

June 5, 2007

**To Our Shareholders**

671 Nijohanjiki-cho, Bukkoji-agaru, Karasuma-dori,  
Shimogyo-ku, Kyoto-shi, Kyoto

**WATABE WEDDING CORPORATION**

President & Representative Director: Takao Watabe

**NOTICE OF THE 43<sup>rd</sup> ANNUAL MEETING OF SHAREHOLDERS**

Dear Shareholders,

Notice is hereby given that the 43<sup>rd</sup> Annual Meeting of the Shareholders of the Company will be held as specified below. You are cordially invited to attend the Meeting.

**If you are unable to attend the Meeting, you may exercise your voting rights in writing. In order to exercise your voting rights in writing, please review the reference documents for the Meeting as mentioned below, indicate your approval or disapproval for the items on the agenda on the enclosed Exercise of Voting Rights Form, and then return it so that it will arrive at the Company by 5 p.m. on Wednesday, June 27, 2007.**

Notice of Meeting

1. **Date:** Thursday, June 28, 2007 at 10 a.m.
2. **Place:** Zuiho Room, Kyoto Century Hotel  
680 Higashishiokojicho, Shiokoji-sagaru, Higashinotoin-dori, Shimogyo-ku,  
Kyoto-shi, Kyoto
3. **Objectives of the meeting**  
**Reporting**
  1. Report on the Business Report, Consolidated Financial Statements and Report of audit by the accounting auditor and the Board of Statutory Auditors on the Consolidated Financial Statements for the 43<sup>rd</sup> fiscal year (from April 1, 2006 to March 31, 2007)
  2. Report on the non-consolidated Financial Statements for the 43<sup>rd</sup> fiscal year (from April 1, 2006 to March 31, 2007)

**Agenda:**

- Proposal 1: Appropriation of Retained Earnings  
Proposal 2: Election of One Director  
Proposal 3: Election of One Statutory Auditor

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- If you plan to attend the meeting, please submit the enclosed Exercise of Voting Rights form to the receptionist at the meeting.
  - In case of any changes in the reference documents, business report, non-consolidated financial statements and consolidated financial statements for the Meeting, the changes will be posted on the Company's website located at <http://www.watabe-wedding.co.jp/watabe/ir/stockholder/4696.html>.

# Business Report

(April 1, 2006  
To March 31, 2007)

## 1. Present Status of the Group

### (1) Operational Conditions in the Current Consolidated Fiscal Year

#### ① Progress and Results of Operations

Japan's economy was on a sustained growth path in the current consolidated fiscal year, which was the 6<sup>th</sup> year in the economic expansion phase. Continued active capital investment and favorable production activities were observed in business organizations, backed by a high level of revenue and solid demand both at home and abroad. Such healthy conditions in the business world rippled across the household sector and the employment environment, showing modest growth in employees' income and in the number of employees.

In the bridal industry, on the other hand, the number of couples getting married remained on a downward trend due to the low birthrate although the number of marriage registrations was 732,000 in 2006 (714,000 in 2005), slightly increasing from the previous year. Tightening competition in the industry required service improvement and proposal of products to meet changes in wedding styles sought by customers. In response to this business environment, the Watabe Group properly addressed personalized and diversified customer needs and aggressively expanded its business presence for "improvement of customer satisfaction" and "maximization of impression" through realization of the total bridal solution and global development.

In the domestic wedding business, we opened the "Aquagrace Chapel" in Yomitanson, Okinawa in May 2006 to start a new proposal of domestic resort wedding in integrated facilities combining wedding ceremony and party. In August of the same year, relocation of "Naha Branch" to near Naha Airport and its floor space expansion were carried out to reinforce the function as a location to address resort wedding in Okinawa, and Erythrina Chapel was opened at the same site to start a proposal of a new wedding style for couples within the prefecture. In October of the same year, we renovated the former Park Museum in Hibiya Park, which was designated as a tangible cultural property in Tokyo, to open "Felice Garden HIBIYA" as a proposal of wedding utilizing a tangible cultural property. Opening of an urban resort wedding facility "Lumiamore" in Minato-ku, Tokyo in the same month as a proposal of a new bayside wedding style increased the number of weddings handled.

In the overseas wedding business, we reopened in September 2006 the "Sanctuary Cove Chapel" in "Hyatt Regency Sanctuary Cove," a hotel located in Gold Coast, Australia while in December we had the grand opening of "Blue Aster" at beachfront of Tumon Bay, our first integrated facility combining wedding ceremony and party in Guam, which were directly managed by the Company. As a result, we had 17 overseas wedding facilities in total, increasing usage of our own wedding facilities. In addition, growth in sales of value-added products raised the unit value per wedding and contributed to the increase of sales.

In terms of branch development, we established branches in areas, which had had no branch under our direct management, by opening of two all-around bridal shops: "Takasaki Branch" in Takasaki-shi, Gunma, which was the first branch in the Northern Kanto area opened in July 2006 and "Matsuyama Branch" in Matsuyama-shi, Ehime, which was the first branch in the Shikoku area opened in September 2006. In August of the same year, we fully refurbished our flagship branch in the Tokai region, "Nagoya Grand Plaza" to improve services for the increasing number of couples who visit the branch. In addition, we made efforts to further reinforce branch functions and to improve convenience, for example, by opening in February 2007 our third branch in the Nagoya area, "Meieki Branch" in Nakamura-ku, Nagoya-shi to enhance the system for provision of unique bridal services of the Group for customers in the Nagoya area as well as in neighboring cities and prefectures including cities in Aichi, Gifu and Mie.

In product development, we started in April 2006 a new service, "Dress First Rental" which allowed customers to receive dresses from the dress brand "Avica" in the area where their wedding was performed, having a favorable record and contributing to the growth in the number of dresses sold. We started the operation of a dress manufacturing plant in Vietnam in September of the same year and established two-site system of this plant and Shanghai Plant in China to reinforce the ability to stably supply products and diversify risks. As for photographic album products, increased self-manufacturing due to digitization of photographs made a contribution to the reduced cost percentage.

Significant changes were also observed in the management aspect during the current consolidated fiscal year due to the enforcement of the Company Law and the enactment of the Financial Instruments and Exchange Law. As a group of companies befitting the new age, we focused on the enhancement of the system including strategic utilization of IT by reinforcing the global risk management and the internal control system as well as introducing a mission-critical system to become a truly strong corporation, which fulfills its corporate social responsibility (CSR).

During the current consolidated fiscal year, inappropriate sales of pressed flower products (craft work using flower materials such as pressed flowers and dried flowers) found in some of overseas subsidiaries (Watabe Saipan, Inc. and Watabe U.S.A., Inc.) resulted in payment of apology money to customers. In addition, we recognized loss on liquidation of some business facilities and stores and impairment loss on the fixed assets, whose profitability was declining, aiming for enhancement of the rate of profitability and the efficiency of management.

As a result of the above, the operating performance for the current fiscal year of the Watabe Group constituted net sales of 33,940 million yen (increased by 8.9% from the previous fiscal year), ordinary income of 2,625 million yen (increased by 51.5% from the previous fiscal year), and net income for the current fiscal year of 909 million yen (decreased by 17.7% from the previous fiscal year).

Sales volumes by service are as follows:

(Millions of yen)

Service	Previous consolidated fiscal year (April 1, 2005 to March 31, 2006)		Current consolidated fiscal year (April 1, 2006 to March 31, 2007)		Change from previous year (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Sales related to wedding	22,884	73.4	24,986	73.6	109.2
Sales of products and goods	3,989	12.8	5,022	14.8	125.9
Income from rental costumes	3,749	12.0	3,404	10.0	90.8
Other	553	1.8	527	1.6	95.3
Total	31,177	100.0	33,940	100.0	108.9

② Capital Investment

We implemented capital investments of 2,778 million yen in total during the current consolidated fiscal year. In Japan, we established "Aquagrace Chapel" (Yomitanson, Okinawa), "Naha Branch" and "Erythrina Chapel" (Naha-shi, Okinawa), "Felice Garden HIBIYA" and "Lumiamore" (Minato-ku, Tokyo) as wedding facilities, and as operation branches we established Akita Branch, Takasaki Branch, Matsuyama Branch and Meieki Branch and refurbished Nagoya Grand Plaza and Osaka Grand Plaza. In foreign countries, a wedding facility "Blue Aster" was established in Guam while a dress manufacturing plant was constructed in Vietnam.

③ Fund Raising

We raised funds of 43 million yen by issuing 32,000 shares of new stock upon exercise of our stock acquisition rights (stock options) during the current consolidated fiscal year.

Our own funds were allocated for the necessary funds for the capital investments, etc. made during the current consolidated fiscal year.

