NS Solutions Corporation

20-15, Shinkawa 2-chome,
Chuo-ku, Tokyo 104-8280, Japan

July 27, 2004

Outline of Consolidated Financial Results for the First Quarter

Contacts: Shigeru Suzuki
Representative Director and President
NS Solutions Corporation

Munetaka Shashiki
Director, General Administration & Finance Department
NS Solutions Corporation

+81-3-5117-4111

Consolidated Results for Three Months ended Jun. 30, 2004

Consolidated operating results

(Millions of yen, except per share amounts and percentages)

	Three Months ended Jun. 30,			Fiscal Year ended
	2003	2004	Difference	Mar. 31, 2004
Sales	¥23,990	¥29,692	+23.8%	¥150,844
Operating income	259	1,710	+560.9	9,726
Recurring profit	253	1,736	+587.0	9,785
Net income	51	937	+1,721.5	5,324
Net income per share of common stock *				
—Basic	¥1.94	¥35.37	+1,723.2%	¥200.40
—Diluted	-	-	-	-

* Average shares used for computation of net income per share of common stock for the three-month periods ended Jun. 30, 2003 and 2004, and for the fiscal year ended Mar. 31, 2004 are shown in the chart below.

(Thousands of shares)

	Three Months ended Jun. 30,		Fiscal Year ended
	2003	2004	Mar. 31, 2004
Net income per share of common stock—Basic	26,500	26,499	26,500

Sales increased by ¥5,702 million compared with the first quarter of the last fiscal year because sales for the first half of the current fiscal year were concentrated on the first quarter. As a result of an increase in sales, operating income, recurring profit and net income grew by ¥1,451 million, ¥1,483 million and ¥886 million, respectively, compared with the same quarter of the last fiscal year.

Copyright 2004 by NS Solutions, All rights reserved.

Consolidated financial condition

(Millions of yen, except per share amounts and percentages)

	Jun. 30, 2003	Jun. 30, 2004	Mar. 31, 2004
Total assets	¥71,601	¥79,028	¥90,625
Shareholders' equity	43,071	49,419	48,145
Shareholders' equity ratio	60.2%	62.5%	53.1%
Shareholders' equity per share of common stock*	¥1,625.34	¥1,864.91	¥1,816.30

*The number of shares at the end of the periods (used for computation of shareholders' equity per share of common stock) for the three-month periods ended Jun. 30, 2003 and 2004, and for the fiscal year ended Mar. 31, 2004 is shown in the chart below.

(Thousands of shares)

	Three Months ended Jun. 30,		Fiscal Year ended
	2003	2004	Mar. 31, 2004
Number of issued shares at end of period	26,500	26,499	26,500
Number of own shares at end of period	-	0	0

Ref. Consolidated cash flow

(Millions of yen)

	Three Months ended Jun. 30,			Fiscal Year ended
	2003	2004	Difference	Mar. 2004
Cash flow from operating activities	¥(1,471)	¥1,353	¥+2,824	¥4,033
Cash flow from investing activities	(372)	(561)	-188	(1,116)
Cash flow from financing activities	(568)	(509)	+59	(1,046)
Cash and cash equivalents at end of period	23,243	27,802	+4,559	27,519

Cash and cash equivalents at the end of the first quarter of this fiscal year increased by ¥283 million to ¥27,802 million compared with the end of the last fiscal year. Cash flows by activities are as follows:

Operating Activities: Operating activities generated ¥1,353 million cash. This is mainly due to income before income taxes of ¥1,752 million and improvements in inter-company credit of ¥9,930 million, while negatively impacted by income taxes paid of ¥3,037 million and an increase in inventories of ¥5,028 million.

Investing Activities: Investing activities used ¥560 million cash. This is mainly due to payments for purchase of property and equipment and intangible fixed assets of ¥420 million.

Financing Activities: Financing activities was a negative ¥509 million. This is mainly due to dividends paid of ¥464 million.

