

August 16, 2005

## Consolidated Financial Statements for the Three Months Ended June 30, 2005

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/>)

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### 1. Matters concerning preparation for consolidated financial results for the three months ended June 30, 2005

- (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: 58  
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 31, 2005)  
Consolidation (Newly added): 3; (Eliminated): 2  
Equity method (Newly added): 0; (Eliminated): 0

### 2. Results for the three months ended June 30, 2005

#### (1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)		(Millions of yen)		(Millions of yen)	
Three months ended June 30, 2005	77,408	-15.0%	5,209	-52.3%	5,806	-51.7%
Three months ended June 30, 2004	91,117	8.5%	10,917	91.9%	12,019	87.4%
Year ended March 31, 2005	357,288	-4.9%	37,092	4.5%	40,118	13.4%

	Net income		Earnings per share	Fully diluted earnings per share
	(Millions of yen)		(Yen)	(Yen)
Three months ended June 30, 2005	3,417	-43.4%	11.35	10.40
Three months ended June 30, 2004	6,033	74.9%	19.83	18.18
Year ended March 31, 2005	20,233	3.9%	65.97	60.45

#### Breakdown of Sales by Business Segment

Millions of yen	Three months ended June 30, 2005	Three months ended June 30, 2004	Change	
			Amount	%
Watches and clocks	27,401	28,026	-624	-2.2%
Electronic devices	27,897	39,680	-11,782	-29.7%
Electronic products	5,272	6,671	-1,399	-21.0%
Industrial machinery	8,596	7,844	751	9.6%
Other products	8,240	8,894	-654	-7.4%
Consolidated totals	77,408	91,117	-13,708	-15.0%

## Breakdown of Operating Income by Business Segment

Millions of yen	Three months ended June 30, 2005	Three months ended June 30, 2004	Change Amount	%
Watches and clocks	3,546	4,243	-696	-16.4%
Electronic devices	1,902	6,520	-4,617	-70.8%
Electronic products	516	605	-89	-14.8%
Industrial machinery	1,043	935	108	11.6%
Other products	200	363	-163	-44.9%
Eliminations or general corporate	(2,001)	(1,751)	-249	-
Consolidated totals	5,209	10,917	-5,707	-52.3%

Note: From this year, information and electronic equipment business is disclosed in 2 segments; electronic devices and electronic products. Electronic devices business includes opto devices, LCD, quartz devices, and other parts. Electronic products business includes printers and calculators, and healthcare equipment.

Consolidated net sales for the first quarter decreased by 15.0% from the same period of last year to 77.4 billion yen and consolidated operating income declined by 52.3% to 5.2 billion yen. Other than industrial machinery business, which had strong orders from both domestic and overseas market, operating result was severe especially in electronic devices business, which depends heavily on cell phone market.

### Watches and clocks business

Sales of Citizen brand watches increased in the Japanese market due to the continuing strong sales of full-metal Eco-Drive radio-controlled watches and, well-received ladies' radio-controlled watches, which were launched this June. In the overseas market, sales increased in all areas, North America, Europe, Asia and Central and South America. Sales increased particularly in Italy where radio-controlled watches were already introduced, and India where sales channel has been enforced. Sales increased in Q&Q brand, which is selling well to Central and South America and Middle East, and in OEM, which has steady sales to Spanish market. As for the movement, although the market is getting stable and showing recovery, it could not recover the first 2 months' low sales, resulting in a huge sales decline. Consequently, sales of watches and clocks business decreased by 2.2% from the same period of last year to 27.4 billion yen, and operating income decreased by 16.4% to 3.5 billion yen.

### Electronic devices business

In Opto-devices segment, which heavily depends on cell phone market, sales declined substantially. This decline was triggered by the lower-than-expected sales of flash LED for camera-equipped cell phones and back light units for cell phones resulting from the continuing weak Japanese market, and the delay and downward revision in production of medium to high end models in which camera-equipped percentage is high. Sales of liquid crystal devices segment also decreased significantly due to the declining orders for color cell phones in overseas market and delay of plans from customers. Although the market condition is showing a recovery in quartz devices segment, quartz oscillators could not reach the projected target, resulting in sales decline. As a consequence, sales of electronic devices business decreased by 29.7% from the same period of last year to 27.8 billion yen, and operating income by 70.8% to 1.9 billion yen.

