PASONA

FASF

July 20, 2010

CONSOLIDATED FINANCIAL REPORT

FY2009 (June 1, 2009 to May 31, 2010)

Stock exchanges on which shares are listed:	The First Section of the Tokyo Stock Exchange
Securities code number:	2168
URL:	http://www.pasonagroup.co.jp/
Representative:	Group CEO and President, Yasuyuki Nambu
For further information contact:	Yoshimichi Kawasaki, Senior Managing Director and CFO Tel: +81-3-6734-0200

Date of the Annual General Meeting of shareholders:	August 20, 2010
Scheduled payment date of cash dividends:	August 23, 2010
Scheduled filing date of consolidated financial report:	August 23, 2010

(All amounts are in millions of yen rounded down unless otherwise stated)

1. CONSOLIDATED BUSINESS RESULTS

(1) Consolidated Financial Results For the fiscal year ended May 31, 2010

Percentage figures are the increase/(decrease) for the corresponding period of the previous fiscal year.

	Net Sales		Operating Income		Ordinary Income		Net Income	
		%		%		%		%
FY2009	183,515	(16.1)	3,660	28.4	4,044	20.3	204	(34.5)
FY2008	218,699	(7.7)	2,850	(55.8)	3,361	(49.4)	312	(89.4)

	Net Income per Share	Diluted Net Income per Share	Return on Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
FY2009	564.99	555.42	1.0	7.5	2.0
FY2008	834.30	792.12	1.4	5.9	1.3

(Reference) Equity in earnings(losses) of unconsolidated subsidiaries and affiliates FY2009: ¥105 million
FY2008: ¥85 million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2010	52,269	24,979	39.6	55,243.50
May 31, 2009	55,468	25,148	35.4	54,751.17

(Reference) Equity as of May 31, 2010: ¥20,688 million As of May 31, 2009: ¥19,636 million

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Period
FY2009	2,875	(387)	(4,275)	12,324
FY2008	4,443	(4,966)	1,077	14,120

2. DIVIDENDS

	Dividends per Share (Yen)					Total Dividend Payment (Annual)	Dividend Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
(Record Date)	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	Annual			
FY2008	—	600.00	—	650.00	1,250.00	448	149.8%	2.2%
FY2009	—	0.00	—	500.00	500.00	187	88.5%	0.9%
FY2010(Forecast)	—	0.00	—	1,000.00	1,000.00		74.9%	

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2011

For the fiscal year ending May 31, 2011 (June 1, 2010 to May 31, 2011)

Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year.

	Net Sales		Operating Income		Ordinary Income		Net Income(Loss)		Net Income per Shares
		%		%		%		%	Yen
FY2010 First Half	90,000	(2.2)	100	(89.0)	100	(89.3)	(500)	—	(1,335.11)
FY2010 Full Fiscal Year	186,000	1.4	2,800	(23.5)	2,900	(28.3)	500	144.0	1,335.11

4. OTHERS

(1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries due to Changes in the Scope of Consolidation and Application of the Equity Method) : Yes

Excluded: 1 company (Company name: Pasona Inc.)

Note: Please refer to "Information on Group Companies" on page 24 for details. In addition, Pasona and Pasona Career participated in a corporate acquisition and merger. As of March 1, 2010, a corporate acquisition and merger were implemented with Pasona Career as the surviving company and Pasona as the expiring company. Furthermore, Pasona Career changed its company name to Pasona Inc.

(2) Changes in Accounting Principles, Procedures, Disclosure Methods and Related Standards in Connection with the Preparation of Consolidated Financial Statements (Recorded under "Changes in Important Items Considered Fundamental to the Preparation of Consolidated Financial Statements")

i. Changes in line with revisions to accounting and other standards: Yes
ii. Changes in items other than 1. above: None

Note: Please refer to "Changes in Important Items Considered Fundamental to the Preparation of Consolidated Financial Statements" on page 41 for details.

(3) Number of Shares Issued and Outstanding (Common Shares)

i. The number of shares issued and outstanding as of the period-end (including treasury stock)
May 31, 2010: 416,903 shares May 31, 2009: 416,903 shares

ii. The number of treasury stock as of the period-end
May 31, 2010: 42,401 shares May 31, 2009: 58,253 shares

Note: For details regarding the number of shares used to calculate net income per share on a consolidated basis, please refer to "Per share Information" on page 55.

(Reference) Summary of Non-Consolidated Business Results

1. NON-CONSOLIDATED BUSINESS RESULTS

(1) Non-Consolidated Financial Results For the fiscal year ended May 31, 2010

Percentage figures are the increase/(decrease) for the corresponding period of the previous fiscal year.

	Net Sales		Operating Income		Ordinary Income		Net Income	
		%		%		%		%
FY2009	5,456	19.0	1,994	197.9	1,838	125.2	1,158	—
FY2008	4,584	142.6	669	—	816	—	7	—

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
FY2009	3,176.89	—
FY2008	21.29	—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2010	29,152	15,117	51.9	40,366.30
May 31, 2009	27,510	13,503	49.1	37,650.19

(Reference) Equity as of May 31, 2010: ¥15,117 million As of May 31, 2009: ¥13,503 million

2. FORECAST OF NON-CONSOLIDATED RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2011

A forecast of non-consolidated results for the fiscal year ending May 31, 2011 is not considered by the Company to be of sufficient importance to warrant disclosure. As a result, this information has been omitted.

Cautionary Statement and Other Explanatory Notes

The aforementioned forecasts are based on assumptions and beliefs in light of information available to management at the time of document preparation and accordingly include certain unconfirmed factors. As a result, readers are advised that actual results may differ materially from forecasts due to a variety of factors. With regard to the assumptions and other related matters concerning consolidated financial results forecasts for the fiscal year ending May 31, 2011, please refer to "1. Business Results (1) Qualitative Information Concerning Consolidated Business Results" on page 5.

FY2009 Consolidated Financial Report

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1. Business Results

(1) Qualitative Information Concerning Consolidated Business Results

Business Results for the Fiscal Year Ended May 31, 2010

In the fiscal year ended May 31, 2010, the Japanese economy experienced a moderate recovery. While conditions benefited from a gradual increase in export activity, pickup in production and a steady improvement in corporate-sector sentiment trends, the pace of this recovery remained modest due largely to the residual effects of persistently weak domestic demand. In addition, such ongoing factors as deflation as well as anxiety surrounding the European economy underpin the continued existence of downside economic risk. Employment conditions, in particular the unemployment rate and the effective ratio of job offers to applicants, have of late reentered a downward trend. On this basis, the employment and the overall operating environments remain weak.

In addition, the fiscal year under review witnessed growing discussions in connection with the draft revision of the Worker Dispatch Law. While the draft revision was submitted to the 174th Ordinary Session of the Diet in Japan, deliberations were carried forward due to the Diet's adjournment. In the lead up to deliberations of this draft revision, a significant amount of social debate has occurred on a variety of topics encompassing the tightening of employment rules and regulations as well as the impact of lost employment opportunities. Furthermore, cutbacks in the employment of new graduates and the drop in employment opportunities have given rise to substantial social concern and anxiety. Taking the lead, universities and regional public authorities have implemented a variety of measures. Against this backdrop, the Pasona Group was quick to launch a series of unique and proprietary employment support measures for graduates who are unable to find work. In this regard, we put forward new responsibilities and roles for human resource service companies.

In the human resources service industry, conditions throughout the fiscal year under review were generally characterized by contrasting densities in demand. This was particularly prominent in the outplacement market where demand surged substantially on the back of employment adjustments by the corporate sector. At the same time, signs of a recovery in job offers began to emerge mainly for specialist personnel and employees who were capable of delivering immediate results. This was largely attributable to improved conditions in certain sections of the corporate sector where the decline in operating results had bottomed out. Despite these positive factors, however, employment conditions overall remained weak with little or no change to the long-standing cautious approach adopted toward fresh hiring. Under these circumstances, the Pasona Group experienced indications of a pickup in Temporary Staffing business orders primarily in the service and trading office sectors as well as in certain manufacturing categories. Buffeted, on the other hand, by the persistent sense of employment over-supply in the corporate sector, this positive upswing was far removed from a full-fledged recovery in the Temporary Staffing Business. At the same time, results in the Placement / Recruiting business were affected by continued weak demand. On a brighter note, orders in the Outplacement business surged dramatically as the corporate sector undertook to correct employment conditions. In the mainstay Insourcing (contracting) business, the Group also witnessed a steady expansion in performance. Taking into account all of the aforementioned factors, consolidated net sales for the fiscal year ended May 31, 2010 amounted to ¥183,515 million. This represented a 16.1% decrease compared with the previous fiscal year.

From a profit perspective, in addition to the drop in revenues in the Temporary Staffing / Contracting and the Placement / Recruiting businesses, results were impacted by tightening in the earnings spread reflecting a decline in unit prices for temporary staffing and the year-on-year increase in the take up of temporary staffing paid holidays. As a result, gross profit for the fiscal year under review contracted 15.7% compared with the previous fiscal year to ¥36,731 million. Buoyed, on the other hand, by the underlying strength of the Outplacement business, the gross profit margin edged up nominally by 0.1 of a percentage point year on year to 20.0%. Selling, general and administrative (SG&A) expenses declined ¥7,664 million, or 18.8%, compared with the previous fiscal year to ¥33,070 million. This was largely attributable to cutbacks in personnel expenses on the back of efficient human resource allocation and assignment, reductions in such expenses as recruitment expenditure, efforts to raise business efficiency which included the consolidation of certain key offices into a newly formed Group comprehensive office and other cost-cutting measures. On this basis, consolidated operating income for the fiscal year ended May 31, 2010 totaled ¥3,660 million, an increase of ¥28.4% compared with the previous fiscal year. Consolidated ordinary income rose 20.3% year on year to ¥4,044 million.

With respect to certain consolidated subsidiaries, the decision was made to discontinue the system of retirement benefits for directors effective from the fiscal year under review. Taking into consideration the additional determination not to undertake related termination payments, a reversal of the provision for directors' retirement benefits totaling ¥150 million was recorded as extraordinary income for the period. At the same time, the Pasona Group incurred extraordinary losses of ¥238 million and ¥149 million with respect to a loss on the sale and retirement of noncurrent assets in connection with the aforementioned office consolidation and related relocation expenses, respectively. Income taxes — deferred increased due to the reversal of deferred tax assets. As a result, the Pasona Group recorded consolidated net income for the full fiscal year ended May 31, 2010 of ¥204 million, down 34.5% compared with the previous fiscal year.

Consolidated Business Results

(Millions of yen unless otherwise stated)

	FY2009	FY2008	YoY
Net sales	183,515	218,699	(16.1)%
Operating income	3,660	2,850	28.4%
Ordinary income	4,044	3,361	20.3%
Net income	204	312	(34.5)%

Segment Information (Figures include intersegment sales)

1. Temporary staffing / Contracting, Placement / Recruiting
Sales: ¥155,104 million; Operating income: ¥630 million

(Temporary staffing / Contracting) Sales: ¥152,128 million

In the Temporary Staffing business in which the Pasona Group focuses largely on general office work, demand was weak on the back of a slump in economic conditions. While currently, there are signs emerging of an upswing in orders, this improvement is yet to take hold in earnest due mainly to the payment of government subsidies aimed at correcting employment conditions and a persistent sense of employment over-supply with the corporate sector. Exacerbating difficult conditions, cutbacks in the amount of overtime approved by client firms and the take up of paid holidays by temporary staff caused revenues to drop.

By job type, the drop in activity in the general office work (clerical) field appears to have bottomed out, but remains weak. In the technical (specialized office work) field, the merger with the temporary staffing subsidiary of the Mitsui & Co. group contributed to growth in trading-related activities.

In telemarketing, demand was firm compared with other job types which helped to narrow the rate of decline. In contrast, results were buffeted by the drop in demand in sales and marketing. This was exacerbated by the impact of contracts completed reflecting temporary staffing trends in deregulated fields. In overall terms, however, the Pasona Group was able to minimize the overall depth of decline across all job types.

In the Pasona Group's priority "Insourcing (contracting)" business, results benefited from the positive flow-on effects of the corporate sector's efforts to raise business efficiency, a steady increase in commissioned reception, administrative and call center operations as well as measures to strengthen customers' solution-oriented marketing capabilities to public sectors. Taking the aforementioned factors into consideration, sales in the "Insourcing (contracting)" business climbed 23.5% compared the previous fiscal year to ¥12,288 million.

Accounting for the aforementioned factors, consolidated net sales for the fiscal year ended May 31, 2010 were ¥152,128 million, a decrease of 20.5% compared with the previous fiscal year.

(Placement / Recruiting) Sales:* ¥2,975 *million

In the domestic Placement / Recruiting business, while cutbacks in corporate-sector recruiting activities remained unchanged, indications began to emerge of a pickup in employment opportunities for specialist personnel and employees with the skills to make an immediate impact. Exacerbating weak operating conditions, the matching of needs and demand is becoming increasingly difficult as selection standards continue to rise. Coupled with the slump in temp-to-perm business demand, sales in this segment declined 53.3% compared with the previous fiscal year to ¥2,311 million. Turning to overseas markets, there were no signs of a positive turnaround in demand. On this basis, segment sales outside of Japan fell 31.3% year on year to ¥664 million for the fiscal year ended May 31, 2010. As a whole, overall sales in the Placement / Recruiting business segment were ¥2,975 million, a substantial drop of 49.7% compared with the previous fiscal year.

Turning to segment earnings, gross profit declined due largely to a substantial drop in revenues in both the Temporary Staffing and Placement / Recruiting business segments. A number of additional factors served to exacerbate this downturn including deterioration in the earnings spread reflecting a decline in unit prices for temporary staffing and a year-on-year increase in the take up of temporary staffing paid holidays. Accounting for these factors, segment gross profit margins declined. Despite efforts to substantially contain such SG&A expenses as recruiting and personnel costs, overall sales in the Temporary staffing / Contracting and Placement / Recruiting segment for the period under review decreased 21.4% compared with the previous fiscal year to ¥155,104 million. Operating income for the fiscal year ended May 31, 2010 amounted to ¥630 million, a drop of 80.9% year on year.

2. Outplacement

Sales: ¥13,481 million; Operating income: ¥3,854 million

Throughout the period under review, the corporate sector continued to promote such employment correction measures as optional early and voluntary retirement while implementing additional employment correction. Buoyed by these endeavors, orders received in the Outplacement business segment climbed substantially. The Pasona Group also took steps to increase the number of consultants by relocating personnel from the Placement / Recruiting and other businesses in response to the pickup in orders. At the same time, considerable emphasis was placed on maintaining service levels while cultivating companies seeking human resources throughout the period under review. As a result, sales in this segment amounted to ¥13,481 million, a significant increase of 132.7% compared with the previous fiscal year. Operating income also climbed substantially to ¥3,854 million, up 275.9% year on year. Taking into consideration Group company reorganization, the aforementioned results include the impact of an irregular 14-month account settlement period for certain subsidiary companies.

3. Outsourcing

Sales: ¥13,791 million; Operating income: ¥2,252 million

Benefit One Inc., a Pasona Group subsidiary company engaged in the provision of employee benefit outsourcing services, continues to promote customers' solution-oriented marketing to its corporate member customers including major companies as well as government and other public offices, while placing considerable weight on increasing and upgrading its menu of employee benefit services that help to realize work and lifestyle balance. In addition, throughout the fiscal year under review, the company focused on new services within each of its customer relationship management business, which entails the provision of services aimed at enhancing the satisfaction of customers, health care business that caters to statutory special medical checkups and incentive business, a management and operating service that converts financial incentives into points.

Taking into consideration the cancellation of employee benefit service memberships attributable to the harsh economic conditions and greater than expected delays in the start up of new services, sales in the Outsourcing segment amounted to ¥13,791 million, a decrease of 6.3% compared with the previous fiscal year. Operating income, on the other hand, increased 5.5% year on year to ¥2,252 million due mainly to successful efforts to reduce cost of sales and to rationalize selling, general and administrative expenses.

4. Other

Sales: ¥4,458 million; Operating loss: ¥120 million

In the Other business segment, the Pasona Group is engaged in child-care-related businesses, such educational activities as the management and operation of language classes and shared service company activities within the Group. In the fiscal year ended May 31, 2009, the Group established two subsidiaries as a part of efforts to promote shared services. In the period under review, sales from these activities rose 48.5% compared with the previous fiscal year to ¥4,458 million. On the earnings front, however, the Pasona Group incurred an operating loss totaled ¥120 million in this segment compared with operating income of ¥12 million for the previous fiscal year.

