

## **Notice: Allotment of Stock-Purchase Warrants (Compensation-type Stock Options)**

On August 3, 2007 at its Board of Directors Meeting, Gunze Limited (the Company) determined matters related to an offer for subscription of stock-purchase warrants (compensation-type stock options), pursuant to the provisions in Paragraphs 1 and 2 of Article 238 and those in Paragraph 1 of Article 240 of the Corporate Law of Japan. A resolution was also made to solicit eight directors of the Company (excluding outside directors) to subscribe to the warrants. These decisions are intended to more closely link compensation for directors with the Company's stock price and performance, while sharing the effects of stock price fluctuations with shareholders. The ultimate goal is to raise the motivation and morale of directors to increase the Company's stock price and improve business performance.

### **1. Name of subscription warrants**

No.1 stock-purchase warrants issued by Gunze Limited (compensation-type stock options)

### **2. Total number of subscription warrants**

108 units

The total number of the subscription warrants described above is the number to be allotted under the current plan. Even if the total number of the subscription warrants actually allotted falls short of the number shown above because of a shortage of subscriptions, etc., the total number of subscription warrants will be issued.

### **3. Type and number of shares to be issued upon exercise of subscription warrants**

The type of shares issued upon the exercise of subscription warrants shall be common shares of the Company, and the number of shares per unit of subscription warrants (hereinafter referred to as "number of shares to be granted") shall be 1,000.

However, if, after the allocation of warrants, the Company splits its common stock (including gratis distribution of the Company's common shares, hereinafter, the same shall apply to descriptions of the stock split) or conducts a reverse stock split, the

number of shares to be granted shall be adjusted in accordance with the following formula:

$$\text{Post-adjustment Number of Shares to be Granted} = \frac{\text{Pre-adjustment Number of Shares to be Granted}}{\text{Ratio of Stock Split or Reverse Stock Split}} \times$$

For a split of the common shares, the adjusted number of shares to be granted will be effective from the day following the reference date of the split of said common stock, and for the reverse stock split, from its effective date. However, if a stock split that takes place to increase capital or reserves by reducing the amount of retained earnings is approved at a General Shareholders Meeting of the Company, and a day before the closing of the Shareholders Meeting is set as the reference date for the stock split, the adjusted number of shares to be granted shall take effect from the day following the said reference date, after the day following the closing of the said Shareholders Meeting.

Should adjustment of the number of shares to be granted become unavoidable after the allotment of warrants for circumstance other than the above, the Company shall make adjustments within a reasonable range.

Any fraction of less than one (1) share resulting from the above-mentioned adjustments shall be omitted.

Before making an adjustment for the number of shares to be granted, the Company will do its best to notify registered owners (herein referred to as “warrant holders”) of each subscription warrant with all necessary information recorded on the warrant certificate no later than one day before the effective date for the adjusted number of shares to be granted. Should it be impossible to notify by the preceding day of the effective date for the said adjustment, the Company shall notify as quickly as it can.

#### **4. Value of assets financed upon the exercise of subscription warrants**

The value of assets to be financed upon the exercise of the subscription warrants shall be one (1) yen (the paid-in amount per share to be delivered upon the exercise of the

subscription warrants) multiplied by the number of shares to be granted.

#### **5. Exercise period of warrants**

From August 21, 2007 through August 20, 2037

#### **6. Matters related to capital and capital reserves to be increased if shares are issued by exercising the subscription warrants**

(1) The amount by which capital will increase if shares are issued upon the exercise of subscription warrants shall be half of the amount of the limit on the increase of capital, etc. calculated pursuant to Article 40, Paragraph 1 of the Corporate Calculation Rules. Any fraction of less than one (1) yen shall be rounded up to the nearest yen.

(2) The amount by which capital reserves will increase if shares are issued upon the exercise of subscription warrants shall be the amount of the limit on the increase of capital, etc. as stated in section (1), above, less the amount of the capital increase as prescribed in section (1) above.

#### **7. Restrictions for transfer of warrants**

Approval at a meeting of the Company's Board of Directors shall be required for the acquisition of subscription warrants by transfer.

