

P A S O N A

CONSOLIDATED FINANCIAL REPORT FOR THE FISCAL YEAR ENDED MAY 31, 2003

Pasona Inc. is listed on the Nippon New Market "Hercules," Osaka Securities Exchange with the securities code number 4332.

Representative: President and COO Muneaki Ueda
 For further information contact: Managing Executive Officer Ryuichi Hosokawa
 Corporate Strategy & Planning Director
 Tel: +81-3-5223-1800
 URL: <http://www.pasona.co.jp>
 Annual Board of Directors Meeting: July 23, 2003
 Name of Parent Company: Pasona Inc.
 U.S. GAAP: Not applied

This consolidated financial report has been prepared in accordance with Japanese accounting standards and Japanese law. Figures have been rounded off to eliminate amounts less than one million yen.

PERFORMANCE

(1) Business Results

Years ended May 31, 2003 and 2002						(Millions of yen)
	Net Sales	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change
FY2002	¥135,625	1.3%	¥5,687	18.8%	¥5,373	27.3%
FY2001	133,822	23.9	4,786	(16.7)	4,222	(22.7)

Years ended May 31, 2003 and 2002							(Millions of yen)
	Net Income	Percentage Change	Net Income per Share (Yen)	Diluted Net Income per Share (Yen)	Return on Equity (%)	Ordinary Income to Total Assets (%)	Ordinary Income to Net Sales (%)
FY2002	¥2,027	2.7%	¥14,813.83	¥ -	27.4%	19.2%	4.0%
FY2001	1,974	-	73,738.60	-	42.0	15.3	3.2

- Notes: 1. Equity in earnings (losses) of unconsolidated subsidiaries and affiliates
 FY2002, the fiscal year ended May 31, 2003: ¥(324) million
 FY2001, the fiscal year ended May 31, 2002: ¥(241) million
2. Average number of shares outstanding (consolidated)
 FY2002, the fiscal year ended May 31, 2003: 136,610 shares
 FY2001, the fiscal year ended May 31, 2002: 26,774 shares
3. Changes in accounting policies: Yes
4. Percentages shown for net sales, operating income, ordinary income and net income are the rate of increase or decrease from the previous fiscal year.
5. Net income per share for the fiscal year ended May 31, 2002 is ¥14,717.87, calculated using the same method as that used for the fiscal year ended May 31, 2003.

(2) Financial Position

As of May 31, 2003 and 2002

(Millions of yen)

	Total Assets	Shareholders' Equity	Shareholders' Equity to Total Assets (%)	Shareholders' Equity per Share of Common Stock (Yen)
May 31, 2003	¥29,425	¥8,418	28.6%	¥61,600.04
May 31, 2002	26,526	6,388	24.1	233,808.15

Note: Number of shares outstanding at the end of the term (consolidated)

As of May 31, 2003: 136,610 shares

As of May 31, 2002: 27,322 shares

(3) Cash Flows

Years ended May 31, 2003 and 2002

(Millions of yen)

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Year
FY2002	¥ 4,316	¥(1,087)	¥(2,525)	¥6,019
FY2001	(1,063)	(1,374)	(1,197)	5,316

(4) Consolidated Subsidiaries and Application of the Equity Method

Number of consolidated subsidiaries: 12

Number of non-consolidated subsidiaries accounted for by the equity method: 0

Number of affiliated companies accounted for by the equity method: 8

(5) Changes in Scope of Consolidation and Application of the Equity Method

1. New consolidated companies: 5

Consolidated companies removed: 2

2. New companies accounted for by the equity method: 3 Companies accounted for by the equity method removed: 3

FORECAST OF RESULTS FOR FY2003, THE FISCAL YEAR ENDING MAY 31, 2004

Fiscal year ending May 31, 2004

(Millions of yen)

	Net Sales	Ordinary Income	Net Income
Interim period	¥ 74,030	¥1,940	¥ 846
Year ending May 31, 2004	152,588	6,225	2,827

Reference: Estimated net income per share for the year: Consolidated: ¥20,695.94

Cautionary Statement

The forecasts identified above are based on management's assumptions and beliefs in light of the information currently available to it. Pasona cautions that a number of factors could cause actual results to differ materially from forecasts.

Information on Group Companies

The Pasona Group is engaged in services in the areas of temporary staffing and contracting, placement & recruiting, outplacement, outsourcing and other services. The following is a list of 12 consolidated subsidiaries and 8 affiliated companies accounted for by the equity method.

Name	Address	Capital (millions of yen)	Main business	Ratio of voting rights (%)
(Consolidated subsidiaries)				
Benefit One Inc.	Shinjuku-ku, Tokyo	673	Outsourcing	63.54
Pasona Tech Inc.	Shibuya-ku, Tokyo	400	Temporary staffing	69.63
Pasona career assets Inc.	Chiyoda-ku, Tokyo	208	Outplacement	80.41
Pasona Kyoto Inc.	Shimogyo-ku, Kyoto	72	Temporary staffing	40.00
Home Computing Network Inc.	Shibuya-ku, Tokyo	70	Other services	79.49
Pasona Empower Inc.	Chiyoda-ku, Tokyo	50	Temporary staffing	60.00
Pasona Okayama Inc.	Okayama, Okayama	30	Temporary staffing	70.00
Con-Be Inc.	Chuo-ku, Osaka, Osaka	30	Temporary staffing, Other services	90.00
NS Personnel Service Co., Ltd.	Chuo-ku, Tokyo	20	Temporary staffing	85.00
Pasona Foster Inc.	Chiyoda-ku, Tokyo	10	Other services	100.00
Pasona Logicom Inc.	Chuo-ku, Kobe, Hyogo	10	Contracting	100.00
Pasona Heartful Inc.	Chiyoda-ku, Tokyo	10	Other services	100.00
(Affiliated companies)				
Pasona Nakakyusyu Inc.	Kumamoto, Kumamoto	100	Temporary staffing	25.00
Pasona Nagasaki Inc.	Nagasaki, Nagasaki	70	Temporary staffing	42.86
Pasona Niigata Inc.	Niigata, Niigata	45	Temporary staffing	40.00
Atento Pasona , Inc.	Toshima-ku, Tokyo	900	Outsourcing	30.00
Pasona ADP Payroll, Inc.	Setagaya-ku, Tokyo	997	Outsourcing	48.63
Financial Human Planet, Inc.	Chuo-ku, Tokyo	150	Temporary staffing	50.00
e-Staffing., Co. Ltd.	Chiyoda-ku, Tokyo	240	Other services	33.33
Kansai Koyo Soshutsu Kiko, Inc.	Kita-ku, Osaka, Osaka	140	Other services	35.71

Notes: 1) Benefit One Inc. is a specified subsidiary.

2) Though holdings in Pasona Kyoto Inc. are less than 50%, it is listed as a consolidated subsidiary because it is under the control of the Board of Directors.

3) Home Computing Network Inc. and Osaka Home Computing Network Inc. merged to become Home Computing Network Inc. on April 1, 2003.

4) Pasona Empower Inc., Con-Be Inc., and Pasona Logicom Inc. became consolidated subsidiaries following new acquisition of stock.

5) Pasona Heartful Inc. became a consolidated subsidiary following a corporate division.

