

Consolidated Financial Statements

for the Six Months Ended September 30, 2003

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan. All figures in these statements which are less than 1 million yen have been rounded down.

(English translation)

November 20, 2003

CITIZEN WATCH CO., LTD.

Code No.:	7762
	(URL http://www.citizen.co.jp/)
Stock exchange listings:	Tokyo and Osaka
Location of Head Office:	Tokyo, Japan
Tel:	(0424) 66-1235
Executive position of legal representative:	Makoto Umehara
Board of Directors' Meeting on the Interim Settlement of Accounts:	November 20, 2003
U.S. Accounting Standards:	No

1. Results for the Interim Term of Fiscal 2003 (April 1, 2003 to September 30, 2003)

(1) Consolidated operating results

Six months (Year) ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2002	154,790	(7.4)	8,103	38.9	8,365	22.3
September 30, 2003	180,895	16.9	16,228	100.3	16,044	91.8
March 31, 2003	333,988		19,680		21,049	

Six months (Year) ended	Net income		Earnings per share		Fully diluted earnings per share	
	(Millions of yen)	%	(Yen)	%	(Yen)	%
September 30, 2002	2,873	229.9	9.27		-	
September 30, 2003	8,397	192.3	27.64		25.34	
March 31, 2003	5,818		18.38		17.68	

(Notes)

1. Equity in earnings of unconsolidated subsidiaries and affiliates:

September 2003 interim term: Not applicable	September 2002 interim term: Not applicable
March 2003 term: Not applicable	
2. Average number of shares out during the term (consolidated):

September 2003 interim term: 303,817,724 shares	September 2002 interim term: 309,987,333 shares
March 2003 term: 307,581,188 shares	
3. Changes in accounting methods: None
4. Percent figures for net sales, operating income, ordinary income and net income for the interim term represent a comparison with the same term of the prior year.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
<u>Six months (Year) ended</u>	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2002	353,135	204,788	58.0	664.64
September 30, 2003	378,893	213,430	56.3	702.52
March 31, 2003	367,386	204,433	55.6	674.57

(Note)

Total number of shares outstanding at the interim term closing (consolidated):

September 2003 interim term: 303,806,574 shares

September 2002 interim term: 308,117,443 shares

March 2003 term: 302,814,458 shares

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of term
<u>Six months (Year) ended</u>	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
September 30, 2002	18,582	(2,669)	(5,815)	89,194
September 30, 2003	12,579	(6,881)	(2,838)	95,170
March 31, 2003	36,946	(11,576)	(10,902)	94,022

(4) Scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 57

Number of non-consolidated subsidiaries accounted for by the equity method: 0

Number of affiliates accounted for the equity method: 0

(5) Changes in the scope of consolidation and application of the equity method

Consolidation (Newly added): 1; (eliminated): 7

Equity method (Newly added): none; (eliminated): none

2. Projected Results for Fiscal 2003 (April 1, 2003 to March 31, 2004)

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Full term	363,000	30,000	30,500	15,000

Reference: Estimated earnings per share (full term): 48.83 yen

The above forecasts are based on the information available and using assumptions made regarding the variable effects of future business results as of the date of the announcement of these financial results. Actual results could differ significantly depending on a variety of factors hereafter. Please refer to page 16 for assumptions underlying the above forecasts and precautions regarding their use.

Corporate Group

The Citizen Group (Citizen Watch Co., Ltd. [“the Company”] and its subsidiaries and affiliates) consists of the Company and its 104 subsidiaries and 11 affiliates. The Group companies are mainly engaged in production and sales in four business segments: wristwatches and clocks; information and electronic equipment; industrial machinery; and other products.

The major Group companies in the respective business segments are as follows:

Segment	Major products	Major production companies	Major marketing companies
Wristwatches and clocks	Analog, digital and analog/digital combination watches, internal and facing parts and components of wristwatches, various kinds of clocks	CITIZEN WATCH CO., LTD. MIYOTA CO., LTD. HEIWA TOKEI MANUFACTURING CO., LTD. KAWAGUCHIKO SEIMITSU CO., LTD. SAYAMA PRECISION CO., LTD. CITIZEN IWATE CO., LTD. CITIZEN ELECTRONICS CO., LTD. AGEO SEIMITSU MFG. CO., LTD. CIMEO PRECISION CO., LTD. FUNEHIKI SEIMITSU CO., LTD. HAIMEKA CO., LTD. YUBARI SEIMITSU CO., LTD. CITIZEN YOSHIMI CO., LTD. SUNCITI MANUFACTURERS LTD. (Hong Kong, China) CITIZEN PRECISION OF KOREA CO., LTD. (Korea) PREMIER PRECISION LTD. (Hong Kong, China) MOST CROWN INDUSTRIES LTD. (Hong Kong, China) ASTAR PRECISION CO., LTD. (Hong Kong, China) FARBEST INDUSTRIES LTD. (Hong Kong, China) GOODRINGTON CO., LTD. (Hong Kong, China) WALOP LTD. (Hong Kong, China) ROYAL TIME CITI CO., LTD. (Thailand) CITIZEN DE MEXICO, S.A. DE C.V. (Mexico) T.I.C.-CITIZEN CO., LTD.	CITIZEN WATCH CO., LTD. CITIZEN TRADING CO., LTD. JAPAN CBM CORPORATION CITIZEN WATCHES (H.K.) LTD. (Hong Kong, China) CITIZEN WATCH CO. OF AMERICA, INC. (U.S.A.) CITIZEN WATCH EUROPE G.M.B.H. (Germany) CITIZEN LATIN AMERICA CORP. (Panama) CITIZEN WATCH ITALY S.P.A. (Italy) CITIZEN WATCHES AUSTRALIA PTY LTD. (Australia) CITIZEN WATCH ESPAÑA S.A. (Spain) SAKAE SHOKAI CO., LTD. T.I.C.-CITIZEN CO., LTD. CITIZEN WATCHES U.K., LTD. (U.K.)

CITIZEN WATCH

Segment	Major products	Major production companies	Major marketing companies
Information and electronic equipment	Chip LEDs, backlight units, LC displays, various kinds of printers, quartz oscillators, floppy disk drives, electronic clinical thermometers, electronic viewfinders, electric calculators	CITIZEN WATCH CO., LTD. MIYOTA CO., LTD. HEIWA TOKEI MANUFACTURING CO., LTD. CITIZEN IWATE CO., LTD. CITIZEN ELECTRONICS CO., LTD. CIMEO PRECISION CO., LTD. CITIZEN L.C. TEC CO., LTD. FUNEHKI PRECISION CO., LTD. FIRSTCOME ELECTRONICS LTD. (Hong Kong, China) SHIANG PAO PRECISION CO., LTD. (Taiwan) PREMIER PRECISION LTD. (Hong Kong, China) XUNKE ELECTRONICS LTD. (China) CROWN YOUNG INDUSTRIES LTD. (Hong Kong, China)	CITIZEN WATCH CO., LTD. JAPAN CBM CORPORATION CITIZEN AMERICA CORP. (U.S.A.) CBM AMERICA CORP. (U.S.A.) CROWN YOUNG INDUSTRIES LTD. (Hong Kong, China) C-E (SINGAPORE) PTE. LTD. (Singapore) C-E (H.K.) LTD. (Hong Kong, China) CECOL, INC. (U.S.A.) XUNKE ELECTRONICS LTD. (China)
Industrial machinery	Small CNC automatic lathes, various types of robots, general-purpose machine tools, measuring instruments	CITIZEN PRECISION MACHINERY CO., LTD. CITIZEN MECHATRONICS CO., LTD. SAYAMA PRECISION CO., LTD. CITIZEN MACHINERY & BOLEY G.M.B.H. (Germany)	CITIZEN WATCH CO., LTD. CITIZEN MACHINERY & BOLEY G.M.B.H. (Germany)
Other products	Jewelry, <i>pachinko</i> related products, eyewear, jigs and tools	CITIZEN WATCH CO., LTD. SAYAMA PRECISION CO., LTD. KAWAGUCHIKO PRECISION CO., LTD. MIYOTA CO., LTD. HEIWA TOKEI MANUFACTURING CO., LTD. AGEO PRECISION MFG. CO., LTD.	CITIZEN WATCH CO., LTD. CITIZEN TRADING CO., LTD. GRACE CO., LTD. CITIZEN JEWELRY CO., LTD SILVER DENKEN CO., LTD. CITIZEN KOHATSU CO., LTD. TOKYO BIJUTSU CO., LTD. SILVER KIKAKU CO., LTD.