Copyright 2004 by NS Solutions, All rights reserved.

Consolidated outlook for the Fiscal Year ending March 31, 2005 (FY2004)

Business results for the three-month period ended June 30, 2004 have been moving steadily as forecasted before. Therefore, there is no change in our outlook both for the first half of the current fiscal year and for the current fiscal year, as mentioned below.

(Millions of yen)

	Current outlook		Previous outlook	
	First half of FY2004	FY2004	First half of FY2004	FY2004
Sales	¥63,000	¥152,000	¥63,000	¥152,000
Recurring profit	3,500	12,000	3,500	12,000
Net income	1,800	6,700	1,800	6,700

Ref. Net income per share forecast (full-year) 126.17 yen*

*Based on the resolution of the Board of Directors held on April 27, 2004, NS Solutions plans to split its share into two shares, effective on August 19, 2004. As a result, the number of the issued shares will increase to 52,998,786. Above mentioned per share amount was calculated by using the number of shares after the stock split.

Adoption of Concise Accounting Procedure for the Quarterly Period

None.

Accounting Procedure Differences between the Quarters ended Jun. 30, 2003 and 2004, and the Fiscal Year ended March 31, 2004

None.

Difference in Consolidation and Equity Method Scope between the Quarters ended Jun. 30, 2003 and 2004, and the Fiscal Year ended March 31, 2004

None.

Copyright 2004 by NS Solutions, All rights reserved.

Non-consolidated Results Information

Non-consolidated operating results

(Millions of yen, except per share amounts and percentages)

	Three Months ended Jun. 30,			Fiscal Year ended
	2003	2004	Difference	Mar. 2004
Sales	¥21,375	¥26,981	26.2%	¥136,136
Operating income	162	1,510	830.0	7,651
Recurring profit	402	1,727	330.0	7,787
Net income	234	1,006	330.1	4,496
Net income per share of common stock				
—Basic	¥8.83	¥37.97	330.4%	¥169.14
—Diluted	-	-	-	-

* Average shares used for computation of net income per share of common stock for the three-month periods ended Jun. 30, 2003 and 2004, and for the fiscal year ended Mar. 31, 2004 are shown in the chart below.

(Thousands of shares)

	Three Months ended Jun. 30,		Fiscal Year ended Mar. 31, 2004
	2003	2004	
Net income per share of common stock—Basic	26,500	26,499	26,500

Non-consolidated financial condition

(Millions of yen, except per share amounts and percentages)

	Jun. 30,2003	Jun. 30,2004	Mar. 31, 2004
Total assets	¥65,554	¥73,408	¥84,012
Shareholders' equity	39,480	44,895	43,552
Shareholders' equity ratio	60.2%	61.2%	51.8%
Shareholders' equity per share of common stock*	¥1,489.85	¥1,694.20	¥1,642.98

*The number of shares at the end of the periods (used for computation of shareholders' equity per share of common stock) for the three-month periods ended Jun. 30, 2003 and 2004, and for the fiscal year ended Mar. 31, 2004 is shown in the chart below.

(Thousands of shares)

	Three Months ended Jun. 30,		Fiscal Year ended Mar. 31, 2004
	2003	2004	
Number of issued shares at end of period	26,500	26,499	26,500
Number of own shares at end of shares	-	0	0

Copyright 2004 by NS Solutions, All rights reserved.

Non-consolidated Outlook for the Fiscal Year ending March 31, 2005 (FY2004)

Business results for the three-month period ended June 30, 2004 have been moving steadily as forecasted before. Therefore, there is no change in our outlook both for the first half of the current fiscal year and for the current fiscal year, as mentioned below.