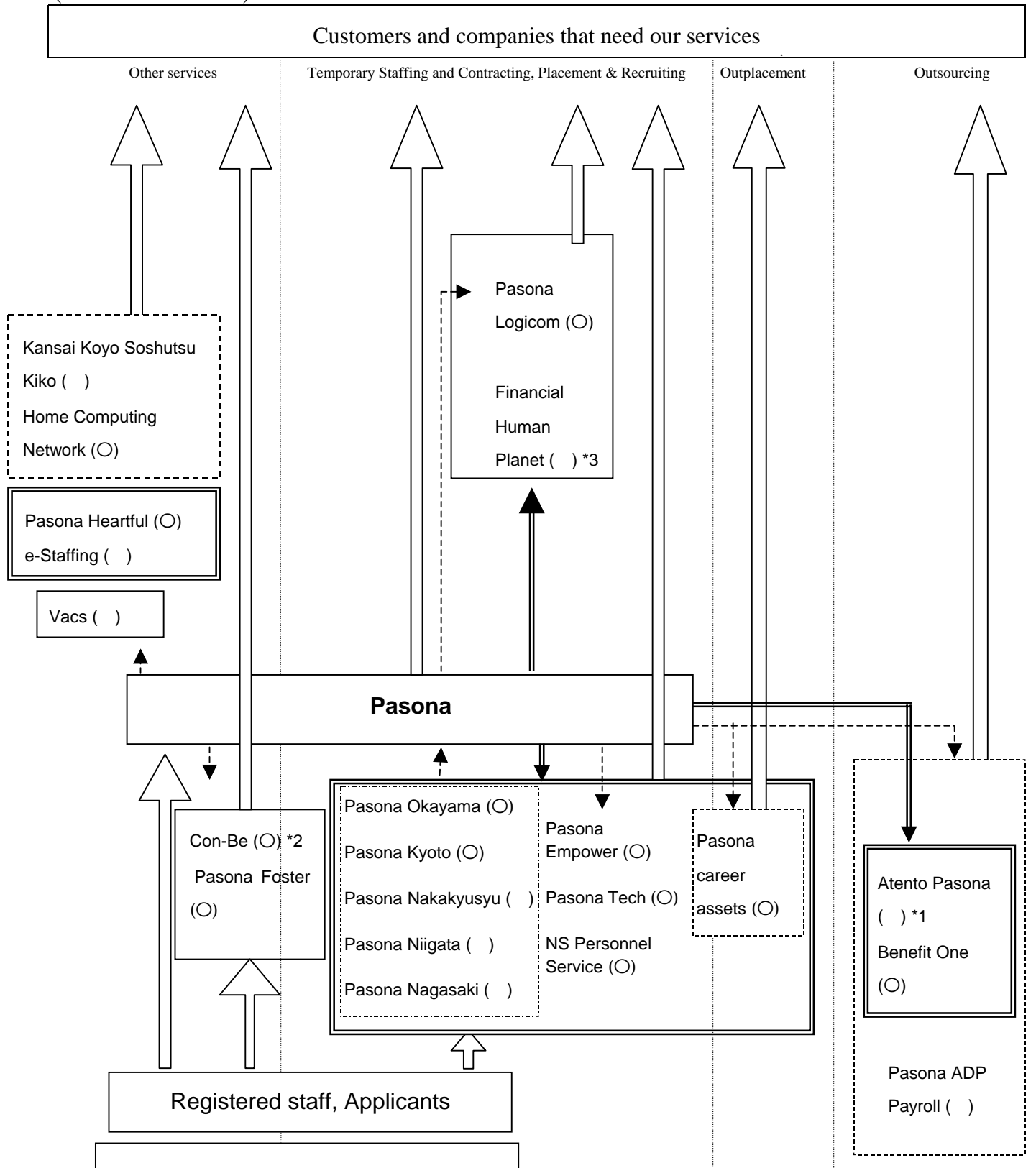
6) Pasona Caregiver Inc. ceased to be a consolidated subsidiary following sale of its shares.

7) e-Staffing Co., Ltd. and Kansai Koyo Soshutsu Kiko Inc. became affiliated companies accounted for by the equity method following new acquisition of stock.

8) Jinzai Haken Hokuriku Inc. ceased to be an affiliate company following sale of its shares.

9) Industrial Outsourcing Inc. became an affiliated company accounted for by the equity method, however was later excluded from the scope of consolidation following the sale of its shares.

(Business Flowchart)



*1 Atento Pasona Inc. changed its business name to Pasona Telemarketing Inc. on June 13, 2003.
 *2 Con-Be, Inc. changed its business name to Pasona Sparkle Inc. on June 16, 2003.
 *3 Financial Human Planet, Inc. will change its business name to Financial Sun Inc. on August 1, 2003

----- Temporary staffing
 === Sub contract
 -.-.- Royalty

○ Consolidated subsidiary
 ○ Non-consolidated subsidiary
 ○ Equity method

Management Policies

1) **Basic Management Policy of the Company**

Based on the corporate philosophy of providing “Solutions to Society’s Problems,” the Pasona Group is developing its business in line with the objective of providing solutions to problems in the changing employment environment. To realize this vision, management is implementing the following basic measures.

First, by concentrating management in the human resource business, we aim to provide “one-stop” and “full-support” services through top-class operations in the main categories of the human resource business. Second, we aim to increase earning opportunities and optimize our customer’s personnel policies through consulting and solution-based marketing on how to effectively deploy human resources. Third, using our network of temporary staffing services, we will make every effort to improve value-added operations by nurturing high-profit businesses through the effective use of the Group’s marketing resources. Fourth, we aim to become a powerful and principled leader in the industry by emphasizing compliance.

2) **Policy on Appropriation of Profits**

We believe that returning profits to our stockholders is an important management issue and to realize this, we comprehensively determine an appropriate level of cash dividends corresponding to each fiscal year’s results, taking into account dividend payout and the preservation of sufficient capital. Retained earnings are to be used for improving our financial strength and investing in new business and equipment for the future growth of the company, with the ultimate aim of enhancing corporate value over the medium and long term.

3) **Mid- to Long-Term Business Strategy**

Pasona strives to build a balanced business portfolio to maintain stable profit growth as a management priority. We aim to offer customers a “one-stop solution” for human resource related problems, and we have established an infrastructure that can provide services in four primary areas: temporary staffing and contracting, placement & recruiting, outplacement, and outsourcing. Based on this strength, we strive to increase earning opportunities and profitability. We aim for sustained and strong profit growth unaffected by changes in the economy.

Temporary staffing, which is the main business of our group, will continue to be the dominant source of revenue over the medium and long term. In the field of office/clerical staffing, our basic policy is to maintain profit margins, carry out flexible marketing to meet the unique needs of customers based on their individual characteristics and the type of work. Through these efforts, we aim to expand earning opportunities while making work processes more efficient. Accordingly, we aim to maintain and improve profit margins in the temporary staffing business

by increasing the ratio of IT staffing and also new work types with high profit margins (temporary staff positions that opened up with revisions to the Worker Dispatch Law in 1999). From the standpoint of providing a “full line of services,” we are in a position to aggressively advance operations in fields expected to be deregulated in the future, including industrial staffing, which has already been designated for deregulation, as well as to build a global network through business alliances.

Further, the placement & recruiting, outplacement, and outsourcing businesses are in relatively early stages of growth, and therefore have plenty of room for growth. With their high profit margins, these businesses are positioned as drivers of strong earnings for the group over the medium and long term. At the same time, these businesses are essential to our “full-line service” strategy. By aiming for first and second best in these business sectors, we will improve the comprehensive capabilities of the group and expand our ability to provide solutions.

4) Measures for Business Management Organization and Compliance

To enhance the social credibility of our group and the industry as a whole, we have an organizational system for managing compliance on a daily basis. We have ongoing compliance programs across the entire organization centered in our legal department, customer satisfaction department and business divisions. We also provide full coverage of social insurance for all qualified temporary staff.

5) Timely Disclosure of Information

To achieve timely disclosure of information, we actively work toward the prompt disclosure of quarterly results as well as other reports, hold explanatory meetings regarding our annual business results and disclose information through media, such as the Internet, among other measures.

6) Primary Management Objectives

The Pasona Group strives to achieve the following objectives to increase growth, competitiveness and earning power over the medium and long term.

① Strengthening comprehensive personnel service

In addition to the core temporary staffing business, we are proactively developing the placement & recruiting, outplacement, and outsourcing businesses to create a structure able to provide a “one-stop” and “full-line” of human resource services. We also aim to build a robust business foundation resilient to changes in the economy.

② **Reinforcing marketing**

Amid the diversification and sophistication of customer needs, Pasona aims to strengthen its competitiveness by creating an optimal business portfolio to meet each and every customer's needs. In our marketing activities, we analyze the behavioral traits of each corporate customer and industry conditions, and strive to expand transaction opportunities by focusing efforts on solution-based marketing. Meanwhile, in our staffing department, we are working to build a structure able to stably and promptly provide the right human resources to satisfy our customer's needs by enhancing temporary staff compensation and by continuing to improve workflow.

③ **Increase profitability**

By effectively using the marketing network of our temporary staffing business, we are working to quickly expand high-value-added operations in placement & recruiting, outplacement, and outsourcing. We aim to increase consolidated profit margins by increasing the weight of these businesses. In addition, in temporary staffing operations, we will aggressively promote business development in fields expected to show relatively high growth and earnings, including new work types such as marketing and sales, which continue to grow steadily despite recent economic conditions, and new fields such as manufacturing that we have not advanced into yet but will be able to owing to forthcoming revisions to the Worker Dispatch Law due for implementation from next spring. Through these efforts and by further increasing work efficiency, we aim to steadily increase profit margins.

