

## Nonconsolidated 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<br>(URL <a href="http://www.citizen.co.jp/">http://www.citizen.co.jp/</a> ) |
| 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  |
| Interim Dividend Disbursement (Initial payment):                  | December 10, 2003  |
| Interim Dividend System:  | Yes  |
| Application of unit trading system:                               | Yes (1,000 shares per unit)  |

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

### (1) Nonconsolidated operating results

| Six months (Year) ended | Net sales         |        | Operating income  |      | Ordinary income   |        |
|-------------------------|-------------------|--------|-------------------|------|-------------------|--------|
|                         | (Millions of yen) | %      | (Millions of yen) | %    | (Millions of yen) | %      |
| September 30, 2002      | 72,912            | (10.9) | 2,158             | -    | 4,794             | 595.0  |
| September 30, 2003      | 76,145            | 4.4    | 3,163             | 46.6 | 4,271             | (10.9) |
| March 31, 2003          | 148,824           |        | 4,926             |      | 9,134             |        |

| Six months (Year) ended | Net income        |     | Net income per share |   |
|-------------------------|-------------------|-----|----------------------|---|
|                         | (Millions of yen) | %   | (Yen)                | % |
| September 30, 2002      | 3,149             | -   | 10.16                |   |
| September 30, 2003      | 3,383             | 7.4 | 11.14                |   |
| March 31, 2003          | 3,001             |     | 9.60                 |   |

(Notes)

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

**(2) Dividends**

|                    | Interim dividends<br>per share | Annual dividends<br>per share |
|--------------------|--------------------------------|-------------------------------|
|                    | (Yen)                          | (Yen)                         |
| September 30, 2002 | 4.50                           | -                             |
| September 30, 2003 | 4.50                           | -                             |
| March 31, 2003     | -                              | 9.00                          |

(Note) Interim dividends for the interim term of fiscal 2003:

Commemorative dividend 0 yen, Special dividend 0 yen

**(3) Nonconsolidated financial position**

|                    | Total assets      | Shareholders' equity | Shareholders' equity<br>ratio | Shareholders' equity<br>per share |
|--------------------|-------------------|----------------------|-------------------------------|-----------------------------------|
|                    | (Millions of yen) | (Millions of yen)    | %                             | (Yen)                             |
| September 30, 2002 | 185,417           | 140,754              | 75.9                          | 456.82                            |
| September 30, 2003 | 198,594           | 142,890              | 72.0                          | 470.33                            |
| March 31, 2003     | 192,129           | 135,975              | 70.8                          | 448.87                            |

(Notes)

- Total number of shares outstanding at the interim term closing:  
September 2003 interim term: 303,806,574 shares      September 2002 interim term: 308,117,443 shares  
March 2003 term: 302,814,458 shares
- Number of treasury stock at the interim term closing:  
September 2003 interim term: 7,696,476 shares      September 2002 interim term: 3,385,607 shares  
March 2003 term: 8,688,592 shares

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

|           | Net sales         | Ordinary income   | Net income        | Annual dividends per share |       |
|-----------|-------------------|-------------------|-------------------|----------------------------|-------|
|           |                   |                   |                   | Year-end                   |       |
|           | (Millions of yen) | (Millions of yen) | (Millions of yen) | (Yen)                      | (Yen) |
| Full term | 152,000           | 7,300             | 5,000             | 4.50                       | 9.00  |

Reference:

- Estimated earnings per share (full term): 16.29 yen
- Forecast operating income (full term): 5,000 million 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.*

