

Ticker Code: 7762  
June 3, 2008

**NOTICE OF THE 123rd 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. ]

Dear shareholders,

You are cordially invited to attend the 123rd 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 Tuesday June 24, 2008.**

**[Exercise of 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,

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

\*\*\*\*\*

**1. Time and Date: 10 a.m. on Wednesday June 25, 2008**

\* Please come early to the venue as the reception area will be crowded as it becomes close to the commencement of the meeting. The reception is scheduled to open at 9 a.m.

**2. Place:** Keio Plaza Hotel Tokyo, Main Building 4F “Hana”  
2-2-1, Nishi-Shinjuku, Shinjuku-ku, Tokyo

\* The meeting venue is different from last year. Please 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 123rd term (April 1, 2007 to March 31, 2008)  
**Item 2:** Report of the accounts for the 123rd term (April 1, 2007 to March 31, 2008)

**Matters to be resolved:**

- Item 1:** Appropriation of Retained Earnings  
**Item 2:** Election of Ten Directors  
**Item 3:** Election of One Corporate Auditor

- Note: 1) If you attend in person, please submit the enclosed Voting Right Exercise form to the reception desk.  
2) In case of any revision to the Reference Materials for General Meeting of Shareholders, the Business Report, or accounts and consolidated accounts, we will post the revision on our website (<http://www.citizen.co.jp/>).

**BUSINESS REPORT**

From April 1, 2007 to March 31, 2008

**I. MATTERS RELATING TO THE CURRENT SITUATION OF THE GROUP**

1. Review of Operations

The economic environment of the fiscal year under review continued its gradual growing trend at the beginning of this fiscal year. However, due to the escalation of the U.S. subprime loan issue, fear of an economic slowdown expanded on a world-wide scale. The rising price of crude oil and other resources resulted in the increased uncertainty of the future. Although the Japanese economy showed a recovery driven by steady business performance, the change in the trends of consumers caused by drastic yen appreciation and rises in the price of certain products contributed further to the uncertainty of the future.

Under these conditions, during this fiscal year, which is the first year that it shifted to a pure holding company system, the Citizen Group concentrated on what it labeled as the “rebuilding of a robust corporate structure” and focused on implementing measures to improve our profit base in order to reinforce the business foundation.

On the sales front, in the areas of watches and clocks, despite increasingly weak consumer sentiment, Citizen vigorously pursued, inside and outside of Japan, the introduction of highly value added watches, such as Eco-Drive and radio-controlled watches that use leading-edge technologies. As a result, the sales revenue in these areas has increased.

In the area of electronic devices, Citizen launched into the mass production of certain types of LEDs for general lighting, and its switch products sold well. Despite such positive developments, however, the increase in the sales revenue remained small primarily because of the impact of the decrease in the sales revenue caused by the withdrawal from certain business lines.

In the area of electronic products, the sales revenue of large printers for China and photo printers for commercial-use increased as a result of the introduction of new products and active marketing activities. However, the sales revenue in this area as a whole reduced primarily because of the impact of the decrease in the sales revenue caused by the withdrawal from FDD business.

In the area of industrial machinery, sales revenue decreased due to the rise in the prices of raw materials and the decreases in capital expenditure for infrastructure in Japan, which was caused primarily by increasingly uncertain market conditions in the latter half of this fiscal year driven by yen appreciation.

In the areas of other products, the jewelry business was beset by continued sluggish demand. The sales revenue of pachinko-related products decreased, as the investment motivation remained low due to the multiple bankruptcies and the closure of *pachinko* halls.

As a result, consolidated net sales revenue for the fiscal year increased to 336.685 billion yen (up 0.1% from the previous fiscal year) with operating income increasing to 24.262 billion yen (up 10.7% from the previous fiscal year), and ordinary income fell to 24.746 billion yen (down 4.8% from the previous fiscal year). Net income increased to 12.189

billion yen (up 70.6% from the previous fiscal year) despite extraordinary losses. These extraordinary losses consisted of a loss on impairment of 2.888 billion yen due primarily to the structural reform and partial disposal of unprofitable products, and reorganization costs of 3.719 billion yen.

**[Watches and Clocks]**

In the Japanese watch market, the trend continued that imported high-end products sold strongly, making it tough for Japanese products to compete. However, because of the rise in price of the imported products during the latter half of the fiscal year, the intensity of the sales of imported products seems to have somewhat slowed down. Citizen Group was able to enjoy an increase in the sales revenue by differentiating the Citizen brand from others with high-added value functions applied on products such as Eco-Drive and radio-controlled watches and proactively employing marketing strategies focusing on beautiful designs, further enhancement of distribution policies and investment in advertisements.

Sales in the overseas watch market were met by increasing uncertainties such as the economic slowdown due to the U.S. subprime loan issue and the changing production environment in China. However, as a result of the steady increase in the sales share of Eco-Drive products among our watch products and the smooth shift to high-added value products by the overseas marketing of radio-controlled products, the average price of our products was driven up and the sales revenue increased as a whole.

Our Q&Q brand posted higher sales revenue as a whole because combination quartz radio-controlled products in the prevalent price range sold well in Japan, despite marking lower sales in South America, which was previously favorable.

Sales of licensed brands increased because of the continued improvement in our customer services, despite having difficulty securing production volume due to the rising price of raw materials and the changing production environment in China.

Sales of movements faced decreasing demands in low-end quartz watches and a rigorous discount competition with Chinese competitors, but the sales revenue increased by our efforts to maintain the prices of standard movements which are our core products and reinforce the sales of high-value added movements such as multi-hand and mechanical movements.

Sales of clocks increased as system clocks and automatic reset devices sold well, despite the adverse impact caused by the integration of large distributors in Japan and price competition.

Consequently, sales in the watches and clocks business increased to 139.985 billion yen (up 5.3% from the previous fiscal year), with operating income increasing to 21.262 billion yen (up 1.0%).

**[Electronic Devices]**

Sales of OPTO devices increased, owing to the increased sales volume of our core product of chip LEDs, in particular, LEDs for key lighting designed for low-end mobile phone products that show the largest growth in the mobile phone market, and flash LEDs

for mid- to high-end models of mobile phone products. In addition, Citizen consistently introduced new models of LEDs for general lighting, many of which were shifted to commercial production and contributed to the sales increase.

Sales of optic sensors remained favorable, mainly due to IrDA modules, and the sales revenue increased. Although the sales revenue of small-size backlights decreased, their profitability improved due to the marketing strategy that focused on the profitability.

Among crystal devices, our core product segment of cylinder-type tuning fork oscillators saw higher sales for watches, although sales for personal computers and audio-visual devices were in an adjustment mode in the latter half of the fiscal year. Small tuning fork SMD oscillators posted a significant sales increase thanks to new products for mobile phones during the first half of the fiscal year, but slowed down during the latter half of the fiscal year due to the impact of our customers' inventory adjustment. Sales of TCXO decreased significantly because of lower orders due to the slow shift to small products. Crystal fragments sold well, meeting the market need for downsizing, and resulted in an increase in the sales revenue.

Of other electronic devices, in quartz devices, our unique active aberration compensation element for DVD pickups sold well. However, sales of the segment as a whole declined with our withdrawal from our formerly core mobile phone main display devices.

In switches, which are mainly components used in mobile phones, new products of key sheet modules sold well in addition to existing switch products. However, the profitability was not improved due to the quality requirements and customers' marketing strategies.

Sales in acoustic products continued to struggle despite the introduction of our new digital microphones product.

Glass substrates for HDD sold well due to the favorable market condition, and boosted sales.

As a result, the sales in electronic devices as a whole increased to 99.235 billion yen (up 0.1% compared with the previous year), with operating income increasing to 0.654 billion yen (up 61.5%).

#### **[Electronic Products]**

In printer-related products, sales of small printers decreased due to the impact of lower domestic demand. However, large printers for China and business photo printers reported a significant sales increase owing to our introduction of new products. The sales of calculators and other devices decreased in Japan compared with last year due to the impact of a downsized market, while they sold well overseas especially in Russia, which is the main market overseas, and the sales in the Indian market increased, resulting in the increase in the sales as a whole in this product area..

Sales of FDD greatly decreased because of the withdrawal from the business. The sales of healthcare equipments increased thanks to new products of pedometers for the Japanese market and thermometers for overseas markets.

As a result, the sales in electronic products as a whole decreased to 27.14 billion yen (down 2.4% compared with the previous year), with operating income decreasing to 2.694 billion yen (down 15.9%).

### [Industrial Machinery]

The sales of our core product of CNC automatic lathes decreased as a whole due to territorial variability in the level of demand. In the Japanese market, capital investment was lower in automotive parts, electronics, and precision machinery which formerly led the market, and sales decreased greatly despite our efforts to stimulate the demand by introducing the new product A20VII.

Among the overseas markets, business was slow in Asia due to factors which impeded sales such as a production adjustment in automobiles and hard disk drives (HDD) in the ASEAN countries, and revisions to laws and regulations regarding tax exemption measures in China. In the latter half of the fiscal year, automobiles and HDDs improved but the overall sales resulted in a decrease. In the US market, the sales in the medical device industry was not good due to postponed capital investment, but the sales volume in general job shop industries and aircraft and automobile industries matched up to the same in the previous fiscal year. In the European market, the strong capital investment that continued from the last fiscal term and the boost resulting from the EMO show held in September contributed to a significant sales increase. The higher sales in the European and U.S. markets more than offset the sales decrease in Asian markets, resulting in the increased sales for the overseas markets as a whole.

Of other machinery products, sales in measuring machinery increased due to the growth of our core product of Digimetron. Performance of assembling machinery was slow due to the temporary decrease in the demand for machines exclusively designed for HDD products.

Consequently, consolidated sales of industrial machinery as a whole decreased to 39.639 billion yen (down 10.5% compared with last year), with operating income decreasing to 4.448 billion yen (down 31.0%).

### [Other Products]

The jewelry business was beset by lower desires to consume jewelry in the deteriorated economic environment. In addition, restriction of excessive sales and the rise in the price of precious metals also greatly contributed to reluctance in the purchase.

Market conditions for *pachinko*-related products were harsh, and sales decreased because of the closure of small and medium sized *pachinko* halls triggered by the decline in the population of users. As a countermeasure for revival, we implemented structural improvements including the consolidation of the management of *pachinko*-related businesses during this fiscal year.

As a result, consolidated sales of other products as a whole decreased to 30.720 billion yen (down 3.9% compared with the previous year), with operating income increasing to 1.519 billion yen (up 3.9% 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	139,985	41.6%	5.3%
Electronic Devices	99,235	29.5%	0.1%
Electronic Products	27,104	8.0%	- 2.4%
Industrial Machinery	39,639	11.8%	- 10.5%
Other Products	30,720	9.1%	- 3.9%
Total	336,685	100.0%	0.1%

Note: The rate of the sales in the overseas to the gross sales is 60.1%.

#### 2. Financing

During this fiscal year, primarily for the use by Citizen Watch Co., Ltd. in its acquisition of the shares in Bulova Corporation, Citizen Financial Service Co., Ltd. raised 30 billion yen by long-term loan.