7) **Management Targets**

We believe that the human resource field is a market full of growth potential over the medium and long terms. Pasona is striving to improve management efficiency by aiming to unequivocally expand sales and by working to maintain and increase profit margins at the same time.

We aim to achieve double-digit growth in sales over the medium term and will also aim to achieve operating income margins of over 5% through low-cost operations and the development of high-profit businesses.

Business Performance

1) Overview

In fiscal 2002, ended May 31, 2003, the Japanese economy showed partial signs of recovery in exports as well as mining and industrial production but by the end of the term, economic growth fell flat due to future uncertainties stemming from the situation in Iraq. In Japan, the unemployment rate remained at high levels, reflecting structural factors such as mismatches in employment conditions, and demand factors related to labor, as seen in corporations cutting back on personnel expenses.

Under these circumstances, Pasona's mainstay temporary staffing segment sales decreased from the previous fiscal year, despite signs of market change in the second half of fiscal 2002 as seen by a growing number of workers entering temporary positions. The fast-growing placement & recruiting, outplacement, and outsourcing segments continued to experience strong growth during the fiscal year under review, resulting in an increase in net sales of 1.3% to ¥135,625 million from the previous fiscal year. Selling, general and administrative (SG&A) expenses increased owing to forward-looking investment in growth fields to strategically develop them over the medium and long term. Improvements in profitability compensated for higher SG&A expenses however, due to a larger proportion of sales in businesses with high gross profit margins. Accordingly, operating income rose 18.8% to ¥5,687 million. Due to the disappearance of IPO-related costs recorded in non-operating expenses in the previous fiscal year, ordinary income expanded 27.3% to ¥5,373 million. The Company recorded extraordinary losses on the amortization of ¥328 million of goodwill in accordance with the acquisition of shares. Consequently, net income rose 2.7% to ¥2,027 million.

Performance in Each Segment (before eliminations)

㊦ Temporary Staffing and Contracting, Placement & Recruiting

Temporary Staffing and Contracting

In temporary staffing operations, against a backdrop of falling share prices, numerous companies in the financial sector continued to curb spending on general administrative positions in the first half of the fiscal year under review. As corporate restructuring ran its course, however, corporate earnings began to improve toward the midpoint of the term, restarting new personnel spending at foreign companies and IT-related companies, leading toward a broad-based recovery. Under these business conditions, demand steadily grew throughout the year in new work categories such as marketing and sales (fields liberalized after 1999). To meet increasing demand for sales promotion staff in the communications-related industry and sale representatives for securities companies in the financial industry, we made every effort to expand transactions by concentrating on retaining and nurturing personnel in the marketing and staffing divisions (recruiting and

searching for staff). In IT staffing, another primary market, demand was robust for personnel with medium to high qualifications, mainly IT developers. New demand for operators and technological support staff fell temporarily in the first half of the term, as with general administrative positions. There was however a recovery seen in the second half of the fiscal year. As a result of fierce price competition, an increasing number of major corporate customers are working with fewer temporary staffing companies from the standpoint of streamlining transactions. Consequently, competition within the industry intensified as companies strove to provide comprehensive services. As a result, sales in temporary staffing declined 1.9% to ¥125,263 million.

Placement & Recruiting

In placement & recruiting operations, although the overall market remained stagnant, Pasona focused efforts on reinforcing its business foundation by continuing to place personnel under an aggressive policy to expand operations. The Company responded to relatively strong demand in electronics-related industries, and accumulated a large number of registrations through its Web site for recruiting. Our corporate customers, mainly in the Tokyo metropolitan area, are becoming more aware of TTP services, and we aggressively pursued highly profitable transactions for placement and recruiting services. At the same time, we concentrated efforts on recruiting personnel who want to become full-time employees through our specialist placement staff in the staffing division. As a result, sales in placement & recruiting increased 70.9% to ¥984 million.

Total sales in the temporary staffing and placement & recruiting segment were ¥126,248 million, a decline of 1.6% from the previous fiscal year. Although gross profit margins remained the same year-on-year, operating income for the segment decreased 16.8% to ¥3,712 million as a result of measures to increase temporary worker registration staff, expand personnel in the recruiting division, and other medium-term measures to advance operations.

② Outplacement

Amid record-high unemployment rates, demand for outplacement services is rising. In response to growing demand for such services in regions outside major cities, Pasona actively expanded personnel and its network of offices throughout Japan to focus on providing the same level of services across the nation. We were able to expand transactions with various clients in the manufacturing industry, mainly for electric machinery, wholesale and retail industries, as well as the financial and insurance sectors. At the start of the term, orders from regional factories performed well. Consequently, full-term sales climbed 258.4% to ¥3,299 million and operating income increased 1,512.8% to ¥1,189 million.

③ **Outsourcing**

The outsourcing market is expanding amid heightened concerns for improving investment efficiency of pension welfare plans at large corporations, as well as central and regional governments. Competition is fierce, but our group initiated services for the 260,000 members of the armed services benefit association, and steadily acquired new members throughout the fiscal year. Including members from the start on April 1, 2003, membership has reached about one million. As a result, sales rose 57.3% to ¥4,885 million. Operating income surged 480% to ¥551 million, owing to contributions from efforts to cut costs and from outsourcing fees received from service providers, which was started during the fiscal year under review.

④ **Other services**

The other services segment is comprised of PC training classes and child-care operations. Sales in this segment decreased 17.7% to ¥1,515 million, and operating income rose 49.4% to ¥216 million.

2) **Cash Flow**

As of May 31, 2003, cash and cash equivalents totaled ¥6,019 million, an increase of ¥703 million from a year earlier, compared with a decrease of ¥3,636 million in the previous fiscal year. The following is a description of activities affecting cash flow during fiscal 2002.

Cash Flow from Operating Activities

Income before income taxes and minority interests increased ¥760 million to ¥4,980 million. Increase in accounts receivable - trade was ¥1,099 million, increase in other current liabilities was ¥939 million, decrease in consumption taxes payable was ¥809 million, and income taxes paid was ¥721 million. As a result, net cash provided by operating activities was ¥4,316 million, compared with net cash used in operating activities of ¥1,063 million in the previous fiscal year.

The ¥5,379 million improvement in cash flow from operating activities was due mainly to an increase of ¥760 million in income before income taxes and minority interests, ¥1,196 million less in decrease in consumption taxes payable, and a decline of ¥2,531 million in income taxes paid.

Cash Flow from Investing Activities

Payments for purchases of intangible assets was ¥357 million and payments for purchases in investment securities was ¥208 million. As a result, net cash used in investing activities was ¥1,087 million, compared with net cash used in investing activities of ¥1,374 million in the previous fiscal year.

Cash Flow from Financing Activities

Repayment of long-term debt was ¥2,156 million. Net cash used in financing activities was ¥2,525 million, compared with net cash used in financing activities of ¥1,197 million in the previous fiscal year.

Cash flow from financing activities decreased ¥1,328 million compared with the previous fiscal year, owing primarily to the absence of ¥1,029 million in proceeds from financial lease and ¥1,393 million in proceeds from issuance of shares, as well as a decrease of ¥1,531 million in the repayment of long-term debt.

3) Prospects for the Next Fiscal Year

We are taking a conservative outlook on the Japanese economy in the second half of the fiscal year, considering the level of uncertainty stemming from the rising unemployment rate and soft consumer spending, despite expectations for a recovery coming from recent gains in the stock market and improvements in corporate earnings. Accordingly, in our mainstay temporary staffing operations, although there is a gradual undertone of recovery in the general administration field, which accounts for a high portion of sales, we are taking a cautious outlook on future growth. In temporary staffing fields for marketing, sales, and medium to highly qualified IT technicians, we expect high growth despite poor economic conditions. We also look for consolidated sales in the next fiscal year to fully benefit from the newly consolidated subsidiaries Pasona Sparkle Co., Ltd. and Pasona Kyoto Co., Ltd. Due to these and other factors, we expect a rebound in sales across temporary staffing operations. In the outplacement segment, we have identified strong latent demand across a variety of industries, and aim to steadily increase sales in the next fiscal year, despite no signs of sharp market expansion as seen last spring. In our placement operations, which are gradually advancing to the top of the industry, and in our outsourcing operations, for which marketing orders are favorable, we look for contributions from continued earning expansion in the next fiscal year. Based on these presumptions, we estimate consolidated net sales to increase 12.5% year-on-year to ¥152,588 million in fiscal 2003.