(Millions of yen)

	Current outlook		Previous outlook	
	First half of FY2004	FY2004	First half of FY2004	FY2004
Sales	¥56,000	¥137,000	¥56,000	¥137,000
Recurring profit	3,000	10,000	3,000	10,000
Net income	1,700	5,800	1,700	5,800

Ref. Net income per share forecast (full-year) 109.18yen*

*Based on the resolution of the Board of Directors held on April 27, 2004, NS Solutions plans to split its share into two shares, effective on August 19, 2004. As a result, the number of the issued shares will increase to 52,998,786. Above mentioned per share amount was calculated by using the number of shares after the stock split.

(Note) Figures in this material have been rounded.

The above statements were prepared, based on the materials available as of the release date. Actual results may vary from the outlook figures by various factors in the future.

Copyright 2004 by NS Solutions, All rights reserved.

NS SOLUTIONS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

As of Jun. 30, 2003, Mar. 31, 2004 and Jun. 30, 2004

	Millions of yen			Thousands of U.S. dollars (Note 3)
	Jun. 30, 2003	Mar. 31, 2004	Jun. 30, 2004	Jun. 30, 2004
Assets				
Current assets				
Cash and bank deposits	¥18,339	¥14,605	¥13,811	$127,376
Deposited money	4,903	12,914	13,990	129,026
Trade notes and accounts receivable	15,605	37,462	19,693	181,615
Inventories	15,641	7,035	12,063	111,248
Deferred tax assets-current	2,333	2,859	2,892	26,672
Others	1,020	682	704	6,487
Allowance for doubtful accounts	(12)	(30)	(14)	(126)
Total current assets	57,829	75,527	63,139	582,298
Property and equipment	4,426	5,009	4,882	45,028
Intangible fixed assets	987	982	965	8,895
Investments and other assets	8,359	9,107	10,042	92,619
Total assets	¥71,601	¥90,625	¥79,028	$728,840
Liabilities and Shareholders' Equity				
Current liabilities				
Trade notes and accounts payable	8,633	17,232	9,393	86,627
Accrued expenses	3,317	4,732	3,109	28,671
Accrued income taxes	137	3,060	882	8,131
Accrued bonuses to employees	2,743	5,520	2,924	26,971
Others	6,747	4,362	5,538	51,079
Total current liabilities	21,577	34,906	21,846	201,479
Allowance for employees' retirement benefits	5,656	6,042	6,283	57,945
Other long-term liabilities （Note 7）	286	298	314	2,895
Minority interest in consolidated subsidiaries	1,011	1,234	1,166	10,752
Shareholders' equity				
Common stock	12,953	12,953	12,953	119,457
Additional paid-in capital	9,950	9,950	9,950	91,768
Retained earnings	20,783	25,586	26,046	240,212
Reserve for revaluation of land	(754)	(757)	(757)	(6,985)
Valuation gain on available-for-sale securities and others	139	417	1,233	11,373
Foreign currency translation adjustment	0	(4)	(5)	(45)
Treasury stock	—	(0)	(1)	(11)
Total shareholders' equity	43,071	48,145	49,419	455,769
Total liabilities, minority interests and shareholders' equity	¥71,601	¥90,625	¥79,028	$728,840

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Copyright 2004 by NS Solutions, All rights reserved.

NS SOLUTIONS CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended Jun. 30, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Net sales	¥23,990	¥29,692	$273,835
Cost of sales	19,202	23,602	217,667
Gross profit	4,788	6,090	56,168
Selling, general and administrative expenses (Note 5)	4,529	4,380	40,402
Operating income	259	1,710	15,766
Other income (expenses)	13	42	396
Income before income taxes and minority interest	272	1,752	16,162
Income Taxes	228	838	7,735
Income before minority interest	44	914	8,427
Minority interest	(7)	(23)	(218)
Net income	¥51	¥937	$8,645

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Copyright 2004 by NS Solutions, All rights reserved.

