

February 9, 2005

Summary of Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 2005

This document is an English translation of the Japanese-language original.

(All financial information has been prepared in accordance with accounting principles generally accepted in Japan.)

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Company Code: 3002

Stock Market Listings: Tokyo, Osaka

Head Office: Kyoto, Japan

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1. Preparations for Summary of Quarterly Report

(1) Use of simplified accounting method: No

(2) Change in accounting treatment: Yes

(Accounting standards related to the impairment of fixed assets adopted.)

(3) Change in scope of consolidation and application of equity method: Yes

Consolidation: (New) four companies (Eliminated) one company

Equity method: (New) no company (Eliminated) no company

2. Consolidated Results for the Third Quarter of FY 2004

(April 1, 2004 to December 31, 2004)

(1) Consolidated operating results (Amounts less than one million yen are omitted)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Nine months ended Dec. 2004	125,324	1.2	7,914	(7.3)	8,110	(6.4)
Nine months ended Dec. 2003	123,801	-	8,538	-	8,665	-
(Ref.) Year ended Mar. 2004	159,945		9,829		9,856	

	Net income (loss)		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Nine months ended Dec. 2004	8,013	-	36.34	-
Nine months ended Dec. 2003	(13,871)	-	(61.59)	-
(Ref.) Year ended Mar. 2004	(11,041)		(49.23)	-

Note: Indicated percentages for net sales, operating income, etc. show year-on-year increase or decrease compared to the same period of the previous year.

(2) Consolidated financial position

	Total asset	Shareholders' equity	Equity ratio	Equity per share
	¥ millions	¥ millions	%	¥
Nine months ended Dec. 2004	199,513	119,589	59.9	543.22
Nine months ended Dec. 2003	199,639	108,164	54.2	485.36
(Ref.) Year ended Mar. 2004	193,833	112,086	57.8	507.23

3. Forecast for FY2004 Consolidated Operating Results (April 1, 2004 to March 31, 2005)

Note: Numbers within square brackets are projections on a non-consolidated basis.

	Net sales	Ordinary income	Net income
	¥ millions	¥ millions	¥ millions
Previously announced projection (A)	165,500 [145,700]	11,000 [7,700]	12,600 [9,800]
Revised projection (B)	162,200 [142,800]	8,800 [6,200]	11,200 [8,900]
Increase (decrease) (B – A)	(3,300) [(2,900)]	(2,200) [(1,500)]	(1,400) [(900)]
Percentage increase (decrease) (%)	(2.0) [(2.0)]	(20.0) [(19.5)]	(11.1) [(9.2)]

(Ref.) Projected earnings per share (full-year): ¥50.60

Note: The above projections are based on information available to the Company at the present time, as well as certain assumptions judged by the Company to be reasonable. Various factors could cause actual results to differ from projections, including but not limited to, economic conditions influencing the Company's business in Japan and overseas, market trends for the Company's products and services, and uncertainty and risk in currency exchange rates and stock markets.

Review of Operations

During the first three quarters of the current fiscal year (April 1, 2004 to December 31, 2004), the Gunze Group concentrated its efforts in four major areas. These include 1) aggressively expanding its highly competitive businesses, centered on the functional material segment; 2) redesigning the product mix for each segment; 3) promoting cost reduction; and 4) developing new products. Although these efforts gave rise to productive results, the textiles segment overall suffered a sales decline, mainly due to sluggish performance in seasonal products caused by the large number of typhoons that hit Japan and the record high temperatures for the winter. As a result of these conditions, Gunze Group consolidated net sales increased 1.2% over the same period of the previous year, amounting to ¥125.3 billion. Operating income, in turn, dropped 7.3% to ¥7.9 billion while ordinary income was ¥8.1 billion (a year-on-year decrease of 6.4%). Gunze also adopted new accounting standards related to the impairment of fixed assets during the period under review. Although there were no asset groups subject to impairment based on the standards, Gunze posted ¥6.1 billion as a special loss on revaluation of land related to commonly used assets (company housing and dormitories). These assets have suffered from a substantial drop in land prices, and the special loss was aimed at restoring the Group's financial position as quickly as possible. Gunze also posted a gain of ¥9.3 billion on amortization of an unrecognized actuarial gain of ¥12.4 billion related to retirement benefit obligations. Consequently, the Gunze Group recorded a consolidated net income of ¥8.0 billion, a substantial increase compared with a net loss of ¥13.8 billion generated during the same period of the previous year.