In terms of profits, we expect a reduction in cost of sales in the temporary staffing segment due to revisions to the social insurance system. In fiscal 2003, we expect the sales composition of highly profitable outsourcing operations to increase, and we will strive to nurture temporary staffing into a relatively high earnings field. Accordingly, we estimate the gross profit margin will improve 0.6 percentage point to 20.3%. Also in fiscal 2003, we plan to strategically allocate spending in such areas as recruiting and IT costs. Through efforts to restrict other expenditures, we will work to hold down selling, general and administrative expenses. We estimate ordinary income to increase 15.9% to ¥6,225 million and net income to grow 39.5% to ¥2,827 million in fiscal 2003.

CONSOLIDATED BALANCE SHEETS

As of May 31, 2003 and 2002

	2003	2002	(Millions of yen) Increase (Decrease)
ASSETS			
Current assets:			
Cash and deposits	¥ 5,591	¥ 4,854	¥ 736
Notes and accounts receivables - trade	13,561	11,836	1,725
Marketable securities	462	462	(0)
Inventories	204	124	79
Income tax receivable	10	13	(2)
Deferred tax assets	606	317	288
Other current assets	1,077	780	297
Less allowance for doubtful receivables	(83)	(64)	(18)
Total current assets	21,431	18,324	3,106
Fixed assets:			
Property and equipment:			
Buildings	736	666	70
Land	656	655	0
Other tangible fixed assets	159	95	64
Total tangible fixed assets	1,551	1,417	134
Intangible assets:			
Software	1,193	1,116	76
Goodwill	265	327	(61)
Other intangibles	79	74	4
Total intangible assets	1,537	1,517	19
Investments and other assets:			
Investment securities	784	756	27
Long-term loans	97	135	(37)
Deferred tax assets	1,806	2,511	(704)
Lease guarantee deposits	1,916	1,662	253
Other investments	395	250	145
Less allowance for doubtful accounts	(95)	(49)	(45)
Total investments and other assets	4,905	5,266	(361)
Total fixed assets	7,994	8,201	(207)
Total assets	¥ 29,425	¥ 26,526	¥ 2,899

CONSOLIDATED BALANCE SHEETS

As of May 31, 2003 and 2002

	2003	2002	(Millions of yen) Increase (Decrease)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payables - Trade	¥ 640	¥ 281	¥ 358
Short-term loans payable	2,665	2,531	134
Accounts payable - Other	1,565	1,114	450
Accrued expenses	6,408	6,482	(73)
Income taxes payable	1,664	124	1,540
Consumption taxes payable	1,638	2,368	(730)
Reserve for bonus	958	867	90
Other current liabilities	1,983	1,296	687
Total current liabilities	17,524	15,066	2,457
Long-term liabilities:			
Long-term debt	1,065	3,105	(2,040)
Long-term payables - Other	575	792	(217)
Deferred tax liabilities	5		5
Allowance for employees' severance retirement benefits	58	32	26
Allowance for directors' retirement benefits	353	233	120
Other long-term liabilities	7	2	5
Total long-term liabilities	2,065	4,165	(2,100)
Total liabilities	19,589	19,232	357
Minority interests:			
Minority interests	1,417	906	511
Shareholders' equity:			
Common stock		6,062	
Additional paid-in capital		5,197	
		11,260	
Accumulated deficits		4,873	
Net unrealized holding gain on other securities		0	
Total shareholders' equity		6,388	
Common stock	6,062		
Capital surplus	5,197		
Retained earnings (loss)	(2,841)		
Net unrealized holding gain on other securities	(0)		
Total shareholders' equity	8,418		
Total liabilities, minority interests and shareholders' equity	¥ 29,425	¥ 26,526	¥ 2,899

CONSOLIDATED STATEMENTS OF INCOME

Years ended May 31, 2003 and 2002

	2003	2002	(Millions of yen) Increase (Decrease)
Net sales	¥135,625	¥133,822	¥1,803
Cost of sales	108,879	109,478	(599)
Gross profit	26,746	24,343	2,402
Selling, general and administrative expenses	21,058	19,557	1,501
Operating income	5,687	4,786	901
Non-operating income:	150	68	82
Interest income	2	2	(0)
Subsidy from government	35	23	11
Refund of payments to disabled employees - tax	59		59
Other income	53	42	10
Non-operating expenses:	464	632	(167)
Interest expenses	118	191	(72)
IPO related expenses		145	(145)
Investment loss on equity method	324	241	83
Other expenses	20	54	(33)
Ordinary income	5,373	4,222	1,150
Extraordinary gain:	8	62	(53)
Gain on sale of fixed assets	1	0	1
Gain on sales of investment in affiliated companies	6	18	(11)
Constructive gain on change in equity		43	(43)
Extraordinary loss:	401	64	336
Loss on disposal of fixed assets	36	50	(14)
Amortization of goodwill	328		328
Valuation loss of investment securities	0	6	(6)
Loss on sales of investment securities		1	(1)
Loss on sales of investment in affiliated companies	21		21
Provision for allowance for doubtful accounts		5	(5)
Constructive loss on change in equity	14		14
Income before income taxes and minority interests	4,980	4,220	760
Income taxes current	2,218	1,231	986
Income taxes deferred	434	900	(465)
Minority interests	300	114	186
Net income	¥ 2,027	¥ 1,974	¥52

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended May 31, 2003 and 2002

	2003	2002	(Millions of yen) Increase (Decrease)
Accumulated deficit at the beginning of the year:		¥6,847	
Increase in accumulated deficit:			
Bonuses for directors		0	
Net income		1,974	
Accumulated deficit at the end of the year		4,873	
 Capital surplus			
Capital surplus at the beginning of the year	¥5,197		
Capital surplus at the end of the year	5,197		
 Retained earnings			
Retained earnings at the beginning of the year	(4,873)		
Increase in retained earnings:			
Net income	2,027		
Increase due to merger	7		
	2,034		
Decrease in retained earnings:			
Bonuses for directors	2		
Retained earnings at the end of the year	(2,841)		

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31, 2003 and 2002

(Millions of yen)

	2003	2002
Cash Flows from Operating activities:		
Income before income taxes	¥ 4,980	¥ 4,220
Depreciation	380	213
Amortization of others	21	32
Amortization of goodwill (excess of costs over assets acquired)	459	150
Increase in allowance for doubtful accounts	48	3
Increase in reserve for bonus	37	30
Increase in allowance for employees' severance retirement benefits	17	6
Increase in allowance for directors' retirement bonuses	115	95
Interest and dividends income	(4)	(3)
Interest expenses	118	191
Foreign exchange loss (gain)	(0)	0
Investment loss on equity method	324	241
Constructive gain on change in equity	14	(43)
Gain on sale of fixed assets	(1)	(0)
Loss on sale and disposal of fixed assets	36	50
Gain (loss) on sale of investment securities		1
Valuation loss on investment securities	0	6
Gain on sales of shares of affiliates	15	(18)
Increase in accounts receivable - trade	(1,099)	(1,137)
Increase in inventories	(78)	(2)
Increase in other current assets	(146)	(209)
Increase (decrease) in accounts payable - trade	(206)	381
Decrease in consumption taxes payable	(809)	(2,006)
Increase on other current liabilities	939	193
Directors' bonuses paid	(4)	(0)
Subtotal	5,161	2,397
Interest and dividends received	7	7
Interest paid	(131)	(215)
Income taxes paid	(721)	(3,253)
Net cash provided by (used in) operating activities	4,316	(1,063)
Cash Flows from Investing activities:		
Payments for time deposits	(0)	20
Payments for purchases of fixed assets	(149)	(244)
Proceeds from sale of fixed assets	3	333
Payments for purchases of intangible assets	(357)	(661)
Proceeds from sale of intangible assets	80	0
Payments for purchases in investment securities	(208)	(480)
Proceeds from sale of investment securities	42	38
Payments for acquisition of securities of subsidiaries	(194)	(37)
Proceeds from sale of securities in subsidiaries	(4)	
Payments for additional purchases of securities of subsidiaries	(72)	(23)
Payments for increase in loans receivable	(36)	(338)
Proceeds from collection in loans receivable	34	208
Proceeds from other investing activities	124	142
Payments for other investing activities	(349)	(333)
Net cash used in investing activities	(1,087)	(1,374)

