



P A S O N A

CONSOLIDATED FINANCIAL REPORT FIRST QUARTER FISCAL 2003 (June 1, 2003 to August 31, 2003)

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

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Basis of Presentation of Consolidated Financial Statements

Changes in accounting policies:	No
Changes in the scope of consolidation and application of the equity method:	Yes
New consolidated companies: 1	Removed: 0
New equity-method companies: 2	Removed: 1

PERFORMANCE

Performance for the First Quarter of Fiscal 2003 (June 1, 2003 to August 31, 2003)

(1) Business Results

(Millions of yen, rounded down)

	Net Sales		Operating Income		Ordinary Income		Net Income	
		%		%		%		%
1Q, Fiscal 2003	37,024	11.6	1,362	45.1	1,348	52.4	642	62.6
1Q, Fiscal 2002	33,168	1.0	939	(3.0)	884	(0.2)	394	
Fiscal 2002	135,625	1.3	5,687	18.8	5,373	27.3	2,027	2.7

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
1Q, Fiscal 2003	4,700.21	4,686.18
1Q, Fiscal 2002	2,890.38	
Fiscal 2002	14,813.83	

Note: Percentages shown for net sales, operating income and other accounting line items are the rates of increase and decrease for corresponding period of the previous fiscal year.

Qualitative Information and Overview of Business Performance

In the first quarter of fiscal 2003, ended August 31, 2003, the corporate sector exhibited signs of a slight recovery buoyed by an increase in capital investment, benefits from earlier structural reforms, and higher earnings on sales.

While overall conditions in Japan remain harsh with a persistently high unemployment rate, some signs of a turnaround are evident, characterized by an increase in the number of employers and job openings. Following the completion of a round of large-scale personnel cutbacks seen over the previous year, the human resources industry is experiencing a pick up as companies

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again look toward new hires and personnel investment, consequently, demand for temporary staffing/contracting, as well as placement and recruiting improves.

In line with the stated environment, Pasona recorded increased sales across all business segments. Net sales for the first quarter ended August 31, 2003 increased 11.6% compared with the corresponding period of the previous fiscal year to ¥37,024 million. On the earnings front, the gross profit margin improved 1.8 percentage points to 19.9%, buoyed by reductions in the cost of the Company's temporary staffing business in line with reforms to the social insurance system. In selling, general and administrative (SG&A) expenses, Pasona took steps to ensure optimum allocation of operating expenses among personnel, recruiting and leasing expenses, and worked tirelessly to curtail other expenses. In addition, the Company was successful in reducing interest expense and investment losses on equity method affiliates. As a result of these efforts, consolidated ordinary income surged 52.4% to ¥1,348 million, and consolidated net income jumped 62.6% to 642 million.

Segment Information

(Temporary Staffing and Contracting, Placement & Recruiting)

In temporary staffing and contracting operations, the year-to-date working ratio of temporary personnel continued to increase with Pasona reporting growth in segment sales for the first time in five quarters. In addition, the extent to which temporary staffing fees had fallen began to improve from the start of spring with conditions improving on a monthly basis. In general, the slump in the temporary staffing market appeared to have bottomed out, with continued strong demand for temporary staff in marketing, sales and IT staffing, particularly for development-related engineers. This was supported by a significant recovery in new orders for administrative-related staff.

In placement & recruiting operations, aggressive efforts to place personnel in the previous fiscal year began to bear fruit. Pasona reported an increase in earnings compared with the corresponding period of the previous fiscal year on the back of steady demand from electronics-related companies, as well as a broad cross section of other industries including real estate, food, and logistics. In an effort to further enhance operations in the placement & recruiting business, a segment earmarked for strategic growth, Pasona will transfer control of this segment to its wholly owned subsidiary Pasona Carent, Inc. in October 2003 with the aim of reinforcing the Pasona brand and increasing management efficiency.

In addition to these factors, Pasona Sparkle Inc., Pasona Kyoto Inc., and Pasona Empower Inc., subsidiaries newly included in the scope of consolidation, began contributing to business performance. As a result, total sales for the first quarter in the temporary staffing/contracting and placement & recruiting segment increased 10.7% to ¥34,166 million, while operating income more than doubled to ¥1,177 million.