## Nonconsolidated Interim Balance Sheet

| Millions of yen                           | September 30,<br>2002 | %     | September 30,<br>2003 | %     | March 31, 2003 | %     |
|---|-----------------------|-------|-----------------------|-------|----------------|-------|
| <b>Current assets</b>                     |                       |       |                       |       |                |       |
| Cash and cash equivalents                 | 25,227                |       | 30,326                |       | 25,118         |       |
| Notes receivable                          | 3,212                 |       | 2,277                 |       | 2,599          |       |
| Accounts receivable                       | 34,158                |       | 33,832                |       | 32,645         |       |
| Marketable securities                     | 3,001                 |       | 7,498                 |       | 6,503          |       |
| Inventories                               | 11,304                |       | 11,919                |       | 12,100         |       |
| Accrued consumption tax                   | 728                   |       | 1,693                 |       | 1,061          |       |
| Deferred tax assets                       | 4,254                 |       | 3,456                 |       | 4,243          |       |
| Deposits                                  | -                     |       | 10,109                |       | 11,951         |       |
| Other accounts receivable                 | 7,840                 |       | 6,039                 |       | 6,549          |       |
| Other                                     | 5,778                 |       | 2,613                 |       | 2,863          |       |
| Allowance for doubtful accounts           | (771)                 |       | (610)                 |       | (654)          |       |
|   | <u>94,734</u>         | 51.1  | <u>109,157</u>        | 55.0  | <u>104,982</u> | 54.6  |
| <b>Fixed assets</b>                       |                       |       |                       |       |                |       |
| <b>Property, plant and equipment</b>      |                       |       |                       |       |                |       |
| Buildings and structures                  | 15,575                |       | 15,606                |       | 15,776         |       |
| Machinery and equipment                   | 15,515                |       | 14,389                |       | 15,072         |       |
| Other                                     | 8,960                 |       | 7,352                 |       | 7,755          |       |
|   | <u>40,051</u>         | 21.6  | <u>37,348</u>         | 18.8  | <u>38,604</u>  | 20.1  |
| <b>Intangible fixed assets</b>            |                       |       |                       |       |                |       |
|   | 939                   | 0.5   | 767                   | 0.4   | 840            | 0.5   |
| <b>Investments and other assets</b>       |                       |       |                       |       |                |       |
| Investment securities                     | 20,268                |       | 21,082                |       | 17,693         |       |
| Stocks of subsidiaries and affiliates     | 19,784                |       | 21,984                |       | 19,558         |       |
| Deferred tax assets                       | 8,684                 |       | 8,526                 |       | 10,639         |       |
| Other                                     | 1,172                 |       | 1,076                 |       | 1,160          |       |
| Reserve for valuation loss on investments | -                     |       | (1,167)               |       | (1,145)        |       |
| Allowance for doubtful accounts           | (218)                 |       | (181)                 |       | (204)          |       |
|   | <u>49,691</u>         | 26.8  | <u>51,321</u>         | 25.8  | <u>47,702</u>  | 24.8  |
|   | <u>90,682</u>         | 48.9  | <u>89,436</u>         | 45.0  | <u>87,146</u>  | 45.4  |
| <b>Total assets</b>                       | <u>185,417</u>        | 100.0 | <u>198,594</u>        | 100.0 | <u>192,129</u> | 100.0 |

**Reference:**

| Millions of yen      | September 30, 2002 | September 30, 2003 | March 31, 2003 |
|----------------------|--------------------|--------------------|----------------|
| Capital expenditures | 2,799              | 2,636              | 6,900          |
| Depreciation         | 4,015              | 3,706              | 8,534          |
| R&D expenditures     | 2,381              | 2,486              | 5,058          |

## CITIZEN WATCH

| Millions of yen   | September 30,<br>2002 | %            | September 30,<br>2003 | %            | March 31, 2003 | %            |
|---|-----------------------|--------------|-----------------------|--------------|----------------|--------------|
| <b>Current liabilities</b>                              |                       |              |                       |              |                |              |
| Notes payable   | 9,704                 |              | 2,487                 |              | 3,890          |              |
| Accounts payable  | 20,548                |              | 20,493                |              | 18,515         |              |
| Short-term bank loans payable                           | 1                     |              | 1                     |              | 1              |              |
| Commercial paper  | 6,000                 |              | -                     |              | -              |              |
| Income taxes payable                                    | 6                     |              | 4                     |              | 10             |              |
| Reserve for bonuses to employees                        | 1,084                 |              | 1,067                 |              | 1,063          |              |
| Other   | 2,966                 |              | 4,228                 |              | 5,401          |              |
|   | 40,310                | 21.7         | 28,281                | 14.2         | 28,882         | 15.0         |
| <b>Long-term liabilities</b>                            |                       |              |                       |              |                |              |
| Convertible bonds                                       | -                     |              | 23,000                |              | 23,000         |              |
| Long-term loans payable                                 | 7                     |              | 4                     |              | 5              |              |
| Reserve for defined retirement benefits                 | 3,974                 |              | 4,041                 |              | 3,865          |              |
| Reserve for retirement bonuses to directors             | 216                   |              | 222                   |              | 243            |              |
| Other   | 153                   |              | 153                   |              | 156            |              |
|   | 4,352                 | 2.4          | 27,422                | 13.8         | 27,271         | 14.2         |
| <b>Total liabilities</b>                                | <b>44,662</b>         | <b>24.1</b>  | <b>55,703</b>         | <b>28.0</b>  | <b>56,153</b>  | <b>29.2</b>  |
| <b>Shareholders' equity</b>                             |                       |              |                       |              |                |              |
| Common stock  | 32,648                | 17.6         | 32,648                | 16.4         | 32,648         | 17.0         |
| Capital reserves  |                       |              |                       |              |                |              |
| Capital surplus   | 40,053                |              | 40,053                |              | 40,053         |              |
| Other capital reserves                                  | -                     |              | 1,263                 |              | -              |              |
|   | 40,053                | 21.6         | 41,317                | 20.8         | 40,053         | 20.8         |
| Retained earnings                                       |                       |              |                       |              |                |              |
| Legal reserve   | 7,789                 |              | 7,789                 |              | 7,789          |              |
| Voluntary reserves                                      | 46,523                |              | 46,519                |              | 46,523         |              |
| Unappropriated retained profits                         | 16,332                |              | 16,772                |              | 14,798         |              |
| Net unrealized gain/loss on other marketable securities | 331                   |              | 3,148                 |              | 148            |              |
|   | 70,644                | 38.1         | 71,081                | 35.8         | 69,111         | 36.0         |
| Treasury stock  | (2,924)               | 0.2          | (5,305)               | 1.6          | (5,986)        | 0.1          |
| <b>Total shareholders' equity</b>                       | <b>140,754</b>        | <b>75.9</b>  | <b>142,890</b>        | <b>72.0</b>  | <b>135,975</b> | <b>70.8</b>  |
| <b>Total liabilities and shareholders' equity</b>       | <b>185,417</b>        | <b>100.0</b> | <b>198,594</b>        | <b>100.0</b> | <b>192,129</b> | <b>100.0</b> |

