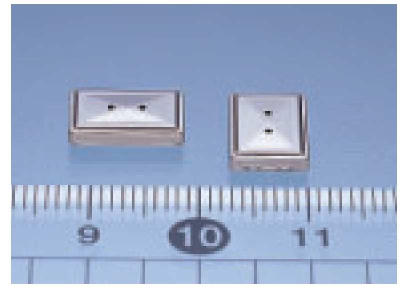
Sales by New Components

(Millions of yen)



speakers by leading mobile phone makers and steadily growing shipment volumes. In fiscal 2005, non-buzzer sales rose to 42% of total micro audio component sales. Furthermore, the diversification of non-buzzer products was balanced, as receivers and speakers achieved strong sales growth.

Looking ahead, we also expect to see the growing use of our components in products outside the mobile phone field, such as automotive telematics (communication devices designed for automotive applications), digital consumer electronics, game machines and digital music players. Our vision of Star Micronics as a comprehensive maker of micro audio components is now coming into view.



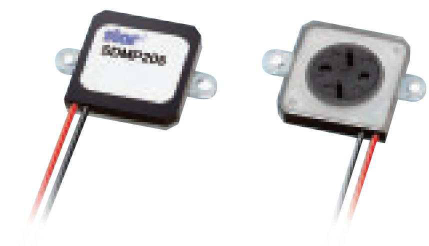
Compact Angled Receivers

Compact Angled Receivers

These products have been developed to meet the need for compact and thin receivers for mobile phones. Star Micronics has succeeded in creating a product with high acoustic pressure over a wide frequency range that clears the mandatory European mobile phone standards. We expect to see receivers account for a substantially larger portion of sales in fiscal 2006.

Next-generation Products

Micro Pumps



Micro Pumps

Star Micronics has developed a compact, thin micro pump capable of pumping fluid or gas. Suitable for a variety of devices and equipment as well as a wide range of applications, the pump is expected to generate substantial demand. With its ability to pump minute volumes of fluid or gas, the component is likely to be used mainly as a pump for compact fuel cells being developed for laptop computers and PDAs, and for drug solution pumps used in medical equipment. Because the device uses pressure elements instead of a motor or rotary shaft, it delivers minimal levels of power consumption and electromagnetic and other noise.

Pointing Devices


Pointing Device

This device, born out of Star Micronics' expertise in miniaturization technology accumulated over the years, is a sensor capable of detecting forces applied in all directions (360°). The pointing device has a wide range of applications as an input button in various devices and equipment, such as digital consumer electronics, laptop computers, PDAs, digital cameras and controllers. Adoption by mobile phone manufacturers could generate a significant volume of business.

Dental Devices


Dental Device

Leveraging its machine tool technologies, Star Micronics has developed and supplies, on an OEM-basis, the main processing equipment for an automatic dental crown repair system. This system uses a laser to gather dimensional data from plaster molds of teeth. Using this data, dental prostheses are automatically designed on a computer, and the designs rendered into actual dental crown repair components with the processing equipment provided by Star Micronics. Thanks to more consistent quality compared to work carried out by hand, this system can increase the efficiency of technical dental work. Although the system is currently used only in Japan, prospects are excellent in growing Asian nations and other overseas markets.

At a Glance

Business Segment | *Sales by Segment* | *Products and Services*

Precision Electronic Equipment Segment

Manufacturing Subsidiaries

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

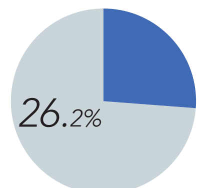
Sales Company

Star Micronics Co., Ltd.

Sales Subsidiaries

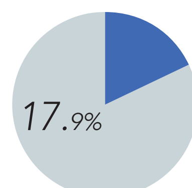
Star Micronics America, Inc.
Star Micronics Europe Ltd.
Star Micronics Asia Ltd.

Special Products Division



This division's main products are computer printers and point-of-sale (POS) printers. Star Micronics' computer printers are primarily aimed at the Chinese market and are of the dot-type variety. They are mainly used to print out tax invoices. POS printers are focused on thermal printers for the U.S. and European markets, and dot printers, mainly mechanisms, for the Chinese market. The division also offers card reader/writer devices.

Components Division



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

Machine Tools Segment

Manufacturing Company

Star Micronics Co., Ltd.

Manufacturing Subsidiaries

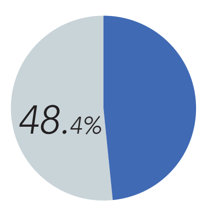
Toshin Seiki Company
OS Metal Company
Star Micronics Manufacturing Dalian Co., Ltd.

Sales Company

Star Micronics Co., Ltd.

Sales Subsidiaries

Star CNC Machine Tool Corporation
Star Micronics AG
Star Micronics GB Ltd.
Star Micronics GmbH
Star Machine Tool France SAS
Shanghai Xingang Machinery Co., Ltd.
Star Micronics (Thailand) Co., Ltd.*



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 Segment

Manufacturing Company

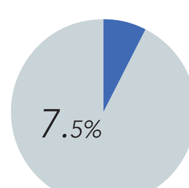
Star Micronics Co., Ltd.

Manufacturing Subsidiaries

Micro Sapporo Company
Micro Kikugawa Company
Shanghai S&E Precision Co., Ltd.*
Star Micronics Manufacturing Dalian Co., Ltd.

Sales Company

Star Micronics Co., Ltd.



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

*Scheduled to become consolidated subsidiaries from fiscal 2006

Markets Served	Key Advantages	Industry Outlook
Dot printers: The Chinese business community (including printers for VAT and local tax systems) Thermal printers: U.S. and European retailers and other users	• A strong customer base and high brand awareness through a comprehensive range of printer products • A cost-competitive manufacturing base in China • Partnerships with leading system integration firms	• Roll out of the first stage of China's new tax collection system completed. System for second stage is yet to be selected, so there is uncertainty at present about specific unit shipment projections and other forecasts. • The implementation of the local tax system may get under way from midway through 2005. • Demand in the U.S. and European POS system markets is robust. Emerging markets in Eastern Europe and South America are also expected to expand.
Manufacturers of mobile phones, automobiles, digital equipment, medical equipment and other products	• A comprehensive lineup of micro audio components with a competitive edge in compactness and thinness. • A proven track record as the primary supplier to leading manufacturers, and a high market share indicative of those relationships.	• Although the mobile phone markets of China and India are expanding and global shipments are rising, unit prices are trending downwards. • New fields such as digital consumer electronics and automotive security are expected to grow.
Manufacturers of components for automobiles, consumer electronics, industrial machinery, medical equipment, precision devices and other products	• A broad lineup of products from high-end through to low-end models. • A high market share (approximately 25% based on Star Micronics' own data for 2005) anchored by a trusted global brand. • A cost-competitive manufacturing base in China. • A global sales network and upgraded after-sales service.	• As of February 28, 2005, the machine tools market had experienced 29 consecutive months of year-on-year order growth, underpinned by strong and sustained demand from the automotive and other sectors. However, overall, the market is expected to gently trend downward from the second half of fiscal 2006. • Although demand for digital consumer electronics is projected to enter a temporary adjustment phase in the first half of fiscal 2006, growth is expected over the medium and long terms.
Finished product manufacturers in related fields	• A long history in this field since the establishment of Star Micronics. • Low-cost, high-output 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 currently experiencing a long-term downturn. • In non-wristwatch components, growth is expected in the digital, communications and medical equipment fields.

Corporate Social Responsibility at Star Micronics

Star Micronics recognizes that beneficial relationships with numerous stakeholders—shareholders and other investors, customers, suppliers, local communities and employees—are vital to the existence and future development of the company. We will strive to increase management transparency through fair and timely disclosure, and work to enhance communication to ensure all these stakeholders understand Star Micronics' approach to management and its business activities.

Corporate Philosophy

The corporate philosophy below underpins our approach to management.

Star Micronics, a highly skilled manufacturer with high-tech device expertise and strengths in precision product engineering and manufacturing technology, aims to contribute to society through innovative activities firmly grounded in humanity, guided by a belief in "Customer First" principles, and focused on further enhancing profitability.

Based on this corporate philosophy and consistently targeting growth fields, Star Micronics is aiming to become a global business group active in growing regions around the world. Star Micronics' operating environment is currently experiencing three major trends: the development of IT, the emergence of a society that puts greater emphasis on the environment, and globalization. Seeing these trends as business opportunities, we are striving to enhance the enterprise value of Star Micronics through a number of key policies—an emphasis on consolidated management, targeted investment in businesses that generate strong earnings, improved synergies within the Group, optimized product planning, development, production and sales from a global perspective, and the promotion of environmental management activities.

Aiming to Become a Company Trusted by Society: Compliance

Companies, in the course of their business activities, must comply with all national and regional laws and ensure the behavior of every employee conforms to the ethical norms of society. Additionally, they must earn the support of society for their business activities.

In addition to formulating the Star Micronics Charter of Corporate Conduct and Code of Conduct, we have set up an internal Compliance Committee as the main body for promoting compliance at Star Micronics. To ensure our company continues to have a meaningful role to play in society, we will always keep in mind that we must earn the trust of society in the course of our business activities.

To fulfill our commitment to CSR, we believe it is important that every Star Micronics employee understands all relevant laws and internal regulations, and collectively, is aware of the company's policy on CSR. It is vital that our employees do more than simply observe these laws and regulations. As both employees and members of society, they must have no ambiguity about the values and ethics required of them by society, and faithfully act in accordance with them. On March 1, 2005, we enacted the Star Micronics Charter of Corporate Conduct to ensure our employees share and follow this thinking.