(Outplacement)

Conditions in the outplacement segment remain mixed with a drop in large orders as anticipated at the beginning of the first quarter under review. This was in part offset by persistent demand for small-lot orders in regions outside major cities. Pasona was successful in securing orders during the first quarter, ended August 31, 2003, in line with targets, underpinned by initiatives during the second half of fiscal 2002 to expand personnel and the Company's network throughout Japan with the aim of

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providing the same level of services across the nation. As a result however, SG&A expenses, primarily personnel and leasing costs for new offices and relocations, increased. For the first quarter, sales in the outplacement segment edged up 2.4% to ¥743 million. Operating income fell 46.8% or ¥144 million, compared with the corresponding period of the previous fiscal year to ¥164 million.

(Outsourcing)

The pension welfare plan-related outsourcing market is expanding steadily with new membership exceeding one million as of June 1, 2003. In the first quarter, ended August 31, 2003, Pasona took over the business rights of Atmark Travel Co., Ltd. and EMPLOYEE BENEFITS SERVICE, INC. as a steppingstone to even greater business expansion.

In addition, Pasona included in its scope of consolidation subsidiary company Pasona Telemarketing Inc., a company which provides call center business. The Company implemented measures to restructure Pasona Telemarketing's business with the aim of improving earnings. In the first quarter, Pasona Telemarketing reported a profit, a turnaround from the previous period's loss.

As a result of these factors, sales in the outsourcing segment rose 48.7% to ¥1,845 million, and the operating loss narrowed to ¥42 million, from an operating loss of ¥45 million in the corresponding period of the previous fiscal year.

(Other Services)

The other services segment is comprised of PC training classes and child-care operations. Sales in this segment increased 10.9% to ¥465 million, and operating income fell 19.9% to ¥73 million.

Summary of Segment Information

(Millions of yen, rounded down)

	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)		Change (%)	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)		Fiscal 2002 (June 1, 2002 to May 31, 2003)	
		(%)			(%)		(%)
Temporary Staffing/ Contracting, Placement & Recruiting	34,166	92.3	10.7	30,859	93.0	126,248	93.1
Outplacement	743	2.0	2.4	726	2.2	3,299	2.4
Outsourcing	1,845	5.0	48.7	1,240	3.7	4,885	3.6
Other Services	465	1.2	10.9	419	1.3	1,515	1.1
Eliminations and Corporate	(196)	(0.5)	153.7	(77)	(0.2)	(321)	(0.2)
Total	37,024	100.0	11.6	33,168	100.0	135,625	100.0

Note: The Pasona Group has reclassified its business segments commencing the second half fiscal 2002. Business segment information for the first quarter of fiscal 2002 has been restated for comparative purposes.

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(2) Consolidated Financial Position

(Millions of yen, unless otherwise stated)

	Total Assets	Shareholders' Equity	Shareholders' Equity to Total Assets (%)	Shareholders' Equity per Share (Yen)
August 31, 2003	28,784	9,059	31.5	66,313.00
August 31, 2002	25,864	6,780	26.2	49,630.95
May 31, 2003	29,425	8,418	28.6	61,600.04

Cash Flows

(Millions of yen)

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Year
1Q, Fiscal 2003	(1,205)	(461)	607	4,961
1Q, Fiscal 2002	305	(209)	(322)	5,090
Fiscal 2002	4,316	(1,087)	(2,525)	6,019

Qualitative Information and Overview of Consolidated Financial Position

As of August 31, 2003, current assets decreased 5.5% or ¥1,169 million, compared with the end of the previous fiscal year to ¥20,261 million. The principal components were a drop in cash and deposits of 19.1% or ¥1,068 million from May 31, 2003 to ¥4,522 million due to income taxes paid, a fall in deferred tax assets compared with the previous fiscal year-end of 43.7% or ¥265 million, to ¥341 million, and an increase of 3.2% or ¥432 million, to ¥13,993 million. Total fixed assets stood at ¥8,522 million, an increase of 6.6% or ¥528 million, compared with the end of the previous fiscal year. Major components were a jump in buildings of 39.1% or ¥287 million, to ¥1,023 million and an increase in lease guarantee deposits of 11.6% or ¥221 million, to ¥2,137 million owing to the increase in floor space and the number of newly consolidated subsidiaries.