④ Transfer of Business, Demerger or Spin-off

Not applicable.

⑤ Acquisition of business from any other company

Not applicable.

⑥ Succession of Rights and Obligations Associated with Business from Any Other Company through Mergers or Demergers

Not applicable.

⑦ Acquisition or Disposal of Stock, Interest, Stock Acquisition Rights or Similar in Any Other Company

Not applicable.

## (2) Changes in Assets and Operating Income of the Company

(Millions of yen)

Item	40 <sup>th</sup> fiscal year ended March 31, 2004	41 <sup>st</sup> fiscal year ended March 31, 2005	42 <sup>nd</sup> fiscal year ended March 31, 2006	43 <sup>rd</sup> fiscal year (current consolidated fiscal year) ended March 31, 2007
Net sales	19,436	27,718	31,177	33,940
Ordinary profit	1,493	1,644	1,732	2,625
Net profit	811	1,476	1,105	909
Net profit per share	112.86 yen	169.25 yen	111.40 yen	92.18 yen
Gross assets	15,334	20,318	22,164	23,485
Net assets	7,292	12,043	12,984	13,783
Net assets per share	911.55 yen	1,226.83 yen	1,316.70 yen	1,394.27 yen

Note: The "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No.5 issued on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No.8 issued on December 9, 2005) are applied from the 43<sup>rd</sup> fiscal year.

## (3) Principal Parent Company and Subsidiaries

- ① Relationship with the Parent Company  
Not applicable.

② Significant Subsidiaries

Company Name	Capital Stock	Investment Ratio	Principal Business
Watabe U.S.A., Inc.	US\$2,234,000	100%	Operation of wedding and costume rental
Watabe Guam, Inc.	US\$700,000	100% (100%)	Operation of wedding and costume rental
Watabe Wedding (Shanghai) Co., Ltd.	US\$2,300,000	100%	Production and sales of wedding dress
Watabe Wedding Article (Shanghai) Co., Ltd.	¥35,000,000	100%	Production of photographic album
K.K. Meguro Gajoen	¥378,000,000	100%	Operation of wedding and lodging facilities

Note: The figure in parentheses in the Investment Ratio section indicates the indirect holding ratio, which is included in the total value of ratio.

③ Results of Business Combinations

These results are as indicated in "(1) Operational Conditions in the Current Consolidated Fiscal Year ① Progress and Results of Operations" above.

#### (4) Issues to be Addressed

The Watabe Group recognizes the following management issues.

① Reinforced Compliance System

We recognize that it is important to improve and reinforce our compliance system to share the basic philosophy of management and to actively fulfill our social responsibilities as a corporation. It is also necessary for us to recognize a new business risk that we may have through expansion of our business scale and corporate group, as part of the broadening of our global reach that the Group aims for.

② Global Management Expansion

In Japan a reduction in the marriageable population is unavoidable, due to the nation's declining birthrate, hence the future bridal market is expected to decrease. We accordingly recognize that our issue is global management with an eye to overseas markets in addition to the domestic one.

③ Changes in Customer Needs

By accessing customer needs we have found that the trend for individualized weddings is strengthened and that the omission of wedding ceremonies is also observed. The issue we see here is the proposal of new wedding styles that address various customer needs and are also acceptable to those who prefer to omit the wedding ceremony.

④ Fostering of Human Resources

Provision of total bridal solutions carried out by the Group requires expertise and substantial experience, and therefore we recognize that it is important to foster and secure human resources with such skills. Another issue recognized is fostering and securement of human resources to respond to innovations in a new business structure.

⑤ Renovation of the Core Computer System

Renovation of the core computer system is planned during the new fiscal year in order to improve customer services and to enhance the internal control system. A smooth transition to this new core computer system is recognized to be an issue.

⑥ Improvement in Profit Margins

In the mid-term business plan, a 10% consolidated ordinary income margin is set as a target to maximize our corporate value. The issues we recognize for this are cost control and risk management, including foreign currency fluctuations risk hedge in addition to measures to increase added value through structural reform.

In the light of these management issues, we have developed a basic strategy for our mid-term business plan, the "WATABE VISION 2010", in which four business categories, "Overseas Wedding Global Business (including domestic resort weddings)", "Domestic Local Wedding Business", "Dress and Video Business" and "Wedding Business in China (Shanghai)" and are set as core business areas where core competence (i.e. a facet of business where we have the advantage over competitors) can be applied.

Based on this essential strategy we intend to improve our profitability by reinforced competitiveness and structural reform in the new fiscal year.

**(5) Description of Principal Businesses** (as of March 31, 2007)

- ① Overseas wedding services and travel services intended for wedding participants
- ② Domestic wedding services including operation of wedding facilities
- ③ Production and sales of wedding dress, wedding-related items etc.
- ④ Renting wedding-related costumes and formal costumes for coming-of-age ceremony, various parties, etc.
- ⑤ Integrated service of costumes and photographs by combining beauty care, dressing and studio portraits
- ⑥ Wedding-related services, including consultation for wedding halls in Japan, producing wedding ceremonies, planning and directing of wedding receptions, and offer of bridal goods such as jewelry and gem

**(6) Primary Business Sites** (as of March 31, 2007)

① The Company

WATABE WEDDING CORPORATION	Head office	Kyoto City
	Branch office	Hawaii (United States of America), Australia
	Business office	Kyoto, Tokyo, Yokohama, Osaka, Shiga, Nagoya, Kobe, Shinjuku, Hiroshima, Sapporo, Fukuoka

② Subsidiaries

Company Name	Location
K.K. Meguro Gajoen	Tokyo
Okinawa Watabe Wedding Corporation	Okinawa
Watabe Family Club K.K.	Kyoto, Osaka
K.K. H•R•S•S	Kyoto
Watabe Human Support K.K.	Kyoto
Watabe U.S.A., Inc.	United States of America
Watabe Guam, Inc.	Guam (United States of America)
Watabe Saipan, Inc.	Saipan of the Northern Mariana Islands
Watabe Wedding Canada, Inc.	Canada
Watabe Australia Pty. Ltd.	Australia, New Zealand
Watabe Europe S.A.R.L.	France
Watabe U.K., Ltd.	UK
Watabe Wedding Vietnam Co., Ltd.	Vietnam
Watabe Wedding Service (Shanghai) Co., Ltd.	China
Watabe Wedding (Shanghai) Co., Ltd.	China
Watabe Wedding Creative (Shanghai) Co., Ltd.	China
Shanghai Saison Des Brides Trade Co., Ltd.	China
Watabe Wedding Article (Shanghai) Co., Ltd.	China
Shanghai Saison Tuxedo Co., Ltd.	China

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

## ① Employees of the Watabe Group

Number of employees	Change from the previous consolidated fiscal year
1,664	235 employees increased

- Note:
1. The number of employees refers solely to full-time employees and does not include the 765 temporary employees (yearly average number of persons employed).
  2. The major cause of the increase is associated with the full-scale operation of Watabe Wedding Vietnam Co., Ltd.

## ② Employees of the Company

Number of employees	Change from the previous fiscal year	Average age	Average length of service
435	11 employees increased	35.9	6.5 years

- Note: The number of employees refers solely to full-time employees and does not include the 444 temporary employees (yearly average number of persons employed).

**(8) Primary Creditors** (as of March 31, 2007)

Creditor	Balance of borrowings
	millions of yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd	640
Bank of Kyoto, Ltd.	360
Mitsubishi UFJ Trust and Banking Corporation	320
Shiga Bank, Ltd.	172
The Dai-ichi Mutual Life Insurance Company	170
Mizuho Bank, Ltd.	160
Nippon Life Insurance Company	120
Meiji Yasuda Life Insurance Company	120

## (9) Other Important Matters Related to the Watabe Group

The Company and Fukuoka Capital Partners Co., Ltd have entered into a basic agreement on business succession as of April 13, 2007 pursuant to the resolution in the meeting of the Board of Directors held on April 13, 2007 with respect to business succession of Fukuoka Yamanoue Hotel Co., Ltd., which is in the process of civil rehabilitation proceedings.

### ① Purpose of business succession

This business succession aims for the stable employment of employees and revitalization of the local community through the early rehabilitation of Fukuoka Yamanoue Hotel Co., Ltd., a hotel with a long and distinguished history, as well as enhancement of the network and expansion of the domestic wedding business of the Company.

### ② Outlines of the basic agreement

#### a. Target of the business succession

The target is the business of operating the Fukuoka Yamanoue Hotel run by Fukuoka Yamanoue Hotel Co., Ltd., for which the Company and Fukuoka Capital Partners Co., Ltd are the candidates for rehabilitation sponsors.

#### b. Time of the business succession

Details are to be determined as it is in the process of civil rehabilitation proceedings.

