



## Consolidated Financial Statements

### for the Six Months Ended September 30, 2004

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 16, 2004

#### **CITIZEN WATCH CO., LTD.**

Code No.:	7762 (URL <a href="http://www.citizen.co.jp/">http://www.citizen.co.jp/</a> )
Stock exchange listings:	Tokyo
Location of Head Office:	Tokyo, Japan
Tel:	(0424) 68-4934
Executive position of legal representative:	Makoto Umehara
Board of Directors' Meeting on the Interim Settlement of Accounts:	November 16, 2004
U.S. Accounting Standards:	No

### **1. Results for the Interim Term of Fiscal 2004 (April 1, 2004 to September 30, 2004)**

#### **(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, 2003	180,895	16.9	16,228	100.3	16,044	91.8
September 30, 2004	183,690	1.5	20,334	25.3	22,906	42.8
March 31, 2004	375,715		35,506		35,392	

Six months (Year) ended	Net income		Earnings per share		Fully diluted earnings per share	
	(Millions of yen)	%	(Yen)	%	(Yen)	%
September 30, 2003	8,397	192.3	27.64		25.34	
September 30, 2004	11,589	38.0	38.16		34.97	
March 31, 2004	19,465		63.31		58.03	

(Notes)

1. Equity in earnings of unconsolidated subsidiaries and affiliates:
 

September 2004 interim term: Not applicable	September 2003 interim term: Not applicable
March 2004 term: Not applicable	
2. Average number of shares out during the term (consolidated):
 

September 2004 interim term: 303,735,310 shares	September 2003 interim term: 303,817,724 shares
March 2004 term: 303,801,328 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
Six months (Year) ended	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2003	378,893	213,430	56.3	702.52
September 30, 2004	401,846	235,420	58.6	775.14
March 31, 2004	391,526	224,855	57.4	739.45

(Note)

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

September 2004 interim term: 303,714,989 shares

September 2003 interim term: 303,806,574 shares

March 2004 term: 303,768,304 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
Six months (Year) ended	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
September 30, 2003	12,579	(6,881)	(2,838)	95,170
September 30, 2004	17,006	(10,716)	(1,091)	118,594
March 31, 2004	41,761	(13,203)	(7,460)	112,451

**(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): 2

Equity method (Newly added): 0; (eliminated): 0

**2. Projected Results for Fiscal 2004 (April 1, 2004 to 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	371,000	41,000	43,000	21,500

Reference: Estimated earnings per share (full term): 70.79 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 15 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 108 subsidiaries and 10 affiliates. The Group companies are mainly engaged in production and sales in three business segments: watches and clocks; information and electronic equipment; and industrial machinery.

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

Segment	Major products	Major production companies	Major marketing companies
Watches 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 (SHANGHAI) TRADING CO., LTD. (China)

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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, 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) C-E (SUZHOU) LTD. (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) C-E (SUZHOU) LTD. (China) CITIZEN AMERICA DOT COM, INC. (U.S.A.)
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, eyeglasses, 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. 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 watches and clocks segment, the Company and its subsidiaries and affiliates engage in production. Citizen brand is sold by the Company and sales companies overseas, while Q&Q is sold through Japan CBM Corporation.

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

Industrial machinery is produced by 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 Jewelry Co., Ltd.

Sales of Citizen brand watches for Japanese market used to be held by Citizen Trading Co., Ltd., but after the merger with Citizen Trading Co., Ltd. on October 1, 2004, sales activities are held by the Company in the form of direct sales.

## 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	Watches and clocks Other products	100.0	Sales company Leases building and machinery equipment Directors serve concurrently
KAWAGUCHIKO SEIMITSU CO., LTD.	Minamitsuru-gun, Yamanashi	346	Watches and clocks Information and electronic equipment Industrial machinery Other products	71.3	Parts production company Leases machinery equipment and land Directors serve concurrently
SAYAMA PRECISION CO., LTD.	Sayama-shi, Saitama	198	Watches and clocks Industrial machinery Other products	86.7	Parts production company Leases machinery equipment Directors serve concurrently
AGEO SEIMITSU MFG. CO., LTD.	Kitakami-shi, Iwate	45	Watches and clocks Information and electronic equipment Other products	99.9	Parts production company Leases machinery equipment Directors serve concurrently
JAPAN CBM CORPORATION	Nakano-ku, Tokyo	2,356	Watches and clocks Information and electronic equipment	100.0	Sales company Directors serve concurrently
MIYOTA CO., LTD.	Kitasaku-gun, Nagano	1,753	Watches 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	Watches 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	Watches and clocks Information and electronic equipment Other products	66.5 [0.8]	Assembly and parts production company Leases machinery equipment Directors serve concurrently
CIMEO PRECISION CO., LTD.	Kitasaku-gun, Nagano	1,758	Watches 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	Watches and clocks Information and electronic equipment Other products	100.0	Parts production company Leases machinery equipment Directors serve concurrently