### Electronic products business

In information equipment, such as printers, sales of printers for POS for domestic market and mini-printers for calculators overseas did not reach the projection due to inventory adjustment in the market. However, orders increased in photo printers and large dot matrix printers for China. In healthcare equipment, Citizen brand products had steady sales in Japan, but OEM for overseas suffered due to the Taiwanese low-end products. Electronic products such as calculators, also struggled because of the delay in sales to Russia and East Europe, and flood of counterfeit products in Asia. Consequently, sales of electronic products business decreased by 21.0% from the same period of last year to 5.2 billion yen, and operating income by 14.8% to 0.5 billion yen.

### Industrial machinery business

Although the main CNC automatic lathes is losing the strength of orders in the Japanese market, demand increased in Asia for HDD, and in America for medical-related use. Europe as a whole was steady despite stagnation in some countries. Due to the strong orders and sales overall, sales of the industrial machinery business overall increased by 9.6% from the same period of last year to 8.5 billion yen, and operating income increased by 11.6% to 1.0 billion yen.

### Other products business

Sales in the jewelry segment and eyeglasses segment declined due to the continuing weak Japanese economy. Pachinko-related products also had lower sales as the sale of paper-bill conveyance machine was weak due to the reaction to the previous year's special demand from issuance of new paper bills. Consequently, sales of other products business declined by 7.4% from the same period of last year to 8.2 billion yen, and the operating income by 44.9% to 0.2 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, 2005	390,588	243,997	62.5	810.45
Three months ended June 30, 2004	392,955	230,366	58.6	758.43
Year ended March 31, 2005	390,565	240,888	61.7	799.28

Total assets as of June 30, 2005 totaled to 390.5 billion yen which is about the same level as March 31, 2005. Notes and accounts receivable decreased 1.5 billion yen due to the sales decline. Inventories increased 2.2 billion yen in watches and industrial machinery segment from seasonal reasons. Short-term bank loans payable decreased 2.1 billion yen due to decrease of subsidiaries overseas. In the shareholders' equity, retained earnings increased 1.5 billion yen due to recognition of net income.

## 3. Consolidated Projected Results for the Year ending March 31, 2006

Considering the results for the three months ended June 30, 2005, and the current situation, the consolidated projected results for the six months ending September 30, 2005 and the year ending March 31, 2006 are revised as below from the previous announcement.

The exchange rate for the fiscal year ending May 31, 2006 is assumed as 1US\$ = ¥106 and 1EURO = ¥132. (Exchange rate for the first quarter was 1US\$ = ¥106 and 1EURO = ¥138.)

### Consolidated projection for the six months ending September 30, 2005

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Previous projection (May 16, 2005)	175,500	16,000	17,000	7,500
Current projection	163,000	12,000	13,000	6,500
Amount of change	-12,500	-4,000	-4,000	-1,000
% of change	-7.1%	-25.0%	-23.5%	-13.3%
Six months ended September 30, 2004	183,690	20,334	22,906	11,589

(Ref.) EPS(for six months ending September 30, 2005) : 21.59 yen

CITIZEN WATCH

**Breakdown of Sales by Business Segment**

Millions of yen	Current projection	Previous projection (May 16, 2005)	Change	
			Amount	%
Watches and clocks	58,500	58,500	0	0.0%
Electronic devices	57,000	67,000	-10,000	-14.9%
Electronic products	12,000	14,000	-2,000	-14.3%
Industrial machinery	18,000	18,000	0	0.0%
Other products	17,500	18,000	-500	-2.8%
<b>Consolidated totals</b>	<b>163,000</b>	<b>175,500</b>	<b>-12,500</b>	<b>-7.1%</b>

**Breakdown of Operating Income by Business Segment**

Millions of yen	Current projection	Previous projection (May 16, 2005)	Change	
			Amount	%
Watches and clocks	8,000	8,000	0	0.0%
Electronic devices	4,500	8,000	-3,500	-43.8%
Electronic products	1,000	1,200	-200	-16.7%
Industrial machinery	2,500	2,500	0	0.0%
Other products	200	500	-300	-60.0%
Eliminations or general corporate	(4,200)	(4,200)	0	-
<b>Consolidated totals</b>	<b>12,000</b>	<b>16,000</b>	<b>-4,000</b>	<b>-25.0%</b>