#### 3. Capital expenditures

Capital expenditures during the year totaled 25,181 billion yen, the major expenditures of which are as follows:

- (1) 6,169 million yen for production facilities in Watches and Clocks
- (2) 12,891 million yen for production facilities in Electronic Devices
- (3) 816 million yen for production facilities in Electronic Products
- (4) 2,047 million yen for production facilities in Industrial Machinery
- (5) 2,434 million yen for production facilities in Other Products

#### 4. Important restructuring transactions

The Company (Citizen Holdings Co., Ltd.) implemented the following restructuring transactions to shift to a pure holding company system.

##### (1) Absorption-type company split (*Kyushu bunkatsu*) dated April 1, 2007

The Company transferred its 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 Crystal Devices Business Unit respectively to Citizen Miyota, Citizen Machinery, Citizen Systems Japan, and Citizen Displays.

##### (2) Incorporation-type company split (*Shinsetsu bunkatsu*) dated April 2, 2007

The Company transferred to newly incorporated Citizen Watch, Citizen Technology Center, and Citizen Business Expert its 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 the Hub Operation Office and Environment Management Office of the Corporate Affairs Division.

#### 5. Acquisition or disposition of stocks, other equity interests, or stock acquisition rights of other companies

(1) For the purpose of the reinforcement of the business partnership regarding LED products between Citizen Electronics Co., Ltd. and Nichia Corporation, the Company accepted allocation of Nichia's newly issued shares, with the payment date set at December 21, 2007, and acquired 50,000 of their common stock (approximately 2.7% of

their total shares outstanding).

(2) Pursuant to the “Share Transfer Agreement” entered into on October 14, 2007, Citizen Watch Co., Ltd. acquired all of the shares in Bulova Corporation on January 10, 2008.

#### 6. Challenges Going Forward

Both Japan’s business outlook and the global business outlook are estimated to slow down due to drastic yen appreciation and the rise in the price of crude oil and other resources. In addition, the geopolitical elements such as in the Middle East, China and the Korean Peninsula, and global instability in the trend of the financial and stock markets triggered by the subprime loan issue have increased uncertainty, making it more difficult to predict the future of Citizen Group’s operating environment.

Despite the existence of these circumstances, in accordance with the medium-term management policies which it announced upon moving to a pure holding company system in April of this year, the Citizen Group will seek to base itself upon 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, with the ultra-minute technology, ultra-precise technology, and low power consumption technology as our core competencies, will build an optimal business portfolio for further promotion of business having stable income businesses and growth businesses as the two engines.

In the fiscal year 2008, the Group will address the following three important issues based on the medium-term management policies consisting of: (a) reviewing the business portfolio strategy, (b) enhancing governance, and (c) reconstructing the financial strategy.

1. Analyzing and pursuing possible options to improve the operating profit ratio.
2. Management with an emphasis on the operational companies.
  - (a) Applying on site-oriented practices in the midst of a rapidly changing environment
  - (b) Reinforcement of management structure of electronic device and industrial machinery businesses
3. Restructuring the structure of research and development including the Company’s absorption-type merger (*Kyushu gappei*) with Citizen Technology Center Co., Ltd.
4. Promoting efficient use and motivation of the employees by management focusing on individuals.

During the fiscal year of 2008, the Group will continue to sufficiently organize the pure holding company system based on the structural reform implemented during this fiscal year, and focus on implementing measures to improve our profit base to reinforce the business foundation.

By implementing the above measures, we will increase profitability, while we will also engage in CSR activities based on the policy of “For the citizens - contribute to the better lives of citizens and remain loved by citizens,” and operate our businesses in harmony with the local community and the global environment.

We thank our shareholders for their continuing support.

#### 7. Assets and profit and loss of the Company

(Millions of yen)

	120 <sup>th</sup> (FY2004)	121 <sup>st</sup> (FY2005)	122 <sup>nd</sup> (FY2006)	123 <sup>rd</sup> (FY2007)
Net sales	357,288	335,940	336,188	336,685
Ordinary income	40,118	34,634	25,991	24,746
Net income	20,233	18,594	7,145	12,189
Net income per share (yen)	65.97	53.23	19.43	35.14
Total assets	390,565	402,497	382,971	387,975
Net assets	240,888	276,411	254,426	243,830
Net assets per share (yen)	799.28	728.43	728.49	697.81

Notes:

1. Net income 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).

#### 8. Details of Important Subsidiaries

Name	Capital (million)	Shares held by the Company	Major Business
Citizen Watch Co., Ltd.	¥5,000	100.0%	Watches and Clocks
Citizen Machinery, Co., Ltd.	¥498	100.0%	Industrial Machinery
Citizen Systems Japan Co., Ltd.	¥450	100.0%	Electronic Products
Citizen Electronics Co., Ltd.	¥1,988	100.0%	Electronic Devices, etc.
Citizen Miyota Co., Ltd.	¥1,753	100.0%	Watches and Clocks, Electronic Devices, etc.
Citizen Fine Tech Co., Ltd.	¥1,758	100.0%	Watches and Clocks, Electronic Devices, etc.
Citizen Displays Co., Ltd.	¥50	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 Financial Service Co., Ltd.	¥50	100.0%	Financial Services in the group
Citizen Watch Company of America Inc.	US\$32.5	*100.0%	Watches and Clocks
Bulova Corporation	US\$0.001	*100.0%	Watches and Clocks

Notes:

1. Those with an asterisk mark indicate indirect holdings.
2. On March 17, 2008, Citizen Displays Co., Ltd. reduced its capital from 450 million yen to 50 million yen.
3. On April 1, 2008, Citizen Electronics Co., Ltd. and Citizen Displays Co., Ltd. performed an absorption-type company split whereby Citizen Electronics Co., Ltd. succeeded to the business of the Engineering Division and the Sales Division of Tokyo business operation of Citizen

Displays Co., Ltd.

4. Effective from April 1, 2008, Citizen Displays Co., Ltd. and Sayama Precision Co., Ltd. changed their trade names respectively to Citizen Electronics Hachinohe Co., Ltd. and Citizen Sayama Co., Ltd., respectively.

9. Principal Products of Business (as of March 31, 2008)

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, quartz oscillators, etc.
Electronic Products	Various kinds of printers, healthcare equipments, 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.

10. Principal Places of Business (as of March 31, 2008)

The Company

Name	Location
	Nishitokyo, Tokyo

Subsidiaries and others

Name	Location
Citizen Watch Co., Ltd.	Nishitokyo, Tokyo
Citizen Machinery Co., Ltd.	Kitasaku-gun, Nagano
Citizen Systems Japan Co., Ltd.	Nishitokyo, Tokyo
Citizen Electronics Co., Ltd.	Fujiyoshida, Yamanashi
Citizen Miyota Co., Ltd.	Kitasaku-gun, Nagano
Citizen Fine Tech 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 Watch Company of America Inc.	California, U.S.A.
Bulova Corporation	New York, U.S.A.

11. Employees (as of March 31, 2008)

Business Segment	Number of employees	Change from the previous fiscal year-end
Watches and Clocks	11,072 ( 1,027)	1,166 ( -49)
Electronic Devices	6,671 ( 474)	1,931 ( 16)
Electronic Products	1,343 ( 23)	-91 ( -1)
Industrial Machinery	719 ( 102)	25 ( 5)
Other Products	1,198 ( 414)	6 ( 67)
General Corporate	1,124 ( 134)	-146 ( -17)
Total	22,127 ( 2,174)	2,891 ( 21)

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.
2. Primarily due to the consolidation of Bulova Corporation and other companies, the number of the personnel significantly increased from the previous fiscal year-end.

12. Principal Lenders (as of March 31, 2008)

Name	Borrowed Amount (million)
Mizuho Corporate Bank, Ltd.	¥10,000
Mitsubishi UFJ Trust and Banking Corporation	¥6,000
Asahi Mutual Life Insurance Co.	¥5,000
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥4,000
Sumitomo Mitsui Banking Corporation	¥3,000
The Hachijuni Bank, Ltd.	¥1,000
The Yamanashi Chuo Bank, Ltd.	¥1,000

## II MATTERS CONCERNING COMPANY STOCK AND STOCK ACQUISITION RIGHTS, ETC.

### 1. Condition of Stocks (as of March 31, 2008)

- (1) Total number of authorized shares: 959,752,000 shares
- (2) Total number of shares issued: 380,353,809 shares
- (3) Number of shareholders: 25,985
- (4) 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	48,000	13.83%
JP Morgan Chase Bank 380055	17,792	5.13%
The Master Trust Bank of Japan, Ltd. (trust account)	15,537	4.48%
Nippon Life Insurance Company	14,750	4.25%
The Chase Manhattan Bank 385036	11,225	3.24%
Japan Trustee Services Bank, Ltd. (trust account)	10,917	3.15%
Danske Bank Clients Holdings	10,784	3.11%
Tokio Marine and Nichido Fire Insurance Co., Ltd.	8,786	2.53%
Mizuho Corporate Bank, Ltd.	8,724	2.51%
Mitsubishi UFJ Trust and Banking Corporation	7,678	2.21%

Note: The voting rights ratio is calculated after deducting 33,348,673 treasury stocks.

### 2. Status of Stock Acquisition Rights (as of March 31, 2008)

- (1) Details of the Stock Acquisition Rights held by the Directors of the Company are as follows:

- (a) Stock Acquisition Rights issued pursuant to the resolution of the 118th Ordinary General Meeting of Shareholders held on June 27, 2003

- Number of Stock Acquisition Rights issued: 49
- Type and number of shares to be issued or transferred upon exercise of Stock Acquisition Rights: 49,000 shares of common shares

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*	21	21,000 shares	2

- (b) 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: 7,246
- Type and number of shares to be issued or transferred upon exercise of Stock Acquisition Rights: 724,600 shares of common shares

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*	1,730	173,000 shares	8

\* The outside Directors of the Company have no Stock Acquisition Rights.

(2) 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 shares
- 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

### III MATTERS CONCERNING DIRECTORS AND CORPORATE AUDITORS

#### 1. Names, etc. of Directors and Corporate Auditors (as of March 31, 2008)

Title	Name
Area of Responsibility and Engagement in the Management of Other Companies (if any)	
President and CEO	Makoto Umehara
Senior Managing Director	Mitsuyuki Kanamori
Officer in charge of Corporate Planning Division	
Managing Director	Toshio Koga
Officer in charge of Accounting Division and General Affairs Division, President and CEO of Citizen Financial Service Co., Ltd.	
Managing Director	Osamu Yamada
Officer in charge of Investor Relations Department, President and CEO of Citizen Business Expert Co., Ltd., President of Aquablue Insurance Co., Inc.	
Managing Director	Kenji Sugimoto
Officer in charge of Personnel Division and Corporate Communications Department	
Director	Tsuneo Nagai
President and CEO of Citizen Watch Co., Ltd., Chairman of Japan Clock & Watch Association	
Director	Takashi Masuzawa
President and CEO of Citizen Electronics Co., Ltd.	
Director	Katsuhiko Noguchi
President and CEO of Citizen Technology Center Co., Ltd.	
Outside Director	Kazumoto Yamamoto
Full-Time Advisor of Asahi Kasei Corporation	
Outside Director	Teruaki Aoki
Managing Director of Sony Foundation for Education	
Corporate Auditor (Full-time)	Takeshi Hayasaka
Outside Corporate Auditor	Yasuhiro Yamazaki
Corporate Auditor (Full-time)	Yosuke Iijima
Corporate Auditor (Full-time)	Yosuke Iijima
Outside Corporate Auditor	Yasuhiro Okawa
President of Rhythm Watch Co., Ltd.	

