

**NOTICE OF THE 122nd ORDINARY GENERAL MEETING OF
SHAREHOLDERS**

[Disclaimer: Please note that the following purports to be a translation from the original Japanese version prepared for the convenience of our shareholders with voting rights outside Japan for reference. In the case of any discrepancy between the translation and the Japanese original, the latter shall prevail. Please also be advised that certain expressions for domestic voting procedures that are not applicable to the aforesaid shareholders are omitted or modified to avoid confusion. All financial information has been prepared in accordance with generally accepted accounting principles in Japan.]

Dear shareholders,

You are cordially invited to attend the 122nd Ordinary General Meeting of Shareholders of Citizen Holdings Co., Ltd. (the "Company"), which will be held as described below.

If you cannot attend on that day, you can exercise your voting right in either of the following ways. Please review "Reference Materials for General Meeting of Shareholders" below and exercise your voting right by no later than 5:45 pm on Monday, June 25, 2007.

Exercise voting right by mail

Indicate your approval or otherwise on the enclosed Voting Right Exercise Form and send it to us to arrive by the above deadline.

Very truly yours,

Makoto Umehara
President and CEO
Citizen Holdings Co., Ltd.
6-1-12 Tanashi-cho,
Nishitokyo, Tokyo

1. **Time and Date:** 10 a.m. on Tuesday, June 26, 2007
2. **Place:** Shinjuku Washington Hotel, Main building 3F "Subaru"
3-2-9 Nishi-Shinjuku, Shinjuku-ku, Tokyo

* The meeting venue is different from last year. Confirm the location of the new venue by referring to the Map of Venue of the General Meeting of Shareholders, appended at the end of this document.

3. **Agenda:**
Matters to be reported:
 - Item 1:** Business Report, consolidated accounts, and audit report of the consolidated accounts by the Independent Auditors and Board of Corporate Auditors for the 122nd term (April 1, 2006 to March 31, 2007)
 - Item 2:** Report of the accounts for the 122nd term (April 1, 2006 to March 31, 2007)

Matters to be resolved:

- Item 1:** Appropriation of Retained Earnings
- Item 2:** Reduction of Capital Reserve and Profit Reserve
- Item 3:** Election of Ten Directors
- Item 4:** Payment of Directors' Bonus
- Item 5:** Revision of Amount of Directors' Compensation
- Item 6:** Revision to Amount of Corporate Auditors' Compensation
- Item 7:** Approval of Policies for Large-Scale Purchase of the Company's Stock (Anti-Takeover Measures)

- Note: 1) Upon attending the meeting, please submit the enclosed voting right exercise form to the reception desk.
2) We will post any revisions we make to the Reference Materials for General Meeting of Shareholders, the Business Report, or accounts and consolidated accounts on our website (<http://www.citizen.co.jp>).

BUSINESS REPORT

From April 1, 2006 to March 31, 2007

1. CURRENT SITUATION OF THE GROUP

(1) Overview of Operations during the Fiscal Year

a) Review of Operations

During the fiscal year under review, although uncertain factors remained including the rising price of crude oil and raw materials around the world and setbacks in the U.S. housing market, the Japanese economy remained largely favorable, which resulted in improved corporate earnings and a high level of private capital investment.

Under these conditions, the Citizen Group became more competitive and made efforts to grow by deciding to shift to a pure holding company system, for instance, with a view to increasing the corporate value of the Group further.

On the sales front, in watches and clocks, Citizen introduced watches that it had vigorously added value to, such as Eco-Drive and radio-controlled watches that use leading-edge technologies to differentiate the Citizen brand from others. As a result, sales increased. In electronic devices, although our plan was to considerably expand the use of flash LEDs from camera phones in our core market of mobile phones, intense price competition and weak demand of adopted models resulted in significantly lower results than planned at the beginning of the year. In electronic products, sales were boosted by our introduction of new products and active sales activities for large printers for China, and for our business photo printers. In industrial machinery, our proactive sales activities that catered to our customers' needs, in addition to steady growth in global capital expenditure, contributed to increased sales. In other products, sales significantly decreased in pachinko-related products, hampered by lower motivation to invest in peripheral products in anticipation of investment costs that will arise from switching to new pachinko machines.

As a result, consolidated net sales for the fiscal year increased to 336.188 billion yen (up 0.1% from the previous fiscal year) with operating income decreasing to 21.92 billion yen (down 28.2% yoy), and ordinary income falling 25.991 billion yen (down 25.0% yoy). Also, net income decreased to 7.145 billion yen (down 61.6% yoy) because of extraordinary losses. These extraordinary losses consisted of an impairment loss of 6.825 billion yen, a loss on retirement of fixed assets of 2.554 billion yen, restructuring losses of 0.618 billion yen, and other losses to take drastic steps for each product in the electronic devices business.

[Watches and Clocks]

In the Japanese watch market, foreign high-end brands continue to sell strongly, which makes it tough for Japanese brands to compete. However, Citizen has continued to introduce new models in the Eco-Drive range of radio-controlled watches that always lead the market, which is the key factor to our increased sales. In particular, ladies' radio-controlled watches from the XC brand sold well owing to our introduction of new products during both the Christmas sales season in December and the freshmen's sales campaign in March, as well as our holding of fairs at major selling outlets across the country.

Sales in the overseas watch market increased, resulting in increased revenue, because of the upbeat global economy, strong dollar, strong euro, and higher sales of high-value added products including Eco-Drive. The higher sales and the resulting increased revenue in North America, our most important market, arose because we continued to introduce high-value added products with the Eco-Drive function, and because of our advertising that featured prominent athletes. In Europe, our introduction of high-value added products such as Eco-Drive radio-controlled watches in Europe's largest market, Germany, led to an increase in sales. Italy and the UK also saw increased sales thanks to our high-value added products strategy. In the Chinese market, which has continued to see phenomenal growth, high-value added products with the Eco-Drive function became more popular, and this resulted in higher sales. In India, an increase in the number of specialty stores contributed to more sales channels and consequently increased sales.

Our Q&Q brand posted lower sales revenue owing to the global trend of a shrinking low-end watch market. In terms of results by region, sales revenue increased in North, Central, and South America. Revenue also increased in Japan where new radio-controlled watches drove sales. Europe, Asia, and the Middle East saw lower revenue.

Sales of licensed brands increased because of favorable market conditions in North America and Europe, our introduction of high-value added products, and an improvement in customer services.

Although high-value added movements such as multi-hand and mechanical ones sold well, the movement business as a whole saw slightly lower sales as Citizen continued to prioritize maintaining the price of standard movements for 6x8 sized movements that suffered from dramatic price declines in the market, and as a result the sales volume was limited.

Sales of clocks fell because of lower demand for large-lot special order products and weak sales at stores.

Consequently, consolidated sales in the watches and clocks business increased to 132.987 billion yen (up 6.4% from the previous fiscal year).

[Electronic Devices]

In OPTO devices, Citizen focused on developing low cost products for our core products of chip LEDs and backlight units, for the continuously growing low-end mobile phone market and to gain market share in the volume zone. In addition, for the mid- to high-end market, Citizen focused on boosting sales of high-value added products such as flash LEDs for camera phones as well as new product development and sales increases including the introduction of new light units for key lighting, in anticipation of customer needs. Our challenge to develop new markets such as general lighting, backlights for mid- to large size liquid crystals, automobiles, and game machines delivered results to a certain degree, but they were not sufficient to offset the low sales of our core chip LEDs for mobile phones and backlight units.

Sales of optic sensors increased considerably owing to dramatic volume increases of our main IrDA products.

In liquid crystal devices, although there were steady sales of our unique active aberration compensation element for DVD pickups, sales of the segment as a whole declined with decreased sales of our core mobile phone devices because of our strategy of selective orders.

In quartz devices, our core product segment of cylinder-type tuning fork oscillators saw lower sales for watches offset by strong sales in products for personal computers, and peripheral devices and audio-visual devices. Small tuning fork SMD oscillators, which we are focusing on at the moment, posted a significant sales increase thanks to new products for mobile phones, and this gave us a foothold to improve our profit and loss account. There were steady sales of high frequency quartz oscillators, primarily those for automobiles and audio-visual devices. TCXO for mobile phones struggled because of the slow shift to small products and there were lower orders because of inventory adjustments.

Of other electronic devices, switches as a whole recorded a large sales increase compared with the previous year, with small switches posting solid results as a side-push type product became a de facto standard in South Korea and China, and new key sheet modules contributed greatly to higher sales. Although our sales activities were successful as large mobile phone manufacturers decided to adopt our acoustic products in several models, their delays in production and their inventory problems resulted in low sales and continued deterioration of our business performance.

As a result, consolidated sales in electronic devices as a whole declined to 99.167 billion yen (down 10.8% compared with the previous year).

[Electronic Products]

Sales of small printers steadily increased mainly for POS and KIOSK use. In addition, large printers for China and business photo printers reported a significant sales increase owing to our introduction of new products and proactive sales activities. In healthcare equipment, although sales for the Japanese market declined because of intensifying competition, sales for overseas markets increased in the Americas and other markets thanks to the penetration of our own-brand products. There were slightly lower sales of calculators and other devices compared with last year, and domestic sales declined because of sluggish corporate and gift demand, while overseas sales increased with the expansion of our main markets of Russia and Eastern Europe and the restructuring of sales networks in Western Europe.

As a result, consolidated sales in electronic products as a whole increased to 27.778 billion yen (up 10.7% compared with the previous year).

[Industrial Machinery]

Our core product of CNC automatic lathes enjoyed improved sales driven by steady demand that continued from last year. In the Japanese market, there was continued strong performance in various sectors including automobiles, probes, medical equipment, and precision machinery, and we posted a significant sales increase, aided by large events that were held, such as the Japan International Machine Tool Fair (JIMTOF).

Among the overseas markets, Asia experienced unstable market conditions such as production adjustment in automobiles and hard disk drives (HDD) in the ASEAN countries, a rise in raw materials costs, and chronic shortage of labor and policy-driven decreases in capital expenditure in China. Consequently, the Company recorded a decline in sales. On the other hand, we saw increased demand in the medical and other industries by meeting needs, such as those for updating facilities, and we enjoyed the popularity of our new product "A20" among automobile and others industries in the market. Our sales increased in the US market. In European markets, on the back of strong capital investment in medical and job shop industries, our proactive sales activities contributed to a significant sales increase. The higher sales in European markets more than offset the sales decrease in Asian markets, resulting in considerably boosted sales for the overseas market as a whole.

Of other machinery, although measuring machinery for the automobile and bearing industries was affected by the market conditions, assembling machinery recorded higher sales on the back of strong automobile and amusement industries.

Consequently, consolidated sales of industrial machinery as a whole increased to 44.285 billion yen (up 19.1% compared with last year).

[Other Products]

The jewelry business was beset by slower sales activities in high-value items and sluggish demand caused by high prices of platinum and gold and as a result of the review of excessive selling on credit. Sales of pachinko related products fell below last year's results because of lower investment in peripheral equipment, as revisions to the game machine rules meant there were expectations of costs to switch game machines.

As a result, consolidated sales of other products as a whole decreased to 31.970 billion yen (down 14.8% compared with the previous year).

[Sales by Business Segment]

Business segment	Amount (Millions of yen)	Percentage of total	Change from the previous year
Watches and Clocks	132,987	39.6%	6.4%
Electronic Devices	99,167	29.5%	-10.8%
Electronic Products	27,778	8.3%	10.7%
Industrial Machinery	44,285	8.3%	19.1%
Other Products	31,970	9.4%	-14.8%
Total	336,188	100.0%	0.1%

b) Capital expenditures

Capital expenditures during the year under review totaled 29,032 million yen.

- 1) 7,484 million yen for production facilities in Watches and Clocks
- 2) 15,007 million yen for production facilities in Electronic Devices
- 3) 791 million yen for production facilities in Electronic Products
- 4) 1,768 million yen for production facilities in Industrial Machinery

c) Financing

The Company did not issue any stocks or bonds during the fiscal year ended March 31, 2007.

d) Acquisition or disposition of stocks, other equity interests, or stock acquisition rights of other companies

Pursuant to the "Capital and Business Partnership Agreement" entered into with Miyano Co., Ltd. on January 15, 2007, the Company acquired 17,500,000 of their common stock (29.9% of their total shares outstanding) on January 24.

(2) Assets and Profit and Loss during the Last Three Fiscal Years

a) Assets and profit and loss of the Group

(Millions of yen)

	119 th (FY2003)	120 th (FY2004)	121 st (FY2005)	122 nd (FY2006)
Net sales	375,715	357,288	335,940	336,188
Ordinary income	35,392	40,118	34,634	25,991
Net income	19,465	20,233	18,594	7,145
Net income per share (yen)	63.31	65.97	53.23	19.43
Total assets	391,526	390,565	402,497	382,971
Net assets	224,855	240,888	276,411	254,426
Net assets per share (yen)	739.45	799.28	728.43	728.49

Notes:

1. Earnings per share is calculated based on the number of shares deducting the average total number of treasury stock during the term from the average total number of shares outstanding during the term. Net assets per share is calculated based on the number of shares deducting the total number of treasury stock at the fiscal year-end from the total number of shares outstanding at the fiscal year-end.
2. Starting with the fiscal year ended March 31, 2007, the Company has applied the Accounting Standards for Presentation of Net Assets on the Balance Sheet (Business Accounting Standards No. 5 dated December 9, 2005) and the Application Guide for the Accounting Standards for Presentation of Net Assets on the Balance Sheet (Application Guide for Business Accounting Standards No. 8 dated December 9, 2005).

b) Assets and profit and loss of the Company

(Millions of yen)

	119 th (FY2003)	120 th (FY2004)	121 st (FY2005)	122 nd (FY2006)
Net sales	153,433	155,650	158,320	169,613
Ordinary income	7,279	9,946	14,233	18,317
Net income	5,473	6,538	8,773	13,430
Net income per share (yen)	17.83	21.37	25.25	36.51
Total assets	199,065	202,512	230,890	209,920
Net assets	146,610	149,177	169,348	149,365
Net assets per share (yen)	482.46	495.28	446.54	430.89

Notes:

1. Earnings per share is calculated based on the number of shares deducting the average total number of treasury stock during the term from the average total number of shares outstanding during the term. Net assets per share is calculated based on the number of shares deducting the total number of treasury stock at the fiscal year-end from the total number of shares outstanding at the fiscal year-end.
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(3) Details of Important Subsidiaries

Name	Capital (million)	Shares held by the Company	Major Business
Japan CBM Corporation	¥2,356	100.0%	Watches and Clocks
Citizen Systems Japan Co., Ltd.	¥450	100.0%	Electronic Products
Citizen Electronics Co., Ltd.	¥1,988	100.0%	Electronic Devices, etc.
Citizen Fine Tech Co., Ltd.	¥1,758	100.0%	Watches and Clocks, Electronic Devices, etc.
Citizen Miyota Co., Ltd.	¥1,753	100.0%	Watches and Clocks, Electronic Devices, etc.
Citizen Machinery, Co., Ltd.	¥498	100.0%	Industrial Machinery
Citizen Displays Co., Ltd.	¥450	100.0%	Electronic Devices
Citizen Seimitsu Co., Ltd.	¥346	100.0%	Watches and Clocks, Electronic Devices, etc.
Sayama Precision Co., Ltd.	¥198	100.0%	Watches and Clocks, Other Products, etc.
Citizen Heiwa Watch Co., Ltd.	¥80	100.0%	Watches and Clocks, Electronic Devices, etc.
Citizen Watch Company of America Inc.	US\$32.5	100.0%	Watches and Clocks
Citizen Watch Europe GmbH	EUR10.22	100.0%	Watches and Clocks
Citizen Watches (H.K.) Ltd.	HK\$10	100.0%	Watches and Clocks
Citizen System (H.K.) Ltd.	HK\$58	100.0% (27.6%)	Electronic devices and Electronic Products
Sunciti Manufacturers Ltd.	HK\$9.68	100.0%	Watches and Clocks

Note: Shares held by the Company represent the total percentage of direct and indirect shareholdings by the Company and figures in parentheses represent the percentage of indirect shareholdings within the total.

(4) Issues to Address

Japan's business outlook is estimated to continue to improve gradually and economic growth in BRIC and other countries is expected to stimulate the global economy. However, skyrocketing prices of raw materials including crude oil, trade friction between the U.S. and China, and the instability in the Middle East and the Korean Peninsula make the Citizen Group's operating environment uncertain.

