

November 8, 2007

## Consolidated Interim Financial Statements – Summary (Six months ended September 30, 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.)

Company Name: Gunze Limited

Company Code: 3002

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

Stock Market Listings: Tokyo, Osaka

Representative Director: Hiroshi Hirata, President & COO

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

Tel.: +81 (6) 6348-1314

Filing of Securities Report (*Hanki hokokusho*) (Scheduled): December 21, 2007

### 1. Consolidated Operating Results for FY 2007 Interim Period (Apr. 1, 2007 to Sept. 30, 2007)

#### (1) Consolidated Operating Results

(Amounts less than one million yen are omitted)

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

	Net sales (¥ million)	Change (%)	Operating Income (¥ million)	Change (%)	Ordinary income (¥ million)	Change (%)	Net income (¥ million)	Change (%)
FY2007 Interim	80,704	(0.7)	3,422	(16.3)	3,757	(12.0)	2,973	6.8
FY2006 Interim	81,268	2.7	4,090	1.8	4,269	8.3	2,783	8.8
FY2006	168,787	-	9,612	-	9,822	-	8,386	-

	E.P.S. (¥)	Diluted E.P.S. (¥)
FY2007 Interim	13.98	13.98
FY2006 Interim	12.93	-
FY2006	39.10	-

Reference: Equity in income of affiliated companies

FY2007 Interim: -                      FY2006 Interim: -                      FY2006: -

#### (2) Consolidated Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
FY2007 Interim	212,407	136,291	63.5	637.46
FY2006 Interim	217,809	132,583	60.3	614.52
FY2006	214,365	138,433	64.0	641.69

Reference: Net worth

FY2007 Interim: ¥134,873 million      FY2006 Interim: ¥131,329 million      FY2006: ¥137,103 million

### (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)
FY2007 Interim	8,212	(3,809)	(4,130)	5,181
FY2006 Interim	(915)	(7,260)	8,113	5,040
FY2006	7,210	(17,255)	9,728	4,829

### 2. Dividends

(Reference date)	Dividends per share	
	Year-end dividend (¥)	Total dividend for the year (¥)
FY2006	10.00	10.00
FY2007 (projected)	10.00	10.00

### 3. Projected FY2007 Consolidated Operating Results (Apr. 1, 2007 to Mar. 31, 2008)

(Percentages represent changes compared to the previous fiscal year.)

	Net sales (¥ million)	Change (%)	Operating Income (¥ million)	Change (%)	Ordinary income (¥ million)	Change (%)
FY2007 Full-year	169,300	0.3	9,100	(5.3)	9,300	(5.3)

	Net income (¥ million)	Change (%)	E.P.S. (¥)
FY2007 Full-year	7,500	(10.6)	35.35

### 4. Other

- (1) Changes in scope of consolidation and application of equity method: No  
 (2) Changes in accounting rules, procedures, presentation method, etc. for the consolidated financial statements

(a) Changes in consolidated accounting methods: Yes

(b) Changes other than (a) above: No

Note: For more details, see “Changes in Significant Accounting Policies Used in Preparation of Consolidated Interim Financial Statements” on page 19.

- (3) Number of shares issued and outstanding (common stock)

(a) Number of shares at the end of period (including treasury stock):

FY2007 Interim: 227,935,165 shares

FY2006 Interim: 227,935,165 shares

FY2006: 227,935,165 shares

(b) Treasury stock at the end of period:

FY2007 Interim: 16,356,899 shares

FY2006 Interim: 14,222,390 shares

FY2006: 14,275,537 shares

Note: See “Per Share Information” on page 23 for the number of shares used as the basis for calculation of earnings per share (consolidated).

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Operating Results for FY2007 Interim Period (Apr. 1, 2007 to Sept. 30, 2007)

(1) Non-consolidated Operating Results

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

	Net sales (¥ million)	Change (%)	Operating Income (¥ million)	Change (%)	Ordinary income (¥ million)	Change (%)	Net income (¥ million)	Change (%)
FY2007 Interim	64,153	(3.0)	1,582	(33.0)	3,253	(17.5)	2,977	(10.9)
FY2006 Interim	66,123	(2.0)	2,360	(6.9)	3,945	8.9	3,342	18.8
FY2006	135,767	-	5,163	-	7,668	-	7,667	-

	E.P.S. (¥)
FY2007 Interim	14.00
FY2006 Interim	15.53
FY2006	35.74

(2) Non-consolidated Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
FY2007 Interim	184,936	135,793	73.4	641.76
FY2006 Interim	184,252	134,390	72.9	628.84
FY2006	187,572	138,481	73.8	648.14

Reference: Net worth

FY2007 Interim: ¥135,781 million    FY2006 Interim: ¥134,390 million    FY2007: ¥138,481 million

2. Projected FY2007 Non-consolidated Operating Results (Apr. 1, 2007 to Mar. 31, 2008)

(Percentages represent changes compared to the previous fiscal year.)

	Net sales (¥ million)	Change (%)	Operating Income (¥ million)	Change (%)	Ordinary income (¥ million)	Change (%)
FY2007 Full-year	134,700	(0.8)	4,400	(14.8)	6,900	(10.0)

	Net income (¥ million)	Change (%)	E.P.S. (¥)
FY2007 Full-year	6,300	(17.8)	29.69

Explanation for Proper Use of Projections of Financial Results and Other Special Instructions

Gunze has revised previously announced projections for full-year financial results. This report includes the revised projections. For details regarding revisions, please refer to the announcement "Notice Regarding Adjustments to Forecasts for FY2007 Financial Results" released on November 8, 2007. The above projections of results are based on information available to the Company as of the published date of the report. Actual results could differ from projections due to changes in business conditions and other factors. For more information on projected results, please see "Outlook for FY2007" on page 6.

## **1. Results of Operations**

### **1. Analysis of Operating Results**

#### **Overview of Interim Period of FY2007**

During the first half of the current fiscal year (April 1 to September 30, 2007), the Japanese economy continued to experience a moderate recovery, mainly driven by export-oriented businesses. However, there were increasing elements of uncertainty, including rising crude oil and raw material prices impacting commodity prices as well as the financial turmoil surrounding the U.S. subprime loan problem. These negative factors stalled consumer spending. Gunze's apparel business faced a challenging business environment. The Japanese retail industry, including department stores and general merchandizing stores, was impacted by unseasonable weather conditions. These included abnormally low temperatures from spring to the rainy season, record high temperatures starting from the end of the rainy season, and summer heat that lingered into autumn. These weather conditions blunted the normal seasonal surge, resulting in sluggish performance in storefront sales throughout the period under review. As for Gunze's functional solutions business, demand remained relatively robust both at home and abroad. However, escalating raw material costs and other negative factors caused Gunze's functional solutions business to experience difficult conditions.

Faced with this situation, the Gunze Group concentrated its efforts on: (1) strengthening the base of technology-oriented management supported by a "quality first" policy; (2) increasing sales capability and profitability by building business models tailored to the characteristics of each product category; and (3) reinforcing global production and sales systems. Consequently, the Gunze Group's consolidated net sales for the first-half period under review amounted to ¥80,704 million (a year-over-year decrease of 0.7%). Operating income declined 16.3% to ¥3,422 million, while ordinary income decreased 12.0% to ¥3,757 million. Consolidated net income was ¥2,973 million, an increase of 6.8% compared with the same period of the previous fiscal year.

#### **Results by Business Segment and Analysis**

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

Net sales declined 2.6% year over year to ¥45,547 million while operating income decreased 21.3% to ¥1,561 million.

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

Men's innerwear sales were sluggish across the spring/summer selling season due to unseasonable weather, as well as increasingly intense market competition and a lack of large-scale hit products. A record late-summer heat wave slowed the normal sales pickup in autumn-season products, which also contributed to the generally unfavorable conditions. Overall sales for the *GAIA* category of new innerwear brands such as *Body Wild* and *YG-X* were disappointing as market competition intensified. Although the mainstay *Body Wild* and newly planned casual products performed well, sales for the "Friendly" category of basic white and seasonal products were slow for both year-round and seasonal products. Consequently, the Men's and Kids' Wear Company recorded a year-over-year decrease in both revenues and profits.

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

Unseasonable weather conditions negatively impacted women's innerwear sales throughout the spring/summer season, with disappointing sales for mainstay *Kaiteki Kobo* (Natural & Comfort) offsetting strong performance of the *CFA100* brand. Storefront introduction of autumn products was considerably delayed because of lingering summer heat, which contributed to a generally challenging business environment and an overall revenue decline for the category.

In lingerie and foundation garments, the core brand *Tuché* and a highly differentiated brand *Karubura*, performed impressively. However, *Yansoffi* and *Iineno Tsuikyu* posted sluggish sales.

In the stockings category, despite slow sales for basic products, efforts to strengthen promotion of trend-setting products drove up sales for separate-type stockings such as leggings and above-knee stockings. Sales for new autumn-season tights picked up quickly during the initial stage.

Overall, the Ladies' and Leg Wear Company posted a year-over-year increase in both revenues and profits.

### ***Other Textiles***

In the home casual (pajamas) category, gift products suffered unsatisfactory performance. By contrast, casual group products centering on *COMME CI COMME CA* performed strongly, resulting in a year-over-year increase in profits although category revenues declined. In textile materials, sales for new applications such as automotive materials were strong. Machine sewing threads suffered from a shrinking market in Japan accompanying the unseasonable weather. Sluggish sales in China and Southeast Asia also dragged down revenues and profits in this category.

### **[Functional Solutions]**

Net sales rose 2.1% year over year to ¥29,141 million, while operating income declined 8.5% to ¥3,093 million.

