



asics

Annual Report 2004







asics

asics

The name ASICS derives from *anima sana in corpore sano*, a Latin phrase expressing the ancient ideal of a sound mind in a sound body. This concept is central to our role as a manufacturer of general sporting goods and researcher in the field of total health and fitness.

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## Core values & innovation

*ASICS for zest*

*ASICS for spirit*

*ASICS for imagination*

*ASICS for speed*

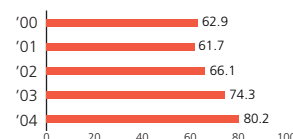
*ASICS for passion*

*ASICS for life*

## Sports shoes

Baseball shoes faced difficult market conditions in Japan, but demand for running shoes and sports-style shoes overseas was brisk, lifting sales 7.9% to ¥80,199 million.

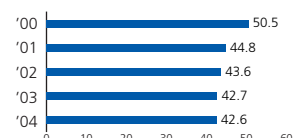
Sales (Billions of yen)



## Sportswear

Although team uniforms performed well, partly reflecting better use of IT in marketing, a slump in skiwear, snowboard wear and other products caused sales to slide 0.2% to ¥42,565 million.

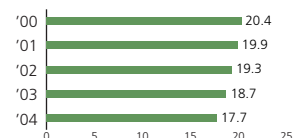
Sales (Billions of yen)



## Sports equipment

Golfing items for both grass and non-grass surfaces performed well (in Japan, golf is sometimes played on un-turfed ground), but demand was weak for baseball and other equipment, causing sales to fall 5.1% to ¥17,734 million.

Sales (Billions of yen)



The company reclassified its products in line with divisional organization. Figures for the year ended March 2003 have been adjusted to reflect this change in classification.

# Your Dream is Our Dream

ASICS began life as a sports shoes manufacturer founded in 1949 in Kobe by current Chairman of the Company Kihachiro Onitsuka, whose aim was "bringing up sound youth through sports." Today sport has become indispensable to our everyday lives. It has acquired a deep social significance and we now speak of a "culture of sport."

Winning, having fun, looking good — these are the aspirations people seek to realize through sport. We share those aspirations. Rooted in sports goods operations, we are committed to enhancing the health and happiness of people all around the world.



## Interview with the President



Kiyomi Wada  
President and Representative Director

A handwritten signature of Kiyomi Wada in black ink.

### Could you tell us something about ASICS' basic management policy?

Our corporate vision is to become "The World's No. 1 Creator of Sports-, Health- and Comfort-Oriented Lifestyles." To realize this vision, we are working to put the following four principles into action.

- 1. Provide products and services that create value for all customers**
- 2. Protect the environment, and contribute to the world community at the individual and societal level**
- 3. Offer sound services, and share the profit with shareholders who have supported ASICS**
- 4. Unite to achieve goals, in a spirit of freedom, fairness, respect for the dignity of the individual and good governance**

We put the highest management priority on returning profit to our shareholders, and thus we follow a basic policy of adjusting dividend payments to the level of the Company's retained earnings for each business term, maintaining a stable level of dividends insofar as is possible while retaining sufficient earned surplus to enable us to strengthen the Company's structure to weather severe business conditions and lay the groundwork for future expansion.

With regard to the business term under review, the year ended March 31, 2004, we paid a per share dividend of ¥2.50, representing an increase of ¥0.50 over the previous term and raising the payout ratio from 25.58% to 34.87%.

## Please explain the Company's basic stance and policies regarding corporate governance

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It is the policy of the ASICS Group to constantly raise its enterprise value so as to become even more strongly trusted by our shareholders and other stakeholders. For this purpose, we have assigned top priority to the reinforcement of our system of corporate governance. We will work to redesign our management structure to more clearly delineate the respective spheres of responsibility of the Company's officers, thereby enabling us to strengthen the supervisory and monitoring functions of the Company's management, rigorously apply the principles of compliance, and raise the level of management transparency.

To lay the groundwork for the above initiatives, we have compiled and distributed to all our staff the ASICS Corporation Code of Conduct, for the purpose of facilitating a full understanding on the part of all the Company's directors and employees of the social responsibility that they each bear in the conduct of their work and ensuring that not only are the relevant legal directives obeyed in all aspects of the Company's operations, but that a high ethical standard is also maintained.

We have created a Compliance Committee, chaired by myself, to oversee and review all compliance-related measures, and to assist in the more efficient operation of the ASICS Group's compliance system, in November 2003 we set up a special telephone line that any employee of a Group company within Japan can use to report observed or suspected cases of non-compliance.

## Please describe your medium-to-long-term management strategy

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Under the Groupwide ASICS Revolution Plan — whose objective is to transform ASICS into the world's leading provider of sports, health, and lifestyle products — we have drawn up the following program for corporate reform, and are currently in the process of implementing the measures listed.

### The Three Challenges

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At ASICS, we are committed to meeting the following three challenges in order to take our brands beyond the competitive sports field and into everyday life, for the enjoyment of people all over the world.

- 1. Competition Sports: Becoming the preferred brand of top athletes**
- 2. Sporting Style: highly functional, high-quality and high value-added Onitsuka Tiger brand sports-style goods that are clearly differentiated from fashion items and casual wear**
- 3. Health and Relaxation: Using the "intellectual assets" of sports to provide products that contribute to people's health and comfort**

ASICS is also evolving and expanding, while focusing its energies on a smaller number of promising business fields, to achieve the following four goals.

### Four Goals

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- 1. Achieving customer satisfaction for all age groups**
- 2. Evolving from a Japanese company into a global enterprise**
- 3. Leveraging the synergy of customer input and manufacturer expertise to create distinctive products**
- 4. Achieving distinctiveness by accumulating intellectual assets (intellectual property rights involving technologies)**

Our basic strategy for business operations for the period from January 2004 to March 2007 has four aspects: Domain, Model, People and Selective Concentration. Through this strategy, we will position ourselves among the top brands, as well as strengthen corporate governance, improve the quality of management and productivity, nurture the individual abilities of our employees, and follow scrap-and-build principles in our business.

## Could you tell us something about the business performance of ASICS in fiscal 2003?

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Sales of the ASICS group for fiscal 2003, on a consolidated basis, amounted to ¥140,498 million (US\$1,325 million), for a year-on-year increase of 3.6%. This is largely attributable to favorable sales in overseas markets, notably Europe. Gross profit rose 7.7% over the previous term, to ¥53,036 million (US\$500 million), bringing the gross profit margin to 37.7%, an improvement of 1.4 percentage points. Operating income posted an increase of 37.5%, reaching ¥7,410 million (US\$70 million). Net income, however, declined by 10.6% from the previous term, to ¥4,622 million (US\$44 million) due to an increase in income tax payments. Further details are given in the Financial Review section on pages 6 to 7.

## Do you have any message for your shareholders?

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The sporting goods industry is likely to continue to face severe market conditions for some time to come, in view of the slackness of consumer spending and the gradually declining population of young people in Japan. To weather the severe business environment, we will redouble our efforts to expand our scale of operations in Japan, centering on running shoes for competitive sports, while on overseas markets we plan to expand our production capacity in the field of sportswear as a means of bringing down the cost of sales. We also expect expansion in overseas operations.

In the area of sports-style goods for everyday use, notably our flagship Onitsuka Tiger brand of sports-style shoes, we are planning an expansion of our product lineup. In addition, we plan to open more outlets in our directly-operated chain of shops in Japan selling mainly walking shoes.