**Consolidated Projected Results for the Year ending March 31, 2006**

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Previous projection (May 16, 2005)	371,000	39,000	41,000	21,500
Current projection	339,000	28,500	30,500	16,000
Amount of change	-32,000	-10,500	-10,500	-5,500
% of change	-8.6%	-26.9%	-25.6%	-25.6%
Six months ended September 30, 2004	357,288	37,092	40,118	20,233

(Ref.) EPS(for the year ending March 31, 2006) : 45.70 yen

**Breakdown of Sales by Business Segment**

Millions of yen	Current projection	Previous projection (May 16, 2005)	Change	
			Amount	%
Watches and clocks	123,500	123,500	0	0.0%
Electronic devices	113,000	143,000	-30,000	-21.0%
Electronic products	27,500	29,500	-2,000	-6.8%
Industrial machinery	37,000	37,000	0	0.0%
Other products	38,000	38,000	0	0.0%
<b>Consolidated totals</b>	<b>339,000</b>	<b>371,000</b>	<b>-32,000</b>	<b>-8.6%</b>

**Breakdown of Operating Income by Business Segment**

Millions of yen	Current projection	Previous projection (May 16, 2005)	Change	
			Amount	%
Watches and clocks	19,000	19,000	0	0.0%
Electronic devices	9,500	18,700	-9,200	-49.2%
Electronic products	2,200	2,800	-600	-21.4%
Industrial machinery	5,500	5,500	0	0.0%
Other products	800	1,500	-700	-46.7%
Eliminations or general corporate	(8,500)	(8,500)	0	-
<b>Consolidated totals</b>	<b>28,500</b>	<b>39,000</b>	<b>-10,500</b>	<b>-26.9%</b>

Among the largely revised electronic devices segment, in opto-devices, according to the previous forecast, big European and American cell phone manufacturers were planning to produce middle to high-end products, such as camera phones, and thus, the Company was planning to sell high-intensity LED used for flash to those high-end market. However, due to the large increase in production of low-end products, delay in manufacturing middle to high-end products and downward revision of mass production, flash LED resulted in a huge decline both in volume and sales compared to the previous forecast. With regard to back light units for cell phones, although sales was planned to increase by getting new customers, volume and sales declined substantially as a result of the decline in unit price of traditional products. As in the previous forecast, sales was planned to increase toward the 3<sup>rd</sup> quarter from the launch of new products, and there actually is a trend as such, but because that power is not strong enough to recover the loss not achieved in the first quarter, sales of opto devices for the year has been revised downward by 21.5 billion yen. The Company expects to grow in the medium term by expecting the cell phone manufacturers to start manufacturing middle and high-end products, and by developing new products such as LED for general lighting and automobiles, whose market is expected to expand.

LCD devices in electronic devices business also could not reach the plan as the Chinese inventory adjustment has not recovered, and decrease and delay in orders occurred from the expected new customers. Looking at the current situation, as there is no sign of upturn and because it was considered difficult to achieve the previous forecast, sales forecast for the year is revised downward by 6.0 billion yen. The Company will endeavor to get new customers and increase sales of active aberration compensation element for DVD.

With regard to printers in electronic products business, due to the delay in large projects of POS printers in Japan and USA, delay from inventory adjustment from suppliers of printers for calculators, and decline in purchasing calculators and AV products, it is difficult to recover the sales by September. Moreover, it is unclear whether the sales would increase in the second half, sales for the year is revised downward by 2.0 billion yen. Toward the second half, the Company will develop strategies for new business of color photo printers and large dot-matrix printers for China which already has some preceding orders.

