

Consolidated Financial Statements -- Summary
(Six months ended September 30, 2006)

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>)

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Interim Board of Directors Meeting: November 7, 2006

Statements Prepared Under U.S. GAAP: No

1. Consolidated Operating Results of FY2006 Interim Period (Apr. 1 to Sept. 30, 2006)

(1) Consolidated Operating Results

(Amounts less than one million yen are omitted)

	Net Sales (¥ million)	Change (%)	Operating Income (¥ million)	Change (%)	Ordinary Income (¥ million)	Change (%)
FY2006 Interim	¥81,268	2.7	¥4,090	1.8	¥4,269	8.3
FY2005 Interim	79,166	1.0	4,016	(7.7)	3,942	(13.1)
FY2005	¥165,697		¥9,014		¥8,945	

	Net Income (Loss) (¥ million)	Change %	E.P.S. (¥)	Diluted E.P.S. (¥)
FY2006 Interim	¥2,783	8.8	¥12.93	-
FY2005 Interim	2,557	(28.8)	11.67	-
FY2005	¥6,220		¥28.33	-

Notes:

(1) Equity in income of affiliated companies:

FY2006 Interim: -

FY2005 Interim: -

FY2005: -

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

FY2006 Interim: 215,241,981

FY2005 Interim: 219,227,066

FY2005: 218,205,855

(3) Changes in accounting treatment: No

(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)	Net Assets (¥ million)	Net Worth Ratio (%)	Net Assets per Share (¥)
FY2006 Interim	¥217,809	¥132,583	60.3	¥614.52
FY2005 Interim	203,784	127,992	62.8	587.47
FY2005	¥212,486	¥136,318	64.2	¥628.69

Note:

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

FY2006 Interim: 213,712,775

FY2005 Interim: 217,870,243

FY2005: 216,770,387

(2) In the above table, numbers for shareholders' equity, equity ratio, and equity per share are listed for net assets, net worth ratio, and net assets per share for the interim period and for the full year of FY2005, respectively.

(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)
FY2006 Interim	¥(915)	¥(7,260)	¥8,113	¥5,040
FY2005 Interim	(1,163)	(4,061)	5,739	5,173
FY2005	¥5,836	¥(6,446)	¥984	¥5,114

(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: 0

Excluded: 0

Equity-method affiliates:

New: 0

Excluded: 0

2. Forecast for FY2006 Consolidated Operating Results (Apr. 1, 2006 to Mar. 31, 2007)

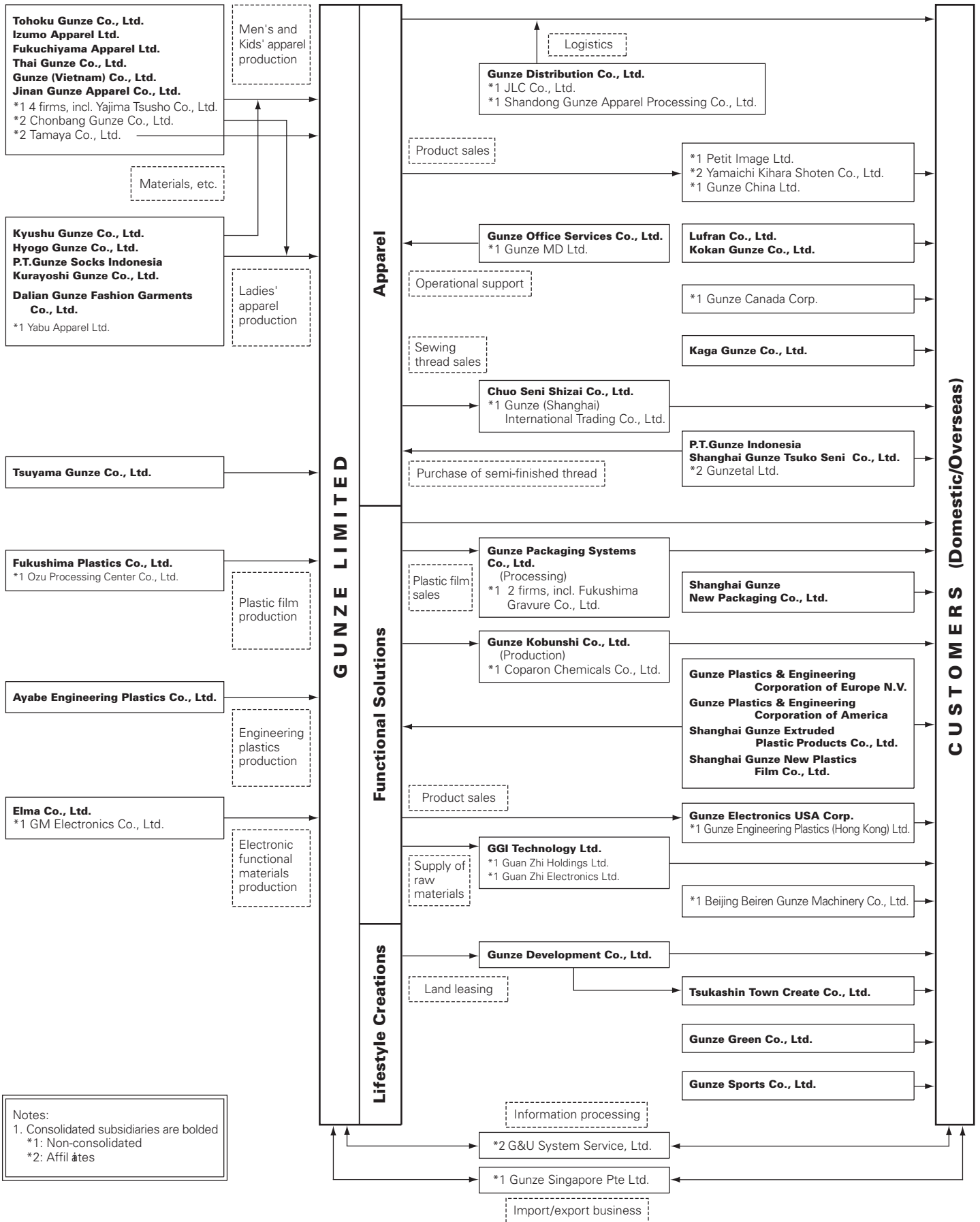
	Net Sales (¥ millions)	Ordinary Income (¥ millions)	Net Income (¥ millions)
FY2006 full-year	¥172,100	¥10,400	¥8,400

(Ref.) Projected earnings per share (full-year): ¥39.14

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 9 and 10.

