

Summary of Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2007

This document is an English translation of the Japanese-language original. All financial information has been prepared in accordance with accounting principles generally accepted in Japan.

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1. Preparations for summary of quarterly report

- (1) Use of simplified accounting method: Yes
 - Annual tax rates projected based on the statutory tax rates are applied for accounting for corporate income taxes.
- (2) Changes in accounting treatment from the most recent fiscal year: No
- (3) Changes in scope of consolidation and application of equity method: No

2. Consolidated results for the first quarter of FY2006 (April 1, 2006 to June 30, 2006)

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

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Three months ended June 2006	40,086	(0.1)	2,156	(3.1)	2,435	1.0
Three months ended June 2005	40,146	5.0	2,225	0.4	2,411	(3.9)
(Ref.) Year ended Mar. 2006	165,697		9,014		8,945	

	Net income (loss)		E.P.S.	Diluted E.P.S.
	¥ millions	%	¥	¥
Three months ended June 2006	2,270	64.7	10.51	-
Three months ended June 2005	1,378	(58.8)	6.28	-
(Ref.) Year ended Mar. 2006	6,220		28.33	-

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

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	¥ millions	¥ millions	%	¥
Three months ended June 2006	219,434	133,505	60.3	615.63
Three months ended June 2005	197,339	122,555	62.1	559.34
(Ref.) Year ended Mar. 2006	212,486	136,318	64.2	628.69

Note: Net assets for the first quarter and full year of FY2005 do not include minority interests.

3. Projected results for FY2006 (April 1, 2006 to March 31, 2007)

Since first-quarter results were close to initially projected results (forecast announced on May 12, 2006), initial FY2006 interim and full-year forecasts announced with FY2005 results (for the fiscal year ended March 31, 2006) remain the same. Earnings per share take into consideration the reduced yearly average number of shares accompanying the reacquisition of treasury stock during the first quarter.

	Net sales	Ordinary income	Net income
	¥ millions	¥ millions	¥ millions
FY2006 interim	83,000	4,100	2,700
FY2006 full-year	174,400	10,400	8,400

(Ref.) Projected earnings per share (full-year): ¥39.04

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.

Review of Operations (for the Three Months Ended June 30, 2006)

During the first quarter of the current fiscal year (April 1, 2006 to June 30, 2006), the Japanese economy advanced steadily with an aggressive expansion in capital investment and a recovery in consumer spending. However, the retail industry, including department stores and general merchandizing stores, experienced slow sales due primarily to unseasonable weather from April through May. Faced with these continued challenges, the Gunze Group made aggressive capital investments in high-growth fields, while also developing highly distinguished products and technologies. Efforts were also concentrated on promoting cost reductions and strengthening comprehensive approaches for clients. As a result, the Gunze Group's consolidated net sales for the period under review totaled ¥40,086 million, or a year-over-year decrease of 0.1%. Operating income declined 3.1% to ¥2,156 million. Ordinary income, however, rose 1.0% to ¥2,435 million. Consolidated net income was ¥2,270 million, or a year-over-year increase of 64.7%. This was mainly due to the posting of an amortization gain of ¥1,786 million arising from unrecognized net actuarial gains related to retirement benefit obligations. Net sales and operating income by business segment during the period under review are listed below.

[Apparel]

Operating income declined 8.2% year over year to ¥1,313 million on a decrease of 3.9% in net sales to ¥23,771 million.

Men's and Kids' Wear Company

In men's innerwear, unseasonable weather conditions in April and May slowed store sales. Although "Cool Biz"-related items and other seasonal products enjoyed sales growth over the same period of the previous year, the *GAIA*-category of innerwear brands centering on *BODY WILD* and the "Friendly" category products suffered declining sales. Consequently, the Men's and Kids' Wear Company posted a decrease in both revenues and profits.