### ③ Outlines of Fukuoka Yamanoue Hotel Co., Ltd.

Trade name:	Fukuoka Yamanoue Hotel Co., Ltd.
Representative:	Norio Yamamoto and Tomoko Yamamoto, Trustees and Attorneys
Location of the head office:	1-1-33 Terukuni, Chuo-ku, Fukuoka-shi
Foundation:	June 20, 1961
Capital:	55,000 thousand yen
Description of Business:	Hotel business and incidental services pursuant to the Law for Improving International Tourism Hotels

### ④ Outlines of Fukuoka Capital Partners Co., Ltd.

Trade name:	Fukuoka Capital Partners Co., Ltd
Representative:	Yukuo Osada, President & Representative Director
Location of the head office:	2-14-8 Tenjin, Chuo-ku, Fukuoka-shi
Foundation:	April 24, 2006
Capital:	356,720 thousand yen
Description of Business:	Establishment and management of various funds (community-serving fund), private equity investments, real-estate investments, monetary claim investments, arrangement for real-estate development, consulting service for management and finance

## 2. Present Status of the Company

### (1) Shares (as of March 31, 2007)

- ① Number of shares authorized to be issued: 22,000,000
- ② Number of shares issued: 9,884,900
- ③ Number of shareholders: 5,641
- ④ Shareholder who owns a tenth or more of the number of shares issued

Name of shareholder	Capital contribution to the Company	
	Share ownership	% of total issued shares
K.K. Jusen	2,005,400 shares	20.28%

Note: For calculation of the percentage of total issued shares, treasury stock (97 shares) is excluded.

### (2) Stock Acquisition Rights

Stock acquisition rights issued in return for performance of duties, which are owned by the Company's directors and statutory auditors (as of March 31, 2007)

- a. Outlines of stock acquisition rights based on the resolution in the Ordinary General Meeting of Shareholders held on June 27, 2003 pursuant to provisions of the former Commercial Code
  - Class and number of shares to be issued upon exercise of the stock acquisition rights  
7,600 shares of common stock
  - Amount to be paid per share upon exercise of the stock acquisition rights  
1,290 yen per share
  - Exercise period of stock acquisition rights  
From August 1, 2005 to July 31, 2008
  - Conditions for exercise of stock acquisition rights  
Required to be a Company director, statutory auditor or employee at time this right is exercised.
  - Situation of holding by Directors and Statutory Auditors

	Number of shares to be issued	Number of holders
Directors (Excluding Outside Directors)	3,600	2
Outside Directors	-	-
Statutory Auditors	4,000	1

- b. Outlines of stock acquisition rights based on the resolution in the Ordinary General Meeting of Shareholders held on June 29, 2004 pursuant to provisions of the former Commercial Code
- Class and number of shares to be issued upon exercise of stock acquisition rights  
50,000 shares of common stock
  - Amount to be paid per share upon exercise of the stock acquisition rights  
2,703 yen per share
  - Exercisable period of stock acquisition rights  
From August 1, 2006 to July 31, 2009
  - Conditions for exercise of stock acquisition rights  
Required to be a Company director, statutory auditor or employee at time this right is exercised.
  - Situations of holding by Directors and Statutory Auditors

	Number of shares to be issued	Number of holders
Directors (Excluding Outside Directors)	35,000	5
Outside Directors	3,000	1
Statutory Auditors	12,000	3

### (3) Company Directors

#### ① Directors and Statutory Auditors (as of March 31, 2007)

Title	Name	Duty or Principal Occupation
President & Representative Director	Takao Watabe	
Managing Director	Masahiko Shimazaki	Division Director, Asia Business Division
Managing Director	Katsumi Ueda	Division Director, Administration Division
Director	Hiroshi Kawaguchi	Division Director, Domestic Wedding Business Division and Deputy Division Director, Administration Division
Director	Hidetoshi Watabe	Division Director, Destination Wedding Business Division
Director	Kazuaki Ichihashi	
Director	Norio Hirai	
Full-Time Statutory Auditor	Hisashi Iwasaki	
Statutory Auditor	Toshio Fujimoto	
Statutory Auditor	Hisao Shimizu	Certified Tax Accountant
Statutory Auditor	Masashi Kudo	Attorney

- Note:
1. Norio Hirai is an outside director.
  2. Three Statutory Auditors, Hisashi Iwasaki, Hisao Shimizu and Masashi Kudo are outside statutory auditors.
  3. Significant concurrent positions of corporate directors and statutory auditors for the current fiscal year are as follows.
    - Takao Watabe, Director, concurrently serves as Representative Director of K.K. Meguro Gajoen.
    - Masahiko Shimazaki, Director, also serves as President and Representative Director of Watabe Wedding (Shanghai) Co., Ltd. and 6 other companies.
    - Katsumi Ueda, Director, concurrently serves as Director of K.K. Meguro Gajoen.
    - Hidetoshi Watabe also serves as President and Representative Director of Watabe Guam, Inc. and 7 other companies.
    - Hisao Shimizu, Statutory Auditor, concurrently serves as Representative Partner of Kyoto Shimei Tax Corporation.
  4. Hisao Shimizu, Statutory Auditor, is a certified tax accountant and has knowledge of finance and accounting.
  5. Changes in duties of Directors in the current fiscal year are as follows.
    - Hiroshi Kawaguchi, Director, was delegated the duties of Deputy Division Director of the Administration Division as of December 21, 2006.
    - With the organization name change dated January 21, 2007, Hidetoshi Watabe, Director, became Division Director of Destination Wedding Business Division from Division Director of Overseas Wedding Business Division.

② Remuneration paid to Directors and Statutory Auditors

Title	No. of person	Amount paid thousand yen
Directors	7	125,250
Statutory Auditors	4	22,500
Total	11	147,750

- Note: 1. The 32<sup>nd</sup> Ordinary General Meeting of Shareholders held on June 27, 1996 resolved that the maximum annual amount of remuneration for directors would be up to 300,000,000 yen (excluding the salary for the employee status of directors, who have duties in their capacity as company employees.).
2. The 32<sup>nd</sup> Ordinary General Meeting of Shareholders held on June 27, 1996 resolved that the maximum annual amount of remuneration for statutory auditors would be up to 30,000,000 yen.

③ Matters related to outside directors

- a. Positions in other companies (in the case of operating officers in other companies) and any relationship between the Company and the relevant companies.
- Hisao Shimizu, Statutory Auditor, concurrently serves as a Representative Partner of Kyoto Shimei Tax Corporation. Please note that the Company has entered into a tax advisory contract with Kyoto Shimei Tax Corporation.
- b. Position as outside directors in other companies
- Masashi Kudo, Statutory Auditor, concurrently serves as Outside Statutory Auditor in FUJIX, Ltd.
- c. Principal activities in the current fiscal year
- Attendance in meetings of the Board of Directors and the Board of Statutory Auditors

	Board of Directors (18 meetings held)		Board of Statutory Auditors (12 meetings held)	
	No. of meetings attended	Attendance rate (%)	No. of meetings attended	Attendance rate (%)
Norio Hirai, Director	18	100	-	-
Hisashi Iwasaki, Statutory Auditor	17	94	12	100
Hisao Shimizu, Statutory Auditor	17	94	12	100
Masashi Kudo, Statutory Auditor	18	100	12	100

- Statements in meetings of the Board of Directors  
Norio Hirai, Director, is actively and properly making statements on the agenda items for improvement of corporate values from a shareholder's point of view. The management supervision function is fully exerted through his opinions, which are supported by a wealth of experience and knowledge about management in general. His valuable advice in the initial stage of development of business policies is not only extremely helpful to secure an appropriate direction for business policies but also an important guide for management judgment.  
Hisashi Iwasaki, Statutory Auditor, is offering advice and suggestions taking advantage of his long experience mainly as a corporate executive.  
Hisao Shimizu, Statutory Auditor, offers advice and suggestions taking advantage of his wealth of experience and expertise mainly as a certified tax accountant.

Masashi Kudo, Statutory Auditor, is offering advice and suggestions from the perspective as a legal professional.

d. Outlines of the limited liability agreement

Pursuant to the provision of Paragraph 1 of Article 427 in the Company Law, the Company has entered into a limited liability agreement, which limits their liability for damages stipulated in Paragraph 1 of Article 423 in the company law, with the outside director and each of the outside statutory auditors. The maximum liability for damages under such agreement is the amount stipulated in Paragraph 1 of Article 425 in the Company Law.

e. Total amount of remuneration

The total amount of remuneration for outside officers in the fiscal year is 21,300,000 yen.

