

**Consolidated Financial Statements -- Summary**  
**(Year ended March 31, 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.)

Company Name: Gunze Limited

Company Code: 3002

Stock Market Listings: Tokyo, Osaka

Head Office: Kyoto, Japan

(URL <http://www.gunze.co.jp>)

Representative Director: Shigeo Kodani, President & CEO

Contact: Wataru Yokoyama, General Manager, Public & Investor Relations Section

Tel: +81 (6) 6348-1314

Date of Board of Directors Meeting: May 13, 2005

Statements Prepared Under U.S. GAAP: No

**1. Consolidated Operating Results of FY2004** (Apr. 1, 2004 to Mar. 31, 2005)

**(1) Consolidated Operating Results**

(Amounts less than one million yen are omitted)

	Net Sales (¥ million)	Change (%)	Operating Income (¥ million)	Change (%)	Ordinary Income (¥ million)	Change (%)
FY2004	160,565	0.4	8,696	(11.5)	8,943	(9.3)
FY2003	159,945	0.1	9,829	20.0	9,856	20.0

	Net Income (Loss) (¥ million)	Change (%)	E.P.S. (¥)	Diluted E.P.S. (¥)
FY2004	11,603	-	52.44	-
FY2003	(11,041)	-	(49.23)	-

	ROE (%)	Ordinary Income to Total Assets (%)	Ordinary Income to Net Sales (%)
FY2004	9.9	4.6	5.6
FY2003	(9.4)	5.3	6.2

Notes:

(1) Equity in income of affiliated companies:

FY2004: -

FY2003: -

(2) Average number of shares during the period (consolidated):

FY2004: 220,317,447

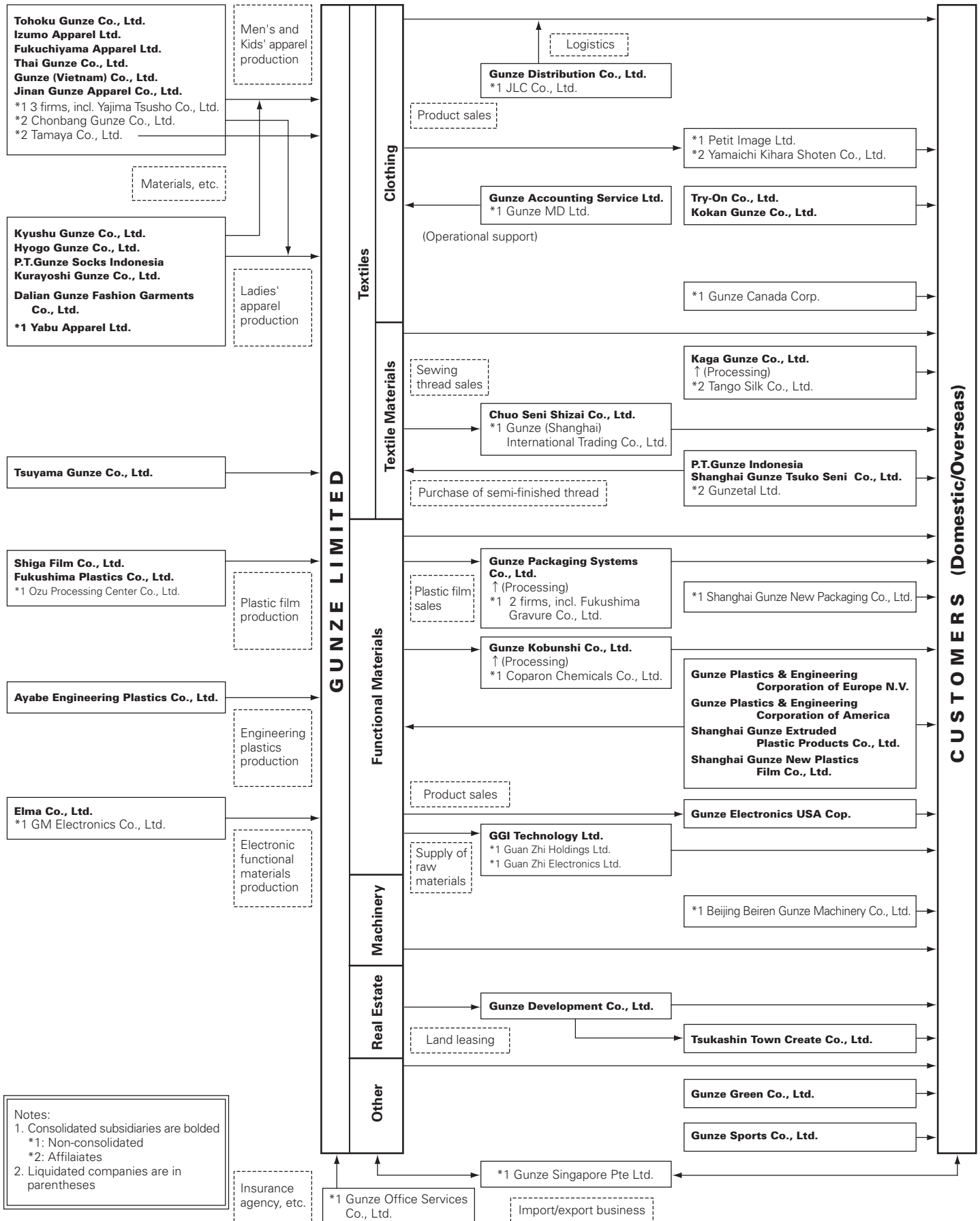
FY2003: 224,342,377

(3) Changes in accounting treatment: Yes

(4) The percentage figures accompanying net sales, operating income, ordinary income and net income represent year-on-year changes.

# 1. The Gunze Group

The following schematic provides an overview of the structure and businesses of the Gunze Group.





**Subsidiaries and Affiliates**  
(Consolidated Subsidiaries)

Company Name	Location	Capital (millions)	Business Segment	Principal Business	Equity Stake (%)	Relationships				Remarks
						Parent Company Director Serving Concurrently	Financial Aid	Transactions	Lease of Property, Plant and Equipment	
Tohoku Gunze Co., Ltd.	Sagae City, Yamagata Prefecture	¥100	Textiles	Manufacture of innerwear	100	Yes	No	Manufacture of Gunze products	Lease of land	
Izumo Apparel Ltd.	Izumo City, Shimane Prefecture	¥5	Textiles	Manufacture of innerwear	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	
Fukuchiyama Apparel Ltd.	Fukuchiyama City, Kyoto Prefecture	¥5	Textiles	Manufacture of innerwear	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	
Kurayoshi Gunze Co., Ltd.	Kurayoshi City, Tottori Prefecture	¥50	Textiles	Manufacture of ladies' innerwear	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	
Dalian Gunze Fashion Garments Co., Ltd.	China	¥704	Textiles	Manufacture of ladies' innerwear	80	Yes	No	Manufacture of Gunze products	No	
Thai Gunze Co., Ltd.	Thailand	BAHT180	Textiles	Manufacture of innerwear	55	Yes	No	Manufacture of Gunze products	No	
Gunze (Vietnam) Co., Ltd.	Vietnam	U.S.\$5	Textiles	Manufacture of innerwear	84	Yes	No	Manufacture of Gunze products	No	
Jinan Gunze Apparel Co., Ltd.	China	RMB61.735	Textiles	Manufacture of innerwear & stockings	50	Yes	No	Manufacture of Gunze products	No	
Kyushu Gunze Co., Ltd.	Osaka City	¥200	Textiles	Manufacture of stockings	100	Yes	Working capital loan	Manufacture of Gunze products	Lease of land	
Hyogo Gunze Co., Ltd.	Kakogawa City, Hyogo Prefecture	¥50	Textiles	Manufacture of socks	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	

P.T. Gunze Socks Indonesia	Indonesia	U.S.\$10.2	Textiles	Manufacture of socks	95	Yes	No	Manufacture of Gunze products	No	
Gunze Accounting Service Ltd.	Tokyo	¥5	Textiles	Contracted back-office functions for Gunze garment businesses	100	No	Working capital loan	Contracted back-office functions	Lease of buildings	
Gunze Distribution Co., Ltd.	Osaka City	¥80	Textiles	Logistics/warehousing	100	No	No	Logistics for Gunze products	Lease of land and buildings	
Kokan Gunze Co., Ltd.	Osaka City	¥57	Textiles	Manufacture and sale of innerwear	100	Yes	Working capital loan	No	Lease of buildings	
Kaga Gunze Co., Ltd.	Komatsu City, Ishikawa Prefecture	¥30	Textiles	Manufacture and sale of silk fabrics	100	Yes	No	No	No	
Try-On Co., Ltd.	Tokyo	¥12	Textiles	Purchase and sale of garments	100	Yes	Working capital loan	No	No	
Chuo Seni Shizai Co., Ltd.	Osaka City	¥50	Textiles	Purchase and sale of textile materials	100	Yes	Working capital loan	Sale of Gunze products	Lease of buildings	
Tsuyama Gunze Co., Ltd.	Tsuyama City, Okayama Prefecture	¥100	Textiles	Manufacture of sewing thread	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	
P.T. Gunze Indonesia	Indonesia	U.S.\$3.5	Textiles	Manufacture and sale of sewing thread	95	Yes	No	Manufacture of Gunze products	No	
Shanghai Gunze Tsuko Seni Co., Ltd.	China	RMB18.442	Textiles	Manufacture and sale of sewing thread	100	Yes	No	Manufacture of Gunze products	No	*1
Shiga Film Co., Ltd.	Moriyama City, Shiga Prefecture	¥200	Functional materials	Manufacture of plastic film	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	*3
Fukushima Plastics Co., Ltd.	Moriyama City, Shiga Prefecture	¥390	Functional materials	Manufacture of plastic film	100	Yes	Working capital loan	Manufacture of Gunze products	Lease of land	

Gunze Packaging Systems Co., Ltd.	Osaka City	¥310	Functional materials	Manufacture and sale of plastic products	100	Yes	Working capital loan	Manufacture and sale of Gunze products	Lease of land	
Gunze Kobunshi Co., Ltd.	Isehara City, Kanagawa Prefecture	¥300	Functional materials	Manufacture & sale of polymer extrusion based products	100	Yes	Working capital loan	Sale of Gunze products	No	
Gunze Plastics & Engineering Corporation of Europe N.V.	Belgium	EURO12.559	Functional materials	Manufacture and sale of plastic film	100 (2)	Yes	No	No	No	*2
Gunze Plastics & Engineering Corporation of America	U.S.A.	U.S.\$14.422	Functional materials	Manufacture and sale of plastic film	100	Yes	No	No	No	
Shanghai Gunze Extruded Plastic Products Co., Ltd.	China	RMB18.716	Functional materials	Manufacture and sale of plastic film	58 (58)	No	No	No	No	*1 *2
Shanghai Gunze New Plastics Film Co., Ltd.	China	RMB33.107	Functional materials	Manufacture and sale of plastic film	100 (100)	Yes	No	Manufacture of Gunze products	No	*1 *2
Elma Co., Ltd.	Kameoka City, Kyoto Prefecture	¥35	Functional materials	Manufacture & assembly of electronic functional materials	100	Yes	Working capital loan	Manufacture of Gunze products	Lease of land and buildings	
Gunze Electronics U.S.A. Corp.	U.S.A.	U.S.\$3.6	Functional materials	Manufacture & sale of electronic functional materials	100	Yes	No	Sale of Gunze products	No	
GGI Technology Ltd.	Hong Kong	U.S.\$3	Functional materials	Manufacture & sale of electronic functional materials	83	Yes	No	Manufacture & sale of Gunze products	No	
Ayabe Engineering Plastics Co., Ltd.	Ayabe City, Kyoto Prefecture	¥50	Functional materials	Manufacture of engineering plastics	100	Yes	Capital expenditure loan	Manufacture of Gunze products	Lease of land and buildings	

