

August 17, 2004

Consolidated Financial Statements for the Three Months Ended June 30, 2004

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan (English translation).

All figures in these statements which are less than 1 million yen have been rounded down.

CITIZEN WATCH CO., LTD.

(URL <http://www.citizen.co.jp/>)

Code No.: 7762 Tokyo Stock Exchange

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1. Matters concerning preparation for consolidated financial results for the three months ended June 30, 2004

- (1) Change in the accounting policies from the method applied for the most recent fiscal year:
Yes, simplified procedures are used for standard for stating income taxes and recognition of provisions and reserves.
- (2) 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
- (3) Change in scope of consolidation and application of the equity method:
(compared to the year ended March 30, 2004)
Consolidation (Newly added): 0; (Eliminated): 1
Equity method (Newly added): 0; (Eliminated): 0

2. Results for the three months ended June 30, 2004

(1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)		(Millions of yen)		(Millions of yen)	
Three months ended June 30, 2004	91,117	8.5%	10,917	91.9%	12,019	87.4%
Three months ended June 30, 2003	83,975	-	5,688	-	6,412	-
Year ended March 31, 2004	375,715	12.5%	35,506	80.4%	35,392	68.1%

	Net income		Earnings per share		Fully diluted earnings per share	
	(Millions of yen)		(Yen)		(Yen)	
Three months ended June 30, 2004	6,033	74.9%	19.83		18.18	
Three months ended June 30, 2003	3,450	-	11.36		10.41	
Year ended March 31, 2004	19,465	234.5%	63.31		58.03	

Millions of yen	Three months ended June 30, 2004		Three months ended June 30, 2003	
	Net sales	Operating income	Net sales	Operating income
Watches and clocks	28,026	4,243	28,044	2,915
Information and electronic equipment	46,351	7,126	40,461	3,482
Industrial machinery	7,844	935	5,773	486
Other products	8,894	363	9,695	467
Eliminations or general corporate	-	(1,751)	-	(1,662)
Consolidated totals	91,117	10,917	83,975	5,688

Consolidated net sales for the first quarter increased by 8.5% from the same period of last year to 91.1 billion yen and consolidated operating income by 91.9% to 10.9 billion yen.

Watches and clocks business

Citizen brand, which is the core product, saw a huge profit increase in the Japanese market due to the continuing strong sales of full-metal Eco-Drive radio-controlled watches. In addition, thinner radio-controlled watches which were launched this June were well-received, and contributed to the average selling price and the profit. On the other hand, although China and India enjoyed healthy sales, overseas market as a whole suffered due to the yen's appreciation. As for the movement, although volume decreased in order to maintain the unit price, profit increased benefiting from the improvement of the product composition. Consequently, although sales of watches and clocks business decreased by 0.1% from the same period of last year to 28.0 billion yen, operating income increased by 45.5% to 4.2 billion yen.

Information and electronic equipment business

Opto-devices segment enjoyed improved sales in back light units for color cell phones, and white LEDs as auxiliary light sources in camera-equipped cell phones. Moreover, operating income in opto-devices increased due to the rationalization and the improvement of product mix in LED to high-intensity LEDs. Liquid crystal devices also enjoyed increased sales due to the strong demand for color cell phones in overseas market. Crystal devices segment saw an improvement in profit due to the rationalization by concentration to Miyota Co., Ltd., in addition to the sales increase of TCXO. As a consequence, sales of information and electronic equipment business increased by 14.6% from the same period of last year to 46.3 billion yen, and operating income by 104.6% to 7.1 billion yen.

Industrial machinery business

The main CNC automatic lathes had strong orders and sales due to the steady demand from automobile and digital-related industries in the Japanese market, and the continuing gradual recovery in Asia, Europe and the USA. As a result, sales of the industrial machinery business overall increased by 35.9% from the same period of last year to 7.8 billion yen, and operating income by 92.5% to 0.9 billion yen.

Other products business

Jewelry segment and eyeglasses segment continued to suffer from the downturn in the Japanese market. Thus, sales of other products business decreased by 8.3% from the same period of last year to 8.8 billion yen, and the operating income by 22.1% to 0.3 billion yen.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
Three months ended June 30, 2004	392,955	230,366	58.6	758.43
Three months ended June 30, 2003	375,035	209,328	55.8	688.98
Year ended March 31, 2004	391,526	224,855	57.4	739.45

Total assets as of June 30, 2004 increased by 1.4 billion yen from March 31, 2004 to 392.9 billion yen. Of the increased inventories, those of watches segment are inventories for Christmas shipment, which are seasonal reasons. The increase in investments and other assets comes from that of investment securities, which is principally due to market value evaluation. In the shareholders' equity, retained earnings increased due to recognition of net income.

3. Consolidated Projected Results for the Year ending March 31, 2005

Considering the results for the three months ended June 30, 2004, the consolidated projected results for the six months ending September 30, 2004 are revised as below from the previous announcement. In addition, projection for the fiscal year ending May 31, 2005 remains unchanged as it is difficult to forecast at this time.

The exchange rate for the fiscal year ending May 31, 2005 is assumed as 1US\$ = ¥107 and 1EURO = ¥131. (Exchange rate for the first quarter was 1US\$ = ¥109 and 1EURO = ¥132.)