Ladies' and Leg Wear Company

In women's innerwear, the *Flaty* campaign helped drive sales up for new innerwear

products such as *CFA100* and *Yasashisa Monogatari*, and *BODY WILD* and other casual wear products. By contrast, basic product sales were sluggish, which resulted in an overall revenue decline. In lingerie and foundation garments, the core brand *Tuché* performed strongly. However, *Yansoffi* and *Iineno Tsuikyū* posted disappointing sales. In the stockings category, patterned stockings and the *STYLISH PANTS*, a new category item, enjoyed increased sales. Overall, the Ladies' and Leg Wear Company recorded a decrease in both revenues and profits.

Other Textiles

In the home casual (pajamas) category, sleepwear products recorded a year-over-year sales rise thanks to successful "Mother's Day" and "Father's Day" promotions. Home wear product sales, however, were disappointing due to slow market conditions for spring-season products. Consequently, this category posted a decrease in both revenues and profits. In textile materials, industrial machine-sewing threads suffered disappointing sales in Japan and China. However, accessories and auxiliary materials recorded strong sales, which helped boost overall revenues for this category, although profits posted a slight decline.

[Functional Solutions]

Net sales increased 2.5% year over year to ¥13,313 million and operating income rose 7.8% to ¥1,544 million.

Plastic Film Company

The plastic film industry, in which Gunze is involved, faces increasingly intensified competition along with the maturity of the beverage market. Despite this tough challenge, new high-performance products made a significant contribution to sales increases, and exports also remained strong. Gunze was also able to pass on material cost increases to sales prices of its products. These factors allowed both revenues and profits to remain nearly on par with the levels recorded during the same period of the previous year. Overseas operations in the United States and Europe also began to see enhanced profitability and other productive effects of the technical assistance from Japan, as well group-wide efforts to spur improvements. Partly due to increased burdens caused by depreciation, the Plastic Film Company posted decreased profits with a slight

decline in revenues.

Engineering Plastics

As for the office equipment industry as a whole, color multifunction peripherals (MPFs) are showing especially remarkable growth. This helped mainstay CA belts (high-performance polyimide resin belts for color photocopiers and printers) continue to perform impressively. Sales for fluorocarbon resin thin-walled tubing for fixation rollers also advanced steadily, with overseas sales also being strong. Increased depreciation expenses accompanying equipment upgrades dragged down the overall profits for this category, despite a year-over-year increase in revenues.

Electronic Components

Gunze proprietary high-performance touch panels for video applications and mid-/large-sized touch panels for notebook PCs and handy terminals continued to be popular, resulting in significant sales growth year over year. Sales promotions for the touch panel-based LCD product also advanced steadily, with its first employment as an in-store POS system in Europe. Overall, the electronic components category recorded year-over-year increases in revenues and profits.

Others

Although sales for food processing and pharmaceuticals/packaging-related machinery were strong, printing press-related machinery experienced sluggish sales, which in turn dragged down overall revenues and profits in this category. Sales expansion for bone fixation materials and artificial dermis proved effective, contributing to overall increases in revenues and profits for medical materials.

[Lifestyle Creations]

Net sales rose 21.1% year over year to ¥3,376 million and operating income rose 184.0% to ¥142 million.

The grand opening of the *Gunze Town Center TSUKASHiN* at the end of April significantly contributed to growth in the real estate business. Since its opening, this new shopping center, with its firm roots in the local community, has enjoyed a great

deal of popularity. As a result, overall real estate revenues and profits increased. In sports facility management, a new sports club opened at Kurashiki Ivy Square in April and at Port Wave Nishinomiya in June. Gunze also initiated entrusted management for the *Nionohama Fureai Sports Center* in Otsu City commissioned by the municipal government in April. Overall, sports facility management posted an increase in revenues, albeit with decreased profits.

Outlook for FY2006

As the consolidated results for the first quarter nearly reached the company's initial targets, Gunze has not revised its half-year and full-year forecasts announced previously on May 12, 2006.