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<b>Company name</b>	<b>Address</b>	<b>Capital</b> (Millions of yen)	<b>Major business lines</b>	<b>Ownership of voting stocks [%]</b>	<b>Relationship to parent company</b>
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	Watches and clocks Information and electronic equipment	100.0	Assembly and parts production company Leases land and machinery equipment 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]	Directors serve concurrently
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]	Directors serve concurrently
TOKYO BIJUTSU CO., LTD.	Toshima-ku, Tokyo	35	Other products	61.3 [61.3]	Directors serve concurrently
FUNEHIKI SEIMITSU CO., LTD.	Tamura-gun, Fukushima	40	Watches and clocks Information and electronic equipment Other products	100.0 [100.0]	Parts production Company Directors serve concurrently
YUBARI SEIMITSU CO., LTD	Yubari-shi, Hokkaido	20	Watches and clocks Other products	100.0 [80.0]	Parts production company Directors serve concurrently
HAIMEKA CO., LTD.	Hioki-gun, Kagoshima	50	Watches 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
T.I.C. -CITIZEN CO., LTD.	Koganei-shi, Tokyo	100	Watches and clocks	59.3	Directors serve concurrently
CITIZEN FINANCIAL SERVICE CO., LTD	Nishitokyo-shi, Tokyo	50	Other products	100.0	Directors serve concurrently
CITIZEN JEWELRY CO., LTD.	Chiyoda-ku, Tokyo	300	Other products	100.0 [100.0]	

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Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
SUNCITI MANUFACTURER S LTD.	Hong Kong, China	HK\$9,680 thousand	Watches 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	Watches 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	Information and electronic equipment	100.0 [51.0]	Assembly and parts production company Directors serve concurrently
CITIZEN PRECISION OF KOREA CO., LTD.	Changwon, Korea	₩4,400,000 thousand	Watches and clocks	100.0	Assembly and parts production company
CBM AMERICA CORP.	California, U.S.A.	US\$64 thousand	Information and electronic equipment	100.0 [100.0]	Sales company Directors serve concurrently
CITIZEN LATIN AMERICA CORP.	Colón, Panama	US\$3,550 thousand	Watches and clocks	100.0 [100.0]	Sales company Directors serve concurrently
CITIZEN WATCH CO., OF AMERICA, INC.	California, U.S.A.	US\$12,500 thousand	Watches and clocks	100.0 [60.0]	Sales company Directors serve concurrently
CITIZEN WATCH EUROPE G.M.B.H.	Hamburg, Germany	EUR10,225 thousand	Watches and clocks	100.0 [80.0]	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	Watches and clocks	100.0 [51.0]	Sales company Directors serve concurrently
CITIZEN WATCHES AUSTRALIA PTY LTD.	Sydney, Australia	A\$100 thousand	Watches and clocks	100.0 [100.0]	Sales company Directors serve concurrently
CITIZEN WATCH ESPAÑA S.A.	Barcelona, Spain	EUR1,803 thousand	Watches and clocks	100.0 [100.0]	Sales company Directors serve concurrently
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	Watches 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\$53,000 thousand	Watches and clocks Information and electronic equipment	100.0 [75.7]	Assembly and production company Leases machinery equipment Directors serve concurrently
ASTAR PRECISION CO., LTD.	Hong Kong, China	HK\$8,100 thousand	Watches 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	Watches and clocks	100.0 [100.0]	Assembly and production Company
WALOP LTD.	Hong Kong, China	HK\$24,000 thousand	Watches and clocks Information and electronic equipment	100.0 [51.0]	Parts production company Directors serve concurrently
HARVESTINE CO.,LTD	Hong Kong, China	HK\$2,000 thousand	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	Watches and clocks	80.0 [75.0]	Production company Directors serve concurrently
CITIZEN DE MEXICO, S.A. DE C.V.	Mexico City, Mexico	N\$7,774 thousand	Watches 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	Watches and clocks	100.0 [100.0]	Sales company Directors serve concurrently
XUNKE ELECTRONICS LTD.	Guangdong, China	HK\$2,000 thousand	Information and electronic equipment	100.0 [100.0]	
C-E (SUZHOU) LTD.	Suzhou, China	US\$4,500 thousand	Information and electronic equipment	100.0 [100.0]	
CITIZEN (SHANGHAI) TRADING CO., LTD.	Shanghai, China	US\$200 thousand	Watches and clocks	100.0 [100.0]	Sales company
CITIZEN AMERICA DOT COM, INC.	California, U.S.A.	US\$5 thousand	Information and electronic equipment	100.0 [100.0]	Sales company

(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. The Company merged with Citizen Trading Co., Ltd. on October 1, 2004.

## Management Policy

### 1. Fundamental Management Policy

The Citizen group's management policy is based on the philosophy that gave us our name: 'Creating products that are close to the hearts of citizens everywhere.' We aim to contribute to society through ongoing activities that are in harmony not only with the local community but with the global environment. Our mission is to utilize the precision manufacturing and assembly technologies that we have developed from our watch-making businesses 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 'high quality corporation' that is both profitable and responsive to change.

### 2. Fundamental Policy Regarding the Distribution of Profits

The Company considers returns to shareholders a matter of the highest priority and focuses on improving its operating results and strengthening its financial standing. Our basic philosophy is to pay a regular, stable dividend. At the same time the Company takes into consideration dividend policies in light of the group's performance, purchase of treasury stock, and the strengthening of the group's overall financial standing through the maintenance of sufficient internal reserves.

For fiscal year 2004, the Company schedules to raise its full-year dividends per share by 1 yen to 11 yen.