As seen in the above table, in the wristwatches and clocks segment, the Company and several of its subsidiaries and affiliates engage in production. The Citizen Group has three major marketing channels: the Company, Citizen Trading Co., Ltd., and Japan CBM Corporation.

In the information and electronic equipment segment, the Company and some of its subsidiaries and affiliates engage in production. Sales activities are executed by the Company and some of its subsidiaries in the form of direct sales and sales through other subsidiaries.

Industrial machinery are produced by some of the subsidiaries. Sales activities are executed by the Company in the form of direct sales and sales through its subsidiaries.

Jewelry-related purchases and sales in the other products segment are handled by Citizen Trading Co., Ltd., and Citizen Jewelry Co., Ltd.

Subsidiaries and Affiliates

Consolidated subsidiaries:

Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
CITIZEN TRADING CO., LTD.	Nakano-ku, Tokyo	450	Wristwatches and clocks Other products	100.0	Sales company Leases building and machinery equipment Directors serve concurrently
KAWAGUCHIKO SEIMITSU CO., LTD.	Minamitsurugun, Yamanashi	346	Wristwatches and clocks Information and electronic equipment Industrial machinery Other products	71.0 [0.9]	Parts production company Leases machinery equipment and land Directors serve concurrently
SAYAMA PRECISION CO., LTD.	Sayama-shi, Saitama	198	Wristwatches and clocks Industrial machinery Other products	86.7 [1.5]	Parts production company Leases machinery equipment Loans working capital Directors serve concurrently
AGEO SEIMITSU MFG. CO., LTD.	Kitakami-shi, Iwate	45	Wristwatches and clocks Information and electronic equipment Other products	99.3	Parts production company Leases machinery equipment Directors serve concurrently
JAPAN CBM CORPORATION	Nakano-ku, Tokyo	2,356	Wristwatches and clocks Information and electronic equipment	100.0	Sales company Directors serve concurrently
MIYOTA CO., LTD.	Kitasaku-gun, Nagano	1,753	Wristwatches and clocks Information and electronic equipment Other products	64.0 [1.1]	Assembly and parts production company Leases machinery equipment and land Directors serve concurrently
HEIWA TOKEI MANUFACTURING CO., LTD.	Iida-shi, Nagano	80	Wristwatches and clocks Information and electronic equipment Industrial machinery Other products	100.0	Assembly and parts production company Leases machinery equipment Directors serve concurrently
CITIZEN ELECTRONICS CO., LTD.	Fujiyoshida-shi, Yamanashi	1,988	Wristwatches and clocks Information and electronic equipment Other products	66.4 [0.8]	Assembly and parts production company Leases machinery equipment Directors serve concurrently
CIMEO PRECISION CO., LTD.	Kitasaku-gun, Nagano	1,758	Wristwatches and clocks Information and electronic equipment Other products	65.4 [2.4]	Parts production company Leases machinery equipment and land Directors serve concurrently
CITIZEN IWATE CO., LTD.	Morioka-shi, Iwate	45	Wristwatches and clocks Information and electronic equipment Other products	100.0	Parts production company Leases machinery equipment Directors serve concurrently

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Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
CITIZEN PRECISION MACHINERY CO., LTD.	Kitasaku-gun, Nagano	498	Industrial machinery	100.0	Assembly and parts production company Leases land, building, and machinery equipment Directors serve concurrently
CITIZEN MECHATRONICS CO., LTD.	Tokorozawa-shi, Saitama	50	Industrial machinery	100.0	Assembly, parts production and sales company Leases land, building, and machinery equipment Directors serve concurrently
CITIZEN YOSHIMI CO., LTD.	Hiki-gun, Saitama	30	Wristwatches and clocks Information and electronic equipment Other products	100.0	Assembly and parts production company Leases land and machinery equipment Loans working capital Directors serve concurrently
CITIZEN KOHATSU CO., LTD.	Shinjuku-ku, Tokyo	35	Other products	100.0	Leases land and building Directors serve concurrently
SILVER DENKEN CO. LTD.	Suginami-ku, Tokyo	180	Other products	100.0 [85.7]	
SILVER KIKAKU CO., LTD.	Nagoya-shi, Aichi	30	Other products	100.0 [100.0]	
SAKAE SHOKAI CO., LTD.	Taito-ku, Tokyo	80	Other products	100.0 [100.0]	
GRACE CO., LTD.	Sendai-shi, Miyagi	100	Other products	100.0 [100.0]	
TOKYO BIJUTSU CO., LTD.	Toshima-ku, Tokyo	35	Other products	53.4 [53.4]	
FUNEHIKI SEIMITSU CO., LTD.	Tamura-gun, Fukushima	40	Wristwatches and clocks Information and electronic equipment Other products	100.0 [100.0]	Parts production company
YUBARI SEIMITSU CO., LTD.	Yubari-shi, Hokkaido	20	Wristwatches and clocks Other products	100.0 [80.0]	Parts production company Directors serve concurrently
HAIMEKA CO., LTD.	Hioki-gun, Kagoshima	50	Wristwatches and clocks	100.0 [100.0]	Parts production company
CITIZEN L.C. TEC CO., LTD.	Hachinohe-shi, Aomori	50	Information and electronic equipment	100.0	Parts production company Leases land, building, and machinery equipment Directors serve concurrently
CITIZEN TECHNO CO., LTD.	Kitakami-shi, Iwate	50	Information and electronic equipment	100.0	Directors serve concurrently
T.I.C. -CITIZEN CO., LTD.	Koganei-shi, Tokyo	100	Wristwatches and clocks	58.9	Directors serve concurrently
CITIZEN FINANCIAL SERVICE CO., LTD.	Nshitokyo-shi, Tokyo	50	Other products	100.0	Directors serve concurrently