1. The Gunze Group

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



2. Management Policies

1. Basic Management Policy

In conformance with its “quality first” policy and its commitment to “technology-centered management,” the Gunze Group promotes customer-focused business operations. In doing so, the Group lives up to its founding philosophy that underscores a commitment to quality, coexistence, and a people-oriented approach. Based on this philosophy, Gunze strives to completely fulfill its social obligations by proactively addressing corporate social responsibility (CSR) issues, while working hard to develop and offer new products and services that are safer, more comfortable and more appealing, as well as providing new functionality. In this way, Gunze aims to become a global company that contributes to the enrichment of people’s lifestyles.

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 a stable dividend based on the medium- to long-term business outlook, with a target payout ratio of approximately 30% on a consolidated basis. In line with this basic policy, the Gunze Group plans to pay a dividend of ¥10 per share for fiscal 2006. 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

With the aim of further promoting shareholder-focused management practices, the Gunze Group’s main goal has been to achieve a return on equity (ROE) of 10% or more through measures aimed at increasing profitability, using capital more productively, and repurchasing treasury stock. To achieve this goal, the Group uses return on assets (ROA) to gauge the productivity of business investments in each business division and group company, in a drive to improve both the asset turnover ratio and profit margin on sales.

5. Medium- and Long-term Management Strategies

In fiscal 2005, the Gunze Group embarked on its new three-year medium-term management plan called the “3C10 Plan.” With the slogan “From inspiration: creation. From ambition: fruition. From dreams: tomorrow’s reality,” the “3C10 Plan” focuses on four key strategies, namely “business structure reform,” “business expansion through aggressive management practices,” “corporate brand loyalty enhancement,” and “human resource development.” The goal is to build a stronger base of

operations and boost the Gunze Group's corporate value by promoting growth and efficiency.

* The "3C" in the "3C10 Plan" stands for "Category Creation for Customers."

The first key strategy, business structure reform, involves reorganization of business units into three strategic business segments: apparel (consumer products), functional solutions (industrial products), and lifestyle creations (services). By promoting highly specialized business operations in each segment, and empowering each segment with greater authority and responsibility, faster decision-making and streamlined administrative operations can be achieved. Through these actions, Gunze strives to maximize performance in each business area. The eventual aim is to develop these core business segments into three major internal companies.

Gunze is striving for optimal allocation of its corporate resources via a business portfolio strategy. The strategy categorizes all business fields handled by the Gunze Group into four stages: focused investment, expansion, cultivation and selective investment, and integration and restructuring. Gunze also strives to clearly identify sources of high-growth potential (growth factors) for each business segment and take aggressive approaches to promoting these promising areas, while also expanding operations in China and other markets abroad. Other measures aimed at business expansion include developing business models to support the creation of new business categories and to raise market competitiveness. This can be achieved by strengthening apparel sales potential through a fully established supply chain management (SCM) system and collaboration between the production and sales sectors, along with cost structure reform.

To enhance corporate brand loyalty Gunze is promoting a proactive corporate brand strategy that involves enhancing the presence of its national brands. Technology-centered management practices are also being accelerated by augmenting the quality assurance system and developing new production technologies. Active efforts are also concentrated on strengthening CSR practices. Gunze is also involved with the transformation of its human resource development model through various measures. These include "Gunze College," which is designed to foster highly talented specialists; training programs for corporate executives; and an in-house staff recruitment initiative.

6. Key Management Issues

Although the Japanese economy is on a growth track, the Gunze Group is expected to continue facing challenges in its business environment, including crude oil and raw material prices that remain at high rates. To effectively deal with this situation, the Gunze Group will aggressively promote the creation of new business categories based on the aforementioned "3C10 Plan" and by maintaining the stance of "quality first" and "technology-centered management" to ensure growth. The Gunze Group also seeks to build business models according to the characteristics of each product category so as to minimize losses and inefficiencies in operations. Reinforcement of Gunze's global management system is also essential. This will be realized by building a solid overseas sales promotion system, establishing fully developed technologies and a solid operating base at overseas affiliates, and promoting global procurement, production and logistics systems. To effectively respond to these key issues, it is essential to energize the organization by strengthening

Group-wide initiatives. This requires a transformation of the mindset of individual employees. At the same time, the Gunze Group will commit itself to promoting well-planned recruiting and training of talented human resources including those for overseas affiliates. We are also committed to passing on expert knowledge and skills to future generations, as well as strengthening CSR activities.

7. Parent Company Information

This item is not applicable because Gunze has no parent company.

3. Review of Operations and Financial Position

1. Review of Operations (April 1 to September 30, 2006)

(1) Analysis of First-Half Results

During the first half of the present fiscal year (April 1 to September 30, 2006), the Japanese economy advanced steadily with a general improvement in corporate performance and capital investment, accompanied by growing employment. These factors brought about a rise in income levels and a gradual increase in consumer spending. However, risk factors such as escalating raw material costs due to a rise in crude oil prices still remain. With these negative factors, along with prominent disparities among sectors and companies, the future of the business environment remains unclear. Faced with this situation, the Gunze Group maintained its commitment to a “quality first” policy and “technology-centered management” in promoting the creation of new business categories through the development of highly distinguished products. Efforts were also concentrated in strengthening comprehensive approaches for clients, along with proactive capital investments in high-growth business fields and aggressive promotion of cost reduction. Consequently, the Gunze Group’s consolidated net sales for the first half-year period under review totaled ¥81,268 million, or a year-over-year increase of 2.7%. Operating income grew 1.8% to ¥4,090 million, while ordinary income rose 8.3% to ¥4,269 million. Consolidated net income was ¥2,783 million, or a year-over-year increase of 8.8%.

(2) Results by Business Segment and Analysis

[Apparel]

Operating income decreased 19.4% year over year to ¥1,984 million on a decline of 3.2% in net sales to ¥46,764 million.

Men’s and Kids’ Wear Company

In men’s innerwear, spring/summer season sales were slow overall, with the traditional surge in seasonal store sales lacking due to unseasonable weather conditions. Although “Cool Biz”-related product sales grew steadily, overall sales for the *GAIA* category of new innerwear brands such as *BODY WILD* and *YG-X* were sluggish, mainly due to increasingly severe market competition. As for the “Friendly” category of basic white and seasonal products, sales were strong for seasonal products, but year-round products suffered disappointing performance, dragging the overall category sales down to below the level of a year earlier. Although package-priced value products in

children's underwear performed strongly, new innerwear product sales were sluggish. As a result, 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 designed to promote the distinctive appeal of this brand continued along with active sales promotion for "Cool Biz"-related products. Although these strategies helped new innerwear product sales remain relatively strong, basic products suffered sluggish sales, which resulted in an overall revenue decline for the category. In lingerie and foundation garments, the core brand *Tuché* continued to perform impressively. However, *Yansoffi* and *Ineno Tsuikyū* posted disappointing sales. In the stockings category, along with the fashion comeback of the skirt, stockings — in particular patterned ones — enjoyed increased sales. Sales areas expanded steadily for *STYLISH PANTS*, a new category item designed to promote the benefits of shaping the hips and slimming the midsection. However, unseasonable weather conditions negatively impacted sales for separate-type and knee-high stockings. As a result, the Ladies' and Leg Wear Company recorded a decrease in both revenues and profits.

