

November 8, 2005

**Consolidated Financial Statements -- Summary**  
**(Six months ended September 30, 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

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Interim Board of Directors Meeting: November 8, 2005

Statements Prepared Under U.S. GAAP: No

**1. Consolidated Operating Results of FY2005 Interim Period** (Apr. 1 to Sept. 30, 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 (%)
FY2005 Interim	¥79,166	1.0	¥4,016	(7.7)	¥3,942	(13.1)
FY2004 Interim	78,355	1.0	4,353	23.4	4,538	26.2
FY2004	¥160,565		¥8,696		¥8,943	

	Net Income (Loss) (¥ million)	Change %	E.P.S. (¥)	Diluted E.P.S. (¥)
FY2005 Interim	¥2,557	(28.8)	¥11.67	-
FY2004 Interim	3,593	-	16.30	-
FY2004	¥11,603		¥52.44	-

Notes:

(1) Equity in income of affiliated companies:

FY2005 Interim: -

FY2004 Interim: -

FY2004: -

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

FY2005 Interim: 219,227,066

FY2004 Interim: 220,464,966

FY2004: 220,317,447

(3) Changes in accounting treatment: Yes

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

## (2) Consolidated Financial Position

	Total Assets (¥ million)	Shareholders' Equity (¥ million)	Equity Ratio (%)	Equity per Share (¥)
FY2005 Interim	¥203,784	¥127,992	62.8	¥587.47
FY2004 Interim	190,760	112,954	59.2	513.00
FY2004	¥192,405	¥123,021	63.9	¥558.65

Note:

Number of shares issued and outstanding at the end of the period (consolidated):

FY2005 Interim: 217,870,243

FY2004 Interim: 220,182,161

FY2004: 220,122,781

## (3) Consolidated Cash Flows

	From operating activities (¥ million)	From investing activities (¥ million)	From financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
FY2005 Interim	¥(1,163)	¥(4,061)	¥5,739	¥5,173
FY2004 Interim	2,757	(4,389)	770	5,483
FY2004	¥9,340	¥(8,088)	¥(3,008)	¥4,577

## (4) Scope of Consolidation and Application of the Equity Method

Consolidated subsidiaries: 36

Equity-method non-consolidated subsidiaries: 0

Equity-method affiliates: 0

## (5) Changes in Scope of Consolidation and Application of the Equity Method

Consolidated subsidiaries:

New: 1

Excluded: 1

Equity-method affiliates:

New: 0

Excluded: 0

## 2. Forecast for FY2005 Consolidated Operating Results (Apr. 1, 2005 to Mar. 31, 2006)

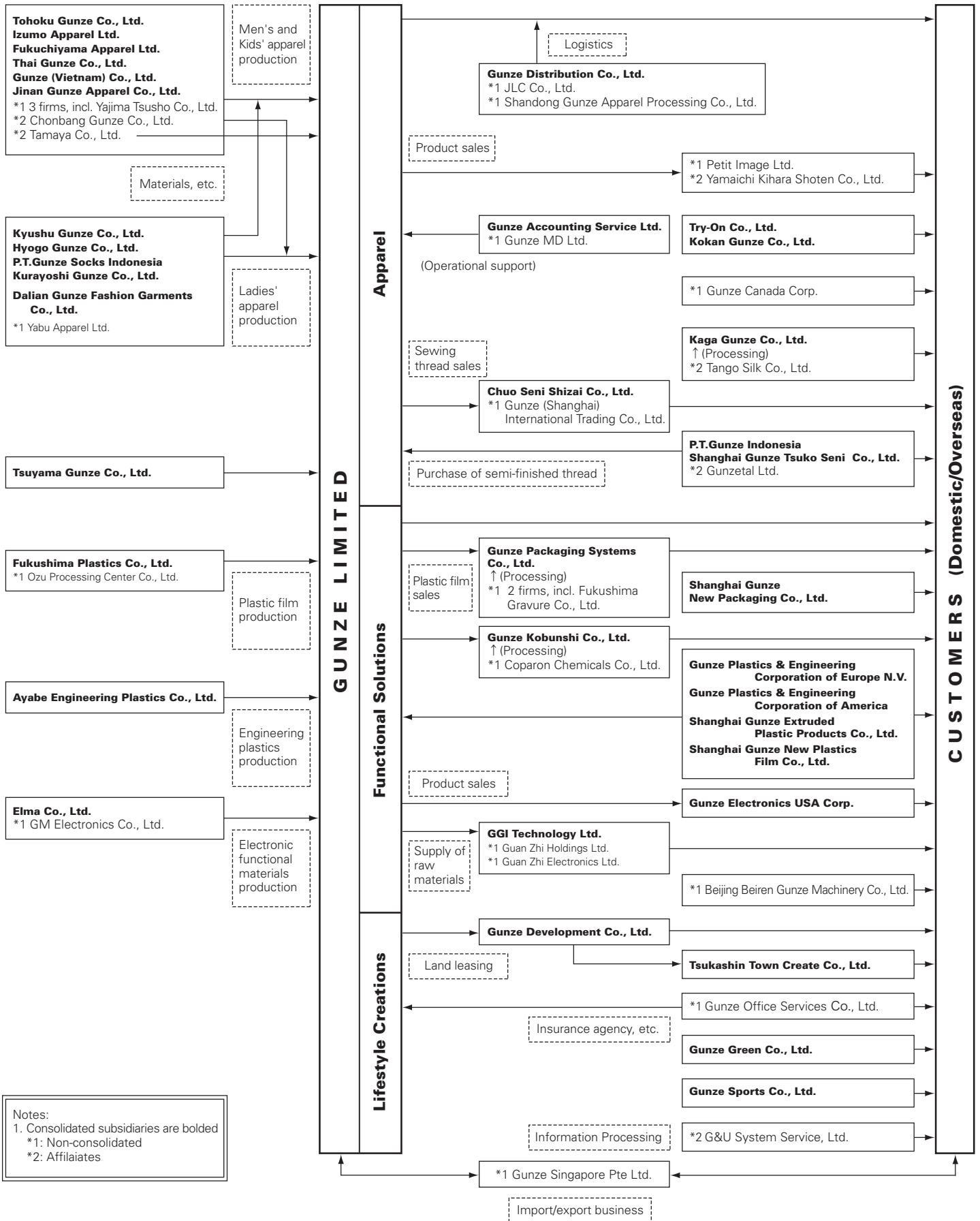
	Net Sales (¥ millions)	Ordinary Income (¥ millions)	Net Income (¥ millions)
FY2005 full-year	¥165,000	¥9,500	¥6,600

(Ref.) Projected earnings per share (full-year): ¥30.19

The above projections are based on business conditions as of the publish date of this report. Actual results could differ from projections due to changes in business conditions and other factors. For more information on projected results, see pages 16-18.

# 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	Apparel	Manufacture of innerwear	100	Yes	No	Manufacture of Gunze products	Lease of land	
Izumo Apparel Ltd.	Izumo City, Shimane Prefecture	¥5	Apparel	Manufacture of innerwear	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	
Fukuchiyama Apparel Ltd.	Fukuchiyama City, Kyoto Prefecture	¥5	Apparel	Manufacture of innerwear	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	
Kurayoshi Gunze Co., Ltd.	Kurayoshi City, Tottori Prefecture	¥50	Apparel	Manufacture of ladies' innerwear	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	
Dalian Gunze Fashion Garments Co., Ltd.	China	¥704	Apparel	Manufacture of ladies' innerwear	80	Yes	No	Manufacture of Gunze products	No	
Thai Gunze Co., Ltd.	Thailand	BAHT180	Apparel	Manufacture of innerwear	55	Yes	No	Manufacture of Gunze products	No	
Gunze (Vietnam) Co., Ltd.	Vietnam	U.S.\$5	Apparel	Manufacture of innerwear	84	Yes	No	Manufacture of Gunze products	No	
Jinan Gunze Apparel Co., Ltd.	China	RMB61.735	Apparel	Manufacture of innerwear & stockings	50	Yes	No	Manufacture of Gunze products	No	
Kyushu Gunze Co., Ltd.	Osaka City	¥200	Apparel	Manufacture of stockings	100	Yes	Working capital loan	Manufacture of Gunze products	Lease of land	
Hyogo Gunze Co., Ltd.	Kakogawa City, Hyogo Prefecture	¥50	Apparel	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	Apparel	Manufacture of socks	95	Yes	No	Manufacture of Gunze products	No	