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

Revenues from shrink films grew thanks to increased demand for beverage bottle labels supported by extreme summer heat. OPP film enjoyed brisk demand, centering on high-performance products such as anti-fogging film lines, especially for sprouts and mushroom packaging applications. The composite nylon film business was slow, with disappointing exports. To cope with repeated price increases in raw materials, Gunze is now in the process of negotiations to revise product prices to reflect cost increases. With delays in reaching a conclusion, however, the Plastic Film Company posted a decrease in profits despite increased revenues.

### ***Engineering Plastics***

As for engineering plastics sales for office equipment applications, sales for mainstay CA belts (high-performance polyimide resin belts for color photocopiers and printers) continued to grow. Sales for fluorocarbon resin thin-walled tubing for fixation rollers also advanced steadily. Such favorable performance reflected the continued worldwide trend toward color-capable units and

expanding demand in the BRICs (Brazil, Russia, India and China) markets. As a result, the engineering plastics category recorded increases in revenues and profits.

### ***Electronic Components***

The Gunze proprietary touch panel with a polarizer, a mainstay product, enjoyed considerable expansion of orders, with increasing applications for tablet PCs and other large-size devices. High-value-added products integrated with an LCD peripheral circuit board also marked a year-over-year sales increase. Changes in the product portfolio temporarily resulted in declined productivity, dragging down this category's profits, despite increased revenues.

### ***Others***

The machinery category posted decreases in revenues and profits as decreased capital investment and slow renewal/upgrade demand in the printing industry negatively impacted sales of mainstay stacker-bundlers. In medical materials, sales advanced steadily for reinforcement felt materials and bone fixation materials both at home and abroad. However, mainstay polyglycolic acid (PGA) suture thread experienced disappointing performance as it faced increasingly severe price competition and a temporary drop in productivity accompanying the expansion of production. As a result, this category's profits decreased from the same period of the previous year, despite increased revenues.

### **[Lifestyle Creations]**

Net sales increased 4.7% year over year to ¥7,004 million, while operating income soared 28.1% to ¥638 million.

The *Gunze Town Center TSUKASHiN* has continually carried out various events and campaigns to attract more customers and increase sales, along with promotions aimed at expanding the trading area. Thanks to these efforts, both the number of visitors and sales grew, driving up real estate revenues and profits compared to the same period of the previous year. In the sports club business, a new club was opened in Nishiakashi in July and a new Wonder City club was opened in a new location in Nagoya in August. These contributed to increased revenues, but disappointing performance from existing clubs dragged down profits.

### **Outlook for FY2007**

The outlook for the economic environment in the fiscal year ending March 31, 2008 presents various elements of uncertainty that prevent an overly optimistic view of the future. These include high crude oil and raw material prices as well as financial turmoil worldwide. In view of these challenges, the Gunze Group is determined to live up to its belief of "Progress and innovation are the key to survival." Based on this policy set forth in the start of the present year, the Gunze Group will strive to accurately and swiftly respond to changes in the business environment while also improving and strengthening its corporate structure. The eventual goal is to boost the Gunze Group's corporate value.

In the apparel business, the Men's and Kids' Wear Company and the Ladies' and Leg Wear Company will focus on expanding sales of Gunze original, highly differentiated products in the

third quarter period—the most competitive season for sales. A product of focus will be *BALANCE INNER*, a new standard-setting seasonal innerwear line. Beginning in December, the Men’s and Kids’ Wear Company will also release and promote its powerful new brand designed to set new standards for basic innerwear, *THE GUNZE*, throughout Japan. In leg wear, Gunze will promote the new “third-generation sister” strategy to promote sales of the mainstay brand *Tuché*, while also working on expanding sales of popular separate-type stockings such as leggings and above-knee stockings.

In the functional solutions business, Gunze will aggressively work to expand sales by implementing various measures. The Plastic Film Company aims to promote shrink film for non-beverage bottle label applications and expand sales of multi-layer film for industrial base materials. Efforts will also be concentrated on developing new applications for touch panels in the electronic components sector, and winning orders for engineering plastics for use in new equipment models to be released by users. In medical materials, the market launch of an artificial dural substitute will be promoted along with the acquisition of an approval for manufacturing and sales in Japan, while also working toward quick acquisition of manufacturing/sales approval in China. To cope with repeated price rises in raw materials, Gunze will strive to revise prices for plastic film products, while continually strengthening cost-cutting efforts.

In the lifestyle creation business, activities of focus will include aggressive promotion of effective campaigns and attractive events for the *Gunze Town Center TSUKASHiN*, with the goal of expanding its sales. As for sports club management/operation, Gunze will work on invigorating existing clubs, while actively opening new clubs to further augment business.

For fiscal 2007 (April 1, 2007 to March 31, 2008), the Gunze Group, through the implementation of these measures, is forecasting net sales of ¥169,300 million, with operating income of ¥9,100 million, ordinary income of ¥9,300 million and net income of ¥7,500 million on a consolidated basis.

Forecast by business segment are as follows:

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

Segment Item	Apparel	Functional solutions	Lifestyle creations	Eliminations/ Corporate	Total
Net sales	97,200	59,600	14,500	(2,000)	169,300
FY2007/FY2006	99.5%	102.4%	102.0%	-	100.3%

## 2. Analysis of Financial Position

### (1) Assets, Liabilities, Net Assets and Cash Flows for the Interim Period (Ended September 30, 2007)

As of September 30, 2007, total assets were ¥212,407 million, a decrease of ¥1,958 million compared to the end of the previous fiscal year. The main components of this decrease were a

¥3,532 million reduction in securities investments due to declining market prices for shares owned, which counterbalanced an increase of ¥2,354 million in inventories.

Total liabilities increased ¥184 million compared to the end of the previous fiscal year to ¥76,116 million. Short-term and long-term debt including commercial paper decreased ¥464 million compared to the end of the previous fiscal year.

Net assets decreased ¥2,142 million compared to the end of the previous fiscal year to ¥136,291 million. A main component of the increase was net income of ¥2,973 million, while the main factors for decrease included return of earnings to shareholders (dividend payments of ¥2,136 million and treasury stock purchases of ¥1,353 million) and a ¥2,183 million decrease in unrealized gain on available-for-sale securities.

Net cash from operating activities totaled ¥8,212 million, an increase of ¥9,128 million compared with the year-before total. The major components of cash flows were income before income tax and minority interest of ¥5,363 million; depreciation and amortization of ¥3,837 million; and an income tax refund amounting to ¥2,420 million.

Net cash used in investing activities totaled ¥3,809 million, ¥3,451 million less than one year earlier. A main contributor was the purchase of property, plants and equipment amounting to ¥3,817 million, mainly through capital investment related to the functional solutions business.

Financial activities used net cash of ¥4,130 million, compared with ¥8,113 million provided during the same period of the previous year. Main contributors included repayment of short-term debt (including commercial paper) amounting to ¥1,407 million, ¥2,135 million spent for dividend payments and ¥1,353 million for treasury stock purchases, against the ¥792 million increase in long-term debt.

As a result, as of September 30, 2007, consolidated cash and cash equivalents were ¥5,181 million, or ¥351 million more than at the end of the previous fiscal year.

## (2) Cash Flow Indicator Trends

	March 31, 2005	March 31, 2006	March 31, 2007	September 30, 2007
Net worth ratio (%)	63.9	64.2	64.0	63.5
Net worth ratio on market value basis (%)	57.1	81.1	68.3	56.4
Debt redemption period (years)	2.3	3.7	5.0	-
Interest coverage ratio	34.4	16.7	14.7	34.2

**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. Basic Policy on Distribution of Profits and Dividends for FY2007**

Returning earnings to shareholders is one of Gunze's most important management policies. Accordingly, the Company 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. Also, Gunze's policy is to distribute earnings once a year with a year-end dividend.

In line with this basic policy, the Gunze Group plans to pay a dividend of ¥10 per share for fiscal 2007. 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.

**2. The Gunze Group**

Disclosure is omitted because there is no significant change from the "Business Organization Chart (Business Content)" and "Subsidiaries and Affiliates" in the most recent Securities Report (*Yuka shoken hokokusho*) issued on June 28, 2007.

**3. 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. 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.

## **3. Medium- and Long-term Management Strategies**

In fiscal 2005, the Gunze Group embarked on its new 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."

Details regarding each key strategy of the "3C10 Plan" are as follows:

The first 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 also 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. Based on this approach, Gunze strives to clearly identify sources of high-growth potential (growth factors) for each business segment and take aggressive approaches to promote 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 raise market competitiveness. This can be achieved by strengthening apparel sales potential through a fully established supply chain management (SCM) system, along with collaboration between the production and sales sectors, and 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.

#### **4. Key Management Issues**

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 rebuilding the overseas sales promotion system, establishing full-fledged 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.