We aim to invigorate sales activity at our retail outlets through active sales promotion campaigns to attract new customers and by expanding the product lineups offered by directly-operated stores, as well as by developing new sales channels. We are also working to improve business efficiency by designing a system — including detailed point-of-sales reporting — that enables more accurate forecasting of sales trends, and therefore more precise setting of inventory levels. While continuing to expand our overseas operations, with running shoes at the core, we intend also to make active inroads into the market for sports-style shoes.

In closing, I would like to take this opportunity to thank all our shareholders and other stakeholders for their continued support.

# Five-Year Summary

ASICS Corporation and Consolidated Subsidiaries

	Millions of yen				
	2004	2003	2002	2001	2000
<b>Operating results:</b>					
Net sales: .....	<b>¥140,498</b>	¥135,640	¥128,901	¥126,446	¥133,727
Sports shoes .....	<b>80,199</b>	74,263	66,054	61,715	62,850
Sportswear .....	<b>42,565</b>	42,682	43,574	44,817	50,479
Sports equipment .....	<b>17,734</b>	18,695	19,273	19,914	20,398
Cost of sales.....	<b>87,462</b>	86,394	82,938	81,276	85,346
Selling, general and administrative expenses.....	<b>45,626</b>	43,858	42,480	42,078	44,350
Income before income taxes					
and minority interests.....	<b>6,743</b>	6,197	2,934	2,127	1,503
Net income .....	<b>4,622</b>	5,169	2,123	1,740	923
<b>Financial position:</b>					
Working capital.....	<b>¥ 42,272</b>	¥ 41,202	¥ 39,426	¥ 36,660	¥ 29,911
Property, plant and equipment, net.....	<b>15,009</b>	15,212	15,847	16,218	16,706
Long-term debt .....	<b>10,950</b>	10,132	13,160	12,722	10,788
Total shareholders' equity.....	<b>54,439</b>	49,917	45,512	43,866	42,898
Total assets .....	<b>118,339</b>	113,062	114,741	113,914	108,222
Long-term debt/shareholders' equity (%).....	<b>20.1</b>	20.3	28.9	29.0	25.1
<b>Per share of common stock (in yen):</b>					
Net income .....	<b>¥ 21.80</b>	¥ 24.10	¥ 9.92	¥ 8.13	¥ 4.31
Cash dividends .....	<b>2.50</b>	2.00	—	—	—
Shareholders' equity.....	<b>261.83</b>	233.50	212.74	205.02	200.49
<b>Other data:</b>					
Number of shares outstanding					
(weighted average, in thousands).....	<b>213,963</b>	213,963	213,963	213,963	213,963
Number of shareholders .....	<b>28,483</b>	32,077	36,316	37,419	37,961
Number of employees .....	<b>4,161</b>	4,132	4,109	4,273	4,270

The company reclassified its products in line with divisional organization. Figures for the year ended March 2003 have been adjusted to reflect this change in classification.

## Financial Review (on a consolidated basis)

### Operating environment, and steps taken

Corporate earnings in Japan staged a gradual recovery during the term under review, and private-sector capital investment turned upward. On the other hand, consumer spending remained stagnant in reflection of continued severity in the employment and income environment. In the sporting goods industry, the decline in the number of people participating in competitive sports (resulting from the falling population in their 20s and 30s as a result of Japan's longstanding low birthrate problem) has been a significant contributory factor in the deteriorating business environment.

The ASICS Group concentrates its management resources on business operations in the world's three major markets for its sports shoes — Japan, the United States, and Europe. We have been investing particular effort in strengthening our marketing of running shoes in overseas markets. In the field of sports-style shoes for daily wear, our Onitsuka Tiger brand of shoes has already grown into a globally recognized brand name, and measures were taken during the term under review to further expand our operations in this area.

In the Japanese market, we have been taking steps to reinforce our computerized order processing system and have developed an ordering system that allows three-dimensional measurements data taken at our stores to be transmitted to our production plants, enabling the creation of perfectly-fitting running shoes. In sportswear, too, for team uniforms we offer a unique in-house-developed ordering system on our website that customers can use to select their preferred design, material, color, and so on.

During the term under review, we opened a directly operated store in Tokyo that specializes in our sports-style brand goods, including the Onitsuka Tiger shoe brand referred to above. While directly serving to raise the public brand-recognition of our Onitsuka Tiger shoes, the store also serves as an invaluable base for the collection of customer preference data, which we reflect in our production planning.

### Business Performance

Sales on a consolidated basis for fiscal 2003, the term ended March 2004, followed a favorable trend, particularly in Europe, posting a 3.5% year-on-year gain, to ¥140,498 million (US\$1,325 million). Gross profit rose 7.6% year-on-year to ¥53,036 million (US\$500 million), while the gross profit margin improved 1.4 percentage points to 37.7%. The primary causes of this performance were increased sales of running shoes and sports-style shoes, particularly in Europe, as well as an improvement in the cost of sales.

On the other hand, SG&A expenses rose 4.0% year-on-year, to ¥45,626 million (US\$430 million). This was mainly due to increased expenses for advertising in Europe and the United States, as a result of which total expenses rose 4.8% to ¥24,902 million. Payroll expenses also increased, and owing to an increase in welfare expenses resulting from changes in the calculation of employees' social insurance fees in Japan, total personnel expenses were up 3.0% over the previous term, at ¥20,724 million.

Operating income recorded a strong year-on-year growth of 37.5% to ¥7,410 million (US\$70 million).

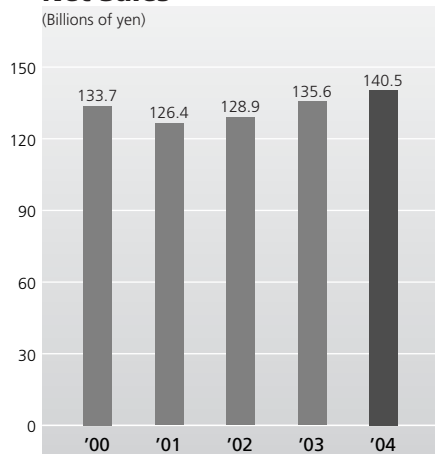
Despite a one-time gain of ¥801 million resulting from a gain on the return of the substitutional portion of the welfare pension fund plan in the previous term, and a ¥750 million (US\$7 million) provision of the allowance for doubtful receivables in the reporting term, income before income taxes and minority interests rose 8.8% year-on-year, to ¥6,743 million (US\$64 million), due to a dramatic improvement in operating income compared with the previous term.

Net income for the term under review declined 10.6% year-on-year, to ¥4,622 million (US\$44 million), principally because of an increase in income tax payments.

In a breakdown by geographical segment, sales in the Japanese market slipped 0.2% to ¥83,149 million (US\$784 million), but operating income rose steeply over the previous term, by 41.5% to ¥2,094 million (US\$20 million).