Star Micronics has also established a CSR Promotion Section with responsibility for the company's CSR activities. This section is implementing a range of activities designed to realize the full purport of the Charter.

Star Micronics Charter of Corporate Conduct

We, the executives and employees of Star Micronics, will comply with all laws and regulations and conduct ourselves ethically and with integrity as members of society.

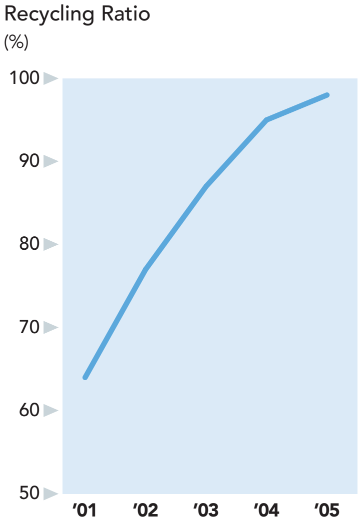
1. *We will provide socially beneficial, safe and quality goods and services.*
2. *We will carry out our corporate activities with fairness and integrity.*
3. *We will engage in active and fair disclosure of corporate information and ensure the proper management of information.*
4. *We will always carry out our corporate activities with respect for humanity, ensuring the physical and mental well-being of all employees.*
5. *We will implement environmental activities in order to protect the global environment.*
6. *We, as "good corporate citizens," will actively engage in philanthropic and other societal activities for the benefit of the world's people.*
7. *We will respect the culture and customs of other nations and contribute to the development of local communities as a global company.*
8. *We will observe all laws and regulations as well as social standards and internal rules, always taking the sensible and responsible course of action.*
9. *Senior management will assume the responsibility for realizing the spirit of this Charter and take all actions necessary to see it is continually implemented and improved.*

Environmental Activities

With society putting greater emphasis on the environment in economic activities, Star Micronics, a highly skilled manufacturer with high-tech device expertise and strengths in precision product engineering and manufacturing technology, has positioned environmental management activities as an integral part of its operations. This thinking forms the basis of efforts, through our business activities, to help realize a society in harmony with the global environment.

In fiscal 2005, we attained our stated targets for zero emissions (the reduction and recycling of waste). In addition to continuing with these efforts, we plan to actively implement a range of other environmental initiatives—conserving resources and energy, acquiring ISO 14001 certification, promoting green purchasing and green procurement, and designing and developing environmentally friendly products.

Recycling Ratio



Reducing and Recycling Waste

Star Micronics' definition of zero emissions is a recycling ratio* of at least 98% of total waste generated. In fiscal 2005, although the volume of waste increased due to substantially higher machine tool production, recycling efforts prevented any additional increase in waste volumes and helped us to achieve a recycling ratio of 98%.

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

Green Procurement

We have established a set of green procurement guidelines to help us make our products more environmentally friendly. The aim of the guidelines is to give priority to low-environmental impact components and materials provided by suppliers that implement environmental management activities. And as we seek to respond to the WEEE and RoHS directives, the guidelines also allow us to clearly identify prohibited substances at the procurement level.

Green Procurement Flow

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)				
	2005	2004	2003	2002	2001
For the year:					
Net sales	**¥49,690**	¥43,332	¥38,612	¥43,265	¥52,304
Cost of sales	**30,742**	28,161	25,225	27,295	33,863
Selling, general and administrative expenses	**12,605**	11,621	10,979	11,907	12,089
Operating income	**6,343**	3,550	2,408	4,063	6,352
Other expenses—net	**(688)**	(286)	(980)	(1,911)	(1,036)
Income before income taxes and minority interests	**5,655**	3,264	1,428	2,152	5,316
Income taxes	**1,881**	828	997	1,557	2,014
Minority interests in net income (loss)	**(1)**	10	(3)	18	28
Net income	**3,775**	2,426	434	577	3,274
Per share:					
Basic net income	**¥ 70.13**	¥ 44.12	¥ 7.77	¥ 10.21	¥ 57.91
Diluted net income	**70.09**				
At year-end:					
Current assets	**¥40,170**	¥36,355	¥38,424	¥37,979	¥48,053
Property, plant and equipment	**14,698**	15,604	17,602	19,430	17,626
Total assets	**60,013**	57,898	62,403	65,394	72,211
Long-term liabilities	**349**	1,277	2,575	2,227	1,442
Shareholders' equity	**47,754**	44,613	45,024	46,978	46,799

	Yen				
Stock exchange price per share of common stock:					
Highest	**¥1,030**	¥830	¥1,120	¥1,704	¥2,120
Lowest	**704**	418	420	490	1,024

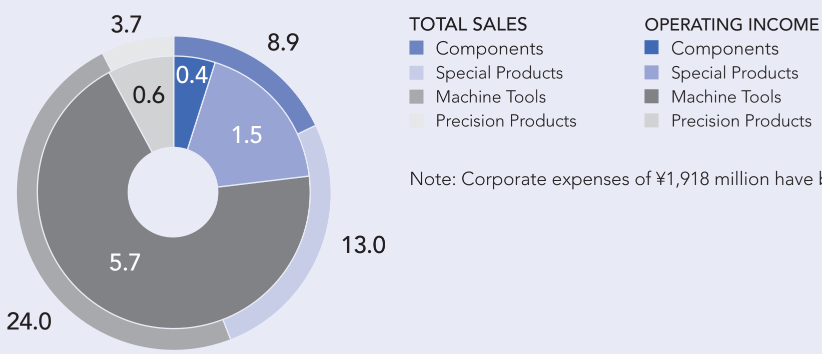
Management's Discussion and Analysis

Segment Overview

For accounting purposes, Star Micronics' operations are classified into three segments. In the following section, however, the Precision Electronic Equipment Segment is further divided into the Components Division and the Special Products Division.

FISCAL 2005 SALES AND OPERATING INCOME BY SEGMENT

(Billions of yen)



Note: Corporate expenses of ¥1,918 million have been included in operating income.

Precision Electronic Equipment

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

Components Division

Sales in the Components Division increased 21.4% year on year to ¥8,911 million (US$84,867 thousand). Although electronic buzzers still account for more than half of sales in this division, the diversification of mobile phone functions in recent years has led to a long-term decline in shipments of these components and a continued drop in prices. In this environment, Star Micronics is seeking to transform itself into a comprehensive maker of micro audio components, manufacturing a full lineup of microphones, speakers, receivers and other products. This will enable the division to respond to market needs and reduce its reliance on existing customers by developing new sales channels and diversifying its customer base.

Star Micronics' shipments of electronic buzzers rose 4.7% year on year to 111 million units. This increase was supported by stronger demand for lower priced mobile phones in markets such as China, India and South America, the adoption of these components in digital music players and other factors. However, a decline in unit prices of more than 10% had a significant impact on sales, leading to an 11.5% decline year on year to ¥5,191 million.

New micro audio components, which Star Micronics is developing to take over the mantle from electronic buzzers, are increasingly being adopted by both domestic and overseas mobile phone manufacturers thanks to their reliability, excellent sound quality and compact size. This drove a substantial increase in sales of these components. Shipments of microphones alone have now reached 39 million units annually, while the division's receivers are now being used in key products offered by a leading European mobile phone maker. Annual shipments of these components have now reached 20 million units. The same customer has also decided to begin taking orders of speakers made by the Components Division, illustrating the expectations Star Micronics has for its lineup of new micro audio components. As a result of these and other developments, total sales of new micro audio components grew 2.5 times year on year, to ¥3,720 million.

These products also contributed to earnings, helping the Components Division to turn an operating loss of ¥422 million in fiscal 2004 into operating income of ¥391 million (US$3,724 thousand) in the year under review.

Future plans for new micro audio components call for the start of volume production of speakers in the second half of fiscal 2006, and boosting monthly output of receivers from the current 2.5 million unit range to approximately 6.0 million by the end of the year. The division also plans to increase production of microphones. With this growth in new micro audio components, Star Micronics expects to see sales of these components overtake those of electronic buzzers as a percentage of total segment sales in fiscal 2006. This is expected to help compensate for declining electronic buzzer sales and boost division earnings overall.

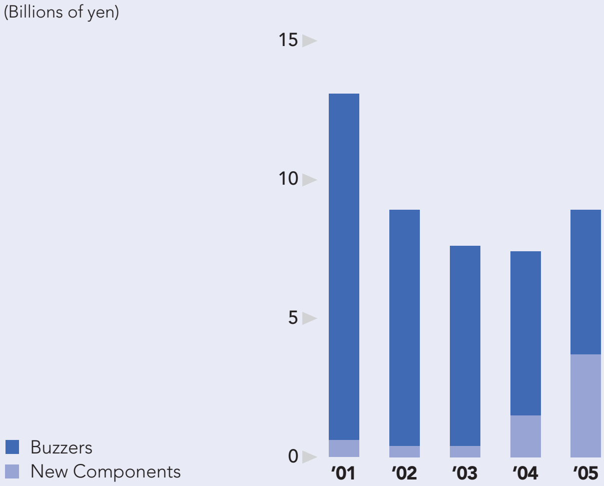
This division is also working to diversify its customer base outside its traditional field of mobile phone manufacturers. Results are gradually beginning to emerge, with manufacturers of automotive components, digital consumer electronics and digital music players choosing the division's components for their products. These customers now account for more than 10% of division sales.