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

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	
Gunze Kobunshi Co., Ltd.	Isehara City, Kanagawa Prefecture	¥300	Functional solutions	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 solutions	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 solutions	Manufacture and sale of plastic film	100	Yes	No	No	No	
Shanghai Gunze Extruded Plastic Products Co., Ltd.	China	RMB18.716	Functional solutions	Manufacture and sale of plastic film	58 (58)	No	No	No	No	*2
Shanghai Gunze New Plastics Film Co., Ltd.	China	RMB33.107	Functional solutions	Manufacture and sale of plastic film	100 (100)	Yes	No	Manufacture of Gunze products	No	*2
Shanghai Gunze New Packaging Co., Ltd.	China	RMB26.497	Functional solutions	Manufacture and sale of plastic products	93 (93)	Yes	No	No	No	*1 *2
Elma Co., Ltd.	Kameoka City, Kyoto Prefecture	¥35	Functional solutions	Manufacture & assembly of electronic functional materials	100	Yes	No	Manufacture of Gunze products	Lease of land and buildings	
Gunze Electronics U.S.A. Corp.	U.S.A.	U.S.\$3.6	Functional solutions	Manufacture & sale of electronic functional materials	100	Yes	No	Sale of Gunze products	No	
GGI Technology Ltd.	Hong Kong	U.S.\$3	Functional solutions	Manufacture & sale of electronic functional materials	83	Yes	No	Manufacture & sale of Gunze products	No	

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	
Ayabe Engineering Plastics Co., Ltd.	Ayabe City, Kyoto Prefecture	¥50	Functional solutions	Manufacture of engineering plastics	100	Yes	Capital expenditure loan	Manufacture of Gunze products	Lease of land and buildings	
Gunze Development Co., Ltd.	Amagasaki City, Hyogo Prefecture	¥250	Lifestyle creations	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	Lifestyle creations	Operation of commercial facilities	100 (100)	No	No	No	No	*2
Gunze Green Co., Ltd.	Amagasaki City, Hyogo Prefecture	¥110	Lifestyle creations	Sale of trees/flowering plants, landscaping services	100	No	Working capital loan	No	No	
Gunze Sports Co., Ltd.	Osaka City	¥80	Lifestyle creations	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. 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 Packaging Systems Co., Ltd. owns shares in Shanghai Gunze New Packaging Co., Ltd. Gunze Development Co., Ltd. owns shares in Tsukashin Town Create Co., Ltd.)

## **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 the Gunze Group. Accordingly, the Group works to continue providing an appropriate dividend based on operating conditions by comprehensively taking corporate performance, payout ratio and other factors into consideration. In line with this basic policy, the Gunze Group plans to pay a dividend of ¥10 per share (¥2.5 higher than the previous year) for fiscal 2005. This consists of an ordinary dividend of ¥9.0 and a memorial dividend of ¥1.0 for the 110th anniversary of the Company’s founding. At the same time, the Group aims to boost shareholder value by effectively using retained earnings to strengthen the Group’s operating base and support future business development, as well as by taking a flexible approach in repurchasing treasury stock.

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

The Gunze Group 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, the Gunze Group 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 Group 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- and Long-term Management Strategies**

In 2005, the Gunze Group embarked on its new three-year medium-term management plan called the “3C10 Plan.” This plan is intended to build a stronger base of operations and boost Gunze corporate value. The “3C” in the “3C10 Plan” stands for “Category Creation for Customers” and

symbolizes the Company's intention to promote business with the aim of achieving a 10% ROE by 2010 based on the 3Cs. 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 effective use of properties the Company possesses and work toward the establishment of a stronger operating base.

### ***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 system, so as to realize effective corporate governance.

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

1) Management Structure Involved with Corporate Decision-Making, Execution of Operations and Supervision, as well as Other Corporate Governance Systems

#### **A. Organizational Structure**

In addition to adopting an auditor system, Gunze also launched a corporate officers system in June 2005. The system is aimed at stimulating the Board of Directors, facilitating speedy decision-making, and strengthening the operational system. Along with the launch of this new system, the maximum number of members at the Board of Directors stipulated in the Company’s Articles of Incorporation was reduced from 20 to 15. The current management system consists of 11 directors and 17 corporate officers, 11 of whom also assume the role of director. As a basic rule, the Board of Directors meeting is held once a month to deliberate and resolve management policies and other matters of prime importance. In addition, an Executive Officer meeting is held roughly once a week and is attended by seven chief officers. The meeting serves to facilitate more agile decision-making regarding important matters related to business practices.

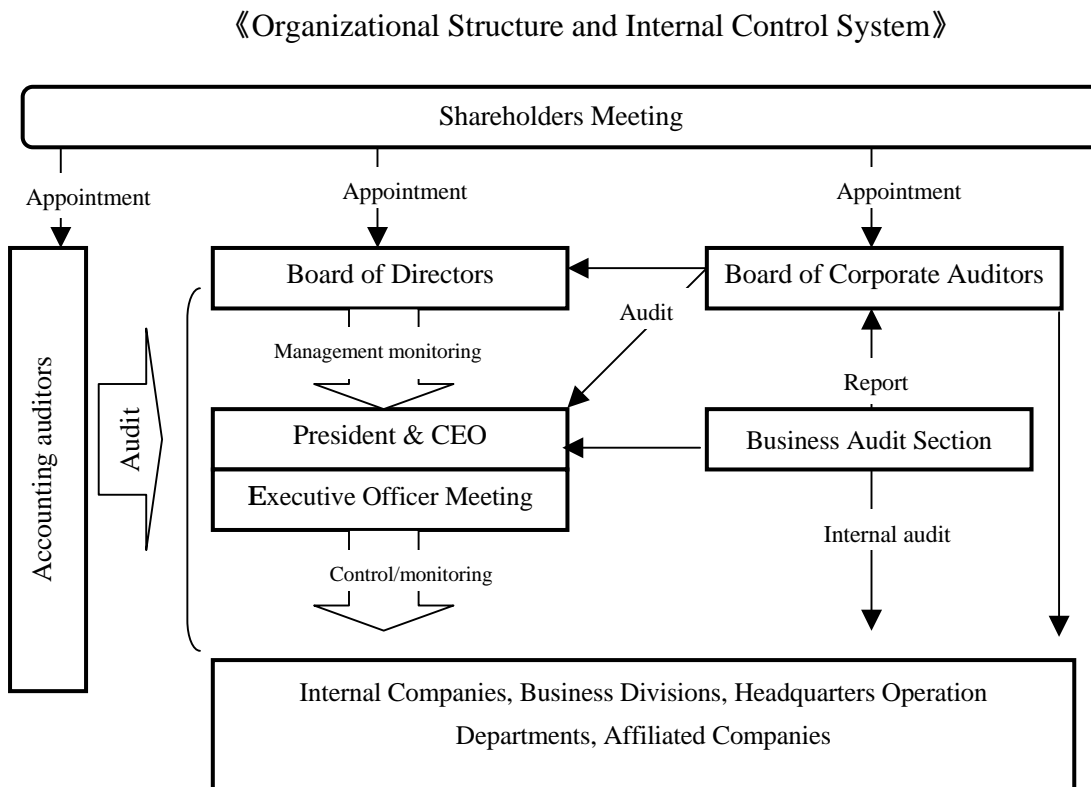
The Board of Corporate Auditors consists of four members including two outside auditors. All auditors participate in the Board of Directors meetings, while executive auditors attend Executive Officer meetings. The auditors are responsible for sharing objective and fair views concerning overall corporate management and individual matters. In accordance with the audit plan formulated by the Board of Corporate Auditors, they also monitor the directors’ business execution to assure legal compliance.

The Business Audit Section, established under the direct supervision of the President, is in charge of internal inspection for business practices, with the purpose of contributing to stronger internal controls.

Corporate auditors as well as members of the Business Audit Section, Legal Affairs & Intellectual Property Section, and the CSR Promotion Section also meet each month on a regular basis to exchange compliance-related information as necessary, while also maintaining close communications with each other.

