



Annual Report 2006

Consolidated Financial Information

Year Ended March 31, 2006

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Six-Year Summary

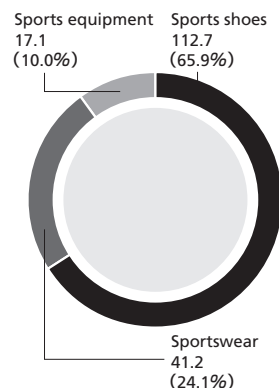
ASICS Corporation and Consolidated Subsidiaries
Years ended March 31

Millions of yen

	2001	2002	2003	2004	2005	2006
For the year:						
Net sales	¥126,446	¥128,901	¥135,640	¥140,498	¥146,679	¥171,036
Sports shoes	61,715	66,054	74,263	80,199	89,168	112,742
Sportswear	44,817	43,574	42,682	42,565	41,278	41,199
Sports equipment	19,914	19,273	18,695	17,734	16,233	17,095
Cost of sales	81,276	82,938	86,394	87,462	88,244	98,578
Selling, general and administrative expenses	42,078	42,480	43,858	45,626	48,540	56,014
Operating income	3,092	3,483	5,388	7,410	9,895	16,444
Income before income taxes and minority interests	2,127	2,934	6,197	6,743	10,753	17,367
Net income	1,740	2,123	5,169	4,622	7,006	13,807
At year-end:						
Shareholders' equity	¥ 43,866	¥ 45,512	¥ 49,917	¥ 54,439	¥ 58,450	¥ 74,899
Total assets	113,914	114,741	113,062	118,339	122,588	140,615
Per share of common stock (in yen):						
Net income	¥ 8.13	¥ 9.92	¥ 24.10	¥ 21.80	¥ 34.39	¥ 69.02
Cash dividends	—	—	2.00	2.50	3.50	6.00
Shareholders' equity	205.02	212.74	233.50	261.83	293.17	375.79
Ratios:						
Operating income ratio (%)	2.4	2.7	4.0	5.3	6.7	9.6
Return on assets (ROA) (%)	1.6	1.9	4.5	4.0	5.8	10.5
Shareholders' equity ratio (%)	38.5	39.7	44.2	46.0	47.7	53.3

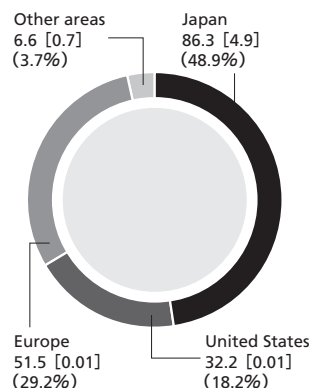
Net Sales by Product

(Billions of yen)



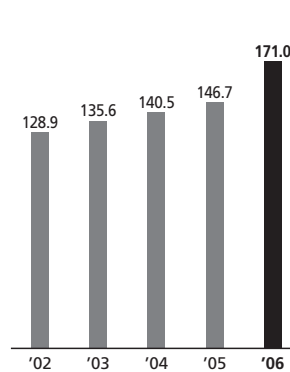
Net Sales by Geographic Area

(Billions of yen)



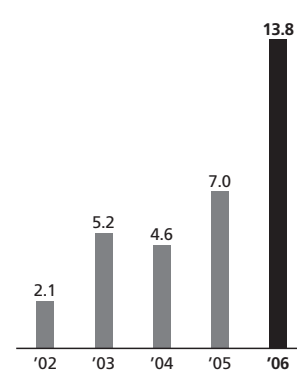
Net Sales

(Billions of yen)



Net Income

(Billions of yen)



Notes: 1. Net Sales by Geographic Area figures include the intersegment sales. The intersegment amount indicates in [].
2. All the figures have been rounded off to the nearest millions of yen.

Management's Discussion & Analysis

Overview

During fiscal 2006, ended March 31, 2006, the Japanese economy recovered steadily, backed by ongoing increases in capital investment due to improving corporate profits and by steadily increasing personal consumption. The global economy was generally strong despite surging crude oil prices, appreciation of the Chinese yuan, major hurricanes in the United States, and other adversities.