Other Textiles

In the home casual (pajamas) category, sleepwear sales rose impressively thanks to successful "Mother's Day," "Father's Day" and "Respect for the Elderly Day" promotions, resulting in a year-over-year increase in both revenues and profits for the category. In textile materials, industrial machine-sewing threads continued to confront a shrinking market in Japan. However, steady sales expansion for sports wear-related materials and accessories, combined with reinforced sales and marketing efforts for China and Southeast Asia, helped boost overall revenues and profits for this category.

[Functional Solutions]

Net sales rose 9.4% year over year to ¥28,552 million and operating income grew a healthy 18.1% to ¥3,381 million.

Plastic Film Company

OPP film sales expanded steadily, centering on high-performance products such as anti-fogging and easy-open packaging film lines, especially for sprouts and other fresh vegetable packaging applications. Revenues from shrink film also increased thanks to strong exports and the successful winning of orders for the highly differentiated new product, hybrid styrene films for hot beverage bottle labels. Although composite nylon film sales were slow for summer season product applications, sales for autumn season products go off to a good start. To effectively cope with repeated price increases in raw materials, Gunze is actively promoting cost reductions while also working to pass on material cost increases to sales prices. Overseas operations in the United States and Europe achieved enhanced productivity through comprehensive group-wide improvement activities. Consequently, the Plastic Film Company posted increases in revenues and profits.

Engineering Plastics

Along with the accelerated shift to color-capable models in the global office automation equipment market (copiers, printers, facsimiles, etc.), sales for mainstay CA belts (high-performance polyimide

resin belts for color photocopiers and printers) continued to grow. Fluorocarbon resin thin-walled tubing for fixation rollers also enjoyed impressive sales overall, including overseas sales. Robust orders continued with engineering plastics for general industrial applications as well, especially for semiconductor-related fields and overseas markets. Overall, the engineering plastics category recorded year-over-year increases in revenues and profits.

Electronic Components

Touch panels with Gunze proprietary polarizing plate technology as well as mid-/large-size touch panels for video equipment, notebook PCs and factory automation equipment showed a remarkable increase in sales over the same period of the previous year. Efforts to develop new markets and promote sales also proved effective for high-value-added products integrated with a LCD peripheral circuit board, aimed for information terminal applications in and outside of Japan. As a result, both revenues and profits increased year over year in the electronic components category.

Others

In printing press-related machinery, mainstay stacker-bundlers and a new product sheeter enjoyed impressive sales. Packaging-related and other industrial machines also showed sales growth, helping to drive up machinery revenues and profits. In medical materials, polyglycolic acid (PGA) suture thread sales advanced steadily mainly for overseas markets. Furthermore, the introduction of new grades helped boost domestic sales of reinforcement felt. With bone fixation materials also marking a year-over-year sales increase, the strong performance of mainstay products contributed to overall increases in revenues and profits for medical materials.

[Lifestyle Creations]

Net sales increased 21.0% year over year to ¥6,692 million and operating income soared 169.2% to ¥498 million.

Approximately six months have passed since the grand opening of the *Gunze Town Center TSUKASHiN*. Since then, various events and campaigns have been implemented to attract more customers and increase sales (increase the amount of purchase per customer), along with promotions aimed at expanding the trade area. Thanks to these efforts, real estate revenues and profits increased from the same period of the previous year. The landscaping and gardening sector also recorded increased revenues and profits, due to active solicitation of new orders for trees, flowering plants and related installations, along with strong gardening revenues. In sports facility management, two new directly managed sports clubs opened — one at Kurashiki Ivy Square and the other at Port Wave Nishinomiya. Gunze also initiated entrusted management for the *Nionohama Fureai Sports Center* in Otsu City commissioned by the municipal government. However, challenges faced by existing clubs and increased costs incurred for the new club opening dragged down overall profits, despite increased revenues.

(3) Outlook and Analysis for Fiscal 2006 and Segmental Projections

Solid corporate earnings and other positive factors are leading to expectations for the sustained expansion of the overall Japanese economy. On the negative side, however, crude oil prices, which have hovered at high rates, are causing raw material costs to soar. These challenging conditions

prevent an overly optimistic view about the future business outlook. In view of these situations, the Gunze Group will strive to implement group-wide efforts to improve its operating results with the fiscal 2006 policy of “boosting Gunze Group’s corporate value through effective implementation of the 3C10 Plan strategies — business structure reform and business expansion through aggressive management practices — based on the key concept of ‘solidity and fluidity.’”

In the apparel business, Gunze will concentrate its efforts on expanding sales of “Warm Biz”-related products, which are in the second year for both men’s and women’s innerwear, and conducting the Gunze Fair centering on Gunze 110th anniversary events. To further promote women’s innerwear, Gunze will launch a new large-scale brand in the spring of 2007. Called *She’s*, the brand targets second-generation baby-boomers. Ongoing overseas strategies aim to begin operations at the new logistics/processing company in China and expand production facilities. Furthermore, efforts are focused on strengthening local sales based on the new sales company established in Shanghai.

In the functional solutions business, proactive strategies for developing and promoting highly distinguished products featuring Gunze’s proprietary new functionality have begun to come to fruition in each sector. While developing markets for new businesses, Gunze will also implement overseas strategies aimed at expanding sales and solidifying management bases in America, Europe and Asia.

In the lifestyle creation business, Gunze will strive to boost real estate revenues through large-sale campaigns for the *Gunze Town Center TSUKASHiN* and stronger collaboration with tenant stores. As for sports facility management, Gunze will work on invigorating the existing clubs. In addition to the two new clubs opened in fiscal 2006, construction commencement for another new club is also scheduled for early 2007.

For fiscal 2006 (April 1, 2006 to March 31, 2007), the Gunze Group is forecasting net sales of ¥172,100 million, with ordinary income of ¥10,400 million and net income of ¥8,400 million on a consolidated basis.