## 4. Consolidated Interim Financial Statements

### (1) Consolidated Interim Balance Sheets

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

	FY2007 Interim		FY2006 Interim		Increase	FY 2006	
	(As of Sept. 30, 2007)		(As of Sept. 30, 2006)		(Decrease)	(Summary)	
	Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio
<b>(Assets)</b>		%		%			%
<b>Current assets</b>							
1 Cash and cash equivalents	5,181		5,040		140	4,829	
2 Trade notes & accounts receivable	39,734		41,502		(1,767)	39,906	
3 Inventories	37,411		37,027		383	35,057	
4 Real estate inventories	-		330		(330)	124	
5 Short-term advances	381		413		(31)	266	
6 Deferred income taxes	885		1,585		(699)	862	
7 Other current assets	2,697		2,417		279	4,685	
Allowance for doubtful accounts	(62)		(49)		(12)	(46)	
Total	86,229	40.6	88,268	40.5	(2,038)	85,685	40.0
<b>Fixed assets</b>							
1 Property, plants and equipment							
(1) Buildings and structures	42,118		43,102		(983)	42,326	
(2) Machinery and equipment	17,619		18,384		(765)	18,402	
(3) Tools, furniture and fixtures	1,312		1,386		(74)	1,367	
(4) Land	12,237		12,189		48	12,211	
(5) Construction in progress	2,353		1,103		1,249	626	
Total	75,640	35.6	76,166	35.0	(525)	74,934	34.9
2 Intangible fixed assets							
(1) Other intangible fixed assets	1,122		1,103		19	1,105	
Total	1,122	0.5	1,103	0.5	19	1,105	0.5
3 Investments and other assets							
(1) Investments in securities	40,823		44,224		(3,400)	44,355	
(2) Long-term advances	856		956		(100)	866	
(3) Deferred income taxes	2,196		2,013		182	2,335	
(4) Other assets	5,741		5,334		406	5,289	
Allowance for doubtful accounts	(203)		(257)		54	(206)	
Total	49,414	23.3	52,271	24.0	(2,856)	52,639	24.6
Total	126,177	59.4	129,541	59.5	(3,363)	128,680	60.0
<b>Total assets</b>	212,407	100.0	217,809	100.0	(5,401)	214,365	100.0

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

	FY2007 Interim		FY2006 Interim		Increase	FY 2006	
	(As of Sept. 30, 2007)		(As of Sept. 30, 2006)		(Decrease)	(Summary)	
	Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio
<b>(Liabilities)</b>		%		%			%
<b>Current liabilities</b>							
1 Notes & accounts payable, trade	13,367		13,595		(227)	12,960	
2 Short-term debt	3,881		4,982		(1,100)	4,138	
3 Commercial paper	25,500		22,500		3,000	26,500	
4 Current portion of long-term debt	400		1,300		(900)	407	
5 Accrued income taxes	3,751		3,179		571	666	
6 Allowance for employees' bonuses	1,839		1,858		(19)	1,822	
7 Notes payable on acquisition of property, plants and equipment	560		8,389		(7,828)	195	
8 Other current liabilities	7,743		7,276		467	8,634	
Total	57,043	26.8	63,081	28.9	(6,037)	55,325	25.8
<b>Long-term liabilities</b>							
1 Long-term debt	800		406		393	-	
2 Deferred tax liabilities	1,271		8		1,262	2,821	
3 Allowance for retirement benefits	5,914		9,984		(4,069)	6,608	
4 Allowance for directors' and statutory auditors' retirement benefits	-		489		(489)	546	
5 Long-term deposits & guarantee deposits	10,539		11,218		(679)	10,595	
6 Other long-term liabilities	547		35		511	34	
Total	19,072	9.0	22,144	10.2	(3,071)	20,606	9.6
<b>Total liabilities</b>	76,116	35.8	85,225	39.1	(9,109)	75,931	35.4
<b>(Net assets)</b>							
<b>Shareholders' equity</b>							
1 Common stock	26,071		26,071		-	26,071	
2 Capital surplus	22,719		22,718		0	22,718	
3 Retained earnings	77,996		71,558		6,437	77,159	
4 Treasury stock	(8,787)		(7,402)		(1,385)	(7,436)	
Total	117,999	55.6	112,946	51.9	5,053	118,513	55.3
<b>Valuation, translation adjustments and others</b>							
1 Unrealized gain on available-for-sale securities	16,159		18,537		(2,378)	18,343	
2 Deferred gains on hedge	5		32		(26)	12	
3 Revaluation difference on land	(400)		(400)		-	(400)	
4 Foreign currency translation adjustments	1,110		213		896	635	
Total	16,873	7.9	18,383	8.4	(1,509)	18,589	8.7
<b>Stock acquisition rights</b>	11	0.0	-	-	11	-	-
<b>Minority interests</b>	1,406	0.7	1,254	0.6	152	1,330	0.6
<b>Total net assets</b>	136,291	64.2	132,583	60.9	3,707	138,433	64.6
<b>Total liabilities and total net assets</b>	212,407	100.0	217,809	100.0	(5,401)	214,365	100.0

**(2) Consolidated Interim Statements of Income**

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

	FY2007 Interim (Apr. 2007 to Sept. 2007)		FY2006 Interim (Apr. 2006 to Sept. 2006)		Increase (Decrease)		(Ref.) FY2006 (Apr. 2006 to Mar. 2007)	
	Amount	Ratio	Amount	Ratio	Amount	Pct.	Amount	Ratio
<b>Net Sales</b>	80,704	100.0	81,268	100.0	(564)	(0.7)	168,787	100.0
<b>Cost of sales</b>	59,050	73.2	58,747	72.3	302	0.5	121,776	72.1
<b>Gross profit</b>	21,654	26.8	22,521	27.7	(867)	(3.8)	47,010	27.9
<b>Selling, general &amp; administrative expenses</b>	18,231	22.6	18,430	22.7	(199)	(1.1)	37,397	22.2
<b>Operating income</b>	3,422	4.2	4,090	5.0	(668)	(16.3)	9,612	5.7
<b>Non-operating income</b>	860	1.1	869	1.1	(8)	(1.0)	1,547	0.9
1 Interest income	42		31				78	
2 Dividend income	313		353				506	
3 Rental income	165		239				459	
4 Exchange gain	84		30				26	
5 Other	255		215				475	
<b>Non-operating expenses</b>	525	0.6	690	0.8	(164)	(23.9)	1,337	0.8
1 Interest expenses	165		184				387	
2 Rental costs	133		196				443	
3 Loss on disposal of inventories	62		27				51	
4 Other	164		281				455	
<b>Ordinary income</b>	3,757	4.7	4,269	5.3	(512)	(12.0)	9,822	5.8
<b>Extraordinary income</b>	1,721	2.1	4,402	5.3	(2,680)	(60.9)	9,713	5.8
1 Gain on sale of property, plants & equipment	8		26				118	
2 Gain on sale of investments in securities	436		-				785	
3 Gain on reversal of allowance for doubtful accounts	-		1				59	
4 Amortization of actuarial gain on retirement benefits	384		3,573				7,147	
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	
6 Other	90		-				-	
<b>Extraordinary losses</b>	115	0.2	3,494	4.3	(3,379)	(96.7)	5,937	3.5
1 Loss on sale or disposal of property, plants & equipment	71		502				579	
2 Loss on valuation of investments in securities	14		5				24	
3 Loss on business structure improvement	29		168				181	
4 Loss on compensation for removal of tenants	-		20				20	
5 Loss on disposal of inventories	-		2,797				5,113	
6 Other	-		-				17	
Income before income taxes and minority interests	5,363	6.6	5,176	6.3	186	3.6	13,599	8.1
Income taxes - current	2,381	2.9	2,368	2.9	12	0.5	1,871	1.1
Income taxes - deferred	-	-	-	-	-	-	3,291	2.0
Minority interests	8	0.0	24	0.0	(16)	(66.7)	49	0.0
<b>Net income</b>	2,973	3.7	2,783	3.4	190	6.8	8,386	5.0

### (3) Consolidated Statements of Changes in Shareholders' Equity, etc.

(April 1, 2007 to September 30, 2007)

(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, 2007	26,071	22,718	77,159	(7,436)	118,513
Changes in the period					
Dividends from retained earnings			(2,136)		(2,136)
Net income			2,973		2,973
Acquisition of treasury stock				(1,353)	(1,353)
Disposal of treasury stock		0		2	2
Net changes of items other than shareholders' equity					
Total changes in the period		0	837	(1,351)	(513)
Balance as of September 30, 2007	26,071	22,719	77,996	(8,787)	117,999

	Revaluation and Translation Adjustments					Stock acquisition rights	Minority interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gains on hedge	Revaluation difference on land	Foreign currency translation adjustments	Total valuation and translation adjustments			
Balance as of March 31, 2007	18,343	12	(400)	635	18,589	-	1,330	138,433
Changes in the period								
Dividends from retained earnings								(2,136)
Net income								2,973
Acquisition of treasury stock								(1,353)
Disposal of treasury stock								2
Net changes of items other than shareholders' equity	(2,183)	(6)	-	474	(1,716)	11	75	(1,628)
Total changes in the period	(2,183)	(6)	-	474	(1,716)	11	75	(2,142)
Balance as of September 30, 2007	16,159	5	(400)	1,110	16,873	11	1,406	136,291

### (3) Consolidated Statements of Changes in Shareholders' Equity, etc.

(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			(36)		(36)
Net income			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
	Unrealized gain on available-for-sale securities	Deferred gains on hedge	Revaluation difference on land	Foreign currency translation adjustments	Total valuation 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							(36)
Net income							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

### (3) Consolidated Statements of Changes in Shareholders' Equity, etc.

(April 1, 2006 to March 31, 2007)

(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			(36)		(36)
Net income			8,386		8,386
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			(6)		(6)
Acquisition of treasury stock				(2,080)	(2,080)
Disposal of treasury stock		0		2	3
Net changes of items other than shareholders' equity					
Total changes in the period		0	5,756	(2,077)	3,679
Balance as of March 31, 2007	26,071	22,718	77,159	(7,436)	118,513