Under these circumstances, Citizen Group has re-structured its management strategy by taking advantage of us moving to a pure holding company system in April this year. The Citizen Group will seek to revert to the origin of the Group's history, "Manufacturing originating in Japan through highly precise, advanced technologies that are developed from DNA nurtured through the manufacturing of watches," and make ultra-minute technology, ultra-precise technology, and low power consumption technology our core competences to build an optimal business portfolio and promote business with stable income businesses and growth businesses as the two engines.

In conjunction with this, the Group will promote the following three activities: 1. reviewing the business portfolio strategy 2. enhancing governance, and 3. re-constructing the financial strategy with the emphasis on new medium-term management policies.

1. Reviewing the business portfolio strategy
 - a) Prioritizing investments in highly profitable businesses where the Group has competitive advantages
 - b) Rigorously selecting and focusing on the electronic devices business
2. Enhancing governance
 - a) Appointing outside Directors
 - b) Rigorously applying entry and withdrawal rules for a business
 - c) Clarifying the accountability system for a business and enhancing monitoring
3. Re-constructing the financial strategy
Improving capital efficiency

Also, the Group will regard this year, fiscal year 2007, as a year to re-build a robust corporate structure and focus on implementing measures to improve our profit base to strengthen the business foundation again.

By implementing the above measures, we will increase the profitability, engage in CSR activities based on the policy of "For the citizen" and operate our businesses in harmony with local community and global environment.

We thank our shareholders for their continuing support.

(5) Principal Products of Business (as of March 31, 2007)

Business segment	Principal products
Watches and Clocks	Analog, digital and combination watches, movement, external components of watches, clocks, etc.
Electronic Devices	Chip LED, backlight units, liquid crystal display devices, quartz oscillators, etc.
Electronic Products	Various kinds of printers, Healthcare equipment, calculators, etc.
Industrial Machinery	CNC automatic lathes, robots, general-purpose machine tools, measuring instruments, etc.
Other Products	Jewelry, pachinko-related products, automotive parts, jigs and tools, etc.

(6) Principal Places of Business (as of March 31, 2007)

The Company

Name	Location
Head Office	Nishitokyo, Tokyo
Tokyo Works	Nishitokyo, Tokyo
Tokorozawa Works	Tokorozawa, Saitama
Tokyo Sales Center	Nakano-ku, Tokyo

Subsidiaries and others

Name	Location
Japan CBM Corporation	Nakano-ku, Tokyo
Citizen Systems Japan Co., Ltd.	Nishitokyo, Tokyo
Citizen Electronics Co., Ltd.	Fujiyoshida, Yamanashi
Citizen Fine Tech Co., Ltd.	Kitasaku-gun, Nagano
Citizen Miyota Co., Ltd.	Kitasaku-gun, Nagano
Citizen Machinery Co., Ltd.	Kitasaku-gun, Nagano
Citizen Displays Co., Ltd.	Nishitokyo, Tokyo
Citizen Seimitsu Co., Ltd.	Minamitsuru-gun, Yamanashi
Sayama Precision Co., Ltd.	Sayama, Saitama
Citizen Heiwa Watch Co., Ltd.	Iida, Nagano
Citizen Watch Company of America Inc.	California, U.S.A.
Citizen Watch Europe GmbH	Hamburg, Germany
Citizen Watches (H.K.) Ltd.	Hong Kong
Citizen Systems (H.K.) Ltd.	Hong Kong
Sunciti Manufacturers Ltd.	Hong Kong

(7) Employees (as of March 31, 2007)

a) Consolidated

	Number of employees	Change from the previous fiscal year-end
Watches and Clocks	9,906 (1,076)	97 (173)
Electronic Devices	4,740 (458)	657 (100)
Electronic Products	1,434 (24)	-68 (6)
Industrial Machinery	694 (97)	62 (-2)
Other Products	1,192 (347)	69 (84)
General Corporate	1,270 (151)	-62 (10)
Total	19,236 (2,153)	755 (371)

Notes:

1. The number of employees covers all those engaged in operations and figures in parentheses represent average annual temporary workers in addition to the number of employees.

b) Non-consolidated

Number of employees	Change from the previous fiscal year-end	Average age	Average service years
1,466 (193)	18 (-36)	44.8	19.4

Notes:

- The number of employees covers all those engaged in operations and includes 55 employees dispatched to the Company and excludes 87 employees dispatched to other companies. Figures in parenthesis represent temporary workers in addition to the number of employees.

(8) Principal Borrowing Organization

Not applicable.

(9) Important Matters Relating to the Current Situation of the Group

The Citizen Group succeeded the businesses relating to the Quartz Devices Business Unit, those relating to the Precision Equipment Business Unit, those relating to the Electronic Devices Business Unit, and those relating to the Liquid Crystal Devices Business Unit on April 1, 2007 in accordance with the respective merger and split agreements entered into with Citizen Miyota, Citizen Machinery, Citizen Systems Japan, and Citizen Displays, on October 26, 2006.

In addition, pursuant to the new split plan created on October 26, 2006, the Group established Citizen Watch, Citizen Technology Center, and Citizen Business Expert on April 2, 2007 to take over the businesses relating to: the Watches and Clocks Business Headquarters; those relating to the MHT Development Headquarters and Intellectual Properties Division; and part of the businesses relating to the Material Division, Information Systems Division, and Hub Operation Office and Environment Management Office of the Corporate Affairs Division.

2. CURRENT SITUATION OF THE COMPANY

(1) Condition of Stocks (as of March 31, 2007)

- Total number of issuable shares: 959,752,000 shares
- Total number of shares issued: 380,353,809 shares
- Number of shareholders: 30,483
- Major shareholders (Top 10)

(Thousands of shares)

Name	Number of the Company's shares held	Voting rights ratio
Steel Partners Japan Strategic Fund Offshore LP	40,500	11.68%
The Master Trust Bank of Japan, Ltd. (trust account)	15,324	4.42%
Nippon Life Insurance Company	14,750	4.25%
The Chase Manhattan Bank N.A., London	13,342	3.85%
The Chase Manhattan Bank 385036	11,811	3.43%
The Bank of New York – JASDEC Treaty Account	10,740	3.10%
Japan Trustee Services Bank, Ltd. (trust account)	9,908	2.86%
Tokio Marine and Nichido Fire Insurance Co., Ltd.	9,585	2.77%
SSB Client Omnibus OM04	7,784	2.25%
Japan Trustee Services Bank, Ltd. (trust account 4)	7,711	2.22%

Note: The voting rights ratio is calculated after deducting 33,706,478 treasury stocks.

(2) Status of Stock Acquisition Rights (as of March 31, 2007)

- Details of the Stock Acquisition Rights held by the Directors of the Company are as follows:
 - Stock Acquisition Rights issued pursuant to the resolution of the 118th Ordinary General Meeting of Shareholders held on June 27, 2002
 - Number of Stock Acquisition Rights issued: 206
 - Type and number of shares to be issued or transferred upon exercise of Stock Acquisition Rights: 206,000 shares of common stock
 - The number of shares to be issued or transferred upon exercise of one Stock Acquisition Right is 1,000
 - Issue price of Stock Acquisition Rights: No consideration shall be paid at the time of issuance of the Stock Acquisition Rights.
 - Exercise price of Stock Acquisition Rights: 853 yen per share
 - Exercise period of Stock Acquisition Rights: From July 1, 2005 to June 30, 2008
 - Status of holdings by the directors of the Company

	Number of Stock Acquisition Rights	Number of shares to be issued or transferred upon exercise of Stock Acquisition Rights	Number of holders
Directors of the Company	28	28,000 shares	3

2) Stock Acquisition Rights issued pursuant to the resolution of the 120th Ordinary General Meeting of Shareholders held on June 29, 2005

- Number of Stock Acquisition Rights issued: 9,910
- Type and number of shares to be issued or transferred upon exercise of Stock Acquisition Rights:

991,000 shares of common stock

The number of shares to be issued or transferred upon exercise of one Stock Acquisition Right is 100

- Issue price of Stock Acquisition Rights: No consideration shall be paid at the time of issuance of the Stock Acquisition Rights.
- Exercise price of Stock Acquisition Rights: 950 yen per share
- Exercise period of Stock Acquisition Rights:

From July 1, 2007 to June 30, 2010

- Status of holdings by the directors of the Company

	Number of Stock Acquisition Rights	Number of shares to be issued or transferred upon exercise of Stock Acquisition Rights	Number of holders
Directors of the Company	1,600	160,000 shares	9

b) Other Stock Acquisition Rights

Stock Acquisition Rights issued pursuant to the resolution of the Board of Directors held on September 17, 2002

- Number of Stock Acquisition Rights issued: 4,600
- Type and number of shares to be issued or transferred upon exercise of Stock Acquisition Rights: 27,577,937 shares of common stock
- Issue price of Stock Acquisition Rights: No consideration shall be paid at the time of issuance of the Stock Acquisition Rights.
- Exercise price of Stock Acquisition Rights: 834 yen per share
- Exercise period of Stock Acquisition Rights:

From October 21, 2002 to September 23, 2009

(3) Directors and Corporate Auditors

a) Status of Directors and Corporate Auditors (as of March 31, 2007)

Title	Name
Area of Responsibility of Principal Occupations	
President and CEO*	Makoto Umehara
General Manager of Group Strategy Division	
Senior Managing Director	Tsuneo Nagai
Deputy General Manager of Group Strategy Division, General Manager of Watch Business Center	
Senior Managing Director	Mitsuyuki Kanamori
Deputy General Manager of Group Strategy Division and Group Personnel Strategy Manager, General Manager of Corporate Planning Division, Officer in charge of Group Liquid Crystal Device Business	
President and CEO of Citizen Active Co., Ltd.	
Managing Director	Toshio Koga
Group Financial Strategy Manager, General Manager of Accounting Division, President and CEO of Citizen Financial Service Co., Ltd.	
Managing Director	Osamu Yamada
General Manager of General Affairs Division and Tokyo Works	
In charge of Investor Relations Department and Environmental Management Office	
President of Aquablue Insurance Co., Inc.	
Managing Director	Kenji Sugimoto
Group Intellectual Property and Brand Strategy Manager, In charge of Intellectual Property Department, officer in charge of Materials Department, Public Relations Department and Legal Affairs Office, Officer in charge of Group Electronic Products Business and Group Industrial Machinery Business	
Director	Hisato Hiraishi
General Manager of MHT R&D Division and Tokorozawa Works	
Officer in charge of Group Crystal Device Business	
Director	Takao Suzuki
General Manager of Personnel Division, Officer in charge of Information System Department	
Director	Takashi Masuzawa
Group Development Strategy Manager, officer in charge of Group Opt Device Business	
President and CEO of Citizen Electronics Co., Ltd.	
Auditor (Full-time)	Yasuhiro Yamazaki
Auditor (Full-time)	Yosuke Iijima
Auditor (Full-time)	Takeshi Hayasaka
Auditor	Yasuhiro Okawa
President and CEO of Rhythm Watch Co., Ltd	

Notes:

- * indicates Representative Director.
- At the 121st Ordinary General Meeting of Shareholders held on June 28, 2006, Mr. Takao Suzuki was newly elected as a Director and assumed the position.
- At the 121st Ordinary General Meeting of Shareholders held on June 28, 2006, Mr. Yoshiyuki Iijima and Mr. Takeshi Hayasaka were newly elected as Corporate Auditors and assumed the position.
- On June 28, 2006, Directors Mikio Ueda and Yuzo Shirasaki retired upon completion of their term of office.
- On June 28, 2006, Corporate Auditor Takeo Kuriyama and Terumichi Imai retired upon resignation.
- The role of Tsuneo Nagai, a Senior Managing Director, changed on April 1, 2007, and he now serves as a Director.
- Both Takeru Hayasaka and Yasuhiro Okawa are outside corporate auditors.

8. Full-time Auditor Takeru Hayasaka has been running banks and factoring companies for many years and has extensive knowledge about finance and accounting.
9. In addition to the above, the details of the Company's directors and corporate auditors acting concurrently in different professional roles are as shown below:

Name	Details of concurrent roles
Company, corporate entity, or other organization served in concurrently	
Umehara Makoto	Outside director
Rhythm Watch Co., Ltd.	
Osamu Yamada	Outside corporate auditor
Star Micronics Co., Ltd.	

10. Executive officers as of March 31, 2007 are as follows:

Title	Name
Area of Responsibility of Principal Occupations	
Executive Officer	Toshio Tokura
General Manager of Watch Marketing Division	
Executive Officer	Yoshiaki Ashizawa
Deputy General Manager of Watch Marketing Division	
Executive Officer	Fumihiko Kobayashi
Deputy General Manager of Watch R&D Division and Watch Production Division	
Executive Officer	Taro Yamazaki
General Manager of Quartz Devices	
Executive Officer	Seigo Togashi
General Manager of Liquid Crystal Devices	
Executive Officer	Toshihiko Nakai
General Manager of Information & Communication Products Division	
Executive Officer	Toshio Iwasaki
General Manager of Precision Machinery Division	
Executive Officer	Katsuhiko Noguchi
Officer in charge of Electronic Device Development Promotion	

The four Executive Officers of Taro Yamazaki, Seigo Togashi, Toshihiko Nakai, and Toshio Iwasaki retired on April 1, 2007. In addition, the three Executive Officers of Toshio Tokura, Yoshiaki Ashizawa, and Fumihiko Kobayashi retired on April 2, 2007.

b) Total amount of directors' and corporate auditors' compensation

	Number of officers	Amount of compensation (million yen)
Director	9	192
Corporate Auditor (Out of which, outside corporate auditors)	4 (2)	41 (14)
Total	13	233

Notes:

1. The above compensation include bonuses for Directors of 75 million yen, which is based on the "Payment of Directors' Bonus" that the Company plans to submit at the 122nd Ordinary General Meeting of Shareholders planned for June 26, 2007.
2. The maximum allowance for compensation for Directors was set at 18 million yen per month (not inclusive of salary as employees) at the 106th Ordinary General Meeting of Shareholders held on June 27, 2001.
3. The maximum allowance for compensation for Corporate Auditors was set at 5 million yen per month at the 108th Ordinary General Meeting of Shareholders held on June 29, 2003.
4. In addition to the above figures, the Company also paid retirement benefits for executives during the current period as follows, because of the discontinuation of retirement benefits pursuant to the resolution at the 120th Ordinary General Meeting of Shareholders held on June 29, 2003:

Two retired Directors:	25 million yen
Two retired Corporate Auditors:	20 million yen
(Out of which, one outside Corporate Auditor)	11 million yen

 Out of the payments that arose because of the discontinuation of retirement benefits pursuant to the said resolution, 116 million yen is yet to be paid to eight Directors and 6 million yen is yet to be paid to one Corporate Auditor as of March 31, 2007.
5. Salary as employees (including bonus) for those who are currently Directors and employees is paid in the amount of ¥30 million in addition to the above figures.

c) Matters relating to outside executives

- 1) Concurrent positions held at other companies (when acting as an operating officer of a different company) and the relationship between such companies and the Company
 - Corporate Auditor Yasuhiro Okawa concurrently serves as a representative director and president at Rhythm Watch Co., Ltd. The Company has a business relationship relating to products, materials, and other items with Rhythm Watch. In addition, Rhythm Watch engages in sales activities in some of the sectors that the Company deals in.

2) Principal activities during the fiscal year ended March 31, 2007

Name	Title	Principal activities
Takeshi Hayasaka	Outside corporate auditor	Attended all 16 of the Board of Directors meetings as well as all 11 Corporate Auditors meetings held since he assumed the role of Corporate Auditor, out of such meetings held during the fiscal year, and made comments as needed primarily from the viewpoint of a highly experienced executive.
Yasuhiro Okawa	Outside corporate auditor	Attended 17 of the 20 Board of Directors meetings as well as all 14 Corporate Auditors meetings held during the fiscal year and made comments as needed primarily from the viewpoint of a highly experienced executive.

3) Overview of the terms of liability limitation agreements

In accordance with the provisions of Article 427, Paragraph 1 of the Corporate Law, the Company has entered into agreements with each outside Corporate Auditor that

limit the maximum liability for damages under Article 423, Paragraph 1 of the said law. The maximum amount of liability for damages based on such agreements shall be the higher of 10 million yen or the lowest total maximum liability amount stipulated by laws and regulations.