### 3. Policy Regarding a Reduction of the Trading Unit

We regard a reduction of the number of shares in one unit of stock as an effective means to increase liquidity of its shares and to encourage broader classes of investors to acquire equity in the company. Taking into consideration of the Company's stock price in the market and the request from individual investors, the Company has decided at the Board of Directors held on May 26, 2004, to bring down its number of shares in one unit of stock from 1,000 to 100 from September 1, 2004. In addition, unit of exchange at the Tokyo Stock Exchange is already modified from 1,000 shares to 100 shares as of September 1, 2004.

### 4. Medium-Term Management Strategy

The Company developed 2003 Medium-Term Management Plan last year aiming to transform the corporation into one focused on creation of added value. Based on the fundamental policy listed below, The Company carries forward the reform to improve profitability and to realize 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 watches 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 watch and clock products.
- (3) Maintain the strength of the module business as the foundation of the watches and clocks business and secure stable profits.

- (4) Increase the value of the Citizen brand in clocks business and strengthen operation structure through “selection and focus”.

#### ***Strengthening Business’s Ability to Grow***

- (1) Throughout the non-watch divisions, 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, the Board of Directors consisting of 13 members who are well-informed of the Company’s business makes decisions regarding execution of operations and we are intent on improving the management structure more efficient. The Company’s board of corporate auditors consists of four members, two of whom are outside corporate auditors. In accordance with the board of corporate auditors’ auditing policies and their assigned duties, the members attend board, and various business management meetings, listen to business reports from the directors and others, carefully examine documents related to important decisions, and conduct strict audits of the company’s business and its assets.

We shall not only comply with all related laws, but shall also recognize the importance of taking actions with social good sense and uphold corporate ethics and prevent corporate misconduct. The Company makes much of corporate social responsibility and based on the recognition that business operation is possible upon confidence and good faith, have approached to CSR with strong action taken by the President himself. As a result, Citizen Code of Conduct was instituted at the board of directors in October 2003 and became effective in January 2004.

The operation organization appoints the President as the CSR chief control officer and is composed of ‘CSR Committee’ and ‘CSR Promotion Committee’ as standing committees. The functions of CSR Committee are planning of CSR strategies, arrangement and enrichment of the Charter, maintenance of regulations, educating and training, examination of complaints and monitoring, while that of the CSR Promotion Committee is to execute and to promote the CSR activity in each department.

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 information timely and fairly.

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	%
	2003	2004		
Net sales	180,895	183,690	2,795	1.5
Operating income	16,228	20,334	4,105	25.3
Ordinary income	16,044	22,906	6,862	42.8
Net income	8,397	11,589	3,192	38.0

#### Breakdown of sales by segment

Millions of yen	Six months ended September 30,		Change	%
	2003	2004		
Watches and clocks	60,827	59,096	(1,730)	(2.8)
Information and electronic equipment	87,323	88,647	1,324	1.5
Industrial machinery	13,616	17,147	3,530	25.9
Other products	19,128	18,799	(328)	(1.7)
	180,895	183,690	2,795	1.5

#### Breakdown of operating income by segment

Millions of yen	Six months ended September 30,		Change	%
	2003	2004		
Watches and clocks	9,197	8,715	(481)	(5.2)
Information and electronic equipment	8,494	12,669	4,175	49.2
Industrial machinery	1,361	2,403	1,041	76.5
Other products	493	435	(58)	(11.8)
Eliminations or general corporate	(3,317)	(3,888)	(570)	-
	16,228	20,334	4,105	25.3

During the six-month period under review, the Japanese economy continued to recover steadily but slow. Against this background, the Company tackled the structural reform and strove to improve the efficiency as a Group, maximizing the identity of each subsidiary in order to improve the corporate value, and to change to a high value added corporation.

As a consequence, consolidated net sales increased a little to 183.6 billion yen (increase of 1.5% from the first half of the previous year). The Citizen Group achieved operating income of 20.3 billion yen (increase of 25.3%), ordinary income of 22.9 billion yen (increase of 42.8%), and interim net income of 11.5 billion yen (increase of 38.0%). Thus, this half year saw a record high in profits for the group.

#### Watches and Clocks

Citizen brand watches enjoyed strong sales growth in the Japanese market due to full metal radio-controlled watches. The well-received products were a high-end brand, Exceed, which introduced the thinnest model of radio-controlled watches, and the major brand, Attesa. Sports-type Promaster and ladies' xC brand also increased sales by introducing radio-controlled watches. In addition, the luxury brand Campanola and young ladies' Wicca showed steady improvement. However, some of the mid-range brands, such as Forma and Cretia struggled in severe conditions. In the low-end category, introduction of new brand, Vagary, contributed to sales increase.

As for the license brands, the circumstance remains severe. Nevertheless, Paul Smith and Jean Paul GAULTIER increased sales, and Trans Continents, Kookai and Vert Dense enjoyed solid sales.

In the overseas market, despite the unstable global situation and the intense market environment, sales increased across the world primarily in Eco-Drive products. The strategy to increase average selling price by introducing high added value products also became effective. Despite a shortfall of the original plan in

terms of volume basis, by raising the average selling price, not only was the Company able to control the decrease of sales in value terms, but also succeeded to raise the brand image.

Despite the recovery of sales in volume basis, Q&Q brand decreased sales compared to the first half of the previous year due to the fall in average selling price.

As for buyers' brand, despite the slow recovery of the principal European market, performance of both sales and profits was about the level as last year due to the effort of sales department.