	Revaluation and Translation Adjustments					Minority interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gains on hedge	Revaluation difference on land	Foreign currency translation adjustments	Total valuation 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							(36)
Net income							8,386
Increase due to merger of consolidated and non-consolidated subsidiaries							5
Reversal of revaluation difference on land							(424)
Transfer to employee benefit fund							(6)
Acquisition of treasury stock							(2,080)
Disposal of treasury stock							3
Net changes of items other than shareholders' equity	(3,706)	12	424	374	(2,894)	(123)	(3,018)
Total changes in the period	(3,706)	12	424	374	(2,894)	(123)	660
Balance as of March 31, 2007	18,343	12	(400)	635	18,589	1,330	138,433

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

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

	<b>FY2007 Interim</b> <small>(Apr. 2007 - Sept. 2007)</small>	FY2006 Interim <small>(Apr. 2006 - Sept. 2006)</small>	FY2006 <small>(Apr. 2006 - Mar. 2007)</small>
<b>Cash flows from operating activities</b>			
1. Income before income taxes & minority interests	5,363	5,176	13,599
2. Depreciation and amortization	3,837	3,575	7,488
3. Increase (decrease) in allowance for doubtful accounts	16	9	3
4. Increase (decrease) in allowance for retirement benefits	520	35	1,050
5. Interest and dividend income	(355)	(384)	(585)
6. Interest expenses	165	184	387
7. Loss (gain) on sale and disposal of fixed assets	63	476	461
8. Loss (gain) on sale of investments in securities	(436)	-	(785)
9. Loss on valuation of investments in securities and other assets	14	2	20
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	(400)	(3,573)	(7,147)
12. Other losses (gains)	26	(6)	92
13. Decrease (increase) in notes and accounts receivable	364	(3,379)	(1,774)
14. Decrease (increase) in inventories	(2,053)	1,834	4,160
15. Decrease (increase) in other current assets	522	11	(2,227)
16. Increase (decrease) in notes and accounts payable	(42)	882	203
17. Increase (decrease) in guarantee deposits	(75)	1,884	1,385
18. Increase (decrease) in other current liabilities	(974)	(1,161)	242
19. Increase (decrease) in other long-term liabilities	(33)	-	-
20. Directors' bonuses paid	(40)	(36)	(36)
Subtotal	5,681	4,731	14,937
21. Interest and dividends received	351	379	586
22. Interest paid	(240)	(170)	(490)
23. Income tax refund (paid)	2,420	(5,856)	(7,822)
Net cash provided by (used in) operating activities	8,212	(915)	7,210
<b>Cash flows from investing activities</b>			
1. Payments for purchase of property, plants & equipment	(3,817)	(5,738)	(16,407)
2. Proceeds from sale of property, plants & equipment	48	185	361
3. Payments for disposition of property, plants & equipment	(14)	(111)	(112)
4. Payments for acquisition of investments in securities	(115)	(1,419)	(1,963)
5. Proceeds from sale of investments in securities	457	-	858
6. Net decrease (increase) in advances	(37)	(124)	86
7. Other, net	(330)	(51)	(78)
Net cash used in investing activities	(3,809)	(7,260)	(17,255)
<b>Cash flows from financing activities</b>			
1. Net increase (decrease) in short-term debt and commercial paper	(1,407)	12,376	15,355
2. Net increase (decrease) in long-term debt	792	(6)	(1,307)
3. Cash dividends paid	(2,135)	(2,164)	(2,164)
4. Acquisition of treasury stock	(1,353)	(2,046)	(2,080)
5. Other, net	(26)	(43)	(74)
Net cash provided by (used in) financing activities	(4,130)	8,113	9,728
<b>Effect of exchange rate changes on cash &amp; cash equivalents</b>	78	(10)	31
<b>Net increase (decrease) in cash and cash equivalents</b>	351	(73)	(284)
<b>Cash and cash equivalents at beginning of period</b>	4,829	5,114	5,114
<b>Cash and cash equivalents at end of period</b>	5,181	5,040	4,829

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

### **Changes in Accounting Policies**

#### **Methods for Depreciating and Amortizing Important Assets**

Beginning with the interim period under review, Gunze and its domestic consolidated subsidiaries have changed the depreciation method for tangible fixed assets acquired on and after April 1, 2007 in accordance with the revised Corporate Income Tax Law. As a result of this change, operating income, ordinary income and income before income taxes and minority interests were stated at ¥25 million less, respectively, compared to the former method. Impact of the change on Segment Data is listed in the relevant section.

### **Additional Information**

#### **Methods for Depreciating and Amortizing Important Assets**

Regarding tangible fixed assets acquired on or before March 31, 2007, Gunze and its domestic consolidated subsidiaries adopted the depreciation method that conforms to the revised Corporate Income Tax Law. Specifically, when the depreciated value of a tangible fixed asset reaches 5% of its acquisition cost in a certain consolidated fiscal year by the depreciation method applicable before revision, the difference between the value equivalent to 5% of the acquisition cost and the memorandum value of such asset is depreciated by an equal amount over five years from the following fiscal year and reported as amortization and depreciation expenses. As a result, operating income, ordinary income and income before income taxes and minority interests were stated at ¥291 million less, respectively, than figures calculated using the former method. Impact of the change on Segment Data is listed in the relevant section.

#### **Allowance for Directors' Retirement Bonuses**

Formerly, Gunze had provided an allowance for directors' retirement bonuses, in accordance with internal regulations, to adequately cover payments of such bonuses of the applicable period. With the approval of a resolution of the 111th annual General Shareholders Meeting held on June 27, 2007, Gunze discontinued the directors' retirement bonus system, and instead adopted a stock option plan. Unpaid and outstanding bonuses as of the end of the consolidated interim period under review based on the former system are included in "other long-term liabilities."

Other matters not listed here have not changed significantly since the most recent Securities Report (*Hanki hokokusho*) submitted on December 20, 2006.

## (6) Notes to Interim Financial Statements

### Notes to Consolidated Balance Sheets

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

	<b>FY2007 Interim</b> (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
1. Accumulated depreciation on property, plants and equipment	130,751	120,393	127,572
2. Collateral and obligations collateralized:			
Assets pledged as collateral			
Property, plants and equipment	2	2	2
Investment securities with market value	64	114	92
Total	66	116	95
Obligations collateralized by the above			
Short-term debt	8	7	7
Deposits	36	45	45
Total	44	52	53
3. Loan guarantees (incl. other similar guarantor obligations)	1,031	705	847
4. Unused lines of credit			
Total unused lines of credit	10,000	10,000	10,000
Used lines of credit	-	-	-
Difference	10,000	10,000	10,000

### Notes to Consolidated Statements of Income

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

	<b>FY2007 Interim</b> (Apr. 2007 to Sept. 2007)	FY2006 Interim (Apr. 2006 to Sept. 2006)	FY2006 (Apr. 2006 to Mar. 2007)
1. Major items of selling, general and administrative expenses			
Freight and transportation expenses	4,320	4,282	8,730
Advertising and promotional costs	2,023	2,140	4,557
Employees' salaries, bonuses and allowances	4,369	4,739	9,985
Transfer to allowance for bonuses	695	699	707
Transfer to allowance for retirement benefits	331	343	725
Depreciation and amortization expenses	251	189	459
Research and development costs	852	763	1,501

## Notes to Leases

### 1. Finance leases, other than those that are deemed to transfer ownership of the leased assets to the lessee

#### (1) Amount equivalent to acquisition cost of leased assets, amount equivalent to accumulated depreciation, and amount equivalent to the balance at the end of the period

##### Interim Period of FY2007 (As of Sept. 30, 2007)

(Millions of yen)

	Amount equivalent to acquisition cost	Amount equivalent to accumulated depreciation	Amount equivalent to balance at end of period
Buildings and structures	4	0	3
Machinery, equipment and vehicles	597	352	245
Tools, furniture and fixtures	2,632	1,687	944
Software	327	162	164
Total	3,561	2,203	1,358

##### Interim Period of FY2006 (As of Sept. 30, 2006)

(Millions of yen)

	Amount equivalent to acquisition cost	Amount equivalent to accumulated depreciation	Amount equivalent to balance at end of period
Buildings and structures	4	0	4
Machinery, equipment and vehicles	601	308	292
Tools, furniture and fixtures	2,073	1,599	474
Software	338	115	223
Total	3,017	2,023	994

##### FY2006 (As of Mar. 31, 2007)

(Millions of yen)

	Amount equivalent to acquisition cost	Amount equivalent to accumulated depreciation	Amount equivalent to balance at end of period
Buildings and structures	4	0	4
Machinery, equipment and vehicles	552	305	246
Tools, furniture and fixtures	2,652	1,889	762
Software	341	147	193
Total	3,551	2,343	1,207

Amount equivalent to the acquisition cost of leased assets is calculated using the interest inclusive method since the balance of unexpired lease fees at the end of the applicable period accounts for a low percentage of the balance of tangible fixed assets.

**(2) Amount equivalent to the balance of unexpired lease fees at the end of the period**

(Millions of yen)

	<b>FY2007 Interim</b> (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
Within one year	390	400	356
Over one year	968	593	851
Total	1,358	994	1,207

Amount equivalent to the balance of unexpired lease fees at the end of the applicable period is calculated using the interest inclusive method since the balance of unexpired lease fees at the end of the period accounts for a low percentage of the balance of tangible fixed assets.

**(3) Lease fees paid and amount equivalent to depreciation cost**

(Millions of yen)

	<b>FY2007 Interim</b> (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
Lease fees paid	268	263	581
Amount equivalent to depreciation cost	268	263	581

**(4) Calculation method for the amount equivalent to depreciation cost**

Assuming the lease period as the useful life, the straight-line method with the residual value as zero is used to calculate the amount equivalent to depreciation cost.