Net sales and operating income by business segment during the period under review are as follows:

[Textiles]

Operating income declined 20.6% year on year to ¥5.1 billion on a decline of 3.8% in net sales to ¥80.7 billion.

Men's and Kids' Wear Company

In men's innerwear, aggressive expansion of *GALIA*-branded sales areas in stores, centering on *Body Wild* and *YG-X* brands, helped drive up casual innerwear sales over the same period of the previous year. The *GT Hawkins* brand and other T-shirts and trunks

also enjoyed brisk sales. By contrast, basic white product sales were slow, with seasonal items such as warmth-retention and cold-protection products experiencing a sales decline due to the record warm winter. As a result, revenues from the men's innerwear category decreased year on year. In children's underwear, sales for both new innerwear and basic white products were sluggish. Consequently, the Men's and Kids' Wear Company posted a decline in both revenues and profits.

Recently, Gunze launched a new large-scale advertising campaign designed to stimulate demand for men's innerwear. The campaign features professional baseball star Tsuyoshi Shinjo, a member of the Hokkaido Nippon Ham Fighters. Gunze aims to further expand sales through this campaign, and by aggressively and quickly launching new products for the 2005 spring and summer season.

Ladies' and Leg Wear Company

In women's innerwear, *Yasashisa Monogatari*, the new basic innerwear brand, performed impressively. However, the unusually warm winter adversely impacted sales for warmth-retention and cold-protection wear designed for the winter season, resulting in an overall revenue decline. In lingerie and foundation garments, *Yansoffi*, *Iineno Tsuikyu* and *fine? (Finequest)* posted disappointing sales, resulting in a year-on-year decrease for the segment's overall revenues. Thanks to the fully established pants fashion trend, knee-high and separate-type stockings enjoyed impressive sales growth. By contrast, general-type pantyhose sales declined, dragging down overall revenues in the stockings category. Overall, the Ladies' and Leg Wear Company recorded a decrease in both revenues and profits.

For the 2005 spring and summer season, Gunze will release a powerful new product line, *Beauty Shape*, and renew its mainstay *Sabrina* line, with the aim of stimulating sales in conjunction with in-store promotion campaigns.

Other Textiles

In textile materials, a slump in the sewing industry caused domestic sales of industrial machine-sewing thread to decline. Overseas, however, Gunze's strengthened efforts resulted in strong local sales for such brands as *Gunze Polina*, *Gunze Spun* and *Gunze Core* mainly in China, contributing to increased overall revenues and profits.

In the home casual (pajamas) category, home wear brands *FILA* and *COMME CI COMME CA*, and the sports brand *Champion*, performed impressively. This, however, was counterbalanced by sluggishness in both men's and women's sleepwear, resulting in a year-on-year decrease for revenues and profits in this category.

[Functional Materials]

Net sales rose 10.5% year on year to ¥31.0 billion with operating income also marking an increase of 19.8% to ¥3.9 billion.

Plastic Films

OPP film sales advanced steadily for high-performance anti-fogging film lines designed for vegetable production (bean sprouts and mushrooms) in factories. Differentiated, functional lines of shrink film saw growing applications for hot beverage PET bottle labels. In November 2004, a new shrink film plant was completed in the United States, commencing local production. Composite nylon films enjoyed sales growth for cheese and precooked food packaging along with increased exports. Overall, plastic films posted increases in revenues and profits.

Gunze will continue to work on developing and promoting new, high value-added and differentiated products, while also strengthening local sales abroad. In response to soaring prices of raw materials, Gunze will further accelerate cost-cutting efforts.

Engineering Plastics

Amid an accelerated shift to color-capable models of photocopiers, printers and other office equipment in Japan as well as in the U.S. and Europe, mainstay CA belts (high-performance polyimide resin belts for color photocopiers and printers) performed well, resulting in much higher sales compared to a year earlier. Sales were also strong for fluorocarbon resin thin-walled tubing for fixation rollers, as well as other engineering plastic products for semiconductor equipment and other industrial applications. Overall, this segment posted increased revenues and profits.