NS SOLUTIONS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended Jun. 30, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Cash flows from operating activities;			
Income before income taxes			
Adjustments to reconcile income before income taxes to net cash provided by operating activities	¥272	¥1,752	$16,162
Depreciation	269	315	2,908
Decrease in allowance for doubtful accounts	(2,375)	(2,596)	(23,938)
Increase in allowance for employees' retirement benefits, net of payments	178	241	2,222
Decrease (increase) in accounts receivable	22,713	17,769	163,877
Decrease (increase) in inventories	(6,527)	(5,028)	(46,367)
Increase (decrease) in accounts payable	(14,845)	(7,839)	(72,300)
Others, net	1,602	(256)	(2,369)
Sub total	1,287	4,358	40,195
Income taxes paid	(2,763)	(3,037)	(28,009)
Others, net	5	31	289
Net cash provided by operating activities	(1,471)	1,352	12,475
Cash flow from investing activities;			
Payments for purchase of property and equipment and intangible fixed assets	(340)	(420)	(3,878)
Others, net	(32)	(140)	(1,292)
Net cash used for investing activities	(372)	(560)	(5,170)
Cash flows from financing activities;			
Payments for purchase of treasury stock	—	(1)	(9)
Dividends paid	(530)	(464)	(4,277)
Dividends paid to minority shareholders	(38)	(44)	(408)
Net cash provided by (used for) financing activities	(568)	(509)	(4,694)
Effect of exchange rate changes on cash and cash equivalents	0	(0)	(4)
Net increase in cash and cash equivalents	(2,411)	283	2,607
Cash and cash equivalents at beginning of period	25,654	27,519	253,795
Cash and cash equivalents at end of period	¥23,243	¥27,802	$256,402

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Copyright 2004 by NS Solutions, All rights reserved.

1. Basis of Presenting Unaudited Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared based on the accounts maintained by NS Solutions Corporation (the "Company") and its consolidated subsidiaries in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards and of accounting principles and practices generally accepted in the United States. The unaudited condensed consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. However, certain reclassifications are incorporated in order to present the unaudited condensed consolidated financial statements in a form which is more familiar to readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation

Effective April 1, 2002, NS Solutions Osaka Corporation was integrated with NS Solutions Kansai Corporation. The assets, liabilities and shareholder's equity of NS Solutions Osaka Corporation were transferred to NS Solutions Kansai Corporation. This integration did not affect the Company's consolidated financial statements. The Company acquired a 70% interest in the shares of NS Solutions Software (Shanghai) Co., Ltd. at its incorporation on October 17, 2002. The Company's consolidated financial statements include the accounts of this entity from that date.

As a result, the unaudited condensed consolidated financial statements for the three-month period ended June 30, 2003, include the accounts of the Company and its 11 significant subsidiaries, as listed below:

Hokkaido NS Solutions Corporation
Tohoku NS Solutions Corporation
NS Solutions Tokyo Corporation
NS Solutions Kansai Corporation
NS Solutions Chubu Corporation
NS Solutions Nishinihon Corporation
NS Solutions Kanto Corporation
NS Solutions Oita Corporation
Nittetsu Hitachi Systems Engineering, Inc.

Copyright 2004 by NS Solutions, All rights reserved.

NCI Systems Integration, Inc.
NS Solutions Software (Shanghai) Co., Ltd.

Effective October 1, 2003, NS Solutions Kanto Corporation was integrated with NS Solutions Tokyo Corporation. The assets, liabilities and shareholder's equity of NS Solutions Kanto Corporation were transferred to NS Solutions Tokyo Corporation. This integration did not affect the Company's consolidated financial statements.

As a result, the consolidated financial statements for the fiscal year ended March 31, 2004 and the unaudited condensed consolidated financial statements for the three-month period ended June 30, 2004 include the accounts of the Company and its 10 significant subsidiaries, as listed below:

Hokkaido NS Solutions Corporation
Tohoku NS Solutions Corporation
NS Solutions Tokyo Corporation
NS Solutions Kansai Corporation
NS Solutions Chubu Corporation
NS Solutions Nishinihon Corporation
NS Solutions Oita Corporation
Nittetsu Hitachi Systems Engineering, Inc.
NCI Systems Integration, Inc.
NS Solutions Software (Shanghai) Co., Ltd.