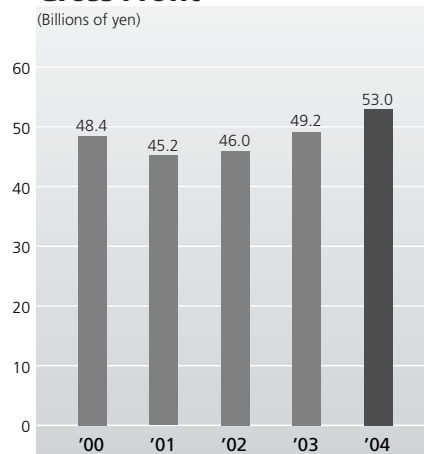
### Net Sales

(Billions of yen)



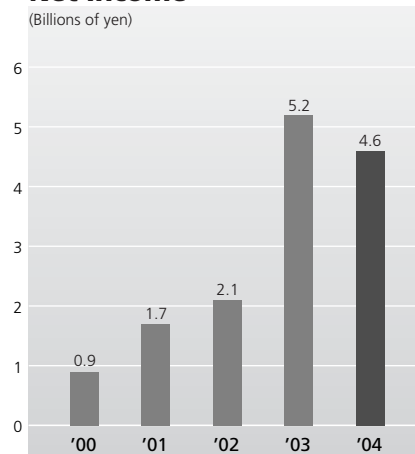
### Gross Profit

(Billions of yen)



### Net Income

(Billions of yen)





In the United States, the effects of the yen's appreciation caused sales to post a year-on-year decline of 6.4% to ¥22,526 million (US\$213 million). Operating income slumped 47.5% year-on-year to ¥880 million (US\$8 million), due mainly to an increase in the cost of sales caused by the sell-off of obsolete inventory.

In Europe, our running shoes continued to sell briskly, while sports-style shoes posted a major sales gain over the previous term, and the strong exchange rate of the euro was also a positive factor. As a result, sales rose 22.0% to ¥33,299 million (US\$314 million), and operating income soared 73.5% year-on-year to ¥3,282 million (US\$31 million).

In other markets, both running shoes and sports-style shoes sold well in Australia, where the exchange rate was also a plus factor. Sales were up 8.3% at ¥6,303 million (US\$59 million), with operating income rising sharply by 46.4% to ¥1,023 million (US\$10 million).

### Financial Position

Total assets at the fiscal year-end stood at ¥118,339 million (US\$1,116 million), an increase of 4.7% over the previous fiscal year-end. Total current assets declined 2.2% to ¥82,585 million (US\$779 million), principally due to a cutback in inventory. Noncurrent assets registered a year-on-year growth of 24.8% to ¥34,754 million (US\$337 million), mainly as a result of the posting of gains on mark-to-market valuation of investment securities.

Current liabilities declined by ¥2,890 million, or 6.7%, from the previous fiscal year-end, to ¥40,313 million (US\$380 million), owing to the repayment of short-term bank loans and a decline in trade payables. Long-term liabilities increased by ¥3,593 million to ¥21,487 million (US\$203 million), as a result of increases in long-term bank loans as well as in provisions for accrued retirement benefits.

As a result of the foregoing, total liabilities increased by ¥702 million over the previous fiscal year-end, to ¥61,800 million (US\$583 million). Total stockholders' equity rose 9.1% to ¥54,439 million (US\$514 million), due to an increase in retained earnings. The stockholders' equity

ratio rose to 46.0% from 44.2% at the previous fiscal year-end. As a result, the current ratio rose from 1.95 at the previous fiscal year-end to 2.05.

### Cash Flows

Cash and cash equivalents at year-end amounted to ¥8,498 million (US\$80 million), an increase of ¥260 million over the previous year-end.

Net cash provided by operating activities rose 24.7% year-on-year to ¥5,755 million (US\$54 million). This was due to the fact that the cash inflow from income before income taxes and a decrease in inventory assets surpassed the outflow resulting from an increase in trade receivables and income tax payments.

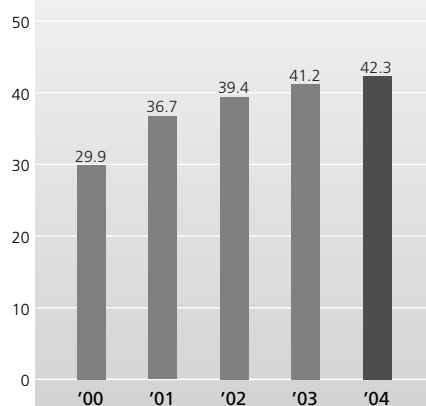
Net cash used in investing activities remained at virtually the same level as at the previous year-end, at ¥2,643 million (US\$25 million). Although expenditure on the acquisition of investment securities declined, there was an increased amount of deposits in large-lot time deposit accounts (for the purpose of earning interest income).

Net cash used in financing activities declined by 33.7% from the previous fiscal year, to ¥2,941 million (US\$28 million). This is attributable to the fact that proceeds from long-term loans exceeded the combined total of expenditure involved in the purchase of own shares for inclusion of treasury stock, and a net decrease in short-term bank loans.

\*Yen-dollar translations in the report are based on an exchange rate of US\$1 = ¥106, the approximate rate at the balance sheet date.

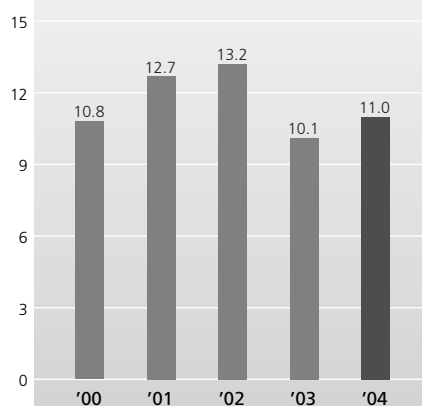
### Working Capital

(Billions of yen)



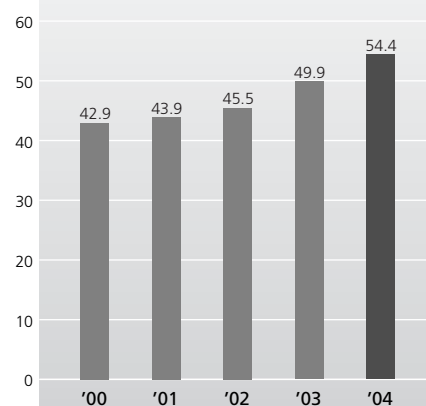
### Long-Term Debt

(Billions of yen)



### Total Shareholders' Equity

(Billions of yen)



# Consolidated Balance Sheets

ASICS Corporation and Consolidated Subsidiaries  
March 31, 2004 and 2003

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 8,498	¥ 8,238	\$ 80,170
Short-term investments (Note 3) .....	1,749	2,558	16,500
Notes and accounts receivable:			
Trade .....	42,524	40,112	401,170
Less allowance for doubtful receivables .....	(2,400)	(1,241)	(22,642)
Inventories (Note 4) .....	27,338	29,145	257,906
Deferred income taxes (Note 11) .....	1,407	1,460	13,274
Other current assets .....	3,469	4,133	32,726
Total current assets .....	82,585	84,405	779,104
<b>Property, plant and equipment:</b>			
Land (Notes 5 and 12) .....	5,565	5,587	52,500
Buildings and structures (Note 5) .....	23,221	23,347	219,066
Machinery and equipment .....	10,925	10,519	103,066
Less accumulated depreciation .....	(24,702)	(24,241)	(233,038)
Property, plant and equipment, net .....	15,009	15,212	141,594
<b>Investments and other assets:</b>			
Investments in securities (Note 3):			
Unconsolidated subsidiaries and affiliates .....	4,915	4,699	46,368
Other .....	9,113	5,768	85,972
Long-term loans receivable .....	454	458	4,283
Intangible assets .....	231	255	2,179
Deferred income taxes (Note 11) .....	206	251	1,943
Other assets .....	6,368	2,443	60,076
Less allowance for doubtful receivables .....	(542)	(429)	(5,113)
Total investments and other assets .....	20,745	13,445	195,708
Total assets .....	¥118,339	¥113,062	\$1,116,406