For the future, Gunze remains committed to promoting existing core products. In addition, Gunze will promote proactive development of new and differentiated products to stimulate sales not only in Japan but also in steadily expanding overseas markets.

Electronic Components

Touch panel sales stagnated for PDA and video equipment applications. However, touch panel sales for notebook PCs, factory automation, car navigation and medical equipment applications grew, contributing to an overall increase in revenues and profits.

Gunze will continue to implement proactive strategies for developing new applications and securing new users for its core lines of high-performance and mid-/large-size touch panels.

[Machinery]

Net sales rose 12.9% year on year to ¥5.3 billion while the segment recorded an operating income of ¥170 million (compared with an operating loss of ¥30 million in the same period of the previous year.)

In printing press-related machinery, strengthened efforts to develop new clients and aggressive promotion to existing customers helped boost sales of stacker-bundlers. Gunze also won a new large-scale plant equipment order from a beverage producer, which in turn drove up overall revenues for food processing and pharmaceuticals production-related machinery. As a result, this segment's revenues and profits marked a significant improvement over a year earlier.

Gunze will strengthen efforts to increase sales of the newly launched Sheeter (a device to cut and stack sheets of printed paper), along with the development and promotion of new printing press-related machinery targeting the rapidly growing Chinese market.

[Real Estate]

Net sales jumped 39.0% to ¥4.1 billion and operating income rose 9.0% to ¥1.0 billion.

Real estate leasing revenues dropped from the same period of the previous year, primarily due to the closure of a megastore at the large-scale commercial complex in Tsukashin. *Tsukashin Spa Yunokaro*, a large-scale spa facility, has been enjoying popularity and favorable acclaim from consumers for its diverse range of attractions and excellent service. Revenues from Gunze's environmental business, ESCO (Energy Service Company), also increased steadily by meeting growing energy conservation needs.

[Others]

Net sales fell 2.9% year on year to ¥5.4 billion while operating income declined 38.2% to ¥80 million.

The landscaping and gardening sector continued to face difficulties such as prolonged restraint in public-sector investment as well as declining private-sector projects, resulting in decreased revenues and profits. Although intensified price competition impacted on mainstay absorbable PGA surgical sutures, sales were strong for PLACL monofilament sutures, absorbable reinforcement felt (*Neoveil*), and artificial dermis (*Pelnac*). Consequently, the medical materials business posted an increase in revenues. In the operation of sports facilities, Gunze actively promoted sign-up campaigns to acquire new members. The company also worked hard to upgrade and enhance services for members, including increased offerings of popular programs and expansion of classes. Consequently, revenues from this segment remained on a par with last year.

Outlook for FY2004

As for fiscal 2004, the Gunze Group is forecasting consolidated net sales and profits lower than the previous forecast announced on November 9, 2004, when the consolidated interim financial results were announced. The decrease in sales is mainly attributable to sluggish textile sales due to an unusually warm winter, which will offset sales increases achieved by the non-textile business sector, centering on functional materials. In addition, soaring crude oil prices resulting in increased raw material purchase costs, which, combined with lower earnings from decreased sales, are also expected to impact profits.

Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen: amounts less than one million yen are omitted)