B. Establishment of an internal control system

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

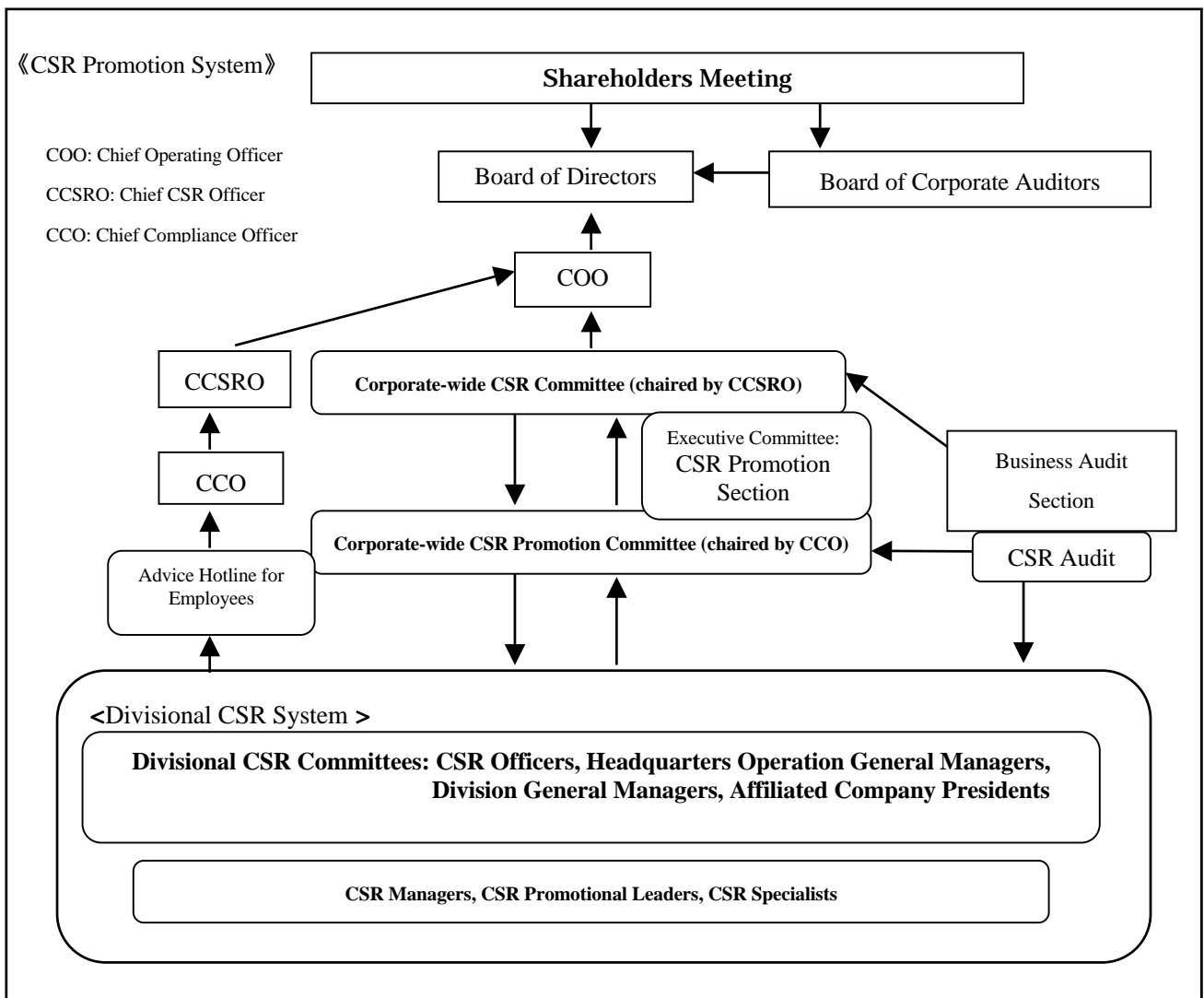


2) Action toward Corporate Social Responsibility (CSR), including Risk Management System

The Gunze Group considers the promotion of CSR activities to be one of the Group’s most important management objectives. Accordingly, the CSR Promotion Section, established in July 2004, serves as an executive office to lead Gunze’s group-wide efforts to promote CSR activities. As part of these efforts, corporate ethics training sessions are being organized for top executives and all other levels within the company and the CSR Report is used to enhance employee awareness of CSR.

While assuring the strict observance of laws and regulations as well as internal and social rules, the Gunze Group is striving to contribute to society as a responsible corporate citizen, through its commitment to corporate activities that maintain fairness and integrity. These activities are conducted with the highest ethical standards and in accordance with the Gunze Activity Guidelines. In addition, Gunze is actively involved in improving its risk management system. Activities include contingency planning against natural disasters, development of information security systems, compliance-related information meetings, and encouraging the use of the advice hotline for employees.

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



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

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

##### **(1) Analysis of First Half Results**

During the first half of the present fiscal year (April 1 to September 30, 2005), the Japanese economy exhibited trends of a gradual upturn due to the general improvement in corporate performance, an expansion in capital investment and robust consumer spending. However, factors such as a sharp rise in crude oil prices remain as matters of concern along with prominent disparities among regions, sectors and companies, making the future of the economy still unclear. Faced with this situation, the Gunze Group maintained its commitment to developing and promoting its highly distinguished products; strengthening collaboration between production and sales sectors; augmenting production facilities for strong business areas; and advancing cost reduction. Consequently, the Gunze Group's consolidated net sales for the period under review amounted to ¥79.1 billion, or a year-over-year increase of 1.0%. Consolidated ordinary income was ¥3.9 billion, or a year-over-year decrease of 13.1%, while consolidated net income declined 28.8% year over year to ¥2.5 billion.

Beginning in the present fiscal term, the Gunze Group has reorganized strategic business units into three business segments: apparel (consumer products), functional solutions (industrial products), and lifestyle creations (services). This reorganization was aimed to empower each business segment with greater authority, to enable faster decision-making. Accordingly, business segmentation for "Segment Information" has been changed.

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

###### **[Apparel]**

Operating income increased 6.6% year over year to ¥2,462 million despite a decrease of 2.0% in net sales to ¥48,287 million.

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

In men's innerwear, a large-scale campaign designed to stimulate demand for men's innerwear enjoyed considerable popularity with its catchphrase "Put on your best undergarments." The success of this campaign, combined with the positive effects of the government-initiated "Cool Biz" campaign, stimulated store sales. This resulted in a significant year-over-year sales increase in the *GAIA* category of new innerwear brands such as *Body Wild* and *YG-X*. As for the "Friendly" category of basic white and seasonal products, sales were strong for seasonal products and package-priced value products. On the other hand, regular-priced products suffered disappointing sales, which in turn dragged down overall "Friendly" category sales. Although basic product sales were sluggish in children's underwear, new innerwear products centering on *piéd clair* performed impressively. As a result, the Men's and Kids' Wear Company posted an increase in both revenues and profits.

For the third quarter of the present fiscal year, Gunze will continue to aggressively promote the ongoing men's innerwear campaign toward the goal of further enhancing its brand loyalty. At the same time, Gunze will advance efforts to keep up with the upcoming government-led "Warm Biz" campaign.

### ***Ladies' and Leg Wear Company***

Although overall sluggishness in the market caused decreased sales for women's innerwear, Gunze's *Flaty* campaign proved successful in helping drive sales up for this brand, especially for the *XXX (Kiss, Kiss, Kiss)* line of bottoms. The campaign was designed to aggressively promote the distinctive benefits of the *Flaty* products with seamless hems and sleeves that do not show innerwear lines even under light outerwear. In lingerie and foundation garments, *Tuché*, a highly distinguishable brand, recorded substantial sales growth. However, sales for mainstay brands *Yansoffi*, *Iineno Tsuikyu* and *fine? (Finequest)* were slow, dragging down the category's overall sales. In the stockings category, the *Beauty Shape* and *Tuché* lines of separate-type and knee-high stockings continued to enjoy brisk sales, and *Stylish Pants*, a new product, also marked impressive sales growth. Still, these positive factors were not enough to offset a considerable sales decline in pantyhose products. Consequently, the Ladies' and Leg Wear Company posted a decrease in both revenues and profits.

For the third quarter, Gunze will work even harder to expand sales by strengthening "Warm Biz" campaign-related efforts and initiating a new campaign designed to promote beautiful leg and hip styling.

### ***Other Textiles***

In the home casual (pajamas) category, sales soared for home wear brands such as *FILA* and *COMME CI COMME CA*, thanks to aggressive efforts to expand the range of staple items and create new sales areas. As for sleepwear, sales for women's products advanced steadily despite sluggish sales experienced by men's lines, contributing to an overall revenue increase in this category. Revenues from textile materials also increased. This was mainly due to continuing strong sales achieved by core industrial machine-sewing threads outside Japan, mainly in China and Indonesia. Other contributing factors included increasing demand for industrial textile materials for automotive applications such as airbags.

### **[Functional Solutions]**

Net sales rose 8.6% year over year to ¥26,096 million while operating income jumped 10.4% to ¥2,862 million.

### ***Plastic Film Company***

While faced with intensified price competition due to the increasing inflow of foreign products into the marketplace, Gunze concentrated its efforts on developing and promoting new high-performance products, such as anti-fogging and easy-open packaging film lines, which contributed to increased revenues from the OPP film category. Shrink film sales for PET beverage bottle labels (which were strong during the previous year because of extremely hot weather) experienced a challenging situation in Japan. However, sales advanced steadily in America and Europe, which helped boost

overall revenues from shrink films. Composite nylon film sales increased year over year, thanks to strong exports to the United States. This counterbalanced slow sales in Japan caused by sluggish market conditions and increased supply resulting from the expansion of production facilities by other makers. However, the business environment surrounding Gunze remains difficult due to the increasing pressure of price increases for raw materials from petrified resin manufacturers. Overseas operations experienced a drop in profitability due mainly to issues faced by Gunze Plastics & Engineering Corporation of Europe N.V. (GPE) and Gunze Plastics & Engineering Corporation of America (GPA) in the initial stage of production. Countermeasures are now being taken including technical assistance from Japan, aiming at recovery in the second half of the present fiscal year. Overall, the Plastics Film Company posted increased revenues, albeit with reduced profits.