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
<b>Liabilities, minority interests and shareholders' equity</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>
<b>Current liabilities:</b>			
Short-term bank loans (Note 5).....	¥ 9,264	¥ 11,099	\$ 87,396
Current portion of long-term debt (Note 5).....	2,646	2,869	24,962
Notes and accounts payable:			
Trade .....	16,879	18,855	159,236
Construction .....	74	105	698
Accrued income taxes (Note 11) .....	1,665	768	15,708
Accrued expenses .....	5,850	5,679	55,189
Deferred income taxes (Note 11).....	82	—	774
Other current liabilities.....	3,853	3,828	36,349
Total current liabilities .....	40,313	43,203	380,312
<b>Long-term liabilities:</b>			
Long-term debt (Note 5).....	10,950	10,132	103,302
Deferred income taxes (Note 11).....	519	79	4,896
Accrued retirement benefits (Notes 6 and 15).....	7,117	6,370	67,142
Other long-term liabilities .....	2,901	1,313	27,368
Total long-term liabilities .....	21,487	17,894	202,708
<b>Minority interests</b> .....	<b>2,100</b>	<b>2,048</b>	<b>19,811</b>
<b>Shareholders' equity (Note 10):</b>			
Common stock:			
Authorized—600,000,000 shares			
Issued —213,962,991 shares at March 31, 2004 and 2003 .....	23,972	23,972	226,151
Capital surplus.....	21,066	21,066	198,736
Retained earnings (Note 15).....	11,008	6,818	103,849
Land revaluation reserve (Note 12).....	(420)	(414)	(3,962)
Unrealized holding gain on securities (Note 3).....	1,802	17	17,000
Translation adjustments .....	(1,820)	(1,522)	(17,170)
Less treasury stock, at cost			
(6,089,933 shares at March 31, 2004 and 181,090 shares at March 31, 2003).....	(1,169)	(20)	(11,029)
Total shareholders' equity .....	54,439	49,917	513,575
Total liabilities, minority interests and shareholders' equity .....	¥118,339	¥113,062	\$1,116,406



# Consolidated Statements of Income

ASICS Corporation and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Net sales</b> .....	<b>¥140,498</b>	¥135,640	<b>\$1,325,453</b>
<b>Cost of sales</b> (Note 9) .....	<b>87,462</b>	86,394	<b>825,113</b>
Gross profit .....	<b>53,036</b>	49,246	<b>500,340</b>
<b>Selling, general and administrative expenses</b> (Note 9) .....	<b>45,626</b>	43,858	<b>430,434</b>
Operating income .....	<b>7,410</b>	5,388	<b>69,906</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>297</b>	236	<b>2,802</b>
Interest expense .....	<b>(689)</b>	(949)	<b>(6,500)</b>
Equity in earnings of affiliates .....	<b>454</b>	404	<b>4,283</b>
Exchange (loss) gain .....	<b>(306)</b>	493	<b>(2,887)</b>
Loss on valuation of investments in securities .....	<b>(14)</b>	(721)	<b>(132)</b>
Provision of allowance for doubtful receivables .....	<b>(750)</b>	—	<b>(7,075)</b>
Gain on return of substitutional portion of the welfare pension fund plan (Note 6) .....	—	801	—
Other, net .....	<b>341</b>	545	<b>3,216</b>
	<b>(667)</b>	809	<b>(6,293)</b>
Income before income taxes and minority interests .....	<b>6,743</b>	6,197	<b>63,613</b>
<b>Income taxes</b> (Note 11):			
Current .....	<b>2,519</b>	1,222	<b>23,764</b>
Deferred .....	<b>(545)</b>	(389)	<b>(5,142)</b>
	<b>1,974</b>	833	<b>18,622</b>
Income before minority interests .....	<b>4,769</b>	5,364	<b>44,991</b>
<b>Minority interests</b> .....	<b>147</b>	195	<b>1,387</b>
Net income .....	<b>¥ 4,622</b>	¥ 5,169	<b>\$ 43,604</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

ASICS Corporation and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	Number of issued shares of common stock	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Land revaluation reserve	Unrealized holding gain on securities	Translation adjustments	Treasury stock
<b>Balance at March 31, 2002</b> .....	213,962,991	¥23,972	¥21,066	¥ 1,675	¥(398)	¥ 340	¥(1,141)	¥ (2)
Net income .....	—	—	—	5,169	—	—	—	—
Bonuses to directors .....	—	—	—	(8)	—	—	—	—
Net change in land revaluation reserve .....	—	—	—	3	(16)	—	—	—
Net change in unrealized holding loss on securities .....	—	—	—	—	—	(323)	—	—
Net change in translation adjustments .....	—	—	—	—	—	—	(381)	—
Decrease resulting from initial consolidation of a subsidiary .....	—	—	—	(21)	—	—	—	—
Net change in treasury stock .....	—	—	—	—	—	—	—	(18)
<b>Balance at March 31, 2003</b> .....	213,962,991	23,972	21,066	6,818	(414)	17	(1,522)	(20)
Net income .....	—	—	—	<b>4,622</b>	—	—	—	—
Dividend .....	—	—	—	<b>(427)</b>	—	—	—	—
Bonuses to directors .....	—	—	—	<b>(8)</b>	—	—	—	—
Net change in land revaluation reserve .....	—	—	—	<b>3</b>	<b>(6)</b>	—	—	—
Net change in unrealized holding gain on securities .....	—	—	—	—	—	<b>1,785</b>	—	—
Net change in translation adjustments .....	—	—	—	—	—	—	<b>(298)</b>	—
Net change in treasury stock .....	—	—	—	—	—	—	—	<b>(1,149)</b>
<b>Balance at March 31, 2004</b> .....	<b>213,962,991</b>	<b>¥23,972</b>	<b>¥21,066</b>	<b>¥11,008</b>	<b>¥(420)</b>	<b>¥1,802</b>	<b>¥(1,820)</b>	<b>¥(1,169)</b>

	Number of issued shares of common stock	Thousands of U.S. dollars (Note 1)						
		Common stock	Capital surplus	Retained earnings	Land revaluation reserve	Unrealized holding gain on securities	Translation adjustments	Treasury stock
<b>Balance at March 31, 2003</b> .....	213,962,991	\$226,151	\$198,736	\$ 64,321	\$(3,906)	\$ 160	\$(14,358)	\$ (189)
Net income .....	—	—	—	<b>43,604</b>	—	—	—	—
Dividend .....	—	—	—	<b>(4,029)</b>	—	—	—	—
Bonuses to directors .....	—	—	—	<b>(75)</b>	—	—	—	—
Net change in land revaluation reserve .....	—	—	—	<b>28</b>	<b>(56)</b>	—	—	—
Net change in unrealized holding gain on securities .....	—	—	—	—	—	<b>16,840</b>	—	—
Net change in translation adjustments .....	—	—	—	—	—	—	<b>(2,812)</b>	—
Net change in treasury stock .....	—	—	—	—	—	—	—	<b>(10,840)</b>
<b>Balance at March 31, 2004</b> .....	<b>213,962,991</b>	<b>\$226,151</b>	<b>\$198,736</b>	<b>\$103,849</b>	<b>\$(3,962)</b>	<b>\$17,000</b>	<b>\$(17,170)</b>	<b>\$(11,029)</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