	End of FY2004		End of FY2003		Increase	(Ref.) FY2003	
	3rd quarter		3rd quarter		(Decrease)	(As of Mar. 31, 2004)	
	<small>(As of Dec. 31, 2004)</small>		<small>(As of Dec. 31, 2003)</small>		<small>(Decrease)</small>	<small>(As of Mar. 31, 2004)</small>	
	Amount	Proportion	Amount	Proportion	Amount	Amount	Proportion
(Assets)		%		%			%
Current assets							
1 Cash and cash equivalents	6,365		7,671		(1,305)	6,248	
2 Trade notes & accounts receivable	46,367		46,484		(117)	36,979	
3 Inventories	35,946		35,959		(13)	36,899	
4 Real estate inventories	86		38		48	18	
5 Short-term advances	334		327		6	363	
6 Deferred tax assets	1,091		876		215	1,104	
7 Other current assets	3,926		2,327		1,599	2,057	
Allowance for doubtful accounts	(222)		(204)		(17)	(140)	
Total	93,896	47.1	93,480	46.8	416	83,530	43.1
Fixed assets							
1 Property, plant and equipment							
(1) Buildings and structures	33,083		31,507		1,576	31,380	
(2) Machinery and equipment	13,783		13,233		549	13,461	
(3) Tools, furniture and fixtures	1,059		910		149	947	
(4) Land	12,897		19,471		(6,574)	19,425	
(5) Construction in progress	4,268		1,021		3,246	893	
Total	65,092	32.6	66,144	33.1	(1,052)	66,109	34.1
2 Intangible fixed assets							
(1) Other intangible fixed assets	1,122		1,335		(213)	1,169	
Total	1,122	0.6	1,335	0.7	(213)	1,169	0.6
3 Investments and other assets							
(1) Investments in securities	32,841		27,083		5,758	30,422	
(2) Long-term advances	644		665		(21)	624	
(3) Deferred tax assets	1,856		6,381		(4,525)	6,940	
(4) Other assets	4,401		5,556		(1,154)	5,410	
Allowance for doubtful accounts	(342)		(1,009)		666	(374)	
Total	39,401	19.7	38,677	19.4	724	43,023	22.2
Total	105,616	52.9	106,158	53.2	(541)	110,303	56.9
Total assets	199,513	100.0	199,639	100.0	(125)	193,833	100.0

(Millions of yen: amounts less than one million yen are omitted)

	End of FY2004 3rd quarter		End of FY2003 3rd quarter		Increase	(Ref.) FY2003	
	(As of Dec. 31, 2004)		(As of Dec. 31, 2003)		(Decrease)	(As of Mar. 31, 2004)	
	Amount	Proportion	Amount	Proportion	Amount	Amount	Proportion
(Liabilities)		%		%			%
Current liabilities							
1 Notes & accounts payable, trade	13,051		11,986		1,064	12,227	
2 Short-term debt	4,153		4,695		(541)	4,681	
3 Commercial paper	14,500		14,000		500	4,000	
4 Current portion of long-term debt	447		1,175		(727)	1,204	
5 Accrued income taxes	831		986		(154)	957	
6 Allowance for employees' bonuses	503		518		(15)	1,872	
7 Other current liabilities	13,494		11,349		2,145	10,975	
Total	46,982	23.6	44,711	22.4	2,270	35,918	18.5
Long-term liabilities							
1 Long-term debt	1,700		2,182		(482)	2,146	
2 Deferred tax liabilities	132		0		132	6	
3 Allowance for retirement benefits	19,841		32,379		(12,537)	31,482	
4 Allowance for directors' and statutory auditors' retirement benefits	722		680		41	714	
5 Long-term deposits & guarantee deposits	9,072		10,271		(1,198)	10,230	
6 Long-term income in advance	135		170		(35)	162	
7 Other	15		-		15	-	
Total	31,619	15.8	45,684	22.9	(14,064)	44,742	23.1
Total liabilities	78,602	39.4	90,396	45.3	(11,794)	80,661	41.6
(Minority interests)							
Minority interests	1,321	0.7	1,077	0.5	244	1,085	0.6
(Shareholders' equity)							
Common stock	26,071	13.1	26,071	13.0	-	26,071	13.5
Additional paid-in capital	22,669	11.3	25,784	12.9	(3,114)	22,716	11.7
Retained earnings	63,328	31.7	54,083	27.1	9,245	56,914	29.4
Revaluation difference on land	(825)	(0.4)	(825)	(0.4)	-	(825)	(0.4)
Net unrealized gains on other securities	12,022	6.0	8,539	4.3	3,482	10,555	5.4
Foreign currency translation adjustments	(194)	(0.1)	(252)	(0.1)	58	(292)	(0.2)
Treasury stock	(3,482)	(1.7)	(5,234)	(2.6)	1,752	(3,053)	(1.6)
Total shareholders' equity	119,589	59.9	108,164	54.2	11,424	112,086	57.8
Total liabilities, minority interests & shareholders' equity	199,513	100.0	199,639	100.0	(125)	193,833	100.0