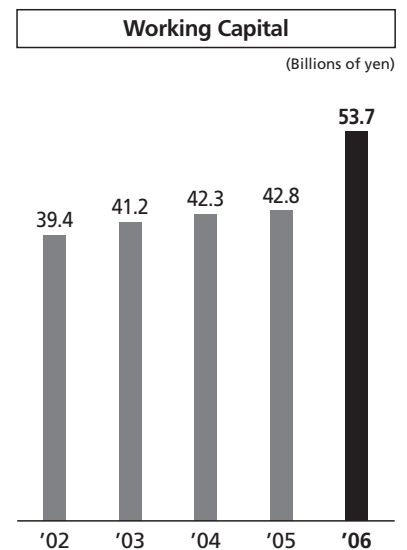
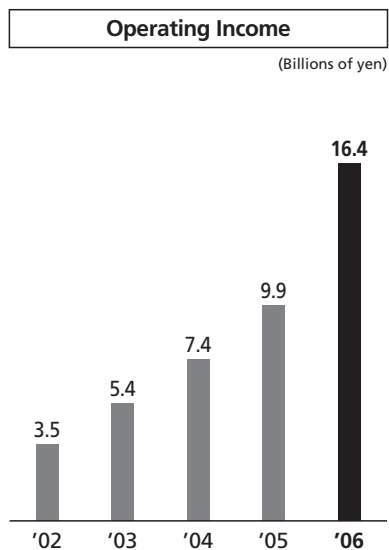
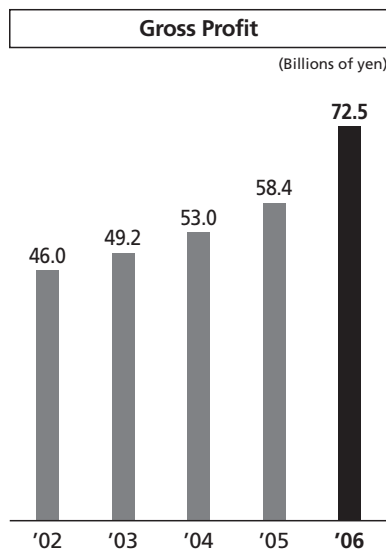
In the sporting goods industry, the Turin Winter Olympic Games and growing interest in sports amid rising health consciousness helped spur strong performance on the whole.

Amid these conditions, the ASICS Group worked to expand its running gear business, particularly running shoes, and further enhance its brand image through such means as providing shoes and sportswear to the convention staff as a sponsor of the ING New York City Marathon 2006. In addition, the Company developed and expanded operations in the global market. For instance, we opened directly managed stores for the Onitsuka Tiger brand in Japan and abroad. In Japan, the Company strived to hone its image as a maker of fitness walking shoes. For example, we expanded our lineup of *HADASHIWALKER* shoes, which give wearers the impression they are walking in bare feet, and we held walking events and promoted sales with the help of Duke Saraie, a specialist in walking exercise, as part of initiatives for further boosting the image of our fitness walking shoes.

Furthermore, ASICS has expanded its lineup of kids shoes based on its research into the particular ways children move their feet in walking and running and strengthened sales promotion through retail and other means in order to increase sales. For the Turin Winter Olympics, ASICS ITALIA S.p.A., a subsidiary, was an official sponsor, and concerted efforts were made to further elevate the image of the ASICS Group and further heighten brand awareness.

Performance Analysis

Consolidated net sales increased 16.6% year on year, to ¥171,036 million, in the fiscal year under review. While sales of sportswear were weak, fitness walking shoes and sport-style shoes recorded healthy gains, which contributed to a 2.0% increase in domestic sales, to ¥78,958 million. Overseas sales rose 32.9%, to ¥92,078 million, backed by ongoing growth in sales of running shoes and sportstyle shoes, particularly in Europe and the United States. By product, sales of running shoes, fitness walking shoes, Onitsuka Tiger, and other sportstyle shoes were robust, particularly in overseas market. As a result, total sales of sports shoes increased 26.4%, to ¥112,742 million. Sportswear sales fell 0.7%, to ¥41,199 million, as sales of training wear and outdoor wear were weak in Japan. Sports equipment sales rose 6.7%, to ¥17,095 million, backed by a broader product lineup in Japan.



Gross profit increased 24.0%, to ¥72,458 million. Growth was attributable mainly to a rise in sales from especially strong performance overseas and to an improvement in the cost to sales ratio, which boosted gross profit margin to 42.4%, up 2.6 percentage points from the previous fiscal year. Selling, general and administrative (SG&A) expenses increased 15.4%, to ¥56,014 million. Growth stemmed from robust marketing activities, which helped advertising costs to increase 26.4%. In addition, research and development costs rose 7.5%, to ¥532 million. As a result, operating income climbed 66.2%, to ¥16,444 million.

Net other income increased 7.6%, to ¥923 million. An increase in exchange loss and accrued retirement benefits for directors and corporate auditors were offset by higher interest and dividend income and gain on the sales of investments in securities.

Consequently, net income grew 97.1%, to ¥13,807 million.

Financial Conditions

Total assets at the end of the fiscal year stood at ¥140,615 million, up 14.7% year on year. Current assets rose 16.7%, to ¥99,918 million, as notes and accounts receivables, and inventories increased in tandem with sales growth.

Total liabilities were up 2.2%, to ¥62,881 million, as the Company repaid ¥3,000 million in bond, but short-term bank loans rose 54.8%. Minority interests increased 9.3%, to ¥2,835 million.

Retained earnings increased 75.7% as a result of the large increase in net income, and unrealized holding gain on securities rose 119.7%. Due to these items, total shareholders' equity increased 28.1% year on year, to ¥74,899 million.