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, 2004	%	As of June 30, 2005	%	As of March 31, 2005	%
<b>Current assets</b>						
Cash and cash equivalents	101,956		113,711		113,577	
Notes and accounts receivable	85,336		76,697		78,229	
Marketable Securities	14,208		14,004		14,093	
Inventories	56,354		52,755		50,469	
Other current assets	18,497		17,726		16,757	
	<u>276,352</u>	70.3	<u>274,896</u>	70.4	<u>273,126</u>	69.9
<b>Fixed assets</b>						
Property, plant and equipment	77,511	19.7	77,805	19.9	76,929	19.7
Intangible fixed assets	1,088	0.3	1,103	0.3	1,099	0.3
Investments and other assets	38,001	9.7	36,783	9.4	39,410	10.1
	<u>116,602</u>	29.7	<u>115,692</u>	29.6	<u>117,438</u>	30.1
<b>Total assets</b>	<u>392,955</u>	100.0	<u>390,588</u>	100.0	<u>390,565</u>	100.0

	As of June 30, 2004	%	As of June 30, 2005	%	As of March 31, 2005	%
<b>Current liabilities</b>						
Notes and accounts payable	46,645		36,973		36,845	
Short-term bank loans payable	8,389		4,438		6,559	
Other	41,016		38,903		39,416	
	<u>96,051</u>	24.5	<u>80,315</u>	20.5	<u>82,820</u>	21.2
<b>Long-term liabilities</b>						
Bonds with subscription right for new shares	23,000		23,000		23,000	
Long-term loans payable	72		2		2	
Reserve for defined retirement benefits	11,159		10,274		10,156	
Other	4,398		2,909		3,935	
	<u>38,631</u>	9.8	<u>36,186</u>	9.3	<u>37,095</u>	9.5
<b>Total liabilities</b>	<u>134,682</u>	34.3	<u>116,501</u>	29.8	<u>119,916</u>	30.7
<b>Minority interests</b>	27,906	7.1	30,089	7.7	29,760	7.6
<b>Shareholders' equity</b>						
Common stock	32,648	8.3	32,648	8.4	32,648	8.4
Capital reserves	39,023	9.9	39,027	10.0	39,027	10.0
Retained earnings	160,671	40.9	174,707	44.7	173,173	44.3
Net unrealized gain/loss on other marketable securities	7,031	1.8	8,298	2.1	7,357	1.9
Foreign currency translation adjustments	(3,517)	(0.9)	(2,549)	(0.6)	(3,185)	(0.8)
Treasury stock	(5,491)	(1.4)	(8,135)	(2.1)	(8,133)	(2.1)
Total shareholders' equity	<u>230,366</u>	58.6	<u>243,997</u>	62.5	<u>240,888</u>	61.7
<b>Total liabilities, minority interest and shareholders' equity</b>	<u>392,955</u>	100.0	<u>390,588</u>	100.0	<u>390,565</u>	100.0

## Consolidated Statement of Income

Millions of yen	Three months ended June 30, 2004		Three months ended June 30, 2005		Year ended March 31, 2005	
		%		%		%
<b>Net sales</b>	91,117	100.0	77,408	100.0	357,288	100.0
<b>Cost of sales</b>	63,304	69.5	54,340	70.2	247,075	69.2
Gross profit	27,813	30.5	23,067	29.8	110,212	30.8
<b>Selling, general and administrative expenses</b>	16,895	18.5	17,858	23.1	73,120	20.4
Operating income	10,917	12.0	5,209	6.7	37,092	10.4
<b>Nonoperating income</b>						
Interest and dividend income	326		332		1,072	
Foreign exchange gain	417		41		622	
Other	601		488		2,562	
	1,346	1.5	861	1.1	4,257	1.2
<b>Nonoperating expenses</b>						
Interest charges	51		16		194	
Other	192		247		1,037	
	244	0.3	264	0.3	1,231	0.4
Ordinary income	12,019	13.2	5,806	7.5	40,118	11.2
<b>Extraordinary gains</b>	13	0.0	44	0.1	879	0.3
<b>Extraordinary losses</b>	158	0.2	146	0.2	2,946	0.8
Income before income taxes	11,874	13.0	5,703	7.4	38,051	10.7
Income taxes	4,466	4.9	1,805	2.4	13,596	3.8
Minority interests	1,373	1.5	480	0.6	4,221	1.2
Net income	6,033	6.6	3,417	4.4	20,233	5.7