5. Eliminations and Corporate

Negative revenues: ¥3,320 million; Operating income: ¥(2,957) million

Intragroup transactions and Pasona Group, the Group's pure holding company, SG&A expenses are included in eliminations and corporate. Focusing largely on rent as well as personnel expenses, the Pasona Group secured reductions in Group-wide costs for the fiscal year ended May 31, 2010.

Net Sales by Business Segment

(Millions of yen unless otherwise stated)

	FY2009	FY2008	YoY
Temporary staffing / Contracting, Placement / Recruiting	155,104	197,333	(21.4)%
Temporary staffing / Contracting	152,128	191,412	(20.5)%
Placement / Recruiting	2,975	5,921	(49.7)%
Outplacement	13,481	5,794	132.7%
Outsourcing	13,791	14,725	(6.3)%
Other	4,458	3,002	48.5%
Eliminations and Corporate	(3,320)	(2,155)	—
Total	183,515	218,699	(16.1)%

Operating Income (Loss) by Business Segment

(Millions of yen unless otherwise stated)

	FY2009	FY2008	YoY
Temporary staffing / Contracting, Placement / Recruiting	630	3,291	(80.9)%
Outplacement	3,854	1,025	275.9%
Outsourcing	2,252	2,135	5.5%
Other	(120)	12	—
Eliminations and Corporate	(2,957)	(3,614)	—
Total	3,660	2,850	28.4%

Outlook for the Fiscal Year Ending May 31, 2011

In connection with domestic economic conditions, signs are beginning to emerge of an improvement in market sentiment in certain sections of the economy. In overall terms, however, conditions remain uncertain due largely to the downside risks associated with persistent deflation and anxiety surrounding the European economy. Under these circumstances, the possibility exists of another round of employment adjustments in the corporate sector. Accordingly, employment conditions focusing mainly on full-time, permanent employees must be viewed cautiously. On the other hand, recent indications are that the drop in new temporary staffing orders has bottomed out and that a positive correction is emerging. It is also apparent that the corporate sector is shifting in earnest toward the use of external human resources. Taking into consideration the increase in demand for Insourcing (Contracting) as well as outsourcing services as the corporate sector adopts the perspective of raising management efficiency, the Pasona Group will further expand its Insourcing (Contracting) and Outsourcing business and redouble efforts to build a structure that is capable of providing total solution services.

In conjunction with the implementation of the Accounting Standard on Disclosure of Segment Information effective from the fiscal year commencing April 1, 2010, and moves to introduce and adopt the “Management Approach,” the Company has decided to reclassify on a company unit basis and rename its business segments effective from the fiscal year ending May 31, 2011. The newly reclassified business segment and principal Group companies in each segment are presented as follows.

New Segment	Major Group Companies
HR Solutions	
Expert Services (Temporary staffing) Insourcing (Contracting) HR Consulting Place & Search (Placement/Recruiting) Global Sourcing (Overseas)	<u>Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting</u> Pasona Inc. Pasona Tech, Inc. Pasona Dotank Inc. Pasona Okayama Inc. Pasona Kyoto Inc. Pasona Nagasaki Inc. Kantou Employment Creation Organization Inc. Kansai Employment Creation Organization Inc. Pasona e-Professional, Inc. Pasona Empower Inc. Pasona Sourcing Inc. Pasona Engineering Inc. AIG STAFF Co., Ltd. Pasona Logicom Inc. e-Staffing Co., Ltd.* Pasona Nakakyushu Inc.* <u>Place & Search (Placement/Recruiting)</u> Pasona Inc. Pasona Fortune Inc. Pasona Global Inc. <u>Global Sourcing (Overseas)</u> Pasona N A, Inc. Pasona Taiwan Co., Ltd. PASONA CANADA, INC. Pasona Singapore Pte. Ltd. Pasona MIC, Inc. PASONA ASIA CO., LIMITED MGR Search and Selection CO., LTD. Pasona Human Resources (Shanghai) Co., Ltd. TEAM PASONA INDIA COMPANY LIMITED
Outplacement	Pasona Inc.
Outsourcing	Benefit One Inc. National Examination Center Inc.*
Life Solutions ***Public Solutions*** ***Group & Shared***	<u>Life Solutions</u> Pasona Foster Inc. Pasona Education Co., Limited <u>Public Solutions</u> Pasona Heartful Inc. <u>Group & Shared</u> Pasona Group Inc. Pasona CIO Inc.

* Equity-method affiliate
All other unmarked companies are consolidated subsidiaries.

Forecasts of business results by newly reclassified business segment are presented as follows.

HR Solutions

<u>Expert Services (Temporary staffing)</u>

In the Expert Services business segment, which includes temporary staffing activities, there are recent signs that conditions are entering a recovery phase. At the same time, taking into consideration forecasts that personnel adjustments focusing mainly on full-time, permanent employees as well as cutbacks in recruitment will continue throughout the fiscal year ending May 31, 2011, the demand for alternative personnel and human resources with specialized skills is expected to balloon. On this basis, a full-fledged pickup is anticipated. Furthermore, in the fiscal year ending May 31, 2011, plans are in place to further bolster temporary staffing activities in specialized (technical) fields. As a result, the Pasona Group will actively take measures aimed at developing human resources in such specialist and administrative areas as the IT, accounting, trading, secretarial and healthcare administrative fields. As a value-added sales and marketing service, the Pasona Group will at the same time provide over a broad area support for the compliance systems of client firms that are seeking to address revisions to the Worker Dispatch Law.

Insourcing (Contracting)

Taking into consideration the growing need and awareness toward operating efficiency and cost reduction by client firms, demand for Insourcing (Contracting) is also projected to rise steadily during the fiscal year ending May 31, 2011. In addition to the comprehensive contracting of reception, operating and call center activities, the Group is expected to witness an increase in the changeover from the temporary staffing format. On this basis, the Group will further strengthen its customers' solution-oriented marketing capabilities including its consulting services which encompass every facet of personnel and human resource functions buildings on its inherent strengths of a broad-based service line and know-how accumulated over a lengthy period.

Place & Search (Placement / Recruiting)

In the Place & Search (Placement and Recruiting) business segment in Japan, there are indications on the domestic front of a pickup in job offers focusing mainly on specialist positions and personnel who are capable of providing an immediate contribution. However, the Pasona Group anticipates a little more time will be required before a full-fledged recovery is realized.

Global Sourcing (Overseas)

In the Global Sourcing business category, in which the Pasona Group provides a full line of human resource-related support services overseas, expectations are for performance to expand and improve. This is largely attributable to the positive signs of a pickup in demand particularly in Asia, successful efforts to forge stronger collaborative ties between overseas bases and operations in Japan and further advances in the borderless mobilization of human resources.

Profit perspective for HR solutions segment

From a profit perspective, segment gross profit is forecast to increase on the back of Insourcing (Contracting) revenue growth. While revisions are projected in employee social insurance rates, coupled with continued efforts to curtail selling, general and administrative expenses, profitability in the Expert Services business segment, which includes temporary staffing and contracting activities, is anticipated to show a slight improvement.

Outplacement

Taking into consideration a round of employment adjustments in the corporate sector, orders in the Outplacement business are expected to experience a decline compared with the fiscal year under review. While there was a substantial increase in Outplacement business segment orders during the fiscal year ended May 31, 2010, the Pasona Group will place priority on the quick and definitive turnaround in the placement of employees of service users as well as the continued cultivation of employment offers in the fiscal year ending May 31, 2011. While these initiatives are anticipated to trigger a temporary decline in earnings, the Pasona Group is confident that by maintaining the high level of service expected of the industry leader, it will continue to forge relationships of long-standing trust.

Recognizing that the processes involved in realizing a quick and definitive turnaround in the placement of employees will take slightly longer than the time historically required, Pasona Group will post an apportioned 10 months of net sales from the fiscal year ending May 31, 2011 as opposed to its usual practice of nine months. Furthermore, following Group company reorganization, the business term for Pasona Career Inc. (currently Pasona Inc.) for the fiscal year under review is an irregular period of 14 months. In light of the technical implications, the Pasona Group is forecasting a decline in both revenue and earnings in the Outplacement business segment for the fiscal year ending May 31, 2011.

Outsourcing

Customers comprised mainly of large private-sector companies and public authorities are increasingly considering the introduction of employee benefit outsourcing services due largely to growing concerns with respect to efficiency and service quality enhancement. As a result, results in this business segment are projected to remain steady. In addition to the recovery in employee benefit service members, contributions from new service expansion in the customer relationship management business, which entails the provision of services aimed at enhancing the satisfaction of customers and incentive business, a management and operating service that converts financial incentives into points, are expected to generate increased revenues and earnings in the Outsourcing business segment.

Others

Life Solutions

Performances by the child-care related business and education activities business are anticipated to remain firm throughout the fiscal year ending May 31, 2011.

Accounting for all of the aforementioned factors and projections, the Pasona Group plans for consolidated net sales to reach ¥186,000 million for the fiscal year ending May 31, 2011. This is a slight improvement of 1.4% compared with the fiscal year ended May, 31 2010.

On the earnings front, expectations are for a decline in the Outplacement business segment, which saw an increase in overall profits in the fiscal year ended May 31, 2010. Earnings in the Expert Services business segment, which includes temporary staffing and contracting activities, appear on the brink of a recovery. Profits in the Outsourcing and Insourcing (Contracting) business segments are also estimated to remain sound. The Pasona Group is forecasting the effects of Group office consolidation to be carried through and in fact heighten into the fiscal year ending May 31, 2011. In pursuing and promoting shared services mainly in indirect (back office) departments, the Group remains committed to reducing overall costs. This is not, however, anticipated to fully offset the drop in Outplacement earnings. As a result, consolidated operating income is forecast to total ¥2,800 million, a decline of 23.5% compared with the fiscal year ended May 31, 2010. In similar fashion, ordinary income is projected to contract 28.3% year on year to ¥2,900 million.

In another development, due to amendments to certain accounting standards, companies in the private sector are now obligated to post asset disposal liabilities effective from the fiscal year ending May 31, 2011. With respect to expenses incurred in restoring leased office vacated to their original state, the Pasona Group intends to record the previous fiscal year's expenditure as an extraordinary loss, while posting expenses incurred in the fiscal year ending May 31, 2011 to SG&A expenses. Furthermore, in the fiscal year ending May 31, 2011, the Company does not plan to record an increase in income taxes — deferred, owing mainly to the reversal of deferred tax assets of Pasona Group and certain of its subsidiary companies, as was posted in the fiscal year ended May 31, 2010. On this basis, net income is forecast to surge 144.0% year on year to ¥500 million.

Consolidated Business Results Forecast

(Millions of yen unless otherwise stated)

	FY2010 (Forecast)	FY2009	YoY
Net sales	186,000	183,515	1.4%
Operating income	2,800	3,660	(23.5)%
Ordinary income	2,900	4,044	(28.3)%
Net income	500	204	144.0%

Forecasts of Consolidated Results by New Business Segment (Full Fiscal Year)

(Millions of yen)

	Net sales	Operating income
HR Solutions		
Expert Services (Temporary staffing) Insourcing (Contracting) HR Consulting Place & Search (Placement / Recruiting) Global Sourcing (Overseas)	158,600	2,480
Outplacement	9,730	760
Outsourcing	15,790	2,400
Others ***Life Solutions*** ***Public Solutions*** ***Group & Shared*** Eliminations	1,880	(2,840)
Total	186,000	2,800

Note: Percentage increases and decreases compared with the fiscal year ended May 31, 2010 have not been provided due to the reclassification of business segments.

(Reference)

Net Sales by Former Business Segment

(Millions of yen unless otherwise stated)

	FY2010 (Forecast)	FY2009	YoY
Temporary staffing / Contracting, Placement / Recruiting	158,670	155,104	2.3%
Temporary staffing / Contracting	155,280	152,128	2.1%
Placement / Recruiting	3,390	2,975	13.9%
Outplacement	9,730	13,481	(27.8)%
Outsourcing	15,790	13,791	14.5%
Other	4,990	4,458	11.9%
Eliminations and Corporate	(3,180)	(3,320)	—
Total	186,000	183,515	1.4%

Operating Income (Loss) by Former Business Segment

(Millions of yen unless otherwise stated)

	FY2010 (Forecast)	FY2009	YoY
Temporary staffing / Contracting, Placement / Recruiting	2,290	630	263.4%
Outplacement	880	3,854	(77.2)%
Outsourcing	2,400	2,252	6.5%
Other	40	(120)	—
Eliminations and Corporate	(2,810)	(2,957)	—
Total	2,800	3,660	(23.5)%

(2) Qualitative Information and Other Matters Concerning Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

(1) Assets

Total assets as of May 31, 2010 stood at ¥52,269 million, a drop of ¥3,198 million, or 5.8%, compared with the end of the previous fiscal year. This was mainly attributable to certain factors including a decrease of ¥1,789 million in the balance of cash and deposits, a decrease of ¥1,048 million in the balance of notes and accounts receivable－trade, an increase of ¥2,145 million in lease assets as well as a decrease of ¥2,002 million in the balance of lease and guarantee deposits.

(2) Liabilities

Total liabilities as of May 31, 2010 declined ¥3,029 million or 10.0%, compared with May 31, 2009 totaling ¥27,289 million. The principal decreases in total liabilities were short-term loans payable of ¥5,744 million, accrued expenses of ¥1,005 million. These were partly offset by an increase in long-term loans payable of ¥2,144 million as well as an increase in lease obligations of ¥2,459 million.

(3) Net Assets

Net assets as of May 31, 2010 stood at ¥24,979 million, a decline of ¥169 million, or 0.7%, compared with the end of the previous fiscal year. This was mainly attributable to the decrease in minority interests of ¥1,221 million due to the conversion of affiliated Group companies to wholly owned subsidiaries and the disposal of treasury stock totaling ¥1,076 million.

Accounting for the aforementioned, the equity ratio as of May 31, 2010 rose 4.2 percentage points to 39.6% compared with the end of the previous fiscal year.

Status of Cash Flows

As of May 31, 2010, the Group experienced a net year-on-year decrease in cash and cash equivalents amounting to ¥1,796 million compared with a net increase of ¥507 million as of May 31, 2009. As a result, net cash at the end of the fiscal year under review stood at ¥12,324 million.

(1) Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year ended May 31, 2010 amounted to ¥2,875 million. (Net cash provided by operating activities for the previous fiscal year was ¥4,443 million.)

Major cash inflows included income before income taxes totaling ¥3,833 million (Income before income taxes for the previous fiscal year was ¥2,885 million.) as well as depreciation and amortization totaling ¥1,902 million. (Depreciation and amortization for the previous fiscal year was ¥1,911 million.) Principal cash outflows were decrease in deposits received totaling ¥1,670 million and income taxes paid amounting to ¥1,442 million. (Income taxes paid for the previous fiscal year was ¥3,071 million.)

(2) Cash Flows from Investing Activities

Net cash used in investing activities for the period under review was ¥387 million. (Net cash used in investing activities for the previous fiscal year was ¥4,966 million.) Major cash inflows included proceeds from collection of lease and guarantee deposits totaling ¥2,246 million. (Proceeds from collection of lease and guarantee deposits for the previous fiscal year was ¥186 million.) Principal cash outflows were payments for the purchase of property, plant and equipment totaling ¥614 million (Payments for the purchase of property, plant and equipment for the previous fiscal year was ¥1,553 million.), payments for the purchase of intangible assets totaling ¥490 million (Payments for the purchase of intangible assets for the previous fiscal year was ¥1,654 million.) as well as purchase of investments in subsidiaries amounting to ¥1,386 million. (Purchase of investments in subsidiaries for the previous fiscal year was ¥63 million.)

(3) Cash Flows from Financing Activities

Net cash used in financing activities was ¥4,275 million. (Net cash provided by financing activities for the previous fiscal year was ¥1,077 million.) Major cash inflows included proceeds from long-term loans payable totaling ¥2,900 million. Principal cash outflows were a decrease in short-term loans payable amounting to ¥6,324 million. (Increase in short-term loans payable for the previous fiscal year was ¥6,289 million.) and cash dividends paid totaling ¥518 million. (Cash dividends paid for the previous fiscal year was ¥1,040 million.)