Current liabilities as of the end of the period under review decreased 5.1% or ¥885 million, compared with the previous fiscal year-end, to ¥16,638 million. Despite an increase in short-term loans payable of 56.6% or ¥1,509 million to ¥4,174 million, the Company paid taxes resulting in a decrease in incomes taxes payable of 86.0% or ¥1,430 million to ¥233 million. In addition, reserve for bonus fell 33.9% or ¥324 million, to ¥633 million following bonus payments, and the total of accounts payable other and accrued expenses declined 5.0% or ¥398 million, compared with the end of the previous fiscal year, to ¥7,575 million.

As of August 31, 2003, shareholders' equity stood at ¥9,059 million, an increase of 7.6% or ¥640 million, compared with May 31, 2003.

The balance of total assets as of the end of the period under review stood at ¥28,784 million, a drop of 2.2% or ¥641 million.

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

(Millions of yen, unless otherwise stated)

	Net Sales	Ordinary Income	Net Income	Net Income per Share
Interim Period	74,030	1,940	846	
Year Ending May 31, 2004	152,588	6,225	2,827	20,695.94

Qualitative Information Regarding Forecast of Results

There are no changes to forecast of results for FY 2003, the fiscal year ending May 31, 2004, announced on July 23, 2003.

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CONSOLIDATED BALANCE SHEETS

As of August 31, 2003, May 31, 2003, and August 31, 2002

(Millions of yen)

	1 st Quarter, Fiscal 2002 (as of August 31, 2002)		1 st Quarter, Fiscal 2003 (as of August 31, 2003)		Fiscal 2002 (as of May 31, 2003)	
		(%)		(%)		(%)
(ASSETS)						
Current assets:						
1 Cash and deposits	4,628		4,522		5,591	
2 Notes and accounts receivable —trade	11,609		13,993		13,561	
3 Marketable securities	462		462		462	
4 Inventories	168		196		204	
5 Income tax receivable	13		10		10	
6 Deferred tax assets	280		341		606	
7 Other current assets	800		833		1,077	
Less allowance for doubtful receivables	(62)		(99)		(83)	
Total current assets	17,899	69.2	20,261	70.4	21,431	72.8
Fixed assets:						
1 Property and equipment:						
(1) Buildings	662		1,023		736	
(2) Land	655		656		656	
(3) Other tangible fixed assets	99	1,418	231	1,911	159	1,551
		5.5		6.6		5.3
2 Intangible assets:						
(1) Software	1,114		1,173		1,193	
(2) Goodwill	300		236		265	
(3) Other intangibles	74	1,489	81	1,491	79	1,537
		5.8		5.2		5.2
3 Investments and other assets:						
(1) Investment securities	703		946		784	
(2) Deferred tax assets	2,344		1,642		1,806	
(3) Lease guarantee deposits	1,652		2,137		1,916	
(4) Other investments	407		494		493	
Less allowance for doubtful accounts	(50)	5,057	(100)	5,120	(95)	4,905
Total fixed assets		7,964	8,522	29.6	7,994	27.2
		30.8		29.6		27.2
Total assets	25,864	100.0	28,784	100.0	29,425	100.0

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(Millions of yen)