(4) Independent Auditors

a) Name: Nihonbashi Audit Corporation

b) Amount of compensation

- 1) Amount of compensation for Independent Auditors for the fiscal year ended March 31, 2007: 69 million yen
- 2) Total amount of money and other material benefits to be paid to Independent Auditors by the Company and subsidiaries: 69 million yen

Notes:

1. In the audit agreement by and between the Company and the Independent Auditors, the Company does not clearly differentiate between compensation for audits under the Corporate Law and compensation for audits under the Securities and Exchange Law. Thus, the amount stated in 1) above includes compensation for audits under the Securities and Exchange Law.
2. The financial statements of the Company's principal subsidiaries have been audited by different audit firms. Citizen Watch Company of America Inc. has been audited by KPMG LLP; Citizen Watch Europe GmbH has been audited by PKF Wirtschaftsprüfungsgesellschaft; Citizen Watches (H.K.) Ltd. has been audited by Philip Lee & Co.; Citizen Systems (H.K.) Ltd. has been audited by Deloitte Touche Tohmatsu; and Sunciti Manufacturers Ltd. has been audited by Aoba CPA Limited.

c) Decision-making policy for dismissal or non-reappointment of Independent Auditors

If the Company finds that the Independent Auditors fall under any of the Items of Article 340, Paragraph 1 of the Corporate Law, the Board of Corporate Auditors may remove those Independent Auditors with the consent of all Corporate Auditors.

In addition, if the Company finds that it is difficult for the Independent Auditors to perform their duties properly, the Directors may, at the next General Meeting of Shareholders, propose the Independent Auditors are dismissed with the consent of the Board of Corporate Auditors or at the request of the Board of Corporate Auditors.

3. System to Ensure Appropriateness of Businesses

The following is a summary of decisions on the system to ensure that the Directors perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation, and on other systems to ensure the appropriateness of the Company's business:

(1) System to ensure that the Directors perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation

To ensure proper and sound management of the Company as a whole, and to further strengthen the corporate governance practices of Directors, the Company does its utmost to establish an overall system for compliance with relevant laws and regulations and the Articles of Incorporation. This system is based on compliance with the "Citizen Code of Conduct" and on the development of an effective internal control system.

(2) System for storage and management of information relating to Directors' performance of their duties

In accordance with the provisions of internal rules, the Company properly keeps and manages Minutes of Shareholders Meetings, Minutes of Board of Directors Meetings, authorized documents, and other information relating to its duties.

At the request of Directors or Corporate Auditors, the Company is prepared for them to access such documents and information.

(3) Regulations and other systems relating to management of risks of loss

The Company clarifies the risk control system for each division and each division manages its relevant risks. Risks other than business risks are controlled cross-sectionally by the Environment Management Committee, by the activities of the Committee on Safety and Hygiene, and by other methods.

(4) System to ensure the efficient performance of Directors' duties

The Company has developed an Interim Management Plan to clarify the objectives of the Corporate Group, and clearly specified the profit targets and responsibilities for each business. Thus, the Company has established a system to ensure that all Directors properly and effectively perform their duties in their relevant business.

In addition, pursuant to the Rules on Board of Directors, the Company shall hold a regular meeting of the Board of Directors at least once a month in order to carry out efficient resolutions and reports. The Management Committee that the company has established shall carefully review important matters.

(5) System to ensure that employees perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation

The Company has stipulated the "Citizen Code of Conduct" to ensure that the employees perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation, and to ensure that the Company commits to corporate social responsibility. Pursuant to the instructions of the CSR Department under the President, the Company informs its officers and employees of this code of conduct to increase their knowledge and awareness of compliance and foster their adherence to this code of conduct, which is monitored by the CSR Committee.

The Company has also created an Internal Reporting System. In addition to protecting whistle-blowers, the Company aims to prevent losses or minimize their effects by preparing a system to properly address and complement the early awareness and voluntary correction program.

- (6) System to ensure appropriateness of business in the Corporate Group comprised of the Company and its subsidiaries

The Company has established a Group Management Strategy Committee to share and rationalize a range of information, and has each subsidiary establish a CSR Committee for compliance with the "Citizen Code of Conduct," all of which are controlled by the CSR Committee of the Company.

- (7) Matters relating to employees who assist the Corporate Auditors at their request

The Company conducts its business under a system in which three of four of the Company's corporate auditors are full-time. Until now, the Board of Corporate Auditors has not asked the Company to provide an employee to assist the Corporate Auditors in their duties. The Company may, at the request of the Corporate Auditors, have additional personnel assist the Corporate Auditors. In this case, such employee shall perform its duties under the direction of the Corporate Auditors.

- (8) Matters relating to the independence from the Directors of the employee mentioned in the preceding item

If the Company arranges for an employee to assist the Corporate Auditors at the request of the Board of the Corporate Auditors, the Board of Directors shall obtain the prior consent of the Board of the Corporate Auditors with regard to the appointment, transfer, and evaluation of such employee.

- (9) System to ensure that Directors and employees report to the Corporate Auditors or other Corporate Auditors

The Directors and employees of the Company will immediately report to the Board of Corporate Auditors or the Corporate Auditors if they become aware of any material breach of relevant laws and regulations or the Articles of Incorporation in connection with the Company's business, any wrongdoing, or any possible occurrence of such breach or wrongdoing.

In addition, the Directors and employees will promptly report any decisions that could seriously affect the Company's business or organization and the results of internal audits to the Board of Corporate Auditors.

- (10) Other systems to ensure the effectiveness of audits by the Corporate Auditors

Pursuant to the provisions of the Rules of the Board of Corporate Auditors, the President and CEO hold talks with the Corporate Auditors on a regular basis to maintain communication for the management of the Company, in addition to discussing the business report.

In addition, the Company shall have the Corporate Auditors attend management meetings, division meetings, and other meetings in connection with important business affairs.

The followings are the details of the Company's Corporate Governance and Corporate Social Responsibility (CSR).

Corporate Governance

- (a) Our Corporate Governance Vision

Citizen Holdings' fundamental concept is "For the citizens - earning public trust, contributing to society," and it derives its name from this. The Company is contributing to society and increasing its corporate value through sustainable corporate activities, in harmony with the local community and local environment. To continue to promote its aims, the Company believes it is important to secure transparency in management and monitor the many fields of management. Accordingly, the Company is striving to expand and improve its corporate governance.

- (b) The Company's Organization and Development of Internal Control Systems

- Company's Organization

The Company has a Board of Directors, which is comprised of nine directors who are familiar with the Company's business lines. The Company also employs a Board of Corporate Auditors system and has a Board of Corporate Auditors, comprised of two corporate auditors and two outside corporate auditors.

- Company's Organization and Development of Internal Control Systems

At least once a month, the Company holds Management Meetings that are attended by the full-time Directors and a full-time Corporate Auditor, to maintain prompt business judgments and management transparency. Matters to be resolved at the Board of Directors meetings and other important managerial issues are fully discussed and deliberated in advance at these meetings.

The Board of Directors makes decisions about the business affairs and supervises these affairs. The business administration is made by the President and CEO, each Managing Director, or the executive officers.

Board of Directors meetings were held 20 times during the fiscal year ended March 31, 2007, and all Directors attended at least four out of five of these meetings.

- Audits

The Company also employs a Board of Corporate Auditors system. Each Corporate Auditor conducts strict audits on the Directors' performance of their duties in accordance with the audit policy and audit program stipulated by the Board of Corporate Auditors, by attending a meeting of the Board of Directors, division meetings, or other such meetings; asking the Directors and other officers about the business report; reviewing important written resolutions and other documents; and investigating the business and financial affairs of the Company.

The Company also receives an audit report from Nihonbashi Audit Corporation, which is an Independent Auditor. The Company conducts effective audits on itself and its subsidiaries in collaboration with these Independent Auditors and is working on the further expansion and improvement of corporate governance.

Further, the Company has created an Audit Office as an internal audit department.

- Relationship with outside Corporate Auditors

Yasuhiro Okawa, an outside Corporate Auditor, is the President of the listed company Rhythm Watch Co., Ltd ("Rhythm"). The Company has a business relationship with Rhythm, and holds 13.87% of Rhythm's issued shares. The Company has no other conflicts of interest with Rhythm.

- Independent Audits

The Certified Accountants who independently audited the Company are Shigehiro Chiba and Akira Ogura, associates of Nihonbashi Audit Corporation. In addition, 14

certified accountants and 4 junior accountants assisted in the audit of the Company. The Company assures fairness and independence while it is audited by the Independent Auditors.

The Company annually asks the Board of Directors for its opinion on the replacement of the Independent Auditors, and the Board of Directors deliberates on and resolves this matter. If the Board of Directors does not approve the reappointment of the Independent Auditors, such proposal will be deliberated on at the Ordinary General Meeting of Shareholders pursuant to the Corporate Law.

For details of the decision-making policy for the dismissal or non-reappointment of the Independent Auditors, see Page 17 "2. CURRENT SITUATION OF THE COMPANY, (4) Independent Auditors, c) Decision-making policy for dismissal or non-reappointment of Independent Auditors."

(c) Election of outside Directors

At the 122nd Ordinary General Meeting of Shareholders, the Company is planning to propose the election of two outside Directors who are independent from the Company's management. If both candidates are elected as outside Directors, the Company will establish a Nominating Committee and Compensation Committee, which are both comprised of a majority of the outside Directors and for both of which the outside Director will act as the Chairman.

The Nominating Committee recommends candidates for directors, executive officers, and corporate auditors to the Board of Directors. The Compensation Committee submits proposals related to compensation for the Directors and executive officers to the Board of Directors.

The Company is expanding and improving its corporate governance by electing outside Directors and establishing both the committees.

CSR Efforts

The "Citizen Code of Conduct" has been in force since January 2004 and the Company has actively worked on CSR activities. Upon its shift to a pure holding company system in April 2007, the Company readopted the "Citizen Group Code of Conduct" and it determines that each company of the Citizen Group, under the unified code of conduct, will perform their business activities with common corporate ethics and standards.

The Citizen Group is committed to "Manufacturing to Win Public Confidence and Trust" through CSR activities, is actively involved in today's challenges such as environmental issues and coexistence with society through its business activities, and is seeking to promote the sustainable development of the Citizen Group by obtaining public trust as a member of "Citizen."

Ethibel (Belgium) and Morningstar Japan K.K., the external evaluation institutions of Socially Responsible Investment (SRI), have favorably received the Company's CSR efforts as a prominent CSR initiative.

Citizen Group is fulfilling its responsibility to provide good explanations to shareholders and actively address things such as: corporate governance to secure management transparency; development of an internal control system to ensure the appropriateness of the Company's business (including the reliability of financial statements); and risk management relating to the compliance and environmental issues. In addition, Citizen Group is making various social contributions including "Citizen of the Year," an award to recognize citizen's contribution to social evolution and the happiness of citizens, making an impression on citizens, or creating something appealing. The Group seeks to improve its corporate value aiming to become a "highly valuable company" under the corporate philosophy "For the citizens - earning the public trust, contributing to society."

4. Basic Policy relating to Persons who Control Decision-making Policies of the Company's Financial and Business Affairs

At the Board of Directors meeting held on May 14, 2007, the Company established the "Response Policy against Large-scale Purchase of the Company's Share Certificates (Anti-takeover Measures)" (hereinafter referred to as the "Policy"). The Policy became effective on the same date, and is a basic policy relating to persons who control decision-making of the Company's financial and business affairs (hereinafter referred to as the "Basic Policy").

In addition, four Corporate Auditors (including two outside Corporate Auditors) agreed with the implementation of the Policy.

The effective term of the Policy is until the end of the 122nd Ordinary General Meeting of Shareholders. At the 122nd shareholders' meeting, subject to the approval of all shareholders, the effective term of the Policy shall be extended at the end of the ordinary general meeting of shareholders held in the last business year ending within three years of the Policy's introduction.

(1) Basic Policy

For more information about the Basic Policy, please see "2. Objective of Policies" of Item 7 "Approval of Handling Policies for Large-scale Purchase of the Company's Stocks (Anti-takeover Measures)" (Page 58-59) of the Reference Documents for the General Meeting of Shareholders.

(2) Special Efforts to Help Achieve the Basic Policy

For more details about special efforts to help achieve the Basic Policy, please see "1. Company's efforts to improve the corporate value and common shareholder interest" of Item 7 "Approval of Handling Policies for Large-scale Purchase of the Company's Stocks (Anti-takeover Measures)" (Page 57-58) of the Reference Documents for the General Meeting of Shareholders.

(3) Efforts to Prevent Unqualified Persons from Controlling the Company according to the Basic Policy

For more details about efforts to prevent an unqualified person from controlling the Company according to the Basic Policy, please see Item 7 "Approval of Handling Policies for Large-scale Purchase of the Company's Stocks (Anti-takeover Measures)"; Premise, "3. Large-scale Purchase Rules"; and "4. Handling Policies for Large-scale Purchases" (Pages 56 and 60-64) of the Reference Documents for the General Meeting of Shareholders.

(4) Judgment of Board of Directors and its Reasons with regard to Efforts mentioned in (2) and (3) above

a) Special Efforts to Help Achieve the Basic Policy

The purpose of efforts mentioned in (2) above is to secure and improve the corporate value and common interests of shareholders of the Company, which, as a result, will help the Company to achieve the Basic Policy. Therefore, in line with the Basic Policy, such efforts are in the common interests of the Company's shareholders and do not aim to protect the officers' positions in the Company.

b) Efforts to Prevent Unqualified Persons from Controlling the Company according to the Basic Policy

By taking into account the terms and conditions described in "6. Rationality of the Policies" of Item 7 "Approval of Handling Policies for Large-scale Purchase of the Company's Stocks (Anti-takeover Measures)" (Page 67-68) of the Reference Documents for the General Meeting of Shareholders and reflecting them in the Company's efforts, the Company believes that efforts to prevent an unqualified person from controlling the Company according to the Basic Policy, in line with the Basic Policy, are in the common interests of the Company's shareholders and do not aim to protect the officers' positions in the Company.

CONSOLIDATED BALANCE SHEET

(as of March 31, 2007)

Millions of yen

Current assets	231,442
Cash and cash equivalents	82,975
Notes and accounts receivable	75,132
Inventories	55,980
Deferred tax assets	10,262
Accrued consumption tax	2,233
Other current assets	5,851
Allowance for doubtful accounts	-994
Fixed assets	151,529
Property, plant and equipment	83,925
Buildings and structures	34,553
Machinery, equipment and carriers	29,764
Tools, furniture and fixtures	6,231
Land	10,039
Construction in progress	3,335
Intangible fixed assets	1,544
Software	1,207
Other intangible fixed assets	336
Investments and other assets	66,059
Investment securities	56,713
Long-term loans	274
Deferred tax assets	5,995
Other investments	5,093
Allowance for doubtful accounts	-184
Allowance for valuation loss on investments	-1,833
Total Assets	382,971

Current liabilities	83,578
Notes and accounts payable	35,558
Short-term loans payable	4,613
Income taxes payable	5,849
Deferred tax liabilities	21
Accrued expenses	10,266
Reserve for bonuses to employees	5,065
Reserve for bonuses to directors and corporate auditors	268
Reserve for product warranty	1,260
Notes payable -equipment related and others	2,048
Other current liabilities	18,625
Long-term Liabilities	44,965
Bonds with stock acquisition rights	23,000
Long-term loans payable	1
Deferred tax liabilities	9,577
Allowance for employees' retirement benefits	9,718
Negative goodwill	1,879
Other liabilities	789
Total Liabilities	128,544
Shareholders' equity	232,798
Common stock	32,648
Capital surplus	63,890
Retained earnings	167,478
Treasury stock	-31,219
Valuation and translation adjustments	19,732
Net unrealized gain/loss on other securities	18,195
Foreign currency translation adjustments	1,536
Minority Interests	1,896
Total net assets	254,426
Total liabilities and net assets	382,971

CONSOLIDATED STATEMENT OF INCOME

(from April 1, 2006 to March 31, 2007)

Millions of yen

Net sales	336,188
Cost of sales	230,423
Gross profit on sales	105,765
Selling, general and administrative expenses	83,845
Operating income	21,920
Interest and dividend income	1,780
Rent receivables	393
Foreign exchange gain	198
Negative goodwill written off	1,257
Other	1,515
Non-operating income	5,144
Interest expenses	36
Loss on sale of notes receivable	414
Depreciation of rental assets	204
Other	418
Non-operating expenses	1,073
Ordinary Income	25,991
Gain on sale of fixed assets	55
Gain on sale of investment securities	2
Reversal of allowance for doubtful accounts	196
Gain on transition of retirement pension plan	138
Other	189
Extraordinary gain	582
Loss on disposal of fixed assets	2,554
Loss on impairment	6,825
Reorganization costs	618
Provision for allowance for valuation loss on investments	1,179
Loss on devaluation of investment securities	274
Other	283
Extraordinary loss	11,735
Income before income taxes	14,839
Income taxes –current	11,268
Income taxes -deferred	-3,531
Minority interests	42
Net income	7,145

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(from April 1, 2007 to March 31, 2007)

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	32,648	63,890	165,246	-1,261	260,523
Changes during fiscal year					
Dividends from surplus (note)			-2,843		-2,843
Dividends from surplus			-2,771		-2,771
Directors' and Corporate Auditors' bonuses (note)			-288		-288
Net income			7,145		7,145
Acquisition of treasury stock				-30,027	-30,027
Disposal of treasury stock			-9	70	60
Changes in scope of consolidation			998		998
Net changes other than shareholders' equity					
Total change during fiscal year			2,232	-29,957	-27,725
Balance as of March 31, 2007	32,648	63,890	167,478	-31,219	232,798

	Valuation and translation adjustments			Minority interest	Total net assets
	Net unrealized gain/loss on other securities	Foreign currency translation adjustment	Total valuation and translation adjustments		
Balance as of March 31, 2006	16,064	-176	15,887	2,070	278,482
Changes during fiscal year					
Dividends from surplus (note)					-2,843
Dividends from surplus					-2,771
Directors' and Corporate Auditors' bonuses (note)					-288
Net income					7,145
Acquisition of treasury stock					-30,027
Disposal of treasury stock					60
Changes in scope of consolidation					998
Net changes other than shareholders' equity	2,131	1,713	3,844	-173	3,670
Total change during fiscal year	2,131	1,713	3,844	-173	-24,055
Balance as of March 31, 2007	18,195	1,536	19,732	1,896	254,426

(Note) indicates items in the appropriation of retained earnings resolved at the 121st ordinary general meeting of shareholders held in June 28, 2006.