(Reference) **Cash Flow Benchmarks**

	(Reference) FY2005	(Reference) FY2006	FY2007	FY2008	FY2009
Equity ratio	45.5%	41.1%	41.6%	35.4%	39.6%
Equity ratio based on market capitalization	187.6%	176.7%	59.0%	33.9%	42.1%
Ratio of interest-bearing debt to cash flows (years)	0.1	0.0	0.0	1.5	1.9
Interest coverage ratio (times)	363.0	165.3	176.6	132.1	27.5

Notes:

1. Equity ratio: Shareholders' equity / total assets
   Equity ratio based on market capitalization: Market capitalization / total assets
   Ratio of interest-bearing debt to cash flows: Interest-bearing debt / cash flows
   Interest coverage ratio: Cash flows / interest payments
2. Each benchmark is calculated based on the consolidated financial statements.
3. Market capitalization is calculated by multiplying the period-end closing share price with the number of outstanding shares at the period-end (after deducting treasury stock).
4. Cash flows from operating activities are used in calculations that use cash flows.
5. Interest-bearing debt includes all interest-bearing debt under liabilities recorded on the consolidated balance sheets.
6. Financial data for the period between the fiscal year ended May 31, 2006 and the fiscal year ended May 31, 2007 is for Pasona Inc. on a consolidated basis.

(3) Policy on the Appropriation of Profits, Dividends for the Fiscal Year Ended May 31, 2010 and the Fiscal Year Ending May 31, 2011

In connection with the appropriation of profits, the Company takes into consideration the funds required to engage in new businesses and capital investments aimed at fulfilling the Company's responsibilities to continuously develop the growing human resources business market, to strengthen the Company's operating platform and earnings capacity and to expand shareholders' returns by enhancing corporate value. On this basis and for the foreseeable future, the Company has adopted the basic policy to implement a consolidated dividend payout ratio target of 25% in an effort to continuously deliver adequate and stable returns to shareholders taking into consideration its operating performance.

Based on the aforementioned basic policy in connection with the appropriation of profits, the Company has declared an annual dividend for the fiscal year ended May 31, 2010 of ¥500 per share following ratification at a Board of Directors' meeting held on July 20, 2010.

In connection with cash dividends for the fiscal year ending May 31, 2011, the Company does not plan to pay an interim cash dividend. The Company does however intend to pay a period-end cash dividend of ¥1,000 per share.

(4) Risk Factors

In order to prevent any crisis from substantially impacting the Company's management and to minimize loss in the event of a serious incident, Pasona Group has formulated a set of risk management rules. In addition, the Company has established the Risk Management Committee as an umbrella organization to oversee and monitor risk. Based on its Crisis Management Manual, Pasona Group has also created a framework of appropriate measures to be implemented in response to daily as well as emergency incidents. Furthermore, through a system of regular internal audits, the Internal Audit Department monitors the status of daily risk management undertaken by individual departments.

Information contained in this report in connection with current and future risks has been determined as of the date of its announcement unless otherwise stated. Accordingly, the issues identified do not cover all potential risks associated with investing in the Company's stock.

A. Personal and Classified Information Risk

Each business segment within the Pasona Group collects, handles and stores a wealth of personal information relating to temporary staffing registrants, employment placement applicants and outplacement service users as well as individual member information of client firm members of the outsourcing business. In addition to formulating its personal information protection policy and ensuring that personal information is procured, utilized, distributed and handled in an appropriate manner, the Pasona Group also clarifies the point of contact in connection with the disclosure and deletion of personal information. At the same time, the Group takes all essential and appropriate safety control measures from both the technical and organizational perspectives to prevent personal information leakage or loss, and places the utmost emphasis on personal information protection management education and training among all directors and employees of the Group.

Furthermore, the Pasona Group ensures that all appropriate information management systems, structure and procedures are in place to prevent leakage of trade secrets and other important information relating to the Group, its employees, temporary staffing registrants as well as client firms. Again, the Group works diligently to ensure that the aforementioned systems, structure and procedures are well known and implemented in an appropriate manner.

In connection with its registered temporary personnel, the Pasona Group formulates temporary staffing rules of employment and standards relating to confidentiality. Pasona Group seeks to obtain a pledge and acknowledgement to the aforementioned rules and confidentiality requirements as well as the confidentiality obligations of the relevant employer and all other related rules and regulations from all temporary personnel prior to the commencement of employment.

Notwithstanding the preceding measures, Pasona Group remains at risk to a claim for damages, loss of reputation and social credibility as well as a deterioration in its financial position in the event of a breach in the variety of rules and regulations outlined above or a leak in personal information due to unforeseen and other circumstances.

B. Temporary Staff Procurement Risk

By its very nature, securing an ample pool of temporary staff is integral to the Pasona Group's temporary staffing business. The Pasona Group strives to recruit temporary staff through the Internet, newspaper and magazine advertising as well as introductions from existing registrants. In addition to efforts to secure a stable supply of temporary staff, the Group is also actively engaged in endeavors to improve the location of registration offices and facilities, temporary staff remuneration, fringe benefits and to provide employment opportunities that accurately address the needs of each and every registrant. Pasona Group has also introduced person in charge system and is expanding training and education. Collectively through these initiatives and measures, Pasona Group continues efforts to enhance the satisfaction of temporary staff. In addition, for those existing registrants not currently in employ, Pasona Group is making every effort to ensure their retention. Notwithstanding these efforts, however, in the event the demand for temporary staff exceeds the ability to secure temporary staff, the Group's performance may be affected.

C. Temporary Staffing Payment Risk

In the temporary staffing business, sales are recorded on a temporary staffing payment invoice basis to those companies to which temporary staff are dispatched. In this context, companies supplied with temporary staff are invoiced on either an hourly or monthly rate. In principle, cost of sales comprises payments to temporary staff on an hourly basis, which in turn reflects the relevant job description and skills as well as legal welfare, paid leave and other expenses. The Pasona Group is committed to securing reasonable and appropriate remuneration both at the invoice and payment levels and pursues negotiations with companies to which temporary staff are dispatched accordingly. Both increases and decreases at each of the temporary staffing invoice and payment levels do not always occur in a synchronized manner. In the event of a sudden or prolonged upswing in large volumes of contracts where the discrepancy between temporary staffing invoice and payment levels is detrimental, profitability in the Group's Temporary staffing business may decline significantly affecting overall performance.

D. Outplacement Risk

From a nationwide network, Pasona Group provides a variety of services in an effort to help early retirees and those planning for retirement find reemployment in the outplacement business. These services include support in the preparation of resumes and interviews, the provision of information on job openings and mental health care. Pasona Group allocates a consultant to each individual client, who focuses on counseling, the collection of employment information and job placement. Through detailed outplacement activities, Pasona Group is well positioned to facilitate a quick and definitive turnaround in the placement of employees. By raising the level of services, the Group strives to secure repeat orders from client firms. At the same time, Pasona Group works diligently and aggressively in its marketing activities with the aim of securing new orders. Success in the outplacement business is dependent upon a number of factors. These factors include the employment policies of client firms, the impact of the economic environment, order trends and rates for each region and the ability to secure a quick and definitive turnaround in the placement of employees. Accordingly, fluctuations in profitability are a key issue.

In addition, fixed overheads are another concern in the Company's ability to maintain a nationwide network, consistently provide comprehensive facilities at each point of representation, open new offices, allocate consultants and maintain a consistent level of services. In the event Pasona Group is unable to flexibly respond to changes in the economic environment and to adequately establish offices and allocate consultants, the Group's overall performance and profitability may suffer. Furthermore, in the event that re-employment determination rates decline or there are lengthy delays in any definitive turnaround in the placement of employees due to the future economic environment, fixed overheads are expected to increase impacting negatively on profitability and the Pasona Group's performance.

E. Outsourcing Risk

Through its subsidiary Benefit One Inc., Pasona Group provides benefit-outsourcing services. Companies that contract with Benefit One become corporate members. Employees of corporate members receive access, at membership rates, to a variety of accommodation, sports club, school and other facility benefits.

Benefit One receives a joining fee and a monthly membership fee depending on the number of individual members from corporate members. Benefit One also undertakes a subsidy payment to cover the use of facilities by employees based on the type of membership and course for each corporate member. While revenues increase relative to the increase in individual members, if subsidy payments rise higher than revenues the Group's performance may be impacted.

F. Statutory and Regulatory Risk

1. Temporary staffing / Contracting, Placement / Recruiting

a. Temporary staffing / Contracting

i) Business Approvals and Licenses

A mainstay activity of the Group, Pasona Group has been granted a temporary staffing business license by the Ministry of Health, Labour and Welfare. As a rule, temporary staffing activities in Japan are regulated by the Worker Dispatch Law, which serves to establish guidelines for the temporary staffing industry and parameters for disqualification, illegal activity, license cancellation and orders to terminate activities. Led by its Legal and Compliance Department, the Pasona Group has formulated guidelines for appropriate conduct and behavior in temporary staffing transactions. Underpinned by these guidelines, Pasona Group conducts comprehensive employee training, monitors the level of statutory compliance through internal auditing and other systems and implements preventive measures. Despite these endeavors, however, the Pasona Group remains at risk that the Company or a Group employee or director will materially contravene the Worker Dispatch Law or related laws and regulations leading to the cancellation of its license or an order for the termination of business. In addition, the Group's performance may also be affected by amendments to the Worker Dispatch Law and related laws and regulations in line with changes in the labor market.

ii) Types of Temporary Staffing Work

Prior to the amendment to the Worker Dispatch Law in December 1999, temporary staffing activities were restricted to 26 specialist fields. Following further amendments, however, the temporary staffing industry was effectively deregulated with the exception of certain restricted activities including harbor transport, construction, security, medicine and related fields and manufacturing. Furthermore, in March 2004, restrictions were lifted on temporary staffing to the manufacturing industry as well as Temp to Perm, the placement of employees on a full-time basis following completion of a temporary staffing assignment, to the medical field. In April 2006, restrictions on the temporary staffing of medical practitioners to remote areas and replacement personnel for doctors, nurses and health workers taking either maternity or education leave were lifted. Looking ahead, however, depending on the details of any future revisions to the Worker Dispatch Law, restrictions may be placed on the temporary staffing business, which impede growth. In this context, the Pasona Group’s performance may be affected.

iii) Restrictions on Temporary Staffing Term

In connection with restrictions on the terms applicable to the dispatch of workers (temporary staffing) as stipulated under the Worker Dispatch Law, restrictions on 26 forms of work designated by the government under a Cabinet order were removed pursuant to an amendment to the Law in March 2004. With respect to sales and marketing positions, deregulated in December 1999, while the maximum term for which dispatching is possible has been extended from one year to three years (subject to receipt of the acknowledgement of an individual representing a majority of the employees of the company to which temporary staff have been dispatched) companies are restricted from accepting temporary staff and temporary staffing companies are restricted from dispatching workers on a continuous basis for a period exceeding three years for the same duties with respect to temporary staffing work on an individual location basis. The temporary staffing company shall inform the company accepting temporary staff and the temporary staff in question on the day prior to the conclusion of the restricted term. In the event the company continues to employ temporary staff beyond this term, the company shall be obligated to employ temporary staff on a permanent and full-time basis.

In principle, there is no restriction on the temporary staffing term for the 26 fields identified prior to amendments to the Worker Dispatch Law in December 1999. In the event, however, that an employer after employing temporary staff for a continuous period exceeding three years seeks to employ full-time, permanent employees for the subject position and duties, the temporary staff having been employed for a period of three years shall receive a first right of refusal.

Impacted by restrictions on the term of temporary staffing and an increase in the number of companies shifting from temporary to permanent employment, the incidence of companies dealing directly with temporary staff is expected to grow. In the event the number of those seeking temporary employment declines, the Company’s performance may be affected.

iv) About the draft revision of the Worker Dispatch law

Currently, the systems relating to the worker dispatching business are under review. Discussions on the draft revision of the Worker Dispatch Law submitted to Japan’s Diet on March 29, 2010 have been carried forward in the House of Representatives.

Included in the subject draft revision of the Worker Dispatch Law is the proposal to prohibit in principle the dispatch of registration type workers with the exception of the 26 designated specific types of work. The vast proportion of the Pasona Group's Temporary Staffing and Contracting business encompasses these 26 designated specific types of work. In addition, the Pasona Group has positioned the Insourcing (contracting) business as a field of priority focus in response to customer needs. At the same time, the Pasona Group as a whole is pursuing and promoting total solution services. By building up and accumulating know-how in the Insourcing (contracting) business, the Pasona Group plans to offset restrictions placed on the scope of temporary staffing in other fields. Furthermore, the Pasona Group has adopted the policy to maintain and development the Group's growth platform by diversifying its human resource services in the event that the draft revision of the Worker Dispatch Law is enacted.

Moreover, while the date the revised Law comes into effect has been set as the date decreed under Cabinet ordinance within three years of the official announcement with respect to the in principle prohibition of registration type worker dispatching, the Pasona Group anticipates it will receive a two-year moratorium period from the date of enforcement, which in practical terms equates to a moratorium period of five years taking into consideration the additional two-year period applicable to the vast majority of fields to which the Pasona Group dispatches workers outside the designated 26 specific forms of work.

In February 2010, Japan's Ministry of Health, Labour and Welfare drew up a plan to rectify the dispatch of workers in 26 fields of work that require specialized skills. By announcing a policy that stricter regulations will apply to the classification and distinction between the 26 fields of work that require specialized skills and deregulated forms of work, the potential exists for the Pasona Group's business activities to be affected depending on the status, terms and conditions of guidance. In addition, in accordance with the draft revision of the Worker Dispatch Law, the Pasona Group's performance may be affected in the event of any contraction in temporary staffing contracts, any increase in the changeover to direct employment contracts and where the pace of human resource temporary staffing market contraction exceeds the Pasona Group's ability to respond.

(Reference)

Chief provisions of the draft revision of the Worker Dispatch Law (Cabinet approval on March 19, 2010)

Tightening Business Regulations

- In principle prohibition to registration type worker dispatching (excluding 26 specific types of work, replacement personnel for individuals taking maternity leave, seniors and employment placement)
- In principle prohibition to the dispatch of workers to the manufacturing industry (excluding regularly employed worker dispatching (where employment periods exceed one year)
- In principle prohibition to daily (on-call) worker dispatching (workers dispatched daily or for fixed employment periods of less than two months)
- Regulation of 80% of worker dispatching within group companies; prohibition to the acceptance of workers as dispatched workers in those cases where the subject dispatched workers have earlier left the services of the receiving firm within a period of one year

The indefinite employment of dispatched workers and improvement of compensation

- Steps to place a mandatory obligation on worker dispatch companies to promote measures aimed at shifting toward an indefinite employment term for dispatched workers on a specified fixed term
- Consider mandating parity for all dispatched workers across all client companies with respect to the same tasks when determining employment compensation for dispatched workers
- Open disclosure of the margin between compensation rates paid to dispatched workers and compensation rates invoiced to client companies to be mandatory

- Clearly specify the amount of compensation payable on an individual dispatched worker basis at the time of employment

<u>Steps to address the illegal dispatch of workers in a timely and appropriate manner</u>

- In the event of illegal worker dispatching and that case where client companies accept dispatched workers knowing that the dispatch of said workers is illegal, the client company shall be deemed to have sought from the dispatched worker an employment contract
- Establish a criterion of eligibility for authorization and approval to engage in worker dispatch activities in efforts to prevent the avoidance of remedial action

Note:
Enforcement date: Date of the decree by government ordinance that does not exceed six months from the date of publication (with respect to the prohibition of registration type worker dispatching and the dispatch of workers to the manufacturing industry, the date shall be set by government ordinance to be within three years of the date of publication of the draft revision (with respect to operations determined under government ordinance, a moratorium period to apply by government ordinance for a further two years from the date of enforcement))

Source: Prepared statement by the Ministry of Health, Labour and Welfare on March 19, 2010

b. Placement / Recruiting

As a fee-charging employment agency, the Pasona Group has received the approval of the Ministry of Health, Labour and Welfare to engage in placement and recruiting activities and is regulated by the Job Stabilization Law. In December 1999 following amendments to the Job Stabilization Law, the scope of placement and recruiting activities was expanded both in the number of industries covered and to include new graduates. At the same time, restrictions relating to placement fees were relaxed. In December 2000, further restrictions were lifted for both temporary placement and placement/recruiting activities heralding the birth of Temp to Perm.