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Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
CITIZEN JEWELRY CO., LTD.	Taito-ku, Tokyo	300	Other products	100.0 [100.0]	
SUNCITI MANUFACTURER S LTD.	Hong Kong, China	HK\$9,680 thousand	Wristwatches and clocks	90.9 [18.2]	Assembly company Leases machinery equipment Directors serve concurrently
CITIZEN WATCHES (H.K.) LTD.	Hong Kong, China	HK\$10,000 thousand	Wristwatches and clocks	100.0 [51.0]	Sales company Directors serve concurrently
CITIZEN MACHINERY BOLEY G.M.B.H.	Esslingen, Germany	EUR8,180 thousand	Industrial machinery	100.0	Sales and production company
PREMIER PRECISION LTD.	Hong Kong, China	HK\$7,500 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [50.0]	Assembly and parts production company Directors serve concurrently
CITIZEN PRECISION OF KOREA CO., LTD.	Changwon, Korea	₩4,400,000 thousand	Wristwatches and clocks	100.0 [0.5]	Assembly and parts production company Directors serve concurrently
CBM AMERICA CORP.	California, U.S.A.	US\$64 thousand	Information and electronic equipment	100.0 [100.0]	Sales company
CITIZEN LATIN AMERICA CORP.	Colón, Panama	US\$3,550 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
CITIZEN WATCH CO., OF AMERICA, INC.	California, U.S.A.	US\$12,500 thousand	Wristwatches and clocks	100.0 [60.0]	Sales company Directors serve concurrently
CITIZEN WATCH EUROPE G.M.B.H.	Hamburg, Germany	EUR10,225 thousand	Wristwatches and clocks Other products	100.0 [100.0]	Sales company Directors serve concurrently
CITIZEN AMERICA CORP.	California, U.S.A.	US\$21,000 thousand	Information and electronic equipment	100.0	Sales company Directors serve concurrently
CITIZEN WATCH ITALY S.P.A.	Milan, Italy	EUR3,567 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
CITIZEN WATCHES AUSTRALIA PTY LTD.	Sydney, Australia	A\$100 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
CITIZEN WATCH ESPAÑA S.A.	Barcelona, Spain	EUR1,803 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
CROWN YOUNG INDUSTRIES LTD.	Hong Kong, China	HK\$42,000 thousand	Information and electronic equipment	100.0	Sales and production company Leases machinery equipment Directors serve concurrently
FIRSTCOME ELECTRONICS LTD.	Hong Kong, China	HK\$11,500 thousand	Information and electronic equipment	100.0 [100.0]	
C-E (SINGAPORE) PTE. LTD.	Summerset Road, Singapore	S\$400 thousand	Information and electronic equipment	100.0 [100.0]	
C-E (H.K.) LTD.	Hong Kong, China	HK\$2,000 thousand	Information and electronic equipment	100.0 [100.0]	
GOODRINGTON CO., LTD.	Hong Kong, China	HK\$3,000 thousand	Wristwatches and clocks	100.0 [100.0]	Assembly and production company

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Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
MOST CROWN INDUSTRIES LTD.	Hong Kong, China	HK\$13,000 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [46.9]	Assembly and production company Leases machinery equipment Directors serve concurrently
ASTAR PRECISION CO., LTD.	Hong Kong, China	HK\$8,100 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [56.8]	Parts production Company Directors serve concurrently
FARBEST INDUSTRIES LTD.	Hong Kong, China	HK\$20,000 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [100.0]	Assembly and production Company
WALOP LTD.	Hong Kong, China	HK\$24,000 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [50.0]	Parts production company Directors serve concurrently
HARVESTINE CO.,LTD	Hong Kong, China	HK\$2,000 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [100.0]	
SHIANG PAO PRECISION CO., LTD.	Taichung, Taiwan	NT\$25,000 thousand	Information and electronic equipment	100.0 [100.0]	Parts production company Directors serve concurrently
ROYAL TIME CITI CO., LTD.	Ayutthaya, Thailand	B60,000 thousand	Wristwatches and clocks Information and electronic equipment Other products	80.0 [75.0]	Production company Directors serve concurrently
CITIZEN DE MEXICO, S.A. DE C.V.	Mexico City, Mexico	N\$7,774 thousand	Wristwatches and clocks	69.1	Production and sales company Directors serve concurrently
CECOL, INC.	Illinois, U.S.A.	US\$500 thousand	Information and electronic equipment	100.0 [100.0]	
CITIZEN WATCHES U.K., LTD.	Wokingham, U.K.	STG£700 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
XUNKE ELECTRONICS LTD.	Guangdong, China	RMB2,119 thousand	Information and electronic equipment	100.0 [100.0]	
C-E (SUZHOU) LTD.	Suzhou, China	RMB18,623 thousand	Information and electronic equipment	100.0 [100.0]	

(Notes)

1. "Major business lines" indicates the classification of the business segments.
2. Figures in parentheses in the "Ownership of voting stocks" indicate the percentage of indirect ownership.
3. Of the companies above, MIYOTA CO., LTD., CITIZEN ELECTRONICS CO., LTD., and CIMEO PRECISION CO., LTD. are registered on the JASDAQ market.
4. On August 1, 2003, Citizen Machinery Europe G.M.B.H. absorbed Boley G.M.B.H. and changed the company name to Citizen Machinery & Boley G.M.B.H.

Management Policy

1. Fundamental Management Policy

The Citizen group's management policy is based on the philosophy that gave us our name: 'Close to the hearts of people everywhere.' We aim to contribute to society through ongoing corporate activities that are in harmony not only with the local community but also with the global environment. Our mission is to utilize the precision manufacturing and assembly technologies that we have developed in the wristwatch manufacturing business to offer products that satisfy customers and contribute to the lives of people around the world.

With all employees sharing the same goals, the Citizen group is focused on becoming a 'quality corporation' that is both profitable and responsive to change.

2. Fundamental Policy Regarding the Distribution of Profits

The Citizen group considers returns to shareholders a matter of the highest priority and is focused on improving its operating results and strengthening its financial standing. Our basic philosophy is to pay a regular, stable dividend while at the same time implementing appropriate dividend policies in light of the group's performance and the goal of strengthening the group's overall financial standing through the maintenance of sufficient internal reserves.

3. Company Views on Stock Split

We regard a stock split as a useful way to increase stock liquidity and encourage a broader cross-section of investors to acquire equity in the company. However, taking into account the Company's current stock price, liquidity situation and the likely cost effectiveness, we do not believe that the right conditions exist currently for a stock split. However, we regard this as an important issue and will continue to review the matter to determine if and when a stock split should be carried out.

4. Medium-Term Management Strategy

Since 2001, the group has been carrying out structural reforms. This reform initiative will continue via the newly formulated 2003 Medium-Term Management Plan that aims to transform the corporation into one focused on creation of added value. The key elements of the plan are listed below. These are concerned with improving profitability and realizing a management structure that is capable of responding appropriately to environmental changes.

- (1) Vertical integration focused on the overall performance of the consolidated group
- (2) Strengthening sales and product-development capabilities to ensure that the company is customer-driven
- (3) Reformulation of brand strategies to increase brand value

- (4) Implementation of policies aimed at developing human resources to reinvigorate the corporate culture

Issues Facing the Company

Maintaining Stable Earnings Growth by Restructuring Watch Operations

- (1) In the wristwatches and clocks segment, strengthen brands, especially the Citizen brand, to ensure that this business remains a key contributor to profits.
- (2) For market sectors where use of the Citizen brand is not appropriate, utilize the Q&Q brand, other brands and OEM sales to generate sales and enable the corporation to fulfill its role as a world leader in the market for finished wristwatch and clock products.
- (3) Maintain the strength of the wristwatch movement business as the foundation of the wristwatch and clock business and secure stable profits.

Strengthening Business's Ability to Grow

- (1) Throughout the non-watch segments, Citizen will intensify efforts to achieve group integration through a 'selection and focus' strategy centered on improving profits. Faster decision making and efficient management are also critical to achieving higher profits.
- (2) In R&D, the principle of 'selection and focus' will be applied to revamp short-term and medium-term priorities with a focus on businesses of a certain minimum size to ensure that R&D activities are profit driven.
- (3) Strengthen and centralize intra-group functions in order to improve management efficiency by making more effective use of the group's financial resources and other assets.

5. Fundamental Attitudes towards Corporate Governance and Actions Taken

Based on the fundamental management policy mentioned above, the Company aims to grow and develop continuously focusing on long-term shareholder profit. In order to achieve this, we are intent on improving the management structure more efficient and executing operations by the Board of Directors consisting of 12 members who are well-informed of the Company's business. The Company will intensify efforts to reinforce supervisory functions of the Corporate Auditors, 2 of whom are from outside.