**2. Operating leases**

**Unexpired lease fees**

(Millions of yen)

	<b>FY2007 Interim</b> (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
Within one year	38	44	17
Over one year	146		
Total	184	44	17

## Per Share Information

	<b>FY2007 Interim</b> (Apr. 1 to Sept. 30, 2007)	FY2006 Interim (Apr. 1 to Sept. 30, 2006)	FY2006 (Apr. 1, 2006 to Mar. 31, 2007)
Net assets per share	637.46	614.52	641.69
Earnings per share	13.98	12.93	39.10
Diluted earnings per share	13.98		

Note: Net assets per share, earnings per share and diluted earnings per share are calculated on the following basis:

### (1) Net assets per share

	<b>FY2007 Interim</b> (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
Total net assets (¥ million)	136,291	132,583	138,433
Deduction from net assets (¥ million)	1,418	1,254	1,330
(Minority interests) (¥ million)	1,406	1,254	1,330
(Stock acquisition rights) (¥ million)	11		
Term-end amounts allocated to common stock (¥ million)	134,873	131,329	137,103
Term-end number of common shares used for calculation of net assets per share (thousand shares)	211,578	213,712	213,659

### (2) Earnings per share

	<b>FY2007 Interim</b> (Apr. 1 to Sept. 30, 2007)	FY2006 Interim (Apr. 1 to Sept. 30, 2006)	FY2006 (Apr. 1, 2006 to Mar. 31, 2007)
Net income (¥ million)	2,973	2,783	8,386
Net income allocated to common stock (¥ million)	2,973	2,783	8,386
Amounts not applicable to common stockholders	NA	NA	NA
Average number of shares outstanding during each term (thousand shares)	212,673	215,241	214,521

### (3) Diluted earnings per share

	<b>FY2007 Interim</b> (Apr. 1 to Sept. 30, 2007)	FY2006 Interim (Apr. 1 to Sept. 30, 2006)	FY2006 (Apr. 1, 2006 to Mar. 31, 2007)
Adjustments to net income (¥ million)			
Increase in common shares (thousand shares)	7		
(Stock acquisition rights) (thousand shares)	7		

## Stock Options Granted during Interim Period of FY2007 (April 1 to September 30, 2007)

### 1. Items and amounts of expenses associated with stock options

Selling, general and administrative expenses: ¥11 million

### 2. Contents of stock options granted during the interim period of FY2007

Type and number of grantees	8 directors of Gunze Limited (excluding outside directors)
Type and number of shares granted as stock options	Common stock: 108,000 shares
Grant date	August 20, 2007
Conditions for exercising stock acquisition rights	
Grantees' length of service	
Exercise period for stock acquisition rights	August 21, 2007 to August 20, 2037
Exercise price	¥1
Fair unit price at grant date	¥439

## Segment Data

### (1) Segment Information by Business

**FY2007 Interim (April 1, 2007 to September 30, 2007)**

(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	45,498	29,088	6,117	80,704	-	80,704
(2) Intersegment sales and transactions	48	52	887	988	(988)	-
Total	45,547	29,141	7,004	81,692	(988)	80,704
Operating expenses	43,985	26,048	6,365	76,399	882	77,281
Operating income (loss)	1,561	3,093	638	5,293	(1,870)	3,422

**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

**FY2006 (April 1, 2006 to March 31, 2007)**

(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	97,565	58,082	13,139	168,787	-	168,787
(2) Intersegment sales and transactions	142	112	1,080	1,335	(1,335)	-
Total	97,707	58,195	14,219	170,122	(1,335)	168,787
Operating expenses	92,866	51,756	12,635	157,259	1,914	159,174
Operating income (loss)	4,840	6,438	1,584	12,863	(3,250)	9,612

Notes:

(1) Business segments are classified according to the types and nature of products, and similarities in manufacturing and sales methods.

(2) The main products handled in each business segment are as follows:

Apparel business: Innerwear, hosiery, outerwear, textiles, and threads.

Functional solutions business: Plastic films, engineering plastics, electronic materials, machinery, and medical materials.

Lifestyle creation business: Buying, selling and leasing of real estate, trees and plants, and operation and management of sports facilities.

(3) No-allocated operating expenses included in "Eliminations/Corporate" as part of operating expenses represent expenses related to the Company's head office, including the management & strategy department and the business audit section, which cannot be directly allocated to specific segment, as well as expenses for campaigns to promote the Company's image.

<b>FY2007 Interim:</b>	<b>1,870 million yen</b>
FY2006 Interim:	<b>1,773 million yen</b>
FY2006 (Full year):	<b>3,250 million yen</b>

(4) As discussed in the "Changes in Accounting Policies" and "Additional Information" sections of "Significant Accounting Policies Used in Preparation of Consolidated Interim Financial Statements," the depreciation method has been changed for tangible fixed assets. As a result, operating expenses increased ¥145 million for the apparel business, ¥102 million for the functional solutions business, ¥30 million for the lifestyle creation business and ¥38 million for eliminations/corporate compared to the former method, while operating income for each segment decreased by the same amounts, respectively.

### (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	FY2007 Interim	FY2006 Interim
	(Apr. 1, 2007 to Sept. 30, 2007)	(Apr. 1, 2006 to Sept. 30, 2006)
Apparel	27,280	27,338
Functional solutions	21,473	21,199
Total	48,753	48,537

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	FY2007 Interim	FY2006 Interim
	Apparel	3,968
Functional solutions	910	746
Lifestyle creations	1,176	1,198
Total	6,056	7,263

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	FY2007 Interim		FY2006 Interim	
	(Apr. 1, 2007 to Sept. 30, 2007)		(Apr. 1, 2006 to Sept. 30, 2006)	
	Orders received	Outstanding orders	Orders received	Outstanding orders
Machinery included in the functional solutions business	2,701	1,457	3,602	2,557

Note: Figures exclude consumption tax.

### (3) Sales

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

Business Segment	FY2007 Interim	FY2006 Interim	Increase
	(Apr.1, 2007 to Sept. 30, 2007)	(Apr.1, 2006 to Sept. 30, 2006)	(Decrease)
Apparel	45,547	46,764	%
Functional solutions	29,141	28,552	(2.6)
Lifestyle creations	7,004	6,692	2.1
Subtotal	81,692	82,009	4.7
Excl. intersegment sales	(988)	(740)	(0.4)
Total	80,704	81,268	-
			(0.7)

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)

	FY2007 Interim (As of Sept. 30, 2007)			FY2006 Interim (As of Sept. 30, 2006)			FY2006 (As of Mar. 31, 2007)		
	Acquisition cost	Carrying amounts	Difference	Acquisition cost	Carrying amounts	Difference	Acquisition cost	Carrying amounts	Difference
(1) Shares	11,637	38,356	26,718	11,204	41,852	30,647	11,658	41,983	30,325
(2) Bonds	-	-	-	-	-	-	-	-	-
(3) Other	-	-	-	-	-	-	-	-	-
Total	11,637	38,356	26,718	11,204	41,852	30,647	11,658	41,983	30,325

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

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

	FY2007 Interim (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
	Balance sheet figure	Balance sheet figure	Balance sheet figure
(1) Held-to-maturity bonds	-	-	-
(2) Shares in non-consolidated subsidiaries and affiliated companies	1,328	1,270	1,270
(3) Other marketable securities Unlisted shares	1,138	1,100	1,101
Total	2,467	2,371	2,372

Note:

During the interim period under review, the Company recorded a valuation loss of ¥ 14 million on the write-down of certain other marketable securities (¥ 14 million for shares with 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 net assets 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.

## 5. Non-consolidated Interim Financial Statements

### (1) Non-consolidated Interim Balance Sheets

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

	FY2007 Interim		FY2006 Interim		Increase	FY 2006	
	(As of Sept. 30, 2007)		(As of Sept. 30, 2006)		(Decrease)	(Summary)	
	Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio
<b>(Assets)</b>		%		%			%
<b>Current assets</b>	82,063	44.4	84,120	45.7	(2,056)	83,375	44.4
1 Cash and cash equivalents	2,064		2,391		(326)	2,540	
2 Trade notes	7,666		8,969		(1,303)	8,401	
3 Accounts receivable	25,505		26,086		(581)	24,677	
4 Inventories	29,866		30,286		(420)	27,996	
5 Short-term advances	14,531		13,970		560	15,696	
6 Deferred income taxes	405		990		(584)	401	
7 Other current assets	2,040		1,459		581	3,679	
8 Allowance for doubtful accounts	(17)		(35)		18	(17)	
<b>Fixed assets</b>	102,872	55.6	100,132	54.3	2,740	104,196	55.6
1 Property, plants and equipment	32,114	17.4	32,606	17.7	(491)	31,854	17.0
(1) Buildings	11,127		11,747		(619)	11,399	
(2) Structures	660		698		(37)	686	
(3) Machinery and equipment	9,402		10,260		(857)	10,000	
(4) Vehicles	49		58		(9)	49	
(5) Tools, furniture and fixtures	761		827		(66)	789	
(6) Land	8,369		8,372		(2)	8,369	
(7) Construction in progress	1,742		641		1,101	557	
2 Intangible fixed assets	842	0.4	839	0.5	3	829	0.4
3 Investments and other assets	69,915	37.8	66,686	36.1	3,229	71,513	38.2
(1) Investments in securities	59,292		61,797		(2,505)	62,695	
(2) Allowance for investment loss	(8,285)		(8,295)		10	(8,285)	
(3) Long-term advances	12,274		5,814		6,459	12,267	
(4) Deferred income taxes	1,568		2,684		(1,116)	141	
(5) Other assets	5,199		4,867		331	4,832	
(6) Allowance for doubtful accounts	(133)		(183)		50	(137)	
<b>Total assets</b>	184,936	100.0	184,252	100.0	684	187,572	100.0