Cash Flows

Net cash provided by operating activities totaled ¥4,985 million. Income before income taxes and minority interests increased, due to strong performance in the fiscal year, while notes and accounts receivables and inventories rose and income tax paid increased.

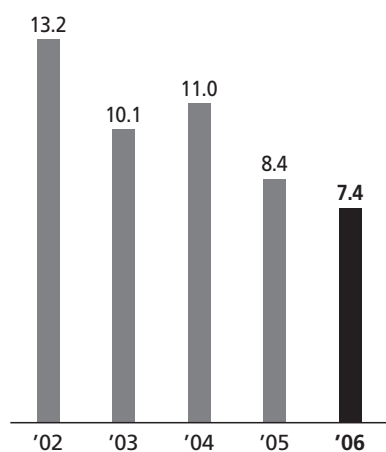
Net cash used in investing activities rose ¥2,215 million, to ¥2,265 million. The Company posted higher proceeds from sales and redemption of investments in securities and other factors. However, payments increased for the purchase of land for the transfer of the Osaka branch office and for acquiring software for rebuilding key systems.

Net cash used in financing activities declined ¥4,862 million, to ¥564 million. Cash were used to repayment of bond, but purchase of treasury stock fell, and short-term bank loans rose.

As a result, cash and cash equivalents at end of year stood at ¥12,055 million, up ¥2,689 million year on year.

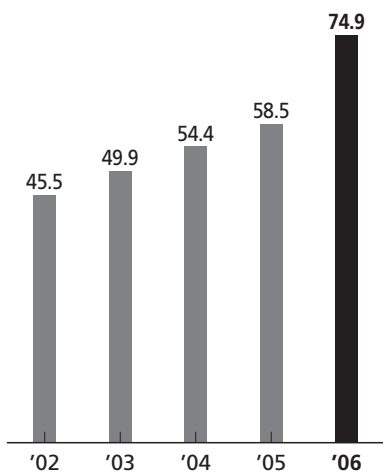
Long-Term Debt

(Billions of yen)



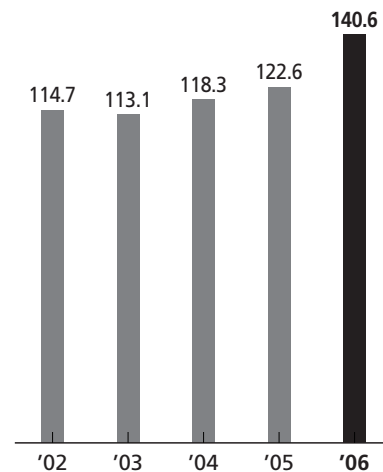
Total Shareholders' Equity

(Billions of yen)



Total Assets

(Billions of yen)



Consolidated Balance Sheets

ASICS Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and cash equivalents	¥ 12,055	¥ 9,366	\$ 103,034
Short-term investments (Note 3)	1,169	1,006	9,991
Notes and accounts receivable:			
Trade	49,381	44,413	422,060
Less allowance for doubtful receivables	(1,885)	(1,870)	(16,111)
Inventories (Note 4)	32,125	27,771	274,573
Deferred income taxes (Note 13)	2,582	1,901	22,068
Other current assets	4,491	3,032	38,385
Total current assets	99,918	85,619	854,000
Property, plant and equipment:			
Land (Notes 5, 6 and 14)	5,971	5,459	51,034
Buildings and structures (Notes 5 and 6)	22,915	23,032	195,855
Machinery and equipment	11,478	10,992	98,103
Less accumulated depreciation	(24,549)	(24,485)	(209,821)
Property, plant and equipment, net	15,815	14,998	135,171
Investments and other assets:			
Investments in securities:			
Unconsolidated subsidiaries and affiliates	5,096	5,176	43,556
Other (Note 3)	11,642	8,570	99,504
Long-term loans receivable	791	782	6,761
Intangible assets	1,531	857	13,085
Deferred income taxes (Note 13)	469	267	4,009
Other assets (Note 5)	6,501	6,900	55,564
Less allowance for doubtful receivables	(1,148)	(581)	(9,812)
Total investments and other assets	24,882	21,971	212,667
Total assets	¥140,615	¥122,588	\$1,201,838