**(4) Accounting Auditor**

① Name: Deloitte Touche Tohmatsu

② Remuneration

	Amount Paid
Remuneration for the accounting auditor in the current fiscal year	30 million yen
Total amount of profits in cash and other property payable by the Company and its subsidiaries to the accounting auditor	55 million yen

Note: 1. The Company's overseas subsidiaries are subject to audit (which must be the one pursuant to provisions in the Company Law or the Securities and Exchange Law (or a foreign law equivalent to any of these laws)) by a certified public accountant or auditing firm (including those equivalent to these qualifications overseas) other than the accounting auditor of the Company.

2. In the audit contract between the Company and the accounting auditor, there is no distinct division in remuneration amounts for the audit based on the Company Law and for the one based on the Securities and Exchange Law, and in practice it is not possible to divide such remuneration. Accordingly the remuneration in the current fiscal year represents the total amount for these audits.

③ Non-audit service

The Company has entrusted to the accounting auditor the "Guidance and Advice Service for Internal Control over Financial Reporting", which is a service other than those stipulated in Paragraph 1 of Article 2 in the Certified Public Accountant Law (non-audit service).

④ Policies to determine dismissal or non-reappointment of the accounting auditor

If it is deemed difficult for the accounting auditor to properly perform their duties, or if the accounting auditor comes under any of the circumstances set forth in Paragraph 1 of Article 340 in the Company Law, the Company will, in principle, bring up a proposal on dismissal or non-reappointment of the accounting auditor for discussion in a general meeting of shareholders upon agreement or request of the Board of Statutory Auditors.

## **(5) Systems to ensure adequacy of duties**

In the meeting of the Board of Directors held on May 3, 2006, the Company adopted a resolution, as indicated below, on systems to ensure that directors' performance of their duties conforms to the law and the Articles of Incorporation and on any other systems to ensure adequacy of operations in the Company.

- ① Systems to ensure that directors' and employees' performance of their duties conforms to the law and the Articles of Incorporation
  - Establish and familiarize officers and employees with a "Code of Ethics" and "Compliance Procedures" to ensure that the directors' and employees' performance of their duties conforms to the law and the Articles of Incorporation, and that they fulfill their social responsibilities.
  - Raise and keep awareness of compliance with the law for officers and employees through training and the creation and distribution of manuals for compliance.
  - Verify the performance of the management and operation system as well as the duties involved, and report the results to the President through the "Audit Office" under the direct control of the President.
- ② System for storage and management of information related to directors' performance of their duties  
Manage directors' decision making and reporting to directors performed in accordance with "Document Control Procedures" for creation, storage and disposal of documents.
- ③ System for procedures to control risk of loss and others
  - Establish and apply to the entire Group "Risk Control Procedures", which stipulate a risk control system, to effectively and efficiently implement risk control.
  - Form a "risk control committee" for management risk led by the President as the chairperson of the committee.
- ④ System to ensure that the directors' duties are efficiently performed
  - To ensure a prompt response to changes in the business environment, executive directors will, once a month, hold a "Meeting of Managing Directors", which plays a role complementary to the meetings of the Board of Directors.
  - Adopt an executive officer system for more efficient performance of duties, and reinforce the original functions of the Board of Directors.
  - Hold a "Management Executive Meeting" once a month for discussion, consultation and prompt response to performance of daily operations and business involving the entire Group.
  - Establish, as an advisory organization of the Board of Directors, a "Personnel Advisory Committee", where adequacy and validity of issues on election of directors and statutory auditors and remuneration of officers are discussed to enhance corporate governance.
- ⑤ System to secure adequacy of operations in the Company and the Group consisting of the parent company and its subsidiaries
  - Establish "Compliance Procedures" and "Risk Control Procedures" to develop a compliance system and a risk control system for the entire Group.
  - Establish "Affiliated-Company Management Procedures" to perform necessary management according to the circumstances of the affiliated companies.

- ⑥ Matters relating to the employment of assistants for the statutory auditors as requested for fulfillment of their duties.  
Upon the request of the statutory auditors, assisting staff will be provided as necessary for the statutory auditors.
- ⑦ Matters concerning the above staff's independence from directors  
Obtain prior consent from statutory auditors with respect to personnel changes, personnel evaluation and disciplinary actions toward the assisting staff for the statutory auditors.
- ⑧ System for reporting from directors and employees to statutory auditors and for other reporting to statutory auditors  
Directors and employees will report the following matters to statutory auditors.
- Facts that may cause any significant damage to the Company.
  - Facts that constitute an act of dishonesty or breach of the law or the Articles of Incorporation regarding the directors' performance of their duties.
  - Facts reported based on the whistle-blowing system.
  - Results of inspections by concerned authorities and of external audits.
  - Administrative punishment by relevant authorities or similar cases.
  - The nature of important items of disclosure.
- ⑨ Other systems to ensure that audits are effectively conducted by statutory auditors  
The effectiveness of audits by statutory auditors is secured through the following initiatives.
- Hold a meeting between the President and statutory auditors on a regular basis.
  - Conduct a periodical hearing for directors and important employees.
  - Provide staff for statutory auditors and utilize experts by request of the statutory auditors.
  - Attendance of various meetings, submission of materials for inspection, reporting of necessary issues.
  - Information exchange with the accounting auditor.

## Consolidated Balance Sheets

(As of March 31, 2007)

(Thousands of Yen)

Accounts	Amount	Accounts	Amount
(Assets)		(Liabilities)	
<b>Current assets</b>	<b>8,169,423</b>	<b>Current liabilities</b>	<b>7,779,438</b>
Cash and deposits	5,152,777	Trade accounts payable	1,745,925
Trade accounts receivable	1,159,811	Short-term bank loans	136,576
Inventories	857,311	Current portion of long-term bank loans	792,500
Prepaid expenses	487,773	Accounts payable - other	1,899,313
Accounts receivable - other	48,757	Accrued expenses	356,833
Deferred tax assets	347,046	Income tax payable	580,978
Others	140,088	Advances received	1,839,282
Allowance for doubtful accounts	△24,142	Accrued bonus	336,259
<b>Fixed assets</b>	<b>15,315,903</b>	Others	91,768
<b>Tangible fixed assets</b>	<b>10,112,471</b>	<b>Fixed liabilities</b>	<b>1,922,536</b>
Rental costume	146,192	Long-term bank loans	1,270,000
Buildings and structures	6,580,222	Allowance for retirement benefits	127,504
Furniture and fixtures	1,416,718	Negative goodwill	95,546
Land	1,730,326	Others	429,485
Construction in progress	19,373	<b>Total Liabilities</b>	<b>9,701,974</b>
Others	219,638	(Net assets)	
<b>Intangible fixed assets</b>	<b>797,708</b>	<b>Shareholders' equity</b>	<b>13,989,877</b>
<b>Investments and other assets</b>	<b>4,405,724</b>	<b>Capital stock</b>	<b>4,159,237</b>
Investment securities	337,407	<b>Capital surplus</b>	<b>4,021,037</b>
Long-term prepaid expenses	249,368	<b>Retained earnings</b>	<b>5,809,859</b>
Guarantee deposits	2,813,554	<b>Treasury stock</b>	<b>△257</b>
Insurance reserve fund	214,970	Revaluation and translation adjustments	<b>△207,762</b>
Bad debts	27,921	Unrealized gain on available-for-sale securities	<b>100,349</b>
Deferred tax assets	402,213	<b>Deferred gain on hedge</b>	<b>8,821</b>
Deferred tax assets for land revaluation	364,431	<b>Land revaluation difference</b>	<b>△524,424</b>
Others	55,130	<b>Foreign currency translation adjustments</b>	<b>207,490</b>
Allowance for doubtful accounts	△59,271	<b>Minority interests</b>	<b>1,237</b>
<b>Total assets</b>	<b>23,485,327</b>	<b>Total net assets</b>	<b>13,783,353</b>
		<b>Total liabilities and net assets</b>	<b>23,485,327</b>

## Consolidated Statements of Income

(April 1, 2006 to March 31, 2007)

(Thousands of Yen)

Accounts	Amount	
<b>Net sales</b>		<b>33,940,890</b>
<b>Cost of Sales</b>		<b>12,895,256</b>
<b>Gross profit</b>		<b>21,045,633</b>
<b>Selling, general &amp; administrative expenses</b>		18,485,671
<b>Operating income</b>		<b>2,559,961</b>
<b>Non-operating income</b>		
Interest and dividends received	13,816	
Other income	141,036	154,853
<b>Non-operating expenses</b>		
Interest paid	36,963	
Other expenses	52,717	89,680
<b>Ordinary income</b>		<b>2,625,134</b>
<b>Extraordinary profit</b>		
Reversal of reserve for doubtful accounts	43,486	
Other profit	1,774	45,261
<b>Extraordinary losses</b>		
Loss on sale and disposal of fixed assets	110,964	
Impairment loss	194,332	
Loss on liquidation of facilities and stores	431,825	
Compensation for products sold	175,782	912,904
<b>Income before income taxes and minority interests</b>		<b>1,757,491</b>
Income taxes - current	1,005,138	
Income taxes - deferred	△157,223	847,915
Minority loss		211
<b>Net income</b>		<b>909,787</b>