### ***Engineering Plastics***

Sales were generally robust for office equipment applications such as photocopiers, printers and multifunction products. Contributing factors included a continued shift to color-capable models and strong replacement demand experienced by color-capable multifunction units, especially in overseas markets. Particularly for mainstay CA belts (high-performance polyimide resin belts for color photocopiers and printers), Gunze expanded production capacity by commencing operations at its new factory. This response to active demand helped raise sales. In fluorocarbon resin thin-walled tubing for fixation rollers, sales for existing types also advanced steadily. Overall, the engineering plastics category recorded year-over-year increases in revenues and profits.

### ***Electronic Components***

Concerted efforts to expand applications primarily of highly competitive, high-performance touch panels that draw on differentiated technology, as well as of industrial-use mid-/large-size touch panels that emphasize high reliability, helped drive up sales. In terms of applications, sales grew steadily for notebook PCs and video equipment, resulting in higher category revenues and profits compared to the same period of the previous year.

### ***Others***

Printing press-related machinery sales grew year over year. The general market situation saw a recovery, along with significant improvement of corporate performance experienced by leading printing companies. This stimulated capital investment, contributing to sales increases for mainstay stacker-bundlers and a new product sheeter. Overall, both revenues and profits increased in the machinery category.

### **[Lifestyle Creations]**

Net sales decreased 7.0% to ¥5,531 million while operating income declined 81.2% to ¥185 million.

In the real estate business, a refurbishment project is currently in progress at Tsukashin shopping center with reopening scheduled for April 2006. In light of this, Gunze implemented proactive sales promotional strategies and reinforcement of store sales with the aim of increasing visitors. *Tsukashin Spa Yunokaro* (a large-scale spa located in Tsukashin) is also working hard to attract more customers and increasing spending per customer through the introduction of a new menu and

various celebratory events for the first anniversary of its opening (July). Despite these concerted efforts, the closure of the megastore Seibu Department Store at Tsukashin resulted in decreased leasing revenues, which in turn dragged down overall revenues and profits in the real estate business.

The landscaping and gardening sector recorded increased revenues due to strong sales of trees and flowering plants and related installation with the winning of orders for large-scale projects, along with a steady increase in gardening revenues.

In sports facility management, the newly opened sports club at COMS Sky Garden enjoyed favorable sales. At existing facilities as well, the development of Gunze proprietary programs specially designed for senior members, whose numbers are expected to grow in the future, helped maintain or attract a growing number of new members. These combined factors contributed to overall increases in revenues and profits. New club openings in Kurashiki and Nishinomiya are also scheduled for 2006.

### **(3) Outlook and Analysis for Fiscal 2005 and Segmental Projections**

The improvement in corporate earnings and capital investment, along with growing employment is leading to greater expectations for the soundness of the overall Japanese economy. On the negative side, however, crude oil prices, which have hovered at high rates, are likely to impact the cost of living. In consideration of these situations, the Gunze Group expects its business environment to remain challenging throughout the present fiscal year, which prevents an overly optimistic view about the future business outlook. Accordingly, Gunze is determined to aggressively promote its “3C10 Plan,” a new medium-term management plan, 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 ¥165 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	101.2	53.4	11.9	(1.5)	165.0
FY2005/FY2004 (%)	100.4	108.6	99.4	-	102.8

## **2. Financial Position**

### **(1) Assets, Liabilities, Equity and Cash Flows for the Interim Period (Ended September 30, 2005)**

As of September 30, 2005, consolidated cash and cash equivalents were ¥5.1 billion, or ¥0.6 billion more than at the end of the previous fiscal year. Below is an overview of cash flows and reasons for changes during the period under review.

### ***Operating Activities***

Net cash used in operating activities totaled ¥1.1 billion, an increase of ¥3.9 billion compared to the same period one year earlier. Major components of cash flows were income before income taxes and minority interest of ¥4.7 billion; along with non-capital items including amortization and depreciation of ¥3.0 billion, and amortization gain related to retirement benefit obligations of ¥0.5 billion. Additional factors included a gain of ¥0.5 billion from the sale of investment securities; loss on compensation for relocation of ¥0.4 billion; a ¥3.9 billion increase in working capital; a decrease of ¥0.8 billion in allowance for retirement benefits; a decrease of ¥1.0 billion in other current liabilities; an increase of ¥0.5 billion in guarantee deposits and other current liabilities; and income tax payments of ¥2.7 billion. A year-over-year decline of ¥3.9 billion in net cash was primarily attributable to increases in income tax payments and working capital.

### ***Investing Activities***

Net cash used in investing activities totaled ¥4.0 billion, ¥0.3 billion less than one year earlier. This primarily reflects payments for the purchase of property, plants and equipment amounting to ¥4.3 billion (a year-over-year decrease of ¥0.3 billion), against proceeds of ¥0.4 billion from the sale of property, plants and equipment.

### ***Financing Activities***

Financing activities provided net cash of ¥5.7 billion, an increase of ¥4.9 billion compared to the same period of the previous year. This increase was mainly due to a ¥8.5 billion increase in short-term debt. Other components included ¥1.6 billion for dividend payments; and ¥1.1 billion for purchases of treasury stock.

## **(2) Assets, Liabilities, Equity and Cash Flows (Fiscal 2005 Outlook)**

### ***Operating Activities***

Net cash from operating activities is expected to increase in fiscal 2005. While income before income taxes and minority interest is projected to decline, a decrease is also expected in non-capital items including amortization gain related to retirement benefit obligations and loss on valuation of fixed assets. This, combined with aggressive efforts to reduce working capital, should contribute to the increase in net cash over the previous year.

### ***Investing Activities***

Net cash used in investing activities is expected to rise, due to a projected increase in purchases of property, plant and equipment compared to the previous year.

### ***Financing Activities***

Net cash provided by financing activities is projected to increase compared to the previous year, even with the planned aggressive purchase of treasury stock. This is primarily due to an expected decrease in the repayment of long-term debt and an increase in the balance of commercial paper.

As a result, the Company anticipates cash and cash equivalents at year-end of over ¥5.0 billion, a figure roughly on a par with that of the interim period.

### (3) Cash Flow Indicator Trends

	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	Sept. 30, 2005
Equity ratio (%)	67.7	68.3	57.8	63.9	62.8
Market-value equity ratio (%)	51.6	55.4	63.3	57.1	61.0
Debt redemption period (years)	1.1	1.2	2.0	2.3	--
Interest coverage ratio	48.8	57.4	66.9	34.4	(10.8)

#### 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 (not listed for the interim period).

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. Interim Consolidated Financial Statements

### (1) Interim Consolidated Balance Sheets

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

	FY2005 Interim		FY2004 Interim		Increase	FY2004	
	(As of Sept. 30, 2005)		(As of Sept. 30, 2004)		(Decrease)	(As of Mar. 31, 2005)	
	Amount	Proportion	Amount	Proportion	Amount	Amount	Proportion
<b>(Assets)</b>		%		%			%
<b>Current assets</b>							
1 Cash and cash equivalents	5,173		5,483		(309)	4,577	
2 Trade notes & accounts receivable	38,770		38,537		232	38,074	
3 Inventories	41,202		38,295		2,907	38,038	
4 Real estate inventories	635		41		594	637	
5 Short-term advances	341		389		(47)	267	
6 Deferred tax assets	1,611		1,059		551	1,378	
7 Other current assets	1,795		3,882		(2,087)	1,681	
Allowance for doubtful accounts	(172)		(158)		(13)	(168)	
Total	89,357	43.8	87,531	45.9	1,826	84,486	43.9
<b>Fixed assets</b>							
1 Property, plant and equipment							
(1) Buildings and structures	33,932		32,991		941	33,905	
(2) Machinery and equipment	16,428		13,985		2,442	15,286	
(3) Tools, furniture and fixtures	1,150		1,041		109	1,060	
(4) Land	12,282		12,884		(602)	12,361	
(5) Construction in progress	2,482		1,518		963	2,089	
Total	66,275		62,420		3,855	64,702	
2 Intangible fixed assets							
(1) Other intangible fixed assets	1,010		1,163		(153)	1,104	
Total	1,010		1,163		(153)	1,104	
3 Investments and other assets							
(1) Investments in securities	41,101		29,456		11,644	32,679	
(2) Long-term advances	960		648		312	898	
(3) Deferred tax assets	98		5,334		(5,235)	3,577	
(4) Other assets	5,285		4,553		731	5,257	
Allowance for doubtful accounts	(305)		(348)		42	(301)	
Total	47,140		39,645		7,495	42,111	
Total	114,426	56.2	103,229	54.1	11,197	107,918	56.1
<b>Total assets</b>	203,784	100.0	190,760	100.0	13,024	192,405	100.0