Notes:

1. At the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007, each of Messrs. Katsuhiko Noguchi, Kazumoto Yamamoto and Teruaki Aoki was newly elected as a Director and assumed the position.
2. On June 26, 2007, Directors Takao Suzuki and Hisato Hiraishi retired upon completion of their term of office.
3. Full-time Corporate Auditor Takeru Hayasaka has been running banks and factoring companies

for many years and has extensive knowledge about finance and accounting.

4. 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	
Makoto Umehara Rhythm Watch Co., Ltd.	Outside Director
Osamu Yamada Star Micronics Co., Ltd.	Outside Corporate Auditor
Kazumoto Yamamoto Tokyo Gas Co., Ltd. TOTO Ltd.	Outside Director
Teruaki Aoki Micron Technology, Inc.	Outside Director

5. The title of Tsuneo Nagai used to be Senior Managing Director changed on April 1, 2007, and he now serves as a Director.
6. The roles and responsibilities of Makoto Umehara, President and CEO, Mitsuyuki Kanamori, Senior Managing Director, and Toshio Koga, Managing Director, changed on April 1, 2008, as follows:

Name	On and after April 1, 2008	On and before March 31, 2008
Mitsuyuki Kanamori	President and CEO	Senior Managing Director, Officer in charge of Corporate Planning Division
Toshio Koga	Senior Managing Director, Officer in charge of Corporate Planning Division, Accounting Division, and General Affairs Division, and in charge of the research and development in the group	Managing Director, Officer in charge of Accounting Division and General Affairs Division
Makoto Umehara	Director and Advisor	President and CEO

## 2. Total amount of Directors' and Corporate Auditors' compensation

	Number of officers to receive compensation	Amount of compensation, etc. (million yen)	Amount of bonus out of all compensation, etc. (million yen)
Director (Out of which, outside Directors)	10 (2)	173 (12)	60 (-)
Corporate Auditor (Out of which, outside Corporate Auditors)	4 (2)	53 (19)	- (-)
Total (Out of which, outside executives)	14 (4)	226 (32)	60 (-)

Notes:

- The above amount of the bonuses for Directors (excluding outside Directors) is the amount to be paid after the conclusion of the 123rd Ordinary General Meeting of Shareholders planned for June 25, 2008.
- The maximum allowance for the total amount of compensation, etc. for Directors (excluding outside Directors) was set at 270 million yen per year (inclusive of bonuses, etc.) at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. Prior to the resolution, employee salaries (including bonuses) for current Directors and employees used to be paid in addition to the compensation, etc. for Directors. However, after the resolution, compensation for

the performance of the duties of Directors are consolidated into the above compensation, etc. for Directors, and will be paid within the above maximum allowance.

- The maximum allowance for the total amount of compensation, etc. for outside Directors was set at 30 million yen per year at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. No bonuses will be paid to outside Directors.
- The maximum allowance for the total amount of compensation, etc. for Corporate Auditors was set at 80 million yen per year at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. No bonuses will be paid to Corporate Auditors.

## 3. Matters relating to outside officers

- (1) Concurrent positions of Executive Officers, etc. held at other companies

Outside Corporate Auditor Yasuhiro Okawa concurrently serves as the president at Rhythm Watch Co., Ltd. ("Rhythm"). Rhythm has a business relationship with Citizen Watch Co., Ltd., which is one of the Company's subsidiaries. In addition, the Company holds 13.87% of the total number of shares issued by Rhythm.

- (2) Concurrent positions of outside officers held at other companies

Name	Position at the Company	Details of concurrent position
Company at which positions are concurrently held by our outside officers		
Kazumoto Yamamoto Tokyo Gas Co., Ltd. TOTO Ltd.	Outside Director	Outside Director
Teruaki Aoki Micron Technology, Inc.	Outside Director	Outside Director

- (3) Major activities during the fiscal year ended March 31, 2008

Name	Title	Principal activities
Kazumoto Yamamoto	Outside Director	Attended 15 (approximately 88%) of the 17 Board of Directors meetings held during the fiscal year since he assumed the role of Director, and made comments as needed primarily from the viewpoint of a highly experienced executive.
Teruaki Aoki	Outside Director	Attended 15 (approximately 88%) of the 17 Board of Directors meetings held during the fiscal year since he assumed the role of Director, and made comments as needed primarily from the viewpoint of a highly experienced executive.
Takeshi Hayasaka	Outside Corporate Auditor	Attended 19 (approximately 95%) 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.
Yasuhiro Okawa	Outside Corporate Auditor	Attended 18 (approximately 90%) of the 20 Board of Directors meetings as well as 13 (approximately 92%) of the 14 Corporate Auditors meetings held during the fiscal year, and made comments as needed primarily from the viewpoint of a highly experienced executive.

- (4) 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 officer 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.

#### **IV INDEPENDENT AUDITORS**

**1. Name: Nihombashi Corporation**

**2. Amount of compensation**

- 1) Amount of compensation for Independent Auditors for the fiscal year ended March 31, 2008: 17 million yen
- 2) Total amount of money and other material benefits to be paid to Independent Auditors by the Company and subsidiaries: 73 million yen

Notes:

1. In the audit agreement by and between the Company and the Independent Auditors, the Company does not clearly differentiate, and it is also practically impossible to differentiate, between compensation for audits under the Corporate Law and compensation for audits under the Financial Instruments and Exchange Law. Thus, the amount stated in 1) above includes compensation for audits under the Financial Instruments and Exchange Law.
2. Citizen Watch Company of America Inc. and Bulova Corporation, each of which is the Company's important subsidiary, undertook an audit by KPMG LLP and PKF Certified Public Accountants A Professional Corporation respectively.

**3. Decision Making Policy for dismissal or non-reappointment of Independent Auditors**

It is the policy of the Company that if 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 consents of all Corporate Auditors.

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

## V SYSTEM AND POLICIES OF THE COMPANY

### 1. System to ensure that the Directors perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation, and other systems to ensure the appropriateness of the Company's business

The following is a summary of the 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 and employees perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation
  - (a) Pursuant to the provisions set forth in laws and regulations, the Articles of Incorporation, and the "Rules on Board of Directors," the Company shall hold, in principle, a regular meeting of the Board of Directors at least once a month, and shall make decisions on significant matters concerning the performance of duties and other matters to be submitted for discussion. In addition, the Company shall supervise the Directors' performance of their duties.
  - (b) In order to ensure that the Directors and employees (hereinafter "All Directors and Employees") perform their duties in conformance with relevant laws and regulations, the Articles of Incorporation, and other internal rules, and to ensure that the Company commits to corporate social responsibility, the Company shall stipulate the "Citizen Group Code of Conduct" (hereinafter the "Citizen Code of Conduct") as a code of conduct which is applicable in common to all of the companies constituting the Citizen Group (meaning a corporate group consisting of the Company and the subsidiaries of the Company; hereinafter the same), and shall establish the CSR Committee and the CSR Department, which are directly controlled by the President and CEO, and shall inform All Directors and Employees of the Citizen Code of Conduct in order to enhance their knowledge and awareness of compliance and foster their adherence to the Citizen Code of Conduct.
  - (c) The Company shall also create an internal reporting system, and thereby aim to prevent, find at an early stage, and correct voluntarily, any violation of laws and regulations or misconduct caused by fraudulent acts.
  - (d) The Company shall establish the Audit Office which is directly controlled by the President and CEO, and shall audit, in accordance with the audit program, as to whether the business of the Citizen Group is performed in conformance with relevant laws and regulations and internal rules.
- (2) System for storage and management of information relating to Directors' performance of their duties, etc.
  - (a) The Company shall properly keep and manage the Minutes of Shareholders Meetings, Minutes of Board of Directors Meetings, Minutes of Management Committee Meetings, Written Requests for Managerial Decisions, and other

information relating to the performance of the duties of Directors in accordance with the provisions of laws and regulations, the Articles of Incorporation, the Rules on Board of Directors, the Rules on Management Committee, the Rules on Request for Decisions, and other internal rules.

- (b) The Company shall develop and maintain the system to ensure that the Company is able to disclose information regarding the Directors' performance of their duties in a timely and appropriate manner pursuant to laws and regulations, the Articles of Incorporation, the "Rules on Management and Timely Disclosure of Internal Information," and other internal rules, when such disclosure of information is requested by Directors, Corporate Auditors, shareholders, creditors, and other interested parties, by setting up a position of the "General Manager of Information Control" and an "Information Control Section."
- (3) Regulations and other systems relating to management of risks of loss
  - (a) Matters to be resolved by the Board of Directors and matters to be determined by the "President and CEO" or the "Directors in Charge of Some Operation" concerning the risks inherent in significant decision-making, performance of business, or other similar conduct in the course of performing the business by the Citizen Group, shall be discussed in the Management Committee meetings or the Business Control and Management Committee meetings to be held by the subsidiaries controlling each business of the Citizen Group (hereinafter the "Business Controlling Companies") pursuant to the Rules on Management Committee, Affiliates Management Rules, Citizen Code of Conduct, the management policies and management plan, and the like.
  - (b) In addition to (a) above, the Company shall monitor or otherwise manage the risks which are cross-sectionally inherent to the Corporate Group, such as environment management, management of security export and import control, promotion of fair subcontract transactions, and information security, by establishing various kinds of committees which are cross-sectional in the Corporate Group.
- (4) System to ensure the efficient performance of Directors' duties
  - (a) The Company shall establish the Management Committee, and shall discuss matters to be resolved by the Board of Directors meetings, and other significant matters relating to the management of the Company, by having thorough and intensive discussions.
  - (b) Prior to the decision-making by the Board of Directors, sufficient and appropriate information shall be provided to each of the Directors.
  - (c) The Company shall improve the system in which the duties to be performed by, and the authorities and responsibilities of, each Director are specified by internal rules, resolutions of the Board of Directors, or by other similar decisions, and to ensure that all Directors smoothly and effectively perform their duties.