Forecast by business segment are as follows:

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

Item \ Segment	Apparel	Functional solutions	Lifestyle creations	Eliminations/ Corporate	Total
Net sales	101,700	58,200	13,900	(1,700)	172,100
FY2006/FY2005	99.6%	109.0%	117.9%	-	103.9%

2. Financial Position

(1) Assets, Liabilities, Equity and Cash Flows for the Interim Period (Ended September 30, 2006)

As of September 30, 2006, consolidated cash and cash equivalents were ¥5 billion, or ¥0.1 billion less 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 ¥0.9 billion, a decrease of ¥0.2 billion compared to the same period one year earlier. Major components of cash flows were income before income taxes and minority interest of ¥5.1 billion; along with non-capital items including amortization and depreciation of ¥3.5 billion, and amortization gain related to retirement benefit obligations of ¥4.3 billion. Additional factors included a ¥0.6 billion increase in working capital, a decrease of ¥1.1 billion in other current liabilities, an increase of ¥1.8 billion in guarantee deposits, and income tax payments of ¥5.8 billion.

Investing Activities

Net cash used in investing activities totaled ¥7.2 billion, ¥3.1 billion more than one year earlier. This primarily reflects payments for the purchase of property, plants and equipment amounting to ¥5.7 billion (a year-over-year increase of ¥1.3 billion) and payments for the acquisition of investment securities amounting ¥1.4 billion (a year-over-year increase of ¥1.2 billion).

Financing Activities

Financing activities provided net cash of ¥8.1 billion, an increase of ¥2.3 billion compared to the same period of the previous year. This increase was mainly due to a ¥12.3 billion increase in short-term debt. Other components included ¥2.1 billion for dividend payments; and ¥2 billion for the acquisition of treasury stock.

(2) Cash Flow Indicator Trends

	March 31, 2004	March 31, 2005	March 31, 2006	Sept. 30, 2006
Net worth ratio (%)	57.8	63.9	64.2	60.3
Net worth ratio on market value basis (%)	63.3	57.1	81.1	65.5
Debt redemption period (years)	2.0	2.3	3.7	-
Interest coverage ratio	66.9	34.4	16.7	(5.4)

Notes:

The net worth ratio is equal to net worth divided by total assets.

The net worth ratio on market value basis 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.

3. Business and Other Risks

The following risks have the potential to impact the Gunze Group's operating results and financial conditions. Note that items referring to the future are based on the Gunze Group's judgment and assumptions as of the end of the consolidated interim period (September 30, 2006).

(1) Quality control

With the policy of "quality first" and commitment to "supply of high-quality products" remaining central to its business operations, a strict check system is in place at the Gunze Group to confirm the safety and quality of products and services that the Group offers. The goal is to continue offering products and services that are safer, more comfortable and more appealing. Should any quality problem with materiality that is beyond the Company's expectations occur, it may heavily and adversely impact not only the consumer's evaluation of the product in question but also the reputation of the entire product offerings of the Gunze Group. The resultant sales drop could have a negative impact on the Gunze Group's operating results and financial conditions.

(2) Changing consumer tastes and preferences

In the apparel business, the Gunze Group is working on the establishment of a solid SCM system and reform of the product portfolio in order to correctly respond to changing preferences and demands from consumers. As consumer preferences and demands change very rapidly, incorrect judgments on market trends is likely to lead to declining sales and increasing inventory levels. This in turn could have a significant negative impact on the Gunze Group's operating results and financial conditions.

(3) Unseasonable weather conditions

As the Gunze Group's business is dominated by the sale of seasonal products, unseasonable weather conditions such as the unusually cool summer and warm winter could have a significant negative impact on the Gunze Group's operating results and financial conditions.

(4) Raw material price fluctuations

The Gunze Group's products are manufactured mainly from raw fibers, cotton fibers and plastics, and the prices of these raw materials can vary according to economic conditions. Accordingly, soaring raw material prices lead to higher manufacturing costs. Therefore, in circumstances in which it is impossible to pass on the rising costs in the pricing of final products, the raw material price fluctuations could have a significant negative impact on the Gunze Group's operating results and financial conditions.

(5) Information management

The Gunze Group handles and thus must manage a large amount of important information including information on individuals in the course of business operations. The Gunze Group is taking thorough and strict measures for information management. These measures include carefully maintaining and strengthening the security of information systems; employee education regarding information management; and concluding nondisclosure agreements with outsourcing contractors/suppliers. However, should leakage or illegal use of important information occur due to unexpected circumstances, the problem might adversely affect the social reputation of the Gunze Group and even make the Group liable for damages. Such circumstances could have a negative impact, in a material degree, on the Gunze Group's operating results and financial conditions.

(6) Large-scale disasters

The Gunze Group has production, commercial and other facilities throughout Japan. A large-scale earthquake or other natural disaster therefore may cause physical damage to these facilities and interfere with production, sales and other operations. Accordingly, the occurrence of such natural phenomena could have a negative impact, in a material degree, on the Gunze Group's operating results and financial conditions.

(7) Overseas business activities

The Gunze Group's overseas business activities have various intrinsic risks, including natural disasters, political turmoil, uncertainty in social and economic trends, terrorism, wars, intellectual property lawsuits, and epidemics such as avian flu in overseas countries and regions. Such problems could subject the Gunze Group to potential difficulties in continuing business operations, and thus could have a negative impact on the Gunze Group's operating results and financial conditions.

(8) Foreign currency fluctuations

The Gunze Group's business involves exports and imports denominated in foreign currencies. The Gunze Group therefore seeks to hedge against exposure to foreign currency fluctuations in ways such as entering into forward exchange contracts. However, it is impossible to avoid all risks associated with foreign currency fluctuations, and thus these could have a negative impact, in no small degree, on the Gunze Group's operating results and financial conditions.

(9) Market price fluctuations of stocks, etc.

As part of implementing business activities or business alliances, the Gunze Group holds stocks of some business associates. A majority of such stocks are listed on public stock exchanges, thus conditions of the stock market could have an impact, in no small degree, on the Gunze Group's operating results and financial conditions.

(10) Projected benefit obligations

Most companies comprising the Gunze Group employ a defined benefit system for their retirement plans. Projected benefit obligations are calculated with a discount rate based on the yield of long-term government bonds, meaning that fluctuations in interest rates may impact projected benefit obligations. A part of pension assets for the defined benefit system is managed through

shares and other risk-bearing investments. Declines in stock markets therefore could possibly result in a drop in the return on investment. As a result, long-term interest rate fluctuations and the worsening of the asset management environment such as sliding share prices could have a significant negative impact on the Gunze Group's operating results and financial conditions.