Gunze Development Co., Ltd.	Osaka City	¥250	Real estate	Construction and sale of residential properties, property leasing and placement	100	Yes	Working capital loan	Lend-lease of commercial property	Lease of land and buildings	
Tsukashin Town Create Co., Ltd.	Amagasaki City, Hyogo Prefecture	¥20	Real estate	Operation of commercial facilities	100 (100)	No	Working capital loan	No	No	*1 *2
Gunze Green Co., Ltd.	Amagasaki City, Hyogo Prefecture	¥110	Other businesses	Design & construction, landscaping services	100	No	Working capital loan	No	No	
Gunze Sports Co., Ltd.	Osaka City	¥80	Other businesses	Operational management of sports facilities	100	Yes	Working capital loan	No	No	

Notes:

\*1 Newly consolidated company

\*2 Figures in parentheses in "Equity Stake" represent the percentage indirectly owned by Gunze Limited. (Gunze Kobunshi Co., Ltd. indirectly owns shares in Gunze Plastics & Engineering Corporation of Europe N.V.; Shanghai Gunze Extruded Plastic Products Co., Ltd.; and Shanghai Gunze New Plastics Film Co., Ltd. Gunze Development Co., Ltd. indirectly owns shares in Tsukashin Town Create Co., Ltd.)

\*3 Shiga Film Co., Ltd. was merged with the parent company as of April 1, 2005.

## **2. Management Policies**

### **1. Basic Management Policy**

In conformance with its “Quality First” policy and its commitment to “Technology-centered Management,” the Gunze Group follows a corporate philosophy that emphasizes a healthy relationship with stakeholders by maintaining a people-oriented approach and producing quality products. With the “Quality First” approach, Gunze strives to completely fulfill its social obligations so as to earn the reputation as a socially responsible company. Gunze is also committed to promoting customer-focused business operations, by developing and offering new products and services that are safer, more comfortable and more appealing, as well as providing new functionality. By so doing, Gunze aims to become a global company that contributes to society.

### **2. Basic Policy on Distribution of Profits**

Returning earnings to shareholders is one of the most important management policies at Gunze. Accordingly, the Company works to continue providing a stable dividend, while also taking appropriate actions depending on operational conditions. At the same time, the Company aims to increase shareholder value by using retained earnings to strengthen the Company’s operating base and support future business development, as well as by taking a flexible approach in repurchasing treasury stock. In fiscal 2005, the Company will place increased focus on returns for shareholders by setting a certain target payout ratio.

### **3. Philosophy and Policy Regarding Reduction in Investment Unit**

The Company believes that increasing the liquidity of its shares and encouraging the participation of more investors in the stock market are both essential for maintaining a proper stock price for Gunze in the stock market. Regarding a reduction in the investment unit, the Company will continue to consider and make decisions in this respect based on a broad range of factors while monitoring stock market trends, changes in the Company’s share price and other factors, from the standpoint of increasing returns for shareholders.

### **4. Targeted Performance Indicators**

To increase shareholder value, Gunze is working to increase its return on equity (ROE), a widely used indicator of how well a company manages the funds entrusted to it by shareholders. The goal is ROE of 10%, to be achieved via measures aimed at increasing profitability, using capital more productively, and repurchasing stock. To achieve this goal, the Company uses the return on assets (ROA) to gauge the productivity of business investments in each division and group company, in a drive to improve both the asset turnover ratio and earnings relative to sales.

### **5. Medium- to Long-Term Management Strategies**

Over the past three years from fiscal 2002 to fiscal 2004, Gunze has promoted the previous medium-term management plan, the “VS Plan.” Following the completion of this previous plan, Gunze has formulated a new three-year medium-term management plan called the “3C10 Plan.” Running from fiscal 2005 to fiscal 2007, the new plan is intended to build a stronger base of operations and enhance Gunze corporate value. The “3C” in the “3C10 Plan” stands for “Category

Creation for Customers.” With the slogan “From inspiration: creation. From ambition: fruition. From dreams: tomorrow’s reality,” the “3C10 Plan” focuses on four key strategies, namely “continuation of business structure reform,” “business expansion through aggressive management practices,” “corporate brand loyalty enhancement,” and “human resource development.” The goal is to boost Gunze Group’s corporate value by promoting growth and efficiency.

### ***Continuation of business structure reform***

The business structure reform involves reorganization of strategic business units into three business segments: apparel (consumer products), functional solutions (industrial products), and lifestyle creations (services). By promoting highly specialized business operations in each segment, and empowering more authorities and responsibilities to each business segment, faster decision-making and streamlined administrative operations can be achieved. Through these actions, Gunze strives to maximize performance of each business area so as to continue expanding business operations of the Group as a whole. In doing so, Gunze also strives to eventually develop these core business segments into internal companies.

Apparel business: Build strong textile business through reinforced merchandising and marketing strategies.

Functional solutions business: Develop functional materials into a core business by accelerating growth strategies.

Lifestyle creation business: Promote establishment of a stronger operating base by making effective use of properties the Company possesses and through large-scale investments.

### ***Business expansion through aggressive management practices***

(1) Creating new markets.

1) Implementing aggressive approaches to promoting high-growth areas and strategic products.

2) Promoting global expansion of operations.

(2) Developing business models to raise market competitiveness.

1) Building a fully established supply chain management (SCM) system.

2) Strengthening apparel sales capabilities.

3) Promoting cost structure reform.

### ***Corporate brand loyalty enhancement***

Pursuit of greater security, comfort and new functions.

(1) Promoting corporate brand strategy.

(2) Accelerating technology-centered management practices.

(3) Strengthening corporate social responsibility (SCR) practices.

### ***Human resource development***

(1) Improving employee expertise and strengthening training of corporate executives.

(2) Transforming human resource development model.

## **6. Key Management Issues**

To achieve the goals of the new three-year medium-term management plan, the “3C10 Plan,” the

Gunze Group will work harder to transform the corporate mindset and reform its organizational systems as it takes the following steps to boost its corporate value:

- (1) Improvement of capabilities in new product development and proposal-based sales so as to make a meaningful contribution to management.
- (2) Completion of customer-focused SCM.
- (3) Establishment of global Gunze brand built on the foundation of “Quality First” and “Technology-centered Company.”
- (4) Development of self-reliant human resources and strengthening of CSR activities.

## **7. Basic Stance and Measures Regarding Corporate Governance**

The Gunze Group is mindful of the vital importance of legal and regulatory compliance to meet its basic management policy of sustained improvement of corporate value. Furthermore, Group management places the highest priority on the following: swift decision-making in the face of social and economic changes; raising shareholder value through sound management practices; and improving management transparency via quick disclosure of accurate information to its stakeholders. To achieve these, the Group strives to build solid relationships with all stakeholders while working to strengthen, upgrade and fully establish its internal control structure in functional and organizational terms, so as to realize effective corporate governance.

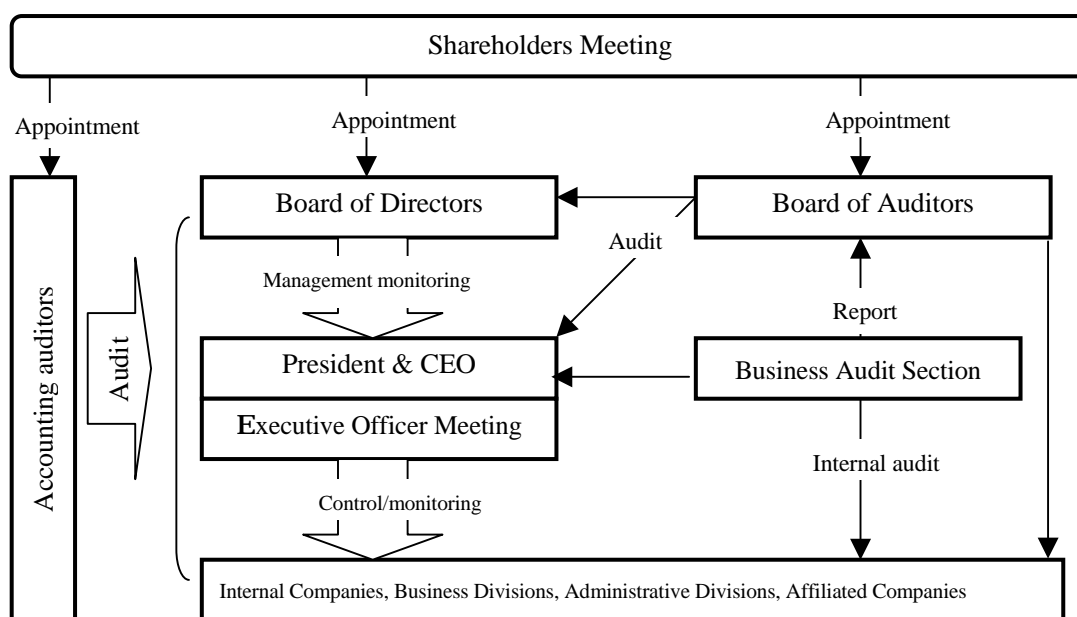
### **(1) Measures Taken toward Corporate Governance**

#### **1) Organizational Structure and Internal Control System Establishment**

The Board of Directors consists of 13 directors, and is responsible for decision-making regarding important management matters and overseeing and supervising fulfillment of management tasks. Gunze has adopted an auditor system with a Board of Auditors composed of four members including two outside auditors. As a basic rule, the Board of Directors meeting is held once a month to clarify management policies and resolve other matters of prime importance. In addition, an Executive Officer meeting is held roughly once a week involving six chief officers. This meeting serves to facilitate more agile decision-making regarding important matters related to business practices. All auditors participate in the Board of Directors meetings, while executive auditors attend Executive Officer meetings. These auditors are responsible for sharing objective and fair opinions concerning overall corporate management and individual matters. In accordance with the audit plan formulated by the Board of Auditors, they also monitor the directors’ business management to assure legal compliance. The Business Audit Section, established under the direct supervision of the President, is in charge of internal inspection for business execution, contributing to stronger internal controls.

Gunze’s organizational structure and the system of internal controls are outlined in the following chart.