Special Products Division

In the Special Products Division, where the main products are computer and POS printers, sales declined 13.0% year on year to ¥13,011 million (US$123,914 thousand). In computer printers, mainly targeted at the Chinese market, Star Micronics

COMPONENT DIVISION SALES

(Billions of yen)



has worked to put in place an integrated local operating structure, covering everything from manufacturing to sales. During the year under review, however, a significant delay in the implementation of the next stage of China's tax collection project, as well as its new local tax collection project, had a major impact on sales of computer printers, resulting in a decline of 33.5% year on year to ¥5,078 million.

The so-called first stage of implementation of China's new tax collection system, covering the country's largest businesses, was almost completed midway through the previous fiscal year, with Star Micronics securing a substantial share of the market. Star Micronics expects the second stage, aimed at medium-sized enterprises, to be rolled out in the coming months, although the Chinese tax authorities have yet to select the main system for this stage. Consequently, there is still some uncertainty on when shipments can restart.

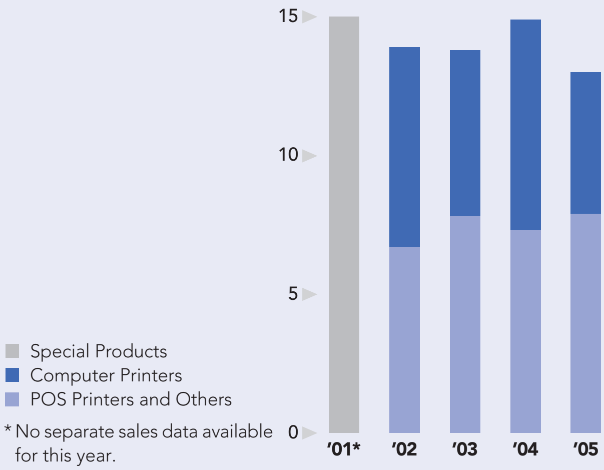
The Chinese tax authorities are expected to begin implementation of the new local tax collection system from around the middle of fiscal 2006. Star Micronics believes it can also capture a large share of this new demand. Although a number of question marks still hang over this project, Star Micronics is very confident that the new local tax system will become a large source of demand as the market becomes more developed in preparation for the Olympics, World Expo and other events to be held in the country.

Sales of POS printers were healthy on the back of a large increase in demand for thermal printers. This was the result of active marketing efforts that saw a number of large-scale orders in the U.S. and European POS markets, and success in developing new markets in South America and other regions. Other reasons for this strong performance included greater cost competitiveness thanks to the transfer of thermal printer production to China, and the creation of partnerships with leading system integration companies, enabling the division to benefit from the growing preference for thermal printer products. Consequently, sales of POS printers and others grew 8.5% year on year to ¥7,933 million, accounting for more than half of total sales in the Special Products Division.

As a result of the above, the division reported a decline in operating income of ¥633 million, or 29.7%, to ¥1,498 million (US$14,267 thousand).

SPECIAL PRODUCTS DIVISION SALES

(Billions of yen)



* No separate sales data available for this year.

Machine Tools

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

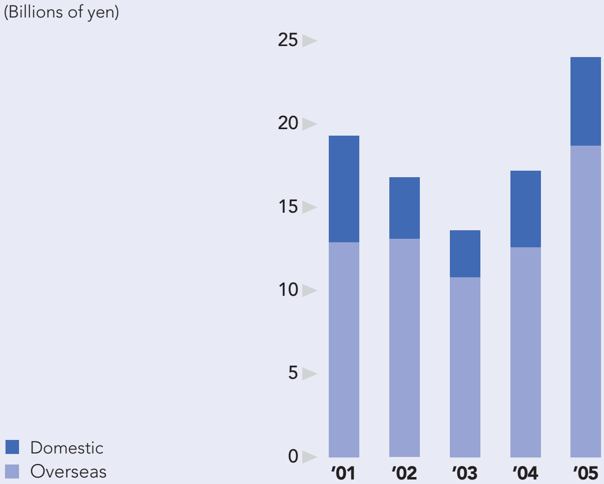
In fiscal 2005, demand for machine tools was high as automakers and other manufacturers invested globally to replace old equipment and boost output. Against this backdrop of healthy investment-led demand, the Machine Tools Segment reported an increase in segment sales of ¥6,830 million, or 39.7%, to ¥24,035 million (US$228,905 thousand). In addition to positive external factors, this record result was achieved by expanding the product lineup in response to customer needs. Orders were also healthy, rising 35.5% from a year earlier to 1,877 units. With monthly production capacity in China of 50~60 units and in Japan of 120~130 units, manufacturing sites were operating at full capacity to meet monthly orders of 160~170 units. Overseas sales as a percentage of total segment sales increased 4.6 percentage points year on year to 77.9%.

Demand for the SB-16, which went on sale after the complete transfer of production to China in March 2004, was strong in Asia, as well as Japan, the U.S. and Europe. Orders during the year totaled approximately 700 units, accounting for around 40% of orders in this segment and generating about 20% of its sales.

The result of the above was an increase in operating income of ¥2,713 million, or 89.8%, to ¥5,733 million (US$54,600 thousand), another record high. The operating margin improved 6.3 percentage points to 23.9%. This increase in profitability was attributable to the high level of capacity utilization on the back of strong orders, and lower costs thanks to the transfer of production for some machine tool products to China. Looking at orders for fiscal 2005 in more detail, orders rose in all markets, including the U.S., where capital spending was stimulated by investment tax incentives, and Asia, where investment was strong in the automotive, light electrical equipment and other industries. Although the machine tools market is sensitive to underlying economic trends, Star Micronics has posted 29 consecutive months of rising orders on a year-on-year basis since September 2002. However, in Japan, orders for February and March are already down

MACHINE TOOLS SEGMENT SALES

(Billions of yen)



compared to a year earlier, and Star Micronics expects a phase of readjustment in the second half of fiscal 2006. Despite this outlook, demand from the automotive industry remains as strong as ever, making a major decline in orders unlikely.

Looking ahead, Star Micronics plans to focus on three areas in this segment: following on from the SB-16, transfer the production of other machine tools to China; develop new high-end products capable of more precise, complex machining; and boost sales to customers in different sectors.

In addition, Star Micronics has made the decision to expand its Kikugawa Factory in Japan to strengthen the development and manufacturing framework for new high-end machine tools and other products. A new sales company has also been established in Thailand to build a stronger presence in the growing Asian market. Together with Shanghai Xingang Machinery Co., Ltd. and the Shenzhen Representative Office, this new sales subsidiary increases the machine tool sales and service network in Asia to three locations. Using this network, Star Micronics plans to both boost sales and upgrade aftersales support. These developments have resulted in a global sales framework that includes sites in North America and Europe.

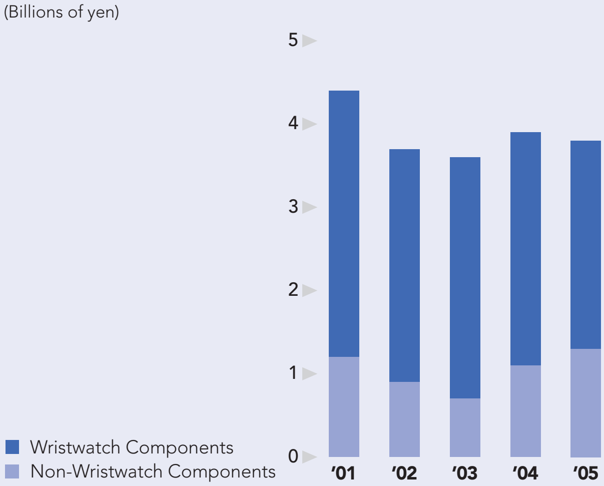
Precision Products

This segment's products are divided into two main areas: wristwatch components, an area the company has been involved in since its establishment; and precision components other than wristwatch components (also referred to as non-wristwatch components).

Wristwatch components are a mature market experiencing a sustained drop in prices unrelated to levels of output. This segment is therefore striving to increase earnings by strategically focusing on non-wristwatch component markets. More specifically, Star Micronics is applying its strengths in precision processing technology to fields where precision components are difficult to manufacture: optical fiber connector parts, dental drill and implant parts, medical equipment such as bone screws for bone-setting, hard disk drive (HDD) parts, automotive components and other areas.

In wristwatch components, orders declined due to the impact of instability in the watch movement market during the second half of the year, as Chinese makers launched low-cost products and customer preference for components procured locally grew. This was compounded by sustained demands for further price discounts. As a result, sales of wristwatch

PRECISION PRODUCTS SEGMENT SALES
(Billions of yen)



components fell 11.4% year on year to ¥2,461 million. Meanwhile, in non-wristwatch components, Star Micronics implemented improvements to its production framework to enable it to respond more flexibly to customer needs for high value-added medical and other components—an area expected to see rising demand going forward. In parallel with these moves, the segment also actively worked to boost sales. As a result of these efforts, sales of non-wristwatch components grew 20.2% year on year to ¥1,272 million, led by strong sales of HDD components on the back of growing demand for digital music players and laptop computers. Sales of optical fiber connector parts and medical equipment were also healthy. Consequently, the ratio of non-wristwatch component sales in the Precision Products Segment rose to 34.1%.

As a result of the above, operating income declined ¥87 million, or 12.0%, to ¥639 million (US$6,086 thousand), on total segment sales of ¥3,733 million (US$35,552 thousand), down ¥103 million, or 2.7%, compared to the previous period. The operating margin fell 1.8 percentage points to 17.1%.

In other developments during fiscal 2005, Shanghai S&E Precision Co., Ltd., a joint venture set up in Shanghai, China, in April 2001 to produce and market components for car audio products in the country, succeeded in further expanding business with local clients. Operations continue to proceed smoothly. This company will become a consolidated subsidiary from fiscal 2006.