- (5) System to ensure the Citizen Group's appropriate performance of business
- (a) The Company shall conclude the Business Management Agreement or other similar agreements with the Business Controlling Companies, and shall manage or instruct the Business Controlling Companies concerning the improvement of the management and internal control system pursuant to the Affiliates Management Rules or other similar rules.
  - (b) Regarding individual business activities of the Citizen Group, the Company shall familiarize the Business Controlling Companies with the management policies and the management plan stipulated by the Company, and shall clearly define the authorities and responsibilities of the Business Controlling Companies. Each of the Business Controlling Companies shall independently carry out their management of business in consideration of the features of the industry in which each Business Controlling Company engages.
  - (c) The Company shall regularly hold meetings of the Group Management Strategy Committee, which consists of major companies of the Citizen Group, to share information and enhance the partnerships concerning the personnel affairs, financial affairs, research and development, intellectual properties, brands, and other similar matters.
  - (d) The Company shall request that the Business Controlling Companies regularly report to the Company regarding whether the business of the Business Controlling Company is properly performed, in the meetings of the Business Control and Management Committee or at other similar opportunities, and in addition, shall monitor the same by an audit implemented by the Audit Office, etc.
- (6) Matters relating to employees who assist the Corporate Auditors in their duties
- (a) At the request of the Corporate Auditors for arranging staff who assist the Corporate Auditors in their duties, the Company shall arrange auditing personnel with sufficient ability to assist the Corporate Auditors in their duties.
  - (b) If the Company arranges for auditing personnel for a request mentioned in (a) above, the relevant auditing personnel shall exclusively engage in the assistance with the duties of the Corporate Auditors under the direction of the Corporate Auditors in order to ensure the independence of such auditing personnel, and the appointment, dismissal or other personnel changes and personnel evaluations shall be subject to the prior consent of the Board of Corporate Auditors.
- (7) System relating to report to the Corporate Auditors
- (a) Directors shall report any decisions that could seriously affect the business or the organization, and the results of internal audits of the Citizen Group, to the Board of Corporate Auditors without delay.
  - (b) The Directors shall 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, the Citizen Code of Conduct, or other internal rules in connection with the Company's business, any wrongdoing, any possible occurrence of such a breach or wrongdoing, or any other fact which could cause material damage to the Company.

- (c) In addition to (a) and (b) above, All Directors and Employees shall timely and appropriately make a business report at the request of the Corporate Auditors.
- (8) Other systems to ensure the effectiveness of audits by the Corporate Auditors
- (a) The Company shall have the Corporate Auditors attend the Board of Directors meetings, Management Committee meetings, and other important meetings.
  - (b) In addition to (a) above, the Company shall maintain communication between the Corporate Auditors and All Directors and Employees of companies which belong to the Citizen Group by holding talks between the President and CEO and the Corporate Auditors on a regular basis, while keeping the fair attitude and independent position of the Corporate Auditors, or by other means, and shall assist the Corporate Auditors in collecting information necessary for the Corporate Auditors to perform their duties and in improving the audit environment.

## 2. Corporate Governance

### (1) Our Corporate Governance Vision

The Company's fundamental concept is "For the citizens - contribute to the better lives of citizens and remain loved by citizens," 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 the global environment. To continue to promote its aims, the Company believes that 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.

### (2) The Company's Organization

#### (a) Summary of the Company's Organization

The Company has a Board of Directors, which is comprised of eight (8) Directors who are familiar with the Company's business lines, and two (2) outside Directors who are independent from the Company's management. The Company also employs a Board of Corporate Auditors system and has the Board of Corporate Auditors comprised of four (4) Corporate Auditors, two (2) of whom are outside Corporate Auditors.

#### (b) Status of Decision-making Procedures of Performance of Business

At least once a month, the Company holds Management Committee meetings that are attended by the full-time Directors and other members, to maintain prompt business judgment 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, and each Director in Charge of Some Operation.

Board of Directors meetings were held twenty (20) times during the fiscal year ended March 31, 2008, and all Directors and all Corporate Auditors attended eighty-eight percent (88%) or more of the meetings of the Board of Directors held during the fiscal year ended March 31, 2008 during the term of their office.

(c) Audits

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, the Management Committee, division meetings, or other such meetings; receiving from the Directors and other officers reports on the status of the performance of their duties; reviewing important written decisions and other documents; and investigating the business and financial affairs of the Company. The Company also receives an audit report from Nihombashi 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.

Board of Corporate Auditors meetings were held fourteen (14) times during the fiscal year ended March 31, 2008, and all Corporate Auditors attended at least ninety-two percent (92%) of the meetings of the Board of Corporate Auditors held during such term.

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

(d) Nominating Committee and Compensation Committee

The Company has established the Nominating Committee and the Compensation Committee as voluntary institutions for the improvement of the transparency of the management of the Company.

The main duties of the Nominating Committee include the discussions on the matters concerning the appointment of the Representative Director, the President and CEO, and the Chairman of the Board of Directors, and proposals of such matters to the Board of Directors.

The main duties of the Compensation Committee include the discussions on the matters concerning the policies and standards of the compensation to be received by Directors, and the provision of advice concerning the same to the Board of Directors.

Each of the above-mentioned Committees is composed of three (3) or more Directors who are appointed by a resolution of the Board of Directors, the majority of which are outside Directors and which shall include at least one (1) Representative Director.

The Chairperson of each of the Committees shall be an outside Director, and shall be elected by mutual election of the members of the Committees.

(e) Relationship with outside officers

There is no special interest among an outside Director, Kazumoto Yamamoto, another outside Director, Teruaki Aoki, and an outside Corporate Auditor, Takeshi Hayasaka. Yasuhiro Okawa, an outside Corporate Auditor, is the President of Rhythm, which is listed on the First Section of the Tokyo Stock Exchange. Rhythm has a business relationship with Citizen Watch Co., Ltd. and the Company holds 13.87% of Rhythm's issued shares. The Company has no other conflicts of interest with Rhythm.

(f) Independent Audits

The Certified Accountants who independently audited the Company are Shigehiro Chiba and Akira Ogura, associates of Nihombashi Corporation. In addition, fourteen (14) certified accountants and three (3) 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 20 "IV Independent Auditors, 3. Decision-making policy for dismissal or non-reappointment of Independent Auditors."

### 3. CSR Efforts

Citizen Group has actively worked on CSR activities based on its corporate philosophy of "contribute to the better lives of citizens and remain loved by citizens" under the Citizen Code of Conduct, aiming to accomplish "CSR with Full Participation."

Since its foundation, the Group's spirit, which is contained in its name "CITIZEN," has been the origin of the Group, and the spirit has succeeded unbrokenly from generation to generation until today. To contribute widely to the lives of people all over the world through the "manufacturing of products loved and supported by citizens" --- is certainly in line with the concept of CSR. Thus, Citizen Group's CSR is nothing but a realization of our corporate philosophy.

Considering that CSR is consistent with the management of our business itself, we believe that it is important to have every member of the Group, including the President, Directors, and employees, understand the spirit of the Citizen Code of Conduct and conduct activities upon consent and with sympathy for the spirit, and the Group has been aiming to realize such situation in order to meet the requests and desires of our various stakeholders, and to enhance the corporate value of the Group.

Ethibel (Belgium) in Europe, an external evaluation institution for Socially Responsible Investment (SRI), has favorably evaluated the Group's CSR efforts, and such high evaluation encourages the employees of the Group.

Citizen Group will make efforts to continue to provide secure and safe products, and is fulfilling its responsibility to provide good explanations to shareholders through positive disclosure of information, and will actively address things such as: compliance; corporate governance; development of an internal control system; risk management; and environmental issues. In addition, Citizen Group is making various social contributions including "Citizen of the Year," an award given to persons who made an impression on citizens. The Group seeks to improve its corporate value, aiming to become a "highly valuable company which capitalizes the people."

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

##### (1) Basic Policy

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 philosophy, "For the citizen --- contribute to the better lives of citizens and remain loved by citizens," the Group 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." By implementing the above-mentioned contribution, the Group has made efforts to secure and improve the corporate value and common interests of shareholders. The Company believes that the persons who have control over the decision-making of policies of the Company's financial and business affairs must be the ones who are capable of certainly putting the Group's management strategy into execution from a mid- to long-term standpoint, upon understanding the above-mentioned corporate philosophy and characteristic features of the business of the Company, and who enable the Company to continue to secure and improve the corporate value and common interests of shareholders of the Company in a sustainable way.

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 the 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 interests. 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 negotiations

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.

The Company believes that persons who conduct an above-mentioned large-scale purchase are exceptionally considered to be unqualified as persons having control over the decision-making policies of the Company's financial and business affairs, and that it is essential to introduce a framework to prevent such a purchase that is detrimental to the corporate value of the Company and the shareholders' common interests.

##### (2) Special Efforts to Help Achieve the Basic Policy

The Company has implemented various measures for the purpose of having many shareholders hold shares of the Company in the long run upon understanding the corporate value of the Company.

Preceding the shift to a pure holding company system, the Company established a new medium-term management policies in March 2007, which runs up until the fiscal year of 2009, ending in March 2010. It is the Company's management policy to reestablish a highly profitable corporate structure to constantly achieve a 10% or higher operating profit ratio, focusing on attaining an optimum business portfolio that maintains a good balance between the stable and profitable businesses and the high growth 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, including "super-small size technology," "ultra-precise technology" and "low power consumption technology," the Company best uses the strength of each Group company, while implementing group strategies designed to optimize the Group's interests and allocation of management resources. In order to strengthen its corporate governance to that end, the Company invited two (2) additional outside Directors to the Board to ensure transparency, and the Company is working on a further reorganization of its businesses by strictly enforcing policies concerning the investment into and the divestiture of its businesses, and by selection and concentration. In addition, in order to actively invest more in businesses, the Company is aiming to maintain its payout ratio at 30% or higher in order to return profits to shareholders by establishing a strategic investment line of ¥50 billion and promoting the establishment of financial strategies fit for a pure holding company, targeting the optimization of its capital structure.

Main measures which were implemented based on the mid-term management policy are as follows:

- Two (2) outside Directors were appointed at the 122nd Ordinary General Meeting of Shareholders held in June 2007;
- The Nominating Committee and the Compensation Committee, the majority of the members of which are outside Directors, and which are chaired by an outside Director, were established in July 2007;
- The divestiture of the businesses was implemented, including CMOS camera modules, main display devices for mobile phones, and FDD businesses;
- The Company acquired shares of Bulova Corporation in January 2008; and
- The business merger between Citizen Electronics Co., Ltd. and Citizen Displays Co., Ltd. was implemented in April 2008.

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

The Company resolved the handling policies for large-scale purchases (hereinafter the “Plan”) at the Board of Directors meeting held on May 14, 2007, and introduced the Plan on the same date. Furthermore, the Plan was approved by shareholders at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007.