	1 st Quarter, Fiscal 2002 (as of August 31, 2002)		1 st Quarter, Fiscal 2003 (as of August 31, 2003)		Fiscal 2002 (as of May 31, 2003)		
		(%)		(%)		(%)	
(LIABILITIES)							
Current liabilities:							
1	Accounts payable—trade	235		266		640	
2	Short-term loans payable	2,752		4,174		2,665	
3	Accounts payable—other	1,089		1,302		1,565	
4	Accrued expenses	6,023		6,272		6,408	
5	Income taxes payable	219		233		1,664	
6	Consumption taxes payable	1,472		1,647		1,638	
7	Reserve for bonus	554		633		958	
8	Other current liabilities	2,140		2,108		1,983	
	Total current liabilities	14,487	56.0	16,638	57.8	17,524	59.6
Long-term liabilities:							
1	Long-term debt	2,617		547		1,065	
2	Long-term payables—other	738		627		575	
3	Allowance for employees' severance retirement benefits	32		83		58	
4	Allowance for directors' retirement benefits	258		375		353	
5	Deferred tax liabilities	5		5		5	
6	Other long-term liabilities	3		7		7	
	Total long-term liabilities	3,655	14.2	1,646	5.7	2,065	7.0
	Total liabilities	18,143	70.2	18,285	63.5	19,589	66.6
(MINORITY INTERESTS)							
	Minority interests	940	3.6	1,439	5.0	1,417	4.8
(SHAREHOLDERS' EQUITY)							
	Common stock	6,062	23.4	6,062	21.1	6,062	20.6
	Capital surplus	5,197	20.1	5,197	18.1	5,197	17.7
	Retained earnings (loss)	(4,481)	(17.3)	(2,202)	(7.7)	(2,841)	(9.7)
	Net unrealized holding gain on other securities	0	0.0	0	0.0	(0)	0.0
	Total shareholders' equity	6,780	26.2	9,059	31.5	8,418	28.6
	Total liabilities, minority interests and shareholders' equity	25,864	100.0	28,784	100.0	29,425	100.0

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CONSOLIDATED STATEMENTS OF INCOME

First quarter ended August 31, 2003, fiscal year ended May 31, 2003, and first quarter ended August 31, 2002

(Millions of yen)

	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)			1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)			Fiscal 2002 (June 1, 2002 to May 31, 2003)		
			(%)			(%)			(%)
Net sales		33,168	100.0		37,024	100.0		135,625	100.0
Cost of sales		27,154	81.9		29,669	80.1		108,879	80.3
Gross profit		6,013	18.1		7,354	19.9		26,746	19.7
Selling, general and administrative expenses		5,074	15.3		5,992	16.2		21,058	15.5
Operating income		939	2.8		1,362	3.7		5,687	4.2
Non-operating income:									
1 Interest income	0			1			2		
2 Dividend income				0			1		
3 Subsidy from government	18			5			35		
4 Insurance fund receivable				14			7		
5 Other income	11	30	0.1	10	32	0.0	104	150	0.1
Non-operating expenses:									
1 Interest expenses	34			28			118		
2 Investment loss on equity method	38			10			324		
3 Other expenses	12	85	0.3	8	47	0.1	20	464	0.3
Ordinary income		884	2.6		1,348	3.6		5,373	4.0
Extraordinary gain:									
1 Gain on sale of fixed assets							1		
2 Gain on sales of investment in affiliated companies	0	0	0.0				6	8	0.0
Extraordinary loss:									
1 Loss on disposal of fixed assets	9			5			36		
2 Amortization of goodwill							328		
3 Valuation loss of investment securities							0		
4 Loss on sales of investment in affiliated companies							21		
5 Constructive loss on change in equity		9	0.0		5	0.0	14	401	0.3
Income before income taxes and minority interests		876	2.6		1,342	3.6		4,980	3.7
Income taxes—current	232			224			2,218		
Income taxes—deferred	209	441	1.3	425	650	1.8	434	2,653	2.0
Minority interests		39	0.1		50	0.1		300	0.2
Net income		394	1.2		642	1.7		2,027	1.5

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CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

First quarter ended August 31, 2003, fiscal year ended May 31, 2003, and first quarter ended August 31, 2002

(Millions of yen)

	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)		1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)		Fiscal 2002 (June 1, 2002 to May 31, 2003)	
(CAPITAL SURPLUS)						
Capital surplus at the beginning of the year	5,197	5,197	5,197	5,197	5,197	5,197
Capital surplus at the end of the first quarter		5,197		5,197		5,197
(RETAINED EARNINGS)						
Retained earnings at the beginning of the year		(4,873)		(2,841)		(4,873)
Increase in retained earnings:						
Net income	394		642		2,027	
Increase due to merger		394		642	7	2,034
Decrease in retained earnings:						
Bonuses for directors	2	2	3	3	2	2
Retained earnings at the end of the first quarter		(4,481)		(2,202)		(2,841)