## Nonconsolidated Interim Statement of Income

| Millions of yen                                     | Six months ended<br>September 30,<br>2002 |       | Six months ended<br>September 30,<br>2003 |       | Year ended<br>March 31, 2003 |       |
|---|---|-------|---|-------|------------------------------|-------|
|   |   | %     |   | %     |                              | %     |
| <b>Net sales</b>                                    | 72,912                                    | 100.0 | 76,145                                    | 100.0 | 148,824                      | 100.0 |
| <b>Cost of sales</b>                                | 63,579                                    |       | 65,677                                    |       | 129,360                      |       |
| <b>Selling, general and administrative expenses</b> | 7,174                                     |       | 7,304                                     |       | 14,537                       |       |
| Operating income                                    | 2,158                                     | 3.0   | 3,163                                     | 4.2   | 4,926                        | 3.3   |
| <b>Nonoperating income</b>                          |   |       |   |       |                              |       |
| Interest and dividend income                        | 3,220                                     |       | 1,362                                     |       | 4,991                        |       |
| Rents receivable                                    | 1,366                                     |       | 1,480                                     |       | 2,745                        |       |
| Other   | 103                                       |       | 202                                       |       | 140                          |       |
|   | 4,690                                     | 6.4   | 3,044                                     | 4.0   | 7,876                        | 5.3   |
| <b>Nonoperating expenses</b>                        |   |       |   |       |                              |       |
| Interest charges                                    | 3   |       | 0   |       | 4                            |       |
| Depreciation expenses for rent properties           | 1,074                                     |       | 1,133                                     |       | 2,241                        |       |
| Foreign exchange loss                               | 879                                       |       | 765                                       |       | 1,183                        |       |
| Bond issuance expenses                              | -   |       | -   |       | 95                           |       |
| Other   | 96  |       | 37  |       | 144                          |       |
|   | 2,054                                     | 2.8   | 1,936                                     | 2.5   | 3,669                        | 2.5   |
| Ordinary income                                     | 4,794                                     | 6.6   | 4,271                                     | 5.6   | 9,134                        | 6.1   |
| <b>Extraordinary gains</b>                          |   |       |   |       |                              |       |
| Gain on sales of investment securities              | -   |       | 228                                       |       | 0                            |       |
| Gain on sales of fixed assets                       | 291                                       |       | -   |       | 885                          |       |
| Reversal of allowance for doubtful accounts         | -   |       | 47  |       | 241                          |       |
| Other   | 132                                       |       | -   |       | 8                            |       |
|   | 423                                       | 0.6   | 276                                       | 0.4   | 1,135                        | 0.8   |
| <b>Extraordinary losses</b>                         |   |       |   |       |                              |       |
| Valuation loss on investment securities             | 16  |       | 5   |       | 3,267                        |       |
| Loss on subsidiaries and affiliates                 | -   |       | -   |       | 2,345                        |       |
| Provision for valuation losses on investments       | -   |       | 22  |       | 1,145                        |       |
| Loss on disposal of properties                      | 209                                       |       | 249                                       |       | 564                          |       |
| Other   | 1   |       | 2   |       | 2                            |       |
|   | 226                                       | 0.3   | 278                                       | 0.4   | 7,325                        | 4.9   |
| Income before income taxes                          | 4,991                                     | 6.8   | 4,268                                     | 5.6   | 2,944                        | 2.0   |
| Income, inhabitant and enterprise taxes             | 6   |       | 27  |       | 10                           |       |
| Income taxes refunds                                | -   |       | -   |       | (100)                        |       |
| Income taxes adjustment                             | 1,836                                     |       | 858                                       |       | 32                           |       |
| Net income  | 3,149                                     | 4.3   | 3,383                                     | 4.4   | 3,001                        | 2.0   |
| Balance brought forward                             | 13,183                                    |       | 13,389                                    |       | 13,183                       |       |
| Interim dividends paid                              | -   |       | -   |       | 1,386                        |       |
| Unappropriated profits                              | 16,332                                    |       | 16,772                                    |       | 14,798                       |       |