The following are the details of the Plan:

- (a) Type of purchases subject to the Plan  
The type of purchases subject to the Plan are the purchases of the Company’s stock certificates, etc. resulting in the voting rights ratio of a group of shareholders being 20% or more.
- (b) Procedures  
It is prescribed that a large-scale purchaser must provide necessary and sufficient information to the Board of Directors of the Company beforehand, and that a large-scale purchase must be conducted only after the expiration of the review period during which the Company’s Board of Directors makes necessary assessments.
- (c) Summary of countermeasures  
When a large-scale purchaser does not observe the prescribed procedures, or in other similar cases, the Board of Directors of the Company will issue to all of the then-current shareholders of the Company the stock acquisition rights without payment of consideration based on the recommendation made by the Independent Committee. Furthermore, when the Company issues the stock acquisition rights without payment of consideration, the Company may determine the exercise period, exercise conditions, and call clause, taking into account the effects as a countermeasure against the large-scale purchase.
- (d) Requirements of implementation of countermeasures  
The Company will issue stock acquisition rights without payment of consideration as countermeasures, in the event of the following:
  - 1) Where a large-scale purchaser does not follow the prescribed procedures;
  - 2) Where it is determined that a 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 actually having no intention of taking part in the management of the Company;
  - 3) Where it is determined that a large-scale purchaser intends to temporarily control the management of the Company and transfer the assets or other similar properties of the Company or the Group companies to the large-scale purchaser or its group companies;
  - 4) Where it is determined that a 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 purchaser or its group companies;
  - 5) Where it is determined that a large-scale purchaser intends to temporarily control the management of the Company and make a large payment of

dividends by way of the sale of assets or by other means, or raise the price of the Company’s stock by a large payment of dividends, with a view to selling its shares of the Company at a price raised as a result of the payment of the large dividends; or

- 6) Where a 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 whereby the large-scale purchaser does not solicit all of the shares of the Company, and whereby 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.
- (e) Process prior to the implementation of countermeasures  
If a large-scale purchaser submits a confirmation letter of its intention concerning a large-scale purchase, the Independent Committee will deliver to the large-scale purchaser, within ten (10) business days, a list of information which is required to be provided by the large-scale purchaser at the first stage. If the Independent Committee determines that the information provided at the first stage is insufficient, submission of additional information may be requested until satisfactory information is provided. In addition, the Independent Committee may request that the Board of Directors of the Company give an opinion about a large-scale purchase, upon setting a term of answer to the request of a maximum of sixty (60) days, in principle. After the completion of the provision of information from the large-scale purchaser and the provision of information from the Board of Directors of the Company, the Independent Committee will assess, review, negotiate, and form an opinion concerning the large-scale purchase within sixty (60) days, in principle.  
  
Based on the above-mentioned information provided, the Independent Committee will make recommendations to the Board of Directors of the Company on whether or not to implement the countermeasures, and the Board of Directors of the Company will make a resolution on such matter, as an organization under the Corporate Law, based on the recommendations made by the Independent Committee.
- (f) Effective term of the Plan  
The Plan became effective as at the closing of the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007, and will remain effective until the end of the Ordinary General Meeting of Shareholders in relation to the final fiscal year that ends within three (3) years from the adoption on June 26, 2007.
- (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 Goals of the Basic Policy  
The purpose of the efforts mentioned in (2) above is to secure and improve the corporate value and common interests of the shareholders of the Company, which, as a result, will help the Company to achieve the goals of the Basic Policy. Therefore, the Company believes that, 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 executives’ 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 below 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 executives' positions in the Company.

1) Full satisfaction of the requirements under the government guidelines for takeover defense measures

The Plan completely satisfies the requirements of the three (3) 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

The Company obtained the approval of shareholders concerning the Plan at the 122nd Ordinary General Meeting of Shareholders held on June 26, 2007. In addition, since the term of office of Directors of the Company is one (1) year, the shareholders will be able to express their intentions as to the Plan through the exercise of their voting rights regarding the election of the Directors, even during the effective term of the Plan.

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

Upon introducing the Plan, for the purposes of the prevention of arbitrary judgments from the Directors, the Company has established the Independent Committee as an organization to make decisions in an objective manner as to the substantive issues of the Plan, including decisions to implement or not to implement the countermeasures under the Plan. The Company's Board of Directors will appoint the members of this Independent Committee from among the outside Directors of the Company and/or 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 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 Corporate Law on whether or not to issue stock acquisition rights without payment of consideration.

In this way, 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

Plan is applied in a transparent manner and serves for the benefit of the corporate value of the Company and the shareholders' common interests.

As of March 31, 2008, the members of the Independent Committee are: Kazumoto Yamamoto and Teruaki Aoki, who are outside Directors of the Company, and Shigekazu Torikai, an attorney-at-law.

4) Rational and objective conditions prerequisite for the countermeasures

As discussed in (3)(d) above, the Company has set in the Plan rational and objective conditions which need to be satisfied before the countermeasures can be implemented. This will prevent the Board of Directors from making arbitrary decisions to implement the countermeasures.

5) Third-party professional opinion available to the Independent Committee

When a large-scale purchaser or other similar person comes about, the Independent Committee is entitled to obtain advice from independent third parties (including financial advisers, certified public accountants, legal counsel, 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 Plan does not have an takeover defense measure similar to a "dead-hand" or "slow-hand" provision

The Plan can be abolished at any time by the Board of Directors, of which the 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 Plan by way of Board resolutions. Therefore, the Plan is not a dead-hand anti-takeover measure (meaning an anti-takeover measure for which countermeasures cannot be prevented by changing the 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 Plan is not a slow-hand anti-takeover measure (meaning an anti-takeover measure the prevention of which takes time because the Directors cannot be replaced all at one time) either.

**CONSOLIDATED BALANCE SHEET**

(as of March 31, 2008)

Millions of yen

Accounts	Amounts
<b>(Assets)</b>	
<b>Current assets</b>	<b>232,980</b>
Cash and cash equivalents	71,680
Notes and accounts receivable	72,814
Inventories	64,805
Deferred tax assets	12,190
Accrued consumption tax	3,954
Other current assets	8,637
Allowance for doubtful accounts	-1,102
<b>Fixed assets</b>	<b>154,994</b>
<b>Property, plant and equipment</b>	<b>80,601</b>
Buildings and structures	35,593
Machinery, equipment and carriers	27,847
Tools, furniture and fixtures	5,773
Land	10,124
Construction in progress	1,262
<b>Intangible fixed assets</b>	<b>14,934</b>
Goodwill	13,369
Software	1,295
Other intangible fixed assets	269
<b>Investments and other assets</b>	<b>59,459</b>
Investment securities	47,849
Long-term loans	767
Deferred tax assets	7,313
Other investments	5,839
Allowance for doubtful accounts	-217
Allowance for valuation loss on investments	-2,094
<b>Total assets</b>	<b>387,975</b>

Accounts	Amounts
<b>(Liabilities)</b>	
<b>Current liabilities</b>	<b>75,231</b>
Notes and accounts payable	27,793
Short-term loans payable	4,917
Income taxes payable	3,532
Deferred tax liabilities	92
Accrued expenses	13,082
Reserves for bonuses to employees	5,306
Reserves for bonuses to directors and corporate auditors	296
Reserves for product warranties	1,049
Notes payable -equipment related and others	1,199
Other current liabilities	17,960
<b>Long-term liabilities</b>	<b>68,912</b>
Bonds with stock acquisition rights	23,000
Long-term loans payable	30,000
Deferred tax liabilities	4,995
Allowance for employees' retirement benefits	9,369
Negative goodwill	1,226
Other liabilities	320
<b>Total liabilities</b>	<b>144,144</b>
<b>(Net assets)</b>	
<b>Shareholders' equity</b>	<b>240,038</b>
Common stock	32,648
Capital surplus	63,885
Retained earnings	174,397
Treasury stock	-30,893
<b>Valuation and translation adjustments</b>	<b>2,104</b>
Net unrealized gain/loss on other securities	6,436
Foreign currency translation adjustments	-4,331
<b>Minority interests</b>	<b>1,687</b>
<b>Total net assets</b>	<b>243,830</b>
<b>Total liabilities and net assets</b>	<b>387,975</b>

**CONSOLIDATED STATEMENT OF INCOME**

(from April 1, 2007 to March 31, 2008)

Millions of yen

<b>Net sales</b>	<b>336,685</b>
<b>Cost of sales</b>	<b>226,383</b>
<b>Gross profit on sales</b>	<b>110,302</b>
<b>Selling, general and administrative expenses</b>	<b>86,039</b>
<b>Operating income</b>	<b>24,262</b>
Interest and dividend income	2,277
Rent receivables	297
Negative goodwill written off	755
Other	1,361
<b>Non-operating income</b>	<b>4,692</b>
Interest expenses	140
Loss on sale of notes receivable	387
Depreciation of rental assets	89
Investment loss on equity method	303
Foreign exchange loss	2,703
Other	583
<b>Non-operating expenses</b>	<b>4,208</b>
<b>Ordinary Income</b>	<b>24,746</b>
Gain on sale of fixed assets	12
Gain on sale of investment securities	2,370
Reversal of allowance for doubtful accounts	149
Gain on transition of retirement pension plan	2,059
Other	295
<b>Extraordinary gain</b>	<b>4,886</b>
Loss on sale of fixed assets	20
Loss on disposal of fixed assets	846
Loss on impairment	2,888
Reorganization costs	3,719
Loss on devaluation of investment securities	351
Other	776
<b>Extraordinary loss</b>	<b>8,602</b>
<b>Income before income taxes</b>	<b>21,030</b>
Income taxes –current	8,056
Income taxes -deferred	663
Minority interests	121
<b>Net income</b>	<b>12,189</b>

**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(from April 1, 2007 to March 31, 2008)

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	32,648	63,890	167,478	-31,219	232,798
Changes during the consolidated fiscal year					
Dividends from surplus			-5,201		-5,201
Net income			12,189		12,189
Acquisition of treasury stock				-69	-69
Disposal of treasury stock		-5		395	390
Decrease due to changes in interest			-16		-16
Decrease in surplus due to changes in fiscal term of subsidiaries			-51		-51
Net changes during the consolidated fiscal year other than shareholders' equity					
Total change during the consolidated fiscal year		-5	6,919	325	7,240
Balance as of March 31, 2008	32,648	63,885	174,397	-30,893	240,038

	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, 2007	18,195	1,536	19,732	1,896	254,426
Changes during the consolidated fiscal year					
Dividends from surplus					-5,201
Net income					12,189
Acquisition of treasury stock					-69
Disposal of treasury stock					390
Decrease due to changes in interest					-16
Decrease in surplus due to changes in fiscal term of subsidiaries					-51
Net changes during the consolidated fiscal year other than shareholders' equity	-11,759	-5,867	-17,627	-208	-17,836
Total change during the consolidated fiscal year	-11,759	-5,867	-17,627	-208	-10,596
Balance as of March 31, 2008	6,436	-4,331	2,104	1,687	243,830

## 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 75

The significant consolidated subsidiaries are: Citizen Watch Co., Ltd.; Citizen Machinery Co., Ltd.; Citizen Systems Japan Co., Ltd.; Citizen Electronics Co., Ltd.; Citizen Displays Co., Ltd.; Citizen Miyota Co., Ltd.; Citizen Fine Tech Co., Ltd.; Citizen Seimitsu Co., Ltd.; and Sayama Precision Co., Ltd.