## 《Organizational Structure and Internal Control System》

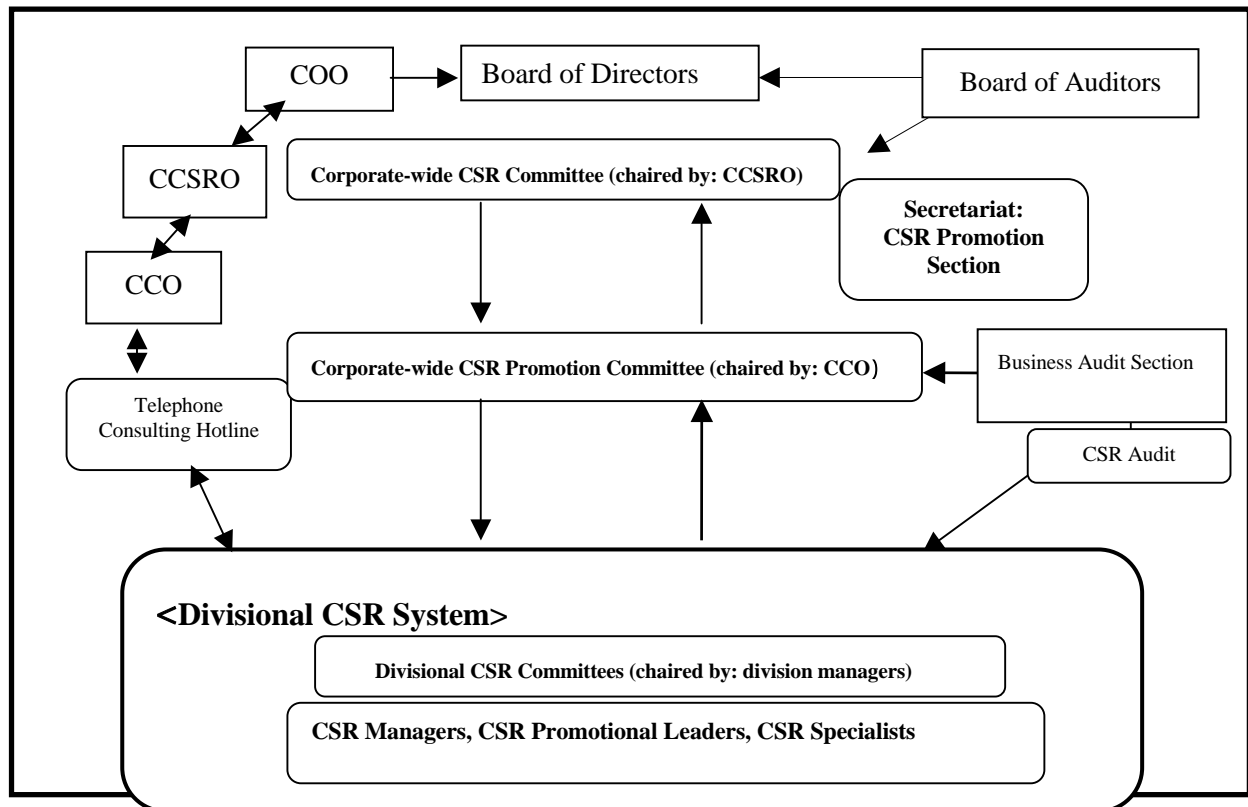


### 2) Measures Taken toward Corporate Social Responsibility (CSR)

To conduct the Group's activities in accordance with the highest ethical standards, Gunze is committed to fair and ethical practices based on Gunze Activity Guidelines formulated in 1998. Revisions to the Guidelines that became effective in 2003 and the establishment of a corporate ethics helpline have further enhanced this commitment. To complement these efforts, Gunze set up a post of Chief Compliance Officer (CCO). In 2004, a new CSR Promotion Section was established under the direct supervision of the President with the aim of aggressively promoting its group-wide commitment to CSR. Along with the appointment of a Chief CSR Officer (CCSRO) tasked to supervise and coordinate CSR activities throughout the Group, a Corporate-wide CSR Committee was established. This committee was given the responsibility of overseeing various specialized committees, including the Environment Committee, PL Committee, and Health and Safety Committee, with the aim of reinforcing internal controls.

The following chart presents an overview of Gunze's CSR promotion system.

## 《CSR Promotion System》



### (2) Director Compensation and Auditor Compensation

#### 1) Director compensation

Yearly total of compensation paid to Gunze directors: ¥189 million (outside directors not available)

Yearly total of compensation paid to Gunze corporate auditors: ¥38 million

#### 2) Compensation paid for audits

Compensation paid to commissioned auditors for audit certification: ¥33 million

No compensation other than that listed above was available.

### (3) Personal, Business and Equity Relationships of Outside Directors and Auditors with Gunze

Gunze does not invite outside directors to its board. The outside auditors have no personal, business or equity relationship with Gunze.

### (4) Efforts Made in the Past Year to Enhance Corporate Governance

1) Twelve Board of Directors meetings were held during the year ended March 31, 2005.

2) Thirty-seven Executive Officer meetings were held during the year ended March 31, 2005.

### **3. Review of Operations and Financial Position**

#### **1. Review of Operations**

##### **(1) Analysis of Full-Year Results**

During the fiscal year ended March 31, 2005, the Japanese economy moved toward recovery during the first half, as confirmed by upturn trends in various economic indicators. These include general improvement in corporate profitability due to the effects of restructuring efforts, the recovery of capital investment, and increased exports, while the Athens Olympics also had a positive impact on the economy. However, in the second half, unusual weather conditions including the extreme summer temperatures and extremely warm winter as well as repeated typhoons and earthquakes hitting Japan caused a slowdown in consumer spending. These factors, combined with a sharp rise in crude oil prices, created a harsh business environment for the Gunze Group. Against this backdrop, the Gunze Group concentrated its efforts on aggressively expanding its highly competitive businesses; redesigning the product mix for each segment; promoting cost reduction; upgrading and expanding manufacturing facilities overseas; and restoring profitability for non-profit-yielding sectors. These efforts proved productive, resulting in greater sales and improved profits.

As a result, the Gunze Group's consolidated net sales for the year ended March 2005 totaled over ¥160.5 billion (a year-on-year increase of 0.4%), while ordinary income decreased 9.3% to over ¥8.9 billion. Consolidated net income was over ¥11.6 billion compared with a net loss of ¥11.0 billion generated during the previous year.

[Gunze 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 an amortization gain of ¥12.4 billion arising from unrecognized actuarial differences related to retirement benefit obligations.]

##### **(2) Results by Business Segment and Analysis**

###### **[Textiles]**

Operating income decreased 27% year on year to ¥5,073 million on a decline of 4.8% in net sales to ¥100,810 million.

###### ***Men's and Kids' Wear Company***

In men's innerwear, the nationwide expansion of *GAIA*-branded sales areas in stores, centering on *Body Wild* and *YG-X* brands along with T-shirts and trunks, advanced smoothly. A large-scale advertising campaign designed to stimulate demand for men's innerwear also got off to a good start this spring. The campaign features professional baseball star Tsuyoshi Shinjo, a member of the Hokkaido Nippon Ham Fighters. These aggressive promotional activities helped push casual innerwear and new innerwear sales up over the previous year. Gunze's merchandizing efforts for the

new “friendly” products also proved effective by focusing on the three key benefits of the products, namely skin-friendly, people-friendly and eco-friendly. A standout performer in this category is the *Eco-Magic* line of functional and environmentally sound innerwear that can be washed in water without the need for detergent. However, sales of basic white products and cold-protection items were sluggish, dragging down overall revenues from the men’s innerwear category. In children’s underwear, basic product sales were slow despite sales increases achieved by new innerwear products, mainly *pied clair*, through collaborative promotion efforts with a leading hypermarket. As a result, revenues from the children’s underwear category decreased year on year. Consequently, the Men’s and Kids’ Wear Company posted a decline in both revenues and profits.

### ***Ladies’ and Leg Wear Company***

In women’s innerwear, *Yasahisa Monogatari* and *XXX (Kiss, Kiss, Kiss)* performed strongly. In contrary, the *CFA100* line of warmth-retention and cold-protection wear experienced a sales decrease, resulting in an overall revenue decline.

In lingerie and foundation garments, new brands *Tuché* and *Yasahisa Monogatari* enjoyed brisk sales. However, *Iineno Tsuikyū* and *fine? (Finequest)* posted disappointing sales, dragging down the category’s overall revenues.

In the stockings category, Gunze’s large-scale campaign to mark the 10th anniversary of product launch and other promotional efforts helped drive sales for the mainstay *Sabrina* line up. Knee-high and separate-type stockings also enjoyed sales growth. However, the growing popularity of bare foot style and established pants fashion trends adversely impacted pantyhose sales. Fashionable patterned items in the *Tuché* pantyhose line also suffered sluggish sales, resulting in a year-on-year decrease for 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 plans to launch proactive campaigns to stimulate sales for the new *Beauty Shape* line of stockings designed to make legs look slim, and the *flaty* line of seamless innerwear for women, which does not show innerwear lines even under light outerwear.

### ***Other Textiles***

In the home casual (pajamas) category, creation of sales floors dedicated to such home wear brands as *FILA*, *Body Wild* and *COMME CI COMME CA* progressed smoothly, contributing to increased sales. This was enough to offset disappointing sales of sleepwear. In addition, Gunze released *CFA 100*, a new relaxing wear brand in the 2005 spring and summer season, which also helped boost overall revenues for this category, although profits posted a year-on-year decrease.

Revenues from textile materials increased with a slight drop in profits. The increase was mainly due to strong sales achieved by core products such as *Gunze Polina* and *Gunze Spun* mainly in China, which counterbalanced the decline in domestic sales of industrial machine-sewing thread due to a slump in the sewing industry.

### **[Functional Materials]**

Net sales increased 9.8% year on year to ¥41,256 million and operating income rose 12.4% to ¥5,082 million.

Extreme summer heat positively impacted shrink film sales for cold beverage PET bottle labels. Gunze's concerted efforts on developing and promoting new high-performance film lines compatible with smaller beverage bottles also contributed to increased revenues. OPP film sales advanced steadily as a result of increasing speculative demand in anticipation of increasing product prices. Other positive factors included growth in orders from major clients engaged in the production of mushrooms and other vegetables sold in plastic bags, particularly in the area of functional lines with differentiated features such as anti-fogging property. Gunze will continue to work on developing new markets for other differentiated high-performance lines, such as easy-open packaging films and films designed to help prevent alteration or tampering with label indications. Composite nylon film sales increased over the previous year due to the expanding demand for high-performance products used in packaging applications for frozen pizza, cheese and meat in Japan. Exports for meat packaging applications also advanced steadily, contributing to the overall increase in this category's revenues. Due partly to the price rises in raw materials stemming from the soaring price of crude oil, however, the plastic film segment posted just a slight rise in profits with increased revenues.

### ***Engineering Plastics***

Sales were strong mainly for office equipment. Mainstay CA belts (high-performance polyimide resin belts for color photocopiers and printers) recorded much higher sales compared to a year earlier along with steadily increasing orders for new grades. Fluorocarbon resin thin-walled tubing for fixation rollers, another mainstay, also performed well as Gunze's efforts to promote the development of attractively priced products led to the steady expansion of markets. In the non-office equipment field, fluorocarbon resin filaments exhibited growth supported by the robust performance of the semiconductor industry. Overall this segment posted year-on-year increases in revenues and profits.

### ***Electronic Components***

Gunze's aggressive efforts to expand applications of high-performance and mid-/large-size models, which are the areas where the company's competitive strengths lie, boosted touch panel sales for notebook PCs, factory automation and car navigation applications. In the second half of the period under review, sales started to pick up for video equipment applications as well, resulting in higher segment revenues and profits compared to the previous year.