Companies engaged in placement and recruiting can be stripped of their license or ordered to cease business activities in the event they fail to meet certain conditions. Accordingly, the Company may come under the same risks as the aforementioned business.

2. Outplacement

The profit structure and business model for the outplacement business differs from that of the placement and recruiting business. From the perspective of introducing job seekers to employers, however, the outplacement business is regulated, guided and monitored in the manner identified above for the placement and recruiting business. Accordingly, the Company may come under the same risks as the aforementioned business.

G. Social Insurance Responsibility Risk

The Pasona Group adopts comprehensive measures to ensure that all eligible temporary staff join the current social insurance system. In connection with health insurance, the participation rate by the elderly in the Temporary Staffing Health Insurance Association, to which Pasona Group employees and temporary staff belong, is low. Accordingly, insurance contributions by the elderly have also been lower when compared to other health insurance associations. Following a reform of the health insurance system in April 2008, however, and the imposition of new financial support payments for individuals over 75 years of age and payments for individuals aged between 65 and 75 in lieu of insurance contributions by the elderly, the contribution by employers to temporary staffing health insurance associations have risen substantially from 3.05%, the level in fiscal 2007, to 3.8% in fiscal

2008. Thereafter, the contribution has increased further to 3.975% in fiscal 2010. Recognizing the financial standing of the Temporary Staffing Health Insurance Association is extremely difficult, the potential exists for additional increases in contribution rates in the future.

Furthermore, following a reform of the pension system in fiscal 2004, the contribution by employers as a ratio of index monthly earnings has risen from 6.967% as of October 2004 by 0.177% annually through to 2017 inclusive to a fixed contribution after 2017 of 9.15%.

Moreover, following revision to the employment insurance system on April 1, 2010, the contribution by employers for employment insurance also increased. At the same time, the application criterion for employment insurance was loosened. As a result, the scope of application was amended from “prospective employment of more than six months” (fiscal 2009) to “prospective employment of more than 31 days” increasing the number of workers.

In the future, changes in insurance rates and the scope of persons insured due to further reforms of the social insurance system may affect the Pasona Group’s financial position and performance.

H.Interested-Party Transaction Risk (relationships with companies in which either Yasuyuki Nambu,Group CEO & President, or his family members maintain an equity interest)

While Yasuyuki Nambu, Group CEO and President of the Company, his immediate and close relatives, companies in which Yasuyuki Nambu and his close relatives hold a majority of voting rights on their own account, and subsidiaries of those companies combined for 49.46% of Pasona Group’s voting rights as of May 31, 2010, the Company has continued to promote appropriate business management and operations by ensuring that its corporate governance structure and systems function properly.

I. Business Investment Risk

1. Investment in Subsidiary and Affiliated Companies

As of May 31, 2010, the Pasona Group was comprised of 33 consolidated subsidiaries and 3 affiliated companies accounted for under the equity method.

Stock price of publicly listed subsidiaries may be impacted by market and other trends. Accordingly, the Company’s non-consolidated performance and asset balance may in future be affected by revaluation due to movements in related company share prices.

In addition, the Pasona Group is committed to proactive investment in new businesses with the aim of better addressing the diverse needs of client firms and employees. The Pasona Group strives to monitor the progress of its ongoing business investments and to accelerate development through optimal use of existing Group infrastructure and marketing network. Despite these efforts, however, consolidated performance may be affected in the event new business earnings fail to meet expectations.

2. Corporate Acquisition

The Pasona Group considers all opportunities including the acquisition of companies actively involved in the human resources industry as a means to effectively supplement and reinforce its mainstay activities. The acquisition of companies includes temporary staffing companies that were established mainly for the purpose of providing temporary staff at Group companies or associated companies of their parent company (in-house-type), temporary staffing companies that specialize in particular sectors and fields and leading companies in peripheral industries. Through these means, the Pasona Group strives to complement existing business domains and to enhance consolidated profitability.

In line with the acquisition of other companies, the Pasona Group may incur significant demands for funds procurement. Acquisition will also generate an increase in amortization of goodwill and other items. All of the aforementioned may affect the Group's performance. In addition, contributions to consolidated earnings through the acquisition of companies may not be achieved in the short-term and require a longer period.

J. Financing Risk

The Pasona Group strives to ensure the efficient application of Group funds through the effective use of its Group Cash Management Service (CMS). At the same time, the Group establishes commitment lines with financial institutions. Through these means, the Pasona Group makes every effort to maintain an appropriate level of liquidity. In the event, however, that the Group is unable to procure funds as and when required and at acceptable terms and conditions due to the status of its financial condition and future trends in financial markets, the ability of the Group to pursue its business activities may be affected.

K. Human Resource Service Market

The Pasona Group strives to build a balanced business portfolio that remains unrestricted to the constraints of any specific field. Accordingly, the Group pursues a diversified human resource business that encompasses temporary staffing and contracting, placement and recruiting, outplacement, outsourcing and related activities. At the same time, the Group is actively engaged in the distribution of information relating to a variety of employment modes, education as well as diverse proposals. The Pasona Group's business, however, is impacted by trends in personnel demand reflecting changes in economic conditions both in Japan and overseas as well as the business environment, recruitment trends, as well as the application of external human resources and strategies relating to human resource training. In the event of a sharp fluctuation in market conditions and a rapid drop in demand from client firms, the Pasona Group's performance may be affected.

2. Information on Group Companies

The Pasona Group shifted to a pure holding company structure on December 3, 2007. The Pasona Group is comprised of Pasona Group Inc., its 33 consolidated subsidiaries and 3 affiliated companies accounted for by the equity method. Major Group companies according to their principal business activity are listed as follows.

Pasona Group Inc. (Holding Company)

Formulate strategies for group management and support operation execution.

Governance of management and proper allocation of management resources.

Developing new businesses related to job creation.

Temporary Staffing / Contracting, Placement / Recruiting

Pasona Inc.
Pasona Tech, Inc.
Pasona Engineering Inc.
Pasona Kyoto Inc.
Pasona Empower Inc.
Pasona Global Inc.
Pasona Fortune Inc.
Pasona e-Professional, Inc.
Pasona Okayama Inc.
Pasona Sourcing Inc.
Pasona Logicom Inc.
AIG STAFF Co., Ltd.
Pasona Nagasaki Inc.
Pasona Nakakyushu Inc.*
TEAM PASONA INDIA COMPANY LIMITED
Pasona NA, Inc.
Pasona Taiwan Co., Ltd.
Pasona Singapore Pte. Ltd.
PASONA CANADA, INC.
PASONA ASIA CO., LIMITED
Pasona Human Resources (Shanghai) Co., Ltd.
and other companies

Outplacement

Pasona Inc.

Outsourcing

Benefit One Inc.
National Examination Center Inc. *

Other

Kansai Employment Creation Organization Inc.
Kantou Employment Creation Organization Inc.
Pasona Dotank Inc.
Pasona CIO Inc.
Pasona Foster Inc.
Pasona Heartful Inc.
e-Staffing Co., Ltd. *
Pasona Education Co. Limited

* Equity-method affiliate
All other unmarked companies are consolidated subsidiaries

Note: For multiple businesses, only the principal business is disclosed.

3. Management Policies

(1) Basic Management Policy of the Company

Based on the corporate philosophy and social mission of providing “Solutions to Society's Problems,” the Pasona Group strives to realize the dreams of each and every individual in their efforts to reenter the workforce, seek new challenges, achieve new goals by solving the diverse employment issues that confront job seekers and to **cultivate new employment opportunities where individuals can create their own comfortable lifestyles and freely choose the kind of work they wish to do.** In order to realize this vision, the Group is committed to business development in line with its overarching social mission. To this end, we work diligently to resolve the variety of issues that confront both people and employment while endeavoring to create new employment opportunities.

Japan’s labor market is entering a significant transition period reflecting an increase in the number of elderly, a declining birth rate and an overall drop in the general population. Accordingly, the traditional relationship between “employer” and “employee” is steadily evolving. In similar fashion to the United States and Europe, the Japanese labor market is recognizing a diversity of work styles and placing greater emphasis on the individual and individual strengths. From an employee perspective the focus is less on employment security, shifting increasingly toward efforts that enhance each individual’s market value. In this context, we believe that the ability of Japan’s labor market to rely less on the corporate sector and to realize an **“independent society”** is the key to its future development.

To this end, we recognize the need to establish and develop a diverse infrastructure that allows each individual to choose freely his or her type of employment. While acknowledging the critical nature of a social platform that facilitates each individual in obtaining personal independence, we are also aware that existing support structures are far from adequate. It is therefore in these very circumstances that we recognize our social missions and a business opportunity of significant substance.

For the working individual, the Pasona Group strives to provide positive and appealing work as well as opportunities to advance and a support infrastructure that encompasses employee welfare benefit, administrative and marketing agency services that facilitate each individual in his or her quest for independence. For the company (employer), we put forward effective and efficient human resource strategies, proposals for the optimal use of personnel as a part of wide ranging menu of human resource services as well as undertake other initiatives. Ultimately, our goal is to fulfill the role of a personnel department to Japan’s corporate sector, to effectively change the Japanese employment system and to play a central role in human resource development and business. For the Pasona Group, this is the driving force that underpins sustainable growth and efforts to increase corporate value.

(2) Management Target

Recognizing that human resource-related businesses will in overall terms experience growth over the medium to long term, the Pasona Group will not only focus on the temporary staffing business but also all other highly profitable human resource-related service businesses. In addition, we will actively pursue new businesses with the potential to generate new employment opportunities. Working to diversify our overall Group business activities, we will target sustainable sales growth over the medium to long term while building a balanced business portfolio from a profit perspective.

(3) Medium- to Long-Term Business Strategy and Pending Issues

In order to fulfill our goals of becoming a personnel department to Japan’s corporate sector, to effectively change the Japanese employment system and to play a central role in human resource development and business, the Pasona Group has positioned efforts to build a robust structure and strengthen its operating functions as a key medium-term management objective. Working to realize this objective, we are actively pursuing the following management strategies.

a. Strengthen Group Collaboration

In order to fully function as a robust Group, we will focus on employee education and training as well as the optimal allocation of human resources. At the same time, we will endeavor to enhance the Group’s overall human resource and organizational capabilities, build a structure that is capable of promoting effective Group sales and marketing and further raise market competitiveness.

b. Further Enhance Administrative Efficiency

The Pasona Group will further enhance administrative efficiency throughout the Group by promoting shared services among back office departments and other initiatives including Group business reorganization.

c. Bolster the Service Function

Efforts will be made to strengthen the specialist temporary staffing business as well as consulting functions in the human resource field. Positioning the outsourcing business as a key area of operation, we will pursue a variety of initiatives including business tie up and alliance, develop and propose new service menus and strive to bolster functions across the board. Through these means, the Pasona Group is committed to becoming a personnel department to Japan’s corporate sector.

At the same time, we will support cross-border human resource exchange. The Pasona Group will work to secure high quality personnel from around the globe in an effort to bolster its activities in the human resource placement and related businesses.

In adopting a holding company structure, we are taking steps to formulate management strategies that encompass the entire Group, to ensure the optimal allocation of resources to growth fields and to further strengthen Group collaboration and cooperation. At the same time, we are bolstering corporate governance with the ultimate aim of increasing Group management transparency. Furthermore, in securing growth opportunities for operating subsidiaries and ensuring that business execution is conducted in a strategic and flexible manner, we are placing ourselves in a position to swiftly respond to changes in the operating environment and to further enhance corporate value.

(4) Pending Issues

In overall terms, the Japanese economy remains mired in uncertainty. While signs are emerging of an improvement in business confidence in certain sections of the market, conditions continue to reflect such inherent downside risks as persistent deflation and instability surrounding the European economy. Under these circumstances, corrections in employment conditions have undeniably moved to the next level with caution toward employment focusing mainly on full-time, permanent employees inevitable. In contrast, the drop in new temporary staffing orders has bottomed out of late, with indications of a positive turnaround emerging. Progress toward the full-fledged application of external human resources is also becoming apparent in the corporate sector. Taking into consideration the increase in Insourcing (Contracting) and outsourcing demand, and from the perspective of enhancing management efficiency, the Pasona Group will look to further upgrade and expand its Temporary staffing business in conjunction with its Insourcing (Contracting) and Outsourcing activities. In order to further bolster its structure and systems that aim to provide total solution services, the Pasona Group will pursue business development based on the following three strategic priorities.

a. Further expand the Insourcing and Outsourcing businesses

On the occasion of the establishment of Pasona Dotank Inc. in April 2009, the Company took steps to reinforce its consulting, sales and marketing capabilities during the fiscal year ended May 31, 2010 while at the same time expanding its Insourcing and Outsourcing menus. In particular, the Company placed considerable emphasis on swiftly establishing a sound human resource infrastructure and platform in order to respond in a flexible and accurate manner to increasingly diverse and sophisticated customer contracts. Establishing this infrastructure entails among other things, increasing the number of HR consultants and developing the project managers, who oversee onsite outsourcing operations, through practical training focusing mainly on OJT.

In the fiscal year ending May 31, 2011, the Pasona Group will take full advantage of this service infrastructure to focus on securing contracts. To this end, and to enhance the business and operating efficiency of its customers, the Group will place considerable weight on strengthening its sales and marketing and to implement its total service menu from consulting through to the actual provision of services.

b. Promote increasingly sophisticated and specialized Expert Services (Temporary staffing)

In the fiscal year ended May 31, 2010, the Pasona Group took steps to build a platform that is capable of strengthening the Group’s overall specialized (technical) temporary staffing activities. As a part of these endeavors, the Group acquired MITSUI BUSSAN HUMAN RESOURCES CORPORATION and AIG Staff Co., Ltd., specialized temporary staffing companies, and included Pasona Tech, Inc. within the Group’s scope of consolidation as a wholly owned subsidiary.

In the fiscal year ending May 31, 2011, the Pasona Group will work diligently to increase the number of specialists in each of several areas including the office and administration areas that call for such specialized skills as data processing and analysis, as well as the IT, accounting, trading, secretarial and healthcare fields. At the same time, the Group will implement measures aimed at upgrading and expanding training systems that target temporary staff. Our overarching goals are essentially twofold, to increase customer satisfaction and assist in the career development of temporary staff.

c. Pursue Group sales and marketing based mainly from the Group’s comprehensive office

Consolidating its major Group companies and urban bases, the Pasona Group established a Group comprehensive office in Otemachi, Tokyo in December 2009. At the same time, the Group accelerated efforts to reorganize the Group’s businesses during the fiscal year ended May 31, 2010. Through these means, the Pasona Group pushed forward with initiatives to unify and consolidate the Group’s overall strengths.

In the fiscal year ending May 31, 2011, the Pasona Group will harness to a maximum extent the collective capabilities of the Group and further bolster its sales and marketing skills. Complementing these measures, the Group will also increase Group synergy benefits as well as operating efficiency. At the same time, every effort will be made to actively reduce costs and to boost Group profitability.

While promoting the aforementioned strategic priorities, the Pasona Group will simultaneously focus on developing its overseas services, an area earmarked for future growth, as well as the social welfare field including child and nursing care.