From the current consolidated fiscal year, the following 3 consolidated subsidiaries incorporated by incorporation-type company split, for which the Company became a splitting company, are included in consolidation: Citizen Watch Co., Ltd.; Citizen Technology Center Co., Ltd.; and Citizen Business Expert Co., Ltd.

Furthermore, from the current consolidated fiscal year, Bulova Corporation and 7 subsidiaries of Bulova Corporation are included in consolidation because the Company acquired a number of shares of Bulova Corporation. However, because the end of the current consolidated fiscal year is deemed as the date of acquisition of control, they are consolidated only on the balance sheet.

Citizen Mechtronics, Co., Ltd., which merged with Citizen Machinery Co., Ltd., is excluded from consolidation.

In addition, K.K. Authentic, all of the shares of which were sold, is excluded from consolidation.

##### (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 Company name: Miyano Co., Ltd.

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

Major 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 major non-consolidated affiliate removed from accounting under equity method is Marubeni Citizen Cincom Inc.

As the Company's non-consolidated subsidiaries and affiliates have only 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 was not applied.

#### (3) Fiscal year of consolidated subsidiaries

Consolidated subsidiaries with fiscal closing dates different from the group consolidated closing date are 46 overseas subsidiaries.

The fiscal closing date of these overseas subsidiaries is December 31. To help the Company prepare consolidated financial statements, overseas subsidiaries settle their accounting to prepare financial statements that form the consolidated financial statements on the consolidated closing date.

From the current consolidated fiscal year, Sakae Shokai Co., Ltd., Tokyo Bijutsu Co., Ltd., and Ontime Co., Ltd. have changed their fiscal closing dates to the end of March.

#### (4) Accounting standards

##### (a) Basis and method of valuation of important assets

###### 1) Marketable securities

###### • 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.

#### Additional Information

When the market value of other marketable securities with a market value drops by more than 30%, the Company used to perform impairment accounting regarding the relevant securities, deeming that recovery in such market value would be difficult. However, from the current consolidated fiscal year, with regard to securities the market value of which drops by a rate of more than 30% to approximately 50%, the Company determines whether or not the market value could recover for each of the securities, and makes a decision as to whether or not impairment accounting would be necessary. This change was made in order to make a reasonable decision as to the likelihood of its recovery, in light of the fact that a recent decline in the market value of the securities has occurred due to a slide in the entire stock market caused by the fluctuation of various factors in the market rather than factors attributable to specific securities, and the fact that the importance of its amount increased.

Compared to the case where conventional impairment accounting was performed, the income before income taxes increased by 1,612 million yen.

###### 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

(Change of Accounting Policy)

With the enforcement of amendments to the Corporation Tax Law, from the current consolidated fiscal year, the Company and its domestic consolidated subsidiaries have changed the accounting policies to depreciation methods under the Corporation Tax Law as amended with respect to the tangible fixed assets acquired on and after April 1, 2007. The operating income, ordinary income, and income before income taxes thereby decreased by 1,644 million yen, respectively.

(Additional Information)

With the enforcement of amendments to the Corporation Tax Law, with respect to the assets acquired on or before March 31, 2007, from the consolidated fiscal year following the consolidated fiscal year when their assessed values reached 5% of the acquisition price through the application of depreciation methods under the Corporation Tax Law before the amendments, the Company and its domestic consolidated subsidiaries evenly amortized the difference between the 5% of the acquisition price and the remainder price over a period of 5 years, and included such amount in the depreciation. The operating income, ordinary income, and income before income taxes thereby decreased by 1,083 million yen, respectively.

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

(c) Basis of accounting for major 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 shares of non-consolidated subsidiaries (excluding shares subject to impairment accounting), an allowance for valuation loss on investments is provided for an amount considering the actual share prices on the consolidated fiscal year-end.

- 3) Reserves 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) Reserves for product warranty

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, 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 2,059 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 five (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.

- 4) From the current consolidated fiscal year, the consolidated tax system has been applied.

### 3. Notes to Consolidated Balance Sheet

- (1) Accumulated depreciation for property, plant and equipment: 241,391 million yen
- (2) Assets pledged as collateral:
- |   |                |
|---|----------------|
| Deposit   | 35 million yen |
| Secured debt  |                |
| Accounts payable (balance at the end of the current consolidated fiscal year) | 14 million yen |
- (3) Guarantees:
- Guarantees for bank loans of non-consolidated subsidiaries 509 million yen
- (4) Export bill discounted: 673 million yen
- (5) Endorsed trade notes receivable: 32 million yen

### 4. Notes to 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 122nd Ordinary General Meeting of Shareholders held on June 26, 2007
- |                             |                |
|-----------------------------|----------------|
| • Total amount of dividends | ¥2,599 million |
| • Dividends per share       | ¥7.50          |
| • Record date               | March 31, 2007 |
| • Effective date            | June 27, 2007  |
- 2) Dividends approved at the meeting of the Board of Directors held on November 12, 2007
- |                             |                    |
|-----------------------------|--------------------|
| • Total amount of dividends | ¥2,601 million     |
| • Dividends per share       | ¥7.50              |
| • Record date               | September 30, 2007 |
| • Effective date            | December 6, 2007   |
- (b) Dividends with a record date in the past consolidated fiscal year but an effective date in the following consolidated fiscal year
- The following matters will be submitted at the 123rd Ordinary General Meeting of Shareholders, which is scheduled to be held on June 25, 2008.
- |                             |                   |
|-----------------------------|-------------------|
| • Total amount of dividends | ¥5,205 million    |
| • Dividend resource         | Retained earnings |
| • Dividends per share       | ¥15.00            |
| • Record date               | March 31, 2008    |
| • Effective date            | June 26, 2008     |

- (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 | 28,351,537 |
|-----------------|------------|

### 5. Notes to per share information

Net assets per share ¥697.81  
Net income per share ¥35.14

### 6. Other Notes

Figures are rounded down to one million.

**NON-CONSOLIDATED BALANCE SHEET**

(as of March 31, 2008)

Millions of yen

Accounts	Amounts
<b>(Assets)</b>	
<b>Current assets</b>	<b>12,364</b>
Cash and cash equivalents	1,140
Sales Accounts receivable	44
Short-term loans	0
Other accounts receivable	7,135
Deposits	1,927
Deferred tax assets	102
Other current assets	2,013
<b>Fixed assets</b>	<b>154,497</b>
<b>Property, plant and equipment</b>	<b>16,465</b>
Buildings and structures	12,510
Machinery and equipment	135
Vehicles and carriers	0
Tools, furniture and fixtures	71
Land	3,746
<b>Intangible fixed assets</b>	<b>55</b>
Software	43
Other intangible fixed assets	11
<b>Investments and other assets</b>	<b>137,977</b>
Investments in affiliates	103,896
Investment securities	29,485
Long-term loans	1
Long-term prepaid expenses	79
Deferred tax assets	3,369
Other investments	1,252
Allowance for valuation loss on investments	-108
<b>Total assets</b>	<b>166,861</b>

Accounts	Amounts
<b>(Liabilities)</b>	
<b>Current liabilities</b>	<b>4,107</b>
Short-term loans payable	0
Consumption taxes payable	197
Other accounts payable	3,267
Accrued expenses	450
Reserves for bonuses to employees	78
Reserves for bonuses to directors and corporate auditors	60
Notes payable -equipment related	40
Other current liabilities	12
<b>Long-term liabilities</b>	<b>28,156</b>
Bonds with stock acquisition rights	23,000
Long-term loans payable	0
Allowance for employees' retirement benefits	208
Provision for loss on debt guarantees	4,632
Other liabilities	314
<b>Total liabilities</b>	<b>32,263</b>
<b>(Net assets)</b>	
<b>Shareholders' equity</b>	<b>128,399</b>
<b>Common stock</b>	<b>32,648</b>
<b>Capital surplus</b>	<b>66,024</b>
Capital reserves	36,029
Other capital surplus	29,994
<b>Retained earnings</b>	<b>60,619</b>
Other retained earnings	60,619
Earned surplus brought forward	60,619
<b>Treasury stock</b>	<b>-30,893</b>
<b>Valuation and translation adjustments</b>	<b>6,198</b>
<b>Net unrealized gain/loss on other securities</b>	<b>6,198</b>
<b>Total net assets</b>	<b>134,598</b>
<b>Total liabilities and net assets</b>	<b>166,861</b>

**NON-CONSOLIDATED STATEMENT OF INCOME**

(from April 1, 2007 to March 31, 2008)

Millions of yen

<b>Operating revenue</b>	<b>16,438</b>
<b>Operating expenses</b>	<b>10,046</b>
<b>Operating income</b>	<b>6,391</b>
Interest income	58
Dividends earned	755
Foreign exchange gain	7
Other	27
<b>Non-operating revenue</b>	<b>849</b>
Interest expenses	0
Loss on sales of bills	71
Other	21
<b>Non-operating expenses</b>	<b>93</b>
<b>Ordinary Income</b>	<b>7,147</b>
Gain on sale of investment securities	2,369
Gain on sale of investments in affiliates	297
Gain on sale of fixed assets	160
<b>Extraordinary gain</b>	<b>2,828</b>
Loss on disposal of fixed assets	108
Provision for allowance for valuation loss on investments	85
Loss on devaluation of investments in affiliates	1,824
Provision for allowance for loss on debt guarantees	4,632
Other	2
<b>Extraordinary loss</b>	<b>6,652</b>
<b>Income before income taxes</b>	<b>3,323</b>
Income taxes –current	-150
Income taxes -deferred	1,559
<b>Net income</b>	<b>1,914</b>

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(from April 1, 2007 to March 31, 2008)

Millions of yen

	Shareholders' equity								
	Common stock	Capital surplus			Legal reserves	Retained earnings			Total retained earnings
		Capital reserves	Other capital surplus	Total capital surplus		Other retained earnings			
					Reserves for special depreciation	Other reserves	Retained earnings brought forward		
Balance as of March 31, 2007	32,648	66,029	—	66,029	7,789	3	30,000	26,113	63,906
Changes during fiscal year	—								
Reversal of reserves for special depreciation	—			—	—	-3	—	3	—
Reversal of other reserves	—			—	—	—	-30,000	30,000	—
Dividends from surplus	—			—	—	—	—	-5,201	-5,201
Net income	—			—	—	—	—	1,914	1,914
Acquisition of treasury stock	—			—	—	—	—	—	—
Disposal of treasury stock	—			-5	-5	—	—	—	—
Reversal of legal reserves	—				-7,789			7,789	—
Reversal of capital reserves	—	-30,000	30,000						—
Net changes other than shareholders' equity	—	—	—	—	—	—	—	—	—
Total change during fiscal year	—	-30,000	29,994	-5	-7,789	-3	-30,000	34,506	-3,286
Balance as of March 31, 2008	32,648	36,029	29,994	66,024	—	—	—	60,619	60,619

	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, 2007	-31,219	131,365	17,999	149,365
Changes during fiscal year				
Reversal of reserves for special depreciation	—	—		—
Reversal of other reserves	—	—		—
Dividends from surplus	—	-5,201		-5,201
Net income	—	1,914		1,914
Acquisition of treasury stock	-69	-69		-69
Disposal of treasury stock	395	390		390
Reversal of legal reserves		—		—
Reversal of capital reserves		—		—
Net changes other than shareholders' equity		—	-11,800	-11,800
Total change during fiscal year	325	-2,966	-11,800	-14,767
Balance as of March 31, 2008	-30,893	128,399	6,198	134,598

## 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) Stocks of subsidiaries and affiliates are stated at cost using the moving-average method.
- (b) 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.