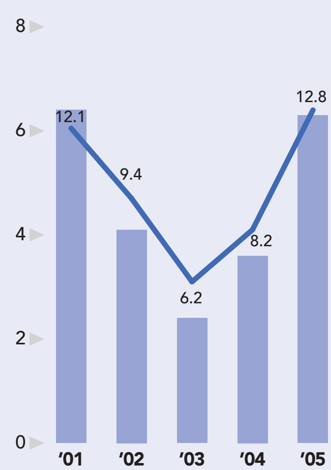
Income Analysis

Net sales rose ¥6,358 million, or 14.7%, to ¥49,690 million (US$473,238 thousand). Although Precision Electronic Equipment and Precision Products both posted declines in segment sales, Machine Tools posted record-high figures, helping to lift overall sales. The cost of sales rose ¥2,581 million, or 9.2%, to ¥30,742 million (US$292,781 thousand). As a result, gross profit increased ¥3,777 million, or 24.9%, to ¥18,948 million (US$180,457 thousand), and the gross profit ratio rose 3.1 percentage points to 38.1%. This was primarily due to an increase in Machine Tool Segment sales, which have higher margins, as a proportion of total sales. Compared to fiscal 2004, this ratio rose 8.7 percentage points to 48.4%.

Selling, general and administrative (SG&A) expenses increased ¥984 million, or 8.5%, to ¥12,605 million (US$120,047 thousand). This rise was kept to a minimum thanks to successful efforts to restrict operating costs, despite higher

OPERATING INCOME AND OPERATING INCOME RATIO

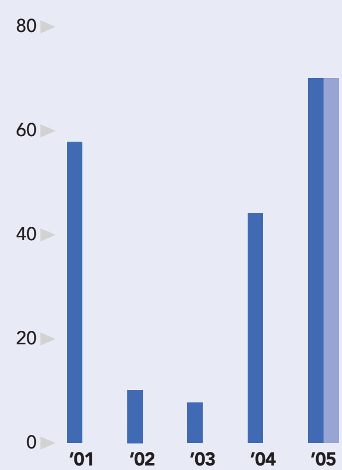
(Billions of yen, %)



Operating Income
Operating Income Ratio

EARNINGS PER SHARE

(Yen)



Basic Net Income
Diluted Net Income

transportation costs, sales commissions and other items that rose in line with sales.

As a result of the aforementioned, operating income climbed ¥2,793 million, or 78.7%, to ¥6,343 million (US$60,410 thousand), while the operating income ratio rose 4.6 percentage points to 12.8%.

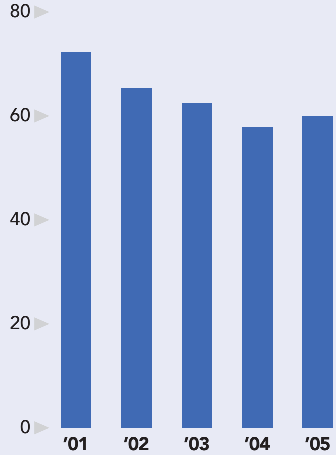
Other expenses—net increased ¥402 million compared to a year earlier, to ¥688 million (US$6,553 thousand). This increase mainly reflected a rise in loss on disposals of property, plant and equipment of 41.1% to ¥515 million as the company disposed of ageing machinery and equipment, and an increase in exchange loss—net of 22.7% to ¥222 million. Other—net expenses of ¥94 million, an increase of ¥256 million year on year, were also booked as ¥406 million for employee transfer support outweighed gains of ¥157 million from sales of investment securities.

As a result, income before income taxes and minority interests increased ¥2,391 million, or 73.3%, to ¥5,655 million (US$53,857 thousand), while total income taxes were ¥1,881 million (US$17,914 thousand). After the deduction of minority interests in net income, net income was ¥3,775 million (US$35,952 thousand), an increase of ¥1,349 million, or 55.6%, compared to a year earlier. Net income per share increased ¥26.01 to ¥70.13, or ¥70.09 after dilution. In light of the strong performance reported for the year, Star Micronics has decided to increase the annual dividend for fiscal 2005 by ¥4.0 to ¥15.0 per share, representing a payout ratio of 21.4%. Star Micronics remains committed to its fundamental policy of returning at least 20% of consolidated net income to investors, while emphasizing consolidated performance and taking into account the company's future operating environment and other factors.

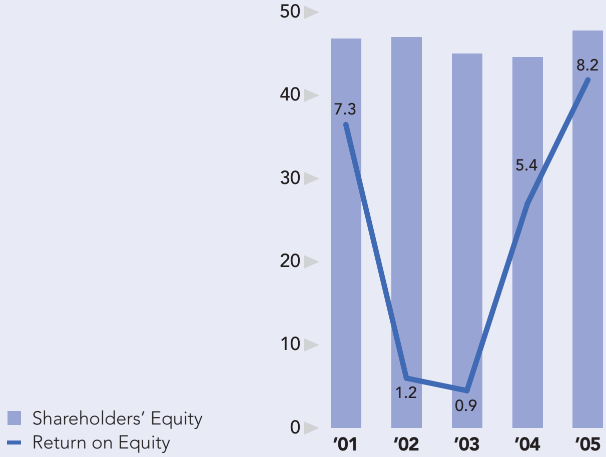
Financial Position and Liquidity

Total current assets as of February 28, 2005, were ¥40,170 million (US$382,571 thousand), an increase of ¥3,815 million, or 10.5%, compared to the previous fiscal year-end. This rise reflected increases in cash and cash equivalents and trade accounts as a result of higher sales and profits. Short-term investments also rose ¥699 million to ¥714 million, although this mainly comprised fixed-term deposits. Star Micronics continued its efforts to optimize inventories, resulting in a decline of ¥2,054 million, or 16.1%, to ¥10,668 million.

TOTAL ASSETS
(Billions of yen)



SHAREHOLDERS' EQUITY AND RETURN ON EQUITY
(Billions of yen, %)



Net property, plant and equipment declined ¥906 million, or 5.8%, to ¥14,698 million (US$139,981 thousand), primarily due to the sale and disposal of ageing machinery and equipment. Total investments and other assets declined ¥794 million, or 13.4%, to ¥5,145 million (US$49,000 thousand).

The combined effect of the above factors was an increase in total assets of ¥2,115 million, or 3.7%, to ¥60,013 million (US$571,552 thousand).

On the other side of the balance sheet, current liabilities declined ¥94 million, or 0.8%, to ¥11,825 million (US$112,619 thousand). This was primarily attributable to the complete repayment of short-term bank loans and the current portion of long-term debt, totaling a combined ¥403 million at the end of the previous fiscal year.

Total long-term liabilities declined ¥928 million, or 72.7%, to ¥349 million (US$3,324 thousand), reflecting the repayment of all outstanding long-term debt of ¥1,000 million at the previous fiscal year-end.

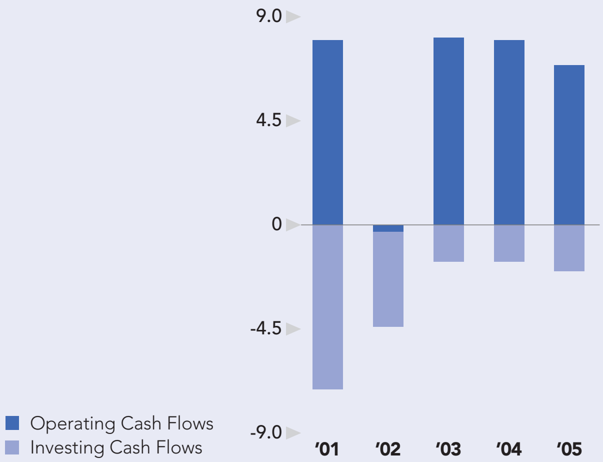
Total shareholders' equity increased ¥3,141 million, or 7.0%, to ¥47,754 million (US$454,799 thousand). Treasury stock—at cost, was ¥889 million (US$8,468 thousand), as the company retired treasury stock during the period. Unrealized gain on available-for-sale securities, directly credited to shareholders' equity, increased ¥194 million to ¥500 million. Equity per share increased ¥59.55 to ¥895.68.

Cash Flows

Net cash provided by operating activities was ¥6,891 million (US$65,629 thousand), a decrease of ¥1,133 million compared to a year earlier. Although income before income taxes and minority interests increased ¥2,391 million to ¥5,655 million, reflecting the strong results for the year, cash used for income taxes—paid rose ¥1,039 million to ¥1,679 million, while trade receivables, trade payables, and inventories represented a combined cash outflow of ¥295 million, ¥1,488 million more than a year earlier.

Net cash used in investing activities was ¥2,016 million (US$19,200 thousand), ¥434 million more than in the previous fiscal year. This mainly reflected an increase of ¥338 million in proceeds from sales of marketable and investment securities

CASH FLOWS
(Billions of yen)



to ¥922 million, against other—net expenses of ¥936 million as cash used for short-term investments and fixed-term deposits increased ¥746 million year on year.

Net cash used in financing activities was ¥2,149 million (US$20,467 thousand), an improvement of ¥3,116 million compared to fiscal 2004. This was due to a number of factors, including a decline of ¥1,838 million in debt repayments to ¥1,410 million and a large decrease in payments for the purchase of treasury stock to ¥48 million. Dividends paid to shareholders increased ¥144 million to ¥693 million.

After foreign currency translation adjustments on cash and cash equivalents of ¥56 million, the net increase in cash and cash equivalents for the year was ¥2,782 million. Cash and cash equivalents as of February 28, 2005 totaled ¥13,539 million (US$128,943 thousand).