4. Interim Consolidated Financial Statements

(1) Interim Consolidated Balance Sheets

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

	FY2006 Interim		FY2005 Interim		Increase	FY 2005	
	(As of Sept. 30, 2006)		(As of Sept. 30, 2005)		(Decrease)	(Summary)	
	Amount	Proportion	Amount	Proportion	Amount	Amount	Proportion
(Assets)		%		%			%
Current assets							
1 Cash and cash equivalents	5,040		5,173		(133)	5,114	
2 Trade notes & accounts receivable	41,502		38,770		2,732	38,036	
3 Inventories	37,027		41,202		(4,174)	38,781	
4 Real estate inventories	330		635		(304)	440	
5 Short-term advances	413		341		71	243	
6 Deferred tax assets	1,585		1,611		(25)	1,520	
7 Other current assets	2,417		1,795		622	2,271	
Allowance for doubtful accounts	(49)		(172)		122	(41)	
Total	88,268	40.5	89,357	43.8	(1,089)	86,366	40.6
Fixed assets							
1 Property, plants and equipment							
(1) Buildings and structures	43,102		33,932		9,169	33,798	
(2) Machinery and equipment	18,384		16,428		1,956	17,575	
(3) Tools, furniture and fixtures	1,386		1,150		235	1,072	
(4) Land	12,189		12,282		(93)	12,268	
(5) Construction in progress	1,103		2,482		(1,378)	3,039	
Total	76,166	35.0	66,275	32.6	9,890	67,755	31.9
2 Intangible fixed assets							
(1) Other intangible fixed assets	1,103		1,010		92	1,075	
Total	1,103	0.5	1,010	0.5	92	1,075	0.5
3 Investments and other assets							
(1) Investments in securities	44,224		41,101		3,122	48,819	
(2) Long-term advances	956		960		(4)	971	
(3) Deferred tax assets	2,013		98		1,914	2,514	
(4) Other assets	5,334		5,285		49	5,245	
Allowance for doubtful accounts	(257)		(305)		48	(263)	
Total	52,271	24.0	47,140	23.1	5,130	57,288	27.0
Total	129,541	59.5	114,426	56.2	15,114	126,119	59.4
Total assets	217,809	100.0	203,784	100.0	14,024	212,486	100.0

	FY2006 Interim		FY2005 Interim		Increase	FY 2005	
	(As of Sept. 30, 2006)		(As of Sept. 30, 2005)		(Decrease)	(Summary)	
	Amount	Proportion	Amount	Proportion	Amount	Amount	Proportion
(Liabilities)		%		%			%
Current liabilities							
1 Notes & accounts payable, trade	13,595		12,791		804	12,563	
2 Short-term debt	4,982		4,948		33	5,201	
3 Commercial paper	22,500		13,500		9,000	10,000	
4 Current portion of long-term debt	1,300		400		900	1,307	
5 Accrued income taxes	3,179		2,865		313	6,620	
6 Allowance for employees' bonuses	1,858		1,882		(23)	1,791	
7 Notes payable on acquisition of property, plant and equipment	8,389		-		8,389	-	
8 Other current liabilities	7,276		11,747		(4,471)	9,050	
Total	63,081	28.9	48,135	23.6	14,945	46,533	21.9
Long-term liabilities							
1 Long-term debt	406		1,713		(1,306)	407	
2 Deferred tax liabilities	8		4		4	2,788	
3 Allowance for retirement benefits	9,984		14,262		(4,278)	14,366	
4 Allowance for directors' and statutory auditors' retirement benefits	489		460		29	512	
5 Long-term deposits & guarantee deposits	11,218		9,692		1,525	10,067	
6 Other	35		119		(83)	37	
Total	22,144	10.2	26,252	12.9	(4,108)	28,179	13.2
Total liabilities	85,225	39.1	74,387	36.5	10,837	74,713	35.1
(Minority interests)							
Minority interests	-	-	1,404	0.7	-	1,454	0.7
(Shareholders' equity)							
Common stock	-	-	26,071	12.8	-	26,071	12.3
Additional paid-in capital	-	-	22,718	11.1	-	22,718	10.7
Retained earnings	-	-	67,746	33.3	-	71,402	33.6
Revaluation difference on land	-	-	(825)	(0.4)	-	(825)	(0.4)
Net unrealized gains on other securities	-	-	17,188	8.4	-	22,049	10.4
Foreign currency translation adjustments	-	-	(264)	(0.1)	-	260	0.1
Treasury stock	-	-	(4,641)	(2.3)	-	(5,358)	(2.5)
Total shareholders' equity	-	-	127,992	62.8	-	136,318	64.2
Total liabilities, minority interests & shareholders' equity	-	-	203,784	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	71,558		-		-	-	
4 Treasury stock	(7,402)		-		-	-	
Total	112,946	51.9	-	-	-	-	-
Valuation, translation adjustments and others							
1 Net unrealized gains on other securities	18,537		-		-	-	
2 Deferred gains on hedge	32		-		-	-	
3 Revaluation difference on land	(400)		-		-	-	
4 Foreign currency translation adjustments	213		-		-	-	
Total	18,383	8.4	-	-	-	-	-
Minority interests	1,254	0.6	-	-	-	-	-
Total net assets	132,583	60.9	-	-	-	-	-
Total liabilities and total net assets	217,809	100.0	-	-	-	-	-

(2) Interim Consolidated Statements of Income

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

	FY2006 Interim (Apr. 2006 to Sept. 2006)		FY2005 Interim (Apr. 2005 to Sept. 2005)		Increase (Decrease)		(Ref.) FY2005 (Apr. 2005 to Mar. 2006)	
	Amount	Ratio	Amount	Ratio	Amount	Pct.	Amount	Ratio
Net Sales	81,268	100.0	79,166	100.0	2,101	2.7	165,697	100.0
Cost of sales	58,747	72.3	56,426	71.3	2,321	4.1	119,202	71.9
Gross profit	22,521	27.7	22,740	28.7	(219)	(1.0)	46,495	28.1
Selling, general & administrative expenses	18,430	22.7	18,724	23.6	(294)	(1.6)	37,481	22.7
Operating income	4,090	5.0	4,016	5.1	74	1.8	9,014	5.4
Non-operating income	869	1.1	727	0.9	141	19.5	1,443	0.9
1 Interest income	31		38				101	
2 Dividend income	353		275				384	
3 Rental income	239		85				372	
4 Exchange gain	30		108				83	
5 Other	215		219				501	
Non-operating expenses	690	0.8	801	1.0	(111)	(13.9)	1,511	0.9
1 Interest expenses	184		167				362	
2 Rental costs	196		73				313	
3 Loss on valuation of inventories	-		224				209	
4 Loss on disposal of inventories	27		57				293	
5 Other	281		278				332	
Ordinary income	4,269	5.3	3,942	5.0	327	8.3	8,945	5.4
Extraordinary income	4,402	5.3	1,654	2.0	2,748	166.1	3,730	2.2
1 Gain on sale of property, plants & equipment	26		299				597	
2 Gain on sale of investments in securities	-		553				1,393	
3 Gain on reversal of allowance for doubtful accounts	1		-				136	
4 Amortization of actuarial gain on retirement benefits	3,573		-				-	
5 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	
Extraordinary losses	3,494	4.3	812	1.0	2,682	330.3	1,552	0.9
1 Loss on sale or disposal of property, plants & equipment	502		98				251	
2 Loss on valuation of investments in securities	5		7				29	
3 Loss on business structure improvement	168		-				-	
4 Amortization of actuarial loss on retirement benefits	-		273				547	
5 Loss on compensation for removal of tenants	20		433				490	
6 Loss on disposal of inventories	2,797		-				-	
7 Other	-		-				234	
Income (loss) before income taxes and minority interests	5,176	6.3	4,783	6.0	393	8.2	11,123	6.7
Income taxes - current	2,368	2.9	2,150	2.7	218	10.1	7,589	4.5
Income taxes - deferred	-	-	-	-	-	-	(2,795)	(1.7)
Minority interests	24	0.0	75	0.1	(51)	(68.0)	108	0.1
Net income (loss)	2,783	3.4	2,557	3.2	226	8.8	6,220	3.8