#### (Additional Information)

When the market value of other marketable securities with a market value drops by more than 30%, the Company used to perform impairment accounting regarding the relevant securities, deeming that recovery in such market value would be difficult. However, from the current fiscal year, with regard to securities the market value of which drops by a rate of more than 30% to approximately 50%, the Company determines whether or not the market value could recover for each of the securities, and makes a decision as to whether or not impairment accounting would be necessary. This change was made in order to make a reasonable decision as to the likelihood of its recovery, in light of the fact that a recent decline in the market value of the securities has occurred due to a slide in the entire stock market caused by the fluctuation of various factors in the market rather than factors attributable to specific securities, and the fact that the importance of its amount increased.

Compared to the case where conventional impairment accounting was performed, the income before income taxes increased by 1,612 million yen.

#### (2) 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:	7 - 10 years

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

#### (Change of Accounting Policy)

With the enforcement of amendments to the Corporation Tax Law, from the current fiscal year, the Company has changed the accounting policies to depreciation methods under the Corporation Tax Law as amended with respect to the tangible fixed assets

acquired on and after April 1, 2007. The operating income, ordinary income, and income before income taxes thereby decreased by 22 million yen, respectively.

(Additional Information)

With the enforcement of amendments to the Corporation Tax Law, with respect to the assets acquired on or before March 31, 2007, from the fiscal year following the fiscal year when their assessed values reached 5% of the acquisition price through the application of depreciation methods under the Corporation Tax Law before the amendments, the Company evenly amortized the difference between the 5% of the acquisition price and the remainder price over a period of five (5) years, and included such amount in the depreciation. The operating income, ordinary income, and income before income taxes thereby decreased by 59 million yen, respectively.

- (3) 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.
- (4) 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.  
There is no outstanding balance as of the end of the current fiscal year.
  - (b) Allowance for valuation loss on investments  
To provide for possible losses due to extreme devaluation in the stocks of affiliates (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) Reserves for bonuses to employees  
The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments.
  - (d) Reserves 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, which is deemed to have accrued at the end of the current fiscal year, 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.
  - (f) Allowance for debt guarantee  
To provide for future losses on debt guarantee, allowance for losses to be borne is stated in light of the financial conditions, etc. of the party to be guaranteed.
- (5) Consumption tax

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

- (6) From the current fiscal year, the consolidated tax system has been applied.

### 3. Notes to Balance Sheet

- (1) Short-term receivable from affiliates: 9,077 million yen  
Short-term payable to affiliates: 3,333 million yen  
Long-term monetary payable to affiliates: 7 million yen
- (2) Accumulated depreciation for property, plant and equipment: 22,640 million yen
- (3) Guarantee obligation  
Guarantees for loans of affiliates from financial institutions: 30,094 million yen  
Guarantees for loans of affiliates from in-group financial subsidiaries, etc.:  
31,061 million yen  
(out of which the amount of 30 billion yen is a guarantee for loans to affiliates based on the above loans from financial institutions)  
Guarantees for accounts payable to business partners of affiliates: 3 million yen

### 4. Notes to Statement of Income

- (1) Operating income concerning affiliates: 16,003 million yen
- (2) Operating expenses concerning affiliates: 3,807 million yen
- (3) Non-operating transaction with affiliates: 2,293 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:	33,706,478
Increase in number of shares during the current period:	69,234
Decrease in number of shares during the current period:	427,039
Number of shares at the end of the current period:	33,348,673

Notes:

1. The increase in treasury stock (69,234 shares) is due to the purchase of less than one unit shares.
2. The decrease in treasury stock (427,039 shares) is due to the exercise of the stock acquisition rights (417,400 shares) and the request for sale of less than one unit shares (9,639 shares).

### 6. Tax Effect Accounting

The increase in deferred tax assets is mainly due to valuation loss on stocks of affiliates and investment securities, over-depreciation, and increase in reserve for retirement allowance. 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

- fiscal year ¥25 million
- (2) Amounts equivalent to the accumulated depreciation of leased assets at the end of the current fiscal year ¥14 million
- (3) Amounts equivalent to lease commitments of leased assets at the end of the current fiscal year ¥10 million

## 8. Transactions with related parties

Attribute: Subsidiary

Name: Citizen Watch Co., Ltd.

Voting Rights or Ownership: Ownership (direct) 100 %

Relationship

Interlocking Directors: 3

Business Relations: Acceptance of entrustment of management, leasing of real-estate, etc.

Transaction (Transaction Amount, Item (if applicable), and Balance at the End of Period):

Receipt of management fee (Note 1) (4,541 million yen, no outstanding balance)

Debt guarantee (Note 2) (18,580 million yen, no outstanding balance)

Name: Citizen Machinery, Co., Ltd.

Voting Rights or Ownership: Ownership (direct) 100 %

Relationship

Interlocking Directors: 1

Business Relations: Acceptance of entrustment of management, leasing of real-estate, etc.

Transaction (Transaction Amount, Item (if applicable), and Balance at the End of Period):

Receipt of management fee (Note 1) (1,064 million yen, no outstanding balance)

Debt guarantee (Note 2) (4,425 million yen, no outstanding balance)

Sale of fixed assets (Note 3)

Proceeds from sale (1,612 million yen, accounts receivable, balance of 1,693 million yen at the end of the period)

Gain from sale (103 million yen, no outstanding balance)

Name: Citizen Displays Co., Ltd.

Voting Rights or Ownership: Ownership (direct) 100 %

Relationship

Interlocking Directors: 2

Business Relations: Acceptance of entrustment of management, leasing of real-estate, etc.

Transaction (Transaction Amount, Item (if applicable), and Balance at the End of Period):

Debt guarantee (Note 2) (8,154 million yen, no outstanding balance)

Name: Citizen Seimitsu Co., Ltd.

Voting Rights or Ownership: Ownership (direct) 100 %

Relationship

Interlocking Directors: 1

Business Relations: Acceptance of entrustment of management, leasing of real-estate, etc.

Transaction (Transaction Amount, Item (if applicable), and Balance at the End of Period):

Receipt of management fee (Note 1) (623 million yen, no outstanding balance)

Debt guarantee (Note 2) (5,463 million yen, no outstanding balance)

Name: Citizen Jewelry Co., Ltd.

Voting Rights or Ownership: Ownership (direct) 100 %

Relationship

Interlocking Directors: 2

Business Relations: -

Transaction (Transaction Amount, Item (if applicable), and Balance at the End of Period):

Debt guarantee (Note 2) (2,162 million yen, no outstanding balance)

Name: Citizen Technology Center Co., Ltd.

Voting Rights or Ownership: Ownership (direct) 100 %

Relationship

Interlocking Directors: 2

Business Relations: Joint development, leasing of real-estate, etc.

Transaction (Transaction Amount, Item (if applicable), and Balance at the End of Period):

Contribution of joint development cost (Note 4) (2,982 million yen, accrued amount payable, balance of 190 million yen at the end of the period)

Name: Citizen Financial Service Co., Ltd.

Voting Rights or Ownership: Ownership (direct) 100 %

Relationship

Interlocking Directors: 3

Business Relations: In-group financial subsidiary

Transaction (Transaction Amount, Item (if applicable), and Balance at the End of Period):

Deposit of money (Note 5) (1,927 million yen, no outstanding balance)

Debt guarantee (Note 2) (30 billion yen, no outstanding balance)

Out of the above amounts, transaction amount does not include consumption tax and the amount of balance at the end of the period includes consumption tax, etc.

(Notes)

Business terms and decision-making policy of business terms, etc.

- (1) The amount of the management fee shall be reasonably agreed upon with each subsidiary.
- (2) Debt guarantees shall be provided for loans of each subsidiary.
- (3) The amount of proceeds from the sale of fixed assets shall be determined in view of their market values.
- (4) The joint development cost shall be reasonably agreed upon between the Company and Citizen Technology Center Co., Ltd.
- (5) The deposit of money shall be made under the CMS (cash management system), and the interest rate shall be determined in view of the market interest rate.

## 9. Per share information

Net assets per share 387.88 yen

Net income per share 5.52 yen

## 10. Other Notes

- (1) Figures are rounded down to one million.
- (2) Shift to a pure holding company system through corporate splits

Assets and liabilities received by the succeeding companies in absorption-type split  
(*Kyushu bunkatsu*) and acquisition costs of stocks of affiliates acquired by the Company

(Millions of yen)					
Name of Succeeding Company in Absorption-type Split ( <i>Shinsetsu bunkatsu</i> )	Citizen Co., Ltd.	Miyota	Citizen Machinery, Co., Ltd.	Citizen Systems Japan Co., Ltd.	Citizen Displays Co., Ltd.
Assets		3,419	11,433	4,237	1,596
Liabilities		1,092	6,269	2,393	1,146
Net unrealized gain/loss on other securities		-	1	-	-
Acquisition costs of stocks of affiliates		1,803	5,120	1,789	335

Assets and liabilities succeeded to by the companies incorporated in incorporation-type split and acquisition costs of stocks of affiliates acquired by the Company  
(Millions of yen)

Name of Company Incorporated in Incorporation-type Split	Citizen Co., Ltd.	Watch	Citizen Technology Center Co., Ltd.	Citizen Business Expert Co., Ltd.
Assets		70,060	1,581	804
Liabilities		15,869	587	228
Net unrealized gain/loss on other securities		226	-	-
Acquisition costs of stocks of affiliates		50,002	93	512

## 11. Material subsequent events

At the Board of Directors meeting held on April 24, 2008, the Company approved a merger agreement under which the Company would, as of July 1, 2008, absorb Citizen Technology Center Co., Ltd., which is a wholly owned subsidiary company of the Company, and entered into a merger agreement with Citizen Technology Center Co. Ltd.

### Purpose of Merger

The purpose of the merger is: (i) to cause Citizen Technology Center Co., Ltd. to conduct business in such a manner as is closer to and integrated with the Company; (ii) to execute such development strategies as have links to the group strategies; and (iii) to implement development operations starting from the market needs, by absorbing Citizen Technology Center Co., Ltd., whose principal business is research and development in the group.

### Outline of Merger

#### (1) Merger schedule

Board of Directors meeting for approval of the merger agreement:

April 24, 2008

Execution of the merger agreement: April 24, 2008

General meeting of shareholders for approval of the merger:

The Company (surviving company)

This merger is a simple merger pursuant to the provisions of Article 796, Paragraph 3 of the Corporate Law, and accordingly, a general meeting of shareholders will not be held to approve the merger agreement.