As for movements, as the Company put the priority in maintenance of the market price, and thus, controlled the sales volume, sales decreased slightly from the previous year.

Clocks dropped its sales due to a decline in special order.

Consequently, total net sales of watches and clocks business fell to 59.0 billion yen, decrease of 2.8% from the first half of the previous year, with operating income of 8.7 billion yen, decrease of 5.2%.

### ***Information and Electronic Equipment***

In opto-devices, chip LEDs and back light units struggled in terms of sales. However, due to the increase in sales ratio of chip LEDs as auxiliary light sources in camera-equipped cell phones and other higher brightness chip LEDs, the product mix improved, which resulted in a sharp rise in operating margin. Due to an increasing demand in North America, connectors used in fiber-optic communications saw an increase in sales volume, contributing to the sales growth.

In liquid crystal devices, the Citizen Group has a top global market share in color STN for cell phones. Although sales was well until this May, due to the excess inventory in Chinese market since June, sales slightly dropped. As for TFT for cell phones, the Group has succeeded to expand customers. Our unique active aberration compensation element also sold well.

In crystal devices, with the global increase of cell phones, TCXO (temperature compensated crystal oscillator) continued to raise its sales. Consumer products saw sales growth as the digital electric appliances pulled the market and the sales volume increased due to the recovery of personal computers.

In healthcare equipment, although sales was contributed by our original thermometer, a product that pursued the concept of universal design, in total, sales declined by the weak performance of blood pressure monitors.

Among the printers, dot-matrix printers increased sales with a contribution of new product targeted for Chinese market. Thermal printers also saw sales growth not only by the steady performance of label printers in European market, but also photo printers equipped with our original liquid crystal technique. In addition, mini-printers increased sales due to the steady sales toward Eastern Europe and the new demand created by the self service of Japanese gasoline stations. As a result, the sales of printers increased.

In other parts business, back light units saw a steady sales, mainly in digital camera market. CRT viewfinders increased its sales due to the rise in order related to Olympics. In addition to the contribution of sales of ferroelectric liquid crystal viewfinders for video cameras, product lineup expanded by introducing new viewfinders for digital cameras. As for CCD/CMOS image sensors, sales decreased under the intense competitive market environment.

As a result, total sales of information and electronic equipment increased by 1.5% from the first half of the previous year to 88.6 billion yen, with operating income rising by 49.2% to 12.6 billion yen.

### ***Industrial Machinery***

As for CNC automatic lathes, Cincom, sales in the Japanese market rose substantially, driven by the steady demand in the automobile industry, the continuing aggressive sales activity to office appliances industry, mainly digital home appliances and printers, and the recovery of the market in various industries. In China and Taiwan, sales expanded due to the introduction of new low-end products which reflect these areas' demands and the establishment of local corporation in China. In Southeast Asia, HDD-related

products entered into production adjustment on the contrary to our expectation. In North America, good business conditions continued, with growing demand from medical, airline and automobile industries, resulting in an increase both in sales and profit. European market remained stable as well, resulting in a slightly better performance from last year.

In measuring instruments, shift of sales strategy to OEM sales, mainly in new products, has delayed and thus, dropped its sales. However, electronic parts assembling machine, board packer, saw sales growth driven by good business conditions in amusement industry and demand of investment.

As a consequence, sales of industrial machinery rose sharply by 25.9 % compared to the first half of the previous year to 17.1 billion yen, with operating income rising by 76.5% to 2.4 billion yen.

### ***Other Products***

The jewelry business was still in severe market conditions both in department stores and specialty stores. Marriage rings for bridal which are our key products decreased under the low demand affected by decreasing couples getting married, intensifying competition by number of brands increasing, and the sudden rise in the market price of platinum.

Pachinko related products increased in sales from last year, especially in paper-bill conveyance equipment due to the expansion to pachinko-slot stores. Regarding the issuance of new paper bills, its contribution to our business performance is prudent as the issuance has laid behind schedule to the second half of this fiscal year and the market price is at low level as the industry seeks to expand its share on this occasion.

As for eyeglasses, the total sales dropped due to the poor performance of middle-range products although luxury products primarily using K18 had steady sales.

Consequently, sales of other products overall fell by 1.7% from the first half of the previous year to 18.7 billion yen, with operating income dropping by 11.8% to 0.4 billion yen.

## 2. Financial Position

Cash and cash equivalents at the end of this half-year period increased by 6.1 billion yen as compared to the end of the previous year, to 118.5 billion yen.

Cash flows from operating activities in the half-year yielded a cash flow revenue of 17.0 billion yen. Income before adjustment for taxes in the half-year rose to 22.1 billion yen. Depreciation expenses was 7.8 billion yen, inventories increased by 4.7 billion yen, notes and accounts payable decreased by 4.8 billion yen and payment of income taxes was 7.0 billion yen.

Cash flows from investing activities ran a deficit of 10.7 billion yen. This is mainly due to the payment of 9.5 billion yen for the purchase of property, plant and equipment, 1.7 billion yen for the purchase of investment securities, and 1.5 billion yen for the purpose of marketable securities.

Cash flows from financing activities ran a deficit of 1.0 billion yen. This is mainly due to the 1.8 billion yen of dividends paid and 0.9 billion yen of increase in borrowings.