#### **8. Terms for acquisition of subscription warrants**

When a General Shareholders Meeting of the Company approves any proposal of the following (1), (2), or (3), (or when the same is approved by a resolution at a meeting of the Board of Directors, if no such resolution by a General Shareholders Meeting is required), the Company may acquire the subscription warrants without charge on a day separately determined at the Board of Directors Meeting.

(1) Proposal seeking approval for a merger agreement in which the Company is to be dissolved

(2) Proposal seeking approval for a split agreement or split plan in which the Company is to be split

(3) Proposal seeking approval for a share swap agreement or share transfer plan in which the Company is to become a wholly owned subsidiary

## **9. Policies for extinguishing subscription warrants upon reorganization and delivery of warrants of reorganized company**

If the Company conducts a merger (limited to mergers where the Company is dissolved), absorption-type demerger, incorporation-type demerger, share swap, or share transfer (hereinafter collectively referred to as “reorganization”), the Company shall grant subscription warrants of any of the companies designated in (i) to (v) of Article 236. Paragraph 1, No. 8 of the Corporate Law (hereinafter referred to as “reorganized company”), as applicable, to each of the warrant holders having the remaining subscription warrants (hereinafter referred to as “remaining warrants”) immediately before the effective date of the reorganization in accordance with the following conditions (for absorption-type merger, incorporation-type merger, absorption-type demerger, incorporation-type demerger, share swap, or share transfer, the effective date above shall mean the effective date of the absorption-type merger, of the incorporation of any corporation formed by way of the incorporation-type merger, of the absorption-type demerger, of the incorporation of any corporation formed by way of the incorporation-type demerger, of the share swap, or of the incorporation of any absolute parent company formed by way of the share transfer, respectively). In this case, the remaining warrants shall be extinguished and the reorganized company will issue new warrants, provided, however, that this shall only apply when the delivery of warrants of the reorganized company in accordance with the following conditions has been determined by the relevant absorption-type merger agreement, incorporation-type merger agreement, absorption-type demerger agreement, incorporation-type demerger agreement, share swap agreement, or share transfer plan.

### **(1) Number of warrants of the reorganized company to be delivered**

The number of warrants to be delivered to each holder shall be equal to the number of remaining warrants that the relevant holder has.

### **(2) Type of shares of the reorganized company to be issued upon the exercise of warrants**

The type of shares shall be common shares of the reorganized company.

### **(3) Number of shares of the reorganized company to be issued upon the exercise of warrants**

The number of shares will be determined according to the provisions in section 3, above,

taking into account the conditions for the reorganization, etc.

(4) Value of assets financed upon exercise of warrants

The value of assets to be financed upon the exercise of each of the warrants to be delivered shall be the paid-in amount per share after the reorganization prescribed below, multiplied by the number of shares of the reorganized company to be issued upon exercise of each of the said warrants, as determined in accordance with section (3), above. The paid-in amount per share after the reorganization shall be one (1) yen per share of the reorganized company to be delivered upon the exercise of each of the granted warrants.

(5) Exercise period of warrants

From the date of commencement of the period for the exercise of the subscription warrants as prescribed in section 5, above, or the effective date for the reorganization, whichever is later, to the expiration date of the period for the exercise of the subscription warrants as prescribed in section 5, above.

(6) Matters related to capital and capital reserves to be increased if shares are issued upon the exercise of warrants

These matters will be determined according to section 6, above.

(7) Restrictions for transfer of warrants

Approval at a meeting of the Board of Directors of the reorganized company shall be required for the acquisition of warrants by transfer.

(8) Terms for acquisition of warrants

These terms will be determined according to section 8, above.

(9) Other conditions for exercise of warrants

These conditions will be determined according to section 11, below.

**10. Arrangement of fractional figures of less than one (1) share upon the exercise of subscription warrants**

Any fractional figure of less than one (1) share to be granted to warrant holders who have exercised the subscription warrants shall be omitted.