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Short-term bank loans (Note 6)	¥11,235	¥7,256	\$96,026
Current portion of long-term debt (Note 6)	3,721	5,421	31,803
Notes and accounts payable:			
Trade	18,528	17,506	158,359
Construction	87	96	744
Accrued income taxes (Note 13)	1,299	2,598	11,103
Accrued expenses	7,376	6,399	63,043
Allowance for loss on business restructuring	—	200	—
Other current liabilities	3,932	3,376	33,606
Total current liabilities	46,178	42,852	394,684
Long-term liabilities:			
Long-term debt (Note 6)	7,428	8,359	63,487
Deferred income taxes (Note 13)	704	265	6,017
Accrued retirement benefits for employees (Note 7)	6,619	7,188	56,573
Accrued retirement benefits for directors and corporate auditors (Note 2(j))	561	—	4,795
Other long-term liabilities	1,391	2,881	11,889
Total long-term liabilities	16,703	18,693	142,761
Minority interests	2,835	2,593	24,231
Contingent liabilities (Note 10)			
Shareholders' equity (Note 12):			
Common stock:			
Authorized—790,000,000 shares at March 31, 2006 and 586,000,000 shares at March 31, 2005			
Issued—199,962,991 shares at March 31, 2006 and 2005	23,972	23,972	204,889
Capital surplus	17,182	17,182	146,855
Retained earnings (Note 17)	30,704	17,475	262,427
Land revaluation reserve (Note 14)	(747)	(422)	(6,385)
Unrealized holding gain on securities (Note 3)	4,272	1,945	36,513
Translation adjustments	(130)	(1,532)	(1,111)
Less treasury stock, at cost:			
(809,299 shares at March 31, 2006 and 603,420 shares at March 31, 2005)	(354)	(170)	(3,026)
Total shareholders' equity	74,899	58,450	640,162
Total liabilities, minority interests and shareholders' equity	¥140,615	¥122,588	\$1,201,838

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

ASICS Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales	¥171,036	¥146,679	\$1,461,846
Cost of sales (Note 11)	98,578	88,244	842,547
Gross profit	72,458	58,435	619,299
Selling, general and administrative expenses (Note 11)	56,014	48,540	478,752
Operating income	16,444	9,895	140,547
Other income (expenses):			
Interest and dividend income	687	494	5,872
Interest expense	(478)	(521)	(4,085)
Equity in earnings of affiliates	398	417	3,402
Exchange (loss) gain	(124)	83	(1,060)
Gain on sales of investments in securities (Note 3)	423	—	3,615
Accrued for retirement benefits for directors and corporate auditors (Note 2(j))	(499)	—	(4,265)
Provision for allowance for loss on business restructuring	—	(200)	—
Other, net (Note 2(g))	516	585	4,410
	923	858	7,889
Income before income taxes and minority interests	17,367	10,753	148,436
Income taxes (Note 13):			
Current	4,623	4,335	39,513
Deferred	(1,897)	(1,013)	(16,214)
	2,726	3,322	23,299
Income before minority interests	14,641	7,431	125,137
Minority interests	834	425	7,128
Net income	¥ 13,807	¥ 7,006	\$ 118,009

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ASICS Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	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
Balance at March 31, 2004	213,962,991	¥23,972	¥21,066	¥11,008	¥(420)	¥1,802	¥(1,820)	¥(1,169)
Net income	—	—	—	7,006	—	—	—	—
Dividends	—	—	—	(520)	—	—	—	—
Bonuses to directors	—	—	—	(8)	—	—	—	—
Net change in land revaluation reserve	—	—	—	—	(2)	—	—	—
Net change in unrealized holding gain on securities	—	—	—	—	—	143	—	—
Net change in translation adjustments	—	—	—	—	—	—	288	—
Net change arising from initial consolidation of subsidiaries	—	—	—	(11)	—	—	—	—
Net change in treasury stock	—	—	—	—	—	—	—	(2,885)
Retirement of treasury stock	(14,000,000)	—	(3,884)	—	—	—	—	3,884
Balance at March 31, 2005	199,962,991	23,972	17,182	17,475	(422)	1,945	(1,532)	(170)
Net income	—	—	—	13,807	—	—	—	—
Dividends	—	—	—	(698)	—	—	—	—
Bonuses to directors	—	—	—	(2)	—	—	—	—
Net change in land revaluation reserve	—	—	—	—	(325)	—	—	—
Net change in unrealized holding gain on securities	—	—	—	—	—	2,327	—	—
Net change in translation adjustments	—	—	—	—	—	—	1,402	—
Net change arising from initial consolidation of subsidiaries	—	—	—	122	—	—	—	—
Net change in treasury stock	—	—	—	—	—	—	—	(184)
Balance at March 31, 2006	199,962,991	¥23,972	¥17,182	¥30,704	¥(747)	¥4,272	¥ (130)	¥ (354)