## Consolidated Statements of Changes in Shareholders' Equity

(April 1, 2006 to March 31, 2007)

(Thousands of Yen)

	Shareholder's equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	4,137,722	3,999,522	5,159,132	△257	13,296,119
Changes during the consolidated fiscal year					
New issue of stock upon exercise of stock acquisition rights	21,515	21,515			43,030
Dividends			△246,559		△246,559
Bonuses to directors and statutory auditors			△12,500		△12,500
Net income			909,787		909,787
Net changes in accounts other than shareholders' equity during the consolidated fiscal year					
Total changes during the consolidated fiscal year	21,515	21,515	650,727	—	693,758
Balance as of March 31, 2007	4,159,237	4,021,037	5,809,859	△257	13,989,877

	Revaluation and translation adjustments					Minority interest	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on hedge	Land revaluation difference	Foreign currency translation adjustments	Total revaluation and translation adjustments		
Balance as of March 31, 2006	97,459	—	△524,424	115,240	△311,724	1,444	12,985,839
Changes during the consolidated fiscal year							
New issue of stock upon exercise of stock acquisition rights							43,030
Dividends							△246,559
Bonuses to directors and statutory auditors							△12,500
Net income							909,787
Net changes in nonshareholders' equity items during the consolidated fiscal year	2,890	8,821	—	92,250	103,962	△206	103,755
Total changes during the consolidated fiscal year	2,890	8,821	—	92,250	103,962	△206	797,513
Balance as of March 31, 2007	100,349	8,821	△524,424	207,490	△207,762	1,237	13,783,353

## Notes to Consolidated Financial Statements

### 1. Significant basis in preparation of Consolidated Financial Statements

(1) Scope of consolidation

Consolidated subsidiaries

- ① Number of consolidated subsidiaries: 22
- ② Principal consolidated subsidiaries: Watabe U.S.A., Inc.  
Watabe Guam, Inc.  
Watabe Wedding (Shanghai) Co., Ltd.  
Watabe Wedding Article (Shanghai) Co., Ltd.  
K.K. Meguro Gajoen

(2) Application of equity method

Not applicable.

(3) Fiscal year of consolidated subsidiaries

Watabe U.S.A., Inc. and other 14 consolidated subsidiaries have fiscal years ending on March 31. Watabe Wedding (Shanghai) Co., Ltd. and other 6 consolidated subsidiaries have fiscal years ending on December 31.

In preparing the consolidated financial reports, financial statements as of the above date are used. Necessary adjustments are made for significant inter-company transactions during the period between their respective fiscal year ends and the consolidated closing date.

(4) Accounting policies

① Valuation basis and method for important assets

a. Other securities:

- With market value: Market value method based on the market price, etc. at the balance sheet date. Unrealized gains and losses, net of applicable taxes, are reported in a separate component of net assets. The cost of other securities sold is computed primarily based on the moving average method.
- Without market value: Cost method based on the moving average method.

b. Derivative instruments: Market value method.

c. Inventories:

- Merchandise / products / work in progress: Primarily cost method based on the gross average method
- Raw materials: Primarily cost method based on the moving average method
- Supplies: Last purchase method

② Depreciation/amortization method for major depreciable/amortizable assets

a. Tangible fixed assets:

- Domestic assets:
  - Rental costume: Straight-line method
  - Buildings and structures: Declining-balance method  
However, for the buildings (except for annexed facilities) obtained after April 1, 1998, straight-line method is adopted.
  - Furniture and fixtures: Straight-line method
  - Other: Declining-balance method
- Foreign assets: Straight-line method

The principal estimated useful lives are:

Rental Costume	2-3 years
Buildings and Structures	5-47 years
Furniture and fixtures	2-20 years

- b. Intangible fixed assets: Straight-line method  
Capitalized software for internal use is amortized over the estimated useful life in the company (5 years).
- c. Long-term prepaid expenses: Straight-line method

③ Accounting for major allowances and accruals

- a. Allowance for doubtful accounts: Allowances for doubtful accounts are estimated based on the actual past ratio of losses on bad debts.  
Certain allowances are provided based on estimates of uncollectible amounts based on analysis of certain individual receivables.
- b. Accrued bonuses: Accrued bonuses are provided based upon amounts expected to be paid in accordance with the subjected term.
- c. Allowance for retirement benefits: Allowance for retirement benefits are recognized based on projected retirement benefits obligations and plan assets at the balance sheets date.  
Actuarial gains or losses are amortized over the term (5 years) which is within estimated average remaining service period of employees using the straight-line method following the year incurred.

④ Other significant matters for preparation of consolidated financial statements

a. Exchange method of foreign currency transaction and financial statements

All short-term and long-term monetary receivables and payables denominated in foreign currencies are calculated into Japanese yen at the spot exchange rates on the balance sheet date. The foreign exchange gains and losses from these calculations are recognized in the statements of income. Receivables and payables of overseas subsidiaries are translated into Japanese yen at the spot exchange rate at the balance sheet date, and revenue and expense accounts are translated into Japanese yen at the average exchange rate. Differences arising from such translations are shown as “Foreign currency translation adjustments” and “Minority interests” in separate components of net assets.

b. Leases transactions

Finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance lease in Japan are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements. Outside of Japan, other finance leases are still to be capitalized if they meet certain criteria.

c. Accounting for hedging

Deferral hedge accounting is applied. For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gain or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts are utilized to hedge foreign currency exposures on overseas transactions. Trade payables and receivables denominated in foreign currencies are calculated at the contracted rates if the forward contracts qualify for hedge accounting.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

d. Consumption tax and similar taxes

Consumption tax and similar taxes are excluded from all items in the consolidated statements of income.

- (5) Valuation method of assets and liabilities of overseas subsidiaries  
All assets and liabilities of overseas subsidiaries are reported at fair value.
- (6) Amortization of negative goodwill  
Negative goodwill is amortized over 5 years using the straight-line method.
- (7) Changes in accounting policies  
(Accounting Standard for Presentation of Net Assets in the Balance Sheet)  
As from the current consolidated fiscal year, the "Accounting Standard for Presentation of Net Assets on the Balance Sheet" (ASBJ Statement No.5 by the Accounting Standards Board of Japan, issued on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet" (ASBJ Guidance No.8 by the Accounting Standards Board of Japan, issued on December 9, 2005) are applied.  
The total amount of the Shareholders' Equity under previous standard is 13,773,293 thousand yen.  
Please note that the Net Assets section in the Consolidated Balance Sheets for the current consolidated fiscal year is prepared pursuant to the Corporate Calculation Regulations (Ordinance of the Ministry of Justice No. 13, February 7, 2006)
- (8) Changes in the presentation method  
The "Consolidation Adjustments" account in the previous consolidated fiscal year is indicated as "Negative Goodwill" from the current consolidated fiscal year.

## 2. Notes to Consolidated Balance Sheets

### (1) Pledged assets

Buildings and structures:	74,033 thousand yen
Land:	636,872 thousand yen
<u>Total:</u>	<u>710,906 thousand yen</u>

The above property is pledged for the long-term bank loans (including the current portion) of 1,120,000 thousand yen.

- (2) Accumulated depreciation of tangible fixed assets: 6,835,650 thousand yen  
This accumulated depreciation includes impairment loss.
- (3) The Company revalues its business-use land in accordance with the "Law of Land Revaluation" (Law No. 34 published on March 31, 1998) and revaluation difference, net of income tax, is presented as a component of net assets.
- |                      |   |
|----------------------|---|
| Revaluation method:  | Based on the appraisal value used for calculation of land price taxes as specified by Article 2, Item 4 of the "Enforcement Regulations of the Law of Land Revaluation" (Ordinance No. 119 published on March 31, 1998) |
| Date of revaluation: | March 31, 2002  |
- |  |                      |
|--|----------------------|
| Difference between fair value at the end of the consolidated fiscal year and book value after revaluation: | 110,848 thousand yen |
|--|----------------------|

### 3. Notes to Consolidated Statements of Income

#### Impairment loss

The Group recognized an impairment loss for the following asset groups in the current consolidated fiscal year.

Use of Asset	Location	Category
Wedding facilities	Ito City, Shizuoka	Buildings
Wedding facilities	Osaka City	Buildings and structures, furniture and fixtures

(Method of asset grouping)

The Group has grouped assets based on the classification for management accounting by each of operation branches and wedding facilities.