4. Consolidated Financial Statements

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

		As of May 31, 2009		As of May 31, 2010
ASSETS				
Current assets				
Cash and deposits		14,419		12,629
Notes and accounts receivable—trade		18,948		17,900
Short-term investment securities		202		202
Inventories	*2	328	*2	318
Deferred tax assets		1,380		817
Income taxes receivable		557		526
Other		1,600		2,658
Allowance for doubtful accounts		(80)		(65)
Total current assets		37,358		34,986
Noncurrent assets				
Property, plant and equipment				
Buildings	*3	4,236	*3	4,390
Accumulated depreciation		(1,303)		(1,391)
Buildings, net		2,933		2,999
Land		1,255		1,256
Lease assets		34		2,215
Accumulated depreciation		(5)		(117)
Lease assets, net		29		2,098
Other	*3	2,023	*3	2,036
Accumulated depreciation		(1,212)		(1,418)
Other, net		810		618
Total property, plant and equipment		5,029		6,972
Intangible assets				
Goodwill		331		798
Software	*3	3,324	*3	2,886
Lease assets		2		78
Other		83		86
Total intangible assets		3,741		3,850
Investments and other assets				
Investment securities	*1	1,272	*1	1,304
Long-term loans receivable		227		270
Deferred tax assets		839		331
Lease and guarantee deposits		6,146		4,143
Other		1,243		760
Allowance for doubtful accounts		(38)		(13)
Allowance for investment loss		(350)		(337)
Total investments and other assets		9,338		6,460
Total noncurrent assets		18,110		17,282
Total assets		55,468		52,269

(Millions of yen)

	As of May 31, 2009	As of May 31, 2010
LIABILITIES		
Current liabilities		
Accounts payable—trade	1,568	1,523
Short-term loans payable	6,401	657
Current portion of bonds	36	36
Lease obligations	31	314
Accounts payable—other	2,510	2,387
Accrued expenses	8,957	7,952
Income taxes payable	830	862
Accrued consumption taxes	1,712	1,190
Unearned revenue	—	3,379
Provision for bonuses	1,650	1,615
Provision for directors' bonuses	7	4
Other	5,127	1,501
Total current liabilities	28,834	21,426
Noncurrent liabilities		
Bonds payable	164	128
Long-term loans payable	4	2,149
Lease obligations	39	2,215
Provision for retirement benefits	872	1,065
Provision for directors' retirement benefits	306	—
Other	97	304
Total noncurrent liabilities	1,485	5,863
Total liabilities	30,319	27,289
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	6,517	6,054
Retained earnings	12,995	13,200
Treasury stock	(4,799)	(3,493)
Total shareholders' equity	19,713	20,761
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	0	8
Foreign currency translation adjustment	(77)	(81)
Total valuation and translation adjustments	(76)	(72)
Minority interests	5,512	4,290
Total net assets	25,148	24,979
Total liabilities and net assets	55,468	52,269

(2) CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
Net sales	218,699	183,515
Cost of sales	175,114	146,784
Gross profit	43,585	36,731
Selling, general and administrative expenses	*1,2 40,735	*1 33,070
Operating income	2,850	3,660
Non-operating income		
Interest income	35	12
Equity in earnings of affiliates	85	105
Subsidy income	323	205
Unused point settlement income	*7 94	—
Compensation income	78	160
Other	125	96
Total non-operating income	742	581
Non-operating expenses		
Interest expenses	75	71
Commitment fee	60	68
Other	96	58
Total non-operating expenses	231	197
Ordinary income	3,361	4,044
Extraordinary income		
Gain on sales of noncurrent assets	*3 0	*3 1
Gain on sales of investment securities	87	—
Gain on sales of subsidiaries and affiliates' stocks	—	0
Reversal of allowance for doubtful accounts	—	15
Subsidy	25	—
Reversal of provision for directors' retirement benefit	643	150
Reversal of loss on liquidation of subsidiaries and affiliates	—	18
Reversal of allowance for investment loss	—	13
Total extraordinary income	757	198
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	*4 256	*4 238
Loss on reduction of noncurrent assets	*5 25	—
Loss on sales of investment securities	75	6
Loss on valuation of investment securities	215	3
Loss on sales of stocks of subsidiaries and affiliates	39	—
Impairment loss	*6 11	*6 1
Provision of allowance for investment loss	350	—
Loss on change in equity	25	9
Head office transfer cost	166	149
Loss on liquidation of subsidiaries and affiliates	64	—
Total extraordinary loss	1,232	409
Income before income taxes	2,885	3,833
Income taxes－current	1,765	1,533
Income taxes－deferred	52	1,171
Income taxes	1,818	2,704
Minority interests in income	755	923
Net income	312	204

(3) CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of yen)

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
Shareholders' Equity		
Common Stock		
Balance as of May 31, 2009	5,000	5,000
Changes of items during the period		
Total changes of items during the period	—	—
Balance as of May 31, 2010	5,000	5,000
Capital surplus		
Balance as of May 31, 2009	8,887	6,517
Changes of items during the period		
Dividends from surplus-other capital surplus	(757)	(233)
Retirement of treasury stock	(1,613)	—
Disposal of treasury stock	—	(229)
Total changes of items during the period	(2,370)	(462)
Balance as of May 31, 2010	6,517	6,054
Retained earnings		
Balance as of May 31, 2009	12,682	12,995
Changes of items during the period		
Net income	312	204
Total changes of items during the period	312	204
Balance as of May 31, 2010	12,995	13,200
Treasury stock		
Balance as of May 31, 2009	(2,257)	(4,799)
Changes of items during the period		
Purchase of treasury stock	(4,154)	—
Retirement of treasury stock	1,613	—
Disposal of treasury stock	—	1,306
Total changes of items during the period	(2,541)	1,306
Balance as of May 31, 2010	(4,799)	(3,493)
Total shareholders' equity		
Balance as of May 31, 2009	24,312	19,713
Changes of items during the period		
Dividends from surplus-other capital surplus	(757)	(233)
Net income	312	204
Purchase of treasury stock	(4,154)	—
Retirement of treasury stock	—	—
Disposal of treasury stock	—	1,076
Total changes of items during the period	(4,599)	1,048
Balance as of May 31, 2010	19,713	20,761
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance as of May 31, 2009	41	0
Changes of items during the period		
Net changes of items other than shareholders' equity	(41)	8
Total changes of items during the period	(41)	8
Balance as of May 31, 2010	0	8

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
Foreign currency translation adjustment		
Balance as of May 31, 2009	(22)	(77)
Changes of items during the period		
Net changes of items other than shareholders' equity	(54)	(3)
Total changes of items during the period	(54)	(3)
Balance as of May 31, 2010	(77)	(81)
Total valuation and translation adjustments		
Balance as of May 31, 2009	19	(76)
Changes of items during the period		
Net changes of items other than shareholders' equity	(95)	4
Total changes of items during the period	(95)	4
Balance as of May 31, 2010	(76)	(72)
Minority interests		
Balance as of May 31, 2009	5,136	5,512
Changes of items during the period		
Net changes of items other than shareholders' equity	376	(1,221)
Total changes of items during the period	376	(1,221)
Balance as of May 31, 2010	5,512	4,290
Total net assets		
Balance as of May 31, 2009	29,468	25,148
Changes of items during the period		
Dividends from surplus	(757)	(233)
Net income	312	204
Purchase of treasury stock	(4,154)	—
Disposal of treasury stock	—	1,076
Net changes of items other than shareholders' equity	280	(1,217)
Total changes of items during the period	(4,319)	(169)
Balance as of May 31, 2010	25,148	24,979

(4) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
Net cash provided by (used in) operating activities		
Income before income taxes	2,885	3,833
Depreciation and amortization	1,911	1,902
Impairment loss	11	1
Amortization of goodwill	314	308
Increase (decrease) in allowance for doubtful accounts	(24)	(37)
Increase (decrease) in allowance for investment loss	350	(13)
Increase (decrease) in provision for bonuses	(258)	(41)
Increase (decrease) in provision for directors' bonuses	(5)	(2)
Increase (decrease) in provision for retirement benefits	63	145
Increase (decrease) in provision for directors' retirement benefits	(636)	(306)
Increase (decrease) in allowance for head office transfer cost	(430)	—
Interest and dividends income	(40)	(19)
Interest expenses	75	71
Subsidy income	(349)	(205)
Foreign exchange losses (gains)	9	—
Equity in (earnings) losses of affiliates	(85)	(105)
Loss (gain) on change in equity	25	9
Loss (gain) on sales and retirement of noncurrent assets	256	236
Loss on reduction of noncurrent assets	25	—
Loss (gain) on sales of investment securities	(12)	6
Loss (gain) on valuation of investment securities	215	3
Loss (gain) on sales of stocks of subsidiaries and affiliates	39	(0)
Decrease (increase) in notes and accounts receivable—trade	4,356	1,653
Decrease (increase) in inventories	182	10
Decrease (increase) in other assets	625	(463)
Increase (decrease) in operating debt	(2,266)	(1,250)
Increase (decrease) in accrued consumption taxes	(790)	(725)
Increase (decrease) in deposits received	—	(1,670)
Increase (decrease) in other liabilities	725	853
Other	5	1
Subtotal	7,181	4,194
Interest and dividends income received	43	20
Interest expenses paid	(33)	(104)
Proceeds from subsidy	324	208
Income taxes paid	(3,071)	(1,442)
Net cash provided by operating activities	4,443	2,875

(Millions of yen)

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
Net cash provided by (used in) investment activities		
Decrease (increase) in time deposits	(82)	202
Purchase of property, plant and equipment	(1,553)	(614)
Proceeds from sales of property, plant and equipment	1	1
Purchase of intangible assets	(1,654)	(490)
Purchase of investment securities	(53)	(68)
Proceeds from sales of investment securities	185	88
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	*2 (25)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	*4 29
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	*3 (30)	—
Purchase of investments in subsidiaries	(63)	(1,386)
Payments of loans receivable	(115)	(109)
Collection of loans receivable	78	66
Payments for lease and guarantee deposits	(1,817)	(212)
Proceeds from collection of lease and guarantee deposits	186	2,246
Other	(47)	(117)
Total net cash used in investment activities	(4,966)	(387)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	6,289	(6,324)
Proceeds from long-term loans payable	—	2,900
Repayment of long-term loans payable	(2)	(172)
Repayments of finance lease obligations	(29)	(141)
Proceeds from issuance of bonds	196	—
Redemption of bonds	—	(36)
Proceeds from stock issuance to minority shareholders	154	17
Purchase of treasury stock	(4,154)	—
Purchase of treasury stock of subsidiaries in consolidation	(335)	—
Cash dividends paid	(754)	(233)
Cash dividends paid for minority	(285)	(284)
Other, net	—	(0)
Total net cash provided by (used in) financing activities	1,077	(4,275)
Effect of exchange rate change on cash and cash equivalents	(46)	(9)
Net increase (decrease) in cash and cash equivalents	507	(1,796)
Cash and cash equivalents at the beginning of the period	13,612	14,120
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(0)	—
Cash and cash equivalents at the end of the period	*1 14,120	*1 12,324

(5) Notes to Going Concern Assumption

None

(6) Important Items Considered Fundamental to the Preparation of Consolidated Financial Statements

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
1. Scope of Consolidation	(1) Consolidated subsidiaries: 36 consolidated subsidiaries: Pasona Inc. Benefit One Inc. Pasona Tech, Inc. Pasona Career Inc. HR Partners Inc. NARP Inc. Kansai Employment Creation Organization Inc. Kantou Employment Creation Organization Inc. Pasona CIO Inc. Pasona Kyoto Inc. Pasona Empower Inc. Pasona Global Inc. Pasona Fortune Inc. Pasona e-Professional, Inc. Pasona Okayama Inc. Pasona Sparkle Inc. Pasona Dotank Inc. Pasona Sourcing Inc. Pasona Foster Inc. Pasona Logicom Inc. Pasona Heartful Inc. Pasona Engineering Inc. Global Healthcare, Inc. Benefit One Partners Inc. TEAM PASONA INDIA COMPANY LIMITED Pasona NA, Inc. Pasona Taiwan Co., Ltd. Pasona Employment Agency (Thailand) Co., Ltd. Pasona Singapore Pte. Ltd. PASONA CANADA, INC. Pasona Education Co. Limited PASONA ASIA CO., LIMITED Pasona MIC, Inc. MGR Search and Selection Co., Ltd. Pasona Human Resources (Shanghai) Co., Ltd. Pasona Management Consultancy (Shenzhen) Co., Ltd.	(1) Consolidated subsidiaries: 33 consolidated subsidiaries: Pasona Inc. Benefit One Inc. Pasona Tech, Inc. Pasona Dotank Inc. HR Partners Inc. Kansai Employment Creation Organization Inc. Kantou Employment Creation Organization Inc. Pasona CIO Inc. Pasona Kyoto Inc. Pasona Nagasaki Inc. Pasona Empower Inc. Pasona Global Inc. Pasona Fortune Inc. Pasona e-Professional, Inc. Pasona Okayama Inc. Pasona Foster Inc. Pasona Sparkle Inc. Pasona Sourcing Inc. Pasona Engineering Inc. AIG STAFF Co., Ltd. Pasona Logicom Inc. Pasona Heartful Inc. TEAM PASONA INDIA COMPANY LIMITED Pasona NA, Inc. Pasona Taiwan Co., Ltd. Pasona Employment Agency (Thailand) Co., Ltd. Pasona Singapore Pte. Ltd. PASONA CANADA, INC. Pasona Education Co. Limited PASONA ASIA CO., LIMITED Pasona MIC, Inc. MGR Search and Selection Co., Ltd. Pasona Human Resources (Shanghai) Co., Ltd.

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
	Pasona CIO Inc. was newly incorporated as consolidated subsidiaries. Financial Sun, Inc., Pasona Sportsmate Inc., Pasona Temp to Perm, Inc. and Pasona Insurance Inc. were excluded from the scope of consolidation following a merger with Pasona Inc. Speak Line Inc. was excluded from the scope of consolidation following its liquidation. PASONA EUROPE LIMITED was excluded from the scope of consolidation following the sale of all of its shares. Pasona Youth Inc. transferred a portion of its marketing function to Pasona by way of corporate separation and spin off. Those functions that fell outside the scope of the aforementioned corporate separation and spin off were merged utilizing a consolidation and takeover method with Pasona REP Power Inc. as the surviving company. Pasona REP Power Inc. has subsequently changed its name to Pasona Dotank Inc. (2) Non-consolidated subsidiary: Names of non-consolidated subsidiaries: Pasonatech Consulting (Dalian) Co., Ltd. Pasona Tech Vietnam Co., Ltd. The assets, sales, net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) are considered insignificant and deemed to have immaterial impact on the consolidated financial statements. As a result, these non-consolidated subsidiaries have been excluded from the scope of consolidation.	Benefit One Partners Inc. and Global Healthcare, Inc. merged with Benefit One Inc. and expired. NARP Inc. and Pasona Management Consultancy(Shenzhen) Co.,Ltd were excluded from the scope of consolidation following its liquidation. AIG STAFF Co., Ltd. became a consolidated subsidiary during the period under review through the acquisition of stock. Pasona Nagasaki Inc. previously an affiliated company accounted for by the equity method, became a consolidated subsidiary during the period under review through the acquisition of additional stock. Pasona Inc. merged with Pasona Career Inc. and expired. Moreover, after completion of the aforementioned merger, Pasona Career Inc. changed its corporate name to Pasona Inc. (2) Non-consolidated subsidiary: Names of non-consolidated subsidiaries: Pasonatech Consulting (Dalian) Co., Ltd. Pasona Tech Vietnam Co., Ltd. DFMANAGEMENT Corporation General Incorporated Association DIRECTFORCE The assets, sales, net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) are considered insignificant and deemed to have immaterial impact on the consolidated financial statements. As a result, these non-consolidated subsidiaries have been excluded from the scope of consolidation.
2. Application of the Equity Method	(1) Number of affiliated companies that are accounted for by the equity method: 5 companies The names of equity-method affiliates are as follows: E-Staffing Co., Ltd. Pasona Nakakyushu Inc. National Examination Center Inc. Pasona Nagasaki Inc. Execube Inc.	(1) Number of affiliated companies that are accounted for by the equity method: 3 companies The names of equity-method affiliates are as follows: E-Staffing Co., Ltd. Pasona Nakakyushu Inc. National Examination Center Inc.