	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
Balance at March 31, 2005	199,962,991	\$204,889	\$146,855	\$149,359	\$(3,607)	\$16,624	\$(13,094)	\$(1,453)
Net income	—	—	—	118,009	—	—	—	—
Dividends	—	—	—	(5,966)	—	—	—	—
Bonuses to directors	—	—	—	(17)	—	—	—	—
Net change in land revaluation reserve	—	—	—	—	(2,778)	—	—	—
Net change in unrealized holding gain on securities	—	—	—	—	—	19,889	—	—
Net change in translation adjustments	—	—	—	—	—	—	11,983	—
Net change arising from initial consolidation of subsidiaries	—	—	—	1,042	—	—	—	—
Net change in treasury stock	—	—	—	—	—	—	—	(1,573)
Balance at March 31, 2006	199,962,991	\$204,889	\$146,855	\$262,427	\$(6,385)	\$36,513	\$ (1,111)	\$(3,026)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ASICS Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Operating activities:			
Income before income taxes and minority interests	¥17,367	¥10,753	\$148,436
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	1,370	1,185	11,709
Increase (decrease) in allowance for doubtful receivables	556	(507)	4,752
(Decrease) increase in accrued retirement benefits for employees	(567)	58	(4,846)
Increase in accrued retirement benefits for directors and corporate auditors	561	—	4,795
(Decrease) increase in allowance for loss on business restructuring	(200)	200	(1,709)
Gain on sales of investments in securities	(423)	—	(3,615)
Interest and dividend income	(687)	(494)	(5,872)
Interest expense	478	521	4,085
Equity in earnings of affiliates	(398)	(417)	(3,402)
Other, net	465	301	3,974
(Increase) decrease in operating assets:			
Notes and accounts receivable	(4,603)	(1,672)	(39,342)
Inventories	(3,567)	95	(30,487)
Other operating assets	(1,570)	257	(13,419)
Increase (decrease) in operating liabilities:			
Notes and accounts payable	661	264	5,650
Accrued consumption taxes	40	(169)	342
Other operating liabilities	1,135	(783)	9,701
Bonuses to directors	(2)	(8)	(17)
Subtotal	10,616	9,584	90,735
Interest and dividends received	817	607	6,983
Interest paid	(502)	(530)	(4,291)
Income taxes paid	(5,946)	(3,446)	(50,820)
Net cash provided by operating activities	4,985	6,215	42,607
Investing activities:			
Purchases of time deposits included in short-term investments	(100)	(215)	(855)
Proceeds from time deposits withdrawn	0	2	0
Purchases of property, plant and equipment	(2,274)	(1,221)	(19,436)
Proceeds from sales of property, plant and equipment	493	382	4,214
Purchases of intangible assets	(842)	—	(7,197)
(Increase) decrease in securities included in short-term investments	(163)	440	(1,393)
Purchases of investments in securities	(692)	(228)	(5,914)
Proceeds from sales and redemption of investments in securities	1,881	1,025	16,077
Net (increase) decrease in short-term loans receivable	(4)	417	(34)
Long-term loans receivable made	(131)	(306)	(1,120)
Collection of long-term loans receivable	154	59	1,316
Other, net	(587)	(405)	(5,017)
Net cash used in investing activities	(2,265)	(50)	(19,359)
Financing activities:			
Net increase (decrease) in short-term bank loans	3,702	(2,037)	31,641
Proceeds from long-term loans	2,749	3,080	23,496
Repayment of long-term loans	(2,421)	(2,904)	(20,692)
Repayment of bond	(3,000)	—	(25,641)
Purchases of treasury stock	(184)	(2,885)	(1,573)
Cash dividends paid to the Company's shareholders	(689)	(511)	(5,889)
Cash dividends paid to minority interests	(591)	(57)	(5,051)
Other, net	(130)	(112)	(1,111)
Net cash used in financing activities	(564)	(5,426)	(4,820)
Effect of exchange rate changes on cash and cash equivalents	227	79	1,940
Net increase in cash and cash equivalents	2,383	818	20,368
Cash and cash equivalents at beginning of year	9,366	8,498	80,051
Increase in cash and cash equivalents arising from initial consolidation of a subsidiary	306	50	2,615
Cash and cash equivalents at end of year	¥12,055	¥ 9,366	\$103,034

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ASICS Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

1 Basis of Preparation

ASICS Corporation (the "Company") and its domestic consolidated subsidiaries maintain their books of account in conformity with accounting principles 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 ¥117=U.S.\$1.00, the rate of exchange prevailing on March 31, 2006. 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. The Company 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 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 have not been consolidated nor are they 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) Impairment of fixed assets

Effective April 1, 2004, the Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets as early adoption of this standard was permitted effective the year ended March 31, 2004.

As a result of the adoption of this standard, a loss on impairment of fixed assets in the amount of ¥64 million was recognized and included in "Other, net," a component of other expenses in the consolidated statement of income for the year ended March 31, 2005, and income before income taxes and minority interests for the year ended March 31, 2005 decreased by the same amount.

The loss on these impaired assets has been deducted directly from the carrying amounts of the respective assets in the consolidated balance sheet at March 31, 2005.

(h) 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.

(i) Retirement benefits for employees

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 is amortized by the straight-line method over 15 years.

Past service cost is amortized by the straight-line method over the period within the estimated average remaining years of service of the eligible employees. Amortization is deducted from retirement benefit expenses.