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

Percent	Year ended March 31,				Six months ended September 30, 2004
	2001	2002	2003	2004	
Equity ratio	52.9	56.1	55.6	57.4	58.6
Equity ratio at market value	67.8	67.8	52.3	80.1	81.6
Debt repayment period (years)	3.6	1.6	1.0	0.8	-
Interest coverage ratio	13.1	35.4	110.0	154.7	143.0

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 2004

Millions of yen	Year ended March 31, 2004	Year ending March 31, 2005	Change	%
Net sales	375,715	371,000	(4,715)	(1.3)
Operating income	35,506	41,000	5,493	15.5
Ordinary income	35,392	43,000	7,607	21.5
Net income	19,465	21,500	2,034	10.5

#### Breakdown of sales by segment

Millions of yen	Year ended March 31, 2004	Year ending March 31, 2005	Change	%
Watches and clocks	127,188	124,200	(2,988)	(2.3)
Information and electronic equipment	181,625	174,400	(7,225)	(4.0)
Industrial machinery	27,967	34,900	6,932	24.8
Other products	38,933	37,500	(1,433)	(3.7)
	375,715	371,000	(4,715)	(1.3)

#### Breakdown of operating income by segment

Millions of yen	Year ended March 31, 2004	Year ending March 31, 2005	Change	%
Watches and clocks	18,584	19,000	415	2.2
Information and electronic equipment	19,710	24,000	4,289	21.8
Industrial machinery	2,992	5,000	2,007	67.1
Other products	1,417	1,000	(417)	(29.4)
Eliminations or general corporate	(7,197)	(8,000)	(802)	-
	35,506	41,000	5,493	15.5

Prospects for the second half are unclear due to the slowdown in Asian economy, skyrocketing crude prices, the US economy outlook, the fear of terrorism and the acceleration of the yen's appreciation.

Given this situation, the Group has undergone structural reform. In addition to the realization of the merger with Citizen Trading Co., Ltd. on October 1, 2004, LCD Device Division and Information & Communication Products Division will be integrated, respectively.

The Company will forge ahead with reform plans, such as speedup of the management and operation of customer orientation, to improve total performance of the Group. Under the Corporate philosophy of "For the citizen –Loved by the citizens and contribute to the citizens", the Company strives to reinforce management basis and to improve business operations by working aggressively on CSR and operate friendly business to local community and global environment.

For the fiscal year ending in March 2005, the Group is forecasting consolidated sales of 371.0 billion yen (a 1.3% decrease from the previous year). As for the profits, the Group estimates the record high in operating income of 41.0 billion yen (a 15.5% increase), ordinary income of 43.0 billion yen (a 21.5% increase), and net income of 21.5 billion yen (a 10.5% increase).

These forecasts assume currency exchange rates of 105 yen to the US dollar (109 yen for the first half) and 130 yen to the Euro (133 yen for the first half) for the second half of the fiscal year 2004.

(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, 2003	%	September 30, 2004	%	March 31, 2004	%
<b>Current assets</b>						
Cash and cash equivalents	91,603		110,280		100,880	
Notes and accounts receivable	91,360		86,428		87,247	
Marketable Securities	10,929		13,736		17,145	
Inventories	53,799		56,653		50,977	
Deferred tax assets	10,295		11,603		10,776	
Other current assets	9,401		8,401		10,079	
Allowance for doubtful accounts	(2,185)		(1,954)		(1,540)	
	<u>265,204</u>	70.0	<u>285,150</u>	71.0	<u>275,565</u>	70.4
<b>Fixed assets</b>						
<b>Property, plant and equipment</b>						
Buildings and structures	30,620		31,485		30,275	
Machinery, equipment and carriers	30,008		30,348		29,127	
Other	16,901		16,741		17,557	
	<u>77,530</u>	20.5	<u>78,574</u>	19.5	<u>76,960</u>	19.6
<b>Intangible fixed assets</b>						
	<u>1,121</u>	0.3	<u>1,040</u>	0.3	<u>1,136</u>	0.3
<b>Investments and other assets</b>						
Investment securities	25,405		30,923		30,791	
Deferred tax assets	7,513		3,776		5,123	
Other	3,686		3,613		2,961	
Allowance for doubtful accounts	(905)		(405)		(394)	
Reserve for valuation loss on investments	(662)		(827)		(619)	
	<u>35,038</u>	9.2	<u>37,080</u>	9.2	<u>37,862</u>	9.7
	<u>113,689</u>	30.0	<u>116,695</u>	29.0	<u>115,960</u>	29.6
<b>Total assets</b>	<u>378,893</u>	100.0	<u>401,846</u>	100.0	<u>391,526</u>	100.0

	September 30, 2003	September 30, 2004	March 31, 2004
1. Accumulated depreciation of property, plant and equipment	232,860	232,347	232,488
2. Outstanding balance of export bill of exchange	820	856	1,019
3. Bill of exchange discounted	1,009	-	230
4. Loans guaranteed	655	475	651
5. R&D expenditures	4,748	5,000	9,465
6. Capital expenditures	7,800	10,277	17,276
7. Depreciation expenses	7,770	7,883	16,607