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
		Pasona Nagasaki Inc. became a consolidated subsidiary and was excluded from the scope of consolidation as affiliated companies were accounted for by the equity method. Execube Inc. was excluded from the scope of consolidation as affiliated companies were accounted for by the equity method following the sale of all of its shares by Benefit One Inc.
	(2) Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method: Names of non-consolidated subsidiaries and affiliated companies: Pasonatech Consulting (Dalian) Co., Ltd. Pasona Tech Vietnam Co.,Ltd. Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method were excluded from the scope of consolidation as their net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) had an immaterial impact on the Group, and their overall importance to the Group's performance was limited.	(2) Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method: Names of non-consolidated subsidiaries and affiliated companies: Pasonatech Consulting (Dalian) Co., Ltd. Pasona Tech Vietnam Co.,Ltd. DFMANAGEMENT Corporation General Incorporated Association DIRECTFORCE Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method were excluded from the scope of consolidation as their net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) had an immaterial impact on the Group, and their overall importance to the Group's performance was limited.
3. Fiscal Year-End Financial Statements of Consolidated Subsidiaries	The fiscal year-end of Pasona Inc. is the same as the fiscal year-end of the Company. The fiscal year-end of Pasona Human Resources (Shanghai) Co., Ltd. and Pasona Management Consultancy (Shenzhen) Co., Ltd. is December 31. The provisional financial statements of Pasona Human Resources (Shanghai) Co., Ltd. and Pasona Management Consultancy (Shenzhen) Co., Ltd. as of March 31 are used in the preparation of the consolidated financial statements. The fiscal year-end of 33 remaining consolidated subsidiaries is March 31. The financial statements of these consolidated subsidiaries as of March 31 are used in the preparation of the consolidated financial statements. Where significant transactions have occurred during the period between these fiscal year-ends and the consolidated fiscal year-end, the consolidated financial statements are adjusted accordingly.	The fiscal year-end of Pasona Inc. has been changed from March 31 to May 31 and is now the same as the consolidated fiscal year-end. The fiscal year-end of Pasona Human Resources (Shanghai) Co., Ltd. is December 31. The provisional financial statements of Pasona Human Resources (Shanghai) Co., Ltd. as of March 31 are used in the preparation of the consolidated financial statements. The fiscal year-end of 31 remaining consolidated subsidiaries is March 31. The financial statements of these consolidated subsidiaries as of March 31 are used in the preparation of the consolidated financial statements. Where significant transactions have occurred during the period between these fiscal year-ends and the consolidated fiscal year-end, the consolidated financial statements are adjusted accordingly.

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
4. Accounting Policies (1) Valuation standard and valuation method of important assets	A. Securities (other securities) 1. Securities with quoted market values 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 net assets. Costs of these securities are calculated based on the moving-average cost method.) 2. Securities without quoted market values Securities without quoted market value are stated on cost basis using the moving-average cost method. B. Inventories Inventories are stated at cost (marking down the book value of balance sheet items in line the decrease in profitability) method 1.Merchandise: Moving-average cost method 2. Supplies: Last invoice cost method	A. Securities (other securities) 1. Securities with quoted market values As left. 2. Securities without quoted market values As left. B. Inventories As left.
(2) Depreciation of important depreciable assets	A. Property, plant and equipment (excluding lease assets) 1. Buildings (excluding associated equipment and facilities): Straight-line method 2. Other property, plant and equipment: Mainly the declining balance method B. Noncurrent assets (excluding lease assets) Software: Straight-line method over the useful life of the asset estimated by the Company (within five years) C. Lease assets Finance lease transactions that do not transfer ownership: Lease assets are depreciated with the lease periods as their useful lives and no residual value.	A. Property, plant and equipment (excluding lease assets) As left. B. Noncurrent assets (excluding lease assets) Software: As left. C. Lease assets Finance lease transactions that transfer ownership: The same depreciation and amortization methods used for fixed assets held are applied. Finance lease transactions that do not transfer ownership: Lease assets are depreciated with the lease periods as their useful lives and no residual value.

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
(3) Accounting policies for important deferred assets	Stock issuance cost Expenses relating to the issuance of new shares are charged to income in full when paid.	Stock issuance cost As left.
(4) Accounting policies for important provisions	A. Allowance for doubtful receivables The Company and its consolidated subsidiaries provide for doubtful receivables based on the historical bad-debt rate as normal loans, and the amount deemed necessary to cover individual accounts estimated to be uncollectible. B. Provision for bonuses The Company and its consolidated subsidiaries provide for employee bonus payments at an estimated amount to be paid for the period. C. Provision for directors' bonuses The Company and its consolidated subsidiaries provide for directors' bonus payments at an estimated amount to be paid for the period. D. Provision for retirement benefits 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 assets as of the end of the fiscal period. Actuarial gains and losses are recognized as expenses in the next fiscal year. In addition, the amount of pension assets exceeded the amount payable for employees' severance and retirement benefits adjusted for unrecognized actuarial differences as of the end of the fiscal year for certain consolidated subsidiaries. As a result, an amount of ¥243 million representing prepaid pension expenses was included in the "other investments" accounting line item of "investments and other assets."	A. Allowance for doubtful receivables As left. B. Provision for bonuses As left. C. Provision for directors' bonuses As left. D. Provision for retirement benefits 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 assets as of the end of the fiscal period. Actuarial gains and losses are recognized as expenses in the next fiscal year. In addition, the amount of pension assets exceeded the amount payable for employees' severance and retirement benefits adjusted for unrecognized actuarial differences as of the end of the fiscal year for certain consolidated subsidiaries. As a result, an amount of ¥19 million representing prepaid pension expenses was included in the "other investments" accounting line item of "investments and other assets." (Changes in Accounting Methods) Effective from the fiscal year under review, the Company has applied the "Partial Amendments to Accounting Standards for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan Statement No. 19, issued on July 31, 2008). There was no impact on profit and loss as a result of the application of the statement.

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
	E. Provision for directors' retirement benefits A portion of consolidated subsidiaries provide an allowance for retirement benefits for directors and executive officers in conformity with bylaws to meet obligations as of the end of the fiscal year under review. (Additional information) The Company and a portion of consolidated subsidiaries terminated and abandoned their respective retirement benefit systems for directors, corporate auditors and executive officers. As a result, steps were taken to reverse an amount totaling ¥637 million from the provision for directors' retirement benefits. F. Allowance for investment loss For marketable securities with no market value, an amount deemed necessary has been recorded to cover potential future losses. (Additional information) For marketable securities with no market value, an amount deemed necessary has been recorded in the fiscal year ended May 31, 2009 to cover potential future losses taking into consideration to financial conditions of the relevant companies and collectability. In the fiscal year ended May 31, 2009, an extraordinary loss totaling ¥350 million has been recorded as provision of allowance for investment loss.	E. Provision for directors' retirement benefits ——————— (Additional information) A portion of consolidated subsidiaries terminated and abandoned their respective retirement benefit systems for directors, corporate auditors and executive officers. As a result, steps were taken to reverse an amount totaling ¥150 million from the provision for directors' retirement benefits. F. Allowance for investment loss As left.
(5) Other Significant Accounting Policies for preparing Full Fiscal Year Consolidated Financial Statement	Consumption taxes Consumption taxes are separately recorded.	As left.
5. Valuation of Assets and Liabilities of Consolidated Subsidiaries	The assets and liabilities of the consolidated subsidiaries are evaluated at mark to market value.	As left.
6. Amortization of Goodwill and Negative Goodwill	For amortization of goodwill, the Company and its consolidated subsidiaries employ a straight-line method over a period of two to five years. For immaterial amounts of goodwill, the Company and its consolidated subsidiaries charge these amounts in full to the income statement at the time they occur.	As left.
7. Scope of "Cash and Cash Equivalents" in Full Fiscal Year Consolidated Statement of Cash Flows	"Cash and cash equivalents" in the consolidated statement of cash flows includes cash on hand, readily available deposits, and short-term investments with original maturities not exceeding three months, which are highly liquid and virtually risk-free with respect to change of value.	As left.

(7) Changes in Important Items Considered Fundamental to the Preparation of Consolidated Financial Statements

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
(Valuation standard and valuation method for inventories) From the fiscal year ended May 31, 2009, Pasona Group has applied “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan Standard No. 9 issued on July 5, 2006). There was no impact on the Group’s earnings as a result of the application of this accounting standard.	―――――――――
(Application of the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Statements”) Effective the fiscal year ended May 31, 2009, Pasona Group has applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Statements” (ASBJ Practical Issues Task Force No. 18, May 17, 2006) and at the same time undertaken all necessary modifications from a consolidated account settlement perspective. The impact of the application of the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Statements” on the Group’s earnings is immaterial.	―――――――――
(Application of the “Accounting Standard for Lease Transactions”) Finance lease transactions that do not transfer ownership have historically been accounted for as operating leases. Effective from the fiscal year ended May 31, 2009, Pasona Group applied the “Accounting Standard for Lease Transactions” (Business Accounting Council, the 1st Committee Standard No. 13, first implemented on June 17, 1993 and last amended by the ASBJ on March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions,” (the Japanese Institute of Certified Public Accountants, Accounting Practice Committee Guidance No. 16, first implemented on January 18, 1994 and last amended by the ASBJ on March 30, 2007). As a result of this application, finance lease transactions that do not transfer ownership are treated as sales and purchase transactions. Taking the aforementioned into consideration, the impact on Pasona Group’s consolidated earnings is immaterial. With regard to finance lease transactions that do not transfer ownership that occurred prior to the beginning of the fiscal year to which they are applied, the accounting treatment applicable to operating lease transactions is applied.	―――――――――
―――――――――	(Application of the “Implementation Guidance on Determining the Scope of Subsidiaries and Affiliates in Consolidated Financial Statements”) Effective from the fiscal year under review, the Company has applied the “Implementation Guidance on Determining the Scope of Subsidiaries and Affiliates in Consolidated Financial Statements” (Accounting Standards Board of Japan Implementation Guidance for Accounting Standard No. 22, issued on May 13, 2008). There was no impact on profit and loss or segment information as a result of the application of the implementation guidance.

(Changes in Presentation Methods)

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
(Consolidated Balance Sheet) Lease obligations totaling ¥25 million recorded in the current liabilities accounting line item accounts payable — other and lease obligations totaling ¥40 million recorded in the noncurrent liabilities accounting line item long-term payables — other for the fiscal year ended May 31, 2009 have been recorded as separate and independent accounting line items in current liabilities and noncurrent liabilities effective from the fiscal year ended May 31, 2010 due to their increases significance. Taking into consideration the aforementioned, as of May 31, 2008 an amount totaling ¥12 million was recorded as the separate accounting line item "long-term accounts payable-other." Due to the relative unimportance of this item as of May 31, 2009, the applicable amount was recorded under "other long-term liabilities."	(Consolidated Balance Sheet) Unearned revenue totaling ¥2,093 million recorded in the current liabilities accounting line item "other" for the fiscal year ended May 31, 2009 has been recorded as a separate and independent accounting line item in current liabilities effective from the fiscal year ended May 31, 2010 due to their increases significance.
(Statement of Cash Flows) In the fiscal year ended May 31, 2008, payment for lease and guarantee deposits totaling ¥676 million and proceeds from collection of lease and guarantee deposits amounting to ¥222 million were recorded in "other" cash flows from investing activities. In the fiscal year ended May 31, 2009, separate accounting line item amounts were recorded for each of "payment for lease and guarantee deposits" and "proceeds from collection of lease and guarantee deposits" due to their increased importance.	(Statement of Cash Flows) In the fiscal year ended May 31, 2009, increase in deposits received totaling ¥312 million was recorded in "other" cash flows from operating activities. In the fiscal year ended May 31, 2010, a separate accounting line item amount was recorded for "increase in deposits received" due to their increased importance.

(Additional information)

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
————————	(Accounting method for subsidy income) Previously, the Company has recorded subsidy income as non-operating income. In connection with that portion of subsidy income that relates to development support and training directed toward the agriculture, forestry and fisheries management bodies of persons engaged in other industries, effective from the fiscal year under review, subsidy income is offset against SG&A expenses due to the growing importance of its amount. This also takes into account the policy objective of the Ministry of Agriculture, Forestry and Fisheries of Japan to subsidize the overhead expenses of this business. On a comparative basis utilizing the previous method, SG&A expenses for the fiscal year ended May 31, 2010 decrease ¥111 million while operating income increases ¥111 million. The impact on the business segments of the Company are outlined in each business segment section of this report.

(8) Notes to Consolidated Financial Statement

Disclosure omitted

The Company deems that there is no item of significant importance in connection with lease transactions, transactions with related parties, tax-effect accounting, financial products, securities, derivatives, severance and retirement benefits, stock options, lease property, as well as other matters to be disclosed in this consolidated financial report. Accordingly, this information has been omitted.

Notes to Consolidated Balance Sheets

(Millions of yen unless otherwise stated)

As of May 31, 2009		As of May 31, 2010	
*1 Shares in non-consolidated subsidiaries and affiliated companies		*1 Shares in non-consolidated subsidiaries and affiliated companies	
Investment securities (stocks)	645	Investment securities (stocks)	756
*2 Breakdown of Inventories		*2 Breakdown of Inventories	
Merchandise	227	Merchandise	232
Supplies	100	Supplies	82
Work in process	0	Work in process	2
*3 In connection with the acceptance of government and other subsidies, a noncurrent assets advanced depreciation accumulated amount of ¥60 million was deducted from the acquisition amount. The breakdown of this advanced depreciation accumulated amount was buildings ¥1 million, other tangible assets ¥58 million and software ¥0 million.		*3 In connection with the acceptance of government and other subsidies, a noncurrent assets advanced depreciation accumulated amount of ¥57 million was deducted from the acquisition amount. The breakdown of this advanced depreciation accumulated amount was buildings ¥0 million, other tangible assets ¥55 million and software ¥0 million.	

Notes to Consolidated Statements of Income

(Millions of yen unless otherwise stated)

FY2008 (For the year ended May 31, 2009)		FY2009 (For the year ended May 31, 2010)	
*1 Breakdown of major selling, general and administrative expenses		*1 Breakdown of major selling, general and administrative expenses	
Employees' salaries and bonuses	16,050	Employees' salaries and bonuses	13,992
Provision for bonuses	1,345	Provision for bonuses	1,105
Provision for directors' bonuses	4	Provision for directors' bonuses	4
Welfare expenses	3,225	Welfare expenses	2,522
Retirement benefit expenses	493	Retirement benefit expenses	621
Provision for directors' retirement benefits	57	Offering expenses	549
Offering expenses	1,777	Rent expenses	4,231
Rent expenses	4,921	Depreciation	1,407
Depreciation	1,582	Amortization of goodwill	315
Provision of allowance for doubtful accounts	25		
Amortization of goodwill	315		

(Millions of yen unless otherwise stated)

<table>
<tr><th>FY2008
(For the year ended May 31, 2009)</th><th>FY2009
(For the year ended May 31, 2010)</th></tr>
<tr><td>*2 Research and development expenses

Research and development expenses included in selling, general and administrative expenses: 2</td><td>————————</td></tr>
<tr><td>*3 Breakdown of gain on sales of noncurrent assets:

Other tangible assets 0</td><td>*3 Breakdown of gain on sales of noncurrent assets:

Other tangible assets 1</td></tr>
<tr><td>*4 Breakdown of loss on sales and disposal of fixed assets:
Loss on retirement
Buildings 174
Other tangible assets 37
Software 43

Loss on sales
Buildings 0
Other tangible assets 0
256</td><td>*4 Breakdown of loss on sales and disposal of fixed assets:
Loss on retirement
Buildings 182
Other tangible assets 33
Software 22

Loss on sales
Other tangible assets 0
238</td></tr>
<tr><td>*5 The breakdown of the amount directly deducted from the acquisition amount of assets acquired relating to government and other subsidies is as follows:

Buildings 0
Other tangible assets 24
25</td><td>————————</td></tr>
<tr><td>*6 Impairment loss

For the fiscal year ended May 31, 2009, the Group reported impairment losses in connection with the following asset groups:

(1) Overview of asset groups in which impairment losses were recognized:

<table><tr><th>Location</th><th>Application</th><th>Type</th></tr><tr><td>New Delhi India</td><td>Office equipment, other</td><td>- Buildings and accompanying facilities
- Tools, furniture and fixtures
- Software</td></tr></table></td><td>*6 Impairment loss

For the fiscal year ended May 31, 2010, the Group reported impairment losses in connection with the following asset groups:

(1) Overview of asset groups in which impairment losses were recognized:

<table><tr><th>Location</th><th>Application</th><th>Type</th></tr><tr><td>Shibuya-ku Tokyo</td><td>Idle assets</td><td>Tools, furniture and fixtures</td></tr></table></td></tr>
</table>

FY2008 (For the year ended May 31, 2009)

(2) Background leading to the recognition of impairment loss

In principle, the Group adopts each individual company as the basic unit for asset groupings and the smallest unit in independent cash flow generation.

Impairment losses have been recognized for office facilities, equipment and related items of New Delhi India for which continued operating use is deemed to have contributed to losses. The impairment loss is the book value of each relevant asset written down to the amount estimated as recoverable.