Notes to Consolidated Balance Sheet

1. The premise of a going concern

Not applicable

2. Notes relating to important matters to serve as a basis for preparation of consolidated financial statements

(1) Consolidation policy

a) Number of consolidated subsidiaries 66

The significant consolidated subsidiaries are: Japan CBM Corporation; Citizen Systems Japan Co., Ltd.; Citizen Electronics Co., Ltd.; Citizen Fine Tech Co., Ltd.; Citizen Miyota Co., Ltd.; Citizen Machinery Co., Ltd.; Citizen Displays Co., Ltd.; Citizen Seimitsu Co., Ltd.; Sayama Precision Co., Ltd.; Citizen Heiwa Watch Co., Ltd.; Citizen Watch Company of America Inc.; Citizen Watch Europe GmbH; Citizen Watches (H.K.) Ltd.; Citizen Systems (H.K.) Ltd.; and Sunciti Manufacturers Ltd.

From the current consolidated fiscal year, nine companies are included in the Company's consolidated subsidiaries because of their significance: Ontime Co., Ltd.; Citizen Electronics Timel Co., Ltd.; Fujimi Corp.; Citizen Watch China Co., Ltd.; C-E (Deutschland) GmbH; Citizen Electronics (China) Co., Ltd.; Citizen Electronics (Nan Jing) Co., Ltd.; Citizen Systems Europe GmbH; and Citizen Machinery Asia Co., Ltd.

b) Non-consolidated subsidiaries

The significant non-consolidated subsidiaries are: Citizen Watch Company of Canada Ltd. and Citizen Watch De Brazil S.A.

The total assets, sales, net income, and retained earnings of the non-consolidated subsidiaries are considered to have a negligible impact on the relevant items in the consolidated financial statements. Accordingly, they are excluded from consolidation.

(2) Application of the equity method

a) Number of non-consolidated subsidiaries under the equity method 0

b) Number of affiliates under equity the method 1

From the current consolidated fiscal year, the Company considers Miyano Machinery Inc. to be an equity method affiliate because the Company acquired a number of its shares.

c) Non-consolidated subsidiaries and affiliates removed from accounting under the equity method

The significant non-consolidated subsidiaries removed from accounting under the equity method are Citizen Watch Company of Canada Ltd. and Citizen Watch De Brazil S.A., and the significant affiliate removed from accounting under equity method is Marubeni Citizen Cincom Inc.

As the Company's non-consolidated subsidiaries and affiliates have extremely slight impact on net income and retained earnings and have no material influences as a whole on the consolidated financial statements, the equity method were not applied.

(3) Fiscal year of consolidated subsidiaries

Consolidated subsidiaries with different fiscal closing dates from the group consolidated closing date are Sakae Shokai Co., Ltd., Tokyo Bijutsu Co., Ltd., Ontime Co., Ltd., Citizen Watch Company of America Inc. and 37 other overseas subsidiaries.

The fiscal closing date of overseas subsidiaries is December 31, while that of Sakae Shokai Co., Ltd., Tokyo Bijutsu Co., Ltd., and Ontime Co., Ltd. is the last date of February. In preparing consolidated financial statements, when the difference between a domestic subsidiary's fiscal closing date and the group consolidated closing date is three months or less, the financial statements of the subsidiary for the relevant fiscal year are used and 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 fiscal closing date and the group consolidated closing date. Overseas subsidiaries adopt accounting necessary to prepare financial statements that form the consolidated financial statements on the consolidated closing date.

(4) Accounting standards

a) Basis and method of valuation of important assets

1) Marketable securities

- Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis.
- Other marketable securities

Other marketable securities with a market value are stated at fair value based on market prices, etc. at end of year (The difference between acquisition cost and carrying market value of other marketable securities is reported as a separate component of net assets. The cost of other marketable securities sold is computed by the moving-average method.)

Other marketable securities without a market value are stated at cost using the moving-average method.

2) Derivatives

Derivatives are valued at market.

3) Inventories

Inventories are mainly valued at the lower of cost in progressive average inventory method.

b) Depreciation methods of significant depreciable assets

1) Depreciation of property, plant and equipment is mainly calculated by the declining balance method.

Years of useful life for principal assets is as follows:

Buildings and structures:	3 – 50 years
Machinery and equipment:	2 – 10 years

2) Amortization of intangible fixed assets is calculated by the straight-line method.

c) Basis of accounting for reserves

1) Allowance for doubtful accounts

An allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries 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.

In its consolidated subsidiaries overseas, an allowance for doubtful accounts is provided at an estimated uncollectible amount.

- 2) Allowance 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 consolidated fiscal year-end.
- 3) Reserve for bonuses to employees
The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments, excluding consolidated subsidiaries overseas.
- 4) Reserve for bonuses to directors and corporate auditors
In the Company and some consolidated subsidiaries, the reserve for bonuses to directors and corporate auditors is stated at an amount based on the estimated forthcoming payments.
- 5) Reserve for product warranties
At some consolidated sales subsidiaries overseas, certain rate of sales is provided as an allowance for expenses required for after-sales service of products.
- 6) Allowance for employees' retirement benefits
To provide for future payments of retirement benefits to employees in the Company and in domestic consolidated subsidiaries, allowance for employees' retirement benefits is stated at an amount deemed to accrue during the term, based on estimated retirement benefit obligations and pension assets at the end of the consolidated fiscal year.
The difference resulting from the change of accounting standards is, in principle, provided as an extraordinary loss for the year in which it occurred. However, in some consolidated subsidiaries, straight-line method is mainly applied over 5-10 years.
Prior service cost is recognized based on the declining balance method over a fixed number of years (5 years in principle) within the average remaining years of service of employees from the time it arises.
Actuarial gain or loss is amortized, from the year following the year in which the gain or loss is recognized, based on the declining balance method for a given number of years (5 years in principle) within the average remaining years of service of employees.

Additional Information

The Company has established an approved retirement annuity system and termination allowance plan. However, some consolidated subsidiaries offer a system of defined contribution plans instead of an approved retirement annuity system as part of their retirement system. The Company has applied "Accounting for Transition of Retirement Benefit Schemes" (Corporate Accounting Standard Application Guideline No. 1) to this transition to a system of defined contribution plans.

As a result of this transition, the Company recorded an extraordinary gain of 138 million yen.

- d) Translation of foreign currency assets or liabilities
Foreign currency amounts of accounts receivable and accounts payable are translated into Japanese yen on the consolidated fiscal closing date and the translation differences are stated as profit/loss.
In addition, assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen at the rate prevailing on the consolidated fiscal closing date, whereas

revenues and expenses are translated into Japanese yen using the weighted-average rate. The translation differences are included under foreign currency translation adjustments and minority interests are included under net assets.

- e) Principal 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.
- f) Other important matters in the preparation of consolidated financial statements
 - 1) Valuation of assets and liabilities of consolidated subsidiaries
Assets and liabilities of consolidated subsidiaries are all valued at market.
 - 2) Amortization of goodwill
Good will is amortized using the straight-line method over 5 years. However, when the difference to be deleted is negligible, it is accounted for profit/loss for the term in which it occurred.
 - 3) Consumption tax
Consumption tax, etc. are excluded from the statement of income.

3. Changes to Accounting Policies

Accounting standard for bonuses to directors and corporate auditors
From the current consolidated fiscal year, the Company has applied "Accounting Standard for Bonuses to Directors and Corporate Auditors" (Corporate Accounting Standard No. 4, November 29, 2005). The impact on the Company's financial results is insignificant.

Accounting standard regarding net assets of consolidated balance sheets
From the current consolidated fiscal year, the Company has applied "Accounting Standard for Net Assets of Balance Sheets" (Corporate Accounting Standard No. 5, December 9, 2005) and the "Guidance for the application of Accounting Standard for Net Assets of Balance Sheets" (Corporate Accounting Standard Application Guideline No. 8, December 9, 2005).

The amount equivalent to the total amount of shareholders' equity is 252,530 million yen.

4. Change in Presentation

Consolidated Balance Sheet

Effective from the current consolidated fiscal year, the Company presents consolidated adjustments as negative goodwill.

Consolidated Statement of Income

Effective from the current consolidated fiscal year, the Company presents consolidated adjustment account written off as negative goodwill written off.

5. Notes to Consolidated Balance Sheet

- (1) Accumulated depreciation for property, plant and equipment: 240,525 million yen
- (2) Assets pledged as collateral:
- | | |
|---|----------------|
| Deposit | 70 million yen |
| Secured debt | |
| Accounts payable (balance at the end of the current consolidated fiscal year) | 4 million yen |
- (3) Guarantees:
- Guarantees for bank loans of non-consolidated subsidiaries 352 million yen
- (4) Export bill discounted: 830 million yen
- (5) Endorsed trade notes receivable: 72 million yen

6. Consolidated statements of changes in stockholders' equity

- (1) Total number of issued shares
- | Type of Shares: | Common Shares |
|---|---------------|
| Number of shares at the end of the previous consolidated fiscal year: | 380,353,809 |
| Increase in number of shares during the current consolidated fiscal year: | - |
| Decrease in number of shares during the current consolidated fiscal year: | - |
| Number of shares at the end of the current consolidated fiscal year: | 380,353,809 |
- (2) Dividends on retained earnings
- a) Dividends paid
- 1) Dividends approved at the 121st Ordinary General Meeting of Shareholders held on June 28, 2006
- | | |
|-----------------------------|----------------|
| • Total amount of dividends | ¥2,843 million |
| • Dividends per share | ¥7.50 |
| • Record date | March 31, 2006 |
| • Effective date | June 28, 2006 |
- 2) Dividends approved at the meeting of the Board of Directors held on November 14, 2006
- | | |
|-----------------------------|--------------------|
| • Total amount of dividends | ¥2,771 million |
| • Dividends per share | ¥7.50 |
| • Record date | September 30, 2006 |
| • Effective date | December 8, 2006 |
- b) Dividends with a record date in the current consolidated fiscal year but an effective date in the following consolidated fiscal year
- The following matters will be submitted at the 122nd Ordinary General Meeting of Shareholders, which is scheduled to be held on June 26, 2007.
- | | |
|-----------------------------|-------------------|
| • Total amount of dividends | ¥2,599 million |
| • Dividend resource | Retained earnings |
| • Dividends per share | ¥7.50 |
| • Record date | March 31, 2007 |
| • Effective date | June 27, 2007 |

- (3) Type and number of shares subject to Stock Acquisition Rights at the end of the current consolidated fiscal year (except those that have not yet become due)
- Common shares 27,783,937

7. Notes to per share information

- a) Net assets per share ¥728.49
- b) Net income per share ¥19.43

8. Other Notes

Figures are rounded down to one million.

NON-CONSOLIDATED BALANCE SHEET

(as of March 31, 2007)

Millions of yen

Current assets	65,292
Cash and cash equivalents	17,581
Notes receivable	892
Accounts receivable	24,622
Finished goods	5,815
Raw materials	258
Work in process	5,041
Accrued consumption tax	648
Short-term loans	326
Other accounts receivable	5,075
Deposits	1,035
Deferred tax assets	2,381
Other current assets	1,683
Allowance for doubtful accounts	-70
Fixed assets	144,628
Property, plant and equipment	32,180
Buildings and structures	15,157
Machinery and equipment	8,711
Vehicles and carriers	5
Tools, furniture and fixtures	2,976
Land	3,746
Construction in progress	1,582
Intangible fixed assets	1,062
Software	1,015
Other intangible fixed assets	47
Investments and other assets	111,384
Investments in affiliates	73,545
Investment securities	39,829
Long-term loans	35
Long-term prepaid expenses	158
Other investments	605
Allowance for doubtful accounts	-50
Allowance for valuation loss on investments	-2,2738
Total Assets	209,920

Current liabilities	30,769
Notes payable	1,789
Accounts payable	17,030
Short-term loans payable	0
Other accounts payable	4,788
Income taxes payable	1,949
Accrued expenses	2,060
Reserve for bonuses to employees	1,666
Reserve for bonuses to directors and corporate auditors	75
Notes payable -equipment related	741
Other current liabilities	667
Long-term Liabilities	29,785
Bonds with stock acquisition rights	23,000
Long-term loans payable	1
Deferred tax liabilities	4,178
Allowance for employees' retirement benefits	2,241
Long-term unearned revenue	47
Other liabilities	316
Total Liabilities	60,555
Shareholders' equity	131,365
Common stock	32,648
Capital surplus	66,029
Capital reserves	66,029
Retained Earnings	63,906
Legal reserve	7,789
Other retained earnings	56,117
Other reserve	30,000
Reserve for special depreciation	3
Earned surplus brought forward	26,113
Treasury stock	-31,219
Valuation and translation adjustments	17,999
Net unrealized gain/loss on other securities	17,999
Total net assets	149,365
Total liabilities and net assets	209,920

NON-CONSOLIDATED STATEMENT OF INCOME

(from April 1, 2006 to March 31, 2007)

Millions of yen

Net sales	169,613
Cost of sales	133,665
Gross profit on sales	35,948
Selling, general and administrative expenses	28,978
Operating income	6,969
Interest income	36
Dividends earned	11,280
Rent receivables	2,020
Other	166
Non-operating income	13,504
Interest expenses	0
Loss on sales of bills	352
Depreciation of rental assets	1,543
Foreign exchange loss	133
Other	126
Non-operating expenses	2,155
Ordinary Income	18,317
Reversal of allowance for doubtful accounts	80
Reversal of allowance for valuation loss on investments	264
Gain on sale of investments in affiliates	383
Extraordinary gain	728
Loss on disposal of fixed assets	1,052
Loss on impairment	1,061
Loss on devaluation of investment securities	11
Provision for allowance for valuation loss on investments	979
Other	4
Extraordinary loss	3,109
Income before income taxes	15,936
Income taxes –current	3,730
Income taxes -deferred	-1,223
Net income	13,430

STATEMENT OF CHANGES IN NET ASSETS

(from April 1, 2006 to March 31, 2007)

Millions of yen

	Shareholders' equity						
	Common stock	Capital surplus	Retained earnings				Total retained earnings
			Legal reserve	Other retained earnings			
		Capital reserves		Reserve for special depreciation	Other reserve	Retained earnings brought forward	
Balance as of March 31, 2006	32,648	66,029	7,789	11	46,500	1,874	56,175
Changes during fiscal year							
Reversal of reserve for special depreciation (note)	—	—	—	-3	—	3	—
Reversal of reserve for special depreciation	—	—	—	-3	—	3	—
Reversal of other reserve (note)	—	—	—	—	-16,500	16,500	—
Dividends from surplus (note)	—	—	—	—	—	-2,843	-2,843
Dividends from surplus	—	—	—	—	—	-2,771	-2,771
Directors' bonuses (note)	—	—	—	—	—	-75	-75
Net income	—	—	—	—	—	13,430	13,430
Acquisition of treasury stock	—	—	—	—	—	—	—
Disposal of treasury stock	—	—	—	—	—	-9	-9
Net changes other than shareholders' equity	—	—	—	—	—	—	—
Total change during fiscal year	—	—	—	-7	-16,500	24,239	7,731
Balance as of March 31, 2007	32,648	66,029	7,789	3	30,000	26,113	63,906

	Shareholders' equity		Valuation and translation adjustments	Total net assets
	Treasury stock	Total shareholders' equity	Net unrealized gain/loss on other securities	
Balance as of March 31, 2006	-1,261	153,592	15,756	169,348
Changes during fiscal year				
Reversal of reserve for special depreciation (note)	—	—	—	—
Reversal of reserve for special depreciation	—	—	—	—
Reversal of other reserve (note)	—	—	—	—
Dividends from surplus (note)	—	—	—	—
Dividends from surplus	—	-2,843	—	-2,843
Directors' bonuses (note)	—	-2,771	—	-2,771
Net income	—	-75	—	-75
Acquisition of treasury stock	—	13,430	—	13,430
Disposal of treasury stock	-30,027	-30,027	—	-30,027
Net changes other than shareholders' equity	70	60	—	60
Total change during fiscal year	-29,957	-22,226	2,242	-19,983
Balance as of March 31, 2007	-31,219	131,365	17,999	149,365

(Note) indicates items in the appropriation of retained earnings resolved at the 121st ordinary general meeting of shareholders held in June 28, 2006.