## CITIZEN WATCH

Millions of yen	September 30, 2003	%	September 30, 2004	%	March 31, 2004	%
<b>Current liabilities</b>						
Notes and accounts payable	47,999		42,839		47,240	
Short-term bank loans payable	12,186		10,276		9,027	
Income taxes payable	5,499		7,424		7,444	
Deferred tax liabilities	-		9		9	
Reserve for bonuses to employees	4,290		4,678		4,516	
Reserve for product warranties	862		917		856	
Other	27,522		33,151		31,886	
	<u>98,360</u>	26.0	<u>99,297</u>	24.7	<u>100,981</u>	25.8
<b>Long-term liabilities</b>						
Bonds with subscription right for new shares	23,000		23,000		23,000	
Long-term loans payable	112		58		72	
Deferred tax liabilities	214		194		184	
Reserve for defined retirement benefits	14,125		10,908		11,358	
Reserve for retirement bonuses to directors	857		819		929	
Consolidation adjustments	3,539		2,552		2,944	
Other	347		568		450	
	<u>42,196</u>	11.1	<u>38,102</u>	9.5	<u>38,939</u>	10.0
<b>Total liabilities</b>	<u>140,556</u>	37.1	<u>137,399</u>	34.2	<u>139,921</u>	35.8
<b>Minority interests</b>	24,906	6.6	29,026	7.2	26,749	6.8
<b>Shareholders' equity</b>						
Common stock	32,648	8.6	32,648	8.1	32,648	8.3
Capital reserves	39,023	10.3	39,026	9.7	39,023	10.0
Retained earnings	146,812	38.8	166,204	41.4	156,517	40.0
Net unrealized gain/loss on other marketable securities	3,201	0.8	5,822	1.5	6,329	1.6
Foreign currency translation adjustments	(2,831)	(0.7)	(2,757)	(0.7)	(4,202)	(1.1)
Treasury stock	(5,424)	(1.4)	(5,524)	(1.4)	(5,461)	(1.4)
Total shareholders' equity	<u>213,430</u>	56.3	<u>235,420</u>	58.6	<u>224,855</u>	57.4
<b>Total liabilities, minority interest and shareholders' equity</b>	<u>378,893</u>	100.0	<u>401,846</u>	100.0	<u>391,526</u>	100.0

## Consolidated Interim Statement of Income

Millions of yen	Six months ended September 30, 2003		Six months ended September 30, 2004		Year ended March 31, 2004	
		%		%		%
<b>Net sales</b>	180,895	100.0	183,690	100.0	375,715	100.0
<b>Cost of sales</b>	129,798	71.7	127,449	69.4	267,109	71.1
<b>Gross Profit</b>	51,097	28.2	56,240	30.6	108,605	28.9
<b>Selling, general and administrative expenses</b>	34,868	19.3	35,906	19.5	73,098	19.4
Operating income	16,228	9.0	20,334	11.1	35,506	9.5
<b>Nonoperating income</b>						
Interest and dividend income	273		627		554	
Foreign exchange gain	-		1,430		-	
Amortization of consolidation adjustments	513		475		1,116	
Other	779		652		1,270	
	1,565	0.9	3,185	1.7	2,942	0.7
<b>Nonoperating expenses</b>						
Interest charges	150		122		269	
Foreign exchange loss	1,257		-		2,088	
Other	341		491		699	
	1,749	1.0	613	0.3	3,057	0.8
Ordinary income	16,044	8.9	22,906	12.5	35,392	9.4
<b>Extraordinary gains</b>						
Gain on sales of fixed assets	-		18		413	
Reversal of allowance for doubtful accounts	272		121		570	
Other	425		37		969	
	698	0.4	178	0.1	1,952	0.5
<b>Extraordinary losses</b>						
Loss on disposal and sales of properties	757		564		1,413	
Valuation loss on investment securities	12		10		99	
Special severance indemnities	-		-		443	
Other	255		398		847	
	1,025	0.6	972	0.6	2,803	0.7
Income before income taxes	15,716	8.7	22,111	12.0	34,541	9.2
Income, inhabitant and enterprise taxes	5,193		7,033		11,134	3.0
Income tax adjustment	476		933		142	0.0
Minority interests	1,649	0.9	2,555	1.4	3,798	1.0
<b>Net income</b>	8,397	4.6	11,589	6.3	19,465	5.2

## Consolidated Interim Statement of Retained Earnings

Millions of yen	Six months ended September 30, 2003	Six months ended September 30, 2004	Year ended March 31, 2004
<b>Capital reserves</b>			
Capital reserves, beginning of term			
Capital reserves, beginning of term	39,023	39,023	39,023
Increase in capital reserves			
Gain on disposition of treasury stock	-	2	-
Capital reserves, end of term	39,023	39,026	39,023
<b>Retained earnings</b>			
Retained earnings, beginning of term	140,007	156,517	140,007
Increase in retained earnings			
Net income	8,397	11,589	19,465
Increase due to change in scope of consolidation	-	2	-
	8,397	11,591	19,465
Decrease in retained earnings			
Cash dividends declared	1,362	1,670	2,729
Bonuses to directors	173	233	172
Other	56	-	54
	1,592	1,903	2,956
Retained earnings, end of term	146,812	166,204	156,517