(3) Amount of impairment loss:

(Millions of yen)

Type	Amount
Buildings and accompanying facilities	4
Tools, furniture and fixtures	2
Software	4
Total	11

The recoverable amount for asset groups is calculated based on the net sales value. The income approach and other methods are used to calculate the net sales value for assets that are transferable. For assets that are not transferable, net sales value is zero reflecting the difficulty of their sale.

*7 Unused point settlement income

Effective March 31, 2009, Pasona Inc., Pasona Group's consolidated subsidiary, terminated its operating staff point service due to changes in its employee welfare benefit system. As a result, the unused portion of unpaid points brought to account in previous fiscal years has been reversed.

FY2009 (For the year ended May 31, 2010)

(2) Background leading to the recognition of impairment loss

In principle, the Group adopts each individual company as the basic unit for asset groupings and the smallest unit in independent cash flow generation.

Impairment losses have been recognized for idle assets with no clear future plan for use located in Shibuya-ku, Tokyo. The impairment loss is the book value of each relevant asset written down to the amount estimated as recoverable.

(3) Amount of impairment loss:

(Millions of yen)

Type	Amount
Tools, furniture and fixtures	1
Total	1

The recoverable amount for asset groups is calculated based on the net sales value. The income approach and other methods are used to calculate the net sales value for assets that are transferable. For assets that are not transferable, net sales value is zero reflecting the difficulty of their sale.

————————

Notes to Changes in Consolidated Shareholders' Equity

FY2008 (For the year ended May 31, 2009)

1. Matters Relating to Shares Issued and Outstanding

(Shares)

Type of Shares	Number of Shares As of May 31, 2008	Increase	Decrease	Number of Shares As of May 31, 2009
Common shares	434,403	—	17,500	416,903

Note: The decrease of 17,500 issued and outstanding shares is attributable to the cancellation of treasury stock on August 29, 2008.

2. Matters Relating to Treasury Stock (Shares)

Type of Shares	Number of Shares As of May 31, 2008	Increase	Decrease	Number of Shares As of May 31, 2009
Common shares	17,500	58,253	17,500	58,253

Notes:

1. The increase of 58,253 shares of treasury stock during the fiscal year ended May 31, 2009 is attributable to the acquisition of additional treasury stock during the period in accordance with a resolution of the Board of Directors.
2. The decrease of 17,500 shares of treasury stock during the fiscal year ended May 31, 2009 is attributable to the cancellation of treasury stock in accordance with a resolution of the Board of Directors.

3. Matters Related to the New Subscription Rights

None.

4. Matters Relating to Dividends

(1) Cash dividend payment amount

Resolution	Type of Shares	Total Cash Dividends Paid (Millions of yen)	Cash Dividend per Common Share (Yen)	Base Date	Effective Date
Board of Directors' meeting held on July 25, 2008	Common shares	541	1,300	May 31, 2008	August 21, 2008
Board of Directors' meeting held on January 9, 2009	Common shares	215	600	November 30, 2008	February 27, 2009

(2) Dividends for which the effective date falls after the fiscal year ended May 31, 2010 included in dividends for fiscal year ended May 31, 2009

Resolution	Type of Shares	Source of Dividend Payment	Total Cash Dividends Paid (Millions of Yen)	Cash Dividend per Common Share (Yen)	Base Date	Effective Date
Board of Directors' meeting held on July 17, 2009	Common shares	Capital surplus	233	650	May 31, 2009	August 27, 2009

FY2009 (For the year ended May 31, 2010)

1. Matters Relating to Shares Issued and Outstanding (Shares)

Type of Shares	Number of Shares As of May 31, 2009	Increase	Decrease	Number of Shares As of May 31, 2010
Common shares	416,903	—	—	416,903

2. Matters Relating to Treasury Stock (Shares)

Type of Shares	Number of Shares As of May 31, 2009	Increase	Decrease	Number of Shares As of May 31, 2010
Common shares	58,253	—	15,852	42,401

Note:

The decrease in the number of shares of 15,852 shares during the fiscal year under review is attributable to a third-party allotment. This third-party allotment was undertaken as a part of the Group's efforts to reorganize its company structure and was in accordance with a resolution of the Board of Directors.

3. Matters Related to the New Subscription Rights

None.

4. Matters Relating to Dividends

(1) Cash dividend payment amount

Resolution	Type of Shares	Total Cash Dividends Paid (Millions of yen)	Cash Dividend per Common Share (Yen)	Base Date	Effective Date
Board of Directors' meeting held on July 17, 2009	Common shares	233	650	May 31, 2009	August 27, 2009

(2) Dividends for which the effective date falls after the fiscal year ended May 31, 2011 included in dividends for the fiscal year ended May 31, 2010

Resolution	Type of Shares	Source of Dividend Payment	Total Cash Dividends Paid (Millions of yen)	Cash Dividend per Common Share (Yen)	Base Date	Effective Date
Board of Directors' meeting held on July 20, 2010	Common shares	Retained earnings	187	500	May 31, 2010	August 23, 2010

Notes to Consolidated Statements of Cash Flows

(Millions of yen)

FY2008 (For the year ended May 31, 2009)		FY2009 (For the year ended May 31, 2010)	
*1 Relationship between the balance of cash and cash equivalents at period-end and cash and deposits reported in the consolidated balance sheets.		*1 Relationship between the balance of cash and cash equivalents at period-end and cash and deposits reported in the consolidated balance sheets.	
	As of May 31, 2009		As of May 31, 2010
Cash and deposits	14,419	Cash and deposits	12,629
Time deposits with deposit term exceeding three months	(501)	Time deposits with deposit term exceeding three months	(508)
Securities (MMF)	202	Securities (MMF)	202
Cash and cash equivalents	14,120	Cash and cash equivalents	12,324

(Millions of yen)

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
————————	*2 Breakdown of major assets and liabilities inherited from newly acquired companies included in the scope of consolidation. Breakdown of major assets and liabilities and the relationship between acquisition costs from the acquisition of stocks (net) of AIG STAFF Co., Ltd. as of the date of the each company's inclusion in the Company's scope of consolidation is as follows. Current assets 233 Noncurrent assets 25 Goodwill 33 Total assets 292 Current liabilities (185) Noncurrent liabilities (15) Total liabilities (201) Acquisition costs of subsidiary companies 90 Subsidiary companies' cash and cash equivalents 65 Difference: Proceeds from purchase of subsidiaries (25)
*3 Breakdown of the major assets and liabilities removed from consolidated assets and liabilities as a result of the sale and exclusion of subsidiary companies from the scope of consolidation. Breakdown of the major assets and liabilities and the relationship between sales costs and the sale of stocks (net) of PASONA EUROPE LIMITED as of the date of exclusion from the Company's scope of consolidation. Current assets 31 Noncurrent assets 10 Total assets 42 Current liabilities 60 Noncurrent liabilities 10 Total liabilities 70 Sale value of subsidiaries' stocks 0 Expenditure at the time of sales (25) (25) Subsidiary companies' cash and cash equivalents 5 Difference: Payments from sales of investments in subsidiaries (30)	————————

(Millions of yen)

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
—————————	*2 Breakdown of major assets and liabilities inherited from newly acquired companies included in the scope of consolidation. Breakdown of major assets and liabilities and the relationship between acquisition costs from the acquisition of stocks (net) of Pasona Nagasaki, Inc. as of the date of the company's inclusion in the Company's scope of consolidation is as follows. Current assets 183 Noncurrent assets 14 Goodwill (3) Total assets 195 Current liabilities (35) Noncurrent liabilities (30) Total liabilities (66) Existing shares (44) Investment value accounted for by the equity method (16) Acquisition costs of subsidiary companies 67 Subsidiary companies' cash and cash equivalents 97 Difference: Proceeds from purchase of subsidiaries 29
	5. Details of importance non-fund transactions The amount of assets and liabilities applicable to newly recorded finance lease transactions for the fiscal year under review amounted to ¥2,598 million, respectively.

(5) Segment Information

FY2008 (For the year ended May 31, 2009)

(Millions of yen)

	Temporary staffing/ Contracting, Placement/ Recruiting	Outplacement	Outsourcing	Other	Total	Eliminations and Corporate	Consolidated
Net sales and operating income (loss)							
(1) Sales to outside customers	196,920	5,789	14,308	1,681	218,699	—	218,699
(2) Intersegment sales and transfers	413	4	416	1,321	2,155	(2,155)	—
Total	197,333	5,794	14,725	3,002	220,855	(2,155)	218,699
Operating expenses	194,041	4,768	12,589	2,990	214,391	1,458	215,849
Operating income (loss)	3,291	1,025	2,135	12	6,464	(3,614)	2,850
Assets, depreciation, impairment loss and capital expenditures:							
Assets	34,617	6,213	11,321	2,234	54,387	1,080	55,468
Depreciation	1,006	202	718	57	1,984	241	2,225
Impairment loss	11	—	—	—	11	—	11
Capital expenditures	1,223	142	1,868	83	3,318	26	3,344

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/Contracting, Placement/Recruiting	Temporary staffing and contracting, placement and recruiting, other
Outplacement	Outplacement support services
Outsourcing	Employee welfare and benefit agency services
Other	Group shared services, child-care operation services, other

3. Unallocable operating expenses included in “Eliminations and Corporate” totaled ¥3,662 million and principally related to Group administrative and management expenses.
4. Assets included in “Eliminations and Corporate” totaled ¥9,872 million and principally related to surplus funds (Cash and deposits) and Group asset management.

FY2009 (For the year ended May 31, 2010)

(Millions of yen)

	Temporary staffing/ Contracting, Placement/ Recruiting	Outplacement	Outsourcing	Other	Total	Eliminations and Corporate	Consolidated
Net sales and operating income (loss)							
(1) Sales to outside customers	154,614	13,478	13,530	1,892	183,515	—	183,515
(2) Intersegment sales and transfers	489	3	261	2,565	3,320	(3,320)	—
Total	155,104	13,481	13,791	4,458	186,835	(3,320)	183,515
Operating expenses	154,474	9,626	11,538	4,578	180,218	(362)	179,855
Operating income (loss)	630	3,854	2,252	(120)	6,617	(2,957)	3,660
Assets, depreciation, impairment loss and capital expenditures:							
Assets	29,876	9,945	11,433	2,313	53,569	(1,299)	52,269
Depreciation expense	918	315	737	132	2,104	95	2,200
Impairment loss	1	—	—	—	1	—	1
Capital expenditures	2,155	656	290	659	3,760	748	4,509

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/Contracting, Placement/Recruiting	Temporary staffing and contracting, placement and recruiting, other
Outplacement	Outplacement support services
Outsourcing	Employee welfare and benefit agency services
Other	Group shared services, child-care operation services, other

3. Unallocable operating expenses included in “Eliminations and Corporate” totaled ¥2,965 million and principally related to Group administrative and management expenses.
4. Assets included in “Eliminations and Corporate” totaled ¥8,718 million and principally related to surplus funds (Cash and deposits) and Group asset management.
5. Additional information

   (Accounting method for subsidy income)

   As identified in Additional Information, the Pasona Group has changed its accounting method for subsidy income relating to development support and training directed toward the agriculture, forestry and fisheries sectors from the first quarter of the fiscal year ended May 31, 2010. Under the newly adopted method, subsidy income is no longer posted as non-operating income. Effective the first quarter of the fiscal year under review, subsidy income is offset against SG&A expenses. As a result, the operating income recorded under Eliminations and Corporate for the fiscal year ended May 31, 2010 increased ¥111 million compared with the previous implemented method.

Information on geographic areas

FY2008 (For the year ended May 31, 2009)

Since the percentage of total segment sales and segment assets in Japan exceeds 90%, information on geographic areas is omitted from this report.

FY2009 (For the year ended May 31, 2010)

Since the percentage of total segment sales and segment assets in Japan exceeds 90%, information on geographic areas is omitted from this report.

Overseas sales

FY2008 (For the year ended May 31, 2009)

Since the percentage of overseas sales to total consolidated sales is less than 10%, information relating to overseas sales is omitted from this report.

FY2009 (For the year ended May 31, 2010)

Since the percentage of overseas sales to total consolidated sales is less than 10%, information relating to overseas sales is omitted from this report.

Important Matters Concerning Business Combination

FY2008 (For the year ended May 31, 2009)

None

FY2009 (For the year ended May 31, 2010)

Common Control Business Relationship

1. Corporate separation

(1) The name, business activities and details of the company subject to business combination or the subject business

a. Name of the company subject to business combination

Pasona Inc.

b. Absorbed company

Pasona Group Inc.

c. The subject business

The administration businesses of Pasona Career, a subsidiary of Pasona Group

(2) Legal format of business combination

The corporate acquisition and separation involves Pasona Group and the Company’s wholly owned subsidiary Pasona as the acquired, separating and succeeding company.

(3) Name of the company after business combination

Pasona Inc.

(4) Overview of the transaction including the purpose of the transaction

a. Purpose of the transaction

As a preliminary measure in the Group's efforts to reorganize and integrate its company structure encompassing all services of the temporary staffing, placement and recruiting and outplacements businesses where customer needs are high, the management business of the Company's Pasona Career Inc. was transferred to Pasona Inc.

b. Overview of the transaction

The Company and Pasona Inc. concluded a merger and corporate separation agreement on December 18, 2009. Corporate separation was effected on March 1, 2009.

(5) Overview of accounting procedures implemented

From an accounting perspective, the subject corporate separation and acquisition was effected in accordance with the "Accounting Standard for Business Combination" (Business Accounting Council, October 31, 2003) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10: Accounting Standards Board of Japan, December 22, 2006). Accounting procedures were conducted on a consolidated financial statement basis as a common control transaction. On this basis, there was no impact on profit and loss.

2. Corporate Acquisition

(1) The name, business activities and details of the company subject to business combination or the subject business

Company Name	Business Activities
Pasona Career Inc.	Outplacement, Placement / Recruiting business
Pasona Inc.	Temporary staffing / Contracting, Placement / Recruiting business

(2) Legal format of business combination

The corporate acquisition and merger were implemented with Pasona Career as the surviving company and Pasona as the expiring company.

(3) Name of the company after business combination

Pasona Inc.

(4) Overview of the transaction including the purpose of the transaction

a. Purpose of the transaction

Consolidated subsidiaries Pasona Inc. and Pasona Career Inc. merged for the purpose of securing a one-stop comprehensive human resource service portfolio that encompasses the entire gambit of high customer need temporary staffing and contracting, placement and recruiting as well as outplacement services.

b. Overview of the transaction

i) Exchange of Shares between Pasona and Pasona Career

On the condition that the subject corporate separation came into effect, Pasona and Pasona Career participated in the aforementioned exchange of shares. With an effective date of March 1, 2010, Pasona, Pasona Group's wholly owned subsidiary, became a sole parent company, and Pasona Career, Pasona Group's subsidiary company, became a Pasona wholly owned subsidiary, through the exchange of shares. Moreover, on the day prior to the share exchange effective date, Pasona acquired from Pasona Group a portion of the latter's own shares. Pasona Group's own shares were delivered to shareholders of Pasona Career other than Pasona as compensation for the subject share exchange.

ii)Corporate Acquisition between Pasona and Pasona Career

On the conditions that the subject corporate separation and share exchange came into effect, Pasona and Pasona Career participated in a corporate acquisition and merger. With and effect date of March 1, 2010, a corporate acquisition and merger were implemented with Pasona Career as the surviving company and Pasona as the expiring company. Furthermore, and as previously identified, Pasona Career changed its company name to Pasona Inc. on the condition that the subject corporate acquisition came into effect. At the same time, the account settlement period was amended from April 1 to March 31 of the following year to June 1 to May 31 of the following year. On this basis, plans were in place to modify the fiscal year from April 1 2009 to March 31, 2010 to the 14-month period of April 1, 2009 to May 31, 2010.

(5) Overview of accounting procedures implemented

From an accounting perspective, the subject corporate separation and acquisition was effected in accordance with the “Accounting Standard for Business Combination” (Business Accounting Council, October 31, 2003) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10: Accounting Standards Board of Japan, December 22, 2006). Accounting procedures were conducted on a consolidated financial statement basis as a common control transaction. On this basis, there was no impact on profit and loss.