### **[Machinery]**

Net sales increased 5.6% year on year to ¥7,241 million while this segment recorded an operating income of ¥198 million (compared with an operating loss of ¥274 million generated a year earlier).

In printing press-related machinery, new products performed strongly, including a high-performance stacker-bundler featuring an upgraded paper jam prevention facility and increased stacking stability

for minimizing temporary machine stops, contributing to a significant increase in revenues from this category. While the food industry experienced prolonged sluggishness in capital investment, Gunze aggressively worked to secure new orders for bottling plants of beverage producers. However, intensified price competition adversely impacted food processing machinery, resulting in a year-on-year sales decline. Overall, the machinery segment posted increased revenues and profits.

#### **[Real Estate]**

Net sales rose 31.7% year on year to ¥5,416 million while operating income fell 14.3% to ¥1,151 million.

Real estate leasing revenues dropped, primarily due to the closure of a megastore at the large-scale commercial complex in Tsukashin. Tsukashin is scheduled soon for a major refurbishment to transform itself into a lifestyle regional shopping center, which is among the largest in the Hanshin area centering on Osaka and Kobe. Scheduled for reopening in the spring of 2006, this shopping complex intends to stimulate excitement, wonder and imagination for shoppers. Since its opening at Tsukashin in July of 2004, *Tsukashin Spa Yunakoro*, one of the largest spa facilities in the Kansai region, has been enjoying popularity and favorable acclaim from consumers for its diverse range of attractions and excellent service. The leasing business (weekly apartments, business hotels, etc.) through the development of its idle land properties is progressing smoothly as planned.

#### **[Others]**

Net sales increased 0.2% year on year to ¥7,923 million while operating income was ¥248 million, a decline of 19.0% from the previous year.

The landscaping and gardening sector began to show signs of having bottomed out during the second half, with the winning of orders for large-scale projects. However, overall revenues were down year on year mainly due to restraint in public-sector investment. In medical materials, sales were strong for PGA surgical sutures, absorbable reinforcement felt (*Neoveil*), and artificial dermis (*Pelmac*). Consequently, the medical materials business recorded an overall increase in revenues. Sports facility management revenues remained on a par with the previous year, as the company worked hard to enhance services for members through increased offerings of popular programs such as fitness and power yoga. Other contributing factors included the effective promotion of sign-up campaigns to acquire new members by inviting them to the studio to experience training programs. Overall, revenues from the Others segment grew year on year, albeit with declined profits.

### **(3) Outlook for Fiscal 2005 and Segment Projections**

Regarding the outlook for the economic environment, risk factors that may possibly prevent the sound recovery of the Japanese economy are becoming obvious. Factors of concern include a trend of slowing growth evident from the start of the present year abroad including China and the U.S. along with continually increasing raw material costs accompanying sharp rises in crude oil prices.

In consideration of these situations, the Gunze Group expects its general operating environment will remain challenging in fiscal 2005, which prevents an overly optimistic view about the future

business outlook. Accordingly, Gunze is determined to proactively promote the “3C10 Plan,” a new medium-term management plan launched this past April, with the goal of improving the Group’s operating results and stimulating future growth.

For fiscal 2005, the Gunze Group is forecasting net sales of ¥169.4 billion, with ordinary income of ¥9.5 billion and net income of ¥6.6 billion on a consolidated basis.

Forecast by business segment are as follows:

(Billions of yen; amounts less than 100 million yen are omitted)

Item \ Segment	Apparel	Functional solutions	Lifestyle creations	Eliminations/ Corporate	Total
Net sales	1,051	539	118	(14)	1,694
FY2005/FY2004 (%)	104	110	99	-	106

Note: Gunze’s basic policy on distribution of profits is to maintain a stable dividend on a long-term basis. With the aim of further promoting shareholder-centered management practices, Gunze plans to continue offering a stable dividend based on the medium- to long-term business outlook with a target payout ratio of approximately 30% on a consolidated basis. For fiscal 2006, a dividend of ¥10 per share (consisting of an ordinary dividend of ¥9.0 and a memorial dividend of ¥1.0) is planned. Gunze will also undertake further treasury stock purchases in years to come.

## 2. Financial Position

### (1) Assets, Liabilities, Equity and Cash Flows (Fiscal 2004 Overview)

As of March 31, 2005, consolidated cash and cash equivalents were ¥4.5 billion, ¥1.6 billion less than at the end of the previous fiscal year. An overview of cash flows and reasons for changes during the period under review were as follows:

#### *Operating Activities*

Net cash provided by operating activities totaled ¥9.3 billion, a decrease of ¥1.7 billion compared to the previous year. This year-on-year decrease was largely due to increased working capital. Major contributors to cash flows were income before income tax and minority interest of ¥17.6 billion as well as non-capital items including amortization gain related to retirement benefit obligations of ¥12.4 billion; loss on valuation of land of ¥6.1 billion; and depreciation and amortization of ¥5.7 billion. Additional factors included a gain of ¥0.9 billion from the sale of property, plants and equipment; a ¥1.4 billion increase in working capital; a reduction of ¥2.0 billion in allowance for retirement benefits; a decline of ¥0.5 billion in guarantee deposits and other liabilities; and income tax payments of ¥1.2 billion.

#### *Investing Activities*

Net cash used in investing activities totaled ¥8.0 billion, ¥2.8 billion more than in the previous year. This was primarily attributable to payments for purchase of property, plants and equipment amounting to ¥9.5 billion (a year-on-year increase of ¥4.2 billion), against proceeds of ¥2.1 billion from the sale of property, plants and equipment (a year-on-year increase of ¥1.9 billion); as well as a

decrease of ¥0.3 billion in proceeds from the sale of investment securities.

### ***Financing Activities***

Financing activities used net cash of ¥3.0 billion, a ¥1.5 billion decrease from the previous year. The major components of cash flow included a ¥1.2 billion decrease in long-term debt; ¥1.6 billion for dividend payments; and ¥0.4 billion for purchases of treasury stock. The reduction of ¥1.5 billion in net cash absorbed in financing activities relative to the previous year was primarily due to a decrease of ¥4.3 billion in lump-sum payments associated with the shift to a defined-contribution pension system and a ¥2.4 billion decrease in costs for treasury stock purchases, which offset a ¥5.2 billion decrease in the net increase of short-term debt.

### **(2) Cash Flow Indicator Trends**

	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005
Equity ratio (%)	63.7	67.7	68.3	57.8	63.9
Market-value equity ratio (%)	57.0	51.6	55.4	63.3	57.1
Debt redemption period (years)	2.2	1.1	1.2	2.0	2.3
Interest coverage ratio	26.3	48.8	57.4	66.9	34.4

#### **Notes:**

The equity ratio is equal to shareholders' equity divided by total assets.

The market-value equity ratio is equal to market capitalization divided by total assets.

The debt redemption period is equal to interest-bearing liabilities divided by operating cash flow.

The interest coverage ratio is equal to operating cash flow divided by interest payments.

\* All of the above indicators are calculated based on consolidated financial figures.

\* Market capitalization is calculated by multiplying the closing share price at the end of the period by the total number of shares issued and outstanding at the end of the period (excluding treasury stock).

\* Operating cash flow equals to the total net cash flows from operating activities as stated in the Consolidated Statements of Cash Flows. Interest-bearing liabilities include all liabilities on which interest is paid, as stated in the Consolidated Balance Sheets. Interest payments are equal to interest paid as stated in the Consolidated Statements of Cash Flows.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

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

	<b>FY2004</b>		<b>FY2003</b>		<b>Increase</b>
	(As of Mar. 31, 2005)		(As of Mar. 31, 2004)		<b>(Decrease)</b>
	Amount	Proportion	Amount	Proportion	Amount
<b>(Assets)</b>		%		%	
<b>I Current assets</b>	84,486	43.9	83,530	43.1	956
Cash and cash equivalents	4,577		6,248		(1,670)
Trade notes & accounts receivable	38,074		36,979		1,094
Inventories	38,038		36,899		1,138
Real estate inventories	637		18		618
Short-term advances	267		363		(95)
Deferred tax assets	1,378		1,104		274
Other current assets	1,681		2,057		(375)
Allowance for doubtful accounts	(168)		(140)		(27)
<b>II Fixed assets</b>	107,918	56.1	110,303	56.9	(2,384)
<b>1. Property, plant and equipment</b>	64,702		66,109		(1,407)
Buildings and structures	33,905		31,380		2,524
Machinery and equipment	15,286		13,461		1,824
Tools, furniture and fixtures	1,060		947		112
Land	12,361		19,425		(7,064)
Construction in progress	2,089		893		1,195
<b>2. Intangible fixed assets</b>	1,104		1,169		(65)
Other intangible fixed assets	1,104		1,169		(65)
<b>3. Investments and other assets</b>	42,111		43,023		(911)
Investments in securities	32,679		30,422		2,257
Long-term advances	898		624		273
Deferred tax assets	3,577		6,940		(3,363)
Other assets	5,257		5,410		(152)
Allowance for doubtful accounts	(301)		(374)		72
<b>Total assets</b>	<b>192,405</b>	<b>100.0</b>	<b>193,833</b>	<b>100.0</b>	<b>(1,428)</b>

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

	<b>FY2004</b> (As of Mar. 31, 2005)		<b>FY2003</b> (As of Mar. 31, 2004)		<b>Increase (Decrease)</b>
	Amount	Proportion	Amount	Proportion	Amount
<b>(Liabilities)</b>		%		%	
<b>I Current liabilities</b>	40,680	21.1	35,918	18.5	4,762
Notes & accounts payable, trade	12,987		12,227		760
Short-term debt	4,392		4,681		(289)
Commercial paper	5,000		4,000		1,000
Current portion of long-term debt	400		1,204		(804)
Accrued income taxes	3,350		957		2,393
Allowance for employees' bonuses	1,823		1,872		(48)
Other current liabilities	12,725		10,975		1,749
<b>II Long-term liabilities</b>	27,401	14.3	44,742	23.1	(17,341)
Long-term debt	1,712		2,146		(433)
Deferred tax liabilities	4		6		(2)
Allowance for retirement benefits	15,565		31,482		(15,917)
Allowance for directors' and statutory auditors' retirement benefits	748		714		33
Long-term deposits & guarantee deposits	9,230		10,230		(999)
Long-term income in advance	127		162		(35)
Other	12		-		12
<b>Total liabilities</b>	<b>68,081</b>	<b>35.4</b>	<b>80,661</b>	<b>41.6</b>	<b>(12,579)</b>
<b>(Minority interests)</b>					
Minority interests	1,301	0.7	1,085	0.6	215
<b>(Shareholders' equity)</b>					
<b>Common stock</b>	26,071	13.5	26,071	13.5	-
<b>Additional paid-in capital</b>	22,669	11.8	22,716	11.7	(47)
<b>Retained earnings</b>	66,918	34.7	56,914	29.4	10,003
<b>Revaluation difference on land</b>	(825)	(0.4)	(825)	(0.4)	-
<b>Net unrealized gains on other securities</b>	12,115	6.3	10,555	5.4	1,560
<b>Foreign currency translation adjustments</b>	(434)	(0.2)	(292)	(0.2)	(141)
<b>Treasury stock</b>	(3,492)	(1.8)	(3,053)	(1.6)	(439)
<b>Total shareholders' equity</b>	<b>123,021</b>	<b>63.9</b>	<b>112,086</b>	<b>57.8</b>	<b>10,935</b>
<b>Total liabilities, minority interests &amp; shareholders' equity</b>	<b>192,405</b>	<b>100.0</b>	<b>193,833</b>	<b>100.0</b>	<b>(1,428)</b>