FORWARD

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended May 31, 2003 and 2002

(Millions of yen)

	2003	2002
Cash Flows from Financing Activities:		
Increase (decrease) in short-term loans payable, net	¥ (200)	¥ 60
Proceeds from long-term debt	30	100
Repayment of long-term debt	(2,156)	(3,687)
Proceeds from financial lease transaction		1,029
Repayment of financial lease	(213)	(91)
Proceeds from issuance of shares		1,393
Proceeds from issuance of shares to minority shareholders	16	
Payments for dividends to minority shareholders	(2)	(1)
Net cash used in financing activities	(2,525)	(1,197)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0	(0)
Net Increase (Decrease) in Cash and Cash Equivalents	703	(3,636)
Cash and Cash Equivalents at Beginning of the Year	5,316	8,952
Cash and Cash Equivalents at End of the Year	¥ 6,019	¥ 5,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended May 31, 2003

Basis of consolidated financial statements

1. Scope of Consolidation

1) Consolidated subsidiaries: 12 companies

(Names of consolidated subsidiaries)

Benefit One Inc.
Pasona Tech Inc.
Pasona career asset Inc.
Pasona Kyoto Inc.
Home Computing Network Inc.
Pasona Empower Inc.
Pasona Okayama Inc.
Con-Be Inc.
NS Personnel Service Co., Ltd.
Pasona Foster Inc.
Pasona Logicom Inc.
Pasona Heartful Inc.

Pasona Empower Inc., Con-Be Inc., and Pasona Logicom Inc. became consolidated subsidiaries through the acquisition of stock. Pasona Heartful Inc. became a consolidated subsidiary following corporate spin-off. The Company increased its shareholding in Pasona Kyoto Inc. through the additional purchase of stock and effectively controls that company's board of directors. Accordingly, Pasona Kyoto Inc. has been included in the scope of consolidation. Home Computing Network Inc. and Osaka Home Computing Network Inc. merged to become Home Computing Network Inc. on April 1, 2003. Pasona Caregiver Inc. was excluded from the scope of consolidation following the sale of its shares.

2) Non-consolidated subsidiary: 1 company

Name of non-consolidated subsidiary: Vacs Inc.

(Reason for exclusion from consolidated subsidiaries)

This company is excluded from the scope of consolidation because the amounts of its total assets, net sales, net income equivalent to its ownership and retained earnings equivalent to its ownership are small compared with the total assets, net sales, net

income/loss and accumulated deficits of the consolidated companies.

2. Application of the equity method

1) Affiliated companies that are accounted for by the equity method: 8 companies

(Names of affiliated companies)

Pasona Nakakyusyu Inc.
Pasona Nagasaki Inc.
Pasona Niigata Inc.
Atento Pasona, Inc.
Pasona ADP Payroll Inc.
Financial Human Planet Inc.
e-Staffing Co., Ltd.
Kansai Koyo Soshutsu Kiko, Inc.

e-Staffing Co., Ltd. and Kansai Koyo Soshutsu Kiko, Inc. became affiliated companies accounted for by the equity method through the acquisition of stock. Pasona Kyoto Inc. became a consolidated subsidiary through the additional purchase of stock and has been excluded from the scope of consolidation as an affiliated company accounted for by the equity method. Jinzai Haken Hokuriku Inc. was excluded from the scope of consolidation as an affiliated company accounted for by the equity method following the sale of its shares. Industrial Outsourcing Inc. became an affiliated company accounted for by the equity method, however was later excluded from the scope of consolidation following the sale of its shares.

2) Non-consolidated subsidiary not accounted for by the equity method: 1 company.

Name of non-consolidated subsidiary not accounted for by equity method: Vacs Inc.

(Reason for exclusion from being accounted for by the equity method)

Investment in this affiliated company is not accounted for by the equity method because the amounts of its net income/loss and accumulated deficits equivalent to its ownership are small compared with net income/loss and accumulated deficits of affiliated companies accounted for by the equity method.

3. Year-end of financial statements of consolidated subsidiaries

The fiscal year-end of Pasona Tech Inc. and eleven other consolidated subsidiaries is March 31.

These financial statements of the respective year-ends are used in the preparation of the

consolidated financial statements. Where significant transactions have occurred during the period between these year-ends and the consolidated fiscal year end, the consolidated financial statements are adjusted accordingly.

4. Accounting policies

1) Valuation standard and valuation method of important assets

A. Securities (other securities)

1. Securities with quoted market value

Securities with quoted market value are stated at fair value on the closing date. (Net unrealized gains and losses on other securities are reported, directly to shareholders' equity. Cost of these securities is calculated based on the moving average cost method.)

2. Securities without quoted market value

Securities without quoted market value are stated at cost basis using the moving average cost method.

B. Valuation of inventories

1. Merchandise: cost basis with identified cost method

2. Stored goods: cost basis at last invoice cost method

2) Depreciation of important depreciable assets

A. Tangible fixed assets

1. Buildings (excluding associated equipment and facilities): straight-line method

2. Other tangible assets: declining balance method

B. Intangible fixed assets

Software: straight-line method over its useful life as estimated by the Company (within 5 years)

3) Accounting policies for important provisions

A. Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide for doubtful receivables based on the historical deterioration rate as for normal loans, and the allowance specifically assessed financial evaluation as for doubtful accounts.

B. Reserve for bonus

The Company and its consolidated subsidiaries provide for employee bonus payment at an estimated amount to be paid in this consolidated fiscal year.

C. Allowance for employees' severance retirement benefits

The Company and its consolidated subsidiaries provide allowance for severance retirement benefits for employees based on calculated amount of accrued

retirement funds and accrued pension expenses. Actuarial gains and losses are recognized in expenses in the next fiscal year.

D. Allowance for directors' retirement benefits

The Company and its consolidated subsidiaries provide allowance for retirement benefits of directors and corporate officers in conformity with bylaws to meet obligations at fiscal year end.

4) Accounting for lease transactions

Finance leases in which ownership is not transferred to a lessee are accounted for in the same manner as operating leases.

5) Other significant accounting policies for preparing consolidated financial statements

A. Consumption taxes

Consumption taxes are separately recorded.

B. Accounting standard for treasury stock and reversal of legal reserves

Effective April 1, 2002, the Company has applied Accounting Standard No. 1 "Accounting Standard for Treasury Stock and Reversal of Legal Reserves." There was no effect on income from the adoption of this standard in the fiscal year ended March 31, 2003. Effective March 31, 2003, the shareholders' equity section of the consolidated balance sheet has been prepared in accordance with amendments to standards for the preparation of consolidated financial statements.

C. Per share information

"Accounting Standard for Earnings per Share" (Accounting Standards Board of Japan, Accounting Standard No. 2) and "Implementation Guidance for Accounting Standard for Earnings per Share" (Accounting Standards Board of Japan Implementation Guidance No. 4) have been applied to the Company's consolidated financial statements commencing April 1, 2002. The effects of the application of this standard and guidance are presented in the note to per share information.

5. Valuation of assets and liabilities of consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries, including the partial attributed minority shareholders, are evaluated at fair value.

6. Amortization of goodwill (excess of costs over net assets acquired)

For amortization of goodwill, the Company and its consolidated subsidiaries employ the straight-line method over 5 years. For immaterial amounts of goodwill, the Company and its consolidated subsidiaries charge these amounts to the income statement at the time they

occurred. Regarding the amortization of goodwill associated with the new acquisition of stock of Con-Be, Inc., the amount of goodwill has been charged to the income statement at the time it occurred to accurately reflect the condition of the acquisition and to record the strong earnings capacity of the company.

7. Appropriation of retained earnings

The Company and its consolidated subsidiaries prepare consolidated statements of shareholders' equity based on appropriation of retained earnings approved at the Shareholders' Meeting during the fiscal year.

8. Scope for "Cash and cash equivalents" in consolidated statements of cash flows

"Cash and cash equivalents" in the consolidated statements of cash flows includes cash on hand, readily available deposits, and short-term investments with original maturities of not exceeding three months, which are highly liquid and virtually risk-free with respect to change of value.