(Background to the reported impairment loss)

The above-listed two facilities had suffered continued low profitability and are not expected to recover investments in the current consolidated fiscal year. Accordingly the Group reduced their book value to a recoverable value, and posted the impairment loss in extraordinary loss.

(Amount of the impairment loss)

Buildings and structures:	162,236 thousand yen
Furniture and fixtures:	32,096 thousand yen
Total:	194,332 thousand yen

(Calculation method for the recoverable value)

The recoverable value for the asset groups is measured based on the use value and calculated by future projected cash flow discounted by 6%.

### 4. Notes to Consolidated Statements of Changes in Shareholders' Equity

(1) The number of shares issued

Class of shares	Shares at the end of the previous consolidated fiscal year	Increase in shares during the current consolidated fiscal year	Decrease in shares during the current consolidated fiscal year	Shares at the end of the current consolidated fiscal year
Common stock	9,852,300	32,600	-	9,884,900

Note: Increase in the number of shares issued is due to issue of new shares upon exercise of stock acquisition rights.

(2) The number of shares of treasury stock

Class of shares	Shares at the end of the previous consolidated fiscal year	Increase in shares during the current consolidated fiscal year	Decrease in shares during the current consolidated fiscal year	Shares at the end of the current consolidated fiscal year
Common stock	97	-	-	97

(3) Dividends distributed from retained earnings

① Amount and other information on dividends paid

a. Dividend resolved at the 42<sup>nd</sup> Ordinary General Meeting of Shareholders held on June 29, 2006

- Total amount of the dividend: 118,226 thousand yen
- Dividend amount per share: 12 yen
- Record date: March 31, 2006
- Effective date: June 30, 2006

b. Dividend resolved at the meeting of the Board of Directors held on November 8, 2006

- Total amount of the dividend: 128,333 thousand yen
- Dividend amount per share: 13 yen
- Record date: September 30, 2006
- Effective date: December 4, 2006

② Dividend for which the record date belongs to the current consolidated fiscal year but the effective date is in the following year

The following issues are on the agenda in the 43<sup>rd</sup> Ordinary General Meeting of Shareholders to be held on June 28, 2007.

- Total amount of the dividend: 128,502 thousand yen
- Dividend amount per share: 13 yen
- Record date: March 31, 2007
- Effective date: June 29, 2007

Please note retained earnings is expected to be used as dividend resource.

(4) Matters on stock acquisition rights as of the end of the current consolidated fiscal year

	Resolution in the Ordinary General Meeting of Shareholders on June 27, 2002	Resolution in the Ordinary General Meeting of Shareholders on June 27, 2003	Resolution in the Ordinary General Meeting of Shareholders on June 29, 2004
Class of shares	Common stock	Common stock	Common stock
Number of shares	43,000	72,100	250,000
Amount to be paid per share upon exercise of the rights	1,512 yen	1,290 yen	2,703 yen
Exercise period of stock acquisition rights	August 1, 2004 to July 31, 2007	August 1, 2005 to July 31, 2008	August 1, 2006 to July 31, 2009

## 5. Notes to Retirement and Pension Plans

### (1) Outline of Retirement and Pension Plans

The Company and certain domestic subsidiaries have non-contributory funded and unfunded defined benefit retirement plans for domestic employees. For employees of the Company's overseas branches, the Company provides defined contribution retirement plans. Certain overseas subsidiaries also have employees' defined benefit retirement plans.

### (2) Projected benefit obligation

Projected benefit obligation	△659,644 thousand yen
Fair value of Plan assets	<u>640,011 thousand yen</u>
Net	△19,632 thousand yen
Unrecognized actuarial loss	<u>△107,871 thousand yen</u>
Benefit obligation at the end of year	<u>△127,504 thousand yen</u>

### (3) Benefit costs

Service cost	58,396 thousand yen
Interest cost	7,707 thousand yen
Expected return on plan assets	△11,220 thousand yen
Recognized actuarial loss	<u>△989 thousand yen</u>
Net	53,894 thousand yen
Other	<u>3,992 thousand yen</u>
Net periodic benefit costs	<u>57,887 thousand yen</u>

### (4) Basis and assumption

① Method of the periodical allocation of the cost of the estimated payment amount of the retirement benefit	Fixed amount for the applicable term
② Discount rate	1.5%
③ Expected rate of return on plan assets	2.0%
④ Recognition period of actuarial gain/loss	5 years following the consolidated fiscal year of the occurrence

## 6. Notes to Per-share Information

(1) Net assets per share	1,394.27 yen
(2) Net income per share	92.18 yen

## 7. Amounts are rounded down to the nearest thousand.

## Non-consolidated Balance Sheets

(As of March 31, 2007)

(Thousands of Yen)

Accounts	Amount	Accounts	Amount
(Assets)		(Liabilities)	
<b>Current assets</b>	<b>4,246,741</b>	<b>Current liabilities</b>	<b>5,431,189</b>
Cash and deposits	1,667,065	Trade accounts payable	1,520,144
Trade accounts receivable	958,329	Current portion of long-term bank loans	792,500
Merchandises	138,704	Accounts payable - other	833,430
Raw materials	10,025	Accrued expenses	182,569
Supplies	85,576	Income tax payable	230,275
Prepaid expenses	260,618	Advances received	1,570,797
Short-term loans receivable	383,697	Deposits received	16,952
Accounts receivable - other	152,971	Accrued bonus	249,500
Deferred tax assets	358,892	Other	35,020
Other	273,940	<b>Fixed liabilities</b>	<b>1,589,694</b>
Allowance for doubtful accounts	△43,081	Long-term bank loans	1,270,000
<b>Fixed assets</b>	<b>14,561,919</b>	Long-term accounts payable	265,667
Tangible fixed assets	7,530,698	Guarantee deposits received	38,200
Rental costume	77,507	Allowance for retirement benefits	15,826
Buildings	4,834,736		
Structures	133,212		
Vehicles and delivery equipment	24,839		
Furniture and fixtures	714,476		
Land	1,730,326		
Construction in progress	15,599		
<b>Intangible fixes assets</b>	<b>627,672</b>		
Telephone rights	26,387		
Utility rights	370		
Software	600,914		
<b>Investments and other assets</b>	<b>6,403,548</b>		
Investment securities	337,407		
Affiliated companies' stocks	929,465		
Investments in equity	600		
Investments in equity of affiliated companies	856,944		
Long-term loans receivable	830,962		
Long-term prepaid expenses	140,553		
Guarantee deposits	2,530,251		
Insurance reserve fund	214,970		
Bad debts	27,921		
Deferred tax assets	426,181		
Deferred tax assets for land revaluation	364,431		
Other	30,078		
Allowance for doubtful accounts	△286,218		
		<b>Total liabilities</b>	<b>7,020,884</b>
		(Net assets)	
		<b>Shareholders' equity</b>	<b>12,203,030</b>
		<b>Capital stock</b>	<b>4,159,237</b>
		<b>Capital surplus</b>	<b>4,021,037</b>
		Capital reserve	4,021,037
		<b>Retained earnings</b>	<b>4,023,012</b>
		Other retained earnings	4,023,012
		Reserve for dividends	750,000
		Reserve for special depreciation	3,442
		General reserve	1,910,000
		Retained earnings carried forward	1,359,570
		<b>Treasury stock</b>	<b>△257</b>
		<b>Revaluation and translation adjustments</b>	<b>△415,253</b>
		Unrealized gain on available-for-sale securities	<b>100,349</b>
		<b>Deferred gain on hedge</b>	<b>8,821</b>
		<b>Land revaluation difference</b>	<b>△524,424</b>
		<b>Total net assets</b>	<b>11,787,777</b>
<b>Total assets</b>	<b>18,808,661</b>	<b>Total liabilities and net assets</b>	<b>18,808,661</b>

## Non-consolidated Statements of Income

(April 1, 2006 to March 31, 2007)

(Thousands of Yen)

Accounts	Amount	
<b>Net sales</b>		<b>23,947,270</b>
<b>Cost of Sales</b>		<b>12,675,482</b>
<b>Gross profit</b>		<b>11,271,788</b>
<b>Selling, general &amp; administrative expenses</b>		<b>9,910,439</b>
<b>Operating income</b>		<b>1,361,349</b>
<b>Non-operating income</b>		
Interest and dividends received	360,744	
Other income	103,260	464,004
<b>Non-operating expenses</b>		
Interest paid	32,873	
Other expenses	33,696	66,570
<b>Ordinary income</b>		<b>1,758,783</b>
<b>Extraordinary profit</b>		
Reversal of reserve for doubtful accounts	10,349	
Gain on sales of investment securities	1,007	11,356
<b>Extraordinary losses</b>		
Loss on sale and disposal of fixed assets	75,679	
Devaluation of investment in subsidiaries	35,642	
Impairment loss	194,332	
Loss on liquidation of facilities and stores	431,825	737,479
<b>Income before income taxes</b>		<b>1,032,660</b>
Income taxes - current	524,572	
Income taxes - deferred	△209,918	314,653
<b>Net income</b>		<b>718,006</b>