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

	FY2007 Interim		FY2006 Interim		Increase	FY 2006	
	(As of Sept. 30, 2007)		(As of Sept. 30, 2006)		(Decrease)	(Summary)	
	Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio
<b>(Liabilities)</b>		%		%			%
<b>Current liabilities</b>	44,473	24.1	41,107	22.3	3,366	43,666	23.3
1 Notes payable	748		1,201		(453)	953	
2 Accounts payable - trade	6,171		6,031		139	5,766	
3 Short-term debt	1,915		1,789		126	1,814	
4 Commercial paper	25,500		22,500		3,000	26,500	
5 Accrued income taxes	3,218		2,771		447	341	
6 Allowance for employees' bonuses	1,213		1,216		(3)	1,188	
7 Other current liabilities	5,707		5,597		108	7,100	
<b>Long-term liabilities</b>	4,669	2.5	8,754	4.8	(4,085)	5,424	2.9
1 Allowance for retirement benefits	3,493		7,550		(4,056)	4,202	
2 Allowance for directors' and statutory auditors' retirement benefits	-		489		(489)	546	
3 Long-term guarantee deposits	662		714		(52)	676	
4 Other long-term liabilities	514		-		514	-	
<b>Total liabilities</b>	49,142	26.6	49,861	27.1	(719)	49,091	26.2
<b>(Net assets)</b>							
<b>Shareholders' equity</b>	119,811	64.8	116,030	63.0	3,781	120,322	64.1
1 Common stock	26,071	14.1	26,071	14.2	-	26,071	13.9
2 Capital surplus	22,719	12.3	22,718	12.3	0	22,719	12.1
(1) Capital reserve	6,566		6,566		-	6,566	
(2) Other capital surplus	16,152		16,152		0	16,152	
3 Retained earnings	79,808	43.2	74,642	40.5	5,165	78,967	42.1
(1) Legal reserve	12		12		-	12	
(2) Other retained earnings	79,796		74,630		5,165	78,955	
Reserve for special depreciation	30		49		(19)	41	
Reserve for reduction of fixed assets	662		680		(18)	668	
Reserve for unspecified purposes	73,240		68,240		5,000	68,240	
Retained earnings carried forward	5,864		5,659		204	10,004	
4 Treasury stock	(8,787)	(4.8)	(7,402)	(4.0)	(1,385)	(7,436)	(4.0)
<b>Valuation, translation adjustments and others</b>	15,970	8.6	18,359	9.9	(2,389)	18,158	9.7
1 Unrealized gain on available-for-sale securities	15,964	8.6	18,327	9.9	(2,362)	18,146	9.7
2 Deferred gains on hedge	5	0.0	32	0.0	(26)	12	0.0
<b>Stock acquisition rights</b>	11	0.0	-	-	11	-	-
<b>Total net assets</b>	135,793	73.4	134,390	72.9	1,403	138,481	73.8
<b>Total liabilities and total net assets</b>	184,936	100.0	184,252	100.0	684	187,572	100.0

**(2) Non-consolidated Interim Statements of Income**

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

	FY2007 Interim (Apr. 2007 to Sept. 2007)		FY2006 Interim (Apr. 2006 to Sept. 2006)		Increase (Decrease)		(Ref.) FY2006 (Apr. 2006 to Mar. 2007)	
	Amount	Ratio	Amount	Ratio	Amount	Pct.	Amount	Ratio
<b>Net sales</b>	64,153	100.0	66,123	100.0	(1,970)	(3.0)	135,767	100.0
<b>Cost of sales</b>	47,443	74.0	48,319	73.1	(876)	(1.8)	99,502	73.3
<b>Gross profit</b>	16,710	26.0	17,804	26.9	(1,093)	(6.1)	36,264	26.7
<b>Selling, general &amp; administrative expenses</b>	15,127	23.5	15,443	23.3	(316)	(2.0)	31,101	22.9
<b>Operating income</b>	1,582	2.5	2,360	3.6	(777)	(33.0)	5,163	3.8
<b>Non-operating income</b>	2,240	3.5	2,226	3.4	14	0.6	3,741	2.8
1 Interest income	300		172		127		435	
2 Dividend income	912		1,062		(149)		1,248	
3 Other	1,027		991		35		2,057	
<b>Non-operating expenses</b>	569	0.9	641	1.0	(71)	(11.2)	1,236	0.9
1 Interest expenses	31		26		5		62	
2 Other	537		614		(76)		1,174	
<b>Ordinary income</b>	3,253	5.1	3,945	6.0	(691)	(17.5)	7,668	5.7
<b>Extraordinary income</b>	1,640	2.5	4,378	6.6	(2,737)	(62.5)	9,651	7.1
1 Gain on sale of property, plants & equipment	2		0		1		79	
2 Gain on sale of investments in securities	436		-		436		757	
3 Gain on reversal of allowance for doubtful accounts	-		1		(1)		59	
4 Amortization of actuarial gain on retirement benefits	400		3,575		(3,175)		7,151	
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	
<b>Extraordinary losses</b>	52	0.1	2,947	4.5	(2,895)	(98.2)	5,308	3.9
1 Loss on sale or disposal of property, plants & equipment	43		57		(14)		121	
2 Loss on valuation of investments in securities	9		2		6		21	
3 Loss on business structure improvement	-		110		(110)		120	
4 Loss on disposal of inventories	-		2,776		(2,776)		5,044	
Income before income taxes	4,841	7.5	5,376	8.1	(534)	(10.0)	12,011	8.9
Income taxes - current	1,864	2.9	2,034	3.0	(169)	(8.4)	1,080	0.8
Income taxes - deferred	-	-	-	-	-	-	3,264	2.4
<b>Net income</b>	2,977	4.6	3,342	5.1	(364)	(10.9)	7,667	5.7

**(3) Statements of Changes in Shareholders' Equity, etc.**

(April 1, 2007 to September 30, 2007)

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

	Shareholders' equity						
	Common stock	Capital surplus			Retained earnings		
		Capital reserve	Other capital surplus	Total	Legal reserve	Other retained earnings	
					Reserve for special depreciation	Reserve for reduction of fixed assets	
Balance as of March 31, 2007	26,071	6,566	16,152	22,719	12	41	668
Changes in the period							
Dividends from retained earnings							
Reversal of reserve for special depreciation						(11)	
Reversal of reserve for reduction of fixed assets							(6)
Transfer to reserve for unspecified purposes							
Net income							
Acquisition of treasury stock							
Disposal of treasury stock			0	0			
Net changes of items other than shareholders' equity							
Total changes in the period			0	0		(11)	(6)
Balance as of September 30, 2007	26,071	6,566	16,152	22,719	12	30	662

	Shareholders' equity				
	Retained earnings			Treasury stock	Total shareholders' equity
	Reserve for unspecified purposes	Retained earnings carried forward	Total		
Balance as of March 31, 2007	68,240	10,004	78,967	(7,436)	120,322
Changes in the period					
Dividends from retained earnings		(2,136)	(2,136)		(2,136)
Reversal of reserve for special depreciation		11			
Reversal of reserve for reduction of fixed assets		6			
Transfer to reserve for unspecified purposes	5,000	(5,000)			
Net income		2,977	2,977		2,977
Acquisition of treasury stock				(1,353)	(1,353)
Disposal of treasury stock				2	2
Net changes of items other than shareholders' equity					
Total changes in the period	5,000	(4,140)	840	(1,351)	(510)
Balance as of September 30, 2007	73,240	5,864	79,808	(8,787)	119,811

	Valuation, translation adjustments and others			Stock acquisition rights	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gains on hedge	Total valuation, translation adjustments and others		
Balance as of March 31, 2007	18,146	12	18,158	-	138,481
Changes in the period					
Dividends from retained earnings					(2,136)
Reversal of reserve for special depreciation					
Reversal of reserve for reduction of fixed assets					
Transfer to reserve for unspecified purposes					
Net income					2,977
Acquisition of treasury stock					(1,353)
Disposal of treasury stock					2
Net changes of items other than shareholders' equity	(2,181)	(6)	(2,188)	11	(2,176)
Total changes in the period	(2,181)	(6)	(2,188)	11	(2,687)
Balance as of September 30, 2007	15,964	5	15,970	11	135,793

**(3) Statements of Changes in Shareholders' Equity, etc.**

(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		
		Capital reserve	Other capital surplus	Total	Legal reserve	Other retained earnings	
						Reserve for special depreciation	Reserve for reduction of fixed assets
Balance as of March 31, 2006	26,071	6,566	16,151	22,718	12	60	691
Changes in the period							
Dividends from retained earnings							
Bonuses for directors							
Reversal of reserve for special depreciation						(10)	
Reversal of reserve for reduction of fixed assets							(10)
Transfer to reserve for unspecified purposes							
Net income							
Acquisition of treasury stock							
Disposal of treasury stock			0	0			
Net changes of items other than shareholders' equity							
Total changes in the period			0	0		(10)	(10)
Balance as of September 30, 2006	26,071	6,566	16,152	22,718	12	49	680