ASICS Corporation and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<b>Operating activities:</b>			
Income before income taxes and minority interests .....	<b>¥6,743</b>	¥ 6,197	<b>\$63,613</b>
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization .....	<b>1,111</b>	1,194	<b>10,481</b>
Increase (decrease) in allowance for doubtful receivables .....	<b>1,242</b>	(106)	<b>11,717</b>
Increase in accrued retirement benefits .....	<b>739</b>	361	<b>6,972</b>
Loss on valuation of investments in securities .....	<b>14</b>	721	<b>132</b>
Interest and dividend income .....	<b>(297)</b>	(236)	<b>(2,802)</b>
Interest expenses .....	<b>689</b>	949	<b>6,500</b>
Equity in earnings of affiliates .....	<b>(454)</b>	(404)	<b>(4,283)</b>
Other, net .....	<b>(35)</b>	(330)	<b>(330)</b>
Decrease (increase) in operating assets:			
Notes and accounts receivable .....	<b>(1,853)</b>	2,124	<b>(17,481)</b>
Inventories .....	<b>1,649</b>	(2,524)	<b>15,557</b>
Other operating assets .....	<b>69</b>	260	<b>651</b>
Increase (decrease) in operating liabilities:			
Notes and accounts payable .....	<b>(2,180)</b>	(2,820)	<b>(20,566)</b>
Accrued consumption taxes .....	<b>68</b>	95	<b>642</b>
Other operating liabilities .....	<b>236</b>	306	<b>2,226</b>
Bonuses to directors and corporate auditors .....	<b>(8)</b>	(8)	<b>(75)</b>
Subtotal .....	<b>7,733</b>	5,779	<b>72,954</b>
Interest and dividends received .....	<b>459</b>	268	<b>4,330</b>
Interest paid .....	<b>(715)</b>	(907)	<b>(6,745)</b>
Income taxes paid .....	<b>(1,722)</b>	(524)	<b>(16,245)</b>
Net cash provided by operating activities .....	<b>5,755</b>	4,616	<b>54,294</b>
<b>Investing activities:</b>			
Purchases of time deposits included in short-term investments .....	<b>(2,602)</b>	(718)	<b>(24,547)</b>
Proceeds from time deposits withdrawn .....	<b>918</b>	212	<b>8,660</b>
Purchases of property, plant and equipment .....	<b>(914)</b>	(531)	<b>(8,623)</b>
Proceeds from sales of property, plant and equipment .....	<b>252</b>	78	<b>2,377</b>
Decrease (increase) in securities included in short-term investments .....	<b>500</b>	(1,000)	<b>4,717</b>
Purchases of investments in securities .....	<b>(1,146)</b>	(3,059)	<b>(10,811)</b>
Proceeds from sales of investments in securities .....	<b>602</b>	2,418	<b>5,679</b>
Net increase in short-term loans receivable .....	<b>(59)</b>	(16)	<b>(557)</b>
Long-term loans receivable made .....	<b>(57)</b>	(116)	<b>(538)</b>
Collection of long-term loans receivable .....	<b>70</b>	40	<b>660</b>
Other, net .....	<b>(207)</b>	51	<b>(1,953)</b>
Net cash used in investing activities .....	<b>(2,643)</b>	(2,641)	<b>(24,936)</b>
<b>Financing activities:</b>			
Decrease in short-term bank loans, net .....	<b>(1,861)</b>	(588)	<b>(17,557)</b>
Proceeds from long-term loans .....	<b>3,650</b>	—	<b>34,434</b>
Repayment of long-term loans .....	<b>(2,948)</b>	(3,206)	<b>(27,811)</b>
Purchases of treasury stock .....	<b>(1,150)</b>	(17)	<b>(10,849)</b>
Cash dividends paid to the Company's shareholders .....	<b>(418)</b>	—	<b>(3,943)</b>
Cash dividends paid to minority interests .....	<b>(99)</b>	(481)	<b>(934)</b>
Other, net .....	<b>(115)</b>	(143)	<b>(1,085)</b>
Net cash used in financing activities .....	<b>(2,941)</b>	(4,435)	<b>(27,745)</b>
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>89</b>	42	<b>840</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>260</b>	(2,418)	<b>2,453</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>8,238</b>	10,526	<b>77,717</b>
<b>Increase in cash and cash equivalents arising from     initial consolidation of a subsidiary .....</b>	<b>—</b>	130	<b>—</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥8,498</b>	¥ 8,238	<b>\$80,170</b>

See accompanying notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

ASICS Corporation and Consolidated Subsidiaries  
March 31, 2004

## 1

### BASIS OF PREPARATION

ASICS Corporation (the "Company") and its domestic consolidated subsidiaries maintain their books of account in conformity with financial accounting standards generally accepted in Japan, and its overseas subsidiaries, in conformity with those of their countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for convenience and, as a matter of arithmetic computation only, at the rate of ¥106 = US\$1.00, the rate of exchange prevailing on March 31, 2004. This translation should not be construed as a presentation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

## 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies which it controls directly or indirectly. All significant intercompany transactions and accounts have been eliminated in consolidation. The overseas consolidated subsidiaries are consolidated on the basis of fiscal years ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these overseas consolidated subsidiaries and the year end of the Company.

The investment in one affiliate, ASICS Trading Co., Ltd., over which the Company exercises significant influence in terms of its operating and financial policies, is accounted for by the equity method, under which the Group includes its share in the net income or loss of this company in consolidated net income and records its investment at cost as adjusted for its share in the net of income or loss and for any cash dividends received.

All assets and liabilities of the consolidated subsidiaries are revalued on acquisition, if applicable. The difference, not significant in amount, between the cost of investments in subsidiaries and the equity in their net assets at the dates of acquisition is amortized over a period of 5 years on a straight-line basis, except that immaterial amounts are charged to income as incurred.

Other subsidiaries and affiliates are not significant in terms of their total assets, net income or loss and retained earnings. Accordingly, these other subsidiaries and affiliates are not consolidated or accounted for by the equity method.

Investments in such subsidiaries and affiliates are stated at cost.

#### b. Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income. Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the period in which the gain or loss is recognized for financial reporting purposes.

The financial statements of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates.

**c. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible into cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

**d. Securities**

Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Cost of securities sold is determined by the moving average method. Non-marketable equity securities classified as other securities are stated at cost determined by the moving average method. Non-marketable debt securities classified as other securities are stated at their amortized cost.

**e. Inventories**

Inventories are stated principally at cost determined by the first-in, first-out method.

**f. Property, Plant and Equipment**

The Company and its domestic consolidated subsidiaries compute depreciation of property, plant and equipment by the declining-balance method over the useful lives of the respective assets except that the straight-line method is applied to buildings (other than structures attached to the buildings) acquired on or subsequent to April 1, 1998. Overseas consolidated subsidiaries compute depreciation of property, plant and equipment by the straight-line method over the useful lives of the respective assets. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

**g. Allowance for Doubtful Receivables**

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

The overseas consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on probable specific bad debts from their customers.

**h. Retirement Benefits**

Accrued retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as adjusted for unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

The net retirement benefit obligation at transition of ¥4,748 million incurred on April 1, 2000 is being amortized by the straight-line method over 15 years.

Actuarial gain or loss is being amortized in the year following the year in which the gain or loss is recognized, principally by the straight-line method over 11 years, which falls within the estimated average remaining years of service of the eligible employees.

**i. Leases**

Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

**j. Research and Development Costs and Computer Software**

Research and development costs are charged to income as incurred. Expenditures relating to computer software developed for internal use are charged to income as incurred, except if the software is expected to contribute to the generation of future income or to cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their estimated useful life, generally a period of 5 years.

**k. Income Taxes**

Deferred income taxes are provided for temporary differences between the balances of assets and liabilities reported for financial purposes and the corresponding balances for tax reporting purposes.