## Basis of Presenting the Nonconsolidated Interim Financial Statements

| Item  | Basis of Presenting the Nonconsolidated Interim Financial Statements  |
|---|---|
| 1. Basis and method of valuation of marketable securities | <p>(1) Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis.</p> <p>(2) Stocks of subsidiaries and affiliates are valued at cost using the moving-average method.</p> <p>(3) Other marketable securities</p> <p>i. 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.)</p> <p>ii. If the market value is not determinable, other marketable securities are valued at cost using the moving-average method.</p>  |
| 2. Basis and method of valuation of inventories           | Inventories are primarily valued on a weighted average cost basis, which does not exceed cost nor market.   |
| 3. Derivative instruments                                 | Derivative instruments are valued at market.  |
| 4. Depreciation methods for fixed assets                  | <p>(1) Property, plant and equipment: declining-balance method<br/>Years of useful life for principal assets<br/>Buildings and structures: 3 – 50 years<br/>Machinery and equipment: 5 – 11 years</p> <p>(2) Intangible fixed assets: straight-line method</p> <p>(3) Long-term prepaid expenses: straight-line method</p> <p>However, for liquid crystal devices and other mechanical devices, a shorter estimate of useful life has been used taking into account the economic life of the items. For software, an intangible asset, the estimated useful life is based on the potential utilization period. Some leased assets are subject to accelerated depreciation.</p>  |
| 5. Accounting for lease transactions                      | 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.   |
| 6. Basis of accounting for reserves                       | <p>(1) Allowance for doubtful accounts<br/>An allowance for doubtful accounts is based on the recoverability of each amount, using (1) the write-off ratio for ordinary accounts receivable and (2) the specific amount for certain accounts receivable, such as highly doubtful accounts.</p> <p>(2) Reserve for valuation loss on investments<br/>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.</p> <p>(3) Reserve for employee bonuses<br/>The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments.</p> <p>(4) Reserve for defined retirement benefits<br/>To provide for future payments of defined retirement benefits to employees, the reserve for defined retirement benefits is stated at an amount deemed to be correct on the date of the year-end 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. Obligations for prior service and actuarial differences are written off as an expense using the fixed percentage method over a fixed number of years (5) that does not exceed the average remaining years of service of employees in which they occur. Prior service obligations are written off as expenses from the year in which they occur, and actuarial differences are written off as expenses from the fiscal year following the term in which they occur.</p> <p>(5) Reserve for retirement bonuses to directors<br/>The reserve for retirement bonuses to directors is provided for an amount deemed necessary based on the internal regulations of the Company.</p> |
| 7. Consumption tax  | Consumption tax is excluded from the amounts of income and expenses.  |

## Notes

**(Related to balance sheet)**

| <b>Millions of yen</b>                                       | <b>September 30, 2002</b> | <b>September 30, 2003</b> | <b>March 31, 2003</b> |
|--|---------------------------|---------------------------|-----------------------|
| 1. Accumulated depreciation of property, plant and equipment | 118,626                   | 120,436                   | 119,894               |
| 2. Amount of discounted export notes                         | 0                         | 3                         | 10                    |
| 3. Loan guarantees   | -                         | 5,761                     | 2,018                 |
| 4. Number of Treasury certificates                           | 3,385,607 shares          | 7,696,476 shares          | 8,688,592 shares      |

## Securities

## Stocks of subsidiaries with determinable market value

| <b>Millions of yen</b>   | <b>September 30, 2002</b> | <b>September 30, 2003</b> | <b>March 31, 2003</b> |
|--------------------------|---------------------------|---------------------------|-----------------------|
| Stocks of subsidiaries   |                           |                           |                       |
| Amounts on balance sheet | 927                       | 975                       | 975                   |
| Market value             | 87,651                    | 166,001                   | 92,377                |
| Difference               | 86,723                    | 165,025                   | 91,402                |

## Important matters occurring subsequent to report term

No matter falls under this category.