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CONSOLIDATED STATEMENTS OF CASH FLOWS

First quarter ended August 31, 2003, fiscal year ended May 31, 2003, and first quarter ended August 31, 2002

(Millions of Yen)

	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
Cash Flows from Operating Activities:			
Income before income taxes	876	1,342	4,980
Depreciation	89	126	380
Amortization of others	3	1	21
Amortization of business rights		4	
Amortization of goodwill (excess of costs over assets acquired)	26	29	459
Increase (decrease) in allow- ance for doubtful accounts	(1)	7	48
Increase (decrease) in reserve for bonus	(313)	(324)	37
Increase (decrease) in allow- ance for employees' severance retirement benefits	(0)	25	17
Increase in allowance for directors' retirement benefits	25	21	115
Interest and dividend income	(1)	(1)	(4)
Interest expenses	34	28	118
Foreign exchange loss (gain)	0	0	(0)
Investment loss on equity method	38	10	324
Constructive gain on change in equity			14
Gain on sale of fixed assets			(1)
Loss on sale and disposal of fixed assets	9	5	36
Valuation loss on investment securities			0
Gain on sales of shares of affiliates	(0)		
Loss on sales of shares of affiliates			15
Decrease (increase) in accounts receivable—trade	225	(177)	(1,099)
Increase in inventories	(43)	7	(78)
Decrease (increase) in other current assets	111	261	(146)
Decrease in accounts payable —trade	(473)	(472)	(206)
Decrease in consumption tax payable	(893)	(15)	(809)
Increase in other current liabilities	793	(397)	939
Directors' bonuses paid	(4)	(7)	(4)
Subtotal	502	475	5,161
Interest and dividends received	3	3	7
Interest paid	(38)	(31)	(131)
Income taxes paid	(161)	(1,652)	(721)
Net cash provided by operating activities	305	(1,205)	4,316

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	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
Cash Flows from Investing Activities:			
Payments for time deposits		9	(0)
Payments for purchases of fixed assets	(40)	(242)	(149)
Proceeds from sale of fixed assets		0	3
Payments for purchases of intangible assets	(68)	(21)	(357)
Proceeds from sale of intangible assets			80
Payments for purchases of investment securities	(11)	(132)	(208)
Proceeds from sale of investment securities	25		42
Payments for acquisition of securities of subsidiaries		15	(194)
Proceeds from sale of securities of subsidiaries			(4)
Payments for additional purchases of securities of subsidiaries	(0)	(19)	(72)
Payments for increase in loans receivable	(1)	(0)	(36)
Proceeds from collection of loans receivable	3	11	34
Proceeds from other investment securities	14	21	124
Payments for other investment securities	(129)	(102)	(349)
Net cash used in investing activities	(209)	(461)	(1,087)
Cash Flows from Financing Activities:			
Increase (decrease) in short-term loans payable—trade	287	1,205	(200)
Proceeds from long-term debt			30
Repayment of long-term debt	(553)	(517)	(2,156)
Repayment of financial lease	(52)	(53)	(213)
Proceeds from issuance of shares to minority shareholders			16
Payments for dividends to minority shareholders	(2)	(26)	(2)
Net cash used in financing activities	(322)	607	(2,525)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(0)	(0)	0
Net (Decrease) Increase in Cash and Cash Equivalents	(225)	(1,058)	703
Cash and Cash Equivalents at Beginning of the Year	5,316	6,019	5,316
Cash and Cash Equivalents at End of the Year	5,090	4,961	6,019

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the first quarter ended August 31, 2003