## Non-consolidated Statements of Changes in Shareholders' Equity

(April 1, 2006 to March 31, 2007)

(Thousands of Yen)

	Shareholder's equity								
	Capital stock	Capital surplus	Retained earnings					Treasury stock	Total shareholders' equity
		Capital reserve	Other retained earnings				Total retained earnings		
			Reserve for dividends	Reserve for special depreciation	General reserve	Retained earnings carried forward			
Balance as of March 31, 2006	4,137,722	3,999,522	750,000	13,921	1,710,000	1,089,645	3,563,566	△257	11,700,552
Changes during the fiscal year									
New issue of stock upon exercise of stock acquisition rights	21,515	21,515							43,030
Reversal of Reserve for special depreciation (Previous year)				△5,239		5,239	-		-
Reversal of Reserve for special depreciation (Current year)				△5,239		5,239	-		-
Transfer to general reserve					200,000	△200,000	-		-
Dividends						△246,559	△246,559		△246,559
Bonuses to directors and statutory auditors						△12,000	△12,000		△12,000
Net income						718,006	718,006		718,006
Net changes in accounts other than shareholders' equity during the fiscal year									
Total changes during the fiscal year	21,515	21,515	-	△10,478	200,000	269,924	459,446	-	502,477
Balance as of March 31, 2007	4,159,237	4,021,037	750,000	3,442	1,910,000	1,359,570	4,023,012	△257	12,203,030

	Revaluation and translations adjustments				Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on hedge	Land revaluation difference	Total revaluation and translation adjustments	
Balance as of March 31, 2006	97,431	-	△524,424	△426,992	11,273,560
Changes during the fiscal year					
New issue of stock upon exercise of stock acquisition rights					43,030
Reversal of Reserve for special depreciation (Previous year)					-
Reversal of Reserve for special depreciation (Current year)					-
Transfer to general reserve					-
Dividends					△246,559
Bonuses to directors and statutory auditors					△12,000
Net income					718,006
Net changes in accounts other than shareholders' equity during the fiscal year	2,918	8,821	-	11,739	11,739
Total changes during the fiscal year	2,918	8,821	-	11,739	514,216
Balance as of March 31, 2007	100,349	8,821	△524,424	△415,253	11,787,777

## Notes to Non-consolidated Financial Statements

### 1. Principal Accounting Policies

#### (1) Valuation basis and method for assets

- ① Investment in affiliates: Cost method based on the moving-average method
- ② Other securities:
  - With market value: Market value method based on the market price, etc. at the balance sheet date. Unrealized gains and losses, net of applicable taxes, are reported in a separate component of net assets. The cost of other securities sold is computed based on the moving average method.
  - Without market value: Cost method based on the moving average method.
- ③ Derivative instruments: Market value method.
- ④ Inventories:
  - Merchandise: Cost method based on the gross average method
  - Raw materials: Last purchase method
  - Supplies: Last purchase method

#### (2) Depreciation/amortization method for fixed assets

- ① Tangible fixed assets:
  - Domestic assets:
 

Rental costume:	Straight-line method
Buildings:	Declining-balance method
However, for the buildings (except for annexed facilities) obtained after April 1, 1998, straight-line method is adopted.	
Furniture and fixtures:	Straight-line method
Structures:	Declining-balance method
Vehicles and delivery equipment:	Declining-balance method
  - Foreign assets:
 

The principal estimated useful lives are:	
Rental Costume	2 years
Buildings	5-47 years
Furniture and fixtures	2-20 years
- ② Intangible fixed assets:
  - Straight-line method
  - Capitalized software for internal use is amortized over the estimated useful life in the company (5 years).
- ③ Long-term prepaid expenses:
  - Straight-line method

(3) Accounting for allowances and accruals

- ① Allowance for doubtful accounts: Allowances for doubtful accounts are estimated based on the actual past ratio of losses on bad debts.  
Certain allowances are provided based on estimates of uncollectible amounts based on analysis of certain individual receivables.
- ② Accrued bonuses: Accrued bonuses are provided based upon amounts expected to be paid in accordance with the subjected term.
- ③ Allowance for retirement benefits: The allowance for retirement benefits is recognized based on projected retirement benefit obligations and plan assets at the balance sheets date.  
Actuarial gains or losses are amortized over the term (5 years) which is within estimated average remaining service period of employees using the straight-line method following the year incurred.

(4) Leases transactions

Finance leases, other than those deemed to transfer ownership of the leased property to the lessee, are accounted for as operating lease transactions.

(5) Accounting for hedging

Deferral hedge accounting is applied. For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gain or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts are utilized to hedge foreign currency exposures on overseas transactions. Trade payables and receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

(6) Other basic matters for preparation of non-consolidated financial statements

Consumption tax and similar taxes: Consumption tax and similar taxes are excluded from all items in the non-consolidated statements of income.

(7) Changes in accounting policies

(Accounting Standard for Presentation of Net Assets in the Balance Sheet)

As from the current fiscal year, the "Accounting Standard for Presentation of Net Assets on the Balance Sheet" (ASBJ Statement No.5 by the Accounting Standards Board of Japan, issued on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet" (ASBJ Guidance No.8 by the Accounting Standards Board of Japan, issued on December 9, 2005) are applied.

The total amount of the Shareholders' Equity under previous standard is 11,778,955 thousand yen.

Please note that the Net Assets section in the Non-consolidated Balance Sheets for the current fiscal year is prepared pursuant to the Corporate Calculation Regulations (Ordinance of the Ministry of Justice No. 13, February 7, 2006)

## 2. Notes to Non-consolidated Balance Sheets

(1) Pledged assets

Buildings:	74,033 thousand yen
Land:	636,872 thousand yen
<hr/>	
Total:	710,906 thousand yen

The above property is pledged for the long-term bank loans (including the current portion) of 1,120,000 thousand yen.

(2) Accumulated depreciation of tangible fixed assets: 4,974,738 thousand yen

This accumulated depreciation includes impairment loss.

(3) The Company revalues its business-use land in accordance with the “Law of Land Revaluation” (Law No. 34 published on March 31, 1998) and revaluation difference, net of income tax, is presented as a component of net assets.

Revaluation method: Based on the appraisal value used for calculation of land price taxes as specified by Article 2, Item 4 of the “Enforcement Regulations of the Law of Land Revaluation” (Ordinance No. 119 published on March 31, 1998)

Date of revaluation: March 31, 2002

Difference between fair value at the end of the fiscal year and book value after revaluation: 110,848 thousand yen

(4) Guarantee liabilities

Debt guarantee is made for affiliated company loans payable to financial institutions.

Watabe Wedding (Shanghai) Co., Ltd.: 136,640 thousand yen

(5) Monetary receivables from and payables with affiliated companies

① Short-term receivables: 807,226 thousand yen

② Long-term receivables: 810,674 thousand yen

③ Short-term payables: 708,826 thousand yen

### 3. Notes on the Non-consolidated Statements of Income

(1) Transactions with affiliated companies

① Sales:	825,980 thousand yen
② Purchase:	6,694,546 thousand yen
③ Selling, general & administrative expenses:	101,197 thousand yen
④ Non-operating income and expenses:	71,315 thousand yen

(2) Impairment loss

The Company recognized an impairment loss for the following asset groups in the current fiscal year.

Use of Asset	Location	Category
Wedding facilities	Ito City, Shizuoka	Buildings
Wedding facilities	Osaka City	Buildings and structures, furniture and fixtures

(Method of asset grouping)

The Company has grouped assets based on the classification for management accounting by each of operation branches and wedding facilities.

(Background to the reported impairment loss)

The above-listed two facilities had suffered continued low profitability and are not expected to recover investments in the current fiscal year. Accordingly the Company reduced their book value to a recoverable value, and posted the impairment loss in extraordinary loss.

(Amount of the impairment loss)

Buildings:	161,613 thousand yen
Structures:	622 thousand yen
Furniture and fixtures:	32,096 thousand yen
Total:	194,332 thousand yen

(Calculation method for the recoverable value)

The recoverable value for the asset groups is measured based on the usable value and calculated by future projected cash flow discounted by 6%.