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

(j) Retirement benefits for directors and corporate auditors

Up to the year ended March 31, 2005, the Company and its consolidated subsidiaries charged retirement benefits to directors and corporate auditors directly to income when they were paid. Effective the year ended March 31, 2006, the liability for the payment of retirement benefits to directors and corporate auditors has been accrued and recognized in the consolidated balance sheets at the aggregate amount of retirement benefits payable to directors and corporate auditors, pursuant to internal corporate by-laws.

In recent years, the accounting policy of providing an accrual for retirement benefits for directors and corporate auditors has gained wider acceptance. Defining this common accounting practice for the Company and its consolidated subsidiaries and distributing retirement benefit expenses over the period in which directors and corporate auditors remain in office will ensure a more appropriate interperiod allocation of income/loss and enhance the financial position of the Company and its consolidated subsidiaries.

As a result of this change in method of accounting, operating income and income before income taxes and minority interests decreased by ¥61 million (\$521 thousand) and ¥561 million (\$4,795 thousand), respectively, from the amounts which would have been reported if the previous accounting policy had been applied.

(k) Allowance for loss on business restructuring

A domestic consolidated subsidiary has provided an allowance for loss on business restructuring at an estimate of anticipated future losses on the restructuring of its lifestyle sports apparel business.

(l) Leases

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

(m) 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 lives, generally a period of 5 years.

(n) 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.

(o) Business scale taxation

In accordance with the law on amendment of local tax laws and so forth, effective April 1, 2004, business scale taxation went into effect. A domestic corporation with capital in excess of ¥100 million is subject to business scale taxation on the basis of the total amount of value added, the size of its capital and its taxable income. Based on this accounting standard, the Company and certain of its domestic consolidated subsidiaries have accounted for business scale taxation with respect to the value added and capital as a component of selling, general and administrative expenses. Consequently, selling, general and administrative expenses for the year ended March 31, 2005 increased by ¥157 million and operating income and income before income taxes and minority interests for the year ended March 31, 2005 decreased by ¥157 million.

(p) 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.

(q) 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. Refer to Note 17.

3 Short-Term Investments and Investments in Securities

Information regarding other securities with determinable market value at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	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	¥3,031	¥9,635	¥6,604	¥3,049	¥5,894	¥2,845	\$25,906	\$82,350	\$56,444
Other	399	779	380	579	930	351	3,410	6,658	3,248
Subtotal	3,430	10,414	6,984	3,628	6,824	3,196	29,316	89,008	59,692
Securities whose carrying value does not exceed their acquisition costs:									
Equity securities	4	4	(0)	5	5	(0)	34	34	(0)
Corporate bonds	607	552	(55)	607	566	(41)	5,188	4,718	(470)
Subtotal	611	556	(55)	612	571	(41)	5,222	4,752	(470)
Total	¥4,041	¥10,970	¥6,929	¥4,240	¥7,395	¥3,155	\$34,538	\$93,760	\$59,222

The amount of gain and loss on sales of investments in securities for the year ended March 31, 2006 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Total sales	¥1,301	\$11,120
Gross gain on sales	423	3,615
Gross loss on sales	0	0

The carrying value of other securities without determinable market value at March 31, 2006 and 2005 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Money trusts in commingled funds	¥1,169	¥1,006	\$ 9,991
Unlisted equity securities	672	676	5,744
Unlisted preferred investment certificates	—	500	—
	¥1,841	¥2,182	\$15,735

At March 31, 2006, 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
Corporate bonds	¥—	¥—	¥85	¥ —	\$—	\$—	\$726	\$ —
Beneficial securities in investment trusts	—	—	—	108	—	—	—	923
	¥—	¥—	¥85	¥108	\$—	\$—	\$726	\$923

4 Inventories

The following is a summary of inventories at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products	¥30,110	¥25,746	\$257,351
Work in process	287	285	2,453
Raw materials and supplies	1,728	1,740	14,769
	¥32,125	¥27,771	\$274,573

5 Loss on Impairment of Fixed Assets

The Company and consolidated subsidiaries group business assets in use for the manufacture and sale of sporting goods into manufacturing-related assets and sales-related assets. Idle property is grouped at each property unit. The head office building and others are grouped as one common asset group. The Company and its consolidated subsidiaries wrote down the carrying value of 4 pieces of idle property, including leasehold rights to land beside Lake Yamanaka, to their respective recoverable amounts during the year ended March 31, 2005 as follows:

	Millions of yen
Land	¥19
Buildings and structures	13
Land leasehold rights included in other assets	32
	¥64

The recoverable amounts of idle property presented in the above table were calculated at an estimate of their net realizable value based on similar valuations in other actual comparable real estate transactions.