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

	FY2005 Interim		FY2004 Interim		Increase	FY2004	
	(As of Sept. 30, 2005)		(As of Sept. 30, 2004)		(Decrease)	(As of Mar. 31, 2005)	
	Amount	Proportion	Amount	Proportion	Amount	Amount	Proportion
<b>(Liabilities)</b>		%		%			%
<b>Current liabilities</b>							
1 Notes & accounts payable, trade	12,791		13,461		(670)	12,987	
2 Short-term debt	4,948		3,086		1,861	4,392	
3 Commercial paper	13,500		9,000		4,500	5,000	
4 Current portion of long-term debt	400		1,189		(789)	400	
5 Accrued income taxes	2,865		884		1,980	3,350	
6 Allowance for employees' bonuses	1,882		1,869		12	1,823	
7 Other current liabilities	11,747		11,166		581	12,725	
<b>Total</b>	<b>48,135</b>	<b>23.6</b>	<b>40,658</b>	<b>21.3</b>	<b>7,477</b>	<b>40,680</b>	<b>21.1</b>
<b>Long-term liabilities</b>							
1 Long-term debt	1,713		2,146		(433)	1,712	
2 Deferred tax liabilities	4		6		(2)	4	
3 Allowance for retirement benefits	14,262		23,405		(9,142)	15,565	
4 Allowance for directors' and statutory auditors' retirement benefits	460		693		(233)	748	
5 Long-term deposits & guarantee deposits	9,692		9,545		147	9,230	
6 Long-term income in advance	107		143		(36)	127	
7 Other	12		-		12	12	
<b>Total</b>	<b>26,252</b>	<b>12.9</b>	<b>35,941</b>	<b>18.9</b>	<b>(9,688)</b>	<b>27,401</b>	<b>14.3</b>
<b>Total liabilities</b>	<b>74,387</b>	<b>36.5</b>	<b>76,599</b>	<b>40.2</b>	<b>(2,211)</b>	<b>68,081</b>	<b>35.4</b>
<b>(Minority interests)</b>							
Minority interests	1,404	0.7	1,206	0.6	197	1,301	0.7
<b>(Shareholders' equity)</b>							
<b>Common stock</b>	<b>26,071</b>	<b>12.8</b>	<b>26,071</b>	<b>13.6</b>	<b>-</b>	<b>26,071</b>	<b>13.5</b>
<b>Additional paid-in capital</b>	<b>22,718</b>	<b>11.1</b>	<b>22,669</b>	<b>11.9</b>	<b>48</b>	<b>22,669</b>	<b>11.8</b>
<b>Retained earnings</b>	<b>67,746</b>	<b>33.3</b>	<b>58,909</b>	<b>30.9</b>	<b>8,836</b>	<b>66,918</b>	<b>34.7</b>
<b>Revaluation difference on land</b>	<b>(825)</b>	<b>(0.4)</b>	<b>(825)</b>	<b>(0.4)</b>	<b>-</b>	<b>(825)</b>	<b>(0.4)</b>
<b>Net unrealized gains on other securities</b>	<b>17,188</b>	<b>8.4</b>	<b>9,976</b>	<b>5.2</b>	<b>7,212</b>	<b>12,115</b>	<b>6.3</b>
<b>Foreign currency translation adjustments</b>	<b>(264)</b>	<b>(0.1)</b>	<b>(381)</b>	<b>(0.2)</b>	<b>117</b>	<b>(434)</b>	<b>(0.2)</b>
<b>Treasury stock</b>	<b>(4,641)</b>	<b>(2.3)</b>	<b>(3,465)</b>	<b>(1.8)</b>	<b>(1,176)</b>	<b>(3,492)</b>	<b>(1.8)</b>
<b>Total shareholders' equity</b>	<b>127,992</b>	<b>62.8</b>	<b>112,954</b>	<b>59.2</b>	<b>15,037</b>	<b>123,021</b>	<b>63.9</b>
<b>Total liabilities, minority interests &amp; shareholders' equity</b>	<b>203,784</b>	<b>100.0</b>	<b>190,760</b>	<b>100.0</b>	<b>13,024</b>	<b>192,405</b>	<b>100.0</b>

## (2) Interim Consolidated Statements of Income

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

	FY2005 Interim (Apr. 2005 to Sept. 2005)		FY2004 Interim (Apr. 2004 to Sept. 2004)		Increase (Decrease)		(Ref.) FY2004 (Apr. 2004 to Mar. 2005)	
	Amount	Ratio	Amount	Ratio	Amount	Pct.	Amount	Ratio
<b>Net Sales</b>	79,166	100.0	78,355	100.0	811	1.0	160,565	100.0
<b>Cost of sales</b>	56,426	71.3	55,157	70.4	1,268	2.3	113,799	70.9
<b>Gross profit</b>	22,740	28.7	23,197	29.6	(456)	(2.0)	46,766	29.1
<b>Selling, general &amp; administrative expenses</b>	18,724	23.6	18,843	24.0	(118)	(0.6)	38,070	23.7
<b>Operating income</b>	4,016	5.1	4,353	5.6	(337)	(7.7)	8,696	5.4
<b>Non-operating income</b>	727	0.9	752	0.9	(25)	(3.3)	1,326	0.9
1 Interest income	38		27				62	
2 Dividend income	275		247				345	
3 Rental income	85		95				203	
4 Exchange gain	108		123				86	
5 Other	219		257				629	
<b>Non-operating expenses</b>	801	1.0	567	0.7	233	41.3	1,079	0.7
1 Interest expenses	167		133				274	
2 Rental costs	73		78				107	
3 Loss on valuation of inventories	224		200				313	
4 Loss on disposal of inventories	57		12				68	
5 Other	278		143				315	
<b>Ordinary income</b>	3,942	5.0	4,538	5.8	(596)	(13.1)	8,943	5.6
<b>Extraordinary income</b>	1,654	2.0	8,198	10.4	(6,544)	(79.8)	15,583	9.7
1 Gain on sale of property, plant & equipment	299		1,186				1,557	
2 Gain on sale of investments in securities	553		-				3	
3 Amortization of actuarial gain on retirement benefits	-		6,210				12,420	
4 Amortization gain of prior service cost on retirement benefits by transition from an employees' pension fund to a cash-balance plan	801		801				1,602	
<b>Extraordinary losses</b>	812	1.0	6,223	7.9	(5,410)	(87.0)	6,868	4.3
1 Loss on sale or disposal property, plant & equipment	98		83				593	
2 Loss on valuation of investments in securities	7		-				22	
3 Loss on valuation of land	-		6,139				6,139	
4 Amortization of actuarial loss on retirement benefits	273		-				-	
5 Loss on compensation for removal of tenants	433		-				-	
6 Loss on valuation of investments and loans to affiliates	-		-				83	
7 Other	-		-				29	
<b>Income (loss) before income taxes and minority interests</b>	4,783	6.0	6,514	8.3	(1,730)	(26.6)	17,658	11.0
<b>Income taxes - current</b>	2,150	2.7	2,857	3.6	(707)	(24.7)	3,828	2.4
<b>Income taxes - deferred</b>	-	-	-	-	-	-	2,086	1.3
<b>Minority interests</b>	75	0.1	62	0.1	13	21.0	140	0.1
<b>Net income (loss)</b>	2,557	3.2	3,593	4.6	(1,036)	(28.8)	11,603	7.2

### (3) Interim Consolidated Statements of Retained Earnings

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

	FY2005 Interim (Apr. 2005 to Sept. 2005)		FY2004 Interim (Apr. 2004 to Sept. 2004)		FY2004 (Apr. 2004 to Mar. 2005)	
	Amount		Amount		Amount	
<b>(Additional Paid-in Capital)</b>						
<b>Balance at beginning of period</b>		<b>22,669</b>		<b>22,716</b>		<b>22,716</b>
<b>Increase in additional paid-in capital</b>						
1 Gain on sale of treasury stock	0		0		-	
2 Increase due to merger of consolidated subsidiaries	49	49	-	0	-	-
<b>Decrease in additional paid-in capital</b>						
1 Loss on sale of treasury stock	-		-		0	
2 Decrease due to elimination of subsidiaries from scope of consolidation	-	-	47	47	47	47
<b>Balance at end of period</b>		<b>22,718</b>		<b>22,669</b>		<b>22,669</b>
<b>(Retained Earnings)</b>						
<b>Balance at beginning of period</b>		<b>66,918</b>		<b>56,914</b>		<b>56,914</b>
<b>Increase in retained earnings</b>						
1 Net income	2,557		3,593		11,603	
2 Increase due to inclusion of subsidiaries within the scope of consolidation	16		14		14	
3 Increase due to elimination of subsidiaries from the scope of consolidation	-	2,574	47	3,656	47	11,665
<b>Decrease in retained earnings</b>						
1 Cash dividends	1,650		1,657		1,657	
2 Bonuses for directors & statutory auditors	46		-		-	
3 Decrease due to merger of consolidated subsidiaries	49		-		-	
4 Decrease due to other appropriations of earnings	-	1,746	3	1,661	4	1,662
<b>Balance at end of period</b>		<b>67,746</b>		<b>58,909</b>		<b>66,918</b>