### 4. Notes to Non-consolidated Statements of Changes in Shareholders' Equity

(1) The number of shares of treasury stock

Class of shares	Shares at the end of the previous fiscal year	Increase in shares during the current fiscal year	Decrease in shares during the current fiscal year	Shares at the end of the current fiscal year
Common stock	97	-	-	97

## 5. Tax Effect Accounting

### (1) Deferred tax assets and deferred tax liabilities

<u>Current assets and liabilities</u>	(thousands of yen)	<u>Fixed assets and liabilities</u>	(thousands of yen)
Inventories	46,302	Investment in securities	24,096
Accounts payable – other	146,400	Affiliated companies' stocks and investments in equity	124,707
Accrued expenses	43,769	Tangible fixed assets	155,628
Accrued enterprise tax	22,798	Allowance for doubtful accounts	111,625
Allowance for bonus	102,295	Long-term accounts payable	68,269
Other	<u>32,857</u>	Allowance for retirement benefits	6,488
Total deferred tax assets	394,423	Other	<u>29,268</u>
Total deferred tax liabilities	<u>35,530</u>	Total deferred tax assets	520,085
Net deferred tax assets	<u>358,892</u>	Other securities	69,734
		Other	<u>24,170</u>
		Total deferred tax liabilities	<u>93,904</u>
		Net deferred tax assets	<u>426,181</u>

### (2) A reconciliation between the statutory effective tax rate and the company's actual effective tax rate

Statutory effective tax rate	41.0 %
(Reconciliation)	
Expense not deductible for income tax purpose	△2.1%
Per capita portion of inhabitant tax	3.9%
Lower income tax rates applicable to income in certain foreign countries	△ 3.5%
Tax sparing credit	△ 4.1%
Reversal of valuation allowance	△3.8%
Other	<u>△0.9%</u>
Actual effective tax rate	<u>30.5%</u>

## 6. Notes to Fixed Assets Used by Lease

- (1) As of the end of the current fiscal year, the acquisition cost equivalent, accumulated depreciation equivalent and balance at term end

(Thousands of Yen)

	Acquisition cost equivalent	Accumulated depreciation equivalent	Balance at the end of current fiscal year
Buildings	541,200	58,630	482,570
Vehicles and delivery equipment	10,968	4,986	5,981
Furniture and fixtures	56,659	42,756	13,903
Software	48,952	41,112	7,840
Total	657,779	147,484	510,295

- (2) Prepaid lease payment as of the end of the current fiscal year

One year or less:	48,366 thousand yen
Over one year:	461,928 thousand yen
Total	510,295 thousand yen

- (3) Other significant matters associated with the relevant leased property  
Not applicable.

## 7. Notes to Transactions with Related Parties

### (1) Officers and principal individual shareholders

Attribute	Company name	Percentage of owned voting rights (%)	Description of the relationship		Description of transaction	Transaction amount (thousand yen)	Account	Balance at the end of current fiscal year (thousand yen)
			Concurrent offices of officers	Business relationship				
Company (including its subsidiary), a majority of whose voting rights are owned by an officer or his/her close relative	K.K. Jusen (Note 1)	Direct 20.28	-	Office lease	Building lease (Note 2)	64,860	-	-
					Deposit a guarantee	-	Guarantee deposits	45,000

- Note: 1. The Company's Representative Director and Director directly own 100% of its voting rights.  
 2. It is used as the head office and its rent is determined based on the appraisal by real-estate appraiser by considering prevailing transactions in the neighborhood.  
 3. Consumption taxes are not included in the values indicated above.

### (2) Subsidiaries

Attribute	Company name	Percentage of owning voting rights (%)	Description of the relationship		Description of transaction	Transaction amount (thousand yen)	Account	Balance at the end of current fiscal year (thousand yen)
			Concurrent offices of officers	Business relationship				
Subsidiary	Okinawa Watabe Wedding Corporation	100.0	3 officers holding concurrent offices	Sales of its own domestic wedding packages and the Company's overseas wedding packages	Loan of fund	300,000	Short-term loan	115,880
							Long-term loan	190,940
	Watabe Wedding Vietnam Co., Ltd.	100.0	2 officers holding concurrent offices	Purchase of wedding dresses	Loan of fund	439,323	Short-term loan	93,805
							Long-term loan	355,330

Note: Interest rates are reasonably determined in view of market interest rates.

## 8. Per Share Information

- (1) Net assets per share 1,192.52 yen  
 (2) Net income per share 72.75 yen

## 9. Amounts are rounded down to the nearest thousand.

## Reference Material on the General Meeting of Shareholders

### Proposal No.1: Appropriation of Retained Earnings

The Company wishes to appropriate retained earnings as indicated below.

#### Details of the year-end dividend

Recognizing the fact that distribution of profits to shareholders is a major business management issue, the Company's basic policy is distribution of profits within the amount available for distribution, for which the target payout ratio is set at 20% to consolidated net income of current fiscal year. Factors such as the consolidated business performance for each fiscal year, improvement in financial strength and the Group's future business strategies are taken into account here.

The proposed dividend for the current fiscal year is as initially planned to respond to shareholders' expectations for stable dividends as record-high ordinary income is posted although consolidated net income was 909 million yen, which was attributable to payment of compensation for inappropriate product sales by some of the overseas subsidiaries and loss on liquidation of business facilities and stores as well as impairment loss on fixed assets.

From a long-term perspective, the Company will utilize internal reserves for investment in business fields that show growth potential and profitability as well as in streamlining and revitalization of existing business categories.

(1) Type of asset distributed as dividend:

Cash

(2) Allocation of the asset distributed as dividend and the total amount thereof:

13 yen per share of the Company's common stock, and 128,502,439 yen in total

Please note that the annual dividends amount to 26 yen per share including 13 yen per share for the interim dividend, which is already paid.

(3) Effective date of dividend distribution from retained earnings:

June 29, 2007

### Proposal No.2: Election of One (1) Director

To strengthen our management system, the Company proposes election of one (1) director.

The nominee is as follows.

Name (Date of Birth)	Primary Position and Profile (Current Title at Other Company)	Shares of the Company Held by the Candidate
Hiroya Yamamoto (December 23, 1958)	August 2006 – Present: <u>WATABE WEDDING CORPORATION</u> Executive Officer & Division Director, Marketing and Planning Division & Sales Division June 2006: Executive Officer & Division Director, Marketing and Planning Division April 2005: Joined WATABE WEDDING CORPORATION April 1997: The Sanwa Bank, Ltd. (Presently Bank of Tokyo-Mitsubishi UFJ) Deputy General Manager, Umeda Branch February 1995: Temporarily transferred to KYOCERA Corporation,(SEIWAJUKU secretariat) April 1983: Joined The Sanwa Bank, Ltd.(Presently Bank of Tokyo-Mitsubishi UFJ, Ltd.)	– shares

(Note) This nominee for director has no special interests in the Company.

Proposal No.3: Election of One Statutory Auditor

Hisao Shimizu, Statutory Auditor, shall finish his term of office at the close of this General Meeting of Shareholders. The Company proposes election of a statutory auditor.

Please note that this proposal was agreed by the Board of Statutory Auditors.

The nominee is as follows.

Name (Date of Birth)	Primary Position and Profile (Current Title at Other Company)	Shares of the Company Held by the Candidate
Hisao Shimizu (January 11, 1926)	January 2003 – Present: <u>Kyoto Shimei Tax Corporation</u> Partner November 1985 – Present: <u>WATABE WEDDING CORPORATION</u> Statutory Auditor February 1960: Established Shimizu Tax Accounting Office	24,800 shares

- (Note) 1. This nominee for statutory auditor has no special interests in the Company.
2. Hisao Shimizu is a candidate for the outside auditor.
3. Special notes on the outside auditor candidate are as follows :
- (1) Reasons for the Company to select him as an outside auditor  
 Hisao Shimizu is selected for outside auditor in the hope that his wealth of experience and expertise as a certified tax accountant as well as a wide spectrum of insights will be reflected in audits of the Company.
  - (2) Reasons for the Company to determine that he has the ability to properly perform his duties as an outside auditor  
 The Company has determined that he has the ability to properly perform his duties as an outside auditor because he has established a good track record in tax affairs from a professional perspective as a certified tax accountant and has superior insights into management.
  - (3) Length of the nominee's service from his first assumption of office as an outside auditor  
 His term of office as an outside auditor will be 22 years at the close of this General Meeting of Shareholders.
  - (4) Limited liability agreement entered into with the nominee  
 The Company's current Articles of Incorporation provides that the Company may enter into an agreement with outside auditors, in which their liability for damages to the Company is limited to a certain extent, in order to secure qualified human resources for outside auditors. Based on this provision, the nominee, Hisao Shimizu, has entered into such a limited liability agreement with the Company.  
 [The outline of the agreement is as follows.]  
 Outside auditors shall be liable for damages to the Company, which can be attributed to neglect of duty on their part, within the minimum liability stipulated in Paragraph 1, Article 427 of the Company Law.