## I. Derivatives and Hedging Activities

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

## m. Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period, therefore, do not reflect such appropriations.

# 3

## SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Information regarding other securities with market value at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:									
Equity securities .....	<b>¥2,838</b>	<b>¥5,468</b>	<b>¥2,630</b>	¥ 857	¥1,020	¥163	<b>\$26,774</b>	<b>\$51,585</b>	<b>\$24,811</b>
Corporate bonds .....	—	—	—	482	505	23	—	—	—
Other .....	<b>589</b>	<b>880</b>	<b>291</b>	414	466	52	<b>5,557</b>	<b>8,302</b>	<b>2,745</b>
Subtotal .....	<b>3,427</b>	<b>6,348</b>	<b>2,921</b>	1,753	1,991	238	<b>32,331</b>	<b>59,887</b>	<b>27,556</b>
Securities whose carrying value does not exceed their acquisition costs:									
Equity securities .....	<b>0</b>	<b>0</b>	<b>(0)</b>	1,569	1,390	(179)	<b>0</b>	<b>0</b>	<b>(0)</b>
Corporate bonds .....	<b>1,607</b>	<b>1,594</b>	<b>(13)</b>	1,000	965	(35)	<b>15,160</b>	<b>15,038</b>	<b>(122)</b>
Other .....	—	—	—	185	176	(9)	—	—	—
Subtotal .....	<b>1,607</b>	<b>1,594</b>	<b>(13)</b>	2,754	2,531	(223)	<b>15,160</b>	<b>15,038</b>	<b>(122)</b>
Total .....	<b>¥5,034</b>	<b>¥7,942</b>	<b>¥2,908</b>	¥4,507	¥4,522	¥ 15	<b>\$47,491</b>	<b>\$74,925</b>	<b>\$27,434</b>

The carrying value of other securities without determinable market value at March 31, 2004 and 2003 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Commercial paper .....	<b>¥ 500</b>	¥1,000	<b>\$ 4,717</b>
Money trust in commingled funds .....	<b>946</b>	840	<b>8,925</b>
Unlisted equity securities (other than equity securities traded on the over-the-counter market) .....	<b>671</b>	680	<b>6,330</b>
Unlisted preferred investment certificates .....	<b>500</b>	500	<b>4,717</b>
Unlisted foreign debt securities .....	<b>0</b>	66	<b>0</b>
	<b>¥2,617</b>	¥3,086	<b>\$24,689</b>



At March 31, 2004, the redemption schedule for other securities by maturity date was as follows:

	Millions of yen				Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Commercial paper.....	¥500	¥—	¥ —	¥—	\$4,717	\$—	\$ —	\$ —
Corporate bonds.....	—	—	1,103	—	—	—	10,406	—
Beneficial securities of investment trusts.....	10	—	—	73	94	—	—	689
	¥510	¥—	¥1,103	¥73	\$4,811	\$—	\$10,406	\$689

## 4 INVENTORIES

The following is a summary of inventories at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished products.....	¥25,217	¥26,936	\$237,896
Work in process.....	319	422	3,009
Raw materials and supplies.....	1,802	1,787	17,001
	¥27,338	¥29,145	\$257,906

## 5 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The average annual interest rates on short-term bank loans were 2.0% and 2.5% at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
2.56% yen secured bonds, due 2005 .....	¥ 3,000	¥ 3,000	\$ 28,302
2.74% yen secured bonds, due 2006 .....	2,000	2,000	18,868
1.22% yen unsecured bonds, due 2008 .....	1,600	1,600	15,094
1.12% yen unsecured bonds, due 2008 .....	800	800	7,547
1.60% yen unsecured bonds, due 2008 .....	800	800	7,547
A secured bank loan, due 2005, at 1.4%.....	10	160	94
Unsecured loans, primarily from banks, due 2005 through 2007, at interest rates ranging from 0.6% to 4.9% .....	5,386	4,641	50,812
	13,596	13,001	128,264
Current portion of long-term debt.....	(2,646)	(2,869)	(24,962)
	¥10,950	¥10,132	\$103,302

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31		
2005 .....	¥ 2,646	\$ 24,962
2006 .....	4,813	45,406
2007 .....	2,937	27,707
2008 .....	3,200	30,189
	<u>¥13,596</u>	<u>\$128,264</u>

Assets pledged at March 31, 2004 as collateral for long-term bank loans of ¥10 million (\$94 thousand) and bonds of ¥5,000 million (\$47,170 thousand) are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Land .....	¥2,526	\$23,830
Buildings and structures, at net book value .....	2,505	23,632
	<u>¥5,031</u>	<u>\$47,462</u>

## 6

### RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans ("WPPFs"), tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to the degree of final position and length of service.

The following table sets forth the funded and accrued status of the defined retirement benefit plans of the Company and its domestic consolidated subsidiaries at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefit obligation .....	<b>¥(16,562)</b>	¥(15,937)	<b>\$(156,245)</b>
Plan assets at fair value .....	<b>4,649</b>	3,415	<b>43,858</b>
Unfunded retirement benefit obligation .....	<b>(11,913)</b>	(12,522)	<b>(112,387)</b>
Unrecognized net retirement benefit at transition .....	<b>2,324</b>	2,541	<b>21,924</b>
Unrecognized actuarial loss .....	<b>2,472</b>	3,611	<b>23,321</b>
Accrued retirement benefits .....	<b>¥ (7,117)</b>	¥ (6,370)	<b>\$ (67,142)</b>

As permitted under the accounting standard for retirement benefits, the domestic consolidated subsidiaries calculate their retirement benefit obligation by simplified methods.

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost.....	¥ 798	¥1,299	\$ 7,528
Interest cost.....	328	505	3,094
Expected return on plan assets.....	(66)	(190)	(623)
Amortization of net retirement benefit obligation at transition.....	127	212	1,198
Recognized net actuarial loss .....	353	313	3,330
Recognized past service cost .....	—	(122)	—
Retirement benefit expenses .....	1,540	2,017	14,527
Gain on return of substitutional portion of welfare pension fund plans .....	—	(801)	—
	<b>¥1,540</b>	<b>¥1,216</b>	<b>\$14,527</b>

The retirement benefit expenses of the domestic consolidated subsidiaries calculated by simplified methods have been included in service cost in the above table.

On February 17, 2003, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the obligation for benefits related to future employee services under the substitutional portion of the welfare pension fund plan ("WPFP"). In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the separation of the substitutional portion from the corporate portion of the benefit obligation under its WPFP as of the date of approval of its exemption, assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and the related pension plan assets had been completed as of that date. As a result, a gain of ¥801 million was recognized for the year ended March 31, 2003.

On April 1, 2004, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the obligation for benefits related to past employee services under the substitutional portion of its WPFP.

The assumptions used in accounting for the retirement benefit plans for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rate .....	2.5%	2.5%
Expected rate of return on plan assets.....	2.5%	3.0%

## 7

### LEASES

The Company and its consolidated subsidiaries lease machinery and equipment. The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of the leased assets at March 31, 2004 and 2003, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases.

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment.....	¥1,749	¥894	¥855	¥1,850	¥951	¥899	\$16,500	\$8,434	\$8,066

Lease payments relating to finance leases accounted for as operating leases amounted to ¥404 million (\$3,811 thousand) and ¥464 million for the years ended March 31, 2004 and 2003, respectively. These amounts were equal to the depreciation of the leased assets computed by the straight-line method over the respective lease terms assuming a nil residual value.