Citizen Technology Center Co., Ltd. (expired company)

This merger is a summary merger pursuant to the provisions of Article 784, Paragraph 1 of the Corporate Law, and accordingly, a general meeting of shareholders will not be held to approve the merger agreement.

Effective date of the merger: July 1, 2008 (scheduled)

#### (2) Merger method

It is an absorption-type merger whereby the Company will become a surviving company and Citizen Technology Center Co., Ltd. will be dissolved.

(3) Merger ratio and delivered money due to merger

Because Citizen Technology Center Co., Ltd. is a wholly owned subsidiary company of the Company, there will be no allotment of shares of the Company, increase of capital or reserves, or payment of delivered money due to the merger, that may result from this merger.

(4) Outline of the party to be absorbed (as of March 31, 2008)

(a) Trade name: Citizen Technology Center Co., Ltd.

(b) Business: Research and Development, analysis and measurement business, and acceptance of entrustment of intellectual property management business

(c) Capital: 100 million yen

(d) Assets: 2,388 million yen

(e) Liabilities: 1,241 million yen

(f) Number of employees: 224

**Financial Audit Report on Consolidated Financial Statements**

**Independent Auditors' Report on Consolidated Financial Statements**

May 16, 2008

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

Nihombashi Corporation  
Shigehiro Chiba [seal]  
Designated Partner and Engagement  
Partner, C.P.A.  
Akira Ogura [seal]  
Designated Partner and 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. 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 123rd fiscal year from April 1, 2007 to March 31, 2008. 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. These standards, procedures, and practices require that we obtain reasonable assurances about whether the consolidated financial statements are free of material misstatements. Our audit includes examining the overall presentation of the consolidated financial statements based on audit tests, including the evaluation of the accounting principles applied by the management and the manner of the application thereof, and the estimates made by the management. 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 assets and the profits and losses of the Corporate Group comprised of Citizen Holdings Co., Ltd. and its consolidated subsidiaries for the period covered thereby, in accordance with accounting standards generally accepted and applied in Japan.

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

## Financial Audit Report on Financial Statements

### Independent Auditors' Report

May 16, 2008

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

Nihombashi Corporation  
Shigehiro Chiba [seal]  
Designated Partner and Engagement  
Partner, C.P.A.  
Akira Ogura [seal]  
Designated Partner and 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.. These statements consisted of the balance sheet, statement of income, statements of changes in stockholders' equity, notes to non-consolidated financial statements, and supplementary schedules for the 123rd fiscal year from April 1, 2007 to March 31, 2008. The above financial statements and the supplementary schedules are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements and the supplementary schedules based on our audit.

We conducted our audit in accordance with auditing standards, procedures, and practices generally accepted and applied in Japan. These standards, procedures, and practices require that we obtain reasonable assurances about whether the financial statements and the supplementary schedules are free of material misstatements. Our audit includes examining the overall presentation of the financial statements and the supplementary schedules based on audit tests, including the evaluation of the accounting principles applied by the management and the manner of the application thereof, and the estimates made by the management. We believe that our audit provides a reasonable basis for our opinion.

We certify that the above-mentioned financial statements and the supplementary schedules properly present, in all material respects, the assets and the profits and losses of Citizen Holdings Co., Ltd. for the period covered thereby, in accordance with accounting standards generally accepted and applied in Japan.

We have no interest in the Company which should be disclosed pursuant to 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 123rd business term from April 1, 2007 to March 31, 2008, 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 the status of their audits and the results thereof. We also received reports from the Directors and others, and the Independent Auditors regarding the performance of their duties, and asked them to provide explanations when needed.

Each Corporate Auditor: conformed to the audit policy and allocation of duties and other relevant matters prescribed by the Board of Corporate Auditors; maintained communications with the Directors, the Internal Audit Office, employees, and others; 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, employees and others on the performance of their duties; asked the Directors, employees and others to provide explanations when needed; reviewed important written decisions and other items; and studied the business and financial conditions of the Company. In addition, we monitored and examined the Company's system to ensure that the Directors perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation; the details of the resolution of the Board of Directors regarding the development of the system stipulated in Article 100, Paragraphs 1 and 3 of the Enforcement Regulations of the Corporate Law, which 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 communications and exchanged information with Directors, Corporate Auditors, and others of subsidiaries, and received business reports from subsidiaries when needed. Based on the above methods, we reviewed the business reports and supplementary schedules for this business term.

Further, we monitored and examined whether the Independent Auditors performed proper audits while retaining their independence, and 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" (the 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 the 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 supplementary schedules, 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) for this business term.

2. Audit Results

(1) Audit Results of Business Report and Other Documents

- (a) We are of the opinion that the Business Report and the supplementary schedules 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 violations of relevant laws and regulations or the Articles of Incorporation with regard to the Directors' performance of their duties.
- (c) We are of the opinion that the resolutions of the Board of Directors regarding the internal control system are proper and correct. Furthermore, we have found no matters which we need to point out regarding the Directors' performance of their duties in connection with the relevant internal control system.
- (d) We have found no matters which we need to point out regarding the Basic Policy relating to Persons who Control Decision-making Policies of the Company's Financial and Business Affairs mentioned in the Business Report. We are of the opinion that the Company's efforts based on such Basic Policy do not impair the common interests of the Company's shareholders, and do not aim to protect the executives' positions in the Company.

(2) Audit Results of Non-Consolidated Financial Statements and supplementary schedules

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

(3) Audit Results of Consolidated Financial Statements

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

May 22, 2008

Board of Corporate Auditors  
Citizen Holdings Co., Ltd.

Takeshi Hayasaka [seal]  
Full-time Corporate Auditor  
(Outside Corporate Auditor)

Yasuhiro Yamazaki [seal]  
Full-time Corporate Auditor

Yoshiyuki Iijima [seal]  
Full-time Corporate Auditor

Yasuhiro Okawa [seal]  
Corporate Auditor  
(Outside Corporate Auditor)

## Reference Documents for the General Meeting of Shareholders

### Item 1: Appropriation of Retained Earnings

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 "payout ratio" (which is the product of the total amount of dividends and share buybacks 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, in order to express our gratitude for the support from the shareholders, the Company proposes the addition of 7.50 yen, commemorating the anniversary of the Company's shift to a pure holding company system, to the ordinary dividend of 7.50 yen, and is paying 15 yen per share as shown below. 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 22.50 yen per share.

1. Type of dividend  
Cash
2. Allotment and total amount of dividend  
¥15 per common share of the Company  
Total amount of dividends: ¥5,205,077,040
3. Effective date of dividends from surplus  
June 26, 2008

## Item 2: Election of Ten Directors

The terms of office of all of the present ten (10) Directors will expire at the conclusion of this General Meeting of Shareholders. The Company proposes to elect ten (10) Directors. The candidates for the positions of Director are as follows:

Candidates for Director	
<b>1 Mitsuyuki Kanamori</b>	
Date of birth:	August 6, 1943
Number of shares of the Company held:	22,176 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 of the Company
June 2003	In charge of Purchasing Department of the Company
June 2004	Senior Managing Director of the Company
October 2004	In charge of Personnel Division of the Company
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
April 2008	President and CEO of the Company (present)
<b>2 Toshio Koga</b>	
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
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)
April 2008	Senior Managing Director of the Company (present)
April 2008	In charge of Corporate Planning Division and Group Research & Development of the Company (present)
<b>3 Osamu Yamada</b>	
Date of birth:	March 12, 1946
Number of shares of the Company held:	143,700 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 of the Company
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)
<b>4 Kenji Sugimoto</b>	
Date of birth:	January 3, 1948
Number of shares of the Company held:	12,300 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)
June 2007	In charge of Personnel Division of the Company (present)
<b>5 Makoto Umehara</b>	
Date of birth:	January 27, 1939
Number of shares of the Company held:	46,000 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
June 2003	Outside Director of Rhythm Watch Co., Ltd. (present)
June 2006	General Manager of Group Strategy Center of the Company
April 2008	Director and Advisor of the Company (present)
<b>6 Tsuneo Nagai</b>	
Date of birth:	March 7, 1944
Number of shares of the Company held:	12,600 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)
July 2007	Chairman of Japan Clock & Watch Association (present)

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7 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)
June 2007	Director of the Company (present)

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8 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)
June 2007	Outside Director of the Company (present)

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9 Teruaki Aoki

Date of birth: October 18, 1941  
Number of shares of the Company held: 10,000 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)
June 2007	Outside Director of the Company (present)

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10 Takeshi Kakishima

Date of birth: August 4, 1947  
Number of shares of the Company held: 5,000 shares

Resume:

April 1970	Joined the Company
May 1998	Manager of Planning Division Related Business Office of the Company
March 2003	President of Sunciti Manufacturers Ltd.
June 2007	Managing Director of Citizen Fine Tech Co., Ltd. (present)

Notes:

- No conflict of interest exists between the Company and any of the above candidates.
- 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. Their tenures of office as outside Directors will be one (1) year from the conclusion of this General Meeting of Shareholders. The Company, pursuant to the provisions of Article 427, Paragraph 1 of the Corporate Law, has 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, and if the reelection of these outside Directors is approved at the meeting, the Company intends to continue the agreement. The amount of their total maximum liability for damages under such an agreement is the higher of 10,000,000 yen or the minimum liability amount provided for under the Corporate Law.
- The candidates for the positions of outside Directors who are presently in the positions of Directors attended at least 88% of the Board of Directors meetings held during the fiscal year since they assumed their roles as Directors.

### Item 3: Election of One Corporate Auditor

The term of office of Corporate Auditor Yasuhiro Yamazaki will expire, and Corporate Auditor Yasuhiro Okawa will resign, at the conclusion of this General Meeting of Shareholders. The Company accordingly proposes to elect one (1) Corporate Auditor.

The candidate for the position of Corporate Auditor is as follows, and as to this item of business, the assent of the Board of Corporate Auditors has been obtained:

#### Candidate for Corporate Auditor

1 Masaomi Suizu	
Date of birth:	August 16, 1944
Number of shares of the Company held:	- shares
Resume:	
April 1973	Registered as an attorney-at-law
April 1995	Vice President of the Tokyo Bar Association
April 1997	Standing Director of the Japan Federation of Bar Associations

#### Notes:

1. No conflict of interest exists between the Company and the above candidate.
2. Masaomi Suizu is a candidate for outside Corporate Auditor of the Company. As Masaomi Suizu is thoroughly experienced in corporate legal affairs as an attorney-at-law, the Company would like to elect him as outside Corporate Auditor in order to utilize his professional point of view as an attorney-at-law to audit the business of the Company. He has never been involved in the management of a company. However, he is thoroughly experienced in corporate legal affairs as an attorney-at-law, and the Company management believes that he will properly carry out his duties as outside Corporate Auditor. After the election of the outside Corporate Auditor 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 Corporate Auditor to limit his liability for damages under Article 423, Paragraph 1 of the Corporate Law, in order to enable him to perform his duties as outside Corporate Auditor as expected. The amount of his 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.