Capital Expenditures and R&D Expenses

Capital expenditures in fiscal 2005 totaled ¥2,396 million (US$22,819 thousand), an increase of ¥338 million, or 16.4%, from the previous fiscal year.

Expenditures for the Components Division increased ¥23 million to ¥740 million. In fiscal 2006, the company is budgeting expenditures in this division of ¥970 million, related to the creation of a volume production framework for new micro audio components such as microphones and receivers.

In the Special Products Division, capital expenditures grew ¥165 million to ¥648 million, mainly associated with the development of compact POS printers. With the expected roll out of the local tax collection system in China in the next fiscal year, the company has budgeted expenditures of ¥930 million in this division to enhance printer production capabilities and for other investment.

Expenditures in Machine Tools rose ¥304 million to ¥663 million, primarily due to costs related to the transfer of SB-16 production to China and the development of new models. In fiscal 2006, investment is planned to rise to ¥1,925 million as the division expands its Kikugawa Factory to boost production capacity and strengthen product development.

In Precision Products, expenditures declined ¥6 million to ¥233 million. In fiscal 2006, the company plans to increase investment to ¥872 million to change factory layouts and invest in new machinery and equipment.

R&D expenses for the year totaled ¥2,251 million (US$21,438 thousand), ¥63 million, or 2.9%, higher than the previous fiscal year. R&D expenses represented 4.5% of total net sales, a marginal decline compared to the previous fiscal year. In addition to creating innovative products, R&D programs have been focused on the development of production technologies that achieve improved cost-performance and greater miniaturization of products. The company is also working to ensure production, sales and R&D activities are carried out in optimal global locations. Specific steps include the joint development of new micro audio components with research institutes in the U.S. In Japan, Star Micronics is maximizing its vast array of high-precision miniature component processing and assembly technologies to develop and launch new high value-added products. One example of a prototype component currently under development is a diaphragm micro pump that can deliver minute amounts of fuel to power ultra-compact fuel cells.

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).

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

*Established in March 2005 and becomes a consolidated subsidiary from fiscal 2006

In the fiscal year under review, overseas sales as a proportion of total sales reached a record high of 77.9%, representing an increase of 2.8 percentage points year on year. The biggest reason for this rise was strong demand from the U.S., Europe and Asia for products supplied by the Machine Tools Segment.

In Europe, net sales increased ¥4,447 million to ¥14,271 million (US$135,914 thousand), representing 28.7% of total sales, 6.0 percentage points higher than the previous year.

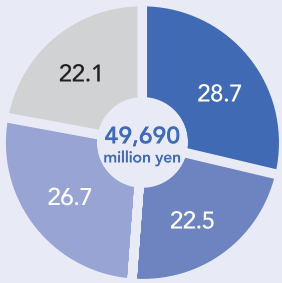
In North America, net sales rose ¥2,608 million to ¥11,181 million (US$106,486 thousand), representing 22.5% of total sales, an increase of 2.7 percentage points year on year.

Net sales in Asia declined ¥859 million to ¥13,265 million (US$126,333 thousand). This drop was mainly due to an almost complete halt in shipments of computer printers, which cancelled out strong sales of machine tools. Asia's ratio of total sales fell 5.9 percentage points to 26.7%.

In Japan, main products are machine tools and precision products. In fiscal 2005, sales of mid-range complex machine tools grew on the back of robust capital investment by domestic automotive, digital consumer electronics manufacturers and other customers. Domestic sales increased ¥162 million to ¥10,973 million (US$104,505 thousand), representing 22.1% of total sales, down 2.8 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 28, 2005 and February 29, 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2005**	2004	**2005**
Current assets:			
Cash and cash equivalents	**¥ 13,539**	¥ 10,718	**$ 128,943**
Marketable securities (Note 3)	**121**	212	**1,152**
Short-term investments (Note 4)	**714**	15	**6,800**
Receivables:			
Trade notes	**1,382**	1,353	**13,162**
Trade accounts (Note 11)	**10,996**	9,008	**104,724**
Non-consolidated subsidiaries and associated companies	**242**	378	**2,305**
Other	**675**	805	**6,429**
Allowance for doubtful receivables	**(402)**	(422)	**(3,829)**
Inventories (Note 5)	**10,668**	12,722	**101,600**
Deferred tax assets (Note 10)	**1,557**	882	**14,829**
Prepaid expenses and other	**678**	684	**6,456**
Total current assets	**40,170**	36,355	**382,571**
Property, plant and equipment:			
Land	**2,601**	2,664	**24,771**
Buildings and structures	**11,936**	11,975	**113,676**
Machinery and equipment	**31,907**	33,981	**303,876**
Construction in progress	**144**	65	**1,372**
Total	**46,588**	48,685	**443,695**
Accumulated depreciation	**(31,890)**	(33,081)	**(303,714)**
Net property, plant and equipment	**14,698**	15,604	**139,981**
Investments and other assets:			
Investment securities (Note 3)	**2,634**	2,986	**25,086**
Investments in and advances to non-consolidated subsidiaries and associated companies	**204**	228	**1,943**
Goodwill	**1,273**	1,485	**12,124**
Deferred tax assets (Note 10)	**17**	223	**162**
Other assets	**1,017**	1,017	**9,685**
Total investments and other assets	**5,145**	5,939	**49,000**
Total	**¥ 60,013**	¥ 57,898	**$ 571,552**

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Short-term bank loans (Note 6)		¥ 400	
Current portion of long-term debt (Note 6)		3	
Payables:			
Trade notes	¥ 112	120	$ 1,067
Trade accounts	5,515	5,789	52,524
Non-consolidated subsidiaries and associated companies	39	42	371
Other	930	918	8,857
Income taxes payable (Note 10)	1,518	826	14,457
Accrued expenses	1,768	1,667	16,838
Other (Note 7)	1,943	2,154	18,505
Total current liabilities	11,825	11,919	112,619
Long-term liabilities:			
Long-term debt (Note 6)		1,000	
Liability for retirement benefits (Note 8)	224	254	2,133
Deferred tax liabilities (Note 10)	124	19	1,181
Other	1	4	10
Total long-term liabilities	349	1,277	3,324
Minority interests	85	89	810
Contingent liabilities (Notes 13 and 15)			
Shareholders' equity (Notes 9, 17 and 19):			
Common stock — authorized, 158,000,000 shares in 2005 and 160,000,000 shares in 2004 issued, 54,533,234 shares in 2005 and 56,533,234 shares in 2004	12,722	12,722	121,162
Capital surplus	13,877	13,877	132,162
Retained earnings	23,675	22,029	225,476
Unrealized gain on available-for-sale securities	500	306	4,762
Foreign currency translation adjustments	(2,131)	(2,068)	(20,295)
Treasury stock — at cost 1,258,846 shares in 2005 and 3,206,117 shares in 2004	(889)	(2,253)	(8,468)
Total shareholders' equity	47,754	44,613	454,799
Total	¥60,013	¥57,898	$571,552

See notes to consolidated financial statements.

Consolidated Statements of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2005 and February 29, 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales (Note 11)	¥49,690	¥43,332	$473,238
Cost of sales (Note 8)	30,742	28,161	292,781
Gross profit	18,948	15,171	180,457
Selling, general and administrative expenses (Notes 8 and 12)	12,605	11,621	120,047
Operating income	6,343	3,550	60,410
Other income (expenses):			
Interest and dividend income	132	126	1,257
Interest expense (Note 6)	(27)	(48)	(257)
Exchange loss – net	(222)	(181)	(2,114)
Gain on sales of property, plant and equipment	38	20	362
Loss on disposals of property, plant and equipment	(515)	(365)	(4,905)
Other – net (Note 14)	(94)	162	(896)
Other expenses – net	(688)	(286)	(6,553)
Income before income taxes and minority interests	5,655	3,264	53,857
Income taxes (Note 10)**:**			
Current	2,273	1,141	21,648
Prior	94		895
Deferred	(486)	(313)	(4,629)
Total	1,881	828	17,914
Income before minority interests	3,774	2,436	35,943
Minority interests in net income (loss)	(1)	10	(9)
Net income	¥ 3,775	¥ 2,426	$ 35,952

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.n and 9)**:**			
Basic net income	¥70.13	¥44.12	$0.67
Diluted net income	70.09		0.67
Cash dividends applicable to the year	15.00	11.00	0.14