	Shareholders' equity				
	Retained earnings			Treasury stock	Total shareholders' equity
	Other retained earnings		Total		
	Reserve for unspecified purposes	Retained earnings carried forward			
Balance as of March 31, 2006	64,240	8,498	73,503	(5,358)	116,935
Changes in the period					
Dividends from retained earnings		(2,167)	(2,167)		(2,167)
Bonuses for directors		(35)	(35)		(35)
Reversal of reserve for special depreciation		10			
Reversal of reserve for reduction of fixed assets		10			
Transfer to reserve for unspecified purposes	4,000	(4,000)			
Net income		3,342	3,342		3,342
Acquisition of treasury stock				(2,046)	(2,046)
Disposal of treasury stock				2	2
Net changes of items other than shareholders' equity					
Total changes in the period	4,000	(2,839)	1,139	(2,044)	(904)
Balance as of September 30, 2006	68,240	5,659	74,642	(7,402)	116,030

	Valuation, translation adjustments and others			Total net assets
	Unrealized gain on available-for-sale securities	Deferred gains on hedge	Total valuation, translation adjustments and others	
Balance as of March 31, 2006	21,833	-	21,833	138,768
Changes in the period				
Dividends from retained earnings				(2,167)
Bonuses for directors				(35)
Reversal of reserve for special depreciation				
Reversal of reserve for reduction of fixed assets				
Transfer to reserve for unspecified purposes				
Net income				3,342
Acquisition of treasury stock				(2,046)
Disposal of treasury stock				2
Net changes of items other than shareholders' equity	(3,506)	32	(3,473)	(3,473)
Total changes in the period	(3,506)	32	(3,473)	(4,378)
Balance as of September 30, 2006	18,327	32	18,359	134,390

**(3) Statements of Changes in Shareholders' Equity, etc.**

(April 1, 2006 to March 31, 2007)

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

	Shareholders' equity						
	Common stock	Capital surplus			Retained earnings		
		Capital reserve	Other capital surplus	Total	Legal reserve	Other retained earnings	
					Reserve for special depreciation	Reserve for reduction of fixed assets	
Balance as of March 31, 2006	26,071	6,566	16,151	22,718	12	60	691
Changes in the period							
Dividends from retained earnings							
Bonuses for directors							
Reversal of reserve for special depreciation						(18)	
Reversal of reserve for reduction of fixed assets							(23)
Transfer to reserve for unspecified purposes							
Net income							
Acquisition of treasury stock							
Disposal of treasury stock			0	0			
Net changes of items other than shareholders' equity							
Total changes in the period			0	0		(18)	(23)
Balance as of March 31, 2007	26,071	6,566	16,152	22,719	12	41	668

	Shareholders' equity				
	Retained earnings			Treasury stock	Total shareholders' equity
	Other retained earnings		Total		
	Reserve for unspecified purposes	Retained earnings carried forward			
Balance as of March 31, 2006	64,240	8,498	73,503	(5,358)	116,935
Changes in the period					
Dividends from retained earnings		(2,167)	(2,167)		(2,167)
Bonuses for directors		(35)	(35)		(35)
Reversal of reserve for special depreciation		18			
Reversal of reserve for reduction of fixed assets		23			
Transfer to reserve for unspecified purposes	4,000	(4,000)			
Net income		7,667	7,667		7,667
Acquisition of treasury stock				(2,080)	(2,080)
Disposal of treasury stock				2	3
Net changes of items other than shareholders' equity					
Total changes in the period	4,000	1,506	5,464	(2,077)	3,387
Balance as of March 31, 2007	68,240	10,004	78,967	(7,436)	120,322

	Valuation, translation adjustments and others			Total net assets
	Unrealized gain on available-for-sale securities	Deferred gains on hedge	Total valuation, translation adjustments and others	
Balance as of March 31, 2006	21,833	-	21,833	138,768
Changes in the period				
Dividends from retained earnings				(2,167)
Bonuses for directors				(35)
Reversal of reserve for special depreciation				
Reversal of reserve for reduction of fixed assets				
Transfer to reserve for unspecified purposes				
Net income				7,667
Acquisition of treasury stock				(2,080)
Disposal of treasury stock				3
Net changes of items other than shareholders' equity	(3,686)	12	(3,674)	(3,674)
Total changes in the period	(3,686)	12	(3,674)	(287)
Balance as of March 31, 2007	18,146	12	18,158	138,481

## **Significant Accounting Policies Used in Preparation of Non-consolidated Interim Financial Statements**

### **Changes in Accounting Policies**

#### **Methods for Depreciating and Amortizing Important Assets**

Beginning with the interim period under review, Gunze has changed the depreciation method for tangible fixed assets acquired on and after April 1, 2007 in accordance with the revised Corporate Income Tax Law. As a result of this change, operating income, ordinary income and income before income taxes were stated at ¥23 million less, respectively, compared to the former method.

### **Additional Information**

#### **Methods for Depreciating and Amortizing Important Assets**

Regarding tangible fixed assets acquired on or before March 31, 2007, Gunze adopted the depreciation method that conforms to the revised Corporate Income Tax Law. Specifically, when the depreciated value of a tangible fixed asset reaches 5% of its acquisition cost in a certain consolidated fiscal year by the depreciation method applicable before revision, the difference between the value equivalent to 5% of the acquisition cost and the memorandum value of such asset is depreciated by an equal amount over five years from the following fiscal year and reported as amortization and depreciation expenses. As a result, operating income, ordinary income and income before income taxes were stated at ¥174 million less, respectively, than figures calculated using the former method.

#### **Allowance for Directors' Retirement Bonuses**

Formerly, Gunze had provided an allowance for directors' retirement bonuses, in accordance with internal regulations, to adequately cover payments of such bonuses of the applicable period. With the approval of a resolution of the 111th annual General Shareholders Meeting held on June 27, 2007, Gunze discontinued the directors' retirement bonus system, and instead adopted a stock option plan. Unpaid and outstanding bonuses as of the end of the interim period under review based on the former system are included in "other long-term liabilities."

Other matters not listed here have not changed significantly since the most recent Securities Report (*Hanki hokokusho*) submitted on December 20, 2006.

## Notes to Interim Financial Statements

### Notes to Non-consolidated Balance Sheets

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

	<b>FY2007 Interim</b> (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
1. Accumulated depreciation on property, plants and equipment	75,193	69,034	74,102
2. Collateral and obligations collateralized:			
Assets pledged as collateral			
Investment securities with market value	64	114	92
Obligations collateralized by the above			
Deposits	36	45	45
3. Loan guarantees (incl. other similar guarantor obligations)	8,946	10,699	8,433
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 Non-consolidated Statements of Income

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

	<b>FY2007 Interim</b> (Apr. 2007 to Sept. 2007)	FY2006 Interim (Apr. 2006 to Sept. 2006)	FY2006 (Apr. 2006 to Mar. 2007)
Amortization and depreciation			
Property, plants and equipment	1,897	1,764	3,772
Intangible fixed assets	138	124	258

## Notes to Leases

### 1. Finance leases, other than those that are deemed to transfer ownership of the leased assets to the lessee

#### (1) Amount equivalent to acquisition cost of leased assets, amount equivalent to accumulated depreciation, and amount equivalent to the balance at the end of the period

##### Interim Period of FY2007 (As of Sept. 30, 2007)

(Millions of yen)

	Amount equivalent to acquisition cost	Amount equivalent to accumulated depreciation	Amount equivalent to balance at end of period
Structures	4	0	3
Machinery and equipment	257	172	85
Vehicles	89	38	51
Tools, furniture and fixtures	1,540	1,249	291
Software	59	43	16
Total	1,952	1,504	447

##### Interim Period of FY2006 (As of Sept. 30, 2006)

(Millions of yen)

	Amount equivalent to acquisition cost	Amount equivalent to accumulated depreciation	Amount equivalent to balance at end of period
Structures	4	0	4
Machinery and equipment	307	172	134
Vehicles	74	24	50
Tools, furniture and fixtures	1,677	1,386	291
Software	70	49	21
Total	2,135	1,632	502

##### FY2006 (As of Mar. 31, 2007)

(Millions of yen)

	Amount equivalent to acquisition cost	Amount equivalent to accumulated depreciation	Amount equivalent to balance at end of period
Structures	4	0	4
Machinery and equipment	262	153	109
Vehicles	79	31	48

Tools, furniture and fixtures	1,818	1,520	298
Software	73	55	18
Total	2,239	1,760	479

Amount equivalent to the acquisition cost of leased assets is calculated using the interest inclusive method since the balance of unexpired lease fees at the end of the applicable period accounts for a low percentage of the balance of tangible fixed assets.

**(2) Amount equivalent to the balance of unexpired lease fees at the end of the period**

(Millions of yen)

	FY2007 Interim (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
Within one year	138	266	180
Over one year	308	235	298
Total	447	502	479

Amount equivalent to the balance of unexpired lease fees at the end of the applicable period is calculated using the interest inclusive method since the balance of unexpired lease fees at the end of the period accounts for a low percentage of the balance of tangible fixed assets.

**(3) Lease fees paid and amount equivalent to depreciation cost**

(Millions of yen)

	FY2007 Interim (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
Lease fees paid	117	189	360
Amount equivalent to depreciation cost	117	189	360

**(4) Calculation method for the amount equivalent to depreciation cost**

Assuming the lease period as the useful life, the straight-line method with the residual value as zero is used to calculate the amount equivalent to depreciation cost.

**2. Operating leases**

**Unexpired lease fees**

(Millions of yen)

	FY2007 Interim (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
Within one year	24	30	12
Over one year	93		
Total	117	30	12

## Marketable Securities

### Shares in Subsidiaries and Affiliates with Market Quotations

The Company did not hold any shares of subsidiaries and affiliates with fair market value during the interim periods of FY2007 and FY2006, or during FY2006.