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

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

	FY2005 Interim (Apr. 2005 - Sept. 2005)	FY2004 Interim (Apr. 2004 - Sept. 2004)	FY2004 (Apr. 2004 - Mar. 2005)
<b>Cash flows from operating activities</b>			
1. Income before income taxes & minority interest	4,783	6,514	17,658
2. Depreciation and amortization	3,032	2,764	5,705
3. Increase (decrease) in allowance for doubtful accounts	3	(6)	26
4. Increase (decrease) in allowance for retirement benefits	(857)	(1,091)	(2,059)
5. Interest and dividend income	(313)	(275)	(407)
6. Interest expenses	167	133	274
7. Loss (gain) on sale and disposal of fixed assets	(200)	(1,103)	(963)
8. Loss on valuation of land	-	6,139	6,139
9. Loss (gain) on sale of investments in securities	(553)	-	12
10. Loss on valuation of investments in securities and other assets	7	-	6
11. Amortization gain of prior service cost on retirement benefits by transition from an employees' pension fund to a cash-balance plan	(801)	(801)	(1,602)
12. Amortization of actuarial loss (gain) on retirement benefits	273	(6,210)	(12,420)
13. Loss on liquidation of affiliates	-	-	83
14. Loss on compensation for removal of tenants	433	-	-
15. Other losses (gains)	(97)	(85)	(103)
16. Decrease (increase) in notes and accounts receivable	(537)	(1,292)	(1,011)
17. Decrease (increase) in inventories	(3,007)	(1,104)	(981)
18. Decrease (increase) in other current assets	(45)	(203)	(233)
19. Increase (decrease) in notes and accounts payable	(408)	778	567
20. Increase (decrease) in guarantee deposits	584	(173)	(586)
21. Increase (decrease) in other current liabilities	(1,068)	(718)	341
22. Directors' and statutory auditors' bonuses paid	(46)	-	-
Subtotal	1,345	3,262	10,444
23. Interest and dividends received	311	278	407
24. Interest paid	(107)	(82)	(271)
25. Income taxes paid	(2,713)	(701)	(1,239)
Net cash provided by (used in) operating activities	(1,163)	2,757	9,340
<b>Cash flows from investing activities</b>			
1. Payments for purchase of property, plant & equipment	(4,359)	(4,691)	(9,529)
2. Proceeds from sale of property, plant & equipment	415	313	2,131
3. Payments for disposition of property, plant & equipment	(47)	(25)	(194)
4. Payments for purchase of investments in securities	(148)	(14)	(29)
5. Proceeds from sale of investments in securities	664	0	11
6. Net decrease (increase) in advances	(78)	15	80
7. Other, net	(507)	11	(558)
Net cash provided by (used in) investing activities	(4,061)	(4,389)	(8,088)
<b>Cash flows from financing activities</b>			
1. Increase (decrease) in short-term debt, net	8,592	2,933	357
2. Repayment of long-term debt	-	(14)	(1,235)
3. Cash dividends paid	(1,648)	(1,655)	(1,658)
4. Purchase of treasury stock	(1,150)	(411)	(450)
5. Other, net	(53)	(80)	(22)
Net cash provided by (used in) investing activities	5,739	770	(3,008)
<b>Effect of exchange rate changes on cash &amp; cash equivalents</b>	25	(2)	(14)
<b>Net increase (decrease) in cash and cash equivalents</b>	539	(864)	(1,770)
<b>Cash and cash equivalents at beginning of period</b>	4,577	6,248	6,248
<b>Cash &amp; cash equivalents of newly consolidated subsidiaries</b>	56	99	99
<b>Cash and cash equivalents at end of period</b>	5,173	5,483	4,577

## **Significant Accounting Policies Used in Preparation of Consolidated Interim 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 interim period, Shanghai Gunze New Packaging Co., Ltd. was included, and Shiga Film Co., Ltd. was excluded from the scope of consolidation.

All 20 non-consolidated subsidiaries, which include Fukushima Gravure 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 interim period. 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 six 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 14 overseas consolidated subsidiaries’ interim balance date is June 30. In the preparation of the consolidated financial statements, the financial statements of these companies as of June 30 are employed and adjustments have been made on a consolidated basis as necessary regarding any significant transactions occurring between the end of the interim period of these companies and the end of the consolidated interim period.

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

#### **(1) Methods for Valuating Important Assets**

##### **A. 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.

##### **B. Other marketable securities**

Other securities with fair market value are stated at fair market value, determined by the market price as of September 30, 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.

### **C. Derivatives**

Derivatives are stated at fair market value.

## **(2) 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.

## **(3) 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 interim period on the basis of projected benefit obligations and plan assets at the interim period 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 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.

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

Monetary receivables and payables denominated in foreign currencies were translated into Japanese yen at the spot exchange rates at the interim period balance sheet date and the resulting exchange gain and loss were charged to income. Assets and liabilities, and revenues and expenses of overseas subsidiaries were translated into Japanese yen at the spot exchange rates at the consolidated interim period balance sheet date, with translation differences listed under minority interests and reported in shareholders' equity as foreign currency translation adjustments.

#### **(5) 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.

#### **(6) 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. The Company undertakes forward exchange contracts for import-export transactions in accordance with regulations on the scope of authority to execute such transactions and set transaction limits.

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

Financial statements are prepared exclusive of consumption tax.

### **5. 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 Significant Accounting Policies Used in Preparation of Consolidated Interim Financial Statements)**

#### **Unrecognized Pension Assets**

Partial amendments to accounting standards for retirement benefits (Corporate Accounting Standards No. 3) established on March 16, 2005, along with a set of practical guidelines for adopting the revised standards (Guidelines No. 7) issued on the same day became effective from the consolidated financial statements relevant to the consolidated fiscal year that started on October 1, 2004. Accordingly, Gunze adopted the said standards and guidelines from the interim period under review, which in turn resulted in a ¥24 million increase in income before income taxes and minority interest.

#### **Notes**

##### **Notes to Consolidated Balance Sheets**

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

	<b>FY2005 Interim</b> (As of Sept. 30, 2005)	FY2004 Interim (As of Sept. 30, 2004)	FY2004 (As of Mar. 31, 2005)
1. Accumulated depreciation on property, plant and equipment	120,726	117,567	118,822
2. Collateral and obligations collateralized:			
Assets pledged as collateral			
Property, plant and equipment	2	45	2
Investment securities with market value	90	140	71
Total	92	185	74
Obligations collateralized by the above			
Short-term debt	6	14	6
Deposits	54	64	64
Long-term debt	-	2	-
Total	61	81	70
3. Loan guarantees (incl. other similar guarantor obligations)	882	1,219	1,118
4. Unused lines of credit			
Total unused lines of credit	10,000	10,000	10,000
Used lines of credit	-	-	-
Difference	10,000	10,000	10,000

## Notes to Consolidated Statements of Income

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

	<b>FY2005 Interim</b> (Apr. 2005 to Sept. 2005)	FY2004 Interim (Apr. 2004 to Sept. 2004)	FY2004 (Apr. 2004 to Mar. 2005)
1. Major items of selling, general and administrative expenses			
Freight and transportation expenses	4,287	4,753	8,851
Advertising and promotional costs	2,250	1,964	4,317
Employees' salaries, bonuses and allowances	4,702	5,019	10,231
Transfer to allowance for bonuses	694	708	688
Transfer to allowance for retirement benefits	387	457	850
Depreciation and amortization expenses	181	225	409
Research and development costs	793	769	1,577

2. The Company used the simple method of tax-effect accounting to calculate income tax expenses for the interim period ended September 30, 2005. Deferred taxes are included in "income taxes - current."