Notes to Non-Consolidated Financial Statements

1. Premise of a going concern

Not applicable

2. Significant Accounting Policies

- (1) Basis and method of valuation of marketable securities
 - a) Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis.
 - b) Stocks of affiliates are valued at cost using the moving-average method.
 - c) Other marketable securities
Other marketable securities with a market value are stated at fair value based on market prices, etc. at end of year (The difference between acquisition cost and carrying market value of other marketable securities is reported as a separate component of net assets. The cost of other marketable securities sold is computed by the moving-average method.)
Other marketable securities without a market value are stated at cost using the moving-average method.
- (2) Basis of valuation of derivatives
Derivatives are valued at market.
- (3) Basis and method of valuation of inventories
Inventories are valued at the lower of cost in progressive average inventory method.
- (4) Depreciation methods of fixed assets
 - a) Depreciation of property, plant and equipment is calculated by the declining balance method.
Years of useful life for principal assets is as follows:
Buildings and structures: 3 - 50 years
Machinery and equipment: 5 - 10 years
 - b) Amortization of intangible fixed assets is calculated by the straight-line method.
- (5) 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
 - a) 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.
 - b) Allowance for valuation loss on investments
To provide for possible losses due to extreme devaluation in the stocks of 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.
 - c) Reserve for bonuses to employees
The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments.
 - d) Reserve for bonuses to directors and corporate auditors
The Company has recorded an estimate of bonuses to be paid to directors and corporate

auditors, in preparation for paying such bonus.

e) Allowance for employees' retirement benefits

To provide for future payments of retirement benefits to employees, allowance for employees' retirement benefits is stated at an amount based on estimated retirement benefit obligations and pension assets at the end of the year.

Prior service cost is recognized based on the declining balance method over a fixed number of years (5) within the average remaining years of service of employees from the time it arises.

Actuarial gain or loss is amortized, from the year following the year in which the gain or loss is recognized, based on the declining balance method for a given number of years (5) within the average remaining years of service of employees

(7) Consumption tax

Consumption tax, etc. are excluded from the statement of income.

Changes to Accounting Policies

1. Accounting standard for bonuses to directors and corporate auditors

From the current consolidated fiscal year, the Company has applied the "Accounting Standard for Bonuses to Directors and Corporate Auditors" (Corporate Accounting Standard No. 4, November 29, 2005). The impact on the Company's financial results is insignificant.

2. Accounting standard regarding net assets of balance sheets

From the current period, the Company has applied "Accounting Standard for Net Assets of Balance Sheets" (Corporate Accounting Standard No. 5, December 9, 2005) and the "Guidance for the application of Accounting Standard for Net Assets of Balance Sheets" (Corporate Accounting Standard Application Guideline No. 8, December 9, 2005).

The amount equivalent to the total amount of shareholders' equity is 149,365 million yen.

3. Notes to Balance Sheet

- (1) Short-term receivable from affiliates: 17,072 million yen
Short-term payable to affiliates: 15,144 million yen
Long-term receivable from affiliates: 33 million yen
Long-term monetary payable to affiliates: 7 million yen
- (2) Accumulated depreciation for property, plant and equipment: 107,459 million yen
- (3) Guarantees for bank loans of companies other than consolidated subsidiaries: 120 million yen
- (4) Export bills discounted: 5,626 million yen

4. Notes to Statement of Income

- (1) Sales to affiliates: 65,280 million yen
- (2) Purchases from affiliates: 133,007 million yen
- (3) Non-operating transaction with affiliates: 12,930 million yen

5. Non-consolidated statements of changes in stockholders' equity

Type and number of treasury stocks at the end of the current consolidated fiscal year

Type of Shares:	Common Shares
Number of shares at the end of the previous period:	1,277,972
Increase in number of shares during the current period:	32,499,508
Decrease in number of shares during the current period:	71,002
Number of shares at the end of the current period:	33,706,478

Note:

1. The increase in treasury stock (32,499,508 shares) is due to the purchase of issued shares on the open market (32,471,600 shares), the purchase of less than one unit shares (22,908 shares), and the purchase of other shares (5,000 shares).
2. The decrease in treasury stock (71,002) is due to the exercise of the stock acquisition rights (70,000 shares) and the request for sale of less than one unit shares (1,002 shares).

6. Tax Effect Accounting

The increase in deferred tax assets is mainly due to valuation loss on investment securities, over-depreciation, increase in reserve for retirement allowance, provision of allowance for investment appraisal, and inventory write-down. In addition, the increase in deferred tax liability is mainly due to net unrealized gain/loss on other securities.

7. Fixed assets under lease contracts

- (1) Amounts equivalent to the acquisition cost of leased assets at the end of the current business year ¥912 million
- (2) Amounts equivalent to the accumulated depreciation of leased assets at the end of the current business year ¥548 million
- (3) Amounts equivalent to lease commitments of leased assets at the end of the current business year ¥364 million

8. Transactions with relevant parties

Attribute: Entity in which more than 50% of the voting rights are owned by an officer or an officer's relatives

Name: Kasugaya Seimitsu Co., Ltd.

Paid-in Capital and Investments: 10 million yen

Business line or Occupation: Precision machining and assembly

Voting Rights or Ownership: - %

Relationship

Interlocking Directors: -

Business Relations: Processing of watch parts

Transaction: Payment of service fee upon completion of processing

Total Transactions: 60 million yen

Item: -

Balance at the End of Period: - million yen

Transaction amount does not include consumption tax.

In addition, business terms and decision-making policy of business terms are as follows:

- (1) A brother-in-law of Yasuo Nagai, a Director of the Company, holds 75.8% of the voting rights of Kasugaya Seimitsu Co., Ltd.
- (2) Business terms shall be determined through negotiations between the Company and Kasugaya Seimitsu Co., Ltd.

9. Per share information

Net assets per share 430.89 yen
 Net income per share 36.51 yen

10. Other Notes

Figures are rounded down to one million.

11. Material subsequent events

Shift to a pure holding company system through corporate separation

As part of the structural reform of the Group, the Company became part of a pure holding company system on April 2, 2007 by corporate separation, in order to strengthen the Group's competitiveness and promote its growth.

- (1) Merger (Effective date: April 1, 2007)

Succeeded Business	Name of Succeeding Company	Amount of Paid-in Capital(millions of yen)	Number of Employees
Business relating to Crystal Devices Division	Citizen Miyota Co., Ltd.	1,753	574
Business relating to Precision Machinery Division	Citizen Machinery Co., Ltd.	498	298
Business relating to Electronic Equipment Division	Citizen Systems Japan Co., Ltd.	450	172
Business relating to Liquid Crystal Devices Division	Citizen Displays Co., Ltd.	450	174

Amount of paid-in capital and number of employees are as of March 31, 2007.

- (2) Spin-off (Effective date: April 2, 2007)

Succeeded Business	Name of Succeeding Company	Amount of Paid-in Capital(millions of yen)	Number of Employees
Business relating to Watches and Clocks Division Headquarters and business relating to MHT Development Division LSI Center (except for Design Group)	Citizen Watch Co., Ltd.	5,000	1,064
Business relating to MHT Development Division (except for LSI Center and Design Group) and business relating to Intellectual Property Department	Citizen Technology Center Co., Ltd.	100	224
Some business relating to Materials Department, Information System Department, Service Office of General Affairs Department, and Environmental Management Office	Citizen Business Expert Co., Ltd.	100	97

Amount of paid-in capital and number of employees are as of April 2, 2007.

Financial Audit Report on Consolidated Financial Statements

Independent Auditors' Report on Consolidated Financial Statements
(Certified copy) (English translation)

May 18, 2007

To the Board of Directors of Citizen Holdings Co., Ltd.

Nihombashi Corporation
Katsushi Kuroda
Representative, C.P.A.
Shigehiro Chiba
Engagement partner, C.P.A.
Akira Ogura
Engagement partner, C.P.A.

Pursuant to the provisions of Article 444, Paragraph 4 of the Corporate Law, we have audited the consolidated financial statements of Citizen Holdings Co., Ltd. (former Citizen Watch Co., Ltd.). These statements consisted of the consolidated balance sheet, consolidated statement of income, consolidated statements of changes in stockholders' equity, and notes to consolidated financial statements for the 122nd fiscal year from April 1, 2006 to March 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We certify that the above-mentioned consolidated financial statements properly present, in all material respects, the financial position and results of the Corporate Group comprised of Citizen Holdings Co., Ltd. (former Citizen Watch Co., Ltd.) and its consolidated subsidiaries for the period covered thereby, in accordance with accounting standards generally accepted in Japan.

We have no interest in the Company which should be disclosed in compliance with the provisions of the Certified Public Accountant Law of Japan.

Financial Audit Report on Financial Statements

Independent Auditors' Report (Certified copy)
(English translation)

May 18, 2007

To the Board of Directors of Citizen Holdings Co., Ltd.

Nihombashi Corporation
Katsushi Kuroda
Representative, C.P.A.
Shigehiro Chiba
Engagement partner, C.P.A.
Akira Ogura
Engagement partner, C.P.A.

Pursuant to the provisions of Article 436, Paragraph 2, Item 1 of the Corporate Law, we have audited the non-consolidated financial statements of Citizen Holdings Co., Ltd. (former Citizen Watch Co., Ltd.). These statements consisted of the balance sheet, statement of income, statements of changes in stockholders' equity, notes to non-consolidated financial statements, and detailed statements for the 122nd fiscal year from April 1, 2006 to March 31, 2007. The above balance sheet, statement of income, business report, proposal for appropriation of retained earnings and supplementary schedules (the legal documents) are the responsibility of the Company's management. Our responsibility is to independently express an opinion on the legal documents based on our audit.

We conducted our audit in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we obtain reasonable assurance about whether the legal documents are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the legal documents, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall legal document presentation. We believe that our audit provides a reasonable basis for our opinion.

We certify that the above-mentioned financial statements and the detailed statements properly present, in all material respects, the financial position and results of Citizen Holdings Co., Ltd. for the period covered thereby, in accordance with accounting standards generally accepted in Japan.

Additional Information

As shown in "Material subsequent events," the Company became part of a pure holding company system on April 2, 2007 by corporate separation.

We have no interest in the Company which should be disclosed in compliance with the provisions of the Certified Public Accountant Law of Japan.

Audit Report of the Board of Corporate Auditors

Audit Report

With regard to the performance of the Directors' duties for the 122nd business term from April 1, 2006 to March 31, 2007, we have prepared this Audit Report, after examining the audit reports prepared by each Corporate Auditor, and hereby report as follows:

1. Auditing Methods of the Corporate Auditors and Board of Corporate Auditors and Details of Such Methods

We established the audit policy, allocation of duties and other relevant matters, and we received reports from each Corporate Auditor regarding their audits and the results thereof. We also received reports from the Directors, employees, and Independent Auditors regarding the performance of their duties, and asked them to provide explanations when needed.

Each Corporate Auditor: conformed to the audit policy prescribed by the Board of Corporate Auditors and allocation of duties and other relevant matters; maintained communication with the Directors, the Internal Audit Office, and other employees; made efforts to establish an environment for collecting information and auditing; attended meetings of the Board of Directors and other important meetings; received reports from the Directors and employees on the performance of their duties; asked the directors and employees to provide explanations when needed; reviewed important written decisions and other items; and studied the business and financial conditions of the head office and principal offices of the Company. In addition, we monitored and examined the Company's system to ensure that the Directors performed their duties in conformance with: relevant laws and regulations; the Articles of Incorporation; the resolution of the Board of Directors regarding the system development stipulated in Article 100, Paragraphs 1 and 3 of the Enforcement Regulations of the Corporation Law that it is necessary to ensure the appropriateness of the Company's operations; and the system developed under such resolution (the Internal Control System).

With respect to subsidiaries, we maintained communication and exchanged information with Directors, Corporate Auditors, and employees of subsidiaries, and received business reports from subsidiaries when needed. Based on the above methods, we reviewed the business reports and detailed attachments for this business term.

Further, we monitored and examined whether the Independent Auditors performed proper audits while remaining independent, received reports from the Independent Auditors on the performance of the Independent Auditors' duties, and asked the Independent Auditors to provide explanations when needed. In addition, we were notified by the Independent Auditors that the "System to ensure proper performance of its duties" (matters set forth in each item of Article 159 of the Company Accounting Regulations) has been developed in accordance with the "Quality Control Standards for Audits" issued by Business Accounting Council on October 28, 2005 and other relevant standards, and we asked the Independent Auditors to provide explanations when needed. Based on the above methods, we reviewed the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statements of changes in stockholders' equity, and notes to non-consolidated financial statements) and the detailed statements for this business term as well as the consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statements of changes in shareholders' equity, and notes to consolidated financial statements).

2. Audit Results

(1) Audit Results of Business Reports and Other Documents

- (a) We certify that the business report and the detailed attachments fairly present the situation of the Company in accordance with relevant laws and regulations and the Articles of Incorporation.
- (b) We have found no significant evidence of wrongful acts or violation of relevant laws and regulations or the Articles of Incorporation with regard to the Directors' performance of their duties.
- (c) We certify that the resolutions of the Board of Directors regarding the internal control system are proper and correct.
- (d) We have found no matters we need to point out about the response policy against large-scale purchase of the Company's share certificates (Anti-takeover Measures) established at the meeting of the Board of Directors on May 14, 2007.

We certify that efforts based on such policy do not impair the common interests of the Company's shareholders, and do not aim to protect the officers' positions in the Company.

(2) Audit Results of Non-Consolidated Financial Statements and detailed statements

We certify that the methods and results of the audit made by the Independent Auditors, Nihonbashi Audit Corporation, are proper and correct.

(3) Audit Results of Consolidated Financial Statements

We certify that the methods and results of the audit made by the Independent Auditors, Nihonbashi Audit Corporation, are proper and correct.

May 24, 2007

Board of Corporate Auditors
Citizen Holdings Co., Ltd.

Yasuhiro Yamazaki
Full-time Corporate Auditor

Yoshiyuki Iijima
Full-time Corporate Auditor

Takeshi Hayasaka
Full-time Corporate Auditor
(Outside Corporate Auditor)

Yasuhiro Okawa
Corporate Auditor
(Outside Corporate Auditor)

Reference Documents for the General Meeting of Shareholders

Item 1: Appropriation of Retained Earnings

Taking into consideration the Company's business performance during this fiscal year ended March 31, 2007, further development of its business, and various other circumstances, we propose to appropriate surplus as follows:

1. Year-end Dividend

The Company considers the distribution of profits to shareholders to be an extremely important management issue of the Company. The Company has made it a fundamental policy to keep the average of the "ratio of return to shareholders" (which is the product of the total amount of dividends and share buyback divided by the consolidated net income for the current fiscal year) at 30% or more for the last three- to five-year period.