## Consolidated Interim Statement of Cash Flow

Millions of yen	Six months ended September 30, 2003	Six months ended September 30, 2004	Year ended March 31, 2004
<b>Cash flows from operating activities</b>			
Income before income taxes	15,716	22,111	34,541
Depreciation	7,770	7,883	16,607
Increase/decrease in reserve for defined retirement benefits	3	(491)	(2,715)
Increase/decrease in allowance for doubtful accounts	70	668	80
Interest and dividends income	(273)	(627)	(554)
Interest charges	150	122	269
Loss on marketable securities sold	(20)	-	(20)
Loss on investment securities sold	(221)	0	(158)
Loss on properties sold	(86)	(53)	(542)
Loss on disposal of properties	757	564	1,413
Payment of bonuses to directors	(202)	(266)	(201)
Increase/decrease in receivables - trade	(9,616)	1,992	(6,446)
Increase/decrease in inventories	(2,330)	(4,741)	(172)
Increase/decrease in notes and accounts payable - trade	6,056	(4,892)	8,845
Increase/decrease in accrued expenses	963	377	799
Consolidation adjustments	(513)	(475)	(1,116)
Increase/decrease in other current assets	(1,279)	1,722	(2,160)
Increase/decrease in other liabilities	(384)	(759)	1,004
Other	698	449	791
	17,258	23,584	50,263
Interest and dividends received	273	619	556
Interest payments	(151)	(118)	(270)
Income taxes	(4,800)	(7,078)	(8,788)
Net cash provided by operating activities	12,579	17,006	41,761
<b>Cash flows from investing activities</b>			
Payments for the purchase of marketable securities	(6,098)	(1,599)	(8,986)
Proceeds from the sale of marketable securities	5,124	2,000	11,023
Payments for the purchase of investment securities	(407)	(1,737)	(758)
Proceeds from the sale of investment securities	1,991	643	2,141
Payments for the purchase of property, plant and equipment	(7,787)	(9,560)	(15,972)
Proceeds from the sale of property, plant and equipment	195	461	1,010
Increase/decrease in loans	(177)	(257)	(345)
Other	277	(666)	(1,315)
Net cash used in investing activities	(6,881)	(10,716)	(13,203)

CITIZEN WATCH

Millions of yen	Six months ended September 30, 2003	Six months ended September 30, 2004	Year ended March 31, 2004
<b>Cash flows from financing activities</b>			
Net increase/decrease in borrowings	(763)	973	(3,842)
Dividends paid by parent company	(1,362)	(1,670)	(2,729)
Dividends paid to the minority stockholders	(265)	(220)	(389)
Payments for purchase of treasury stock	(35)	(67)	(76)
Other	(411)	(106)	(422)
Net cash used in financing activities	(2,838)	(1,091)	(7,460)
Effect of exchange rate changes on cash and cash equivalents	(1,180)	987	(2,138)
Net increase in cash and cash equivalents	1,678	6,186	18,958
Cash and cash equivalents at beginning of term	94,022	112,451	94,022
Net increase in cash and cash equivalents associated with newly consolidated subsidiaries	(529)	(43)	(529)
Cash and cash equivalents at end of term	95,170	118,594	112,451

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

Millions of yen	September 30, 2003	September 30, 2004	March 31, 2004
Cash	91,603	110,280	100,880
Marketable securities	10,929	13,736	17,145
Time deposits with a deposit period greater than three months	(1,290)	(2,768)	(2,492)
Shares and bonds with a redeemable period greater than three months	(6,070)	(2,655)	(3,081)
Cash and cash equivalents	95,170	118,594	112,451

## 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>Citizen America Dot Com is included in the Company's consolidated subsidiaries from this six-month period which ended on September 30, 2004 due to its significance.</p> <p>Grace Co., Ltd. has been excluded from the Company's consolidated subsidiaries as it was liquidated by the end of this six-month period. Citizen Techno Co., Ltd. has been excluded from the Company's consolidated subsidiaries as it has already terminated its de facto business operations and its effect to the total assets and retained earnings are small.</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 (51 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 34 subsidiaries, including SAKAE SHOKAI CO., LTD., TOKYO BIJUTSU CO., LTD., CITIZEN WATCH CO., OF AMERICA, INC. and overseas subsidiaries.</p> <p>The interim term closing date of accounts for SAKAE SHOKAI CO., LTD. and TOKYO BIJUTSU CO., LTD., is August 31, and that for CITIZEN WATCH CO. OF AMERICA, INC. and 31 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. 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. In the case of overseas subsidiaries, 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>
4. Accounting standards	<p>(1) Valuation standards and methods for major assets</p> <p>{1} Marketable and investment securities</p> <p>i. Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis.</p> <p>ii. Stocks of subsidiaries and affiliates are valued at cost using the moving-average method.</p> <p>iii. Other marketable securities:</p> <p>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.</p> <p>(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>If the market value is not determinable, other marketable securities are valued at cost using the moving-average method.</p> <p>{2} Derivative financial instruments</p> <p>Derivative financial instruments are valued at market.</p> <p>{3} Inventories</p> <p>Inventories are primarily valued on a weight-average cost basis, which does not exceed cost nor market.</p>

Item	Basis of Presenting the Consolidated Financial Statements
(2)	<p>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.</p>
(3)	<p>Recognition basis of provisions and reserves</p> <p>{1} Allowance for doubtful accounts In order to prepare for loss of receivables (trade) and loans, as for the Company and domestic consolidated subsidiaries and affiliates, an allowance for doubtful accounts is recorded 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. As for the overseas consolidated subsidiaries and affiliates, an allowance for doubtful accounts is estimates based on the recoverability of each amount.</p> <p>{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.</p> <p>{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.</p> <p>{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.</p> <p>{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. Any differences arising as a result of changes in accounting standards are, as a rule, treated as an extraordinary loss for 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.</p> <p>{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.</p>
(4)	<p>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>