(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)		FY2005 (Apr. 2005 to Mar. 2006)	
		Amount		Amount
(Additional Paid-in Capital)				
Balance at beginning of period		22,669		22,669
Increase in additional paid-in capital				
1 Gain on sale of treasury stock	0		0	
2 Increase due to merger of consolidated subsidiaries	49	49	49	49
Balance at end of period		22,718		22,718
(Retained Earnings)				
Balance at beginning of period		66,918		66,918
Increase in retained earnings				
1 Net income	2,557		6,220	
2 Increase due to inclusion of subsidiaries within the scope of consolidation	16	2,574	16	6,237
Decrease in retained earnings				
1 Cash dividends	1,650		1,650	
2 Bonuses for directors & statutory auditors	46		46	
3 Decrease due to merger of consolidated subsidiaries	49		49	
4 Decrease due to other appropriations of earnings	-	1,746	6	1,752
Balance at end of period		67,746		71,402

(4) Consolidated Statements of Changes in Shareholders' Equity

(April 1, 2006 to September 30, 2006)

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

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	26,071	22,718	71,402	(5,358)	114,834
Changes in the period					
Dividends from retained earnings			(2,167)		(2,167)
Bonuses for directors & statutory auditors			(36)		(36)
Net income (loss)			2,783		2,783
Increase due to merger of consolidated and non-consolidated subsidiaries			5		5
Reversal of revaluation difference on land			(424)		(424)
Transfer to employee benefit fund			(4)		(4)
Acquisition of treasury stock				(2,046)	(2,046)
Disposal of treasury stock		0		2	2
Net changes of items other than shareholders' equity					
Total changes in the period		0	156	(2,044)	(1,887)
Balance as of September 30, 2006	26,071	22,718	71,558	(7,402)	112,946

	Revaluation and Translation Adjustments					Minority interests	Total net assets
	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedge	Unrealized gain on land revaluation	Foreign currency translation adjustments	Total revaluation and translation adjustments		
Balance as of March 31, 2006	22,049	-	(825)	260	21,484	1,454	137,773
Changes in the period							
Dividends from retained earnings							(2,167)
Bonuses for directors & statutory auditors							(36)
Net income (loss)							2,783
Increase due to merger of consolidated and non-consolidated subsidiaries							5
Reversal of revaluation difference on land							(424)
Transfer to employee benefit fund							(4)
Acquisition of treasury stock							(2,046)
Disposal of treasury stock							2
Net changes of items other than shareholders' equity	(3,511)	32	424	(46)	(3,101)	(200)	(3,301)
Total changes in the period	(3,511)	32	424	(46)	(3,101)	(200)	(5,189)
Balance as of September 30, 2006	18,537	32	(400)	213	18,383	1,254	132,583

(5) Consolidated Statements of Cash Flows

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

	FY2006 Interim (Apr. 2006 - Sept. 2006)	FY2005 Interim (Apr. 2005 - Sept. 2005)	FY2005 (Apr. 2005 - Mar. 2006)
Cash flows from operating activities			
1. Income before income taxes & minority interest	5,176	4,783	11,123
2. Depreciation and amortization	3,575	3,032	6,532
3. Increase (decrease) in allowance for doubtful accounts	9	3	(134)
4. Increase (decrease) in allowance for retirement benefits	35	(857)	(267)
5. Interest and dividend income	(384)	(313)	(485)
6. Interest expenses	184	167	362
7. Loss (gain) on sale and disposal of fixed assets	476	(200)	(346)
8. Loss (gain) on sale of investments in securities	-	(553)	(1,382)
9. Loss on valuation of investments in securities and other assets	2	7	17
10. 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)
11. Amortization of actuarial loss (gain) on retirement benefits	(3,573)	273	547
12. Other losses (gains)	(6)	335	(113)
13. Decrease (increase) in notes and accounts receivable	(3,379)	(537)	244
14. Decrease (increase) in inventories	1,834	(3,007)	(225)
15. Decrease (increase) in other current assets	11	(45)	(646)
16. Increase (decrease) in notes and accounts payable	882	(408)	(709)
17. Increase (decrease) in guarantee deposits	1,884	584	(3,253)
18. Increase (decrease) in other current liabilities	(1,161)	(1,068)	417
19. Directors' and statutory auditors' bonuses paid	(36)	(46)	(46)
Subtotal	4,731	1,345	10,029
20. Interest and dividends received	379	311	489
21. Interest paid	(170)	(107)	(353)
22. Income taxes paid	(5,856)	(2,713)	(4,328)
Net cash provided by (used in) operating activities	(915)	(1,163)	5,836
Cash flows from investing activities			
1. Payments for purchase of property, plants & equipment	(5,738)	(4,359)	(8,433)
2. Proceeds from sale of property, plants & equipment	185	415	799
3. Payments for disposition of property, plants & equipment	(111)	(47)	(74)
4. Payments for acquisition of investments in securities	(1,419)	(148)	(480)
5. Proceeds from sale of investments in securities	-	664	2,147
6. Net decrease (increase) in advances	(124)	(78)	41
7. Other, net	(51)	(507)	(446)
Net cash provided by (used in) investing activities	(7,260)	(4,061)	(6,446)
Cash flows from financing activities			
1. Increase (decrease) in short-term debt, net	12,376	8,592	5,029
2. Increase (decrease) in long-term debt	(6)	-	(400)
3. Cash dividends paid	(2,165)	(1,648)	(1,651)
4. Acquisition of treasury stock	(2,046)	(1,150)	(1,866)
5. Other, net	(43)	(53)	(126)
Net cash provided by (used in) financing activities	8,113	5,739	984
Effect of exchange rate changes on cash & cash equivalents	(10)	25	105
Net increase (decrease) in cash and cash equivalents	(73)	539	480
Cash and cash equivalents at beginning of period	5,114	4,577	4,577
Cash & cash equivalents of newly consolidated subsidiaries	-	56	56
Cash and cash equivalents at end of period	5,040	5,173	5,114

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.”