## Notes to Consolidated Statements of Cash Flows

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

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

	<b>FY2005 Interim</b> (As of Sept. 30, 2005)	FY2004 Interim (As of Sept. 30, 2004)	FY2004 (As of Mar. 31, 2005)
Cash and deposits	5,173	5,483	4,577

## Leases

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

## 5. Segment Data

### (1) Segment Information by Business

**FY2005 Interim (April 1, 2005 to September 30, 2005)**

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

	Apparel	Functional solutions	Lifestyle creations	Total	Eliminations/Corporate	Consolidated
Net sales						
(1) Sales to customers	48,252	26,022	4,892	79,166	-	79,166
(2) Intersegment sales and transactions	35	74	639	749	(749)	-
Total	48,287	26,096	5,531	79,916	(749)	79,166
Operating expenses	45,825	23,234	5,345	74,406	744	75,150
Operating income (loss)	2,462	2,862	185	5,510	(1,494)	4,016

**FY2004 Interim (April 1, 2004 to September 30, 2004)**

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

	Apparel	Functional solutions	Lifestyle creations	Total	Eliminations/Corporate	Consolidated
Net sales						
(1) Sales to customers	49,239	23,881	5,233	78,355	-	78,355
(2) Intersegment sales and transactions	16	139	710	867	(867)	-
Total	49,256	24,021	5,944	79,223	(867)	78,355
Operating expenses	46,945	21,426	4,964	73,337	664	74,001
Operating income (loss)	2,310	2,594	980	5,886	(1,532)	4,353

**FY2004 (April 1, 2004 to March 31, 2005)**

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

	Apparel	Functional solutions	Lifestyle creations	Total	Eliminations/Corporate	Consolidated
Net sales						
(1) Sales to customers	100,805	49,029	10,729	160,565	-	160,565
(2) Intersegment sales and transactions	4	162	1,237	1,404	(1,404)	-
Total	100,810	49,191	11,967	161,969	(1,404)	160,565
Operating expenses	95,736	43,831	10,645	150,214	1,654	151,869
Operating income (loss)	5,073	5,360	1,322	11,755	(3,058)	8,696

Notes:

- (1) Business segments are classified according to the types and nature of products, and similarities in manufacturing and sales methods.
- (2) The main products handled in each business segment are as follows:
  - Apparel business: Innerwear, hosiery, outerwear, textiles, and threads.
  - Functional solutions business: Plastic films, engineering plastics, electronic materials, machinery, and medical materials.
  - Lifestyle creation business: Buying, selling and leasing of real estate, trees and plants, and operation and management of sports facilities.
- (3) 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.

<b>FY2005 Interim:</b>	<b>1,494</b> million yen
FY2004 Interim:	<b>1,547</b> million yen
FY2004 (Full year):	<b>3,058</b> million yen

Revision of Business Segmentation

Conventionally, Gunze's business lines were classified into five segments: textiles, functional materials, machinery, real estate and others. In line with the Company's new medium-term management plan, the 3C10 Plan, formulated in February 2005, the Gunze Group reorganized the business lines into three new segments: apparel (consumer products), functional solutions (industrial products) and lifestyle creations (services) as part of the Company's drive to promote business structure reform. To conform to the Gunze Group's new business segmentation, the new business segments of apparel, functional solutions and lifestyle creations were also used for the "Segment Information" from the interim period of the present fiscal year. Data for the interim period of the previous fiscal year and for the entire previous fiscal year were also reclassified and presented based on the new segmentation.

### (2) Segmental Information by Geographic Area

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

## 6. Production, Orders and Sales

### (1) Results of Production

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

Business Segment	FY2005 Interim	FY2004 Interim
	(Apr. 1, 2005 to Sept. 30, 2005)	(Apr. 1, 2004 to Sept. 30, 2004)
Apparel	<b>28,092</b>	<b>28,087</b>
Functional solutions	<b>19,154</b>	<b>17,350</b>
Total	<b>47,247</b>	<b>45,437</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	FY2005 Interim	FY2004 Interim
Apparel	<b>6,104</b>	<b>5,461</b>
Functional solutions	<b>711</b>	<b>626</b>
Lifestyle creations	<b>1,095</b>	<b>1,121</b>
Total	<b>7,911</b>	<b>7,208</b>

3. Figures exclude consumption tax.

### (2) Orders Received

The Company and its consolidated subsidiaries calculate orders received, excluding for machinery (included in the functional solutions segment), 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	FY2005 Interim		FY2004 Interim	
	(Apr. 1, 2005 to Sept. 30, 2005)		(Apr. 1, 2004 to Sept. 30, 2004)	
	Orders received	Outstanding orders	Orders received	Outstanding orders
Machinery included in the functional solutions business	<b>3,430</b>	<b>2,504</b>	<b>3,873</b>	<b>3,160</b>

Note: Figures exclude consumption tax.

### (3) Sales

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

Business Segment	FY2005 Interim	FY2004 Interim	Increase
	(Apr. 1, 2005 to Sept. 30, 2005)	(Apr. 1, 2004 to Sept. 30, 2004)	(Decrease)
Apparel	<b>48,287</b>	<b>49,256</b>	(2.0)%
Functional solutions	<b>26,096</b>	<b>24,021</b>	8.6
Lifestyle creations	<b>5,531</b>	<b>5,944</b>	(7.0)
Subtotal	<b>79,916</b>	<b>79,223</b>	0.9
Excl. intersegment sales	<b>(749)</b>	<b>(867)</b>	-
Total	<b>79,166</b>	<b>78,355</b>	1.0

Note: Figures exclude consumption tax.

#### Revision of Business Segmentation

Conventionally, Gunze's business lines were classified into five segments: textiles, functional materials, machinery, real estate and others. In line with the Company's new medium-term management plan, the 3C10 Plan, formulated in February 2005, the Gunze Group reorganized the business lines into three new segments: apparel (consumer products), functional solutions (industrial products) and lifestyle creations (services) as part of the Company's drive to promote business structure reform. To conform to the Gunze Group's new business segmentation, the new business segments of apparel, functional solutions and lifestyle creations were also used for "Production, Orders and Sales" from the interim period of the present fiscal year. Data for the interim period of the previous fiscal year and for the entire previous fiscal year were also reclassified and presented based on the new segmentation.

## 7. Marketable Securities

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

2. Other marketable securities with market quotations:

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

	FY2005 Interim (As of Sept. 30, 2005)			FY2004 Interim (As of Sept. 30, 2004)			FY2004 (As of Mar. 31, 2005)		
	Acquisition cost	Carrying amounts	Difference	Acquisition cost	Carrying amounts	Difference	Acquisition cost	Carrying amounts	Difference
(1) Shares	9,769	37,994	28,225	9,763	26,203	16,439	9,771	29,705	19,933
(2) Bonds	-	-	-	-	-	-	-	-	-
(3) Other	589	789	200	591	648	57	590	693	103
Total	10,358	38,784	28,425	10,354	26,852	16,497	10,361	30,398	20,036

3. Details and carrying amounts of marketable securities without market quotations:

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

	FY2005 Interim (As of Sept. 30, 2005)	FY2004 Interim (As of Sept. 30, 2004)	FY2004 (As of Mar. 31, 2005)
	Balance sheet figure	Balance sheet figure	Balance sheet figure
(1) Held-to-maturity bonds	-	-	-
(2) Non-consolidated subsidiaries and affiliated companies	1,215	1,514	1,191
(3) Other marketable securities Unlisted shares (excluding OTC)	1,101	1,089	1,090
Total	2,316	2,604	2,281

Note:

During the interim period under review, the Company recorded a valuation loss of ¥ 5 million on the write-down of certain other marketable securities (shares with fair market value of ¥ 5 million), in recognition of an impairment loss. The Company books a valuation loss on the write-down of marketable securities with fair market value (including shares and investment trusts) and marketable securities without fair market value (shares), whose term-end fair market value or equity per share, respectively, had fallen 50% or more relative to their acquisition costs. Securities of both types, having fallen 30% to 50% relative to their acquisition costs, are written down based on an individual assessment of the possibility of subsequent recovery in value.

## 8. 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.

## Overview of Consolidated Interim Results

### <Overview of Results>

- Net sales: 1.0% higher than for the same period of the previous year.  
Sales increase in functional solutions segment offset a decline in apparel and lifestyle creations segment sales.
- Both operating income and ordinary income recorded declines compared with the same period of the previous year.  
Functional solutions segment profit could not offset a decline in apparel and lifestyle creations segments profit, despite the strenuous efforts of the functional solutions segment.

### <Revision of Business Segmentation>

- Business segmentation reorganized into three segments due to the reorganization of strategic business units.  
Three segments are Apparel, Functional Solutions and Lifestyle Creations.

### <Full year forecast>

- Net sales are expected to record growth over three consecutive years.  
Operating income and ordinary income are projected to mark year-over-year increases.
- Net income is expected to decline due to extraordinary gains of the previous year.

### <Dividend policy>

- Dividend of current fiscal year scheduled payment: ¥10 per share, a ¥2.5 higher than the previous year.  
(Ordinary dividend: ¥9; memorial dividend for 110th anniversary of the Company's founding: ¥1)

### (1) FY2005 Interim Operating Results (Apr. 1, 2005 to Sept. 30, 2005)

(Millions of yen)

	FY2005 Interim	Initial Forecasts (May 2005)	FY2004 Interim	Change	
				<Upper figures in brackets %>	
				vs. forecasts	vs. FY2004
Net Sales	79,166	81,800	78,355	<(3.2)> (2,634)	<1.0> 811
Operating Income	4,016	3,600	4,353	<11.6> 416	<(7.7)> (337)
Ordinary Income	3,942	3,500	4,538	<12.6> 442	<(13.1)> (596)
Income (Loss) Before Income Taxes	4,783	-	6,514	-	<(26.6)> (1,731)
Net Income (Loss)	2,557	2,000	3,593	<27.9> 557	<(28.8)> (1,036)
Total Assets	203,784		190,760		<6.8> 13,024
Inventories (incl. real estate inventories)	41,838		38,336		<9.1> 3,502
Fixed Assets	114,426		103,229		<10.8> 11,197
Shareholders' Equity	127,992		112,954		<13.3> 15,037
Financing Income/Expenses	146		142		4
Interest/dividends received	313		275		38
Interest expenses	(167)		(133)		(34)
Capital Expenditures	3,470		4,063		(593)
Depreciation and Amortization	3,032		2,764		268

Notes: The Company purchased treasury stock during the interim period.