Change in method of presentation

Notes to consolidated balance sheets

	(Millions of yen)
*1. Accumulated depreciation of tangible fixed assets	326
*2. Shares in non-consolidated subsidiaries and affiliated companies	
Investment securities (stocks)	494
3. Contingent liability for guarantee	
For the following affiliates, the unpaid balance on leasing expenses are guaranteed:	
Pasona ADP Payroll Inc.	135

Notes to consolidated statements of income

*1. Breakdown of the major selling, general and administrative expenses:	(Millions of yen)
Salaries and bonuses for employees	8,790
Accrual of bonuses	738
Welfare benefits expenses	1,869
Provision for employees' retirement benefits	217
Provision for directors' retirement benefits	121
Recruiting expenses	1,381
Rent expenses	1,845
Depreciation and amortization	379
Provision for doubtful receivables	60
Amortization of goodwill	130
*2. Breakdown of gain on sale of fixed assets:	(Millions of yen)
Software	1
Other tangible assets	0
*3. Breakdown of loss on sales and disposal of fixed assets:	
Loss on disposal	
Buildings	14
Other tangible assets	1
Software	20
Loss on sale	
Other intangible assets	0
	<hr/>
	36
	<hr/>

Notes to consolidated statements of cash flow

- 1) Relationship between the balance of cash and cash equivalents at year-end and cash and deposits reported in the consolidated balance sheets

As of May 31, 2003	(Millions of yen)
Cash and deposits	5,591
Short-term investments with original maturities of exceeding three months	(33)
Securities (Midterm JGB Fund, MMF, FFF)	<u>462</u>
Cash and cash equivalents	<u>6,019</u>

- 2) Breakdown of the major assets and liabilities inherited from newly acquired company included in the scope of consolidation.

Breakdown of the major assets and liabilities inherited from Pasona Empower Inc., a newly acquired company, is given below together with related acquisition cost and net expenditure.

	(Millions of yen)
Current assets	95
Fixed assets	0
Current liabilities	(41)
Goodwill	(1)
Minority interests	<u>(21)</u>
Acquisition cost of Pasona Empower Inc.	30
Cash and cash equivalents of Pasona Empower Inc.	<u>(41)</u>
Less: Payment for acquisition of Pasona Empower Inc.	<u>(11)</u>

Breakdown of the major assets and liabilities inherited from Con-Be Inc., a newly acquired company, is given below together with related acquisition cost and net expenditure.

	(Millions of yen)
Current assets	394
Fixed assets	73
Current liabilities	(374)
Long-term liabilities	(13)
Goodwill	328
Minority interests	<u>(7)</u>
Acquisition cost of Con-Be Inc.	400
Cash and cash equivalents of Con-Be Inc.	<u>(20)</u>
Less: Payment for acquisition of Con-Be Inc.	<u>379</u>

Breakdown of the major assets and liabilities inherited from Pasona Kyoto Inc., a newly acquired company, is given below together with related acquisition cost and net expenditure.

	(Millions of yen)
Current assets	657
Fixed assets	277
Current liabilities	(605)
Goodwill	34
Minority interests	(197)
Existing shareholding in Pasona Kyoto Inc.	<u>(55)</u>
Acquisition cost of Pasona Kyoto Inc.	110
Cash and cash equivalents of Pasona Kyoto Inc.	<u>(290)</u>
Less: Payment for acquisition of Pasona Kyoto Inc.	<u>(180)</u>

Breakdown of the major assets and liabilities inherited from Pasona Logicom Inc., a newly acquired company, is given below together with related acquisition cost and net expenditure.

	(Millions of yen)
Current assets	5
Fixed assets	3
Goodwill	<u>0</u>
Acquisition cost of Pasona Logicom Inc.	10
Cash and cash equivalents of Pasona Logicom Inc.	<u>(3)</u>
Less: Payment for acquisition of Pasona Logicom Inc.	<u>6</u>

Breakdown of the major assets and liabilities excluded due to the sale of consolidated subsidiary.

- 3) Breakdown of major assets and liabilities excluded following the exclusion of Pasona Caregiver Inc. from the scope of consolidation is given below.

	(Millions of yen)
Current assets	26
Fixed assets	<u>4</u>
Total assets	30
Current Liabilities	8
Long-term liabilities	<u> </u>
Total liabilities	<u>8</u>

- 4)

Leases

1) Finance lease other than those that transfer ownership to the lessee

a) Acquisition cost, accumulated depreciation and ending balance of lease assets

(Millions of yen)

	Acquisition cost	Accumulated depreciation	Ending balance
Buildings	104	46	57
Other tangible assets	1,098	426	671
Software	723	284	439
Total	1,926	757	1,168

b) Ending balance of unpaid lease expenses

(Millions of yen)

Payments due within one year	422
Payments due after one year	724
Total	1,147

c) Lease expenses payment, depreciation, interest expenses

(Millions of yen)

Lease expenses payment	494
Accumulated depreciation	470
Interest expenses	26

d) Method of calculation for amortization

Straight-line method over the useful life with no remaining value is used to calculate amortization.

e) Method of calculation for interest

The difference between total lease expenses and acquisition cost of leased assets is considered as interest portion, and the allocation of this interest is calculated by the interest method.

2) Operating lease

Amount of unpaid lease expenses

(Millions of yen)

Payments due within one year	3
Payments due after one year	6
Total	9

Securities

1. Other securities with quoted market value (as of May 31, 2002)

Classification	Type of securities	Acquisition cost (Millions of yen)	Amount stated on consolidated balance sheets (Millions of yen)	Difference (Millions of yen)
Securities for which amount stated on consolidated balance sheets exceeds their acquisition costs	1) Stocks	0	0	0
	2) Debt securities	10	10	0
	a. JGB/ municipal bonds	—	—	—
	b. Corporate bonds	10	10	0
	c. Others	—	—	—
	3) Other securities	—	—	—
Total		10	10	0

2. Other securities sold in fiscal year 2001 (Millions of yen)

Sales amount	Total profit from sales	Total loss from sales
0	—	1

3. Other securities without quoted market value (as of May 31, 2002) (Millions of yen)

	Amount stated on consolidated balance sheets
Other securities	
Non-listed stocks (excludes over-the-counter stocks)	201
Money management fund (MMF)	301
Discount bank debenture	0
Free financial fund (FFF)	160

1. Other securities with quoted market value (as of May 31, 2003)

Classification	Type of securities	Acquisition cost (Millions of yen)	Amount stated on consolidated balance sheets (Millions of yen)	Difference (Millions of yen)
Securities for which amount stated on consolidated balance sheets exceeds their acquisition costs	1) Stocks	7	11	3
	2) Debt securities	10	10	0
	a. JGB/ municipal bonds	—	—	—
	b. Corporate bonds	10	10	0
	c. Others	—	—	—
	3) Other securities	—	—	—
Subtotal		17	21	3
Securities for which acquisition costs exceed the amount stated on consolidated balance sheets	1) Stocks	39	20	(19)
	2) Debt securities	—	—	—
	a. JGB/ municipal bonds	—	—	—
	b. Corporate bonds	—	—	—
	c. Others	—	—	—
	3) Other securities	—	—	—
Subtotal		39	20	(19)
Total		57	41	(15)

2. Other securities sold in fiscal year 2002 (Millions of yen)

Sales amount	Total profit from sales	Total loss from sales
0	—	—

3. Other securities without quoted market value (as of May 31, 2003) (Millions of yen)

	Amount stated on consolidated balance sheets
Other securities	
Non-listed stocks (excludes over-the-counter stocks)	248
Money management fund (MMF)	301
Free financial fund (FFF)	160

Derivatives

Since the Company and its consolidated subsidiaries do not have any derivative transactions, there is no applicable information.

Pension and retirement benefit

1. Retirement benefit plan

The Company and its consolidated subsidiaries have qualified pension plan and retirement lump-benefit plan as defined benefits. For retirement of employees, the Company and its consolidated subsidiaries may pay pension premiums that are not counted as benefit obligation, which is actuarially calculated. There are four companies that employ a defined retirement benefit plan.

2. Breakdown of benefit obligation (as of May 31, 2003) (Millions of yen)

A. Benefit obligation	(816)
B. Plan assets	677
C. Unpaid benefit obligation (A+B)	(139)
D. Unrecognized differences in actuarial calculation	94
E. Unrecognized prior service cost (deducted from obligation)	—
F. Figures on the consolidated balance sheets (net) (C+D+E)	(44)
G. Prepaid pension cost	13
H. Accrued retirement benefits (F-G)	(58)

Note: For some subsidiaries, the simplified method is used to calculate benefit obligation.