We shall not only comply with all related laws, but shall also recognize the importance of taking actions with social good sense and enforce the Charter for Good Corporate Behavior drawn up by Japan Federation of Economic Organization (*Keidanren*) in order to uphold corporate ethics and prevent corporate misconduct. The Company has newly founded 'CSR Committee' and with this committee at the center, is currently drawing up the Citizen Group Charter for Good Corporate Behavior and will ensure that all employees follow this Charter.

To date, we have regularly provided information concerning the financial position of the group to our shareholders and to investors on a half-yearly basis through briefings and through our corporate Website. We will continue to provide accurate information promptly.

Not only the management but also the employees feel a strong sense of mission and an ethical imperative to operate business fairly and to strive to realize the 'quality corporation' through the above types of initiatives.

6. Other Important Management Issues

In response to rising concern about the global environment, the Company is focusing on development of environmentally friendly products such as products that contribute to energy conservation by using only minimal electricity. Throughout its own operations, the Company is working to conserve resources and energy and reduce the use of toxic substances and waste. These efforts are based on ISO 14001 certification acquired by the Tanashi Factory and Tokorozawa Works under the Environmental Policy that defines a key social responsibility for the Company.

In addition to the Company, eight group companies have obtained ISO14001 certification. Citizen will continue to implement environmental initiatives among all group companies.

Review of Operations and Financial Position

1. Operations

Summary of Operating Results

Millions of yen	Six months ended September 30,		Change	%
	2002	2003		
Net sales	154,790	180,895	26,104	16.9
Operating income	8,103	16,228	8,125	100.3
Ordinary income	8,365	16,044	7,678	91.8
Net income	2,873	8,397	5,524	192.3

Breakdown of sales by segment

Millions of yen	Six months ended September 30,		Change	%
	2002	2003		
Wristwatches and clocks	62,756	60,827	(1,929)	(3.1)
Information and electronic equipment	61,521	87,323	25,802	41.9
Industrial machinery	10,311	13,616	3,305	32.1
Other products	20,201	19,128	(1,073)	(5.3)
	154,790	180,895	26,104	16.9

Breakdown of operating income by segment

Millions of yen	Six months ended September 30,		Change	%
	2002	2003		
Wristwatches and clocks	6,417	9,197	2,779	43.3
Information and electronic equipment	3,439	8,494	5,055	147.0
Industrial machinery	149	1,361	1,211	810.4
Other products	1,146	493	(653)	(57.0)
Eliminations or general corporate	[3,049]	[3,317]	(268)	-
	8,103	16,228	8,125	100.3

During the six-month period under review, although the Japanese economy saw signs of upturn, recovery remained weak. In the latter half of this half year, corporate profits and a rise in share prices showed signs of recovery which were due to a strong export environment such as the expectation to the recovery of the U.S. economy. However, the economy remained weak.

Against this background, the Citizen group strove to establish a structure for stable, long-term earnings growth by increasing added value of each business and focused on improving its ability to respond to changes in the external environment. As a consequence, the Citizen group achieved consolidated net sales of 180.8 billion yen (increase of 16.9% from the first half of the previous year), operating income of 16.2 billion yen (increase of 100.3%), ordinary income of 16.0 billion yen (increase of 91.8%), and interim net income of 8.3 billion yen (increase of 192.3%). Thus, this half year saw an increase in both revenues and profits for the group.

Wristwatches and Clocks

Citizen brand wristwatches, primarily mid-range and high-end products, enjoyed strong growth in the Japanese market, generating an increase in revenues. This was due to the world's first full metal

radio-controlled wristwatches. In overseas markets, unit sales decreased compared to the first half of the previous year in most markets, the largest North American market being one of them, due to the war in Iraq and SARS in addition to the weak world economy. However, the decrease in net sales remained small due to the high value-added product strategy, such as the expansion of the Eco-Drive. The popularly priced 'Q&Q' brand decreased in revenues as sales did not recover in the latter half of this half year after the war in Iraq.

OEM business decreased in revenues from the slow recovery of the European market. Nevertheless, the appreciation of Euro enabled OEM business to maintain an increase in profits.

Sales of wristwatch movements were about level with last year due to the rise in market prices despite the SARS problem.

The demand for clocks in the Japanese market has not experienced dramatic growth. In this environment, radio-controlled clocks, both high-end and low-end products, generated sales.

As a result, in the wristwatch and clock segment overall, total net sales fell to 60.8 billion yen, decrease of 3.1% from the first half of the previous year. However, the segment's operating income rose to 9.1 billion yen, increase of 43.3%.

Information and Electronic Equipment

In opto-devices, the Company succeeded in expanding sales of back light units and white LEDs on the back of strong global demand for color screens used in cellular phones. In addition, new products, such as LEDs for use as auxiliary light sources for use in domestic camera-equipped cellular phones contributed to sales. As a result, opto-devices increased greatly in revenues.

In liquid crystal devices, there were no sales of portable game machine during these six months, which had sales in the first half of the previous year. However, due to the expansion of color-screen cellular phones overseas, liquid crystal devices overall increased in revenues.

Crystal devices decreased in revenues due to withdrawal from profitless products and falling prices despite the increase in volume sales of TCXO (temperature compensated crystal oscillator) used for cellular phones.

In healthcare equipment, electronic thermometers rose sharply in sales, while high-function models newly launched in electronic blood pressure monitors also enjoyed strong sales. In addition, ultrasonic cleaning machines and oral care equipment contributed to sales, resulting in a rise in sales from the first half of the previous year.

In other products, sales of FDD fell sharply due to the shrinking market. As for printers, dot-matrix printers for the Chinese market expanded, while sales in Europe and America saw a huge decline from the first half of the previous year. Moreover, liquid crystal TV saw a decline in sales.

Among other parts, sales of liquid crystal viewfinders fitted with a ferroelectric liquid crystal device increased steadily. As for liquid crystal back light units, sales rose substantially on the back of a strong demand, especially, in DSC market. In addition, sales of CCD/CMOS image sensors rose as the market for camera-equipped cellular phones gained momentum. Ferroelectric liquid crystal devices also contributed to sales despite Citizen's delayed entry into this market.

As a result, total sales of information and electronic equipment increased by 41.9% from the first half of the previous year to 87.3 billion yen, with operating income rising by 147.0% to 8.4 billion yen.

Industrial Machinery

Demand for machine tools, primarily CNC automatic lathes, has risen since the end of last year due to the recovery of the market worldwide.

Sales in the Japanese market rose substantially, driven by the steady demand in the automobile industry and the growing production of electronic equipment, such as digital cameras.

On the other hand, momentum has slowed in Asian and Chinese markets as the cycle of investment in fluid bearing related equipment drew to an end and the business was stagnated by SARS.

However, orders in Europe and America increased as the European market slightly recovered after two-year sluggish economy and investment in America came back due to the early end in the war with Iraq.

As a consequence, sales of industrial machinery rose sharply by 32.1 % compared to the first half of the previous year to 13.6 billion yen, with operating income rising by 810.4% to 1.3 billion yen.

Other Products

The jewelry declined in revenues by 16.3% from the first half of the previous year to 6.2 billion yen. The market was in a severe slump and Citizen's share in the jewelry market slightly dropped.

Marriage rings decreased under the low demand affected by decreasing couples getting married and the sudden rise in the market price of platinum. In addition, the market was flooded with brands as a result of increasing users who favor imported brands and products with originality.

Pachinko related products decreased in sales, especially in paper-bill conveyance equipment due to the postponement of investment in new equipment following the announcement of changes to the design of paper currency next year.