6 Short-Term Bank Loans and Long-Term Debt

The average annual interest rates on short-term bank loans were 2.9% and 1.9% at March 31, 2006 and 2005, respectively. Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
2.56% yen secured bonds, due 2005	¥ —	¥ 3,000	\$ —
2.74% yen secured bonds, due 2006	2,000	2,000	17,094
1.22% yen unsecured bonds, due 2008	1,600	1,600	13,675
1.12% yen unsecured bonds, due 2008	800	800	6,838
1.60% yen unsecured bonds, due 2008	800	800	6,838
Unsecured loans primarily from banks, due 2007 through 2013, at interest rates ranging from 0.3% to 5.3%	5,949	5,580	50,845
	11,149	13,780	95,290
Current portion of long-term debt	(3,721)	(5,421)	(31,803)
	¥ 7,428	¥ 8,359	\$ 63,487

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 3,721	\$31,803
2008	3,984	34,051
2009	744	6,359
2010	446	3,812
2011	674	5,761
2012 and thereafter	1,580	13,504
	¥11,149	\$95,290

Assets pledged at March 31, 2006 as collateral for bonds of ¥2,000 million (\$17,094 thousand) due within one year are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥1,531	\$13,085
Buildings and structures, at net book value	769	6,573
	¥2,300	\$19,658

7 Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans ("WPFs"), 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 each retiree's position and basic salary at termination as well as length of service and other factors.

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, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(14,970)	¥(14,702)	\$(127,949)
Plan assets at fair value	7,106	5,380	60,735
Unfunded retirement benefit obligation	(7,864)	(9,322)	(67,214)
Unrecognized net retirement benefit at transition	1,932	2,172	16,513
Unrecognized actuarial loss	1,074	2,306	9,180
Unrecognized past service cost	(1,758)	(2,344)	(15,026)
Prepaid retirement benefits	(3)	—	(26)
Accrued retirement benefits	¥ (6,619)	¥ (7,188)	\$ (56,573)

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, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 648	¥1,101	\$ 5,539
Interest cost	286	269	2,444
Expected return on plan assets	(110)	(93)	(940)
Amortization of net retirement benefit obligation at transition	127	127	1,086
Recognized net actuarial loss	295	282	2,521
Recognized past service cost	(586)	(586)	(5,009)
	¥ 660	¥1,100	\$ 5,641

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

The assumptions used in accounting for the retirement benefit plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%

8 Leases

The Company and its consolidated subsidiaries lease machinery and equipment and other assets. 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, 2006 and 2005, 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		
	2006			2005			2006		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥1,445	¥ 24	¥1,421	¥ —	¥ —	¥ —	\$12,350	\$ 205	\$12,145
Machinery and equipment	2,036	852	1,184	1,944	1,060	884	17,402	7,282	10,120
Other assets	399	203	196	378	149	229	3,410	1,735	1,675
Total	¥3,880	¥1,079	¥2,801	¥2,322	¥1,209	¥1,113	\$33,162	\$9,222	\$23,940

Lease payments relating to finance leases accounted for as operating leases amounted to ¥580 million (\$4,957 thousand) and ¥504 million for the years ended March 31, 2006 and 2005, 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, 2006 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	¥ 620	\$ 5,299
Due after one year	2,181	18,641
Total	¥2,801	\$23,940

9 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, currency options, interest-rate swaps and interest-rate 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 nonperformance by any of these counterparties, all of whom are international financial institutions with high credit ratings.

The open interest-rate-related derivatives positions at March 31, 2006 and 2005 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
	Notional amount	Unrealized loss	Notional amount	Unrealized gain	Notional amount	Unrealized loss
Currency options:	¥1,851	¥ (8)	¥ —	¥ —	\$15,821	\$ (68)
Interest-rate swaps:						
Variable-rate into fixed-rate obligations	2,000	(20)	2,000	14	17,094	(171)
Interest-rate options:						
Interest-rate caps sold	—	—	750	—	—	—

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

10 Contingent Liabilities

At March 31, 2006, contingent liabilities of one domestic consolidated subsidiary for trade notes receivable sold to a financial institution amounted to ¥1,096 million (\$9,368 thousand).

11 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, 2006 and 2005 amounted to ¥532 million (\$4,547 thousand) and ¥494 million, respectively.

12 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 nil at March 31, 2006 and 2005.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law stipulates similar requirements on distributions of earnings to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

13 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, 2006 and 2005 was, in the aggregate, approximately 40.5%. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006 and 2005 differ from the above statutory tax rate for the following reasons:

	2006	2005
Statutory tax rate:	40.5 %	40.5 %
Permanently non-deductible expenses	0.3	1.2
Permanently non-taxable income	(0.0)	(1.7)
Changes in valuation allowance	(21.9)	(1.6)
Tax rate differences at overseas consolidated subsidiaries	(3.2)	(4.6)
Allowance for doubtful receivables	1.0	(1.6)
Equity in earnings of an affiliate	(0.7)	(1.1)
Other	(0.3)	(0.2)
Effective tax rates	15.7 %	30.9 %

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 consolidated subsidiaries at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Inventories	¥ 1,271	¥ 1,021	\$ 10,863
Allowance for doubtful receivables	839	581	7,171
Allowance for employees' bonuses	712	572	6,085
Accrued retirement benefits for employees	2,586	2,563	22,103
Tax loss carryforwards	981	1,940	8,385
Other	1,949	2,231	16,658
Gross deferred tax assets	8,338	8,908	71,265
Less valuation allowance	(2,690)	(5,552)	(22,991)
Total deferred tax assets	5,648	3,356	48,274
Deferred tax liabilities:			
Unrealized holding gain on securities	2,806	1,278	23,983
Other	495	175	4,231
Total deferred tax liabilities	3,301	1,453	28,214
Net deferred tax assets	¥ 2,347	¥ 1,903	\$ 20,060

14 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 land revaluation was 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.