3. Breakdown of pension cost in fiscal year 2003 (Millions of yen)

A. Service expenses	129
B. Interest expenses	16
C. Expected return on plan assets	(14)
D. Expensed amount for differences in actuarial calculation	90
E. Expensed amount for prior service cost	—
F. Pension cost (A+B+C+D+E+F)	221

Note: For subsidiaries that use the simplified method, pension cost is recorded as “A. Service expenses.”

4. Calculation basis for retirement benefit

A. Method of attributing benefit to periods of service	Straight-line method
B. Discount rate	2.5%
C. Long-term rate of expected return on fund assets	2.5%
D. Amortization period for prior service cost	1 year
E. Amortization period for differences in actuarial calculation (batch processed as loss or profit in the consolidated fiscal year after the year of occurrence)	1 year

Accounting for deferred income tax

1. Breakdown for major causes of occurrence in deferred tax assets and deferred tax liabilities

a. Deferred tax assets (Millions of yen)

Amount exceeded amortization of goodwill	1,419
Amount exceeded amortization of trademarks	196
Amount exceeded provision of accrued bonus	326
Amount exceeded allowance for doubtful accounts	44
Provision for directors’ retirement benefits	143
Accrued business office taxes	92
Accrued enterprise taxes	132
Others	88
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Total gross deferred tax	2,443
Less valuation allowance assets	(22)
<hr/>	
Deferred tax assets	2,421

b. Deferred tax liabilities (Millions of yen)

Amount exceeded funded portion of defined retirement benefit	(5)
Others	(7)
<hr/>	
Total gross deferred tax	(13)

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Net deferred tax assets	2,407
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c. Net deferred tax assets at May 31, 2003, is included in the consolidated balance sheets as follows:

	(Millions of yen)
Current assets – Deferred tax assets – current	606
Fixed assets – Deferred tax assets – non-current	1,806
Current liabilities – Deferred tax liabilities – current	—
Long-term liabilities – Deferred tax liabilities – non-current	5

2. Breakdown of major differences between the statutory tax rate and the effective tax rate after adoption of tax effect accounting

Statutory tax rate	42.05%
(Adjustments)	
Permanent non-deductible expenses (ex. entertainment fee)	0.80%
Per capita tax	1.56%
Taxation on retained earnings	3.66%
Equity in earnings (loss) of affiliates	2.72%
Consolidation adjustment account	3.88%
Others	(1.41)%
<u>Effective tax rate after adoption of tax effect accounting</u>	<u>53.26%</u>

3. Due to the implementation of the “Revision of Local Tax Law” (Legislation No. 9, 2003) on March 31, 2003, the calculation of deferred tax assets and deferred tax liabilities will be based on the following: (1) the pre-revision tax rate will be applied to transitional differences present at the end of the fiscal year under review for items the Company deems capable of elimination by March 31, 2004, and (2) the revised tax rate will be applied to items the Company deems to eliminate after April 2004. As a result, deferred tax assets decreased ¥39 million and income taxes—deferred increased by the same amount.

Segment information

1. Performance by business segment

For the fiscal year ended May 31, 2002

Since the Company and its consolidated subsidiaries only have human resource services, the sole segment, information on business segments is omitted.

Fiscal year ended May 31, 2003

(Millions of yen)

	Temporary staffing/Contract -based operations, Placement and recruiting	Outplacement support	Outsourcing	Other	Total	Eliminations and Corporate	Consolidated
Sales and operating							
income:							
Sales to outside customers	126,120	3,298	4,697	1,509	135,625	—	135,625
Intersegment sales and transfers	127	0	188	5	321	(321)	—
Total	126,248	3,299	4,885	1,515	135,947	(321)	135,625
Operating expenses	122,535	2,109	4,333	1,298	130,276	(338)	129,938
Operating income	3,712	1,189	551	216	5,671	16	5,687
Assets, depreciation							
expense							
and capital							
expenditures:							
Assets	23,963	2,673	2,438	887	29,962	(536)	29,425
Depreciation expense	345	17	6	10	380	—	380
Capital expenditures	415	76	5	8	506	—	506

Notes:

1. Business segments are classified on the basis of operating markets and service details.
2. Principal components of each business segment

Business segment	Principal services
Temporary staffing/Contract-based operations, Placement and recruiting	Temporary staffing/contract-based operations, and placement and recruiting services
Outplacement	Outplacement services
Outsourcing	Welfare benefit agency services
Other	Personal computer courses, management of child-care centers

3. Changes in business segment classification

The Company and its consolidated subsidiaries only operated in the one human resource services segment until the fiscal year ended May 31, 2002. In the fiscal year under review, the Company

classified its business operation into the following segments: temporary staffing/contract-based operations, outplacement, outsourcing, and other, based on its operating markets and services details. The reasons for this change include the growing incidence and importance of outplacement services, and the need to more efficiently utilize information, prompted by a review of the administrative function. Business segment performance for the fiscal year ended May 31, 2002, based on the new classifications are restated as follows.

Fiscal year ended May 31, 2002						(Millions of yen)	
	Temporary staffing/Contract-based operations, Placement and recruiting	Outplacement support	Outsourcing	Other	Total	Eliminations and Corporate	Consolidated
Sales and operating income:							
Sales to outside customers	128,195	915	2,918	1,792	133,822	—	133,822
Intersegment sales and transfers	118	4	188	47	359	(359)	—
Total	128,314	920	3,106	1,840	134,181	(359)	133,822
Operating expenses	123,854	846	3,011	1,694	129,407	(371)	129,036
Operating income	4,459	73	95	145	4,773	12	4,786
Assets, depreciation expense and capital expenditures:							
Assets	22,907	1,186	1,586	953	26,634	(107)	26,526
Depreciation expense	198	4	5	3	213	—	213
Capital expenditures	849	17	14	23	905	—	905

2. Information on geographic areas

Fiscal year from June 1, 2001 to May 31, 2002

Since there are no consolidated subsidiaries or branches in other countries, information on geographic areas is not applicable in the report.

Fiscal year from June 1, 2002 to May 31, 2003

Since there are no consolidated subsidiaries or branches in other countries, information on geographic areas is not applicable in the report.

3. Overseas sales

Fiscal year from June 1, 2001 to May 31, 2002

Since there are no overseas sales, information on overseas sales is not applicable in the report.

Fiscal year from June 1, 2002 to May 31, 2003

Since there are no overseas sales, information on overseas sales is not applicable in the report.

Transactions with related parties

Fiscal year from June 1, 2001 to May 31, 2002

1) Directors and independent major stockholders

(Millions of yen unless otherwise stated)

Name	Address	Capital or Invest- ment	Activities or Profession	Ratio of PASONA shares with voting rights (%)	Relationship		Details of transaction	Amount of transaction	Account	Ending balance
					Interlocking directors	Business relationship				
Marvelous Entertainment Inc. *	Minato-ku, Tokyo	225	Development of game software	—	—	Providing services	Income from temporary staffing	6	Accounts receivable	1
Nambu Enterprise Inc. **	Chiyoda-ku, Tokyo	80	Holding company	0.73	—	Leasing equipment	Lease payable	9	—	—
Nambu Finance Inc. **	Chiyoda-ku, Tokyo	57	Insurance	7.32	—	Providing services	Income from temporary services	1	Accounts receivable	0
						Paying insurance	Insurance expenses	30	Prepaid expenses	1
Kobe Harbor Circus Inc. *	Chuo-ku, Kobe	4,000	Retail	—	—	Providing services	Income from temporary staffing	7	Accounts receivable	0
Kobe Cruiser Inc. *	Chuo-ku, Kobe	260	Sea transport	—	—	Receiving services	Fee for location use	5	—	—
Medical Associa Inc. *	Chiyoda-ku, Tokyo	55	Health management services	—	—	Providing services	Income from temporary staffing	24	Accounts receivable	0
						Receiving services	Outsourcing	8	—	—
Nambu, Eizaburo ***	—	—	Honorary Chairman, Pasona Inc.	3.66	—	—	Advisory fee	36	—	—

* Subsidiaries of companies with directors or their close relatives holding more than half of their voting rights

** Companies with directors or their close relatives holding more than half of their voting rights

*** Close relatives of directors or individual major stockholders

Notes:

1. Transaction amounts are exclusive of consumption taxes. Ending balances are inclusive of consumption taxes.
2. Marvelous Entertainment Inc., is a company with more than half of its voting rights owned by Hayao Nakayama, Representative director and Chairman of the Company, and his close relatives.
3. Nambu Enterprise, Inc., and Nambu Finance Inc., have more than half of their voting rights owned by Yasuyuki Nambu, Representative Director of the Company, and his close relatives.
4. Kobe Harbor Circus Holding Inc., Kobe Cruiser Inc., and Medical Associa Inc. have more than half of their voting rights owned by Yasuyuki Nambu, Representative Director of the Company, and his close relatives.
5. Eizaburo Nambu is the father of Yasuyuki Nambu, Representative Director of the Company.
6. Conditions regarding transactions and policy for determining transaction conditions
All conditions on transactions are essentially the same as those for other non-related companies, and are decided under general conditions based on market value, or at the stockholders' meeting.