As for eyewear, the sales dropped by 16.2% from the first half of the previous year to 0.7 billion yen. The market is suffering from poor performance that has never experienced before. However, luxury brands and products with originality, such as Claire, Louis Féraud and Hanai Yukiko, enjoyed sales.

Consequently, sales of other products overall fell by 5.3% from the first half of the previous year to 19.1 billion yen, with operating income dropping by 57.0% to 0.4 billion yen.

2. Financial Position

Cash and cash equivalents at the end of this half-year period increased by 1.1 billion yen as compared to the end of the previous year, to 95.1 billion yen.

Cash flows from operating activities in the half-year yielded a cash flow revenue of 12.5 billion yen. Income before adjustment for taxes in the half-year rose to 15.7 billion yen. Depreciation expenses was 7.7 billion yen, accounts receivable and inventories increased to 11.9 billion yen due to an expansion of sales, notes and accounts payable increased to 6.0 billion yen and income taxes was 4.8 billion yen.

Cash flows from investing activities ran a deficit of 6.8 billion yen. This is mainly due to the payment of 7.7 billion yen for the purchase of property, plant and equipment, 6.0 billion yen for the purchase of marketable securities, and the proceeds of 5.1 billion yen from the sale of marketable securities.

Cash flows from financing activities ran a deficit of 2.8 billion yen. This is mainly due to the 1.6 billion yen of dividends paid and 0.7 billion yen of decrease in borrowings.

Trends in cash flow indices for the consolidated group are as follows.

Percent	Year ended March 31,				Six months ended
	2000	2001	2002	2003	September 30, 2003
Equity ratio	52.2	52.9	56.1	55.6	56.3
Equity ratio at market value	66.3	67.8	67.8	52.3	67.1
Debt repayment period (years)	1.7	3.6	1.6	1.0	-
Interest coverage ratio	18.3	13.1	35.4	110.0	83.2

Equity ratio: Shareholders' equity/total assets

Equity ratio at market value: Market capitalization/total assets

Debt repayment period: Interest-bearing debt/operating cash flow

Interest coverage ratio: Operating cash flow/interest paid

* These ratios are all calculated from consolidated financial statements.

* Market capitalization is calculated by multiplying the closing stock price at fiscal-year end by the number of outstanding stocks (after subtracting treasury stock)

For cash flow, operating cash flow is used. Interest-bearing debt refers to all liabilities shown in the balance sheet on which interest is payable. For interest paid, interest payments shown in the consolidated statements of cash flow are used.

3. Prospects for Fiscal 2003

Millions of yen	Year ended March 31, 2003	Year ending March 31, 2004	Change	%
Net sales	333,988	363,000	29,011	8.7
Operating income	19,680	30,000	10,319	52.4
Ordinary income	21,049	30,500	9,450	44.9
Net income	5,818	15,000	9,181	157.8

Breakdown of sales by segment

Millions of yen	Year ended March 31, 2003	Year ending March 31, 2004	Change	%
Wristwatches and clocks	133,503	124,300	(9,203)	(6.9)
Information and electronic equipment	136,866	172,000	35,133	25.7
Industrial machinery	21,653	27,700	6,046	27.9
Other products	41,964	39,000	(2,964)	(7.1)
	333,988	363,000	29,011	8.7

Prospects for the second half are unclear because of the uncertain US economy outlook and the acceleration of the yen's appreciation.

Given this situation, the Group plans to reinforce its management base and improve its operating performance by pressing ahead with its sweeping structural-reform program aimed at enhancing its ability to offer higher value-added products and services. This will be accompanied by the implementation of reforms to speed up management decision making and strengthen the focus on the customer in order to capitalize fully on the Group's collective potential.

For the fiscal year ending in March 2004, we are forecasting consolidated sales of 363.0 billion yen (a 8.7 % increase from the previous year), operating income of 30.0 billion yen (a 52.4% increase), ordinary income of 30.5 billion yen (a 44.9% increase), and net income of 15.0 billion yen (a 157.8% increase).

These forecasts assume currency exchange rates of 110 yen to the US dollar (119 yen for the first half) and 125 yen to the Euro (133 yen for the first half) for the second half of the fiscal year 2003.

(Note)

This report includes forward-looking statements about the Company's forecasts and prospects that are not historical facts. They reflect assumptions and beliefs adopted in light of information currently available. The Company cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

Consolidated Interim Balance Sheet

Millions of yen	September 30, 2002	%	September 30, 2003	%	March 31, 2003	%
Current assets						
Cash and cash equivalents	84,855		91,603		89,564	
Notes and accounts receivable	72,694		91,360		83,622	
Marketable Securities	7,326		10,929		10,954	
Inventories	53,403		53,799		52,612	
Deferred tax assets	10,222		10,295		10,451	
Other current assets	8,102		9,401		8,585	
Allowance for doubtful accounts	(3,000)		(2,185)		(3,037)	
	<u>233,605</u>	66.2	<u>265,204</u>	70.0	<u>252,753</u>	68.8
Fixed assets						
Property, plant and equipment						
Buildings and structures	32,185		30,620		31,310	
Machinery, equipment and carriers	32,750		30,008		30,782	
Other	17,830		16,901		16,780	
	<u>82,766</u>	23.4	<u>77,530</u>	20.5	<u>78,873</u>	21.5
Intangible fixed assets						
	<u>1,298</u>	0.4	<u>1,121</u>	0.3	<u>1,199</u>	0.3
Investments and other assets						
Investment securities	24,326		25,405		21,665	
Deferred tax assets	7,421		7,513		9,962	
Other	4,990		3,686		4,303	
Allowance for doubtful accounts	(1,046)		(905)		(798)	
Reserve for valuation loss on investments	(227)		(662)		(573)	
	<u>35,464</u>	10.0	<u>35,038</u>	9.2	<u>34,560</u>	9.4
	<u>119,529</u>	33.8	<u>113,689</u>	30.0	<u>114,633</u>	31.2
Total assets	<u>353,135</u>	100.0	<u>378,893</u>	100.0	<u>367,386</u>	100.0

	September 30, 2002	September 30, 2003	March 31, 2003
1. Accumulated depreciation of property, plant and equipment	228,822	232,860	231,076
2. Outstanding balance of export bill of exchange	862	820	1,129
3. Bill of exchange discounted	1,043	1,009	942
4. Loans guaranteed	616	655	544
5. R&D expenditures	4,064	4,748	8,409
6. Capital expenditures	5,548	7,800	13,310
7. Depreciation expenses	8,679	7,770	18,240

CITIZEN WATCH

Millions of yen	September 30, 2002	%	September 30, 2003	%	March 31, 2003	%
Current liabilities						
Notes and accounts payable	38,756		47,999		44,765	
Short-term bank loans payable	29,421		12,186		13,186	
Commercial paper	6,000		-		-	
Income taxes payable	3,048		5,499		5,160	
Deferred tax liabilities	-		-		38	
Reserve for bonuses to employees	4,072		4,290		3,960	
Reserve for product warranties	811		862		860	
Other	20,782		27,522		27,020	
	<u>102,892</u>	29.1	<u>98,360</u>	26.0	<u>94,991</u>	25.9
Long-term liabilities						
Bonds with subscription right for new shares	-		23,000		23,000	
Long-term loans payable	455		112		326	
Deferred tax liabilities	170		214		226	
Reserve for defined retirement benefits	15,230		14,125		14,132	
Reserve for retirement bonuses to directors	924		857		1,003	
Consolidation adjustments	3,231		3,539		2,758	
Other	475		347		326	
	<u>20,488</u>	5.8	<u>42,196</u>	11.1	<u>41,774</u>	11.4
Total liabilities	<u>123,380</u>	34.9	<u>140,556</u>	37.1	<u>136,766</u>	37.2
Minority interests	24,966	7.1	24,906	6.6	26,186	7.1
Shareholders' equity						
Common stock	32,648	9.2	32,648	8.6	32,648	8.9
Capital reserves	39,023	11.1	39,023	10.3	39,023	10.6
Retained earnings	137,252	38.9	146,812	38.8	140,007	38.1
Net unrealized gain/loss on other marketable securities	350	0.1	3,201	0.8	152	0.1
Foreign currency translation adjustments	(1,444)	(0.4)	(2,831)	(0.7)	(1,293)	(0.3)
Treasury stock	(3,042)	(0.9)	(5,424)	(1.4)	(6,104)	(1.7)
Total shareholders' equity	<u>204,788</u>	58.0	<u>213,430</u>	56.3	<u>204,433</u>	55.7
Total liabilities, minority interest and shareholders' equity	<u>353,135</u>	100.0	<u>378,893</u>	100.0	<u>367,386</u>	100.0