15 Amounts per Share

Amounts per share at March 31, 2006 and 2005 and for the years then ended were as follows:

	Yen		U.S. dollars
	2006	2005	2006
Net assets	¥375.79	¥293.17	\$3.21
Net income:			
Basic	69.02	34.39	0.59
Cash dividends applicable to the year	6.00	3.50	0.05

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. Diluted net income per share has not been presented because there were no potentially dilutive shares at March 31, 2006 and 2005.

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

16 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) Geographical Segments

The domestic and overseas operations of the Group for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen						Eliminations and corporate	Consolidated
	2006							
	Japan	United States of America	Europe	Other areas	Total			
Net sales:								
Sales to customers	¥81,427	¥32,170	¥51,502	¥5,937	¥171,036	¥ —	¥171,036	
Intersegment	4,860	10	11	697	5,578	(5,578)	—	
Total sales	86,287	32,180	51,513	6,634	176,614	(5,578)	171,036	
Operating expenses	82,379	29,476	42,663	5,131	159,649	(5,057)	154,592	
Operating income	¥ 3,908	¥ 2,704	¥ 8,850	¥1,503	¥16,965	¥(521)	¥ 16,444	
Total assets	¥89,564	¥15,250	¥31,331	¥6,136	¥142,281	¥(1,666)	¥140,615	

	Millions of yen						
	2005						
	Japan	United States of America	Europe	Other areas	Total	Eliminations and corporate	Consolidated
Net sales:							
Sales to customers	¥79,065	¥23,486	¥39,519	¥4,609	¥146,679	¥ —	¥146,679
Intersegment	3,646	7	8	1,211	4,872	(4,872)	—
Total sales	82,711	23,493	39,527	5,820	151,551	(4,872)	146,679
Operating expenses	79,881	22,248	34,537	4,662	141,328	(4,544)	136,784
Operating income	¥ 2,830	¥ 1,245	¥ 4,990	¥1,158	¥ 10,223	¥ (328)	¥ 9,895
Total assets	¥90,168	¥ 9,186	¥21,101	¥3,830	¥124,285	¥(1,697)	¥122,588

	Thousands of U.S. dollars						
	2006						
	Japan	United States of America	Europe	Other areas	Total	Eliminations and corporate	Consolidated
Net sales:							
Sales to customers	\$695,957	\$274,957	\$440,188	\$50,744	\$1,461,846	\$ —	\$1,461,846
Intersegment	41,539	85	94	5,957	47,675	(47,675)	—
Total sales	737,496	275,042	440,282	56,701	1,509,521	(47,675)	1,461,846
Operating expenses	704,094	251,931	364,641	43,855	1,364,521	(43,222)	1,321,299
Operating income	\$ 33,402	\$ 23,111	\$ 75,641	\$12,846	\$ 145,000	\$ (4,453)	\$ 140,547
Total assets	\$765,504	\$130,342	\$267,786	\$52,445	\$1,216,077	\$(14,239)	\$1,201,838

(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, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Overseas sales:			
North America	¥ 31,684	¥ 23,448	\$ 270,803
Europe	51,070	39,103	436,496
Other areas	9,324	6,685	79,692
Total	¥ 92,078	¥ 69,276	\$ 786,991
Consolidated net sales	¥171,036	¥146,679	\$1,461,846

Overseas sales as a percentage of consolidated net sales:

North America	18.5%	16.0%
Europe	29.9	26.7
Other areas	5.4	4.5
Total	53.8%	47.2%

17 Subsequent Event

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, was approved at a meeting of the shareholders of the Company held on June 23, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥6.00=U.S.\$0.05 per share)	¥1,195	\$10,214
Bonuses to directors	44	376
Bonuses to corporate auditors	5	43

The Board of Directors
ASICS Corporation

We have audited the accompanying consolidated balance sheets of ASICS Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, 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, 2006 and 2005, 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 2(j), effective the year ended March 31, 2006, the Company and consolidated subsidiaries changed their accounting policy for retirement benefits for directors and corporate auditors from charging them to income as paid, to recording accrued retirement benefits for directors and corporate auditors at the aggregate amount of retirement benefits payable pursuant to their internal corporate by-laws.

As described in Note 2(g), the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets effective the year ended March 31, 2005 as early adoption of this standard was permitted.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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.

Ernst & Young ShinNihon

Osaka, Japan
June 23, 2006



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