## Per Share Information

	<b>FY2007 Interim</b> (Apr. 1 to Sept. 30, 2007)	FY2006 Interim (Apr. 1 to Sept. 30, 2006)	FY2006 (Apr. 1, 2006 to Mar. 31, 2007)
Net assets per share	641.76	628.84	648.14
Earnings per share	14.00	15.53	35.74
Diluted earnings per share	14.00		

Note: Net assets per share, earnings per share and diluted earnings per share are calculated on the following basis.

### (1) Net assets per share

	<b>FY2007 Interim</b> (As of Sept. 30, 2007)	FY2006 Interim (As of Sept. 30, 2006)	FY2006 (As of Mar. 31, 2007)
Total net assets (¥ million)	135,793	134,390	138,481
Deduction from net assets (¥ million)	11	NA	NA
(Stock acquisition rights) (¥ million)	11		
Term-end amounts allocated to common stock (¥ million)	135,781	134,390	138,481
Term-end number of common shares used for calculation of net assets per share (thousand shares)	211,578	213,712	213,659

### (2) Earnings per share

	<b>FY2007 Interim</b> (Apr. 1 to Sept. 30, 2007)	FY2006 Interim (Apr. 1 to Sept. 30, 2006)	FY2006 (Apr. 1, 2006 to Mar. 31, 2007)
Net income (¥ million)	2,977	3,342	7,667
Net income allocated to common stock (¥ million)	2,977	3,342	7,667
Amounts not applicable to common stockholders	NA	NA	NA
Average number of shares outstanding during each term (thousand shares)	212,673	215,241	214,521

**(3) Diluted earnings per share**

	<b>FY2007 Interim</b> (Apr. 1, 2006 to Mar. 31, 2007)	FY2006 Interim (Apr. 1 to Sept. 30, 2006)	FY2006 (Apr. 1, 2006 to Mar. 31, 2007)
Adjustments to net income (¥ million)			
Increase in common shares (thousand shares)	7		
(Stock acquisition rights) (thousand shares)	7		

## Overview of Consolidated Interim Results

### <Overview of results>

- Net sales: 0.7% lower than the same period of the previous year.
- Operating income and ordinary income recorded two-digit decreases. The Apparel segment showed sluggish performance due to unseasonable weather and intensified market competition, and the performance of Functional Solutions segment was also slow.
- Net income increased due to special treatments conducted during the interim period.

### <Special treatments>

- Amortization of actuarial gain on retirement benefits: ¥400 million.
- Amortization gain of prior service cost on retirement benefits by transition from employees' pension fund to cash-balance plan: ¥800 million.

### <FY2007 forecast>

- Net sales are projected to generate a slight increase of 0.3%, while operating income, ordinary income and net income are expected to decline.

### <Dividend policy>

- Scheduled payment for dividend of current fiscal year: ¥10 per share.

### (1) FY2007 Interim Operating Results (Apr. 1, 2007 to Sept. 30, 2007)

(Millions of yen)

	FY2007 Interim	Initial Forecasts (May 2007)	FY2006 Interim	Change	
				<Upper figures in brackets %>	
				vs. forecasts	vs. FY2006
Net Sales	80,704	83,600	81,268	<(3.5)> (2,896)	<(0.7)> (564)
Operating Income	3,422	4,300	4,090	<(20.4)> (878)	<(16.3)> (668)
Ordinary Income	3,757	4,400	4,269	<(14.6)> (643)	<(12.0)> (512)
Income Before Income Taxes and Minority Interests	5,363	-	5,176	-	<3.6> 186
Net Income	2,973	3,500	2,783	<(15.1)> (527)	<6.8> 190
Total Assets	212,407		217,809		<(2.5)> (5,401)
Inventories (incl. real estate inventories)	37,411		37,358		<0.1> 53
Fixed Assets	126,177		129,541		<(2.6)> (3,363)
Net Assets	136,291		132,583		<2.8> 3,707
Financing Income/Expenses	190		200		(10)
Interest/Dividends Received	355		384		(29)
Interest Expenses	(165)		(184)		19
Capital Expenditures	2,486		14,571		(12,085)
Depreciation and Amortization	3,837		3,575		262

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)	2,085	¥1,353 million
· Treasury stock disposed	(3)	¥(2) million
· Treasury stock held at the end of the previous fiscal year	14,275	¥7,436 million
· Treasury stock held at the end of the period	16,356	¥8,787 million

## (2) Results by Business Segment

(Millions of yen)

Item		FY2007 Interim		FY2006 Interim		Change	
		Amount	Weight	Amount	Weight	Amount	Change (%)
Net Sales	Apparel	45,547	55.8	46,764	57.0	(1,217)	(2.6)
	Functional Solutions	29,141	35.7	28,552	34.8	589	2.1
	Lifestyle Creations	7,004	8.5	6,692	8.2	312	4.7
	Subtotal	81,692	100.0	82,009	100.0	(317)	(0.4)
	Eliminations	(988)		(740)		(248)	-
	Consolidated	80,704		81,268		(564)	(0.7)
Operating Income	Apparel	1,561	29.5	1,984	33.8	(423)	(21.3)
	Functional Solutions	3,093	58.4	3,381	57.7	(288)	(8.5)
	Lifestyle Creations	638	12.1	498	8.5	140	28.1
	Subtotal	5,293	100.0	5,864	100.0	(571)	(9.7)
	Eliminations	(1,870)		(1,773)		(97)	-
	Consolidated	3,422		4,090		(668)	(16.3)

## (3) Significant Financial Indicators

		FY2007 Interim	FY2006 Interim	Change
Operating Income to Total Assets Ratio	%	1.6	1.9	(0.3)
Ordinary Income to Total Assets Ratio	%	1.8	2.0	(0.2)
Operating Income to Net Sales Ratio	%	4.2	5.0	(0.8)
Ordinary Income to Net Sales Ratio	%	4.7	5.3	(0.6)
Net Worth Ratio	%	63.5	60.3	3.2
ROE	%	2.2	2.1	0.1
Earnings per Share	¥	13.98	12.93	1.05
Diluted Earnings per Share	¥	13.98	-	-
Net Assets per Share	¥	637.46	614.52	22.94

## (4) Cash Flows

(Millions of yen)

Cash Flow Activity	FY2007 Interim	FY2006 Interim	Change	Breakdown of Major Components
Operating Activities	8,212	(915)	9,128	Income before income taxes and minority interests: 5,363; Depreciation and amortization: 3,837; Amortization related to retirement benefit obligations: 1,201; Increase in inventories: 2,053; Income tax refund: 2,420
Investing Activities	(3,809)	(7,260)	3,451	Purchase of property, plants and equipment: 3,817
Financing Activities	(4,130)	8,113	(12,244)	Decrease in short-term debt and commercial paper: 1,407; Increase in long-term debt: 792; Dividend payments: 2,135; Acquisition of treasury stock: 1,353
Foreign Currency Translation	78	(10)	89	
Increase in Cash and Cash Equivalents - Interim Period	351	(73)	425	
Cash and Cash Equivalents - End of Period	5,181	5,040	140	

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

Item		FY2007 Plan			FY2006		Y-over-Y Change
		Amount	Weight	Interim	Amount	Weight	
Capital Expenditures	(Overseas)	330		125	256		
	Apparel	2,030	28.3	529	1,724	10.2	306
	(Overseas)	990		232	532		
	Functional Solutions	4,430	61.7	972	4,550	26.8	(120)
	(Overseas)	0		0	0		
	Lifestyle Creations	720	10.0	580	10,690	63.0	(9,970)
	(Overseas)	1,320		357	788		
	Total	7,180	100.0	2,081	16,966	100.0	(9,786)
Depreciation and Amortization	Apparel	1,960	25.9	914	1,801	25.8	158
	Functional Solutions	4,280	56.6	1,860	3,898	55.9	382
	Lifestyle Creations	1,320	17.5	654	1,269	18.3	50
	Total	7,560	100.0	3,428	6,970	100.0	590

Note:

Capital expenditures include investments for intangible fixed assets.

Planned capital expenditures for FY2007, including Head Office: ¥8.1 billion.

Planned depreciation and amortization for FY2007, including Head Office: ¥8.2 billion.

**(6) FY2007 Forecast** (Millions of yen)

	FY2007 Forecast	FY2006	Change <Upper figures %>
Net Sales	[175,000] 169,300	168,787	<0.3> 513
Operating Income	[11,100] 9,100	9,612	<(5.3)> (512)
Ordinary Income	[11,000] 9,300	9,822	<(5.3)> (522)
Net Income	[8,500] 7,500	8,386	<(10.6)> (886)

Notes: Figures in square brackets [ ] are initial forecasts announced in May 2007.

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

		FY2007 Forecast		FY2006 Results		Change	
		Amount	Weight	Amount	Weight	Amount	Change (%)
Net Sales	Apparel	97,200	56.7	97,707	57.4	(507)	(0.5)
	Functional Solutions	59,600	34.8	58,195	34.2	1,405	2.4
	Lifestyle Creations	14,500	8.5	14,219	8.4	281	2.0
	Subtotal	171,300	100.0	170,122	100.0	1,178	0.7
	Eliminations	(2,000)		(1,335)		(665)	-
	Consolidated	169,300		168,787		513	0.3
Operating Income	Apparel	4,500	36.3	4,840	37.6	(340)	(7.0)
	Functional Solutions	6,400	51.6	6,438	50.1	(38)	(0.6)
	Lifestyle Creations	1,500	12.1	1,584	12.3	(84)	(5.3)
	Subtotal	12,400	100.0	12,863	100.0	(463)	(3.6)
	Eliminations	(3,300)		(3,250)		(50)	-
	Consolidated	9,100		9,612		(512)	(5.3)