Consolidated Interim Statement of Income

Millions of yen	Six months ended September 30, 2002		Six months ended September 30, 2003		Year ended March 31, 2003	
		%		%		%
Net sales	154,790	100.0	180,895	100.0	333,988	100.0
Cost of sales	111,806	72.2	129,798	71.7	242,226	72.5
Selling, general and administrative expenses	34,880	22.5	34,868	19.3	72,081	21.6
Operating income	8,103	5.3	16,228	9.0	19,680	5.9
Nonoperating income						
Interest and dividend income	504		273		1,049	
Amortization of consolidation adjustments	457		513		881	
Other	852		779		1,888	
	1,814	1.1	1,565	0.9	3,819	1.1
Nonoperating expenses						
Interest charges	216		150		336	
Loss on sales of securities	56		-		63	
Foreign exchange loss	868		1,257		1,005	
Loss on sales of notes	100		21		206	
Other	310		320		838	
	1,552	1.0	1,749	1.0	2,450	0.7
Ordinary income	8,365	5.4	16,044	8.9	21,049	6.3
Extraordinary gains						
Gain on sales of fixed assets	291		-		2,219	
Reversal of allowance for doubtful accounts	115		272		304	
Other	168		425		552	
	576	0.3	698	0.4	3,076	0.9
Extraordinary losses						
Loss on disposal and sales of properties	408		757		1,963	
Valuation loss on investment securities	116		12		3,367	
Loss on subsidiaries and affiliates	-		-		2,113	
Special severance indemnities	303		-		417	
Loss on restructuring	410		-		1,756	
Other	373		255		866	
	1,613	1.0	1,025	0.6	10,485	3.1
Income before income taxes	7,327	4.7	15,716	8.7	13,641	4.1
Income, inhabitant and enterprise taxes	2,815		5,193		7,091	
Income tax adjustment	772		476		(1,379)	
Minority interests	865	0.5	1,649	0.9	2,110	0.6
Net income	2,873	1.9	8,397	4.6	5,818	1.8

Consolidated Interim Statement of Retained Earnings

Millions of yen	Six months ended September 30, 2002	Six months ended September 30, 2003	Year ended March 31, 2003
Capital reserves			
Capital reserves, beginning of term			
Capital reserves, beginning of term	32,773	39,023	32,773
Increase in capital reserves			
Increase resulting from exchange of shares	6,250	-	6,250
Capital reserves, end of term	39,023	39,023	39,023
Retained earnings			
Retained earnings, beginning of term	-	140,007	-
Consolidated retained earnings, beginning of term	135,831	-	135,831
	135,831	140,007	135,831
Increase in retained earnings			
Net income	2,873	8,397	5,818
Increase due to change in scope of consolidation	-	-	221
Increase in retained earnings related to provisional settlement of accounts of consolidated subsidiaries	-	-	978
	2,873	8,397	7,018
Decrease in retained earnings			
Cash dividends declared	1,367	1,362	2,753
Bonuses to directors	85	173	88
Other	-	56	-
	1,452	1,592	2,842
Retained earnings, end of term	137,252	146,812	140,007

Consolidated Interim Statement of Cash Flow

Millions of yen	Six months ended September 30, 2002	Six months ended September 30, 2003	Year ended March 31, 2003
Cash flows from operating activities			
Income before income taxes	7,327	15,716	13,641
Depreciation	8,679	7,770	18,240
Increase/decrease in reserve for defined retirement benefits	(1,356)	3	(2,277)
Increase/decrease in allowance for doubtful accounts	(274)	70	(31)
Interest and dividends income	(504)	(273)	(1,049)
Interest charges	216	150	336
Loss on marketable securities sold	56	(20)	61
Loss on investment securities sold	116	(221)	3,400
Loss on properties sold	(350)	(86)	(1,229)
Loss on disposal of properties	408	757	1,963
Payment of bonuses to directors	(114)	(202)	(117)
Increase/decrease in receivables - trade	3,833	(9,616)	(9,695)
Increase/decrease in inventories	1,135	(2,330)	14
Increase/decrease in notes and accounts payable - trade	(330)	6,056	15,553
Increase/decrease in accrued expenses	(1,649)	963	715
Consolidation adjustments	(457)	(513)	(881)
Increase/decrease in other current assets	1,708	(1,279)	376
Increase/decrease in other liabilities	2,106	(384)	1,496
Other	156	698	316
	20,706	17,258	40,834
Interest and dividends received	504	273	1,049
Interest payments	(212)	(151)	(336)
Income taxes	(2,415)	(4,800)	(4,602)
Net cash provided by operating activities	18,582	12,579	36,946
Cash flows from investing activities			
Payments for the purchase of marketable securities	-	(6,098)	(5,003)
Proceeds from the sale of marketable securities	3,599	5,124	4,633
Payments for the purchase of investment securities	(1,028)	(407)	(2,134)
Proceeds from the sale of investment securities	70	1,991	70
Payments for the purchase of property, plant and equipment	(5,775)	(7,787)	(13,032)
Proceeds from the sale of property, plant and equipment	-	195	2,842
Increase/decrease in loans	(36)	(177)	429
Other	501	277	618
Net cash used in investing activities	(2,669)	(6,881)	(11,576)

CITIZEN WATCH

Millions of yen	Six months ended September 30, 2002	Six months ended September 30, 2003	Year ended March 31, 2003
Cash flows from financing activities			
Net increase/decrease in borrowings	(1,219)	(763)	(18,642)
Payments for redemption of commercial paper	(8,000)	-	(14,000)
Proceeds from issuance of commercial paper	7,999	-	7,999
Proceeds from issuing of corporate bonds	-	-	23,000
Dividends paid by parent company	(1,367)	(1,362)	(2,753)
Dividends paid to the minority stockholders	(529)	(265)	(726)
Payments for purchase of treasury stock	(2,698)	(35)	(5,779)
Other	-	(411)	-
Net cash used in financing activities	(5,815)	(2,838)	(10,902)
Effect of exchange rate changes on cash and cash equivalents	(1,527)	(1,180)	(1,280)
Net increase in cash and cash equivalents	8,570	1,678	13,187
Cash and cash equivalents at beginning of term	80,623	94,022	80,623
Net increase in cash and cash equivalents associated with newly consolidated subsidiaries	-	(529)	(47)
Increase in cash and cash equivalents related to provisional settlement of accounts of consolidated subsidiaries	-	-	259
Cash and cash equivalents at end of term	89,194	95,170	94,022

Relationship between the ending balance of cash and cash equivalents and account items listed in the consolidated balance sheets