(1) Consolidated Balance Sheets

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

	End of FY2006		End of FY2005		Increase		(Ref.) FY2005	
	1st quarter		1st quarter		(Decrease)		(As of Mar. 31, 2006)	
	(As of Jun. 30, 2006)		(As of Jun. 30, 2005)					
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
(Assets)		%		%				%
Current assets								
1 Cash and cash equivalents	6,495		5,911		583	9.9	5,114	
2 Trade notes & accounts receivable	38,781		39,740		(958)	(2.4)	38,036	
3 Inventories	38,897		39,044		(146)	(0.4)	38,781	
4 Real estate inventories	418		638		(220)	(34.5)	440	
5 Short-term advances	314		419		(105)	(25.1)	243	
6 Deferred tax assets	1,703		1,387		316	22.8	1,520	
7 Other current assets	2,689		1,461		1,228	84.1	2,271	
Allowance for doubtful accounts	(47)		(168)		120	-	(41)	
Total	89,253	40.7	88,435	44.8	817	0.9	86,366	40.6
Fixed assets								
1 Property, plant and equipment								
(1) Buildings and structures	42,133		34,160		7,972	23.3	33,798	
(2) Machinery and equipment	17,680		16,039		1,640	10.2	17,575	
(3) Tools, furniture and fixtures	1,064		1,078		(14)	(1.3)	1,072	
(4) Land	12,270		12,372		(101)	(0.8)	12,268	
(5) Construction in progress	3,563		2,145		1,417	66.1	3,039	
Total	76,711	35.0	65,796	33.4	10,914	16.6	67,755	31.9
2 Intangible fixed assets								
(1) Other intangible fixed assets	1,177		1,045		132	12.6	1,075	
Total	1,177	0.5	1,045	0.5	132	12.6	1,075	0.5
3 Investments and other assets								
(1) Investments in securities	44,761		33,084		11,676	35.3	48,819	
(2) Long-term advances	988		927		60	6.6	971	
(3) Deferred tax assets	1,613		3,437		(1,824)	(53.1)	2,514	
(4) Other assets	5,186		4,917		269	5.5	5,245	
Allowance for doubtful accounts	(258)		(306)		48	-	(263)	
Total	52,291	23.8	42,060	21.3	10,230	24.3	57,288	27.0
Total	130,180	59.3	108,903	55.2	21,277	19.5	126,119	59.4
Total assets	219,434	100.0	197,339	100.0	22,095	11.2	212,486	100.0