Per Share Information

(Yen)

FY2008 (For the year ended May 31, 2009)		FY2009 (For the year ended May 31, 2010)	
Net assets per share	54,751.17	Net assets per share	55,243.50
Earnings per share	834.30	Earnings per share	564.99
Earnings per diluted share	792.12	Earnings per diluted share	555.42

Note:
Net assets per share, earnings per share and earnings per diluted share are calculated on the following basis:

1. Net assets per share

(Millions of yen)

	As of May 31, 2009	As of May 31, 2010
Total net assets	25,148	24,979
Amount deducted from total net assets	5,512	4,290
Net assets applicable to common stock as of the fiscal period-end	19,636	20,688
Number of common stock issued and outstanding as of the end of the period (shares)	416,903	416,903
Number of treasury common stock (shares)	58,253	42,401
Number of common stock used to calculate net assets per share (shares)	358,650	374,502

2. Earnings per share and earnings per diluted share

(Millions of yen)

	FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
Earnings per share		
Net income	312	204
Amount not applicable to shareholders of common stock	—	—
Net income applicable to common stock	312	204
Average number of shares for the period (shares)	374,697	362,645
Earnings per diluted shares		
Net income adjustment amount	(15)	(3)
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 Note: The resolution dates identified in the column on the right related to Annual General Meetings of Shareholders of Pasona Inc.	Common stock with warrants as stock options resolution at the Annual General Meeting of Shareholders held on August 26, 2004 (number of common stock with warrants: 3,033 shares) Common stock with warrants as stock options resolution at the Annual General Meeting of Shareholders held on August 25, 2005 (number of common stock with warrants: 4,070 shares)	Common stock with warrants as stock options resolution at the Annual General Meeting of Shareholders held on August 26, 2004 (number of common stock with warrants: 2,984 shares) Common stock with warrants as stock options resolution at the Annual General Meeting of Shareholders held on August 25, 2005 (number of common stock with warrants: 4,011 shares)

Important Subsequent Events

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
1. Acquisition of Additional Shares of Pasona Tech, Inc. In accordance with a resolution of the Board of Directors at a meeting held on May 21, 2009, Pasona Group acquired all of the issued and outstanding common shares and new share options of Pasona Tech, Inc. (hereafter referred to as "Pasona Tech") by way of a public tender offer. Brief details are provided as follows. (1) Objective of the share acquisition The decision to acquire all of the issued and outstanding common shares and new share options of Pasona Tech was based on the recognition that there was an urgent need to develop a more cohesive relationship with Pasona Tech in order to further enhance the corporate value of Pasona Group, Pasona Tech and the Group as a whole. The decision was also made as a part of Pasona Group's ongoing efforts to rebuild a business structure that will ensure prompt and efficient decision making together with flexible and speedy business development. By positioning Pasona Tech within the Group's cope of consolidation as a wholly owned subsidiary, Pasona Group anticipates it will secure the following specific benefits: a. An increase in sales owing to business domain growth and increased opportunities on the back of a swift and efficient decision-making process as well as flexible and speedy business development specific to Pasona Tech's field of operations which are expected to experience an ongoing positive trajectory b. An improvement in service quality and increased competitive advantage due to a wider range of proposals that accurately address customer needs, and success in the development of comprehensive human resource services built on the concentrated allocation of management resources to areas of growth and greater cohesion and coordination throughout the Group c. A reduction in operating and management costs built on an ability to simultaneously allocate management resources to marketing activities while strengthening the Group's business structure through the combined application of compliance and Group control functions.	————————

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
(2) Name of the company whose shares were acquired, business details and other a. Name: Pasona Tech, Inc. b. Business details; Human resource temporary staffing / contracting, placement / recruiting focusing on IT- and Internet-related engineers c. Head office location: Shibuya-ku, Tokyo d. Paid-in capital: ¥551,500,000 (as of March 31, 2009) e. Name of publicly listed financial product trading exchange: JASDAQ Securities Exchange (3) Date of share acquisition June 22, 2009 (4) Number of shares acquired, acquisition amount and shareholding ratio a. Number of shares acquired: 7,378 shares b. Acquisition amount: ¥727 million c. Shareholding ratio prior to acquisition: 61.10% d. Shareholding ratio after acquisition: 88.07% (5) Procurement method of funds paid and payment method Own funds (6) Plans after share acquisition Pasona Group was unable to acquire all of the issued and outstanding shares and new share options (excluding treasury stock) of Pasona Tech through the tender offer. Looking ahead, the Company will seek to provide Pasona Tech shareholders with compensation for their shares and remains steadfast in its plans to include Pasona Tech within its scope of consolidation as a wholly owned subsidiary.	————————

5. Non-Consolidated Financial Statements

(1) NON-CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	As of May 31, 2009	As of May 31, 2010
ASSETS		
Current assets		
Cash and deposits	6,891	4,822
Accounts receivable—trade	341	309
Supplies	4	16
Prepaid expenses	52	216
Income taxes receivable	125	361
Consumption taxes receivable	—	117
Deferred tax assets	82	—
Short-term loans receivable to subsidiaries and affiliates	117	63
Deposit paid in CMS	—	55
Accounts receivable—other	86	647
Other	27	10
Allowance for doubtful accounts	(20)	(52)
Total current assets	7,707	6,566
Noncurrent assets		
Property, plant and equipment		
Buildings	50	532
Accumulated depreciation	(5)	(29)
Buildings, net	44	502
Structures	0	11
Accumulated depreciation	(0)	(1)
Structures, net	0	9
Tools, furniture and fixtures	26	27
Accumulated depreciation	(10)	(17)
Tools, furniture and fixtures, net	16	10
Lease assets	—	1,934
Accumulated depreciation	—	(83)
Lease assets, net	—	1,850
Construction in progress	39	40
Total property, plant and equipment	100	2,414
Intangible assets		
Software	14	3
Total intangible assets	14	3
Investments and other assets		
Investment securities	428	331
Stocks of subsidiaries and affiliates	17,542	18,565
Long-term loans receivable from subsidiaries and affiliates	350	107
Deferred tax assets	75	—
Lease and guarantee deposits	1,557	1,470
Other	88	96
Allowance for doubtful accounts	(29)	(91)
Allowance for investment loss	(325)	(312)
Total investments and other assets	19,688	20,168
Total noncurrent assets	19,802	22,585
Total assets	27,510	29,152

(Millions of yen)

	As of May 31, 2009	As of May 31, 2010
LIABILITIES		
Current liabilities		
Short-term loans payable	6,000	585
Short-term loans payable to subsidiaries and affiliates	200	164
CMS deposits received	7,196	7,767
Lease obligations	—	228
Accounts payable—other	367	911
Accrued expenses	84	46
Income taxes payable	6	20
Accrued consumption taxes	23	—
Deferred tax liabilities	—	0
Provision for bonuses	72	52
Other	50	32
Total current liabilities	14,001	9,810
Noncurrent liabilities		
Long-term loans payable	—	2,149
Lease obligations	—	1,953
Provision for retirement benefits	—	2
Deferred tax liabilities	—	8
Long-term guarantee deposited	5	—
Other	—	110
Total noncurrent liabilities	5	4,224
Total liabilities	14,007	14,035
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus		
Legal capital surplus	5,000	5,000
Other capital surplus	8,295	7,444
Total capital surpluses	13,295	12,444
Retained earnings		
Other retained earnings		
Reserve for reduction entry	—	12
Retained earnings brought forward	7	1,153
Total earned surpluses	7	1,166
Treasury stock	(4,799)	(3,493)
Total shareholders' equity	13,503	15,117
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	—	0
Total valuation and translation adjustments	—	0
Total net assets	13,503	15,117
Total liabilities and net assets	27,510	29,152

(2) NON-CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	FY2008 (June 1, 2008 to May 31, 2009)	FY2009 (June 1, 2009 to May 31, 2010)
Net sales	4,584	5,456
Cost of sales	253	477
Gross profit	4,331	4,978
Selling, general and administrative expenses		
Directors' compensations	305	291
Salaries and bonuses	932	738
Provision for bonuses	72	52
Welfare expenses	185	148
Business consignment expenses	567	542
Advertising expenses	229	31
Compensations	228	187
Rent expenses	871	616
Depreciation	17	92
Other	250	281
Total selling, general and administrative expenses	3,662	2,983
Operating income	669	1,994
Non-operating income		
Interest income	33	22
Subsidy income	218	26
Gain on sales of goods	—	8
Other	31	10
Total non-operating income	283	67
Non-operating expenses		
Interest expenses	88	65
Commitment fee	30	55
Amortization of deferred organization expenses	—	93
Other	17	8
Total non-operating expenses	136	223
Ordinary income	816	1,838
Extraordinary income		
Gain on sales of investment securities	87	—
Reversal of provision for directors' retirement benefits	56	—
Reversal of loss on liquidation of subsidiaries and affiliates	—	18
Reversal of allowance for investment loss	—	13
Other	14	—
Total extraordinary income	159	31
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	—	8
Head office transfer cost	—	4
Loss on sales of investment securities	75	6
Loss on valuation of investment securities	106	3
Loss on sales of stocks of subsidiaries and affiliates	76	—
Loss on valuation of stocks of subsidiaries and affiliates	212	479
Provision of allowance for investment loss	325	—
Loss on liquidation of subsidiaries and affiliates	85	29
Total extraordinary loss	882	530
Income before income taxes	93	1,339
Income taxes—current	6	13
Income taxes—deferred	79	167
Income taxes	85	181
Net income	7	1,158

(3) NON-CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of yen)

	FY2008 (June 1, 2008 to May 31, 2009)	FY2009 (June 1, 2009 to May 31, 2010)
Shareholders' Equity		
Common Stock		
Balance as of May 31, 2009	5,000	5,000
Changes of items during the period		
Total changes of items during the period	—	—
Balance as of May 31, 2010	5,000	5,000
Capital surplus		
Legal capital surplus		
Balance as of May 31, 2009	5,000	5,000
Changes of items during the period		
Total changes of items during the period	—	—
Balance as of May 31, 2010	5,000	5,000
Other capital surplus		
Balance as of May 31, 2009	10,665	8,295
Changes of items during the period		
Dividends from surplus	(757)	(233)
Increase (decrease) by corporate division	—	(387)
Retirement of treasury stock	(1,613)	—
Disposal of treasury stock	—	(229)
Total changes of items during the period	(2,370)	(850)
Balance as of May 31, 2010	8,295	7,444
Total capital surplus		
Balance as of May 31, 2009	15,665	13,295
Changes of items during the period		
Dividends from surplus	(757)	(233)
Increase (decrease) by corporate division	—	(387)
Retirement of treasury stock	(1,613)	—
Disposal of treasury stock	—	(229)
Total changes of items during the period	(2,370)	(850)
Balance as of May 31, 2010	13,295	12,444
Retained earnings		
Other retained earnings		
Reserve for reduction entry		
Balance as of May 31, 2009	—	—
Changes of items during the period		
Provision of reserve for reduction entry	—	14
Reversal of reserve for reduction entry	—	(1)
Total changes of items during the period	—	12
Balance as of May 31, 2010	—	12
Retained earnings brought forward		
Balance as of May 31, 2009	(0)	7
Changes of items during the period		
Provision of reserve for reduction entry	—	(14)
Reversal of reserve for reduction entry	—	1
Net income	7	1,158
Total changes of items during the period	7	1,145
Balance as of May 31, 2010	7	1,153

	FY2008 (June 1, 2008 to May 31, 2009)	FY2009 (June 1, 2009 to May 31, 2010)
Total Retained earnings		
Balance as of May 31, 2009	(0)	7
Changes of items during the period		
Provision of reserve for reduction entry	—	—
Reversal of reserve for reduction entry	—	—
Net income	7	1,158
Total changes of items during the period	7	1,158
Balance as of May 31, 2010	7	1,166
Treasury stock		
Balance as of May 31, 2009	(2,257)	(4,799)
Changes of items during the period		
Purchase of treasury stock	(4,154)	—
Retirement of treasury stock	1,613	—
Disposal of treasury stock	—	1,306
Total changes of items during the period	(2,541)	1,306
Balance as of May 31, 2010	(4,799)	(3,493)
Total shareholders' equity		
Balance as of May 31, 2009	18,407	13,503
Changes of items during the period		
Dividends from surplus	(757)	(233)
Net income	7	1,158
Increase (decrease) by corporate division	—	(387)
Purchase of treasury stock	(4,154)	—
Retirement of treasury stock	—	—
Disposal of treasury stock	—	1,076
Total changes of items during the period	(4,904)	1,614
Balance as of May 31, 2010	13,503	15,117
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance as of May 31, 2009	46	—
Changes of items during the period		
Net changes of items other than shareholders' equity	(46)	0
Total changes of items during the period	(46)	0
Balance as of May 31, 2010	—	0
Total valuation and translation adjustments		
Balance as of May 31, 2009	46	—
Changes of items during the period		
Net changes of items other than shareholders' equity	(46)	0
Total changes of items during the period	(46)	0
Balance as of May 31, 2010	—	0
Total net assets		
Balance as of May 31, 2009	18,453	13,503
Changes of items during the period		
Dividends from surplus	(757)	(233)
Net income	7	1,158
Increase (decrease) by corporate division	—	(387)
Purchase of treasury stock	(4,154)	—
Disposal of treasury stock	—	1,076
Net changes of items other than shareholders' equity	(46)	0
Total changes of items during the period	(4,950)	1,614
Balance as of May 31, 2010	13,503	15,117

(4) Notes to Going Concern Assumption

None

(5) Notes to Non-Consolidated Financial Statements

(Important Subsequent Events)

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
1. Acquisition of Additional Shares of Pasona Tech, Inc. In accordance with a resolution of the Board of Directors at a meeting held on May 21, 2009, Pasona Group acquired all of the issued and outstanding common shares and new share options of Pasona Tech, Inc. (hereafter referred to as "Pasona Tech") by way of a public tender offer. Brief details are provided as follows. (1) Objective of the share acquisition The decision to acquire all of the issued and outstanding common shares and new share options of Pasona Tech was based on the recognition that there was an urgent need to develop a more cohesive relationship with Pasona Tech in order to further enhance the corporate value of Pasona Group, Pasona Tech and the Group as a whole. The decision was also made as a part of Pasona Group's ongoing efforts to rebuild a business structure that will ensure prompt and efficient decision making together with flexible and speedy business development. By positioning Pasona Tech within the Group's cope of consolidation as a wholly owned subsidiary, Pasona Group anticipates it will secure the following specific benefits: a. An increase in sales owing to business domain growth and increased opportunities on the back of a swift and efficient decision-making process as well as flexible and speedy business development specific to Pasona Tech's field of operations which are expected to experience an ongoing positive trajectory b. An improvement in service quality and increased competitive advantage due to a wider range of proposals that accurately address customer needs, and success in the development of comprehensive human resource services built on the concentrated allocation of management resources to areas of growth and greater cohesion and coordination throughout the Group c. A reduction in operating and management costs built on an ability to simultaneously allocate management resources to marketing activities while strengthening the Group's business structure through the combined application of compliance and Group control functions.	————————

FY2008 (For the year ended May 31, 2009)	FY2009 (For the year ended May 31, 2010)
(2) Name of the company whose shares were acquired, business details and other a. Name: Pasona Tech, Inc. b. Business details; Human resource temporary staffing / contracting, placement / recruiting focusing on IT- and Internet-related engineers c. Head office location: Shibuya-ku, Tokyo d. Paid-in capital: ¥551,500,000 (as of March 31, 2009) e. Name of publicly listed financial product trading exchange: JASDAQ Securities Exchange (3) Date of share acquisition June 22, 2009 (4) Number of shares acquired, acquisition amount and shareholding ratio a. Number of shares acquired: 7,378 shares b. Acquisition amount: ¥727 million c. Shareholding ratio prior to acquisition: 61.10% d. Shareholding ratio after acquisition: 88.07% (5) Procurement method of funds paid and payment method Own funds (6) Plans after share acquisition Pasona Group was unable to acquire all of the issued and outstanding shares and new share options (excluding treasury stock) of Pasona Tech through the tender offer. Looking ahead, the Company will seek to provide Pasona Tech shareholders with compensation for their shares and remains steadfast in its plans to include Pasona Tech within its scope of consolidation as a wholly owned subsidiary.	————————

6. Other

Changes and Movements in Directors

(1) Changes and movements in representative directors

None

(2) Changes and movements in other directors

Information relating to other movements and changes in directors is as outlined in the press release “Notice Concerning Changes in the Company’s Directors” released today.