Basis of preparation of consolidated financial statements

	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
1. Scope of Consolidation	<p>(1) Consolidated subsidiaries: 9 companies</p> <p>Names of consolidated subsidiaries:</p> <p>Benefit One Inc. Pasona Tech Inc. Pasona career asset Inc. Pasona Caregiver Inc. Home Computing Network Inc. Osaka Home Computing Network Inc. Pasona Okayama Inc. NS Personnel Service Co., Ltd. Pasona Foster Inc.</p>	<p>(1) Consolidated subsidiaries: 13 companies</p> <p>Names of consolidated subsidiaries:</p> <p>Benefit One Inc. Pasona Tech Inc. Pasona career asset Inc. Pasona Telemarketing Inc. Pasona Kyoto Inc. Home Computing Network Inc. Pasona Empower Inc. Pasona Okayama Inc. Pasona Sparkle Inc. NS Personnel Service Co., Ltd. Pasona Foster Inc. Pasona Logicom Inc. Pasona Heartful Inc.</p> <p>Pasona Telemarketing Inc. became a consolidated subsidiary through the acquisition of additional stock. Con-Be, Inc. changed its name to Pasona Sparkle Inc.</p>	<p>(1) Consolidated subsidiaries: 12 companies</p> <p>Names of consolidated subsidiaries:</p> <p>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.</p> <p>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. Accordingly, Osaka Home Computing Network Inc. has been excluded from the scope of consolidation. Pasona Caregiver Inc. was excluded from the scope of consolidation following the sale of its shares.</p>

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	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
	<p>(2) Non-consolidated subsidiary Vacs Inc. (Reason for exclusion from the scope of consolidation) 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 for the first quarter ended August 31, 2002 are small compared with the total assets, net sales, net income and retained earnings of the consolidated companies.</p>	<p>(2) Non-consolidated subsidiary Pasona Carent, Inc. (Vacs Inc. changed its name to Pasona Carent, Inc.) (Reason for exclusion from the scope of consolidation) 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 for the first quarter ended August 31, 2003 are small and have an immaterial impact on consolidation.</p>	<p>(2) Non-consolidated subsidiary Vacs Inc. (Reason for exclusion from the scope of consolidation) 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 are small and have an immaterial impact on consolidation.</p>

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	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
2. Application of the Equity Method	<p>(1) Affiliated companies that are accounted for by the equity method: 8 companies</p> <p>Pasona Nagasaki Inc. Pasona Nakakyusyu Inc. Pasona Niigata Inc. Pasona Kyoto Inc. Atento Pasona, Inc. Pasona ADP Payroll, Inc. Financial Human Planet Inc. Industrial Outsourcing Inc.</p> <p>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 following the acquisition of its shares.</p>	<p>(1) Affiliated companies that are accounted for by the equity method: 9 companies</p> <p>Pasona Nakakyusyu Inc. Pasona Nagasaki Inc. Pasona Niigata Inc. Pasona ADP Payroll, Inc. Financial Sun Inc. e-Staffing Co., Ltd. Kansai Employment Creation Organization Inc. National Examination Center Inc. Kanto Employment Creation Organization Inc.</p> <p>National Examination Center Inc. became an affiliated company accounted for by the equity method following the acquisition of its shares. Atento Pasona, Inc. became a consolidated subsidiary through the additional purchase of stock and was excluded from the scope of consolidation as an affiliated company accounted for by the equity method. The company changed its name to Pasona Telemarketing Inc. Financial Human Planet Inc. changed its name to Financial Sun Inc.</p>	<p>(1) Affiliated companies that are accounted for by the equity method: 8 companies</p> <p>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 Employment Creation Organization Inc.</p> <p>e-Staffing Co., Ltd. and Kansai Employment Creation Organization 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 was 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.</p>

