



## Nonconsolidated 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
Interim Dividend Disbursement (Initial payment):	December 10, 2004
Interim Dividend System:	Yes
Application of unit trading system:	Yes (100 shares per unit)

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

#### (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, 2003	76,145	4.4	3,163	46.6	4,271	(10.9)
September 30, 2004	78,871	3.6	3,291	4.0	5,477	28.2
March 31, 2004	153,433		5,640		7,279	

Six months (Year) ended	Net income		Net income per share	
	(Millions of yen)	%	(Yen)	%
September 30, 2003	3,383	7.4	11.14	
September 30, 2004	3,588	6.1	11.82	
March 31, 2004	5,473		17.83	

(Notes)

- Average number of shares outstanding at the interim term of the fiscal year:  
September 2004 interim term: 303,735,310 shares      September 2003 interim term: 303,817,724 shares  
March 2004 term: 303,801,328 shares
- Changes in accounting methods: None
- 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 per share	Annual dividends per share
	(Yen)	(Yen)
September 30, 2003	4.50	-
September 30, 2004	5.50	-
March 31, 2004	-	10.00

(Note) Interim dividends for the interim term of fiscal 2004:  
Commemorative dividend 0 yen, Special dividend 0 yen

**(3) Nonconsolidated financial position**

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2003	198,594	142,890	72.0	470.33
September 30, 2004	200,937	147,938	73.6	487.10
March 31, 2004	199,065	146,610	73.6	482.52

(Notes)

- Total number of shares outstanding at the interim term closing:  
September 2004 interim term: 303,714,989 shares      September 2003 interim term: 303,806,574 shares  
March 2004 term: 303,768,304 shares
- Number of treasury stock at the interim term closing:  
September 2004 interim term: 7,788,061 shares      September 2003 interim term: 7,696,476 shares  
March 2004 term: 7,734,746 shares

**2. Projected Results for Fiscal 2004 (April 1, 2004 to March 31, 2005)**

	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	163,000	10,000	7,000	5.50	11.00

Reference:

- Estimated earnings per share (full term): 23.05 yen
- Forecast operating income (full term): 7,400 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 15 for assumptions underlying the above forecasts and precautions regarding their use.*

## Nonconsolidated Interim Balance Sheet

Millions of yen	September 30, 2003	%	September 30, 2004	%	March 31, 2004	%
<b>Current assets</b>						
Cash and cash equivalents	30,326		38,994		31,547	
Notes receivable	2,277		490		1,023	
Accounts receivable	33,832		35,900		33,226	
Marketable securities	7,498		10,083		13,508	
Inventories	11,919		11,237		11,847	
Accrued consumption tax	1,693		889		980	
Deferred tax assets	3,456		3,361		3,060	
Deposits	10,109		4,386		5,097	
Other accounts receivable	6,039		6,340		6,119	
Other	2,613		1,820		1,894	
Allowance for doubtful accounts	(610)		(650)		(663)	
	<u>109,157</u>	55.0	<u>112,855</u>	56.2	<u>107,643</u>	54.1
<b>Fixed assets</b>						
<b>Property, plant and equipment</b>						
Buildings and structures	15,606		14,626		14,937	
Machinery and equipment	14,389		13,051		13,538	
Other	7,352		7,193		7,234	
	<u>37,348</u>	18.8	<u>34,871</u>	17.3	<u>35,709</u>	17.9
<b>Intangible fixed assets</b>						
	767	0.4	740	0.4	812	0.4
<b>Investments and other assets</b>						
Investment securities	21,082		25,133		26,190	
Stocks of subsidiaries and affiliates	21,984		22,828		22,839	
Deferred tax assets	8,526		4,183		5,421	
Other	1,076		822		871	
Reserve for valuation loss on investments	(1,167)		(474)		(401)	
Allowance for doubtful accounts	(181)		(24)		(23)	
	<u>51,321</u>	25.8	<u>52,469</u>	26.1	<u>54,899</u>	27.6
	<u>89,436</u>	45.0	<u>88,081</u>	43.8	<u>91,422</u>	45.9
<b>Total assets</b>	<u>198,594</u>	100.0	<u>200,937</u>	100.0	<u>199,065</u>	100.0

### Reference:

Millions of yen	September 30, 2003	September 30, 2004	March 31, 2004
Capital expenditures	2,636	3,273	5,612
Depreciation	3,706	3,522	7,926
R&D expenditures	2,486	2,535	5,133