## (2) Consolidated Statements of Income

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

	FY2004 (Apr. 2004 - Mar. 2005)		FY2003 (Apr. 2003 - Mar. 2004)		Increase (Decrease)	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
		%		%		%
<b>Net Sales</b>	160,565	100.0	159,945	100.0	619	0.4
<b>Cost of sales</b>	113,799	70.9	112,402	70.3	1,397	1.2
<b>Gross profit</b>	46,766	29.1	47,543	29.7	(777)	(1.6)
<b>Selling, general &amp; administrative expenses</b>	38,070	23.7	37,714	23.6	356	0.9
<b>Operating income</b>	8,696	5.4	9,829	6.1	(1,133)	(11.5)
<b>Non-operating income</b>	1,326	0.9	1,007	0.7	319	31.7
Interest income	62		71			
Dividend income	345		265			
Rental income	203		201			
Exchange gains	86		-			
Other	629		468			
<b>Non-operating expenses</b>	1,079	0.7	980	0.6	98	10.1
Interest expenses	274		203			
Rental costs	107		107			
Loss on valuation of inventories	313		-			
Loss on disposal of inventories	68		-			
Exchange losses	-		210			
Other	315		458			
<b>Ordinary income</b>	8,943	5.6	9,856	6.2	(912)	(9.3)
<b>Extraordinary income</b>	15,583	9.7	255	0.2	15,327	6,011.0
Gain on sale of property, plant & equipment	1,557		90			
Gain on sale of investments in securities	3		133			
Amortization of actuarial gain on retirement benefits	12,420		-			
Amortization gain of prior service cost on retirement benefits by transition from an employees' pension fund to a cash-balance plan	1,602		-			
Gain on partial termination of a tax-qualified pension plan	-		31			
<b>Extraordinary losses</b>	6,868	4.3	31,930	20.0	(25,061)	(78.5)
Loss on sale or disposal property, plant & equipment	593		485			
Loss on valuation of investments in securities	22		109			
Loss on valuation of land	6,139		-			
Amortization of actuarial loss on retirement benefits	-		29,844			
Loss on valuation of investments and loans to affiliates	83		5			
Loss on disposal of inventories	-		1,395			
Loss on restructuring of business	-		91			
Other	29		-			
Income (loss) before income taxes and minority interests	17,658	11.0	(21,818)	(13.6)	39,476	-
Income taxes - current	3,828	2.4	1,433	0.9	2,394	-
Income taxes - deferred	2,086	1.3	(12,357)	(7.7)	14,443	-
Minority interests	140	0.1	146	0.1	(5)	(4.1)
<b>Net income (loss)</b>	11,603	7.2	(11,041)	(6.9)	22,644	-

### (3) Consolidated Statements of Retained Earnings

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

	FY2004 (Apr. 2004 - Mar. 2005)		FY2003 (Apr. 2003 - Mar. 2004)	
	Amount		Amount	
<b>(Additional Paid-in Capital)</b>				
<b>Balance at beginning of period</b>		22,716		25,694
<b>Increase in additional paid-in capital</b>				
1 Gain on sale of treasury stock	-	-	89	89
<b>Decrease in additional paid-in capital</b>				
1 Amount of treasury stock cancelled	-		3,067	
2 Loss on sale of treasury stock	0		-	
3 Decrease due to elimination of subsidiaries from the scope of consolidation	47	47	-	3,067
<b>Balance at end of period</b>		22,669		22,716
<b>(Retained Earnings)</b>				
<b>Balance at beginning of period</b>		56,914		69,697
<b>Increase in retained earnings</b>				
1 Net income	11,603		-	
2 Increase due to inclusion of subsidiaries within the scope of consolidation	14		4	
3 Increase due to elimination of subsidiaries from the scope of consolidation	47		0	
4 Increase due to revaluation of property, plant and equipment of overseas subsidiaries	-	11,665	8	12
<b>Decrease in retained earnings</b>				
1 Net loss	-		11,041	
2 Cash dividends	1,657		1,702	
3 Bonuses for directors & statutory auditors	-		48	
4 Decrease due to other appropriations of earnings	4		2	
5 Decrease due to change of fiscal year for consolidated subsidiaries	-	1,662	0	12,795
<b>Balance at end of period</b>		66,918		56,914

**(4) Consolidated Statements of Cash Flows**

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

	<b>FY2004</b>	<b>FY2003</b>
	(Apr. 2004 - Mar. 2005)	(Apr. 2003 - Mar. 2004)
	Amount	Amount
<b>Cash flows from operating activities</b>		
1. Income (loss) before income taxes & minority interest	17,658	(21,818)
2. Depreciation and amortization	5,705	5,384
3. Increase (decrease) in allowance for doubtful accounts	26	33
4. Increase (decrease) in allowance for retirement benefits	(2,059)	(1,398)
5. Interest and dividend income	(407)	(337)
6. Interest expenses	274	203
7. Loss (gain) on sale and disposal of fixed assets	(963)	395
8. Loss on valuation of land	6,139	-
9. Loss (gain) on sale of investments in securities	12	(76)
10. Loss on valuation of investments in securities and other assets	6	51
11. Amortization loss (gain) of prior service cost on retirement benefits by transition from an employees' pension fund to a cash-balance plan	(1,602)	-
12. Amortization of actuarial loss (gain) on retirement benefits	(12,420)	29,844
13. Loss on investments and loans to affiliates	83	5
14. Other losses (gains)	(103)	(4)
15. Decrease (increase) in notes and accounts receivable	(1,011)	382
16. Decrease (increase) in inventories	(981)	738
17. Decrease (increase) in other current assets	(233)	(78)
18. Increase (decrease) in notes and accounts payable	567	(797)
19. Increase (decrease) in guarantee deposits	(586)	(330)
20. Increase (decrease) in other current liabilities	341	(225)
21. Directors' and statutory auditors' bonuses paid	-	(48)
Subtotal	10,444	11,922
22. Interest and dividends received	407	337
23. Interest paid	(271)	(165)
24. Income taxes paid	(1,239)	(1,047)
Net cash provided by (used in) operating activities	9,340	11,047
<b>Cash flows from investing activities</b>		
1. Payments for purchase of property, plant & equipment	(9,529)	(5,261)
2. Proceeds from sale of property, plant & equipment	2,131	192
3. Payments for disposition of property, plant & equipment	(194)	(170)
4. Payments for purchase of investments in securities	(29)	(286)
5. Proceeds from sale of investments in securities	11	333
6. Net decrease (increase) in advances	80	253
7. Other, net	(558)	(324)
Net cash provided by (used in) investing activities	(8,088)	(5,262)
<b>Cash flows from financing activities</b>		
1. Increase (decrease) in short-term debt, net	357	5,560
2. Repayment of long-term debt	(1,235)	(1,243)
3. Cash dividends paid	(1,658)	(1,704)
4. Purchase of treasury stock	(450)	(2,863)
5. Lump-sum payments accompanying transfer to a defined contribution pension plan	-	(4,320)
6. Other, net	(22)	52
Net cash provided by (used in) financing activities	(3,008)	(4,519)
<b>Effect of exchange rate changes on cash &amp; cash equivalents</b>	(14)	(35)
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,770)	1,229
<b>Cash and cash equivalents at beginning of period</b>	6,248	5,012
<b>Cash &amp; cash equivalents of newly consolidated subsidiaries</b>	99	5
<b>Cash and cash equivalents at end of period</b>	4,577	6,248

## **Significant Accounting Policies Used in Preparation of Consolidated Financial Statements**

### **1. Scope of Consolidation**

The Gunze Group (the “Group”) consists of Gunze Limited (the “Company”) and 36 consolidated subsidiaries. Major companies are listed in the sections of this report titled “1. The Gunze Group” and “Subsidiaries and Affiliates.” During the fiscal year, Shanghai Gunze Tsuko Seni Co., Ltd.; Shanghai Gunze Extruded Plastic Products Co., Ltd.; Shanghai Gunze New Plastics Film Co., Ltd.; and Tsukashin Town Create Co., Ltd. were included, and Gunze Sales, Inc. was excluded from the scope of consolidation.

All 20 non-consolidated subsidiaries, which include Shanghai New Packaging Co., Ltd. and other companies, conduct operations that are relatively small in scale and consequently had an immaterial effect on the Group’s financial performance for the fiscal year. The Company deems these subsidiaries to be of minor importance in terms of earnings levels, their standing within the Group, and other factors. They are therefore excluded from the scope of consolidation.

### **2. Application of Equity-Method Accounting**

The equity method of accounting has not been applied for investments in the 20 non-consolidated subsidiaries and five affiliates, including Chongbang Gunze Co., Ltd., because the effect on consolidated performance would not be material from the standpoint of net income (loss) or retained earnings (in proportion to Gunze’s equity holding in these companies), and these affiliates are of minor importance as a whole.

### **3. Business Years of Consolidated Subsidiaries**

The 13 overseas consolidated subsidiaries’ fiscal year balance date is December 31. In the preparation of the consolidated financial statements, the financial statements of these companies as of December 31 are employed and adjustments have been made on a consolidated basis as necessary regarding any significant transactions occurring between the end of the fiscal year of these companies and the end of the consolidated fiscal year.

### **4. Accounting Standards and Treatment**

#### **(1) Methods for Valuation of Inventories**

Finished products, goods and raw materials are stated principally at the lower of cost or market determined by the moving-average method; work in process and supplies principally at cost determined by the moving-average method; and machinery in process and real estate inventories at cost determined by the identified-cost method.

#### **(2) Methods for Valuation of Other Marketable Securities**

Other securities with fair market value are stated at fair market value, determined by the market price as of March 31, 2005 and other factors. Unrealized gains and losses on these securities are fully capitalized and reported as a separate component of shareholders’ equity and the cost of

securities sold is determined by the moving-average method. Other securities with no fair market value are stated at cost determined by the moving-average method.

### **(3) Methods for Valuation of Derivatives**

Derivatives are stated at fair market value.

### **(4) Methods for Depreciating and Amortizing Important Assets**

#### **A. Property, plant and equipment**

The Company and its domestic consolidated subsidiaries principally use the declining-balance method. Buildings purchased since April 1, 1998 (excluding those facilities attached to buildings) are depreciated using the straight-line method. Overseas consolidated subsidiaries depreciate their property, plant and equipment by the straight-line method.

#### **B. Intangible fixed assets**

Intangible fixed assets are amortized using the straight-line method. Software used in-house is amortized using the straight-line method over a useful life of five years.

### **(5) Accounting for Allowances**

#### **A. Allowance for doubtful accounts**

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful accounts for possible losses arising from default on accounts receivable. The allowance is made up of two components: the estimated uncollectible amounts for specific claims where there is an acknowledged credit risk based on an assessment of the likely recoverable monies on an individual assessment of each account, and a general reserve calculated based on historical default rates. Possible losses at overseas consolidated subsidiaries are accounted for based on customers' asset portfolios and other factors.