As for the year-end dividend for the current fiscal year, the Company proposes paying 7.50 yen per share, the same as in the previous fiscal year. This payment, combined with the interim dividend of 7.50 yen per share, will bring the total annual cash dividend for this fiscal year to 15.00 yen per share.

(1) Type of dividend

Cash

(2) Allotment and total amount of dividend

¥7.50 per common share of the Company

Total amount of dividend: ¥2,599,854,983

(3) Effective Date of the dividend from surplus

June 27, 2007

2. Appropriation of other Retained Earnings

(1) Allocation of Surplus to another account

Amount to be reduced as a result of the allocation: ¥30,000,000,000

Account: Other reserve

(2) Increase in surplus and amount of such increase

Retained earnings carried over to the current term: ¥30,000,000,000

Item 2: Reduction of Capital Reserve and Profit Reserve

Following the shift to a pure holding company system in April 2007, the Company conducted research to optimize its capital structure. To improve the flexibility of its future capital policy, the Company, pursuant to Article 448, Paragraph 1 of the Corporate Law, proposes the transfer of 30,000,000,000 yen out of the 66,029,738,225 yen in the capital reserve account to the account for "other capital surplus". The company will also transfer the entire amount of the profit reserve, amounting to 7,789,021,287 yen, to the account for "Retained earnings carried over to the current term". The Company further proposes that the effective date of these transfers and resulting decrease in the accounts of the capital reserve and profit reserve be September 28, 2007.

Item 3: Election of Ten Directors

The terms of office of all of the present nine Directors will expire at the conclusion of this General Meeting of Shareholders. The Company proposes to elect ten Directors, including two outside Directors, to enhance corporate governance.

The candidates for the positions of Director are as follows:

Candidates for Director	
1 Makoto Umehara	
Date of birth:	January 27, 1939
Number of shares of the Company held:	36,600 shares
Resume:	
April 1962	Joined the Company
June 1993	Director of the Company
June 1998	Managing Director of the Company
June 2002	President and CEO of the Company (present)
June 2003	Director of Rhythm Watch Co., Ltd. (present)
June 2006	General Manager of Group Strategy Center of the Company
2 Mitsuyuki Kanamori	
Date of birth:	August 6, 1943
Number of shares of the Company held:	21,876 shares
Resume:	
April 1966	Joined the Company
June 1998	Director of the Company
June 2002	Managing Director of the Company
June 2002	General Manager of Corporate Planning Division
June 2003	In charge of Purchasing Department
May 2004	President and CEO of Citizen Active Co., Ltd. (present)
June 2004	Senior Managing Director of the Company (present)
October 2004	In charge of Personnel Division
June 2006	Deputy General Manager of Group Strategy Center and Group Personnel Strategy Manager, and in charge of Group Liquid Crystal Device Business of the Company
April 2007	In charge of Corporate Planning Division of the Company (present)
3 Toshio Koga	
Date of birth:	August 4, 1944
Number of shares of the Company held:	23,576 shares
Resume:	
April 1967	Joined the Company
June 2000	Director of Citizen Trading Co., Ltd.
June 2002	President and CEO of Citizen Trading Co., Ltd.
May 2004	President and CEO of Citizen Financial Service Co., Ltd. (present)
June 2004	Managing Director of the Company (present)
June 2004	General Manager of Accounting Division of the Company
June 2006	Group Financial Strategy Manager of the Company
April 2007	In charge of Accounting Division and General Affairs Division of the Company (present)

4 Osamu Yamada	
Date of birth:	March 12, 1946
Number of shares of the Company held:	143,300 shares
Resume:	
April 1969	Joined the Company
June 2001	Director of the Company
June 2002	General Manager of General Affairs Division of the Company
May 2003	Outside Corporate Auditor of Star Micronics Co., Ltd. (present)
December 2003	President of Aquablue Insurance Co., Inc. (present)
June 2004	Managing Director of the Company (present)
June 2004	General Manager of Administration Center, General Manager of Tokyo Works, in charge of Investor Relations Department
June 2006	In charge of Environmental Management Department of the Company
April 2007	In charge of SR&IR Department of the Company (present)
April 2007	President and CEO of Citizen Business Expert Co., Ltd. (present)
5 Kenji Sugimoto	
Date of birth:	January 3, 1948
Number of shares of the Company held:	11,200 shares
Resume:	
April 1970	Joined the Company
June 2001	Director of the Company
June 2002	In charge of Intellectual Property Department of the Company
April 2004	In charge of Information & Communication Products Division of the Company
October 2004	In charge of Precision Machinery Division of the Company
June 2005	Managing Director of the Company (present)
June 2006	Group Intellectual Property and Brand Strategy Manager, in charge of Materials Department, Corporate Communications Division and Legal Department, and in charge of Group Electronic Products Business and Group Industrial Machinery Business of the Company
April 2007	In charge of Corporate Communications Department of the Company (present)
6 Tsuneo Nagai	
Date of birth:	March 7, 1944
Number of shares of the Company held:	11,639 shares
Resume:	
April 1966	Joined the Company
June 1996	Director of the Company
June 2002	Managing Director of the Company
June 2002	Senior General Manager of Watch Business Center
June 2004	Senior Managing Director of the Company
June 2006	Deputy General Manager of Group Strategy Center of the Company
April 2007	Director of the Company (present)
April 2007	President and CEO of Citizen Watch Co., Ltd. (present)

7 Takashi Masuzawa	
Date of birth:	November 23, 1942
Number of shares of the Company held:	486,603 shares
Resume:	
April 1966	Joined the Company
June 1992	Director of Citizen Electronics Co., Ltd.
June 1999	Managing Director of Citizen Electronics Co., Ltd.
June 2002	President and CEO of Citizen Electronics Co., Ltd. (present)
June 2004	Director of the Company (present)
June 2006	Group Development Strategy Manager, and in charge of Group Opt Device Business of the Company
8 Katsuhiko Noguchi	
Date of birth:	August 6, 1944
Number of shares of the Company held:	198,111 shares
Resume:	
April 1983	Joined Citizen Electronics Co., Ltd.
June 1997	Director of Citizen Electronics Co., Ltd.
June 2001	Managing Director of Citizen Electronics Co., Ltd.
June 2005	Senior Managing Director of Citizen Electronics Co., Ltd.
June 2006	Executive Officer of the Company (present)
April 2007	Director of Citizen Electronics Co., Ltd. (present)
April 2007	President and CEO of Citizen Technology Center Co., Ltd. (present)
9 Kazumoto Yamamoto	
Date of birth:	July 22, 1933
Number of shares of the Company held:	10,000 shares
Resume:	
June 1983	Director of Asahi Chemical Industry Co., Ltd. (Currently Asahi Kasei Corporation)
June 1987	Managing Director of Asahi Chemical Industry Co., Ltd.
June 1990	Senior Managing Director of Asahi Chemical Industry Co., Ltd.
June 1995	Executive Vice-president of Asahi Chemical Industry Co., Ltd.
June 1997	President of Asahi Chemical Industry Co., Ltd.
April 2003	Vice Chairman of Asahi Chemical Industry Co., Ltd.
June 2003	Full-time Advisor of Asahi Chemical Industry Co., Ltd. (present)
June 2005	Outside Director of Tokyo Gas Co., Ltd. (present)
June 2006	Outside Director of Toto Kiki Co., Ltd. (Currently TOTO LTD.) (present)

10 Teruaki Aoki	
Date of birth:	October 18, 1941
Number of shares of the Company held:	- shares
Resume:	
June 1989	Director of Sony Corporation
June 1996	Managing Director of Sony Corporation
April 1998	President & COO of Sony Electronics Inc. (US corporation)
May 2000	Senior Executive Vice President of Sony Corporation
June 2003	Chief Operating Officer of Sony Corporation.
May 2005	Managing Director of Sony Foundation for Education (present)
February 2006	Outside Director of Micron Technology, Inc. (US corporation) (present)

Note:

1. No conflict of interest exists between the Company and any of the above candidates.
2. Kazumoto Yamamoto and Teruaki Aoki are candidates for outside Directors of the Company. The Company would like to elect them as outside Directors to utilize their considerable experience in and extensive knowledge of management to check and supervise the Company's management. After the election of these outside Directors is approved at this General Meeting of Shareholders, the Company, pursuant to the provisions of Article 427, Paragraph 1 of the Corporate Law, intends to conclude an agreement with the outside Directors to limit their liability for damages under Article 423, Paragraph 1 of the Corporate Law, in order to enable them to perform their duties as outside Directors as expected. The amount of their total maximum liability for damages under such an agreement will be the higher of 10,000,000 yen or the minimum liability amount provided for under the Corporate Law.

Item 4: Payment of Directors' Bonus

As a directors' bonus, the Company would like to pay to the nine personnel who were the Directors as of the end of this fiscal year ¥75 million, the same amount as the previous year, taking into an account the Company's performance in this fiscal year, the amount of directors' bonus paid in the past, and various other relevant factors.

Item 5: Revision of Amount of Directors' Compensation

At the 106th Ordinary General Meeting of Shareholders held on June 27, 1991, the Company set the amount of compensation for its Directors as up to ¥18 million per month (¥216 million per annum), and the Company has not changed this amount to date. Considering various factors and parameters including the subsequent changes in the economic environment, the abolishment of the retirement benefit plan for officers resolved at the 120th Ordinary General Meeting of Shareholders held on June 29, 2005, the reevaluation of the officers' compensation system following the shift to a pure holding company system in April 2007, and the need for securing well-qualified personnel as outside Directors, the Company proposes for approval by the shareholders, the revision of the total amount of Directors' compensation (excluding outside Directors) to up to ¥270 million per annum and the total amount of outside Directors' compensation to up to ¥30 million per annum. The Company will pay bonuses within these limits (but will not pay bonuses to outside Directors). The Company further proposes to streamline the compensation payment practice for Directors who have been paid compensation for performance of their duties as employees as well as compensation for the performance of their duties as Directors. The Company proposes to integrate compensation for these Directors by paying the entire amount of their compensation within the amount of the compensation for Directors to be resolved under this resolution item in consideration of the overall performance of their duties.

If the two candidates for the outside Director positions are elected, as proposed under Item 3 above, the Company intends to establish a compensation committee, the majority of members of which will be outside Directors and which will be chaired by one of the outside Directors. The Company expects the Board of Directors to determine the amount of compensation for each Director based upon the recommendation of the compensation committee.

There are currently nine Directors, and there will be ten Directors (of which two will be outside Directors) if Item 3 above is approved as proposed.

Item 6: Revision to Amount of Corporate Auditors' Compensation

At the 108th Ordinary General Meeting of Shareholders held on June 29, 1993, the Company set the amount of compensation for Corporate Auditors as up to ¥5 million per month (¥60 million per annum), and the Company has not changed this amount to date. Considering various factors and parameters, including the subsequent changes in the economic environment, the abolishment of the retirement benefit plan for officers resolved at the 120th Ordinary General Meeting of Shareholders held on June 29, 2005, the reevaluation of the officers' compensation system following the shift to a pure holding company system in April 2007, and the need for securing well-qualified personnel as outside Corporate Auditors, the Company proposes for approval by the shareholders, the revision of the total amount of the Corporate Auditors' compensation to up to ¥80 million per annum.

As has been the case in the past, the Company will not pay bonuses to the Corporate

Auditors.
There are currently four Corporate Auditors.

Item 7: Approval of Policies for Large-Scale Purchase of the Company's Stock (Anti-Takeover Measures)

The Company would like to seek the shareholders' approval of the policies for a large-scale purchase of stock of the Company ("Policies") to protect and enhance the corporate value of the Company and the shareholders' common interests. The Company introduced the Policies by way of resolution of the Board of Directors, on May 14, 2007, and would like to seek the shareholders' approval of the Policies.

The Policies are addressed to the purchases of the Company's stock certificates, etc., (Note 3) that are either: purchases intended to acquire 20 % or more of the voting rights ratio of the Company's stock certificates, etc. (Note 2) for a group of shareholders (Note 1) or purchases resulting in the voting rights ratio of a group of shareholders being 20% or more. The Policies shall not apply to purchases to which the Board of Directors has consented in advance. The Policies shall, however, apply to purchases of the Company's stock regardless of the manner in which the purchases are conducted, whether on or off the exchange and via tender offers or not. Hereinafter, the purchases to which the Policies are addressed and actions similar to such purchases will be referred to as "Large-Scale Purchase(s)," and the purchaser that makes a Large-Scale Purchase or the purchaser that contemplates a Large-Scale Purchase will be referred to as "Large-Scale Purchaser(s)." The details of the Policies are set forth in the following paragraphs.

Notes

1. A group of shareholders means (i) the holders (holders provided for in Article 27-23, Paragraph 1, of the Securities Exchange Law, including those deemed to be holders in accordance with Article 27-23, Paragraph 3 thereof; the same shall apply hereinafter) of the Company's stock certificates, etc. (meaning stock certificates, etc. provided for in Article 27-23, Paragraph 1 thereof) and their joint holders (joint holders provided for in Article 27-23, Paragraph 5 thereof, including those deemed to be joint holders in accordance with Article 27-23, Paragraph 6 thereof; the same shall apply hereinafter) and (ii) a person or a corporation and specially related parties (specially related parties provided for in Article 27-2, Paragraph 7 thereof) who purchase (purchase provided for in Article 27-2, Paragraph 1 thereof, including purchases made on a securities exchange) stock certificates, etc. of the Company (stock certificates, etc. provided for in Article 27-2, Paragraph 1 thereof).
2. The voting rights ratio means (i) the ratio of the holding of stock certificates, etc. of the group of shareholders in the case of (i) in Note 1 above (the ratio of holding provided for in Article 27-23, Paragraph 4 of the Securities Exchange Law, in which case the number of stock certificates, etc. held by the joint shareholder of the said group of shareholder is also added (the number of stock certificates, etc. to be calculated as provided for in the said paragraph)) or (ii) the total of the ratio of the holding of stock certificates, etc. of the said Large-Scale Purchaser and the said specially related parties (the ratio of shareholding provided for in Article 27-2, Paragraph 8 thereof) in the case of (ii) in Note 1 above. To determine each ratio of the holdings, the calculation of the total number of voting rights (provided for in Article 27-2, Paragraph 8 thereof) and the total number of outstanding shares (provided for in Article 27-23, Paragraph 4 thereof) may be made based upon the information contained in the Company's latest financial statements, semi-annual financial statements, or the treasury stock purchase report.
3. Stock certificates, etc. of the Company means those provided for in Article 27-23, Paragraph 1 of the Securities Exchange Law. The same shall apply hereinafter.

1. The Company's efforts to enhance the corporate value and shareholders' common interests

The Company was established to manufacture and sell watches in May 1930, based upon the platform of the parent organization of Shokosha Watch Research Institute (established in 1918). The mission of the Citizen Group has been to provide the best products and services to "CITIZENS" all over the world, as its name suggests.

To implement its corporate principle to "contribute to the better lives of citizens and remain loved by citizens", the Company has adopted a corporate policy to contribute to the better lives of citizens all over the world through "the manufacturing of products that are loved and supported by citizens".

Pursuant to the corporate principle and the corporate policy mentioned above, the Company has successfully gained a competitive edge and made significant achievements through competition with other companies of the Citizen Group, amid the Citizen Group's culture of respecting the independence of each Group company. However, due to the emergence of various problems, including duplication of research and development systems within the Group, insufficient synergic effects and diffusion of brand values, the Group implemented restructuring and structural reforms, especially during the period from 2002 to 2005, with a view to building business infrastructure which would enable the creation of high-value-added products and services, enhance efficiency and further strengthen its cost competitiveness.

Considering that further review of the group management system was needed in light of an increasingly competitive global environment and the globalization of the economy, the Group further reorganized the Citizen Group and established Group growth strategies in May 2005, aiming to implement "a shift to a group creating high-value-added products and services". In July 2006, with a view to maintaining and strengthening its global competitive edge, the Group announced that it would shift to a pure holding company system as of April 1, 2007 to integrate the strength of the Group companies, while optimizing the dynamism of each Group company. The Group has thus continuously reevaluated the Group management systems and made efforts to protect and further enhance the corporate value and common interests of the shareholders. In addition to implementation of these intra-group reorganization initiatives, in January 2007 the Company decided to establish a capital and business alliance with Miyano Machinery Inc. The Company intends to implement measures to strengthen its competitive edge in the machine tool industry. Further, in April 2007, the Company acquired shares in Chiba Precision Co., Ltd. (currently Citizen Chiba Precision Co., Ltd.) to strengthen its business in the small precision motor industry.