Consolidated projection for the six months ending September 30, 2004

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Previous projection (May 17, 2004)	190,000	18,000	19,000	9,000
Current projection	187,000	20,000	21,000	10,000
Amount of change	-3,000	2,000	2,000	1,000
% of change	-1.6%	11.1%	10.5%	11.1%
Six months ended September 30, 2003	180,895	16,228	16,044	8,397

Breakdown of Sales by Business Segment

Millions of yen	Current projection	Previous projection (May 17, 2004)	Change Amount	%
Watches and clocks	60,000	60,000	0	-
Information and electronic equipment	92,000	95,000	-3,000	-3.2%
Industrial machinery	17,000	16,000	1,000	6.3%
Other products	18,000	19,000	-1,000	-5.3%
Consolidated totals	187,000	190,000	-3,000	-1.6%

Breakdown of Operating Income by Business Segment

Millions of yen	Current projection	Previous projection (May 17, 2004)	Change Amount	%
Watches and clocks	9,000	8,000	1,000	12.5%
Information and electronic equipment	12,600	11,600	1,000	8.6%
Industrial machinery	2,000	1,700	300	17.6%
Other products	300	600	-300	-50.0%
Eliminations or general corporate	(3,900)	(3,900)	0	-
Consolidated totals	20,000	18,000	2,000	11.1

(Ref.) Consolidated Projected Results for the Year ending March 31, 2005

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Full term	400,000	41,000	43,000	20,000

There are no changes in the consolidated projected results, which was announced on May 17, 2004.

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.

Consolidated Balance Sheet

Millions of yen	As of June 30, 2003	%	As of June 30, 2004	%	As of March 31, 2004	%
Current assets						
Cash and cash equivalents	91,066		101,956		100,880	
Notes and accounts receivable	86,597		85,336		87,247	
Marketable Securities	8,873		14,208		17,145	
Inventories	57,854		56,354		50,977	
Other current assets	15,563		18,497		19,314	
	<u>259,955</u>	69.3	<u>276,352</u>	70.3	<u>275,565</u>	70.4
Fixed assets						
Property, plant and equipment	78,154	20.8	77,511	19.7	76,960	19.6
Intangible fixed assets	1,293	0.4	1,088	0.3	1,136	0.3
Investments and other assets	35,632	9.5	38,001	9.7	37,862	9.7
	<u>115,080</u>	30.7	<u>116,602</u>	29.7	<u>115,960</u>	29.6
Total assets	<u>375,035</u>	100.0	<u>392,955</u>	100.0	<u>391,526</u>	100.0
Current liabilities						
Notes and accounts payable	45,944		46,645		47,240	
Short-term bank loans payable	12,876		8,389		9,027	
Other	39,001		41,016		44,713	
	<u>97,821</u>	26.1	<u>96,051</u>	24.5	<u>100,981</u>	25.8
Long-term liabilities						
Bonds with subscription right for new shares	23,000		23,000		23,000	
Long-term loans payable	152		72		72	
Reserve for defined retirement benefits	14,573		11,159		11,358	
Other	5,310		4,398		4,508	
	<u>43,036</u>	11.5	<u>38,631</u>	9.8	<u>38,939</u>	10.0
Total liabilities	<u>140,858</u>	37.6	<u>134,682</u>	34.3	<u>139,921</u>	35.8
Minority interests	24,849	6.6	27,906	7.1	26,749	6.8
Shareholders' equity						
Common stock	32,648	8.7	32,648	8.3	32,648	8.3
Capital reserves	39,023	10.4	39,023	9.9	39,023	10.0
Retained earnings	141,891	37.8	160,671	40.9	156,517	40.0
Net unrealized gain/loss on other marketable securities	2,254	0.6	7,031	1.8	6,329	1.6
Foreign currency translation adjustments	(1,082)	(0.3)	(3,517)	(0.9)	(4,202)	(1.1)
Treasury stock	(5,408)	(1.4)	(5,491)	(1.4)	(5,461)	(1.4)
Total shareholders' equity	<u>209,328</u>	55.8	<u>230,366</u>	58.6	<u>224,855</u>	57.4
Total liabilities, minority interest and shareholders' equity	<u>375,035</u>	100.0	<u>392,955</u>	100.0	<u>391,526</u>	100.0

Consolidated Statement of Income

Millions of yen	Three months ended		Three months ended		Year ended	
	June 30, 2003	%	June 30, 2004	%	March 31, 2004	%
Net sales	83,975	100.0	91,117	100.0	375,715	100.0
Cost of sales	61,325	73.0	63,304	69.5	267,109	71.1
Gross profit	22,649	27.0	27,813	30.5	108,605	28.9
Selling, general and administrative expenses	16,960	20.2	16,895	18.5	73,098	19.4
Operating income	5,688	6.8	10,917	12.0	35,506	9.5
Nonoperating income						
Interest and dividend income	187		326		554	
Foreign exchange gain	227		417		-	
Other	495		601		2,387	
	910	1.0	1,346	1.5	2,942	0.7
Nonoperating expenses						
Interest charges	75		51		269	
Foreign exchange loss	-		-		2,088	
Other	110		192		699	
	186	0.2	244	0.3	3,057	0.8
Ordinary income	6,412	7.6	12,019	13.2	35,392	9.4
Extraordinary gains	29	0.0	13	0.0	1,952	0.5
Extraordinary losses	125	0.1	158	0.2	2,803	0.7
Income before income taxes	6,316	7.5	11,874	13.0	34,541	9.2
Income taxes	2,104	2.5	4,466	4.9	11,277	3.0
Minority interests	761	0.9	1,373	1.5	3,798	1.0
Net income	3,450	4.1	6,033	6.6	19,465	5.2