	(Thousands of shares)	(Amount)
· Purchases pursuant to Article 211 of the Commercial Code	2,188	¥1,115 million
· Buyback of shares less than the basic trading unit (tangen)	66	¥34 million
· Treasury stock disposed	(2)	¥(1) million
· Treasury stock held at the end of the previous fiscal year	7,812	¥3,492 million
· Treasury stock held at the end of the period	10,064	¥4,641 million

**(2) Results by Business Segment**

(Millions of yen)

Item		FY2005 Interim		FY2004 Interim		Change	
		Amount	Weight	Amount	Weight	Amount	Change (%)
Net Sales	Apparel	48,287	60.4	49,256	62.2	(969)	(2.0)
	Functional Solutions	26,096	32.7	24,021	30.3	2,075	8.6
	Lifestyle Creations	5,531	6.9	5,944	7.5	(414)	(7.0)
	Subtotal	79,916	100.0	79,223	100.0	694	0.9
	Eliminations	(749)		(867)		118	-
	Consolidated	79,166		78,355		811	1.0
Operating Income	Apparel	2,462	44.7	2,310	39.2	152	6.6
	Functional Solutions	2,862	51.9	2,594	44.1	269	10.4
	Lifestyle Creations	185	3.4	980	16.7	(797)	(81.2)
	Subtotal	5,510	100.0	5,886	100.0	(375)	(6.4)
	Eliminations	(1,494)		(1,532)		38	-
	Consolidated	4,016		4,353		(337)	(7.7)

**(3) Significant Financial Indicators**

		FY2005 Interim	FY2004 Interim	Change
Operating Income to Total Assets Ratio	%	2.0	2.3	(0.3)
Ordinary Income to Total Assets Ratio	%	2.0	2.4	(0.4)
Operating Income to Net Sales Ratio	%	5.1	5.6	(0.5)
Ordinary Income to Net Sales Ratio	%	5.0	5.8	(0.8)
Shareholders' Equity Ratio	%	62.8	59.2	3.6
ROE	%	2.0	3.2	(1.2)
Earnings (Loss) per Share	¥	11.67	16.30	(4.63)
Equity per Share	¥	587.47	513.00	74.47

**(4) Cash Flows**

(Millions of yen)

Cash Flow Activity	FY2005 Interim	FY2004 Interim	Change	Breakdown of Major Components
Operating Activities	(1,163)	2,757	(3,920)	Income before income taxes: 4,783; Depreciation and amortization: 3,032; Amortization related to retirement benefit obligations: 528; Loss on sale of investment securities: 553; Loss on disposal of property, plant and equipment: 200; Decrease in allowance for retirement benefits: 857; Increase in working capital: 3,952; Income taxes paid: 2,713
Investing Activities	(4,061)	(4,389)	328	Purchase of property, plant and equipment: 4,359; Gain on sale of property, plant and equipment: 415
Financing Activities	5,739	770	4,969	Increase in short-term debt: 8,592; Dividend payments: 1,648; Purchase of treasury stock: 1,150
Foreign Currency Translation	25	(2)	27	
Increase in Cash and Cash Equivalents - Interim Period	539	(864)	1,403	
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	56	99	(43)	1 firm (Shanghai Gunze New Packaging Co., Ltd.)
Cash and Cash Equivalents - End of Period	5,173	5,483	(310)	

**(5) Capital Expenditures and Depreciation and Amortization by Segment** (Millions of yen)

Item		FY2005 Plan			FY2004		Y-over-Y Change
		Amount	Weight	Interim	Amount	Weight	
Capital Expenditures	(Overseas) Apparel	400		133	326		
		2,000	20.0	666	2,019	22.0	(19)
	(Overseas) Functional Solutions	550		68	2,551		
		7,400	74.0	2,157	4,829	52.6	2,571
	(Overseas) Lifestyle Creations	0		0	0		
	600	6.0	518	2,324	25.4	(1,724)	
	(Overseas) Total	950		201	2,877		
		10,000	100.0	3,341	9,172	100.0	828
Depreciation and Amortization	Apparel	1,900	29.7	787	1,787	33.7	113
	Functional Solutions	3,700	57.8	1,526	2,647	49.8	1,053
	Lifestyle Creations	800	12.5	456	876	16.5	(76)
	Total	6,400	100.0	2,769	5,310	100.0	1,090

Note:

Capital Expenditures include investments for intangible fixed assets.

Planned capital expenditures for FY2005, including the Head Office, amount to ¥10.5 billion.

**(Major Capital Expenditures – FY2005 Interim Period)**

- Plastic Film Company: Shrink film production facility ¥376 million
- Plastic Film Company: Slitter machines ¥231 million
- Electronic components: Coating facility ¥553 million
- Engineering plastics: CA belt production facility ¥297 million
- Gunze Development Co., Ltd.: Development of Nagata-cho area ¥325 million
- Gunze Development Co., Ltd.: Development of Kaga area ¥175 million

**(Major Planned Expenditures - FY2005 Second Half)**

- Men's & Kids' Company: Dyeing machines ¥217 million
- Plastic Film Company: New multi-layer sheet production facility ¥507 million
- Plastic Film Company: Shrink film production facility ¥1,033 million
- Gunze Plastics & Engineering Corporation of Europe: Multi-layer sheet production facility ¥285 million
- Gunze Packaging Systems Co., Ltd.: Factory refurbishing ¥170 million
- Engineering plastics: CA belt production facility (Ayabe area) ¥720 million
- Engineering plastics: CA belt production facility (Konan area) ¥1,269 million
- Gunze Development Co., Ltd.: Energy-saving facility ¥352 million

**(5) Capital Expenditures and Depreciation and Amortization by Segment** (Millions of yen)

Item		FY2005 Plan			FY2004		Y-over-Y Change
		Amount	Weight	Interim	Amount	Weight	
Capital Expenditures	(Overseas) Apparel	400		133	326		
		2,000	20.0	666	2,019	22.0	(19)
	(Overseas) Functional Solutions	550		68	2,551		
		7,400	74.0	2,157	4,829	52.6	2,571
	(Overseas) Lifestyle Creations	0		0	0		
	600	6.0	518	2,324	25.4	(1,724)	
	(Overseas) Total	950		201	2,877		
		10,000	100.0	3,341	9,172	100.0	828
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	Functional Solutions	3,700	57.8	1,526	2,647	49.8	1,053
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	Total	6,400	100.0	2,769	5,310	100.0	1,090

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- Engineering plastics: CA belt production facility (Konan area) ¥1,269 million
- Gunze Development Co., Ltd.: Energy-saving facility ¥352 million

**(6) FY2005 Forecast**

(Millions of yen)

	<b>FY2005 Forecast</b>	<b>FY2004</b>	<b>Change</b> <Upper figures %>
<b>Net Sales</b>	[169,400] 165,000	160,565	<2.8> 4,435
<b>Operating Income</b>	[9,600] 9,600	8,696	<10.4> 904
<b>Ordinary Income</b>	[9,500] 9,500	8,943	<6.2> 557
<b>Net Income (Loss)</b>	[6,600] 6,600	11,603	<(43.1)> (5,003)

Notes: Figures in square brackets [ ] are initial forecasts announced in May 2005.

**(7) Forecast of Results by Segment**

(Millions of yen)

		<b>FY2005 Forecast</b>		<b>FY2004 Results</b>		<b>Change</b>	
		<b>Amount</b>	<b>Weight</b>	<b>Amount</b>	<b>Weight</b>	<b>Amount</b>	<b>Change (%)</b>
<b>Net Sales</b>	<b>Apparel</b>	101,200	60.8	100,810	62.2	390	0.4
	<b>Functional Solutions</b>	53,400	32.1	49,191	30.4	4,209	8.6
	<b>Lifestyle Creations</b>	11,900	7.1	11,967	7.4	(67)	(0.6)
	<b>Subtotal</b>	166,500	100.0	161,969	100.0	4,531	2.8
	<b>Eliminations</b>	(1,500)		(1,404)		(96)	-
	<b>Consolidated</b>	165,000		160,565		4,435	2.8
<b>Operating Income</b>	<b>Apparel</b>	6,200	48.8	5,073	43.2	1,127	22.2
	<b>Functional Solutions</b>	6,000	47.2	5,360	45.6	640	11.9
	<b>Lifestyle Creations</b>	500	4.0	1,322	11.2	(822)	(62.2)
	<b>Subtotal</b>	12,700	100.0	11,755	100.0	945	8.0
	<b>Eliminations</b>	(3,100)		(3,058)		(42)	-
	<b>Consolidated</b>	9,600		8,696		904	10.4