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2005 and February 29, 2004

	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
Balance, March 1, 2003	55,349	¥12,722	¥13,877	¥20,152	¥(169)	¥ (774)	¥ (784)
Net income				2,426			
Cash dividends, ¥11.0 per share				(549)			
Net decrease in unrealized loss on available-for-sale securities					475		
Net decrease in foreign currency translation adjustments						(1,294)	
Repurchase of treasury stock	(2,024)						(1,470)
Disposal of treasury stock	2						1
Balance, February 29, 2004	53,327	12,722	13,877	22,029	306	(2,068)	(2,253)
Net income				3,775			
Cash dividends, ¥15.0 per share				(693)			
Bonuses to directors and corporate auditors				(25)			
Adjustment of retained earnings for newly consolidated subsidiary				2			
Take-over of retained earnings for merger of non-consolidated subsidiaries				(3)			
Retirement of treasury stock				(1,410)			1,410
Net decrease in unrealized loss on available-for-sale securities					194		
Net decrease in foreign currency translation adjustments						(63)	
Repurchase of treasury stock	(56)						(48)
Disposal of treasury stock	3						2
Balance, February 28, 2005	53,274	¥12,722	¥13,877	¥23,675	¥500	¥(2,131)	¥ (889)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Unrealized gain/loss on available-for-sale securities	Foreign currency translation adjustments	Treasury stock – at cost
Balance, February 29, 2004	$121,162	$132,162	$209,800	$2,914	$(19,696)	$(21,457)
Net income			35,952			
Cash dividends, $0.14 per share			(6,600)			
Bonuses to directors and corporate auditors			(238)			
Adjustment of retained earnings for newly consolidated subsidiary			19			
Take-over of retained earnings for merger of non-consolidated subsidiaries			(28)			
Retirement of treasury stock			(13,429)			13,429
Net decrease in unrealized loss on available-for-sale securities				1,848		
Net decrease in foreign currency translation adjustments					(599)	
Repurchase of treasury stock						(458)
Disposal of treasury stock						18
Balance, February 28, 2005	$121,162	$132,162	$225,476	$4,762	$(20,295)	$(8,468)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2005 and February 29, 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Operating activities:			
Income before income taxes and minority interests	¥ 5,655	¥ 3,264	$ 53,857
Adjustments for:			
Income taxes – paid	(1,679)	(640)	(15,990)
Income taxes – refunded	48	114	457
Depreciation and amortization	2,704	3,088	25,752
(Reversal of) provision for doubtful receivables	(31)	35	(295)
Reversal for retirement benefits	(57)	(402)	(543)
Loss on sales and disposals of property, plant and equipment	476	345	4,533
Changes in assets and liabilities:			
Increase in trade receivables	(1,833)	(1,346)	(17,457)
Decrease in inventories	1,706	3,503	16,248
Decrease in trade payables	(168)	(374)	(1,600)
Other – net	70	437	667
Total adjustments	1,236	4,760	11,772
Net cash provided by operating activities	6,891	8,024	65,629
Investing activities:			
Purchases of property, plant and equipment	(2,150)	(2,199)	(20,476)
Proceeds from sales of property, plant and equipment	146	225	1,390
Purchases of marketable and investment securities	(4)	(4)	(38)
Proceeds from sales of marketable and investment securities	922	584	8,781
Payments for loans receivable	(7)	(6)	(67)
Collection of loans receivable	13	8	124
Other – net	(936)	(190)	(8,914)
Net cash used in investing activities	(2,016)	(1,582)	(19,200)
Financing activities:			
Increase in short-term bank loans – net	(407)	(2,294)	(3,876)
Repayments of long-term debt	(1,003)	(954)	(9,552)
Dividends paid to shareholders	(693)	(549)	(6,600)
Payments for purchase of treasury stock	(48)	(1,470)	(457)
Other – net	2	2	18
Net cash used in financing activities	(2,149)	(5,265)	(20,467)
Foreign currency translation adjustments on cash and cash equivalents	56	(296)	533
Net increase in cash and cash equivalents	2,782	881	26,495
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	39		372
Cash and cash equivalents at beginning of year	10,718	9,837	102,076
Cash and cash equivalents at end of year	¥13,539	¥10,718	$128,943

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2005 and February 29, 2004

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by Star Micronics Co., Ltd. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles 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 2004 consolidated financial statements to conform to the classifications used in 2005.

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 28, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

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

The accompanying consolidated financial statements as of February 28, 2005 include the accounts of the Company and its eighteen significant subsidiaries (together, the "Group").

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

Shanghai Xingang Machinery Co., Ltd. was newly consolidated from 2005 because it has become material to the consolidated financial statements of the Company.

In 2004, Star Micronics Manufacturing Deutschland GmbH merged with Lagro WH·GmbH & Co. KG and two other non-consolidated subsidiaries in Germany and changed its company name to Star Micronics GmbH.

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

b. Cash Equivalents

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

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

c. Inventories

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

d. Marketable and Investment Securities

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

Marketable securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

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

e. Property, Plant and Equipment

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

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

f. Retirement and Pension Plans

The Company has a non-contributory funded pension plan covering substantially all of its employees. To provide for the payment of retirement benefits and pension plan payment to employees, the Company recorded a reserve equivalent to the amounts recognized as necessary at the end of the period under review based on the estimated retirements benefit obligation and the fair value of the pension plan assets at the fiscal year-end.

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

g. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

h. Research and Development Costs

Research and development costs are charged to income as incurred.

i. Income Taxes

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

j. Appropriations of Retained Earnings

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

k. Foreign Currency Transactions

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

l. Foreign Currency Financial Statements

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

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

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

m. Derivatives

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Companies to reduce foreign currency exchange risks. The Companies do not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.

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

n. Per Share Information

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.

o. New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixes Assets", and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after March 1, 2006 with early adoption permitted for fiscal years ending on or after February 28, 2005.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that 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.

The company is currently in the process of assessing the effect of adoption of these pronouncements.

3. Marketable and Investment Securities

Marketable and investment securities at February 28, 2005 and February 29, 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Current:			
Corporate and other bonds		¥ 212	
Trust fund investment and other	**¥ 121**		**$ 1,152**
Total	**¥ 121**	¥ 212	**$ 1,152**
Non-current:			
Equity securities	**¥2,499**	¥2,231	**$23,800**
Corporate and other bonds	**82**	80	**781**
Trust fund investment and other	**53**	675	**505**
Total	**¥2,634**	¥2,986	**$25,086**

Information regarding the category of securities classified as available-for-sale at February 28, 2005 and February 29, 2004, was as follows:

	Millions of yen			
2005	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,602**	**¥805**		**¥2,407**
Corporate and other bonds	**79**	**3**		**82**
Trust fund investments and other	**150**	**24**		**174**

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

2005	Cost	Unrealized gains	Unrealized losses	Fair value
	Thousands of U.S. dollars (Note 1)			
Securities classified as:				
Available-for-sale				
Marketable equity securities	$15,257	$7,667		$22,924
Corporate and other bonds	752	29		781
Trust fund investments and other	1,429	228		1,657

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2005 and February 29, 2004, were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Available-for-sale:			
Equity securities	¥93	¥93	$886
Total	¥93	¥93	$886

Proceeds from sales of available-for-sale securities for the year ended February 28, 2005 and February 29, 2004 were ¥922 million ($8,781 thousand) and ¥584 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 28, 2005 were ¥160 million ($1,524 thousand) and ¥0 million ($0 thousand), and for the year ended February 29, 2004 were ¥15 million and ¥0 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 28, 2005 and February 29, 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Due within one year	¥121	¥212	$1,152
Due after one year through five years	82	510	781
Due after five years through ten years			
Total	¥203	¥722	$1,933

4. Short-term Investments

Short-term investments at February 28, 2005 and February 29, 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Deposits over 3-month period	¥415	¥15	$3,952
Other	299		2,848
Total	¥714	¥15	$6,800

5. Inventories

Inventories at February 28, 2005 and February 29, 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Merchandise	¥ 242	¥ 258	$ 2,305
Finished products	6,085	7,704	57,952
Work in process	2,206	2,371	21,010
Raw materials and supplies	2,135	2,389	20,333
Total	¥10,668	¥12,722	$101,600

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

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

Long-term debt at February 28, 2005 and February 29, 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Loans principally from banks due serially to 2010 with interest rates ranging from 0.8% to 12.0% (2004)			
Collateralized		¥1,000	
Unsecured		3	
Total		1,003	
Less current portion		(3)	
Long-term debt, less current portion		¥1,000	

7. Other Current Liabilities

Assets and liabilities arising from the adjustment of the difference in closing dates of consolidated subsidiaries outside of Japan, which used to be indicated on inventory and other current liabilities, amounted to ¥1,892 million as of February 29, 2004.

Assets and liabilities, which amounted to ¥1,791 million ($17,057 thousand) were netted at February 28, 2005. The balance after the net was recorded in other current liabilities.

8. Retirement and Pension Plans

The Company and certain of its consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors. Under the pension plans, employees terminating their employment are, in most circumstances, entitled to pension payments.

The liability for employees' retirement benefits at February 28, 2005 and February 29, 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Projected benefit obligation	¥(7,634)	¥(7,611)	$(72,705)
Fair value of plan assets	6,990	6,513	66,572
Unrecognized actuarial loss	768	1,030	7,314
Net amount recognized	¥ 124	¥ (68)	$ 1,181

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Amounts recognized in the balance sheets consist of:			
Prepaid pension expense	**¥136**		**$1,295**
Liability for retirement benefits	**(12)**	¥(68)	**(114)**
Net amount recognized	**¥124**	¥(68)	**$1,181**

The components of net periodic benefit costs for the year ended February 28, 2005 and February 29, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Service cost	**¥ 378**	¥ 329	**$ 3,600**
Interest cost	**152**	153	**1,448**
Expected return on plan assets	**(163)**	(132)	**(1,553)**
Recognized actuarial loss	**91**	145	**867**
Net periodic benefit costs	**¥ 458**	¥ 495	**$ 4,362**

Assumptions used for the year ended February 28, 2005 and February 29, 2004 were set forth as follows:

	2005	2004
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

The liability for retirement benefits at February 28, 2005 and February 29, 2004 for directors and corporate auditors is ¥212 million ($2,019 thousand) and ¥186 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

9. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

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

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

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

The amount of retained earnings available for dividends under the Code was ¥14,630 million ($139,333 thousand) as of February 28, 2005, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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

10. Income Taxes

The Company and its consolidated subsidiaries in Japan are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended February 28, 2005 and February 29, 2004. Due to a change in the enterprise tax rate in Japan, effective for years beginning March 1, 2005, the normal effective statutory tax rate is scheduled to be changed.