Future minimum payments (including the interest portion thereon) subsequent to March 31, 2004 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year .....	¥367	\$3,462
Due after one year .....	488	4,604
Total .....	¥855	\$8,066

## 8 DERIVATIVES AND HEDGING ACTIVITIES

Derivative financial instruments are utilized by the Company and its consolidated subsidiaries (the "Group") principally in order to manage risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. The Group does not hold or issue derivatives for speculative trading purposes.

The Group is exposed to market risk arising from their forward foreign exchange contracts, currency swaps, interest-rate swaps, interest-rate options and interest-rate swap options. The Group is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these derivatives transactions; however, the Group does not anticipate non-performance by any of these counterparties, all of whom are financial institutions with high credit ratings.

The open interest-rate-related derivatives positions at March 31, 2004 and 2003 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2004		2003		2004	
	Notional amount	Unrealized gain (loss)	Notional amount	Unrealized gain (loss)	Notional amount	Unrealized gain (loss)
Interest-rate swaps:						
Variable-rate into fixed-rate obligations .....	¥925	¥(4)	¥1,000	¥(14)	\$8,726	\$(38)
Variable-rate into variable-rate obligations .....	—	—	95	(0)	—	—
Interest-rate caps purchased .....	175	0	665	0	1,651	0
Interest-rate caps sold .....	750	(0)	750	(0)	7,075	(0)
Interest-rate floors sold .....	175	(1)	665	(7)	1,651	(9)
Interest-rate caps purchased/interest-rate floors sold .....	60	(0)	120	(2)	566	(0)

Disclosure of the corresponding information on derivatives which qualified for hedge accounting has been omitted.

## 9 RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in product manufacturing costs and in selling, general and administrative expenses for the years ended March 31, 2004 and 2003 amounted to ¥488 million (\$4,604 thousand) and ¥469 million, respectively.



## 10 SHAREHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends and bonuses paid to directors and corporate auditors, and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of common stock. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code further stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. Additional paid-in capital is included in capital surplus and the legal reserve is included in retained earnings in the accompanying consolidated balance sheets and consolidated statements of shareholders' equity. The Company's legal reserve included in retained earnings was ¥5 million (\$47 thousand) at March 31, 2004 and 2003.

Effective April 1, 2002, the Company and its consolidated subsidiaries adopted a new accounting standard for treasury stock and the reversal of legal reserves. The effect of the adoption of this standard on the consolidated results of operations for the year ended March 31, 2003 was immaterial.

## 11 INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2004 and 2003 was, in the aggregate, approximately 41.7%. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2004 and 2003 differ from the above statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate:.....	<b>41.7%</b>	41.7%
Foreign tax credits .....	<b>(2.1)</b>	—
Permanently non-deductible expenses .....	—	1.0
Permanently non-taxable income .....	—	(0.5)
Per capita portion of inhabitants' taxes .....	—	1.5
Income tax refunds related to prior years' income .....	<b>(2.8)</b>	(1.0)
Utilization of tax loss carryforwards .....	<b>(10.6)</b>	(28.2)
Changes in valuation allowance.....	<b>6.2</b>	(2.5)
Tax rate differences at overseas consolidated subsidiaries.....	<b>(5.6)</b>	(3.9)
Unrealized gain on inventories.....	<b>(2.9)</b>	—
Tax losses of consolidated subsidiaries .....	—	6.0
Dividends received from consolidated subsidiaries.....	<b>3.8</b>	1.2
Equity in earnings of an affiliate.....	<b>(2.8)</b>	(2.7)
Other.....	<b>4.4</b>	0.8
Effective tax rates .....	<b>29.3%</b>	13.4%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Unrealized gain on inventories .....	¥ 512	¥ —	\$ 4,830
Allowance for doubtful receivables .....	516	714	4,868
Allowance for employees' bonuses .....	500	—	4,717
Accrued retirement benefits .....	2,509	2,098	23,670
Tax loss carryforwards .....	3,607	2,201	34,028
Other .....	1,969	1,718	18,575
Gross deferred tax assets .....	9,613	6,731	90,688
Less valuation allowance .....	(7,229)	(5,020)	(68,198)
Total deferred tax assets .....	2,384	1,711	22,490
Deferred tax liabilities:			
Unrealized holding gain on securities .....	1,178	6	11,113
Other .....	194	73	1,830
Total deferred tax liabilities .....	1,372	79	12,943
Net deferred tax assets .....	¥1,012	¥1,632	\$ 9,547

In accordance with amendments to local tax laws, etc. announced on March 31, 2003, the Company and its consolidated subsidiaries applied a statutory tax rate of 40.5% to the calculation of deferred tax assets and liabilities at March 31, 2004 and 2003, which are expected to be reversed on April 1, 2004 and thereafter. The effect of this change in statutory tax rate was to decrease deferred tax assets at March 31, 2004 and to increase income taxes – deferred for the year then ended by ¥29 million (\$274 thousand), and to decrease deferred tax assets at March 31, 2003 and to increase income taxes – deferred for the year then ended by ¥1 million, and to decrease deferred tax liabilities at March 31, 2003, and to increase unrealized holding gain on securities at March 31, 2003 by ¥0 million.

## 12 LAND REVALUATION

At March 31, 2002, ASICS Trading Co., Ltd., an affiliate of the Company, revalued its land held for business use. The difference on the land revaluation has been accounted for as land revaluation reserve under shareholders' equity and was calculated at the Company's share of the net amount of the relevant tax effect.

## 13 AMOUNTS PER SHARE

Amounts per share at March 31, 2004 and 2003 and for the years then ended were as follows:

	Yen		U.S. dollars
	2004	2003	2004
Net assets .....	¥261.83	¥233.50	\$2.47
Net income:			
Basic .....	21.80	24.10	0.21
Cash dividends applicable to the year .....	2.50	2.00	0.02

The amount per share of net assets has been computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the year end. Net income per share has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years.

Diluted net income per share has not been presented because there were no potentially dilutive shares at March 31, 2004 or 2003.

## 14 SEGMENT INFORMATION

### 1. Business Segments

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of sporting goods in Japan and overseas. As most of the consolidated net sales were related to sports- and leisure-related products, the disclosure of business segment information has been omitted.

### 2. Geographic Segments

The domestic and foreign operations of the Group for the years ended March 31, 2004 and 2003 are summarized as follows:

Millions of yen						
2004						
	Japan	United States of America	Europe	Other areas	Total	Eliminations /corporate Consolidated
Net sales:						
Sales to customers.....	¥80,606	¥22,523	¥33,281	¥4,088	¥140,498	¥ — ¥140,498
Intersegment.....	2,543	3	18	2,215	4,779	(4,779) —
Total sales.....	83,149	22,526	33,299	6,303	145,277	(4,779) 140,498
Operating expenses.....	81,055	21,646	30,017	5,280	137,998	(4,910) 133,088
Operating income.....	¥ 2,094	¥ 880	¥ 3,282	¥1,023	¥ 7,279	¥ 131 ¥ 7,410
Total assets.....	¥87,961	¥ 9,181	¥19,552	¥3,690	¥120,384	¥(2,045) ¥118,339

Millions of yen						
2003						
	Japan	United States of America	Europe	Other areas	Total	Eliminations /corporate Consolidated
Net sales:						
Sales to customers.....	¥81,024	¥24,061	¥27,225	¥3,330	¥135,640	¥ — ¥135,640
Intersegment.....	2,322	10	50	2,488	4,870	(4,870) —
Total sales.....	83,346	24,071	27,275	5,818	140,510	(4,870) 135,640
Operating expenses.....	81,866	22,391	25,383	5,120	134,760	(4,508) 130,252
Operating income.....	¥ 1,480	¥ 1,680	¥ 1,892	¥ 698	¥ 5,750	¥ (362) ¥ 5,388
Total assets.....	¥82,595	¥12,000	¥18,092	¥3,304	¥115,991	¥(2,929) ¥113,062