#### **B. Allowance for employees' bonuses**

The Company and its domestic consolidated subsidiaries provide an allowance for employees' bonuses to adequately cover estimated payments of such bonuses for the applicable period.

#### **C. Allowance for retirement benefits**

The Company and its domestic consolidated subsidiaries provide an allowance for retirement benefits to adequately cover the retirement costs of employees. The allowance is determined as of the end of the fiscal year on the basis of projected benefit obligations and plan assets at the fiscal year balance sheet date. In the first fiscal year of application, the Company recognized the temporary amortization of transitional obligations arising from the adoption of new accounting standards for retirement benefits through the contribution of securities to an employee retirement benefit trust. The transitional obligation was recognized as a lump-sum amortization by the consolidated subsidiaries. Prior service costs are accounted for by the straight-line method over a fixed number of years (5 to 10 years), based on the average number of years of employee service remaining at the time incurred. Actuarial gains and losses are expensed in the fiscal year following

the year in which such differences are incurred.

#### **D. Allowance for directors' retirement bonuses**

The Company provides an allowance for directors' retirement bonuses, in accordance with internal regulations, to adequately cover payments of such bonuses at the end of the applicable period.

#### **(6) Translation of Foreign Currencies**

Monetary receivables and payables denominated in foreign currencies were translated into Japanese yen at the spot exchange rates at the fiscal year balance sheet date and the resulting exchange gain and loss were charged to income. Assets and liabilities, and revenues and expenses of overseas subsidiaries (except for Dalian Gunze Fashion Garments Co., Ltd.) were translated into Japanese yen at the spot exchange rates at the consolidated fiscal year balance sheet date, with translation differences listed under minority interests and reported in shareholders' equity as foreign currency translation adjustments.

#### **(7) Accounting for Leases**

Finance leases, other than those that are deemed to transfer ownership of the leased assets to the lessees, are principally treated in the same way as ordinary operating leases for accounting purposes.

#### **(8) Hedge Accounting**

The Company enters into forward exchange contracts as a hedge against exposure to foreign currency fluctuations within the scope of anticipated import-export transactions denominated in foreign currencies. Deferred hedge accounting is used in principle. Foreign exchange contracts are allocated to specific foreign currency denominated receivables and payables when conditions for using the allocation method are met.

#### **(9) Accounting Treatment of Consumption Tax**

Financial statements are prepared exclusive of consumption tax.

### **5. Valuation of Assets and Liabilities at Subsidiaries**

All assets and liabilities held by subsidiaries are stated at fair market value.

### **6. Retained Earnings**

Consolidated statements of retained earnings are based on actual retained earnings determined to be available at consolidated subsidiaries during the consolidated fiscal year.

### **7. Scope of Cash and Cash Equivalents in the Statements of Cash Flows**

Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits, and highly liquid short-term investments with maturities of less than three months that can be readily converted into cash and carry little risk of fluctuation in value.

## (Changes in Accounting Treatment)

### Impairment of fixed assets

New accounting standards for impairment of fixed assets were established and became effective from the consolidated financial statements relevant to the consolidated fiscal year ended March 31, 2004. These include a statement issued on August 9, 2002 by the Business Accounting Council regarding the establishment of accounting standards for impairment of fixed assets, and a set of practical guidelines (Guidelines No. 6) issued on October 31, 2003. Accordingly, the Company has adopted such standards and guidelines from the consolidated fiscal year under review. Because there were no asset groups subject to impairment based on the standards, this did not have any effect on net income.

## (Supplementary Information)

### Indication of Pro Forma Standard Taxation Portion of Corporate Enterprise Tax on the Statements of Income

“Practical guide regarding indication of pro forma standard taxation portion of corporate enterprise tax on the income statements” (Report No. 12 of the Corporate Accounting Standards Committee) was issued on February 13, 2004. In compliance with this report, the Company posted corporate enterprise tax levied on added value and capital amounting to ¥253 million, as selling, general and administrative expenses from the consolidated fiscal year under review.

## Notes

### Notes to Consolidated Balance Sheets

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

	<b>FY2004</b> <b>(As of Mar. 31, 2005)</b>	<b>FY2003</b> <b>(As of Mar. 31, 2004)</b>
1. Accumulated depreciation on property, plant and equipment	118,822	116,231
2. Collateral and obligations collateralized:		
Assets pledged as collateral		
Property, plant and equipment	2	45
Investment securities with market value	71	177
Total	74	222
Obligations collateralized by the above		
Short-term debt	6	230
Deposits	64	73
Long-term debt	-	10
Total	70	314
3. Loan guarantees (incl. other similar guarantor obligations)	1,118	1,762
4. Shares of non-consolidated subsidiaries and affiliates		
Investment securities with market value (shares)	1,191	1,534
Others (investments )	759	1,662

5. Consolidated subsidiary Gunze Development Co., Ltd. revalued land held for commercial purposes in accordance with Law No. 34, “Law concerning Land Revaluation” (enacted on March 31, 1998). As a result, Gunze recorded an item for the revaluation difference of land under shareholders’ equity.

Revaluation method:

Gunze Development computed the value of the land based on the method prescribed by the Director General of the National Tax Administration Agency, with rational adjustments. This method is based on calculations of land value for the purpose of land value tax, as stipulated by Article 16 of the Land Value Tax Law (enacted as Law No. 69 in 1991), which is specified by Article 2-4 of the Enforcement Ordinance No. 119, enacted on March 31, 1998 pertaining to the Law.

Revaluation date: March 31, 2000

Difference between the book value after revaluation and market price at March 31, 2005 of the revalued land (as defined by Article 10 of the Law): ¥(419) million

#### 6. Reduced-Value Entry Regarding Land Substitution

The Company made a direct reduction of ¥3,238 million for the acquisition cost of a substitute property accompanied by disposal of replotting using the reduced-value entry method. The acquired land is currently under construction, and therefore was listed under “construction in progress” in consolidated balance sheets.

## Notes to Consolidated Statements of Income

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

	<b>FY2004</b> <b>( Mar. 31, 2005 )</b>	<b>FY2003</b> <b>( Mar. 31, 2004 )</b>
1. Major items of selling, general and administrative expenses		
Freight and transportation expenses and storage fees	8,851	8,973
Advertising and promotional costs	4,317	4,321
Employees' salaries, bonuses and allowances	10,231	10,276
Transfer to allowance for bonuses	688	750
Transfer to allowance for retirement benefits	850	762
Depreciation and amortization expenses	409	394
2. Research and development costs (General and administrative expenses )	1,577	1,569
3. Gain on sale of property, plant and equipment by category		
Buildings and structures	0	17
Machinery and vehicles	0	2
Equipment and furnishings	0	-
Land	1,557	70
Total	1,557	90
4. Loss on sale or elimination of property, plant and equipment by category		
Buildings and structures	521	287
Machinery and vehicles	65	164
Equipment and furnishings	6	5
Land	0	24
Intangible assets	-	1
Total	593	485

### 5. Loss on Revaluation of Land

The Company adopted new accounting standards related to the impairment of fixed assets during the fiscal year under review. Although there were no asset groups subject to impairment based on the standards, the Company, aiming for a quick restoration of its financial standing, posted a special loss of ¥6,139 million on revaluation of land that had suffered a substantial decline in prices, related to commonly used assets such as company housing and dormitories.

### 6. Amortization of Unrecognized Actuarial Differences related to Retirement Benefit Obligations

The Company posted an amortization gain arising from unrecognized actuarial differences related to retirement benefit obligations as a special gain during the consolidated fiscal year under review because of substantial amortization expenses. The unrecognized actuarial gain was largely due to the recovery in return on pension assets (including a retirement pension trust).

## Notes to Consolidated Statements of Cash Flows

### 1. Reconciliation between balance sheet accounts and term-end balance of cash and cash equivalents

	<b>FY2004</b> <b>(As of Mar. 31, 2005)</b>	<b>FY2003</b> <b>(As of Mar. 31, 2004)</b>
Cash and deposits	4,577	6,248
2 . Major non-capital items		
Acquisition of investment securities with market value due to partial termination of a retirement benefit trust	-	3,971
Retirement of treasury stock due to other additional paid-in capital	-	3,067

## I. Segment Data

### (1) Segment Information by Business

FY2004 (April 1, 2004 - March 31, 2005)

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

	Textiles	Functional Materials	Machinery	Real Estate	Others	Non-textile	Total	Eliminations/Corporate	Consolidated
<b>I. Net Sales and Operating Income</b>									
Net sales									
(1) Sales to customers	100,805	41,098	6,845	3,913	7,900	59,759	160,565	-	160,565
(2) Intersegment sales and transactions	4	157	395	1,502	22	2,078	2,082	(2,082)	-
Total	100,810	41,256	7,241	5,416	7,923	61,837	162,647	(2,082)	160,565
Operating expenses	95,736	36,173	7,043	4,264	7,674	55,156	150,893	976	151,869
Operating income (loss)	5,073	5,082	198	1,151	248	6,681	11,754	(3,058)	8,696
<b>II. Assets, Depreciation and Capital Expenditures</b>									
Assets	77,338	44,235	5,372	19,659	4,880	74,147	151,486	40,918	192,405
Depreciation	1,847	2,410	114	688	309	3,522	5,370	334	5,705
Capital expenditures	2,019	4,770	45	2,281	55	7,152	9,172	234	9,406

FY2003 (April 1, 2003 - March 31, 2004)

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

	Textiles	Functional Materials	Machinery	Real Estate	Others	Non-textile	Total	Eliminations/Corporate	Consolidated
<b>I. Net Sales and Operating Income</b>									
Net sales									
(1) Sales to customers	105,846	37,400	6,264	2,545	7,889	54,099	159,945	-	159,945
(2) Intersegment sales and transactions	10	162	595	1,568	15	2,341	2,351	(2,351)	-
Total	105,856	37,562	6,859	4,113	7,905	56,440	162,297	(2,351)	159,945
Operating expenses	98,903	33,042	7,134	2,769	7,599	50,545	149,448	667	150,116
Operating income (loss)	6,953	4,520	(274)	1,343	306	5,895	12,848	(3,019)	9,829
<b>II. Assets, Depreciation and Capital Expenditures</b>									
Assets	82,045	39,240	5,098	17,158	4,706	66,203	148,248	45,585	193,833
Depreciation	1,851	2,209	117	594	302	3,224	5,075	308	5,384
Capital expenditures	1,129	2,847	58	384	158	3,449	4,578	266	4,845

#### Notes:

- Business segments are classified according to the types and nature of products, and similarities in manufacturing and sales methods.
- The main products handled in each business segment are as follows:
  - Textiles: Innerwear, hosiery, outerwear, textiles, and threads.
  - Functional materials: Plastic films, engineering plastics, and electronic materials.
  - Machinery: Printing-related machinery, food processing-related machinery, and molds.
  - Real estate: Buying, selling and leasing of real estate.
  - Others: Trees and plants, medical materials, operation and management of sports facilities.
- No-allocated operating expenses included in "Eliminations/Corporate" as part of operating expenses represent expenses related to the Company's head office, including the management & strategy department and the business audit section, which cannot be directly allocated to specific segment, as well as expenses for campaigns to promote the Company's image.
  - FY2004: 3,058 million yen**
  - FY2003: 3,039 million yen**
- Total corporate assets included in "Eliminations/Corporate" as part of assets, primarily represent surplus operational funds (cash and marketable securities), long-term investment assets (investment securities), and assets related to the Company's administrative departments.
  - FY2004: 41,041 million yen**
  - FY2003: 45,702 million yen**

### (2) Segmental Information by Geographic Area

Geographic segment information is not presented in the periods above because net sales and assets in regions outside Japan accounted for less than 10% of the combined amount of total net sales and total assets in all segments.