CITIZEN WATCH

Millions of yen	September 30, 2003	%	September 30, 2004	%	March 31, 2004	%
<b>Current liabilities</b>						
Notes payable	2,487		1,030		1,232	
Accounts payable	20,493		20,013		20,496	
Short-term bank loans payable	1		1		1	
Other accounts payable	1,926		3,959		2,930	
Income taxes payable	4		158		8	
Reserve for bonuses to employees	1,067		1,124		1,115	
Other	2,302		2,276		2,180	
	<u>28,281</u>	14.2	<u>28,563</u>	14.2	<u>27,964</u>	14.1
<b>Long-term liabilities</b>						
Convertible bonds	23,000		23,000		23,000	
Long-term loans payable	4		3		3	
Reserve for defined retirement benefits	4,041		875		974	
Reserve for retirement bonuses to directors	222		231		238	
Other	153		324		273	
	<u>27,422</u>	13.8	<u>24,434</u>	12.2	<u>24,490</u>	12.3
<b>Total liabilities</b>	<u>55,703</u>	28.0	<u>52,998</u>	26.4	<u>52,454</u>	26.4
<b>Shareholders' equity</b>						
Common stock	32,648	16.4	32,648	16.2	32,648	16.4
Capital reserves						
Capital surplus	40,053		40,053		40,053	
Other capital reserves	1,263		1,267		1,265	
	<u>41,317</u>	20.8	<u>41,321</u>	20.6	<u>41,318</u>	20.7
Retained earnings						
Legal reserve	7,789		7,789		7,789	
Voluntary reserves	46,519		46,515		46,519	
Unappropriated retained profits	16,772		19,361		17,495	
	<u>71,081</u>	35.8	<u>73,666</u>	36.7	<u>71,804</u>	36.1
Net unrealized gain/loss on other marketable securities	3,148	1.6	5,707	2.8	6,180	3.1
Treasury stock	(5,305)	(2.6)	(5,405)	(2.7)	(5,342)	(2.7)
<b>Total shareholders' equity</b>	<u>142,890</u>	72.0	<u>147,938</u>	73.6	<u>146,610</u>	73.6
<b>Total liabilities and shareholders' equity</b>	<u>198,594</u>	100.0	<u>200,937</u>	100.0	<u>199,065</u>	100.0

## Nonconsolidated 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>	76,145	100.0	78,871	100.0	153,433	100.0
<b>Cost of sales</b>	65,677		67,732		132,348	
<b>Selling, general and administrative expenses</b>	7,304		7,848		15,444	
Operating income	3,163	4.2	3,291	4.2	5,640	3.7
<b>Nonoperating income</b>						
Interest and dividend income	1,362		1,522		2,162	
Rents receivable	1,480		1,377		2,949	
Foreign exchange gain	-		415		-	
Other	202		83		164	
	<u>3,044</u>	4.0	<u>3,397</u>	4.3	<u>5,276</u>	3.4
<b>Nonoperating expenses</b>						
Interest charges	0		0		0	
Depreciation expenses for rent properties	1,133		1,189		2,326	
Foreign exchange loss	765		-		1,203	
Other	37		22		107	
	<u>1,936</u>	2.5	<u>1,211</u>	1.5	<u>3,637</u>	2.4
Ordinary income	<u>4,271</u>	5.6	<u>5,477</u>	7.0	<u>7,279</u>	4.7
<b>Extraordinary gains</b>						
Gain on sales of fixed assets	-		18		200	
Gain on sales of investment securities	228		-		229	
Reversal of allowance for doubtful accounts	47		13		72	
Reversal of allowance for valuation loss on investments	-		-		766	
Other	-		-		6	
	<u>276</u>	0.4	<u>31</u>	0.0	<u>1,274</u>	0.9
<b>Extraordinary losses</b>						
Loss on disposal of properties	249		316		629	
Provision for valuation losses on investments	22		73		22	
Special severance indemnities	-		-		114	
Other	7		4		9	
	<u>278</u>	0.4	<u>393</u>	0.5	<u>774</u>	0.5
Income before income taxes	4,268	5.6	5,115	6.5	7,779	5.1
Income, inhabitant and enterprise taxes	27		265		45	
Income taxes adjustment	858		1,261		2,261	
Net income	<u>3,383</u>	4.4	<u>3,588</u>	4.5	<u>5,473</u>	3.6
Balance brought forward	13,389		15,773		13,389	
Interim dividends paid	-		-		1,367	
Unappropriated profits	16,772		19,361		17,495	

## 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 style="padding-left: 20px;">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 style="padding-left: 20px;">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  Years of useful life for principal assets  Buildings and structures: 3 – 50 years  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  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  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  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  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 years) 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  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)

Millions of yen	September 30, 2003	September 30, 2004	March 31, 2004
1. Accumulated depreciation of property, plant and equipment	120,436	117,768	120,891
2. Amount of discounted export notes	3	6	0
3. Loan guarantees	5,761	7,817	4,575
4. Number of Treasury certificates	7,696,476 shares	7,788,061 shares	7,734,746 shares

## Securities

Stocks of subsidiaries with determinable market value

Millions of yen	September 30, 2003	September 30, 2004	March 31, 2004
Stocks of subsidiaries			
Amounts on balance sheet	975	975	975
Market value	166,001	178,282	195,187
Difference	165,025	177,307	194,211

## Important matters occurring subsequent to report term

In order to improve the efficiency of operation in Watches and Clocks Segment as part of the Citizen Group's structural reform, Citizen Watch Co., Ltd.(the Company) has signed a merger agreement on January 29, 2004, and merged with a wholly-owned subsidiary, Citizen Trading Co., Ltd., a consolidated subsidiary, on October 1, 2004. Pursuant to the provisions of Paragraph 3 of Article 413 of the Commercial Code of Japan, the Company performed the merger without the approval of the merger agreement at the meeting of shareholders.

Outline of the merger is as follows:

(1) Effective date of merger

October 1, 2004

(2) Method of the merger

The Company absorbed Citizen Trading Co., Ltd., which has subsequently dissolved. There was no issuance of new shares nor increase in capital upon this merger.

(3) The Company took over all of the assets and liability, rights and obligation of Citizen Trading Co., Ltd. on the effective date of merger.

The financial position of Citizen Trading Co., Ltd. as of September 30, 2004 is as follows:

Total assets	18,530 million yen
Total liabilities	16,611 million yen
Total shareholders' equity	1,919 million yen