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

	End of FY2006 1st quarter (As of Jun. 30, 2006)		End of FY2005 1st quarter (As of Jun. 30, 2005)		Increase (Decrease)		(Ref.) FY2005 (As of Mar. 31, 2006)	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
		%		%				%
(Liabilities)								
Current liabilities								
1 Notes & accounts payable, trade	12,000		12,464		(463)	(3.7)	12,563	
2 Short-term debt	5,074		4,782		292	6.1	5,201	
3 Commercial paper	22,000		13,000		9,000	69.2	10,000	
4 Current portion of long-term debt	1,307		426		880	206.8	1,307	
5 Accrued income taxes	2,631		1,917		714	37.2	6,620	
6 Allowance for employees' bonuses	579		529		49	9.5	1,791	
7 Notes payable on acquisition of property, plant and equipment	9,007		-		9,007	-	-	
8 Other current liabilities	8,838		13,546		(4,708)	(34.8)	9,050	
Total	61,438	28.0	46,667	23.7	14,771	31.7	46,533	21.9
Long-term liabilities								
1 Long-term debt	400		1,712		(1,312)	(76.6)	407	
2 Deferred tax liabilities	8		2		5	300.0	2,788	
3 Allowance for retirement benefits	12,344		15,199		(2,855)	(18.8)	14,366	
4 Allowance for directors' and statutory auditors' retirement benefits	464		433		30	7.2	512	
5 Long-term deposits & guarantee deposits	11,235		9,244		1,990	21.5	10,067	
6 Other	36		130		(93)	(72.3)	37	
Total	24,489	11.2	26,724	13.5	(2,234)	(8.4)	28,179	13.2
Total liabilities	85,928	39.2	73,391	37.2	12,537	17.1	74,713	35.1
(Minority interests)								
Minority interests	-	-	1,392	0.7	-	-	1,454	0.7
(Shareholders' equity)								
Common stock	-	-	26,071	13.2	-	-	26,071	12.3
Additional paid-in capital	-	-	22,718	11.5	-	-	22,718	10.7
Retained earnings	-	-	66,568	33.7	-	-	71,402	33.6
Revaluation difference on land	-	-	(825)	(0.4)	-	-	(825)	(0.4)
Net unrealized gains on other securities	-	-	12,359	6.3	-	-	22,049	10.4
Foreign currency translation adjustments	-	-	(357)	(0.2)	-	-	260	0.1
Treasury stock	-	-	(3,978)	(2.0)	-	-	(5,358)	(2.5)
Total shareholders' equity	-	-	122,555	62.1	-	-	136,318	64.2
Total liabilities, minority interests & shareholders' equity	-	-	197,339	100.0	-	-	212,486	100.0
(Net assets)								
Shareholders' equity								
1 Common stock	26,071		-		-		-	
2 Additional paid-in capital	22,718		-		-		-	
3 Retained earnings	71,474		-		-		-	
4 Treasury stock	(6,712)		-		-		-	
Total	113,552	51.7	-	-	-	-	-	-
Valuation, translation adjustments and others								
1 Net unrealized gains on other securities	19,162		-		-		-	
2 Deferred gains on hedge	24		-		-		-	
3 Revaluation difference on land	(825)		-		-		-	
4 Foreign currency translation adjustments	295		-		-		-	
Total	18,657	8.5	-	-	-	-	-	-
Minority interests	1,296	0.6	-	-	-	-	-	-
Total net assets	133,505	60.8	-	-	-	-	-	-
Total liabilities and total net assets	219,434	100.0	-	-	-	-	-	-

(2) Consolidated Statements of Income

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

	FY2006 1st quarter (Apr. 1, 2006 to Jun. 30, 2006)		FY2005 1st quarter (Apr. 1, 2005 to Jun. 30, 2005)		Increase (Decrease)		(Ref.) FY2005 (Apr. 1, 2005 to Mar. 31, 2006)	
	Amount	Ratio	Amount	Ratio	Amount	Pct.	Amount	Ratio
Net Sales	40,086	100.0	40,146	100.0	(59)	(0.1)	165,697	100.0
Cost of sales	28,795	71.8	28,629	71.3	166	0.6	119,202	71.9
Gross profit	11,291	28.2	11,516	28.7	(225)	(2.0)	46,495	28.1
Selling, general & administrative expenses	9,134	22.8	9,291	23.1	(157)	(1.7)	37,481	22.7
Operating income	2,156	5.4	2,225	5.6	(68)	(3.1)	9,014	5.4
Non-operating income	530	1.3	417	1.0	112	27.1	1,443	0.9
1 Interest income	15		17				101	
2 Dividend income	301		224				384	
3 Rental income	120		46				372	
4 Exchange gain	15		52				83	
5 Other	78		76				501	
Non-operating expenses	251	0.6	232	0.6	19	8.2	1,511	0.9
1 Interest expenses	94		79				362	
2 Rental costs	94		37				313	
3 Loss on valuation of inventories	-		-				209	
4 Loss on disposal of inventories	9		13				293	
5 Other	53		101				332	
Ordinary income	2,435	6.1	2,411	6.0	23	1.0	8,945	5.4
Extraordinary income	2,196	5.5	408	1.0	1,788	438.2	3,730	2.2
1 Gain on sale of property, plants & equipment	9		0				597	
2 Gain on sale of investments in securities	-		7				1,393	
3 Gain on reversal of allowance for doubtful accounts	-		-				136	
4 Amortization of actuarial gain on retirement benefits	1,786		-				-	
5 Amortization gain of prior service cost on retirement benefits by transition from an employees' pension fund to a cash-balance plan	400		400				1,602	
Extraordinary losses	632	1.6	169	0.4	463	274.0	1,552	0.9
1 Loss on sale or disposal property, plants & equipment	418		30				251	
2 Loss on valuation of investments in securities	1		1				29	
3 Loss on business structure improvement	166		-				-	
4 Amortization of actuarial loss on retirement benefits	-		136				547	
5 Loss on compensation for removal of tenants	-		-				490	
6 Other	46		-				234	
Income before income taxes and minority interests	3,999	10.0	2,649	6.6	1,349	51.0	11,123	6.7
Income taxes - current	1,726	4.3	1,240	3.1	486	39.2	7,589	4.5
Income taxes - deferred	-	-	-	-	-	-	(2,795)	(1.7)
Minority interests	2	0.0	31	0.1	(28)	(93.5)	108	0.1
Net income	2,270	5.7	1,378	3.4	891	64.7	6,220	3.8