### (3) Overseas Sales

Overseas sales are not presented in the periods above because they accounted for less than 10% of consolidated net sales.

## II. Leases

As the Company discloses information related to leases through EDINET, it is not included in this report.

## III. Transactions with Related Parties

### Subsidiaries

Company Type	Subsidiary	
Company Name	Gunze Sales, Inc.	
Location	Chuo-ku, Osaka City	
Capital/Investment (¥ millions)	450	
Business Lines	Wholesale and sale of apparel mainly including Gunze products	
Voting Rights	Wholly owned	
Relationships	Parent Company Director Serving Concurrently	Yes
	Business Relationship	Lending working capital
Transaction Type	Forgiveness of debt	
Transaction Amount (¥ millions)	2,354	
Item	Loan	
Balance at Year-end (¥ millions)	-	

### (Conditions and Policy)

#### Notes:

1. Gunze Sales, Inc. was liquidated in March 2005, and debt was forgiven upon liquidation. The effect of the forgiveness of debt on Gunze's earnings amounted to ¥42 million after it was offset by the gain on the reversal of the provision for doubtful receivables related to the loan to the company.
2. Details in the table above, including amount of capital, business lines and other items, represent the situation immediately before liquidation.

## IV. Income Taxes

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

### 1. Breakdown of major components of deferred taxes and liabilities

	FY2004	FY2003
Deferred tax assets		
Unrealized gains on inventories	238	252
Non-deductible write-off of deferred assets	13	20
Non-deductible allowance for employee's bonuses	759	728
Non-deductible allowance for severance and retirement benefits	15,187	15,237
Accrued enterprise taxes	332	93
Revaluation losses on property, plant and equipment	3,548	228
Net loss carried forward	1,451	2,209
Others	486	451
<u>Gross deferred tax assets</u>	<u>22,018</u>	<u>19,222</u>
Valuation allowance	(979)	(1,097)
Total deferred tax assets	21,039	18,125
Deferred tax liabilities		
Unrealized gains on securities	(7,923)	(6,902)
Reserve for reduction of fixed assets	(452)	(461)
Reserve for special depreciation	(43)	(52)
Gain on securities contribution to employee retirement and benefit trust	(7,636)	(2,621)
Adjustment of allowance for doubtful accounts	(18)	(21)
Others	(10)	(26)
<u>Total deferred tax liabilities</u>	<u>(16,086)</u>	<u>(10,086)</u>
Net deferred tax assets (liabilities)	<u>4,952</u>	<u>8,038</u>

Note: Net deferred tax assets (liabilities) are included in the following items of the consolidated balance sheets:

	FY2004	FY2003
Current assets – Deferred tax assets	1,378	1,104
Current liabilities – Others	-	-
Fixed assets – Deferred tax assets	3,577	6,940
Long-term liabilities – Deferred tax liabilities	(4)	(6)

### 2. Reconciliation of the differences between the statutory effective tax rate and the tax burden rate for income taxes subsequent to the application of tax effect accounting occurred for the following reasons:

	FY2004	FY2003
	%	%
Normal statutory tax rate	39.5	40.9
Adjustment for:		
Permanently non-deductible expenses (entertainment expense, etc.)	0.4	(0.5)
Permanently non-taxable income (dividend income, etc.)	(0.4)	0.4
Per capita inhabitant tax	0.5	(0.4)
Increase and decrease of valuation allowance	(0.6)	1.2
Loss on valuation of investments in consolidated subsidiaries recognized as non-taxable items	-	10.8
Prior loss on valuation of land currently recognized as deferred taxable item	(6.3)	-
Others	0.4	(2.3)
Actual effective tax rate	<u>33.4</u>	<u>50.1</u>

## V. Marketable Securities

1. The Company does not hold any held-to-maturity bonds with market quotations.

2. Other marketable securities with market quotations:

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

	FY2004 (As of March 31, 2005)			FY2003 (As of March 31, 2004)		
	Acquisition cost	Carrying amounts	Difference	Acquisition cost	Carrying amounts	Difference
(1) Shares	9,771	29,705	19,933	9,748	27,090	17,342
(2) Bonds	-	-	-	-	-	-
(3) Other	590	693	103	592	706	114
<b>Total</b>	<b>10,361</b>	<b>30,398</b>	<b>20,036</b>	<b>10,341</b>	<b>27,797</b>	<b>17,456</b>

3. Details and carrying amounts of marketable securities without quotations

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

	FY2004 (As of March 31, 2005)	FY2003 (As of March 31, 2004)
	Balance sheet figure	Balance sheet figure
(1) Held-to-maturity bonds	-	-
(2) Shares in non-consolidated subsidiaries and affiliates	1,191	1,534
(3) Other marketable securities Unlisted shares (excluding OTC)	1,090	1,089
<b>Total</b>	<b>2,281</b>	<b>2,624</b>

## VI. Derivative Transactions

The Company enters into forward exchange contracts as a hedge against exposure to foreign currency fluctuations within the limits of import-export transactions. However, since the Company employs hedge accounting methods (deferred hedge accounting and appropriated accounting), figures for contractual amounts, market value and gains/losses are not disclosed.

## VII. Retirement Benefits

### 1. Description of retirement benefit system used

The parent company and domestic consolidated subsidiaries have a defined benefit system comprising a defined benefit corporate pension, a tax qualified pension plan, a lump-sum retirement payment and an employees' pension fund, and a defined contribution pension system. When an employee retires, the Company sometimes has to pay premium severance pay not included in the retirement benefit liabilities actuarially calculated according to the Company's retirement plan. The parent company has set up a retirement benefit trust. Some overseas subsidiaries also have defined benefit systems.

The percentage breakdown of retirement systems in use is 36.5% for the defined benefit corporate pension system, 36.5% for the lump-sum retirement payment system, and 27% for the defined contribution pension system.

### 2. Retirement benefit obligation

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

	<b>FY2004</b>	FY2003
(1) Projected benefit obligation	(45,126)	(46,282)
(2) Plan assets at fair value	35,383	35,175
(3) Funded status ((1) + (2))	(9,743)	(11,107)
(4) Untreated transitional differences to the new accounting standard for retirement benefits	-	-
(5) Unrecognized net actuarial gains and losses	596	(12,420)
(6) Unrecognized prior service cost	(6,223)	(7,825)
(7) Unrecognized plan assets	(49)	(128)
(8) Net amount stated on consolidated balance sheet ((3) + (4) + (5) + (6) + (7))	(15,419)	(31,482)
(9) Prepaid pension expenses	145	-
(10) Allowance for severance and pension benefits ((8) - (9))	(15,565)	(31,482)

Notes:

- On December 6, 2004, Gunze returned a substituted portion (amount equivalent to legal reserve) of the public pension managed under the Company's employees' pension fund to the Ministry of Health, Labour and Welfare. This completed the return of all substituted portions.
- Some subsidiaries use the simplified method in calculating the projected benefit obligation.
- The comprehensive employees' pension fund used by the consolidated subsidiaries cannot be merely calculated from the contributions of each company to the pension assets. As a result, figures have not been included above. The amount of pension assets calculated from the premium contribution ratio is ¥581 million.

### 3. Retirement benefit expenses

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

	<b>FY2004</b>	FY2003
(1) Service cost	1,506	1,668
(2) Interest cost	891	1,318
(3) Expected return on assets	(386)	(575)
(4) Amortization of net transition difference to new accounting standards for retirement benefits	-	-
(5) Amortization of net actuarial gains and losses	(12,420)	29,844
(6) Amortization of prior service cost	(1,602)	(186)
(7) Retirement benefit expenses ((1) + (2) + (3) + (4) + (5) + (6))	(12,011)	32,069
(8) Gain from transition to a defined contribution pension system	-	31
(9) Others	358	287
<b>Total ((7) - (8) + (9))</b>	<b>(11,653)</b>	<b>32,325</b>

Notes:

1. The retirement benefit expenses of consolidated subsidiaries using the simplified method are stated in (1) Service cost.
2. The ¥23 million premium contribution (except the amount of employee contributions) of the comprehensive pension fund is not included.
3. Item (9) is the amount of premiums paid into the defined contribution pension plan.

**4. Basis for calculation of retirement benefit obligation, etc.**

	<u>FY2004</u>	<u>FY2003</u>
(1) Periodic allocation method for projected benefits	Straight-line standard	Straight-line standard
(2) Discount rate	2.0%	2.0%
(3) Expected rate of return	0.35 - 2.3%	0.35 - 5.0%
(4) Years over which prior service cost is amortized	5 - 10 years	5 - 10 years
(5) Years over which net actuarial gains and losses are amortized	1 year	1 year
(6) Years over which net transition difference to new accounting standards for retirement benefits are amortized	All amounts were amortized in first year in which retirement benefit accounting was applied	

## 5. Production, Orders and Sales

### (1) Results of Production

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

Business Segment	FY2004	FY2003
	(Apr. 2004 - Mar. 2005)	(Apr. 2003 - Mar. 2004)
Textiles	58,605	58,368
Functional materials	29,231	26,024
Machinery	6,300	6,385
Others	591	463
<b>Total</b>	<b>94,729</b>	<b>91,243</b>

Notes: 1. Figures are calculated on a manufacturing cost basis, and include outsourced production.

2. In addition to production, the Company also made the following purchases.

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

Business Segment	FY2004	FY2003
Textiles	11,777	11,178
Functional materials	1,391	1,193
Real estate	210	9
Others	2,692	2,693
<b>Total</b>	<b>16,072</b>	<b>15,075</b>

3. Figures exclude consumption tax.

### (2) Orders Received

The Company and its consolidated subsidiaries calculate orders received, excluding for machinery, on the basis of projected production rather than production orders. Orders received and outstanding orders for machinery are as follows:

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

Business Segment	FY2004		FY2003	
	(Apr. 2004 - Mar. 2005)		(Apr. 2003 - Mar. 2004)	
	Orders received	Outstanding orders	Orders received	Outstanding orders
<b>Machinery</b>	7,175	2,189	7,015	2,255

Note: Figures exclude consumption tax.

### (3) Sales

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

Business Segment		FY2004	FY2003	Increase (Decrease)
		(Apr. 2004 - Mar. 2005)	(Apr. 2003 - Mar. 2004)	
	Textiles	100,810	105,856	(4.8)
Non-textile products	Functional materials	41,256	37,562	9.8
	Machinery	7,241	6,859	5.6
	Real estate	5,416	4,113	31.7
	Others	7,923	7,905	0.2
	Non-textile total	61,837	56,440	9.6
Subtotal		162,647	162,297	0.2
Excl. intersegment sales		(2,082)	(2,351)	-
<b>Total</b>		<b>160,565</b>	<b>159,945</b>	<b>0.4</b>

Note: Figures exclude consumption tax.