All 22 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 22 non-consolidated subsidiaries and five affiliates, including Chongbang Gunze Co., Ltd., because the effect on consolidated performance would not be material from the standpoint of net income (loss) or retained earnings (in proportion to Gunze’s equity holding in these companies), and these affiliates are of minor importance as a whole.

3. Business Years of Consolidated Subsidiaries

The 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, 2006 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, plants 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, plants 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 directors' and statutory auditors' bonuses

The Company and its domestic consolidated subsidiaries provide an allowance for directors' and statutory auditors' bonuses to adequately cover estimated payments of such bonuses. However, bonuses for directors and statutory auditors are not accounted for during the interim period because such bonuses are calculated on the basis of the full-year operating results, which makes reasonable estimation of the amount for the interim period difficult.

D. 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 fiscal year balance sheet date. In the first fiscal year of application, the Company recognized the temporary amortization of transitional obligations arising from the adoption of new accounting standards for retirement benefits through the contribution of securities to an employee retirement benefit trust. The transitional obligation was recognized as a lump-sum amortization by the consolidated subsidiaries. Prior service costs are accounted for by the straight-line method over a fixed number of years (5 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.

E. Allowance for directors' and statutory auditors' retirement bonuses

The Company provides an allowance for directors' and statutory auditors' 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 reported in net assets as foreign currency translation adjustments and minority interests.

(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)

1. Accounting Standard for Presentation of Net Assets in the Balance Sheet

From the interim period under review, Gunze adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5, December 9, 2005) and the Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8, December 9, 2005). The amount corresponding to the conventional total for shareholders' equity is ¥131,297 million. Along with the revision to the Regulations on Interim Consolidated Financial Statements, the net assets section of the balance sheets was prepared in accordance with the revised regulations.

2. Accounting Standard for Directors' Bonus

Gunze adopted the Accounting Standard for Directors' Bonus (ASBJ Statement No. 4, November 29, 2005) from the interim period under review. Bonuses for directors and statutory auditors are not accounted for as an expense because they are calculated on the basis of full-year operating results and a reasonable estimation of the amount is difficult for the consolidated interim period.

Notes

Notes to Consolidated Balance Sheets

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

	FY2006 Interim (As of Sept. 30, 2006)	FY2005 Interim (As of Sept. 30, 2005)	FY2005 (As of Mar. 31, 2006)
1. Accumulated depreciation on property, plants and equipment	120,393	120,726	121,972
2. Collateral and obligations collateralized:			
Assets pledged as collateral			
Property, plants and equipment	2	2	2
Investment securities with market value	114	90	112
Total	116	92	115
Obligations collateralized by the above			
Short-term debt	7	6	7
Deposits	45	54	54
Total	52	61	62
3. Loan guarantees (incl. other similar guarantor obligations)	705	882	795
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)

	FY2006 Interim (Apr. 2006 to Sept. 2006)	FY2005 Interim (Apr. 2005 to Sept. 2005)	FY2005 (Apr. 2005 to Mar. 2006)
1. Major items of selling, general and administrative expenses			
Freight and transportation expenses	4,282	4,287	9,022
Advertising and promotional costs	2,140	2,250	4,548
Employees' salaries, bonuses and allowances	4,739	4,702	10,059
Transfer to allowance for bonuses	699	694	709
Transfer to allowance for retirement benefits	343	387	773
Depreciation and amortization expenses	189	181	395
Research and development costs	763	793	1,574

2. The Company used the simple method of tax-effect accounting to calculate income tax expenses for the interim period ended September 30, 2006. Deferred taxes are included in "income taxes - current."

Notes to Consolidated Statements of Changes in Shareholders' Equity

(April 1, 2006 to September 30, 2006)

1. Issued Shares

Type of shares	Number of shares held as of Mar. 31, 2006	Increase	Decrease	Number of shares held as of Sept. 30, 2006
Common stock (shares)	227,935,165	-	-	227,935,165

2. Treasury Stock

Types of shares	Number of shares held as of Mar. 31, 2006	Increase	Decrease	Number of shares held as of Sept. 30, 2006
Common stock (shares)	11,164,778	3,061,411	3,799	14,222,390

(Reasons for changes)

Breakdown of increase

Increase from acquisition of treasury stock based on resolution of Board of Directors Meeting: 3,000,000 shares

Increase from acquisition of odd-lot shares: 61,411 shares

Breakdown of decrease

Decrease from release of treasury stock to allow shareholders with less than a full lot to complete their holdings: 3,799 shares

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (¥ millions)	Dividend per share (¥)	Record date	Effective date
General Shareholders Meeting June 29, 2006	Common stock	2,167	10	Mar. 31, 2006	June 29, 2006

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

	FY2006 Interim (As of Sept. 30, 2006)	FY2005 Interim (As of Sept. 30, 2005)	FY2005 (As of Mar. 31, 2005)
Cash and deposits	5,040	5,173	5,114

Notes to Leases

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

Segment Data

(1) Segment Information by Business

FY2006 Interim (April 1, 2006 to September 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	46,693	28,506	6,068	81,268	-	81,268
(2) Intersegment sales and transactions	71	45	623	740	(740)	-
Total	46,764	28,552	6,692	82,009	(740)	81,268
Operating expenses	44,780	25,171	6,193	76,145	1,032	77,177
Operating income (loss)	1,984	3,381	498	5,864	(1,773)	4,090

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

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.

FY2006 Interim:	1,773 million yen
FY2005 Interim:	1,494 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 Interim	FY2005 Interim
	(Apr. 1, 2006 to Sept. 30, 2006)	(Apr. 1, 2005 to Sept. 30, 2005)
Apparel	27,338	28,092
Functional solutions	21,199	19,154
Total	48,537	47,247

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 Interim	FY2005 Interim
	Apparel	5,318
Functional solutions	746	711
Lifestyle creations	1,198	1,095
Total	7,263	7,911

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 Interim		FY2005 Interim	
	(Apr. 1, 2006 to Sept. 30, 2006)		(Apr. 1, 2005 to Sept. 30, 2005)	
	Orders received	Outstanding orders	Orders received	Outstanding orders
Machinery included in the functional solutions business	3,602	2,557	3,430	2,504

Note: Figures exclude consumption tax.

(3) Sales

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

Business Segment	FY2006 Interim	FY2005 Interim	Increase
	(Apr.1, 2006 to Sept. 30, 2006)	(Apr.1, 2005 to Sept. 30, 2005)	(Decrease)
Apparel	46,764	48,287	%
Functional solutions	28,552	26,096	(3.2)
Lifestyle creations	6,692	5,531	9.4
Subtotal	82,009	79,916	21.0
Excl. intersegment sales	(740)	(749)	2.6
Total	81,268	79,166	-
			2.7

Note: Figures exclude consumption tax.