Millions of yen	September 30, 2002	September 30, 2003	March 31, 2003
Cash	84,855	91,603	89,564
Marketable securities	7,326	10,929	10,954
Other liquid assets (deposits) account	615	-	-
Time deposits with a deposit period greater than three months	(2,504)	(1,290)	(1,422)
Shares and bonds with a redeemable period greater than three months	(1,099)	(6,070)	(5,074)
Cash and cash equivalents	89,194	95,170	94,022

Basis of Presenting Consolidated Interim Financial Statements

Item	Basis of Presenting the Consolidated Financial Statements
1. Scope of consolidation	<p>(1) Consolidated subsidiaries (57 companies)</p> <p>The significant consolidated subsidiaries are already listed under 'Subsidiaries and Affiliates.'</p> <p>C-E(SUZHOU) LTD. is included in the Company's consolidated subsidiaries from this six-month period which ended on September 30, 2003 due to its significance.</p> <p>CITIZEN UHRENFABRIK G.M.B.H. has been excluded from the Company's consolidated subsidiaries as the company will go into liquidation. KANSAI CITIZEN CORPORATION, KYUSHU CITIZEN CORPORATION, TOKYO CITIZEN CORPORATION, TOHOKU CITIZEN CORPORATION, CHUBU CITIZEN CORPORATION, and HOKKAIDO CITIZEN CORPORATION have also been excluded from the Company's consolidated subsidiaries as they were liquidated by the end of this six-month period.</p> <p>On August 1, 2003, CITIEN MACHINERY EUROPE G.M.B.H. absorbed BOLEY G.M.B.H. and changed the company name to CITIZEN MACHINERY & BOLEY G.M.B.H.</p> <p>The accompanying consolidated financial statements comprise the accounts of Citizen Watch Co., Ltd. (the Company) and its significant subsidiaries. The combined assets, net sales, net income and retained earnings of the remaining nonconsolidated subsidiaries are not significant in the related consolidated totals.</p> <p>(2) Nonconsolidated subsidiaries (47 companies)</p>
2. Application of the equity method	<p>The Company's nonconsolidated subsidiaries and affiliates, for which the combined totals have little effect on consolidated interim net profit or loss and retained earnings, have been excluded from application of the equity method.</p>
3. Fiscal year-end of consolidated subsidiaries	<p>The consolidated subsidiaries which have different interim term closing dates from the consolidation closing date are SAKAE SHOKAI CO., LTD., THE GRACE CO., LTD., TOKYO BIJUTSU CO., LTD. CITIZEN JEWELRY CO., LTD., CITIZEN WATCH CO., OF AMERICA, INC. and 35 other overseas subsidiaries.</p> <p>The interim term closing date of accounts for THE GRACE CO., LTD. is September 20, that for SAKAE SHOKAI CO., LTD. and TOKYO BIJUTSU CO., LTD., is August 31, that for CITIZEN JEWELRY CO., LTD. is September 30 and that for CITIZEN WATCH CO. OF AMERICA, INC. and 35 other overseas subsidiaries is June 30. In preparing the consolidated interim financial statements, when the difference between a domestic subsidiary's interim term closing date and that of the group consolidated interim term closing date is three months or less, the interim financial statements of the subsidiary for the relevant fiscal year are used and an adjustment is made in the consolidated statements for any material discrepancies in accounting records related to transactions between consolidated subsidiaries arising from the difference between a subsidiary's interim term closing date and the group consolidated interim term closing date. When the difference between the interim term closing date of a domestic subsidiary and that of the consolidated group exceeds three months, or in the case of overseas subsidiary, an accounting of expenditures and revenues is made for subsidiary in question as of the date of the consolidated closing in order to prepare the financial statements that form the basis of the consolidated interim financial statements.</p> <p>In the case of overseas subsidiaries, until now, the practice has been to apply the same rule as for domestic subsidiaries where the difference in closing dates is three months or less. However, from the previous consolidated fiscal year, the procedure described above has been applied, i.e., the necessary provisional settlement of accounts will be made as of the date of the consolidated fiscal closing date.</p>
4. Accounting standards	<p>(1) Valuation standards and methods for major assets</p> <p>{1} Marketable and investment securities</p> <ol style="list-style-type: none"> i. Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis. ii. Stocks of subsidiaries and affiliates are valued at cost using the moving-average method.

Item	Basis of Presenting the Consolidated Financial Statements
	<p>iii. Other marketable securities: If the market value is determinable, other marketable securities are valued at market based on their market value on the date of the interim balance sheet. (Net unrealized gain/loss on other marketable securities is recognized directly in the shareholders' equity section. Selling cost is computed by the moving-average method.) If the market value is not determinable, other marketable securities are valued at cost using the moving-average method.</p>
	{2} Derivative financial instruments Derivative financial instruments are valued at market.
	{3} Inventories Inventories are primarily valued on a weight-average cost basis, which does not exceed cost nor market.
(2)	Depreciation of fixed assets The depreciation of property, plant and equipment is computed on a declining-balance basis, whereas the amortization of intangible fixed assets is computed on a straight-line basis.
(3)	Recognition basis of provisions and reserves
	{1} Allowance for doubtful accounts An allowance for doubtful accounts is based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the analysis of certain individual receivables.
	{2} Reserve for valuation loss on investments To provide for possible losses due to extreme devaluation in the stocks of non-consolidated subsidiaries (excluding stocks subject to impairment accounting), an allowance for valuation loss on investments is provided for an amount considering the actual stock prices on the balance sheet date.
	{3} Reserve for bonuses to employees The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments at consolidated companies other than overseas subsidiaries.
	{4} Reserve for product warranties At several overseas sales subsidiaries, certain rates of net sales are provided as an allowance for the possible expenses required for after-sales services of products sold.
	{5} Reserve for defined retirement benefits At the Company and its consolidated domestic subsidiaries, the reserve for defined retirement benefits is stated as the amount deemed to be correct on the balance sheet. The amount is based on estimated accounts of defined retirement benefit liabilities and pension assets on the date of the year-end balance sheet. The amount of difference resulting from the change of accounting standards is treated as an extraordinary loss for the previous consolidated fiscal year. Any differences arising as a result of changes in accounting standards are, as a rule, treated as an extraordinary loss in the year in which the difference arises. However, the straight-line method is applied over a period of 5 to 10 years at certain consolidated subsidiaries. In addition, prior service liabilities and differences arising from mathematical calculations will be accounted for using a fixed number of years that is no more than the average of the employee's remaining years of service when they occur (in principle, by applying the fixed-percentage method over 5 years). Prior service liabilities will be accounted for from the year in which they occur, and differences arising from mathematical calculations will be accounted for from the year following the year in which they occur.
	{6} Reserve for retirement bonuses to directors The reserve for retirement bonuses to directors is provided on accrual basis for an amount deemed necessary based on the internal regulations of the Company and several domestic consolidated subsidiaries.

Item	Basis of Presenting the Consolidated Financial Statements
	<p>(4) Translation of foreign currency assets or liabilities Foreign currency amounts are translated into Japanese yen at the rate prevailing on the interim balance sheet date for accounts receivable and accounts payable. The translation adjustments are stated as profit/loss. Assets and liabilities of overseas subsidiaries are translated into Japanese yen using the spot rate on the date of the interim balance sheet, whereas revenues and expenses are translated into Japanese yen using the weighted-average rate. The differences arising from translation are stated as foreign currency translation adjustments in the shareholders' equity section.</p> <p>(5) Lease contracts Finance lease transactions, other than those that deem to transfer ownership of the leased assets to the lessee, are accounted for as operating lease transactions.</p> <p>(6) Consumption tax The consumption tax is excluded from the amounts of income and expenses.</p> <p>(7) Amortization of consolidation account adjustments Consolidation account adjustments are amortized using the straight-line method over 5 years. When the difference to be eliminated is negligible, it may be fully accounted for during the term in which such difference arises.</p>
5. Cash in the statements of consolidated cash flows	Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits in banks, and highly liquid, short-term investments with low risk in value fluctuations for which the maturity expires within three months.