Segment Data

(1) Segment Information by Business

First quarter of FY2006 (April 1, 2006 to June 30, 2006)

(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	23,733	13,292	3,060	40,086	-	40,086
(2) Intersegment sales and transactions	37	20	316	374	(374)	-
Total	23,771	13,313	3,376	40,461	(374)	40,086
Operating expenses	22,457	11,768	3,234	37,460	469	37,929
Operating income (loss)	1,313	1,544	142	3,001	(844)	2,156

First quarter of FY2005 (April 1, 2005 to June 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	24,730	12,953	2,462	40,146	-	40,146
(2) Intersegment sales and transactions	17	35	325	378	(378)	-
Total	24,748	12,988	2,787	40,524	(378)	40,146
Operating expenses	23,317	11,556	2,737	37,610	309	37,920
Operating income (loss)	1,431	1,432	50	2,913	(688)	2,225

FY2005 (April 1, 2005 to March 31, 2006)

(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	102,033	53,264	10,400	165,697	-	165,697
(2) Intersegment sales and transactions	93	133	1,389	1,616	(1,616)	-
Total	102,126	53,397	11,790	167,314	(1,616)	165,697
Operating expenses	96,205	47,820	11,236	155,263	1,420	156,683
Operating income (loss)	5,920	5,576	553	12,050	(3,036)	9,014

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.

1st quarter of FY2006:	844 million yen
1st quarter of FY2005:	688 million yen
FY2005 (Full year):	3,036 million yen

(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.

Production, Orders and Sales

(1) Results of Production

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

Business Segment	FY2006 1st quarter	FY2005 1st quarter
	(Apr. 1, 2006 to Jun. 30, 2006)	(Apr. 1, 2005 to Jun. 30, 2005)
Apparel	13,560	14,198
Functional solutions	9,847	9,184
Total	23,408	23,383

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	FY2006 1st quarter	FY2005 1st quarter
	Apparel	2,701
Functional solutions	424	384
Lifestyle creations	757	666
Total	3,884	4,019

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	FY2006 1st quarter		FY2005 1st quarter	
	(Apr. 1, 2006 to Jun. 30, 2006)		(Apr. 1, 2005 to Jun. 30, 2005)	
	Orders received	Outstanding orders	Orders received	Outstanding orders
Machinery included in the functional solutions business	2,489	3,487	1,766	2,386

Note: Figures exclude consumption tax.

(3) Sales

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

Business Segment	FY2006 1st quarter	FY2005 1st quarter	Increase
	(Apr.1, 2006 to Jun. 30, 2006)	(Apr. 1, 2005 to Jun. 30, 2005)	(Decrease)
Apparel	23,771	24,748	(3.9) [%]
Functional solutions	13,313	12,988	2.5
Lifestyle creations	3,376	2,787	21.1
Subtotal	40,461	40,524	(0.2)
Excl. intersegment sales	(374)	(378)	-
Total	40,086	40,146	(0.1)

Note: Figures exclude consumption tax.