Thousands of U.S. dollars						
2004						
	Japan	United States of America	Europe	Other areas	Total	Eliminations /corporate Consolidated
Net sales:						
Sales to customers.....	\$760,434	\$212,481	\$313,972	\$38,566	\$1,325,453	\$ — \$1,325,453
Intersegment.....	23,991	28	170	20,896	45,085	(45,085) —
Total sales.....	784,425	212,509	314,142	59,462	1,370,538	(45,085) 1,325,453
Operating expenses.....	764,669	204,208	283,179	49,812	1,301,868	(46,321) 1,255,547
Operating income.....	\$ 19,756	\$ 8,301	\$ 30,963	\$ 9,650	\$ 68,670	\$ 1,236 \$ 69,906
Total assets.....	\$829,821	\$ 86,613	\$184,453	\$34,811	\$1,135,698	\$(19,292) \$1,116,406

### 3. Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Overseas sales:			
North America .....	¥ 22,526	¥ 24,066	\$ 212,509
Europe.....	33,009	27,092	311,406
Other areas.....	5,860	4,907	55,283
Total.....	¥ 61,395	¥ 56,065	\$ 579,198
Consolidated net sales .....	¥140,498	¥135,640	\$1,325,453
Overseas sales as a percentage of consolidated sales:			
North America .....	16.0%	17.7%	
Europe.....	23.5	20.0	
Other areas.....	4.2	3.6	
Total.....	43.7%	41.3%	

## 15 SUBSEQUENT EVENTS

### a. Change in method of calculation of employees' retirement benefits

Effective April 1, 2004, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to past employee services under the substitutional portion of the WFPF and a change to a defined benefit pension plan. Simultaneously, the Company has decided to change the current method of determining the amount of employees' retirement benefits based on the degree of final position and the number of years of service of each employee on retirement to a new system based on points given to each employee after an evaluation of various factors. The effect of this change in the method of calculation of employees' retirement benefits was to incur prior service cost (a decrease in the retirement benefit obligation) of ¥2,932 million (\$27,660 thousand) at April 1, 2004.

The Company is amortizing this prior service cost by the straight-line method over five years commencing the year ending March 31, 2005.

### b. Appropriations of retained earnings

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a meeting of the shareholders of the Company held on June 25, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥2.50 = US\$0.02 per share).....	¥520	\$4,906

## Report of Independent Auditors

The Board of Directors  
ASICS Corporation

We have audited the accompanying consolidated balance sheets of ASICS Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ASICS Corporation and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

### *Supplementary Information*

As described in Note 15 (a), the Company has decided to change the current method of determining the amount of employees' retirement benefits based on the degree of final position and the number of years of service of each employee on retirement to a new system based on points given to each employee after an evaluation of various factors.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.



Shin Nihon & Co.

June 25, 2004



## Corporate Data

(As of June 25, 2004)

### BOARD OF DIRECTORS

**Chairman and Director**  
Kihachiro Onitsuka

**President and Representative Director**  
Kiyomi Wada

**Senior Managing and Representative Director**  
Tetsuo Hayashi

### Managing Directors

Ryoji Tamesada

Mitsuhiro Okada

### Directors

Yuichiro Shimizu

Nobuo Oda

Yoshio Chihara

Toshiro Ikezaki

Motoi Oyama

### BOARD OF CORPORATE AUDITORS

Kiyoshi Morii

Takashi Iwasaki

Junzo Yoneda

Yasuo Takahashi

### HEAD OFFICE

1-1, Minatojima-Nakamachi  
7-chome, Chuo-ku,  
Kobe 650-8555, Japan  
Tel: (078) 303-2231  
Fax: (078) 303-2241  
<http://www.asics.com/>

### TOKYO OFFICE

10-11, Kinshi 4-chome,  
Sumida-ku, Tokyo 130-8585,  
Japan  
Tel: (03) 3624-2240

### OSAKA OFFICE

2-3, Toyotsu-cho, Suita,  
Osaka 564-8588, Japan  
Tel: (06) 6385-2082

### LISTED STOCK EXCHANGES

Common Stock:  
Tokyo Stock Exchange  
Osaka Securities Exchange

### TRANSFER AGENT AND REGISTRAR

Mizuho Trust & Banking  
Co., Ltd.  
2-1, Yaesu 1-chome,  
Chuo-ku, Tokyo 103-0028,  
Japan

### INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Shin Nihon & Co.

## International Network

(As of June 25, 2004)

### PRINCIPAL DOMESTIC SUBSIDIARIES AND AFFILIATES

*Consolidated or accounted for by the equity method*

	Percentage owned
ASICS ALMOS Inc. ....	100.0
Nishi Athletic Goods Co., Ltd. ....	100.0
ASICS Hokkaido Sales Corporation ....	100.0
ASICS Tohoku Sales Corporation ....	100.0
ASICS Sports Sales Corp. ....	100.0
ASICS Chubu Sales Corporation ....	100.0
ASICS Hojinkan Corporation ....	100.0
ASICS APPAREL INDUSTRY CORPORATION ....	100.0
SAN-IN ASICS INDUSTRY CORPORATION ....	100.0
FUKUI ASICS INDUSTRY CORPORATION ....	100.0
TAKEFU ASICS INDUSTRY CORPORATION ....	100.0
ASICS PHYSICAL DISTRIBUTION CORPORATION ....	80.0
ASICS Trading Co., Ltd. ....	38.1

### PRINCIPAL OVERSEAS SUBSIDIARIES

*Consolidated*

	Percentage owned
<b>ASICS AMERICA CORPORATION</b> .....	100.0
16275 Laguna Canyon Road, Irvine, California 92618, U.S.A. Tel: (949) 453-8888 Fax: (949) 453-0292	
<b>ASICS EUROPE B.V.</b> .....	100.0
Kruisweg 567, 2132 NA Hoofddorp, The Netherlands Tel: (20) 4469600 Fax: (20) 4469645	

<b>ASICS Deutschland GmbH</b> .....	100.0
Nissanstrasse 4, 41468 Neuss, Germany Tel: (2131) 3802-0 Fax: (2131) 3802-179	

<b>ASICS FRANCE S.A.S.</b> .....	100.0
Aéroport de Fréjorgues, EUROGARE, 34134 MAUGUIO cedex, France Tel: (4) 6715-4000 Fax: (4) 6722-1280	

<b>ASICS UK LIMITED</b> .....	100.0
Europa Boulevard, Westbrook, Warrington, Cheshire WA5 7YS, U.K. Tel: (1925) 241041 Fax: (1925) 414984	

<b>ASICS OCEANIA PTY. LTD.</b> .....	100.0
10 Stanton Road, Seven hills, New South Wales 2147, Australia Tel: (2) 9853-2300 Fax: (2) 9624-8630	

<b>JIANGSU ASICS CO., LTD.</b> .....	82.1
Lu Xu Hu A-6 Economic Development Zone, Wujiang City, Jiangsu 215211, China Tel: (21) 62787671 Fax: (21) 62787674	

<b>ASICS ITALIA S.p.A.</b> .....	51.0
Via F. Ili Ceirano 3/A, 12020 Madonna dell'Olmo (CN), Italy Tel: (171) 416111 Fax: (171) 416195	



**ASICS Corporation**  
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