Segment information

1. Business segment

Millions of yen	Wristwatches and clocks	Information and electronic equipment	Industrial machinery	Other products	Segment totals	Eliminations or general corporate	Consolidated totals
Six months ended September 30, 2002							
Net sales and operating profit/loss							
Net sales							
Unaffiliated customers	62,756	61,521	10,311	20,201	154,790	-	154,790
Intersegment	1	1,096	-	-	1,097	(1,097)	-
Total	62,758	62,617	10,311	20,201	155,888	(1,097)	154,790
Operating expenses	56,340	59,178	10,161	19,054	144,735	1,951	146,687
Operating income	6,417	3,439	149	1,146	11,152	(3,049)	8,103
Six months ended September 30, 2003							
Net sales and operating profit/loss							
Net sales							
Unaffiliated customers	60,827	87,323	13,616	19,128	180,895	-	180,895
Intersegment	-	1,048	-	-	1,048	(1,048)	-
Total	60,827	88,371	13,616	19,128	181,943	(1,048)	180,895
Operating expenses	51,630	79,877	12,255	18,634	162,397	2,269	164,667
Operating income	9,197	8,494	1,361	493	19,546	(3,317)	16,228
Year ended March 31, 2003							
Net sales and operating profit/loss							
Net sales							
Unaffiliated customers	133,503	136,866	21,653	41,964	333,988	-	333,988
Intersegment	1	2,216	-	-	2,218	(2,218)	-
Total	133,504	139,083	21,653	41,964	336,207	(2,218)	333,988
Operating expenses	118,181	130,653	20,587	40,701	310,124	4,184	314,308
Operating income	15,323	8,430	1,066	1,263	26,082	(6,402)	19,680

(Notes)

1. Business segments

The following business segments are classified based on the type, nature and manufacturing methods of products and the similarity of markets.

2. Major products by business segment

Segment	Major products
Wristwatches and clocks	Analog, digital and analog/digital combination watches, internal and facing parts and components of wristwatches, various kinds of clocks, etc.
Information and electronic equipment	Chip LEDs, back light units, LC displays, various kinds of printers, quartz oscillators, floppy disk drives, electronic clinical thermometers, electronic viewfinders, electric calculators, etc.
Industrial machinery	Small CNC automatic lathes, various types of robots, general-purpose machine tools, measuring instruments, etc.
Other products	Jewelry, <i>pachinko</i> related products, eyewear, jigs and tools, etc.

2. Geographic segment

Millions of yen	Japan	Asia	Americas	Europe	Other	Segment total	Eliminations or general corporate	Consolidated totals
Six months ended September 30, 2002								
Net sales and operating profit/loss								
Net sales								
Unaffiliated customers	123,354	8,675	15,673	6,348	737	154,790	-	154,790
Intersegment	22,763	25,802	111	227	-	48,904	(48,904)	-
Total	146,117	34,477	15,785	6,576	737	203,694	(48,904)	154,790
Operating expenses	136,071	33,759	15,386	7,024	767	193,008	(46,320)	146,687
Operating income	10,046	718	399	(448)	(29)	10,686	(2,583)	8,103
Six months ended September 30, 2003								
Net sales and operating profit/loss								
Net sales								
Unaffiliated customers	140,356	18,398	14,344	6,905	890	180,895	-	180,895
Intersegment	28,608	28,965	110	61	-	57,746	(57,746)	-
Total	168,965	47,364	14,454	6,967	890	238,642	(57,746)	180,895
Operating expenses	151,456	45,788	13,950	6,664	907	218,767	(54,099)	164,667
Operating income	17,508	1,575	504	302	(17)	19,874	(3,646)	16,228
Year ended March 31, 2003								
Net sales and operating profit/loss								
Net sales								
Unaffiliated customers	261,898	22,309	33,554	14,397	1,828	333,988	-	333,988
Intersegment	47,096	52,467	167	421	-	100,154	(100,154)	-
Total	308,995	74,776	33,722	14,819	1,828	434,143	(100,154)	333,988
Operating expenses	286,762	73,306	32,174	15,002	1,789	409,035	(94,727)	314,308
Operating income	22,232	1,470	1,547	(183)	39	25,107	(5,427)	19,680

(Notes)

1. Nations or regions are classified according to geographic proximity.
2. Major nations or regions in the respective categories:
 - (1) Asia: China, Hong Kong, South Korea, Singapore and Thailand
 - (2) Americas: United States, Panama and Mexico
 - (3) Europe: Germany, United Kingdom, France, Italy and Spain
 - (4) Other: Australia

3. Overseas sales

Millions of yen	Six months ended September 30, 2002		Six months ended September 30, 2003		Year ended March 31, 2003	
	Overseas sales	As % of consolidated net sales	Overseas sales	As % of consolidated net sales	Overseas sales	As % of consolidated net sales
Asia	55,350	35.8	64,936	35.9	120,110	36.0
Americas	24,206	15.6	22,191	12.3	48,482	14.5
Europe	20,213	13.1	23,175	12.8	44,555	13.3
Other	3,028	2.0	2,968	1.6	6,353	1.9
Total	102,798	66.4	113,270	62.6	219,501	65.7
Consolidated sales	154,790		180,895		333,988	

(Notes)

- Overseas sales are exports of the Company and its consolidated domestic subsidiaries, and sales (other than exports to Japan) of overseas subsidiaries.
- Nations or regions are classified according to geographic proximity.
- Major nations or regions in the respective categories:
 - Asia: China, Hong Kong, South Korea, and Singapore, etc.
 - Americas: United States, Canada, Panama, Brazil, and Mexico, etc.
 - Europe: Germany, United Kingdom, France, and Italy, Spain, etc.
 - Other: Oceania and Africa

(Marketable securities)**1. Debentures with market value classified as held-to-maturity**

Millions of yen	September 30, 2002			September 30, 2003			March 31, 2003		
	Amount on consolidated balance sheet	Market value	Valuation gain/loss	Amount on consolidated balance sheet	Market value	Valuation gain/loss	Amount on consolidated balance sheet	Market value	Valuation gain/loss
Others	1,000	886	(113)	1,000	965	(34)	1,000	938	(61)
Total	1,000	886	(113)	1,000	965	(34)	1,000	938	(61)

2. Other marketable securities with market value

Millions of yen	September 30, 2002			September 30, 2003			March 31, 2003		
	Acquisition cost	Amount on consolidated balance sheet	Difference	Acquisition cost	Amount on consolidated balance sheet	Difference	Acquisition cost	Amount on consolidated balance sheet	Difference
Stocks	12,764	13,502	737	8,811	14,215	5,403	9,509	9,831	322
Bonds									
Others	7,356	7,232	(124)	5,376	5,359	(16)	7,333	7,266	(67)
Total	20,120	20,734	613	14,188	19,575	5,387	16,843	17,097	254

3. Major classification of marketable securities with no market value and their amounts on consolidated Interim balance sheet

Millions of yen	September 30, 2002	September 30, 2003	March 31, 2003
Bonds being held to maturity			
Unlisted bonds	-	5,998	3,999
Other marketable securities:			
Unlisted stocks (excluding over-the-counter stocks)	248	1,232	1,237
Investment trust	6,227	4,745	5,779
Others	1	-	-

Important matters occurring subsequent to report term

No matter falls under this category.