Preceding the shift to a pure holding company of "Citizen Holding Co., Ltd.," in April, 2007, the Company established a new medium-term management plan on March 23, 2007, which runs up until the fiscal year of 2009, ending in March 2010. It is the Company's new management policy to reestablish a highly profitable corporate structure to constantly achieve 10% or higher operating profit ratio, focusing on attaining an optimum business portfolio that maintains a good balance between the high growth businesses and the stable and profitable businesses of watches and clocks, industrial machinery, and electronic products. Through the utilization of the element technologies and manufacturing technologies which constitute the Company's core competencies (rrm; please make sure this is not a Japanglish !) including "super-small size technology," "ultra-precise technology" and "low power consumption technology," the Company will best use the strength of each Group company while implementing group strategies designed to optimize the Group's interest and allocation of management resources. To strengthen its corporate governance to

that end, the Company intends to invite two additional outside directors to the Board, strictly to enforce policies concerning the investment into and divestiture of its businesses, and to further reorganize its businesses by selection and concentration. In addition, to actively invest more in businesses, the Company will establish a strategic investment line of ¥50 billion and promote the establishment of financial strategies fit for a pure holding company, targeting the optimization of its capital structure, and will maintain its payout ratio at 30% or higher in order to return profits to shareholders.

For further growth, in accordance with the medium-term management plan based on the three technologies constituting the core competences of the Company, the Company is determined to further enhance the Company's corporate value and common interests of the shareholders by way of implementing initiatives that will enable the Company to operate its business in accordance with the afore-mentioned corporate principle incorporated into the "Citizen" brand, contributing to better lives of citizens, making best efforts to be loved by citizens, and obtaining support from all stake holders (shareholders, customers, business partners, employees, and the community).

2. Objective of Policies

As mentioned above, the Company is determined to implement initiatives to protect and enhance the corporate value of the Company and the shareholders' common interests. In Japanese capital markets, largely due to changes in the legal framework and the structure and culture of Japanese companies, there have recently been cases where a large-scale purchase of shares of a target company has been forcefully conducted without sufficient efforts to consult with or seek an agreement with the management of the targeted company. The Company, as a listed company, abides by the principle that the trading of the Company's shares should be left to the full discretion of shareholders and investors. Therefore, the Company holds the view that if and when a large-scale purchase of the Company's shares is to occur, a decision to accept or not to accept the large-scale purchase should be made ultimately by the shareholders. The Company will not negate a Large-scale purchase *per se* as it may be beneficial to the corporate value of the Company and common interests of the shareholders.

In light of the current legal framework and financial environment, however, it is difficult to deny the possibility of a large-scale purchase that would not be beneficial to the corporate value of the Company or the shareholders' common interest. Examples of such a large-scale purchase would include: those that, judging from the objectives and the manner in which large-scale purchases are conducted, do not seek rationalization of the management in good faith and could cause irreparable damage to the Company; those that could economically force the shareholders to sell their shares of the Company; those that do not provide sufficient time and information for the shareholders and the Board of Directors of the targeted company to examine the purchase, or for the Board of Directors of the targeted company to make alternative proposals; and those that necessitate further negotiation between the targeted company and the large-Scale Purchaser for the chance of a better bargain than that which has been offered by the purchaser.

In the case of the Company, in order for the Company to protect and further enhance the corporate value and the shareholders' common interests, the management of the Company needs to implement each step of the Group's management strategies without interruption and with medium-and long-term perspectives, based upon good understanding of the above-mentioned corporate principle and unique profiles of the Company's business. If the implementation of the Group management strategies is interrupted by a large-scale purchaser, the corporate value of the Company and the shareholders' common interests will be

seriously damaged.

It is for this reason that the Board of Directors of the Company has concluded that for the prevention of large-scale purchases that are detrimental to the corporate value of the Company and the shareholders' common interests, the Company should introduce the Policies detailed below as a framework to secure sufficient time and information in order for the shareholders to determine if the contemplated large-scale purchase is acceptable, and in order for the Board of Directors to make alternative proposals and negotiate on behalf of the shareholders with the purchaser.

Currently, the Company is not facing any imminent threat of acquisition. The current status of the major shareholders of the Company as of March 31, 2007 is specified in the Business Report "2. CORPORATE DATA (1) Stocks d) Major Shareholders" (page 14).

3. Large-Scale Purchase Rules

The Board of Directors of the Company believes that a Large-Scale Purchase must be conducted in accordance with the rules prescribed below (hereafter, the "Large-Scale Purchase Rules") in order for it to be beneficial to the corporate value of the Company and the shareholders' common interests.

The Large-Scale Purchase Rules stipulate that a) a Large-Scale Purchaser must provide necessary and sufficient information to the Board of Directors of the Company beforehand and b) a Large-Scale Purchase must be conducted only after the expiration of the review period during which the Company's Board of Directors make necessary assessments. The Company's Board of Directors has established an independent committee to properly apply the Large-Scale Purchase Rules and avoid any arbitrary judgments by the Board of Directors. The independent committee will consist of three or more members, elected from the outside Directors of the Company and well-qualified candidates outside of the Company, all of whom are independent from the Company's management responsible for the execution of business of the Company. The independent committee will make recommendations on matters provided for in the Large-Scale Purchase Rules and other matters referred to the committee by the Board of Directors. The Company's Board of Directors will respect such recommendations to the fullest extent in making resolutions as an organization established pursuant to the Corporation Law. In addition to provision of recommendations, the independent committee is also empowered to engage in the conduct provided for in the Large-Scale Purchase Rules and other conduct designated by the Board of Directors. The independent committee will be able to seek advice from outside professionals including legal counsels and financial advisers at the expense of the Company. Other matters relating to the independent committee will be provided for in the independent committee rules (see Exhibit 1 for details). The initial members of the independent committee as of the time when the Policies were introduced are: Kazumoto Yamamoto, Teruaki Aoki, and Shigekazu Torikai (see Exhibit 2 for the names and brief histories of each member).

More specifically, the Large-Scale Purchase Rules state that the Large-Scale Purchaser will first be required to submit to the Board of Directors a document in Japanese containing sufficient information for the shareholders and the Board of Directors of the Company to make judgments ("Large-Scale Purchase Information"). The items to be contained therein in general will be as follows:

- a) Details (including specific names, capital structures, businesses, and financial status) of the Large-Scale Purchaser and the members of its group (including joint holders, specially related parties, and participants or members in the case of funds);
- b) Objectives, methods, and details of the contemplated Large-Scale Purchase (including the price and type of consideration for the purchase, purchase period, structures of related transactions, legality of the purchase method, and practical feasibility of the contemplated purchase);
- c) Basis upon which the consideration for the contemplated purchase is calculated (including facts and assumptions, calculation method, numerical data used in the calculation and the details of expected synergic effects produced by a series of transactions related to the contemplated purchase and the details of the economic benefits of the synergic effects to be distributed to minority shareholders);
- d) The sources of the funding of the contemplated purchase (including specific names of the fund providers (including the ultimate providers), financing method, and the details of related transactions);
- e) Management policies, business plans, capital policies and dividend policies of the Group after the contemplated purchase;

- f) Policies for dealing with the employees, business partners, customers and other stakeholders of the Company after the contemplated purchase; and
- g) Specific measures to avoid a conflict of interest with other shareholders of the Company.

The Large-Scale Purchase Information required for individual Large-Scale Purchases may vary depending on the details of the Large-Scale Purchase. A purchaser that intends to conduct a Large-Scale Purchase is required to submit to the Company's Board of Directors a letter in Japanese in the form designated by the Company, confirming its intention to follow the Large-Scale Purchase Rules. This confirmation letter must clearly express the name, address, governing law of the establishment, and contact address in Japan of the Large-Scale Purchaser and a summary of the Large-Scale Purchase proposed. The Company's Board of Directors will immediately forward the confirmation letter to the independent committee. Within 10 business days after receiving the confirmation letter, the independent committee, by itself or through the Board of Directors of the Company, will deliver to the Large-Scale Purchaser a list of the Large-Scale Purchase Information that must be submitted by the Large-Scale Purchaser at the outset of the process. If the independent committee concludes that the information submitted by the Large-Scale Purchaser is insufficient as the requested Large-Scale Purchase Information, the independent committee may require, by itself or through the Board of Directors of the Company, the Large-Scale Purchaser to provide additional information until the independent committee concludes that it has been provided with sufficient Large-Scale Purchase Information.

The independent committee may also request the Company's Board of Directors to submit its opinion regarding the Large-Scale Purchase and the reasoning behind such opinion, an alternative proposal (if any), and other information and materials deemed necessary by the independent committee. The reservation of the Board's opinion is one possible response to such request of the independent committee.

The independent committee will set the deadline date for the Board's response as it deems appropriate (up to 60 days maximum as a general rule).

When the independent committee determines it necessary for the shareholders to make judgment, the independent committee, by itself or through the Board of Directors of the Company, will disclose to the shareholders, wholly or in part, the fact of a Large-Scale Purchase having been proposed, and the Large-Scale Purchase Information provided to the Board of Directors of the Company or to the independent committee, as well as the information and materials submitted by the Board of Directors to the independent committee, at such time as deemed appropriate.

Then, after the receipt of Large-Scale Purchase Information, and receipt of information and materials provided by the Company's Board of Directors, the independent committee will as a general rule have 60 days as a period to assess, examine, negotiate and form opinions (this period shall be referred to as the "Independent Committee Assessment Period"). The independent committee may extend the Independent Committee Assessment Period and, if extended, the Company will promptly disclose a summary of the resolution of the independent committee, the reasons for the extension, and the new Independent Committee Assessment Period. A Large-Scale Purchase may only be conducted after the Independent Committee Assessment Period has expired. During the Independent Committee Assessment Period, the independent committee will fully assess and analyze the provided Large-Scale Purchase Information and deliberately form its opinion and disclose it. In addition, the independent committee may, by itself or through the Company's Board of Directors, negotiate and exchange views with the Large-Scale Purchaser to seek better conditions in respect of the Large-Scale Purchase. The independent committee may recommend that the

Company's Board of Directors submit an alternative proposal to the shareholders. The Large-Scale Purchaser must immediately respond to any request of the independent committee for information, negotiation or exchange of views.

4. Handling Policies for Large-Scale Purchases

(1) In case a Large-Scale Purchaser does not observe the Large-Scale Purchase Rules

When a Large-Scale Purchaser does not observe the Large-Scale Purchase Rules, regardless of the specific purchase method, the independent committee will recommend to the Board of Directors that the Company issue to shareholders stock acquisition rights without payment of consideration to protect the corporate value of the Company and the shareholders' common interests as a countermeasure against the Large-Scale Purchase. In this case, the Company's Board of Directors will respect such recommendation to the fullest extent and make resolutions as an organization under the Corporation Law as to the issuance of the stock acquisition rights without payment of consideration. The terms of the issuance of the stock acquisition rights without payment of consideration are summarized in Exhibit 3. Further, when the Company issues the stock acquisition rights without payment of consideration, the Company may determine the exercise period, exercise conditions, and rights of the Company to acquire the acquisition rights from the holders, taking into account the effects as a countermeasure against the Large-Scale Purchase.

(2) In case the Large-Scale Purchaser observes the Large-Scale Purchase Rules

When a Large-Scale Purchaser observes the Large-Scale Purchase Rules, the independent committee will as a general rule recommend that the Board of Directors should not implement countermeasures against the Large-Scale Purchases. In this case, even if the Board of Directors is against such Large-Scale Purchase, it may only express its dissent to the proposed purchase, submit an alternative proposal, and/or give explanations to the shareholders, and will not take a countermeasure against the Large-Scale Purchase. In such case, the shareholders will determine whether or not the Company should agree to the proposed purchase by the Large-Scale Purchaser, considering the proposals of the Large-Scale Purchaser and the opinions and alternative plans concerning the proposals provided by the Company.

However, even if the Large-Scale Purchaser observes the Large-Scale Purchase Rules, if the independent committee concludes that the contemplated Large-Scale Purchase may significantly damage the corporate value of the Company or the shareholders' common interests, the independent committee will recommend that the Board of Directors issue stock acquisition rights without payment of consideration to protect the corporate value of the Company and the shareholders' common interests as a countermeasure against the Large-Scale Purchase. In this case, the Board of Directors of the Company will respect such recommendation to the fullest extent and make resolutions as an organization under the Corporation Law concerning the issuance of the stock acquisition rights without payment of consideration.

The independent committee will draw such a conclusion if the independent committee has determined that the Large-Scale Purchase in question falls within one of the following patterns;

- a) Where the Large-Scale Purchaser intends to raise the stock price of the Company and make the Company or the related parties of the Company purchase shares back from the Purchaser, while having no intention of taking part in the management of the Company.
- b) Where the Large-Scale Purchaser intends to temporarily control the management of the Company and transfer to the Large-Scale Purchaser or its group companies the intellectual property rights, know how, confidential corporate information, major business partners and customers required for the management of the businesses of the

Company or the Group companies.

- c) Where the Large-Scale Purchaser intends to control the management of the company and appropriate those assets of the Company or the Group companies by posting those assets as collateral of debts or tendering those assets for the payment of debts owed by the Large-Scale Purchasers or its group companies.
 - d) Where the Large-Scale Purchaser intends to temporarily control the management of the Company and sell or otherwise dispose of the valuable assets of the Company including the real estate properties and securities that are not necessary for the Company's day to day business at present, make a large payment of dividends using the proceeds of the disposition and/or raise the price of the Company's stock by a large payment of dividends using the proceeds of the disposition with a view to selling its shares of the Company at a price raised as a result of the payment of the large dividends.
 - e) Where the Large-Scale Purchaser employs a strategy that may in effect economically force the shareholders of the Company to sell the Company's shares to the Large-Scale Purchaser, including implementation of a TOB where the Large-Scale Purchaser does not solicit all of the shares of the Company and the terms of the second TOB after the completion of the first TOB will be made less favorable to the remaining shareholders or the terms of the second TOB are not clearly disclosed at the time of the first TOB.
- (3) Suspension of countermeasures

If the relevant circumstance changes or the Large-Scale Purchaser clearly changes its Large-Scale Purchase plan after the independent committee has recommended the issuance of stock acquisition rights without payment of consideration as a countermeasure against the Large-Scale Purchase, the independent committee may recommend the suspension of the issuance of such stock acquisition rights. For such purposes, the independent committee may recommend suspension of the allotment of the stock acquisition rights if it is before the effective date of the allotment of the stock acquisition rights and, if it is after the effective date of the allotment but before the commencement of the exercise period of the stock acquisition rights, recommend acquisition by the Company of the stock acquisition rights from the holders without payment of consideration.

Conversely, if, after the independent committee has decided not to recommend the implementation of the issuance of the stock acquisition rights without payment of consideration as a countermeasure against a Large-Scale Purchaser, the independent committee comes to conclude that the Large-Scale Purchase significantly damages the corporate value of the Company or the shareholders' common interests, the independent committee may, in order to protect the corporate value of the Company and the shareholders' common interests, recommend the issuance of stock acquisition rights without payment of consideration as a countermeasure against the Large-Scale Purchase.

In these cases, the Board of Directors of the Company will respect to the fullest extent the recommendation of the independent committee and make resolutions as an organization under the Corporation Law in relation to the suspension of the issuance of stock acquisition rights without payment of consideration, the Company's acquisition of the stock acquisition rights from the holders without payment of consideration, or the implementation of the issuance of stock acquisition rights without payment of consideration, as the case may be.

5. Possible effects on shareholders and investors of the Company

(1) Possible effects of the Large-Scale Purchase Rules on the shareholders and investors

The purpose of the Large-Scale Purchase Rules is to provide to the shareholders

information necessary for the shareholders to decide whether or not they should agree to the Large-Scale Purchase as well as the opinion of the Company's Board of Directors in charge of the management of the Company. The Large-Scale Purchase Rules are also intended to guarantee an opportunity for the shareholders to receive an alternative proposal, if it is necessary under the relevant circumstances. Thus the Large-Scale Purchase Rules will enable the shareholders to make an appropriate decision with sufficient information as to whether or not they should agree to the Large-Scale Purchase.