Consolidated subsidiaries outside of Japan are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2005 and February 29, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current:			
Deferred tax assets			
Unrealized profit on inventories	¥ 842	¥ 505	$ 8,019
Accrued bonuses	339	242	3,229
Inventories	223	68	2,124
Accrued business taxes	103	50	981
Allowance for doubtful receivables	11	11	105
Other	122	80	1,162
Total deferred tax assets	¥1,640	¥ 956	$15,620
Deferred tax liabilities			
Undistributed earnings of associated companies	¥ 82	¥ 72	$ 781
Tax-deductible inventories losses	22	21	210
Allowance for doubtful receivables		3	
Other	44	31	419
Total deferred tax liabilities	¥ 148	¥ 127	$ 1,410
Net deferred tax assets	¥1,492	¥ 829	$14,210
Non-Current:			
Deferred tax assets			
Write-down of investment securities	¥ 167	¥ 277	$ 1,590
Depreciation	99	100	943
Retirement benefits for directors and corporate auditors	84	74	800
Pension and severance costs		27	
Other	159	165	1,514
Less valuation allowance	(174)	(182)	(1,657)
Total deferred tax assets	¥ 335	¥ 461	$ 3,190
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	¥ 330	¥ 202	$ 3,143
Prepaid pension expense	54		514
Property, plant and equipment	33	36	314
Other	26	19	248
Total deferred tax liabilities	¥ 443	¥ 257	$ 4,219
Net deferred tax assets	¥ (108)	¥ 204	$ (1,029)

A reconciliation between the normal effective statutory tax rate for the year ended February 28, 2005 and February 29, 2004 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2005	2004
Normal effective statutory tax rate	**41.2%**	41.2%
Reversal of deferred tax assets on unrealized profit	**(5.4)**	(18.5)
Effect of foreign tax rate differences	**(3.0)**	
Amortization of excess cost of investments in consolidated subsidiaries	**1.6**	3.0
Other	**(1.1)**	(0.3)
Actual effective tax rate	**33.3%**	25.4%

The normal effective tax rate reflected in the accompanying consolidated statements of income for the years ended February 28, 2005 and February 29, 2004 differs from the actual effective tax rate, primarily due to the effect of permanently non-deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

11. Related Party Transactions

The balances due to or from Citizen Watch Co., Ltd., which owned 16.6% of voting shares of the Company at February 28, 2005 and February 29, 2004, and related transactions for the years ended were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
(1) Citizen Watch Co., Ltd.			
Transaction:			
Sales	**¥1,638**	¥1,816	**$15,600**
Balance at year-end:			
Trade accounts receivable	**500**	621	**4,762**

12. Research and Development Costs

Research and development costs charged to income were ¥2,251 million ($21,438 thousand) and ¥2,188 million for the years ended February 28, 2005 and February 29, 2004, respectively.

13. Leases

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

Lease payments under financial leases were ¥73 million ($695 thousand) and ¥92 million for the years ended February 28, 2005 and February 29, 2004, respectively.

Pro forma information of lease property of which ownership is deemed not to be transferred to the lessee on an "as if capitalized" basis at February 28, 2005 and February 29, 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Acquisition cost	**¥254**	¥488	**$2,419**
Accumulated depreciation	**119**	333	**1,133**
Net leased property	**¥135**	¥155	**$1,286**

The pro forma depreciation expenses computed by the straight-line method were ¥73 million ($695 thousand) and ¥92 million for the years ended February 28, 2005 and February 29, 2004, respectively.

Obligations under financial leases at February 28, 2005 and February 29, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Due within one year	¥ 46	¥ 74	$ 438
Due after one year	89	81	848
Total	¥135	¥155	$1,286

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

Obligations under non-cancelable operating leases at February 28, 2005 and February 29, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Due within one year	¥ 88	¥ 77	$ 838
Due after one year	511	362	4,867
Total	¥599	¥439	$5,705

14. Derivatives

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

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

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

Fair Value of Derivative Financial Instruments:

The fair value of the Companies' derivative financial instruments at February 28, 2005 and February 29, 2004 are as follows:

	Millions of yen					
	2005			2004		
	Contracted amount	Fair value	Unrealized gain/loss	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:						
Receivables:	¥4,600	¥4,639	¥(39)	¥4,794	¥4,894	¥(100)
Payables:	1,127	1,154	27			
Total			¥(12)			¥(100)

	Thousands of U.S. dollars (Note 1)		
	2005		
	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:			
Receivables:	$43,810	$44,181	$(371)
Payables:	10,733	10,990	257
Total			$(114)

15. Contingent Liabilities

As of February 28, 2005 and February 29, 2004, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Guarantees of bank loans	**¥42**	¥77	**$400**

16. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended February 28, 2005 and February 29, 2004 is 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 28, 2005				
Basic EPS				
Net income available to common shareholders	**¥3,738**	**53,302**	**¥70.13**	**$0.67**
Effect of Dilutive Securities				
Stock Acquisition Rights		**26**		
Diluted EPS				
Net income for computation	**¥3,738**	**53,328**	**¥70.09**	**$0.67**
For the year ended February 29, 2004				
Basic EPS				
Net income available to common shareholders	¥2,401	54,417	¥44.12	$0.42
Effect of Dilutive Securities				
Stock Acquisition Rights				
Diluted EPS				
Net income for computation				

17. Stock Option Plan

As of February 28, 2005, the Company had the following stock option plans approved by the shareholders in accordance with the Commercial Code:

Date of approval by shareholders	May 23, 2002	May 22, 2003	May 27, 2004
Grantees	Directors, key employees, directors of consolidated subsidiaries		
Nature of stocks with warrant granted	Common stock		
Number of stocks with warrant granted	157,000	146,000	140,000
Option price per warrant	¥1,020	¥725	¥967
Exercise period	May 24, 2004 – May 23, 2008	May 23, 2005 – May 22, 2009	May 28, 2006 – May 27, 2010

18. Segment Information

Information regarding operations in different industry segments, foreign operations and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended February 28, 2005 and February 29, 2004 was as follows:

(1) Operations in Different Industries

	Millions of yen				
2005	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**¥21,922**	**¥24,035**	**¥3,733**		**¥49,690**
Intersegment sales					
Total sales	**21,922**	**24,035**	**3,733**		**49,690**
Operating expenses	**20,033**	**18,302**	**3,094**	**¥ 1,918**	**43,347**
Operating income	**¥ 1,889**	**¥ 5,733**	**¥ 639**	**¥ (1,918)**	**¥ 6,343**
Assets	**¥23,485**	**¥20,367**	**¥4,867**	**¥11,294**	**¥60,013**
Depreciation and amortization	**1,621**	**371**	**353**	**147**	**2,492**
Capital expenditures	**1,388**	**663**	**233**	**112**	**2,396**

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

	Thousands of U.S. dollars (Note 1)				
2005	Precision Electronic Equipment	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**$208,781**	**$228,905**	**$35,552**		**$473,238**
Intersegment sales					
Total sales	**208,781**	**228,905**	**35,552**		**473,238**
Operating expenses	**190,790**	**174,305**	**29,466**	**$ 18,267**	**412,828**
Operating income	**$ 17,991**	**$ 54,600**	**$ 6,086**	**$ (18,267)**	**$ 60,410**
Assets	**$223,667**	**$193,971**	**$46,352**	**$107,562**	**$571,552**
Depreciation and amortization	**15,438**	**3,533**	**3,362**	**1,400**	**23,733**
Capital expenditures	**13,219**	**6,314**	**2,219**	**1,067**	**22,819**

* The segments consist of the following products:

Precision Electronic Equipment: Electronic buzzers, Microphones, Speakers, Receivers, Computer printers, POS printers, Visual cards, Reader/Writer, etc.

Machine Tools: CNC automatic lathes, etc.

Precision Products: Wristwatch parts, Optical connector parts, Automotive parts, Medical parts, etc.

* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥1,918 million ($18,267 thousand) and ¥1,905 million for the years ended February 28, 2005 and February 29, 2004, 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 ¥11,294 million ($107,562 thousand) and ¥9,697 million at February 28, 2005 and February 29, 2004, respectively.

(2) Foreign Operations

	Millions of yen					
2005	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Outside customers	**¥20,325**	**¥11,847**	**¥10,242**	**¥ 7,276**		**¥49,690**
Inter-area transfers	**22,829**	**13**	**1**	**11,502**	**¥(34,345)**	
Total	**43,154**	**11,860**	**10,243**	**18,778**	**(34,345)**	**49,690**
Operating expenses	**37,245**	**10,248**	**9,463**	**18,730**	**(32,339)**	**43,347**
Operating income	**¥ 5,909**	**¥ 1,612**	**¥ 780**	**¥ 48**	**¥ (2,006)**	**¥ 6,343**
Assets	**¥51,880**	**¥ 9,288**	**¥ 6,404**	**¥15,271**	**¥(22,830)**	**¥60,013**

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

	Thousands of U.S. dollars (Note 1)					
2005	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Outside customers	**$193,571**	**$112,829**	**$97,543**	**$ 69,295**		**$473,238**
Inter-area transfers	**217,420**	**123**	**9**	**109,543**	**$(327,095)**	
Total	**410,991**	**112,952**	**97,552**	**178,838**	**(327,095)**	**473,238**
Operating expenses	**354,715**	**97,599**	**90,123**	**178,381**	**(307,990)**	**412,828**
Operating income	**$ 56,276**	**$ 15,353**	**$ 7,429**	**$ 457**	**$ (19,105)**	**$ 60,410**
Assets	**$494,095**	**$ 88,457**	**$60,991**	**$145,438**	**$(217,429)**	**$571,552**

* The segments consist of the following countries:

Europe: United Kingdom, Germany, France and Switzerland

North America: United States of America

Asia: China

* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥1,918 million ($18,267 thousand) and ¥1,905 million for the years ended February 28, 2005 and February 29, 2004, 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 ¥11,294 million ($107,562 thousand) and ¥9,697 million at February 28, 2005 and February 29, 2004, respectively.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Europe	**¥14,271**	¥ 9,824	**$135,914**
North America	**11,181**	8,573	**106,486**
Asia	**13,265**	14,124	**126,333**
Total	**¥38,717**	¥32,521	**$368,733**

* The segments consist of the following countries:

Europe: United Kingdom, Germany, Switzerland, Finland, Hungary, etc.

