

**Notice: Second Allotment of Stock Acquisition Rights  
(Compensation-type Stock Options)**

On July 30, 2008 at its Board of Directors Meeting, Gunze Limited (the Company) determined matters related to an offer for subscription of stock acquisition rights (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 stock acquisition rights. 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 stock acquisition rights to be offered**

No. 2 stock acquisition rights issued by Gunze Limited (compensation-type stock options)

**2. Total number of stock acquisition rights to be offered**

153 units

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

**3. Type and number of shares to be issued upon exercise of stock acquisition rights**

The type of shares issued upon the exercise of stock acquisition rights shall be common shares of the Company, and the number of shares per unit of stock acquisition rights (hereinafter referred to as "number of shares to be allotted") shall be 1,000. However, if, after the allotment of stock acquisition rights, 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 allotted shall be adjusted in accordance with the following formula:

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

For a split of the common shares, the adjusted number of shares to be allotted 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 allotted 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 allotted become unavoidable after the allotment of stock acquisition rights 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 allotted, the Company will do its best to notify registered owners (herein referred to as “stock acquisition rights holders”) of each stock acquisition rights with all necessary information recorded on the certificate no later than one day before the effective date for the adjusted number of shares to be allotted. 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 stock acquisition rights to be offered**

The value of assets to be financed upon the exercise of the each of stock acquisition rights to be offered shall be one (1) yen (the paid-in amount per share to be delivered upon the exercise of stock acquisition rights) multiplied by the number of shares to be allotted.

#### **5. Exercise period of stock acquisition rights to be offered**

From August 19, 2008 through August 18, 2038

#### **6. Matters related to capital and capital reserves to be increased if shares are issued by exercising stock acquisition rights to be offered**

(1) The amount by which capital will increase if shares are issued upon the exercise of stock acquisition rights to be offered shall be a 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 stock acquisition rights to be offered 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 stock acquisition rights**

Approval at a meeting of the Company's Board of Directors shall be required for the acquisition of stock acquisition rights to be offered by transfer.

#### **8. Terms for acquisition of stock acquisition rights to be offered**

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 gratis stock acquisition rights 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 stock exchange agreement or stock transfer plan in which the Company is to become a wholly owned subsidiary

**9. Policies for extinguishing stock acquisition rights to be offered upon reorganization and delivery of stock acquisition rights of reorganized company**

If the Company conducts a merger (limited to mergers where the Company is dissolved), absorption-type demerger, incorporation-type demerger, stock exchange, or stock transfer (hereinafter collectively referred to as “reorganization”), the Company shall deliver stock acquisition rights 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 holders of stock acquisition rights remaining unexercised (hereinafter referred to as “remaining stock acquisition rights”) 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, stock exchange, or stock 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 stock exchange, or of the incorporation of any absolute parent company formed by way of the stock transfer, respectively). In this case, the remaining stock acquisition rights shall be extinguished and the reorganized company will issue new stock acquisition rights, provided, however, that this shall only apply when the delivery of stock acquisition rights 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, stock exchange agreement, or stock transfer plan.

(1) Number of stock acquisition rights of the reorganized company to be delivered

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

(2) Type of shares of the reorganized company to be issued upon the exercise of stock acquisition rights

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 stock acquisition rights

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 stock acquisition rights

The value of assets to be financed upon the exercise of each of the stock acquisition rights 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 stock acquisition rights, 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 stock acquisition rights.

(5) Exercise period of stock acquisition rights

From the date of commencement of the period for the exercise of stock acquisition rights to be offered 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 stock acquisition rights to be offered 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 stock acquisition rights

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

(7) Restrictions for transfer of stock acquisition rights

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

(8) Terms for acquisition of stock acquisition rights

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

(9) Other conditions for exercise of stock acquisition rights

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 stock acquisition rights to be offered**

Any fractional figure of less than one (1) share to be delivered to stock acquisition rights holders who have exercised the stock acquisition rights shall be omitted.

**11. Other conditions for the exercise of stock acquisition rights to be offered**

(1) Stock acquisition rights holders may exercise their stock acquisition rights 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, stock acquisition rights holders must exercise stock acquisition rights 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) stock acquisition rights holders may exercise their stock acquisition rights only within the period as prescribed in (A) and (B), respectively. As for (B), however, this shall not apply to cases where stock acquisition rights of the reorganized company are delivered to stock acquisition rights holders in accordance with the provisions in section 9, above.

(A) When the commencement date for the exercise of rights of a stock acquisition rights holder does not come before August 18, 2037:

From August 19, 2037 through August 18, 2038

(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 stock exchange agreement or stock 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 relevant stock acquisition rights.

## 12. Calculation of paid-in amount for stock acquisition rights to be offered

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 allotted.

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

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 18, 2008 (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 ( $T$ ): Eight (8) 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 8-year period from August 18, 2000 through August 18, 2008

(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 March 31, 2008)  $\div$  Share price determined in (2) above

(8) Cumulative distribution function of the standard normal distribution ( $N(\cdot)$ )

**13. Allotment date for stock acquisition rights to be offered**

August 18, 2008

**14. Due date for payment to be made in exchange for stock acquisition rights to be offered**

August 18, 2008

**15. Request to exercise stock acquisition rights to be offered and method of payment**

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

(2) Along with the submission of the request form for exercise of stock acquisition rights 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 of stock acquisition rights to be offered by the number of stock acquisition rights 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 stock acquisition rights to be offered**

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 stock acquisition rights to be offered**

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

**18. Grantees of the allotment of stock acquisition rights**

Stock acquisition rights will be allotted to the eight (8) directors of the Company (excluding outside directors).