## Overview of Consolidated Results

### <Overview of Results>

- Net sales: 0.4% higher than the previous year.  
Sales increase in non-textile segment offset decline in textile segment sales.
- Both operating income and ordinary income decreased.  
Functional materials and machinery segments, despite strenuous efforts, were unable to offset profit decline in textile segment.
- Net income increased significantly due to extraordinary gains.

### <Special accounting treatments>

- Amortization gain arising from actuarial difference in retirement benefits: ¥12.4 billion.
- Loss on valuation of land: ¥6.1 billion.  
Book value of commonly used depreciated property written down.
- Quickly adopted impairment accounting.  
(No asset groups were subject to impairment during the fiscal year.)

### <Dividend policy>

- Stable dividend payment policy maintained for the fiscal year (¥7.5).
- Dividend policy for the next fiscal year scheduled for review to promote shareholder-oriented management.  
(¥10: ordinary dividend ¥9, memorial dividend ¥1.)

### <Full-year forecast>

- Operating income and ordinary income projected to increase.
- Net income expected to decrease due to extraordinary gains of the previous fiscal year.

### (1) FY2004 Operating Results (Apr. 1, 2004 to Mar. 31, 2005)

(Millions of yen)

	FY2004	Revised Forecast (Feb. 2005)	FY2003	Change	
				(Upper figures in brackets %)	
				vs. forecast	vs. FY2003
Net Sales	160,565	162,200	159,945	<(1.0)> (1,635)	<0.4> 619
Operating Income	8,696	8,700	9,829	<0.0> (4)	<(11.5)> (1,133)
Ordinary Income	8,943	8,800	9,856	<1.6> 143	<(9.3)> (912)
Income (Loss) Before Income Taxes	17,658	17,700	(21,818)	<(0.2)> (42)	< - > 39,476
Net Income (Loss)	11,603	11,200	(11,041)	<3.6> 403	< - > 22,644
Total Assets	192,405		193,833		<(0.7)> (1,428)
Inventories (incl. real estate inventories)	38,675		36,917		<4.8> 1,757
Fixed Assets	107,918		110,303		<(2.2)> (2,384)
Shareholders' Equity	123,021		112,086		<9.8> 10,935
Financing Income/Expenses	133		134		(1)
Interest/dividends received	407		337		70
Interest expenses	(274)		(203)		(71)
Capital Expenditures	9,406		4,845		4,561
Depreciation and Amortization	5,705		5,384		321

Notes:

The Company purchased treasury stock during the fiscal year

	(Thousands of shares)	(Amount)
• Purchases pursuant to Article 210 of the Commercial Code (Including buyback of shares less than the basic trading unit)	871	¥450 million
• Treasury stock disposed	(21)	¥(10) million
• Treasury stock held at the end of the previous fiscal year	6,962	¥3,053 million
• Treasury stock held at the end of the period	7,812	¥3,492 million

**(2) Results by Business Segment**

(Millions of yen)

Item	FY2004		FY2003		Change		
	Amount	Weight	Amount	Weight	Amount	Change (%)	
Net Sales	Textiles	100,810	62.0	105,856	65.2	(5,046)	(4.8)
	Functional Materials	41,256	25.4	37,562	23.1	3,694	9.8
	Machinery	7,241	4.5	6,859	4.2	382	5.6
	Real Estate	5,416	3.3	4,113	2.5	1,303	31.7
	Other	7,923	4.8	7,905	5.0	18	0.2
	Subtotal	162,647	100.0	162,297	100.0	350	0.2
	Eliminations	(2,082)		(2,351)		269	-
	Consolidated	160,565		159,945		619	0.4
Operating Income	Textiles	5,073	43.2	6,953	54.1	(1,880)	(27.0)
	Functional Materials	5,082	43.2	4,520	35.2	562	12.4
	Machinery	198	1.7	(274)	(2.1)	472	-
	Real Estate	1,151	9.8	1,343	10.5	(192)	(14.3)
	Other	248	2.1	306	2.3	(58)	(19.0)
	Subtotal	11,754	100.0	12,848	100.0	(1,094)	(8.5)
	Eliminations/Corporate	(3,058)		(3,019)		(39)	-
	Consolidated	8,696		9,829		(1,133)	(11.5)

**(3) Significant Financial Indicators**

		FY2004	FY2003	Change
Operating Income to Total Assets Ratio	%	4.5	5.3	(0.8)
Ordinary Income to Total Assets Ratio	%	4.6	5.3	(0.7)
Operating Income to Net Sales Ratio	%	5.4	6.1	(0.7)
Ordinary Income to Net Sales Ratio	%	5.6	6.2	(0.6)
Turnover of Total Assets	times	0.83	0.86	(0.03)
Shareholders' Equity Ratio	%	63.9	57.8	6.1
ROE	%	9.9	(9.4)	19.3
Earnings (Loss) per Share	¥	52.44	(49.23)	101.67
Equity per Share	¥	558.65	507.23	51.42

**(4) Special Accounting Treatments for the Period**

• Amortization of actuarial gains on retirement benefits	¥12,420 million
• Amortization gain of prior service cost on retirement benefits	¥1,602 million
• Loss on valuation of land	¥(6,139) million

**(5) Cash Flows**

(Millions of yen)

Cash Flow Activity	FY2004	FY2003	Change	Breakdown of Major Components
Operating Activities	9,340	11,047	(1,707)	Income before income taxes: 17,658; Depreciation and amortization: 5,705; Amortization gains related to retirement benefit obligations: 12,420; Decrease in allowance for retirement benefits: 2,059
Investing Activities	(8,088)	(5,262)	(2,826)	Purchase of property, plant and equipment: 9,529 (including capital expenditure: 9,406)
Financing Activities	(3,008)	(4,519)	1,511	Decrease in debts payable: 877; Dividend payments: 1,658; Purchase of treasury stock: 450
Foreign Currency Translation	(14)	(35)	21	
Increase (Decrease) in Cash and Cash Equivalents	(1,770)	1,229	(2,999)	
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	99	5	94	
Cash and Cash Equivalents - End of Period	4,577	6,248	(1,671)	

**(6) Capital Expenditures and Depreciation and Amortization by Segment**

(Millions of yen)

Item	FY2004		FY2003		Y-on-Y Change	FY2005 Plan		Y-on-Y Change	
	Amount	Weight	Amount	Weight		Amount	Weight		
Capital Expenditures	(Overseas) Textiles	298	22.0	293	24.7	890	300	20.2	(219)
	(Overseas) Non-Textiles	2,401	78.0	475	75.3	3,703	650	79.8	(52)
	(Overseas) Total	2,699	100.0	768	100.0	4,594	950	100.0	(272)
	Total	9,172	100.0	4,578	100.0	4,594	8,900	100.0	(272)
Depreciation and Amortization	Textiles	1,787	33.7	1,851	36.5	(64)	2,100	31.3	313
	Non-Textiles	3,522	66.3	3,224	63.5	298	4,600	68.7	1,078
	Total	5,310	100.0	5,075	100.0	235	6,700	100.0	1,390

Notes:

Capital expenditures include investments for intangible fixed assets.

Planned capital expenditures for FY2005, including Head Office: ¥9.2 billion (FY2004: ¥9.4 billion).

Planned depreciation and amortization for FY2005, including Head Office: ¥7.0 billion (FY2004: ¥5.7 billion).

**(Major Capital Expenditures - FY2004)****<Textiles>**

- Men's and Kid's Wear Company.: Utsunomiya distribution center ¥679 million
- Ladies' and Leg Wear Company: Seamless stocking production facility ¥111 million

**<Non-textiles>**

- Gunze Plastics & Engineering Corporation of America: New shrink film production facility ¥2,325 million
- Plastics: New multi-layer shrink tube production facility ¥799 million
- Engineering plastics: New CA belt production facility ¥973 million
- Gunze Development Co., Ltd.: Development of Tsukashin *Yunokaro* ¥827 million
- Gunze Development Co., Ltd.: Development of Tsuchiura area ¥473 million

**(Major Planned Expenditures - FY2005)**

- Gunze Plastics & Engineering Corporation of America: New shrink film production facility ¥1,480 million
- Engineering plastics: New CA belt production facility ¥1,230 million
- Electronic components: TTP production facility ¥770 million
- Gunze Development Co., Ltd.: Development of Seiwa dormitory ¥600 million
- Men's and Kid's Wear Company: Anti-shrink processor facility ¥580 million
- Plastics: New multi-layer shrink tube production facility ¥540 million

## (7) FY2005 Forecast

(Millions of yen)

	Interim			Full Year		
	FY2005 Interim	FY2004	Change <Upper figures %>	FY2005 Forecast	FY2004	Change <Upper figures %>
Net Sales	81,800	78,355	<4.4> 3,445	169,400	160,565	<5.5> 8,835
Operating Income	3,600	4,353	<(17.3)> (753)	9,600	8,696	<10.4> 904
Ordinary Income	3,500	4,538	<(22.9)> (1,038)	9,500	8,943	<6.2> 557
Net Income	2,000	3,593	<(44.3)> (1,593)	6,600	11,603	<(43.1)> (5,003)

## (8) Forecast of Results by Segment

&lt;Interim&gt;

(Millions of yen)

		FY2005 Forecast		FY2004 Results		Change	
		Amount	Weight	Amount	Weight	Amount	Change (%)
Net Sales	Apparel	50,500	61.2	49,256	62.2	1,244	2.5
	Functional solutions	26,700	32.4	24,021	30.3	2,679	11.2
	Lifestyle creations	5,300	6.4	5,944	7.5	(644)	(10.8)
	Subtotal	82,500	100.0	79,223	100.0	3,277	4.1
	Eliminations	(700)		(867)		167	-
	Consolidated	81,800		78,355		3,445	4.4
Operating Income	Apparel	2,600	50.0	2,310	39.3	290	12.6
	Functional solutions	2,500	48.1	2,594	44.1	(94)	(3.6)
	Lifestyle creations	100	1.9	980	16.6	(880)	(89.8)
	Subtotal	5,200	100.0	5,886	100.0	(686)	(11.7)
	Eliminations/Corporate	(1,600)		(1,532)		(68)	-
	Consolidated	3,600		4,353		(753)	(17.3)

&lt;Full Year&gt;

(Millions of yen)

		FY2005 Forecast		FY2004 Results		Change	
		Amount	Weight	Amount	Weight	Amount	Change (%)
Net Sales	Apparel	105,100	61.5	100,810	62.2	4,290	4.3
	Functional solutions	53,900	31.6	49,191	30.4	4,709	9.6
	Lifestyle creations	11,800	6.9	11,967	7.4	(167)	(1.4)
	Subtotal	170,800	100.0	161,969	100.0	8,831	5.5
	Eliminations	(1,400)		(1,404)		4	-
	Consolidated	169,400		160,565		8,835	5.5
Operating Income	Apparel	6,600	51.5	5,073	43.2	1,527	30.1
	Functional solutions	5,600	43.8	5,360	45.6	240	4.5
	Lifestyle creations	600	4.7	1,322	11.2	(722)	(54.6)
	Subtotal	12,800	100.0	11,755	100.0	1,045	8.9
	Eliminations/Corporate	(3,200)		(3,058)		(142)	-
	Consolidated	9,600		8,696		904	10.4

Note:

Business segments will be revised from five to three segments categorized by the business area in FY2005. Accordingly, the above figures for FY2004 results are based on the new categorization.