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)

	FY2006 Interim (As of Sept. 30, 2006)			FY2005 Interim (As of Sept. 30, 2005)			FY2005 (As of Mar. 31, 2006)		
	Acquisition cost	Carrying amounts	Difference	Acquisition cost	Carrying amounts	Difference	Acquisition cost	Carrying amounts	Difference
(1) Shares	11,204	41,852	30,647	9,769	37,994	28,225	9,998	46,455	36,457
(2) Bonds	-	-	-	-	-	-	-	-	-
(3) Other	-	-	-	589	789	200	-	-	-
Total	11,204	41,852	30,647	10,358	38,784	28,425	9,998	46,455	36,457

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

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

	FY2006 Interim (As of Sept. 30, 2006)	FY2005 Interim (As of Sept. 30, 2005)	FY2005 (As of Mar. 31, 2006)
	Balance sheet figure	Balance sheet figure	Balance sheet figure
(1) Held-to-maturity bonds	-	-	-
(2) Non-consolidated subsidiaries and affiliated companies	1,270	1,215	1,261
(3) Other marketable securities			
Unlisted shares	1,100	1,101	1,102
Total	2,371	2,316	2,364

Note:

During the interim period under review, the Company recorded a valuation loss of ¥2 million on the write-down of certain other marketable securities (¥1 million each for shares with fair market value and without fair market value), 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.

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: 2.7% higher than the same period of the previous year.
- Operating income, ordinary income and net income increase respectively compared with the same period of the previous year.
- Increase of sales and profit of functional solutions segment and life creation segment offset a decline of sales and profit of apparel segment.

<Special treatments>

- Amortization profit of unrecognized net actual gains of retirement benefits: ¥3.5 billion.
- Amortization profit of unrecognized prior service cost of retirement benefits: ¥0.8 billion
- Loss on disposal of inventories: ¥2.7 billion

<Full year forecast>

- Net sales are projected to mark a 3.9% year-over-year increase.
- Operating income, ordinary income and net income are projected to mark double digit year-over-year increases.

<Dividend policy>

- Dividend of current fiscal year scheduled payment: ¥10 per share.

(1) FY2006 Interim Operating Results (Apr. 1, 2006 to Sept. 30, 2006)

(Millions of yen)

	FY2006 Interim	Initial Forecasts (May 2006)	FY2005 Interim	Change	
				<Upper figures in brackets %>	
				vs. forecasts	vs. FY2005
Net Sales	81,268	83,000	79,166	<(2.1)> (1,732)	<2.7> 2,101
Operating Income	4,090	4,400	4,016	<(7.0)> (310)	<1.8> 74
Ordinary Income	4,269	4,100	3,942	<4.1> 169	<8.3> 327
Income (Loss) Before Income Taxes	5,176	-	4,783	-	<8.2> 393
Net Income (Loss)	2,783	2,700	2,557	<3.1> 83	<8.8> 226
Total Assets	217,809		203,784		<6.9> 14,024
Inventories (incl. real estate inventories)	37,358		41,838		<(10.7)> (4,479)
Fixed Assets	129,541		114,426		<13.2> 15,114
Net Assets	132,583		127,992		<3.6> 4,591
Financing Income/Expenses	200		146		54
Interest/dividends received	384		313		71
Interest expenses	(184)		(167)		(17)
Capital Expenditures	14,571		3,470		11,101
Depreciation and Amortization	3,575		3,032		543

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

	(Thousands of shares)	(Amount)
· Acquisition pursuant to Article 165 (2) of the Corporation Act (including acquisition of odd-lot shares)	3,061	¥2,046 million
· Treasury stock disposed	(3)	¥(2) million
· Treasury stock held at the end of the previous fiscal year	11,164	¥5,358 million
· Treasury stock held at the end of the period	14,222	¥7,402 million

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

Item		FY2006 Plan			FY2005		Y-over-Y Change
		Amount	Weight	Interim	Amount	Weight	
Capital Expenditures	(Overseas)	640		143	352		
	Apparel	1,800	9.3	705	1,603	22.6	197
	(Overseas)	550		47	276		
	Functional Solutions	6,000	31.1	2,808	4,937	69.7	1,063
	(Overseas)	0		0	0		
	Lifestyle Creations	11,500	59.6	10,439	541	7.7	10,959
	(Overseas)	1,190		190	628		
	Total	19,300	100.0	13,952	7,081	100.0	12,219
Depreciation and Amortization	Apparel	1,800	23.4	777	1,855	30.1	(55)
	Functional Solutions	4,300	55.8	1,804	3,406	55.2	894
	Lifestyle Creations	1,600	20.8	655	910	14.7	690
	Total	7,700	100.0	3,236	6,172	100.0	1,528

Note:

Capital Expenditures include investments for intangible fixed assets.

Planned capital expenditures for FY2006, including Head Office: ¥20.0 billion.

Planned depreciation for FY2006, including Head Office: ¥8.5 billion.

(6) FY2006 Forecast (Millions of yen)

	FY2006 Forecast	FY2005	Change <Upper figures %>
Net Sales	[174,400] 172,100	165,697	<3.9> 6,403
Operating Income	[11,000] 11,000	9,014	<22.0> 1,986
Ordinary Income	[10,400] 10,400	8,945	<16.3> 1,455
Net Income (Loss)	[8,400] 8,400	6,220	<35.0> 2,180

Notes: Figures in square brackets [] are initial forecasts announced in May 2006.

(7) Forecast of Results by Segment (Millions of yen)

		FY2006 Forecast		FY2005 Results		Change	
		Amount	Weight	Amount	Weight	Amount	Change (%)
Net Sales	Apparel	101,700	58.5	102,126	61.1	(426)	(0.4)
	Functional Solutions	58,200	33.5	53,397	31.9	4,803	9.0
	Lifestyle Creations	13,900	8.0	11,790	7.0	2,110	17.9
	Subtotal	173,800	100.0	167,314	100.0	6,486	3.9
	Eliminations	(1,700)		(1,616)		(84)	-
	Consolidated	172,100		165,697		6,403	3.9
Operating Income	Apparel	6,100	42.6	5,920	49.1	180	3.0
	Functional Solutions	6,800	47.6	5,576	46.3	1,224	22.0
	Lifestyle Creations	1,400	9.8	553	4.6	847	153.2
	Subtotal	14,300	100.0	12,050	100.0	2,250	18.7
	Eliminations	(3,300)		(3,036)		(264)	-
	Consolidated	11,000		9,014		1,986	22.0