**11. Other conditions for the exercise of subscription warrants**

(1) Warrant holders may exercise their warrants only after they are released from all of the positions of director, corporate auditor or corporate officer of the Company within

the period prescribed in section 5, above. Thus, if exercise is desired, warrant holders must exercise warrants from the day after the day they are released from all of the above-mentioned positions (hereinafter referred to as “commencement data for exercise of rights”) up to the day when a full five years have passed.

(2) Notwithstanding the provisions prescribed in section (1), above, (A) and (B) warrant holders may exercise their warrants only within the period as prescribed in (A) and (B), respectively. As for (B), however, this shall not apply to cases where warrants of the reorganized company are granted to warrant holders in accordance with the provisions in section 9, above.

(A) When the commencement date for the exercise of rights of a warrant holder does not come before August 20, 2036:

From August 21, 2036 to August 20, 2037

(B) When a General Shareholders Meeting of the Company approves any proposed merger agreement in which the Company is to be dissolved or any proposed share swap agreement or share transfer plan in which the Company is to become a wholly owned subsidiary (or if the same is approved by a resolution at a meeting of the Company’s Board of Directors, when no such resolution by a General Shareholders Meeting is required):

For a period of thirty (30) days from the day following the day on which the above proposal is approved.

(3) If holders waive their rights, they may not exercise the subscription warrants.

## 12. Calculation of paid-in amount for subscription warrants

The paid-in amount shall be the option price per share calculated by using the following Black-Scholes model and the following base figures (2) to (7), multiplied by the number of shares to be granted.

$$C = Se^{-qt} N(d) - Xe^{-rt} N(d - \sigma\sqrt{T})$$

where,

$$d = \frac{\ln\left(\frac{S}{X}\right) + \left(r - q + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}$$

- (1) Option price per share ( $C$ )
- (2) Share price ( $S$ ): Closing price of the common shares of the Company in regular transactions at the Tokyo Stock Exchange on August 20, 2007 (if there is no closing price, the reference price of the following trading day).
- (3) Exercise price ( $X$ ): One (1) yen
- (4) Expected remaining period ( $T$ ): Fifteen (15) years
- (5) Volatility of share price ( ): Volatility calculated on the basis of the closing price of the common shares of the Company in regular transactions on each trading day during the 15-year period from August 20, 1992 to August 20, 2007.
- (6) Risk-free interest rate ( $r$ ): Interest rate of government bonds whose remaining years to maturity correspond to the expected remaining period
- (7) Dividend yield ( $q$ ): Dividend per share (actual amount of the dividend paid for the fiscal year ended in March 2007)  $\div$  Share price determined in (2) above
- (8) Cumulative distribution function of the standard normal distribution ( $N(\cdot)$ )

## 13. Allotment date for subscription warrants

August 20, 2007

## 14. Due date for payment to be made in exchange for subscription warrants

August 20, 2007

**15. Request to exercise warrants and method of payment**

(1) When a warrant holder wishes to exercise subscription warrants, the holder should fill in necessary information on the request form for exercise of subscription warrants specified by the Company, sign and seal, and submit the form to the proper place for accepting requests for exercise of subscription warrants prescribed in section 16, below.

(2) Along with the submission of the request form for exercise of subscription warrants as discussed in section (1), above, the holder shall deposit the amount calculated by multiplying the value of assets financed upon the exercise of each subscription warrant by the number of subscription warrants to be exercised (hereinafter referred to as “paid-in amount”) in cash to the account designated by the Company (hereinafter referred to as “designated account”) of the payment-handling bank specified in section 17, below, no later than the date and time designated by the Company.

**16. Place for accepting requests for exercise of subscription warrants**

The Finance & Accounting Section of Gunze Limited (or any other section in charge of the relevant affairs, from time to time)

**17. Payment-handling bank for the exercise of subscription warrants**

Umeda Branch of the Bank of Tokyo-Mitsubishi UFJ, Ltd. (or its successor bank or successor branch, if any)

**18. Grantees of the allotment of warrants**

Warrants will be allotted to the eight (8) directors of the Company (excluding outside directors).