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	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
	<p>(2) Non-consolidated subsidiary not accounted for by the equity method Vacs Inc.</p> <p>(Reason for exclusion from being accounted for by the equity method)</p> <p>Investment in this affiliated company is not accounted for by the equity method because the amounts of its net income and retained earnings equivalent to its ownership for the first quarter ended August 31, 2002 are small compared with the net income and retained earnings of affiliated companies accounted for by the equity method.</p>	<p>(2) Non-consolidated subsidiary not accounted for by the equity method Pasona Carent Inc.</p> <p>Vacs Inc. changed its name to Pasona Carent, Inc.</p> <p>(Reason for exclusion from being accounted for by the equity method)</p> <p>This company is excluded from the scope of consolidation as an affiliated company accounted for by the equity method because the amounts of its total assets, net sales, net income and retained earnings for the first quarter ended August 31, 2003 are small and have an immaterial impact on consolidation.</p>	<p>(2) Non-consolidated subsidiary not accounted for by the equity method Vacs Inc.</p> <p>(Reason for exclusion from being accounted for by the equity method)</p> <p>Investment in this affiliated company is not accounted for by the equity method because the amounts of its net income and retained earnings equivalent to its ownership are small compared with net income and retained earnings of affiliated companies accounted for by the equity method.</p>
3. First Quarter-end of Financial Statements of Consolidated Subsidiaries	<p>The first quarter-end of Pasona Caregiver Inc. is May 31. The first quarter-end of Pasona Tech Inc. and seven other consolidated subsidiaries is June 30. These financial statements of the respective first quarter-ends are used in the preparation of the consolidated financial statements. Where significant transactions have occurred during the period between these first quarter-ends and the consolidated first quarter-end, the consolidated financial statements are adjusted accordingly.</p>	<p>The first quarter-end of Pasona Telemarketing Inc. is August 31. The first quarter-end of Pasona Tech Inc. and 12 other consolidated subsidiaries is June 30. These financial statements of the respective first quarter-ends are used in the preparation of the consolidated financial statements. Where significant transactions have occurred during the period between these first quarter-ends and the consolidated first quarter-end, the consolidated financial statements are adjusted accordingly.</p>	<p>The fiscal year-end of Pasona Tech Inc. and 11 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.</p>

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	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
<p>4. Accounting Policies</p> <p>(1) Valuation standard and valuation method of important assets</p>	<p>A. Securities (other securities)</p> <p>1. Securities with quoted market value</p> <p>Securities with quoted market value are stated at fair value on August 31, 2002. (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.)</p> <p>2. Securities without quoted market value</p> <p>Securities without quoted market value are stated on a cost basis using the moving-average cost method.</p> <p>B. Valuation of inventories</p> <p>1. Merchandise: cost basis using the identified cost method</p> <p>2. Stored goods: cost basis at last invoice cost method</p>	<p>A. Securities (other securities)</p> <p>1. Securities with quoted market value</p> <p>Securities with quoted market value are stated at fair value on August 31, 2003. (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.)</p> <p>2. Securities without quoted market value</p> <p>As left.</p> <p>B. Valuation of inventories</p> <p>As left.</p>	<p>A. Securities (other securities)</p> <p>1. Securities with quoted market value</p> <p>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.)</p> <p>2. Securities without quoted market value</p> <p>As left.</p> <p>B. Valuation of inventories</p> <p>As left.</p>

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	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
(2) Depreciation of important depreciable assets	<p>A. Tangible fixed assets</p> <p>1. Buildings (excluding associated equipment and facilities): straight-line method</p> <p>2. Other tangible assets: declining-balance method</p> <p>B. Intangible fixed assets</p> <p>Software: straight-line method over its useful life as estimated by the Company (within 5 years)</p>	<p>A. Tangible fixed assets</p> <p>As left.</p> <p>B. Intangible fixed assets</p> <p>Software</p> <p>As left.</p>	<p>A. Tangible fixed assets</p> <p>As left.</p> <p>B. Intangible fixed assets</p> <p>Software</p> <p>As left.</p>
(3) Accounting policies for important provisions	<p>A. Allowance for doubtful accounts</p> <p>The Company and its consolidated subsidiaries provide for doubtful receivables based on the historical deterioration rate as for normal loans, and the amount deemed necessary to cover individual accounts estimated to be uncollectible.</p> <p>B. Reserve for bonus</p> <p>The Company and its consolidated subsidiaries provide for employee bonus payment at an estimated amount to be paid for the period.</p> <p>C. Allowance for employees' severance retirement benefits</p> <p>The Company and its consolidated subsidiaries provide an allowance for severance retirement benefits for employees based on the calculated amount of accrued retirement funds and accrued pension expenses as of the August 31, 2002. Actuarial gains and losses are recognized in expenses in the next fiscal year.</p>	<p>A. Allowance for doubtful accounts</p> <p>As left.</p> <p>B. Reserve for bonus</p> <p>As left.</p> <p>C. Allowance for employees' severance retirement benefits</p> <p>The Company and its consolidated subsidiaries provide an allowance for severance retirement benefits for employees based on the calculated amount of accrued retirement funds and accrued pension expenses as of the August 31, 2003. Actuarial gains and losses are recognized in expenses</p>	<p>A. Allowance for doubtful accounts</p> <p>As left.</p> <p>B. Reserve for bonus</p> <p>As left.</p> <p>C. Allowance for employees' severance retirement benefits</p> <p>The Company and its consolidated subsidiaries provide an allowance for severance retirement benefits for employees based on the calculated amount of accrued retirement funds and accrued pension expenses. Actuarial gains and losses are recognized in expenses in the next fiscal year.</p>