Therefore, the Company believes that the introduction of the Large-Scale Purchase Rules is a prerequisite for the shareholders of the Company and investors to make an appropriate investment decision, and shall serve for the benefit of the shareholders of the Company and investors.

In case a Large-Scale Purchase occurs, the Company would like to draw the attention of the shareholders and investors to the actions of the Large-Scale Purchaser and the Company's reactions thereto because, as mentioned in 4. above, the Company's reactions to the Large-Scale Purchases will differ depending on whether or not the Large-Scale Purchaser observes the Large-Scale Purchase Rules.

acquires the stock acquisition rights from the holders without payment of consideration, the value of the Company's stock per share will not be diluted, so investors who have traded stock of the Company assuming that the value of the Company's stock will be diluted may suffer damage corresponding to the change in the stock price.

(2) Possible effects on the shareholders and investors when the countermeasures are triggered

When the Large-Scale Purchaser does not observe the Large-Scale Purchase Rules or even if the Large-Scale Purchaser observes the Large-Scale Purchase Rules, when the independent committee determines that the Large-Scale Purchase significantly damages the corporate value of the Company or the shareholders' common interests, the independent committee will recommend to the Company's Board of Directors the issuance of stock acquisition rights without payment of consideration to protect the corporate value of the Company and the shareholders' common interests. The Company's Board of Directors will then respect such recommendation to the fullest extent and make resolutions as an organization under the Corporation Law as to the issuance of the stock acquisition rights without payment of consideration. In case the stock acquisition rights are indeed issued, the Company does not believe that the issuance will damage the legal rights or economic interests of the Company's shareholders (except for those belonging to the Large-Scale Purchaser or its group of shareholders). When the Company's Board of Directors, respecting the recommendation of the independent committee to the fullest extent, make resolutions as an organization under the Corporation Law as to the issuance of the stock acquisition rights, the Company will make timely and appropriate disclosure in compliance with applicable laws and rules of the securities exchange.

As to the procedures that the shareholders need to follow when the Company issues stock acquisition rights as a countermeasure, the shareholders of the Company will need to complete registration of their ownership of the Company's stock by the allotment date in order to receive an allotment of stock acquisition rights. This allotment date will be determined and officially announced by the Board of Directors. In addition, for receipt of stock by the exercise of acquisition rights, the holders must complete payment of a certain amount of money within a predetermined period. When the Company actually issues the stock acquisition rights, the Company will notify the shareholders of these procedural requirements in accordance with applicable laws and the rules of the securities exchange.

When the Company suspends the issuance of the stock acquisition rights after the shareholders entitled to receive the stock acquisition rights are identified or the Company

6. The Rationale of the Policies

- (1) Full satisfaction of the requirements under the guidelines for anti-takeover measures

The Policies completely satisfy the requirements of the three principles stipulated in the “Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders’ Common Interests” jointly released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005.

- (2) Respect of shareholders’ intentions (resolutions of general meeting of shareholders and adoption of a Sunset Provision)

The Company seeks to make sure that the introduction of the Policies meets the approval of the shareholders by submitting the introduction of the Policies as an agenda to this Ordinary General Meeting of Shareholders. In addition, since the term of office of the Directors of the Company is one year, the shareholders will be able to express their intentions as to the Policies through the exercise of their voting rights regarding the election of the Directors.

- (3) Respect of judgment of independent outside personnel and disclosure of information

Upon introducing the Policies, for the purposes of prevention of arbitrary judgments from the Directors, the Company has established an independent committee as an organization to make decisions in an objective manner on behalf of the shareholders as to the substantive issues of the Policies including decisions to implement or not to implement the counter measures. The Company’s Board of Directors will appoint the members of this independent committee from among (i) the outside Directors of the Company and/ or (ii) outside professionals, all of whom are independent from the Company’s management responsible for the business of the Company.

When a Large-Scale Purchase is actually proposed for the Company’s stock, the independent committee, as mentioned in 4. above, will make recommendations to the Board of Directors pursuant to its operation rules based upon its judgments as to, among other things, whether or not the Large-Scale Purchase damages the Company’s corporate value or the shareholders’ common interests. The Company’s Board of Directors, respecting such recommendations to the fullest extent, will make resolutions as an organization under the Corporation Law on whether or not to issue stock acquisition rights without payment of consideration.

The independent committee will closely see to it that the Directors should not arbitrarily implement the countermeasures, and the gist of the judgment of the independent committee will be disclosed to the shareholders. Thus the Company believes that the Company has established a structure to ensure that the Policies are applied in a transparent manner and serve for the benefit of the corporate value of the Company and the shareholders’ common interests.

- (4) Rational and objective conditions prerequisite for the counter measure

As discussed in 4. above, the Company has set in the Policies rational and objective conditions which need to be satisfied before the counter measures can be implemented. This will prevent the Board of Directors from making arbitrary decisions to implement the counter measures.

- (5) Third party professional opinion available to the independent committee

When a Large-Scale Purchaser is contemplated, the independent committee is entitled to obtain advice from independent third parties (including financial advisers, certified public accountants, legal counsels, consultants, and other professionals) at the expense of the Company. Thus, the fairness and objectivity of the independent committee’s judgment will be further secured.

- (6) The Policies do not have an anti-takeover provision similar to a “dead-hand” or “slow-hand” provision

The Policies can be abolished at any time in the judgment of the Board of Directors, of which members are selected at the General Meeting of Shareholders of the Company. It is entirely possible for a large-scale purchaser to appoint its nominees as Directors and have them abolish the Policies by way of Board resolutions.

Therefore, the Policies are not a dead-hand anti-takeover measures (anti-takeover measures for which counter measures cannot be prevented by changing a majority of the Directors on the Board). In addition, the tenure of the Company’s Directors is one year, and the Company has not adopted a system to appoint Directors at different times. Therefore, the Policies are not a slow-hand anti-takeover measure, either(a slow-hand anti-takeover measure means an anti-takeover measure prevention of which takes time because the Directors cannot be replaced all at one time).

7. Effective term of the Policies

The Policies became effective with the resolution of the Company’s Board of Directors held on May 14, 2007 and will remain effective until the end of this Ordinary General Meeting of Shareholders. If this item is approved by a majority of voting rights of the shareholders who are present and are entitled to exercise their voting rights, including the voting rights being exercised in writing or through the Internet, the term of the Policies will be extended until the end of the Ordinary General Meeting of Shareholders in relation to the final fiscal year that ends within three years.

Further, during the term of the Policies the Company’s Board of Directors may, when necessary in light of amendments to or changes in the applicable laws and rules of the securities exchange or interpretation thereof as well as the development of the court cases, take action regarding the Policies, in order to change or abolish the Policies or introduce new measures,. In case the Company takes such action, the Company will promptly make an announcement thereof.

Summary of Independent Committee Rules

1. The independent committee shall be established by resolution of the Company's Board of Directors.
2. The independent committee shall consist of three or more members, appointed by the Company's Board of Directors from (i) the Company's outside Directors or (ii) outside professionals, both of whom are independent from the management responsible for the business of the Company. The outside professionals shall be persons with traceable accomplishments as business managers, persons having extensive experience in the investment banking business, legal counsels, certified public accountants, researchers whose primary area of research is Corporation Law or other relevant law, or professionals similar thereto. They shall sign an agreement in the form designated by the Company's Board of Directors, which shall include an obligation to perform their duties in good faith.
3. The term of the independent committee members shall expire at the end of the Ordinary General Meeting of Shareholders in relation to the final fiscal year ending within three years after appointment, unless otherwise determined by the resolution of the Company's Board of Directors. In addition, when independent committee members who were outside Directors are no longer Directors (excluding those who are re-elected), their term as independent committee members shall also expire. Notwithstanding the foregoing, the term of the independent committee members at the time of introducing these policies shall be until the end of the Ordinary General Meeting of Shareholders in relation to the fiscal year that ended in March 31, 2007.
4. The independent committee shall make decisions on the items specified below and, based upon the decisions, shall give recommendations with reasons to the Company's Board of Directors. The Company's Board of Directors, respecting the recommendations of the independent committee to the fullest extent, shall make resolutions as an organization under the Corporation Law on the relevant issues including whether or not to issue stock acquisition rights without payment of consideration. Each independent committee member and each Director of the Company shall make these decisions by taking into account whether or not their decisions benefit the corporate value of the Company and the shareholders' common interests, and they shall not make decisions for their own personal benefit or personal benefit of the management of the Company.
 - a) Applicability of the Policies to contemplated Large-Scale Purchase(s) at issue
 - b) To issue or not to issue stock acquisition rights without payment of consideration
 - c) To suspend the issuance of the stock acquisition rights without payment of consideration
 - d) To acquire the stock acquisition rights from shareholders without payment of consideration
 - e) To abolish or change the Policies
 - f) Matters that the Board of Directors is responsible for determining and with respect to which the Board of Directors have requested the view of the independent committee

5. In addition to the items specified in 4. above, the independent committee may conduct the following activities:
 - a) To identify the information to be provided to the independent committee by the Large-Scale Purchaser and the Company's Board of Directors and the deadline date for the replies;
 - b) To closely review and examine the details of the Large-Scale Purchase contemplated by the Large-Scale Purchaser;
 - c) To negotiate and exchange views with the Large-Scale Purchaser;
 - d) To request the submission of alternative plan by the Company's Board of Directors and examine such alternative plan;
 - e) To extend the Independent Committee Assessment Period;
 - f) To conduct other activities that the independent committee is authorized to engage in under the Policies; and
 - g) To conduct other activities that the independent committee is authorized to engage in by resolution of the Board of Directors separately from the Policies.
6. Within 10 business days after receiving a confirmation letter from the Large-Scale Purchaser, the independent committee shall, by itself or through the Company's Board of Directors, deliver to the Large-Scale Purchaser a list of Large-Scale Purchase Information that must be submitted by the Large-Scale Purchaser at the outset.

If the independent committee concludes that the information so submitted by the Large-Scale Purchaser is insufficient as the requested Large-Scale Purchase Information, the independent committee shall require, by itself or through the Company's Board of Directors, the Large-Scale Purchaser to provide additional information until the independent committee concludes that it has received sufficient Large-Scale Purchase Information. The independent committee may also request the Company's Board of Directors to submit its opinion regarding the Large-Scale Purchase and the reasoning behind such opinion, an alternative plan (if any), and other information and materials deemed necessary by the independent committee. The reservation of the Board's opinion is one possible response to such request of the independent committee.

The independent committee shall set the deadline date for the Board's response as it deems appropriate(up to 60 days maximum as a general rule).
7. The independent committee may directly or indirectly negotiate or exchange views with the Large-Scale Purchaser if necessary in order to change the contemplated Large-Scale Purchase to benefit the corporate value of the Company and the shareholders' common interests.
8. For collection of necessary information, the independent committee is entitled to require the Directors, Corporate Auditors, or employees of the Company and other parties who are deemed necessary by the independent committee to report to the independent committee and explain matters designated by the independent committee.
9. The independent committee may obtain the advice of independent third parties (including financial advisers, certified public accountants, legal counsels, consultants, and other professionals) at the expense of the Company.
10. The independent committee members may convene their meetings upon the occurrence of

a Large-Scale Purchase or at any other time.

11. The resolution of the independent committee shall in principle be made with the majority of the members present who constitute two-thirds of the independent committee members. However, in case there is a compelling reason, the resolution may be made with a majority of the members present who constitute a majority of the independent committee members.

Names and Resumes of the Independent Committee Members

Kazumoto Yamamoto

Date of birth: July 22, 1933

Resume:

June 1983	Director of Asahi Chemical Industry Co., Ltd. (Currently Asahi Kasei Corporation)
June 1987	Managing Director of Asahi Chemical Industry Co., Ltd.
June 1990	Managing Director of Asahi Chemical Industry Co., Ltd.
June 1995	Executive Vice-president of Asahi Chemical Industry Co., Ltd.
June 1997	President of Asahi Chemical Industry Co., Ltd.
April 2003	Vice Chairman of Asahi Chemical Industry Co., Ltd.
June 2003	Full-time Advisor of Asahi Chemical Industry Co., Ltd. (present)
June 2005	Outside Director of Tokyo Gas Co., Ltd. (present)
June 2006	Outside Director of Toto Kiki Co., Ltd. (Currently TOTO LTD.) (present)

* Mr.Kazumoto Yamamoto is a candidate for one of the outside Director positions proposed by Item 3. There are no specific conflicts of interest between Mr. Yamamoto and the Company.

Teruaki Aoki

Date of birth: October 18, 1941

Resume:

June 1989	Director of Sony Corporation
June 1996	Managing Director of the Company
April 1998	President & COO of Sony Electronics Inc. (US corporation)
May 2000	Senior Executive Vice President of Sony Corporation
June 2003	Chief Operating Officer of Sony Corporation.
May 2005	Managing Director of Sony Foundation for Education (present)
February 2006	Outside Director of Micron Technology, Inc.(US corporation) (present)

* Mr.Teruaki Aoki is a candidate for one of the outside Director positions proposed by Item 3. There are no specific conflicts of interest between Mr. Aoki and the Company.

Shigekazu Torikai

Date of birth: March 12, 1947

Resume:

October 1975	Joined the tax and accounting office
October 1986	Passed the bar exam
April 1990	Registered with the Daini Tokyo Bar Association
April 1994	President of Torikai Law Office (present)

* There are no specific conflicts of interest between Mr. Shigekazu Torikai and the Company.

Summary of Issuance of Stock Acquisition Rights without Payment of Consideration

1. Decisions on the matters for the issuance of stock acquisition rights without payment of consideration

(1) The terms and number of the stock acquisition rights

The terms of the stock acquisition rights shall be as specified in 2. below, and the number of stock acquisition rights shall be determined by the Company's Board of Directors, but shall not exceed twice the aggregate number of the outstanding shares of the Company (excluding the treasury stock owned by the Company) as of the date determined by the Company's Board of Directors for the allotment of the stock acquisition rights (the "Allotment Date").

(2) Eligible shareholders to whom the allotment shall be made

The Company's Board of Directors shall determine the allotment ratio of stock acquisition rights, for up to two stock acquisition rights per share held by the shareholders and effect the issuance of the stock acquisition rights to the shareholders listed or recorded in the final list of shareholders or the list of beneficial shareholders.

(3) Effective date of the issuance of the stock acquisition rights

The date separately determined by the Company's Board of Directors.

2. Terms of the stock acquisition rights

(1) Type and number of shares to be issued upon exercise of stock acquisition rights

The type of shares to be issued upon exercise of the stock acquisition rights shall be the common stock of the Company, and the number of shares to be issued upon exercise of the stock acquisition rights (hereinafter, "Number of Shares to be Issued") shall be one share per one stock acquisition right. The Company shall make necessary adjustments in the event of a stock split or consolidation of shares.

(2) Amount of consideration to be paid upon exercise of stock acquisition rights

The amount of consideration to be paid upon exercise of stock acquisition rights shall be one yen or more per share of the Company being issued, as shall be determined by the Company's Board of Directors.

(3) Exercise period of the stock acquisition rights

The exercise period of the stock acquisition rights shall commence on the date when the allotment of the stock acquisition rights becomes effective or on another date determined by the Company's Board of Directors and shall last for one to three months, as determined by the Company's Board of Directors. However, if the stock acquisition rights are acquired by the Company from the holders, the exercise period shall end on the last business day one day prior to the date on which the stock acquisition rights are to be acquired by the Company.

(4) Conditions for the exercise of the stock acquisition rights

Exercise of the stock acquisition rights may be subject to conditions including the restriction that a party belonging to a group of shareholders including the Large-Scale Purchaser is not able to exercise the stock acquisition rights. The Company's Board of Directors shall determine the details of such conditions.

(5) Restrictions on transfer of the stock acquisition rights

Obtaining stock acquisition rights by transfer shall require the approval of the Company's Board of Directors.

(6) Obtaining the stock acquisition rights by the Company

The Company may determine, as a condition to the receipt of the stock acquisition rights, that the Company may acquire the stock acquisition rights held by a holder who does not belong to a group of shareholders including the Large-Scale Purchaser and issue the Number of Shares to be Issued per each stock acquisition right acquired by the Company. The Company's Board of Directors shall determine the details of such condition.

(7) Others

The Company's Board of Directors shall determine any other matters as necessary.

Flowchart of Policies for Large-Scale Purchase of the Company's Stock