North America: United States of America, Mexico, etc.

Asia: China, Republic of Korea, Taiwan, Singapore, Australia, etc.

19. Subsequent Event

The following appropriations of retained earnings at February 28, 2005 were approved at the Company's shareholders' meeting held on May 26, 2005:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥8 ($0.076) per share	**¥426**	**$4,057**
Bonuses to directors and corporate auditors	**37**	**352**

On May 26, 2005, the shareholders of the Company approved the issuance of new stock acquisition rights as a stock option plan for directors and key employees of the Company and directors of its consolidated subsidiaries. Under this approval, the maximum number of shares to be issued is 160,000 of common shares, which are exercisable from May 27, 2007 to May 26, 2011.

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu
Agora Shizuoka
1-13, Ohtemachi, Aoi-ku
Shizuoka-shi, Shizuoka 420-0853
Japan

Tel: +81(54)273 8091
Fax: +81(54)273 8166
www.deloitte.com/jp

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 28, 2005 and February 29, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, 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 28, 2005 and February 29, 2004, 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 26, 2005

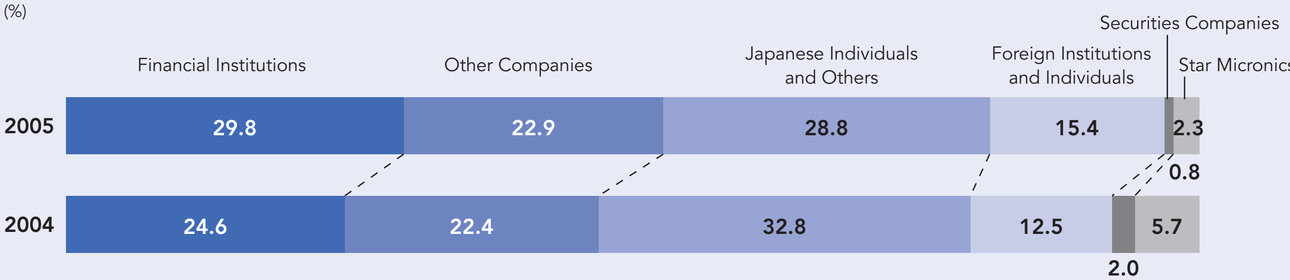
Stock Information

as of February 28, 2005

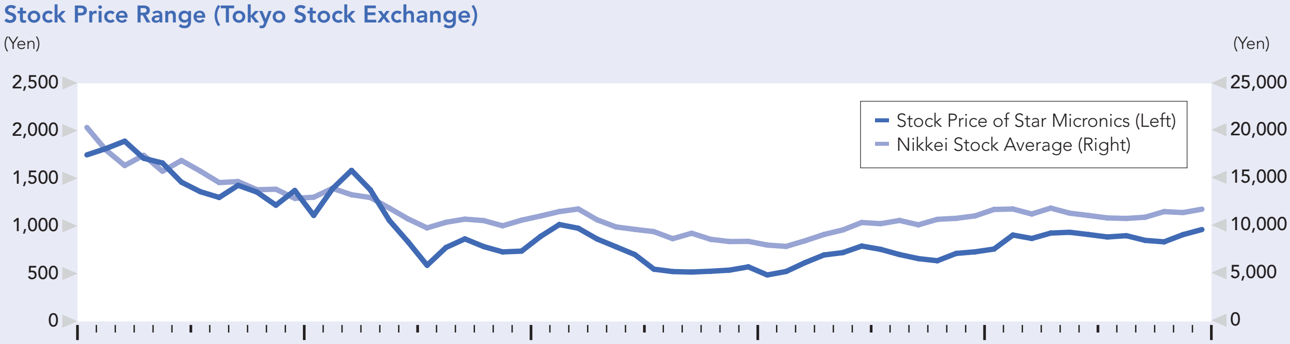
Common Stock	Authorized	158,000,000	**Stock Listings**	First Section of the Tokyo and Nagoya Stock Exchanges
	Issued	54,533,234		
Paid-in Capital		12,721,939,515 yen	**Transfer Agent**	Tokyo Securities Transfer Agent Co., Ltd. 1-4-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005 Japan
Number of Shareholders		6,503		

Composition of Shareholders

(%)

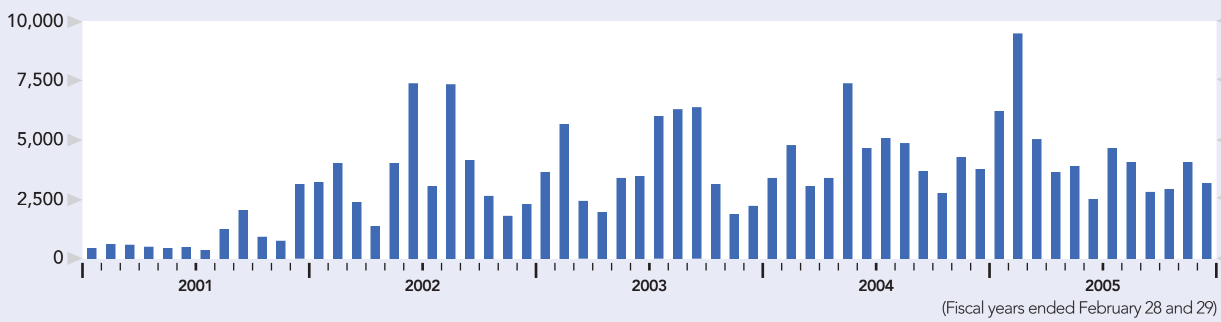


Stock Price Range (Tokyo Stock Exchange)



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)

(Year ended February)

Year	2001	2002	2003	2004	2005
At year-end	¥1,151	¥ 811	¥ 536	¥723	¥ 981
High	2,120	1,704	1,120	830	1,030
Low	1,024	490	420	418	704

Corporate Data

Directors and Auditors

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

(as of May 26, 2005)

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. (SMA)	1150 King Georges Post Road, Edison, NJ 08837, USA Tel. +1-732-623-5500
Star Micronics Asia Ltd. (SMH)	19/F., Enterprise Square II, 3 Sheung Yuet Road, Kowloon Bay, Hong Kong Tel. +852-2796-2727
Star Micronics Europe Ltd. (SME)	Star House, Peregrine Business Park, Gomm Road, High Wycombe, Bucks, HP13 7DL, UK Tel. +44-1494-47-1111
Star Precisions Ltd.	18/F., Enterprise Square II, 3 Sheung Yuet Road, Kowloon Bay, Hong Kong Tel. +852-2799-9141
Star Micronics Manufacturing Dalian Co., Ltd.	2, Huang Hai Street, Dalian Economic and Technical Development Zone, Dalian, PRC Tel. +86-411-87611535
Star Micronics AG (SMAG)	Lauetstrasse 3 CH-8112 Otelfingen Bruettisellen, Zurich, Switzerland Tel. +41-43-411-6060
Star Micronics GB Ltd. (SMGB)	Chapel Street, Melbourne, Derbyshire, DE74 8JF, UK Tel. +44-1332-864455
Star Micronics GmbH (SMGH)	Untere Reute 44, 75305 Neuenburg, Germany Tel. +49-7082-7920-0
Star CNC Machine Tool Corporation (SMTC)	123 Powerhouse Road, Roslyn Heights, NY 11577, USA Tel. +1-516-484-0500
Star America Holding, Inc. (SAH)	30 Old Rudnick Lane, Suite 100, Dover, DE 19901, USA
Dalian Sande Electronics Co., Ltd.	18, West Huai He Road, Dalian Economic and Technical Development Zone, Dalian, PRC Tel. +86-411-87614659
Shanghai S&E Precision Co., Ltd.*	1-39, East Kangqiao Road, Kangqiao Industrial Zone, Pudong, Shanghai, PRC Tel. +86-21-6813-0222
Star Machine Tool France SAS (SMTF)	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
Star Micronics (Thailand) Co., Ltd. (SMTL)*	49/30 Moo 4 Soi Kingkaew 30, Kingkaew Rd., T.rachathewa A.bangplee, Samutprakarn 10540, Thailand Tel. +66-2-750-4083

Japanese Subsidiaries

Micro Takemi Company*	13-32 Takemi, Aoi-ku, Shizuoka 420-0934 Tel. +81-54-247-6533
Toshin Seiki Company	1500-17 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	2-29-33 Senagawa, Aoi-ku, Shizuoka 420-0918 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

* Scheduled to become consolidated subsidiaries from fiscal 2006

http://www.star-m.jp/eng/ir/

For more investor information please visit the above IR website.

STAR MICRONICS CO., LTD.

20-10 Nakayoshida, Suruga-ku, Shizuoka 422-8654, Japan
Tel +81-54-263-1111
www.star-m.jp

Printed in Japan

PRINTED WITH SOY INK

This publication is printed on recycled paper and uses soy-based ink.