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		in the next fiscal year.	
	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
	<p>D. Allowance for directors' retirement benefits</p> <p>The Company and its consolidated subsidiaries provide an allowance for retirement benefits for directors and corporate officers in conformity with bylaws to meet obligations as of August 31, 2002.</p>	<p>D. Allowance for directors' retirement benefits</p> <p>The Company and its consolidated subsidiaries provide an allowance for retirement benefits for directors and corporate officers in conformity with bylaws to meet obligations as of August 1, 2003.</p>	<p>D. Allowance for directors' retirement benefits</p> <p>The Company and its consolidated subsidiaries provide allowance for retirement benefits for directors and corporate officers in conformity with bylaws to meet obligations at the fiscal year-end.</p>

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(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.	As left.	As left.

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	1 st Quarter, Fiscal 2002 (June 1, 2002 to August 31, 2002)	1 st Quarter, Fiscal 2003 (June 1, 2003 to August 31, 2003)	Fiscal 2002 (June 1, 2002 to May 31, 2003)
(5) Other significant accounting policies for preparing consolidated financial statements	A. Consumption taxes Consumption taxes are separately recorded.	A. Consumption taxes As left.	A. Consumption taxes As left.
5. Valuation of Assets and Liabilities of Consolidated Subsidiaries	The assets and liabilities of consolidated subsidiaries are evaluated at fair value.	As left.	As left.
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 five years. For immaterial amounts of goodwill, the Company and its consolidated subsidiaries charge these amounts to the income statement at the time they occurred.	As left.	For amortization of goodwill, the Company and its consolidated subsidiaries employ the straight-line method over five 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.	As left.	As left.

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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.	As left.	As left.

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Segment information

First quarter ended August 31, 2003

(Millions of yen)

	Temporary staffing/Contract-based operations, Placement and recruiting	Outplacement	Outsourcing	Other	Total	Eliminations and Corporate	Consolidated
Sales and operating income							
Sales to outside customers	34,095	743	1,780	405	37,024		37,024
Intersegment sales and transfers	71	0	65	59	196	(196)	
Total	34,166	743	1,845	465	37,220	(196)	37,024
Operating expenses	32,988	579	1,888	391	35,847	(185)	35,661
Operating income (loss)	1,177	164	(42)	73	1,372	(10)	1,362

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 & Recruiting	Temporary staffing/ contract-based operations, and placement and recruiting services, others
Outplacement	Outplacement services
Outsourcing	Welfare benefit agency services
Other	Personal computer courses, management of child-care centers

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The Company and its consolidated subsidiaries only operated in the one human resource services segment during the first quarter ended August 31, 2002. From the interim period fiscal 2002, the Company classified its business operations 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 first quarter ended August 31, 2002, based on the new classifications is restated as follows.

First quarter ended August 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	30,830	726	1,193	419	33,168		33,168
Intersegment sales and transfers	29	0	47	0	77	(77)	
Total	30,859	726	1,240	419	33,245	(77)	33,168
Operating expenses	30,285	417	1,286	327	32,316	(86)	32,229
Operating income (loss)	574	308	(45)	92	929	9	939

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