C I T I Z E N   W A T C H

<b>Item</b>	<b>Basis of Presenting the Consolidated Financial Statements</b>
	<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>
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	Watches and clocks	Information and electronic equipment	Industrial machinery	Other products	Segment totals	Eliminations or general corporate	Consolidated totals
<b>Six months ended September 30, 2003</b>							
<b>Net sales and operating profit/loss</b>							
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

**Six months ended September 30, 2004****Net sales and operating profit/loss**

Net sales							
Unaffiliated customers	59,096	88,647	17,147	18,799	183,690	-	183,690
Intersegment	-	1,102	-	-	1,102	(1,102)	-
Total	59,096	89,749	17,147	18,799	184,792	(1,102)	183,690
Operating expenses	50,381	77,080	14,744	18,364	160,570	2,786	163,356
Operating income	8,715	12,669	2,403	435	24,222	(3,888)	20,334

**Year ended March 31, 2004****Net sales and operating profit/loss**

Net sales							
Unaffiliated customers	127,188	181,625	27,967	38,933	375,715	-	375,715
Intersegment	-	2,270	-	-	2,270	(2,270)	-
Total	127,188	183,895	27,967	38,933	377,985	(2,270)	375,715
Operating expenses	108,604	164,185	24,974	37,515	335,280	4,927	340,208
Operating income	18,584	19,710	2,992	1,417	42,704	(7,197)	35,506

(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
Watches and clocks	Analog, digital and analog/digital combination watches, internal and facing parts and components of watches, various kinds of clocks, etc.
Information and electronic equipment	Chip LEDs, back light units, LCDs, various kinds of printers, quartz oscillators, floppy disk drives, electronic clinical thermometers, electronic viewfinders, calculators, etc.
Industrial machinery	Small CNC automatic lathes, various types of robots, general-purpose machine tools, measuring instruments, etc.
Other products	Jewelry, pachinko related products, eyeglasses, jigs and tools, etc.

## 2. Geographic segment

Millions of yen	Japan	Asia	Americas	Europe	Other	Segment total	Eliminations or general corporate	Consolidated totals
<b>Six months ended September 30, 2003</b>								
<b>Net sales and operating income/loss</b>								
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/loss	17,508	1,575	504	302	(17)	19,874	(3,646)	16,228
<b>Six months ended September 30, 2004</b>								
<b>Net sales and operating income/loss</b>								
Net sales								
Unaffiliated customers	142,344	20,160	13,134	7,140	911	183,690	-	183,690
Intersegment	28,371	27,964	74	31	-	56,442	(56,442)	-
Total	170,715	48,125	13,208	7,172	911	240,133	(56,442)	183,690
Operating expenses	147,652	46,864	12,789	6,969	949	215,226	(51,869)	163,356
Operating income/loss	23,063	1,260	418	202	(37)	24,907	(4,573)	20,334
<b>Year ended March 31, 2004</b>								
<b>Net sales and operating income/loss</b>								
Net sales								
Unaffiliated customers	291,151	38,080	30,280	14,232	1,969	375,715	-	375,715
Intersegment	53,126	52,049	229	114	-	105,518	(105,518)	-
Total	344,277	90,129	30,509	14,347	1,969	481,234	(105,518)	375,715
Operating expenses	305,500	87,902	30,163	13,714	1,944	439,226	(99,018)	340,208
Operating income	38,777	2,226	345	632	24	42,007	(6,500)	35,506

(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, Taiwan, 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, 2003		Six months ended September 30, 2004		Year ended March 31, 2004	
	Overseas sales	As % of: consolidated net sales	Overseas sales	As % of: consolidated net sales	Overseas sales	As % of consolidated net sales
Asia	64,936	35.9	65,985	35.9	135,725	36.1
Americas	22,191	12.3	20,010	10.9	42,899	11.4
Europe	23,175	12.8	21,713	11.8	48,769	13.0
Other	2,968	1.6	2,849	1.6	6,298	1.7
Total	113,270	62.6	110,559	60.2	233,693	62.2
Consolidated sales	180,895	100.0	183,690	100.0	375,715	100.0

(Notes)

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

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

Millions of yen	September 30, 2003			September 30, 2004			March 31, 2004		
	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	965	(34)	1,000	1,087	87	1,000	965	(34)
Total	1,000	965	(34)	1,000	1,087	87	1,000	965	(34)

**2. Other marketable securities with market value**

Millions of yen	September 30, 2003			September 30, 2004			March 31, 2004		
	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	8,811	14,215	5,403	8,736	18,579	9,843	8,735	19,397	10,662
Bonds									
Others	5,376	5,359	(16)	6,064	6,065	0	6,365	6,391	26
Total	14,188	19,575	5,387	14,800	24,645	9,844	15,100	25,789	10,689

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

Millions of yen	September 30, 2003	September 30, 2004	March 31, 2004
Bonds being held to maturity			
Unlisted bonds	5,998	7,598	10,977
Other marketable securities:			
Unlisted stocks (excluding over-the-counter stocks)	1,232	1,116	1,217
Investment trust	4,745	5,082	5,064

Important matters occurring subsequent to report term

No matter falls under this category.