2) Subsidiaries and other

(Million of yen unless otherwise stated)

Name	Address	Capital or Investment	Activities or Profession	Ratio of PASONA shares with voting rights (%)	Relationship		Details of transaction	Amount of transaction	Account	Ending balance
					Interlocking directors	Business relationship				
Affiliated companies										
Pasona ADP Payroll Inc.	Setagaya -ku, Tokyo	997	Employee salary administrative services	50.0	4	Financial support	Fund leasing	300	Long-term lease	106

Note: Funds to Pasona ADP Payroll are provided on an unsecured basis with a repayment term of three years. Interest is calculated based on market rates.

Fiscal year from June 1, 2002 to May 31, 2003

1) Directors and independent major stockholders

(Million of yen unless otherwise stated)

Name	Address	Capital or Investment	Activities or Profession	Ratio of PASONA shares with voting rights (%)	Relationship		Details of transaction	Amount of transaction	Account	Ending balance
					Interlocking directors	Business relationship				
Marvelous Entertainment Inc. *	Minato-ku, Tokyo	225	Development of game software	—	—	Providing services	Income from temporary staffing	9	Accounts receivable	0
Nambu Finance Inc. **	Chiyoda-ku, Tokyo	57	Insurance	7.32	—	Providing services	Income from temporary services	1	—	—
						Paying insurance	Insurance expenses	9	—	—
Kobe Harbor Circus Inc. *	Chuo-ku, Kobe	4,000	Retail	—	—	Providing services	Income from temporary staffing	1	—	—
<u>Cavia Inc.</u> *	Meguro-ku, Kobe	557	Development and sale of game software and equipment	—	—	Providing services	Income from temporary staffing	3	Accounts receivable	0
Medical Associa Inc. *	Chiyoda-ku, Tokyo	55	Health management services	—	—	Providing services	Income from temporary staffing	26	Accounts receivable	1
						Receiving services	Outsourcing	10	—	—
Nambu, Eizaburo ***	—	—	Honorary Chairman, Pasona Inc.	3.66	—	—	Advisory fee	36	—	—

* Subsidiaries of companies with directors or their close relatives holding more than half of their voting rights

** Companies with directors or their close relatives holding more than half of their voting rights

*** Close relatives of directors or individual major stockholders

Notes:

1. Transaction amounts are exclusive of consumption taxes. Ending balances are inclusive of consumption taxes.
2. Marvelous Entertainment Inc., is a company with more than half of its voting rights owned by Hayao Nakayama, Representative director and Chairman of the Company, and his close relatives.
3. Nambu Finance Inc., has more than half of their voting rights owned by Yasuyuki Nambu, Representative Director of the Company, and his close relatives.
4. Kobe Harbor Circus Holding Inc. and Medical Associa Inc. have more than half of their voting rights owned by Yasuyuki Nambu, Representative Director of the Company, and his close relatives.
5. Cavia Inc. is a company with more than half of its voting rights owned by Hayao Nakayama, Representative director and Chairman of the Company, and his close relatives.
6. Eizaburo Nambu is the father of Yasuyuki Nambu, Representative Director of the Company.
7. Conditions regarding transactions and policy for determining transaction conditions
All conditions on transactions are essentially the same as those for other non-related companies, and are decided under general conditions based on market value, or at the stockholders' meeting.

2) Subsidiaries and other

(Million of yen unless otherwise stated)

Name	Address	Capital or Investment	Activities or Profession	Ratio of PASONA shares with voting rights (%)	Relationship		Details of transaction	Amount of transaction	Account	Ending balance
					Interlocking directors	Business relationship				
Affiliated companies										
Pasona ADP Payroll Inc.	Setagaya -ku, Tokyo	997	Employee salary administrative services	48.63	4	Financial support	Fund leasing	29	Long-term lease	135

Note: Funds to Pasona ADP Payroll are provided on an unsecured basis with a repayment term of three years. Interest is calculated based on market rates.

Per share information

Amounts per share for fiscal 2002 (from June 1, 2002, to May 31, 2003)

Shareholders' equity per share 61,600.04

Earnings per share 14,813.83

Since earnings per share did not decrease after applying the calculation adjusted for dilution of stocks, per diluted share amounts are omitted from this report.

“Accounting Standard for Earnings per Share” (Accounting Standards Board of Japan, Accounting Standard No. 2) and “Implementation Guidance for Accounting Standard for Earnings per Share” (Accounting Standards Board of Japan Implementation Guidance No. 4) have been applied to the Company's consolidated financial statements commencing April 1, 2002.

The Company conducted a 5:1 stock split on July 22, 2002.

Per share information for the fiscal year ended May 31, 2002 based on the standards adopted in the current fiscal year under review and accounting for the stock split effected on July 22, 2002 is restates as follows:

Amounts per share for the fiscal 2001 (from June 1, 2001, to May 31, 2002)

Shareholders' equity per share 46,732.35

Earnings per share 14,717.87

Note: Net income per share is calculated on the following basis:

(Millions of yen)

	Fiscal 2001 (June 1, 2001 to May 31, 2002)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
Net income	—	2,027
Net income not applicable to shareholders of common stock	—	—
Net income applicable to common stock	—	2,027
Average number of shares for the period	—	136,610
Since there was no effect on earnings per share after applying calculations adjusted for the dilution of stocks, per diluted share amounts have been omitted from this report	—	New share option rights as stock options issued in accordance with Article 280.19 of the pre-commercial code of Japan revision 1,780 shares

Important events after the year-end

There were no events after the year-end to be reported.

Production, orders and sales

1) Results of production

The Company and its consolidated subsidiaries provides human resources services mainly in temporary staffing and contracting, placement & recruiting, outplacement, and outsourcing. Therefore, due to characteristics of the services, there is no information in the report under the “Results of production” section.

2) Results of orders

For the reason mentioned in the above section, information on “Results of orders” is omitted.

3) Results of sales

Sales amounts of each industry are shown below.

		2003		
		Consolidated sales (Millions of yen)	Percentages as a whole (%)	Ratio compared with 2002 (%)
	Clerical	66,975	49.4	95.4
	Technical	23,873	17.6	101.9
	IT engineering	16,549	12.2	87.3
	Others	17,487	12.9	119.6
	Other related	253	0.2	56.7
Temporary staffing, contract-based operations		125,139	92.3	98.1
Placement & recruiting		980	0.7	171.2
Temporary staffing, contract-based operations, placement & recruiting		126,120	93.0	98.4
Outplacement		3,298	2.4	360.2
Outsourcing		4,697	3.5	160.9
Other services		1,509	1.1	84.2
Total		135,625	100.0	101.3

Sales amounts of each area in Japan are shown as below.

	2003		
	Consolidated sales (Millions of yen)	Percentages as a whole (%)	Ratio compared with 2002 (%)
Hokkaido and Tohoku	3,445	2.5	99.7
Kanto (excluding Tokyo)	15,440	11.4	100.2
Tokyo	71,287	52.6	102.5
Tokai and Hoku-shinetsu	13,432	9.9	102.7
Kansai	22,109	16.3	96.7
Chugoku, Shikoku and Kyusyu	9,909	7.3	104.9
Total	135,625	100.0	101.3

Number of registered temporary staff (Total of the Company and its consolidated subsidiaries)

As of May 31, 2002	Increase in staff	Decrease in staff	As of May 31, 2003
444,276	131,200	4,543	570,933

Monthly average number of contracts for registered temporary staff (Total of the Company and its consolidated subsidiaries)

Monthly average number of contracts (2003)	38,117
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