Due to a decrease in its importance as a result of suspension of its business operations, the investment in NS Solutions USA Corporation, a wholly-owned subsidiary, is stated at cost, after recognition of impairment losses, on the Company's consolidated balance sheets. The total assets, net sales, net income and surplus of NS Solutions USA Corporation are not significant to the Company's consolidated financial statements.

All significant inter-company accounts and transactions and unrealized inter-group profit, if any, have been eliminated on consolidation.

The Company's overseas subsidiary, NS Solutions Software (Shanghai) Co., Ltd., has a fiscal year ending December 31, the six-month period ending June 30 and the quarterly periods ending March 31 and September 30, which differ from those of the Company. The Company incorporated this subsidiary's accounts for the three-month period ended March 31, 2004 into these unaudited condensed consolidated financial statements for the three-month period ended June 30, 2004. Any material

Copyright 2004 by NS Solutions, All rights reserved.

transactions occurring in the period, April 1 to June 30, are adjusted for in these unaudited condensed consolidated financial statements.

(2) Investments in affiliates

The Company's investments in three significant affiliates were accounted for using the equity method for the three-month periods ended June 30, 2003 and 2004, as listed below:

NS&I System Service Corporation
Solnet Co., Ltd.
Hokkaido High Information Technology Center Co., Ltd.

The Company's investments in other affiliates remained at their respective acquisition costs. The net income and surplus of these affiliates are not significant to the Company's consolidated financial statements.

Other affiliates are as follows:

Three Months ended June 30, 2003	Three Months ended June 30, 2004
RM Solutions Co. Ltd.	Japan Maintenance and Operation Service Co. Ltd.
iTrust Inc.	

(3) Remeasurement of assets and liabilities of subsidiaries

For consolidated subsidiaries and affiliated companies where the Company exercises control or influence, assets and liabilities of those companies are fully marked to their respective fair values at the date of acquisition of control or influence.

(4) Translation of foreign currency

Assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate prevailing at the relevant balance sheet date.

Assets, liabilities and all income and expense accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rate prevailing at the relevant balance sheet date. Shareholders' equity accounts of foreign subsidiaries and affiliates are translated at historical rates.

The net difference arising from translation of the financial statements of the foreign subsidiaries and affiliates is recorded as a "Foreign currency translation adjustment" in the accompanying unaudited condensed consolidated balance sheets.

(5) Cash and cash equivalents

Copyright 2004 by NS Solutions, All rights reserved.

Cash and cash equivalents comprise cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which have a minor risk of fluctuation in value.

(6) Allowance for doubtful accounts

Receivables are required to be categorized into "normal receivables" and "doubtful receivables" for the purpose of providing an allowance for doubtful accounts under prevailing accounting practice in Japan. An allowance for doubtful accounts is provided for normal receivables based on the Company's historical write-off experience, plus an estimate of irrecoverable amounts on an individual account basis.

(7) Allowance for loss on guarantees

An allowance for loss on guarantees is provided at the estimated amount of future losses likely to occur from guaranteeing the indebtedness of other parties, based on the Company's analysis of the other parties' financial condition and results of operations.

(8) Inventories

Inventories are valued at cost as determined by the following methods:

Work-in-process.....................................the individual cost method
Merchandise and supplies.....................primarily, the gross average method

(9) Investments in securities

Available-for-sale securities with a market quotation on a stock exchange are valued at market value at the relevant balance sheet date. Unrealized holding gains and losses, net of tax, are recognized in "Valuation gain on available-for-sale securities" as a separate component of shareholders' equity.

Available-for-sale securities without a market quotation are recorded at cost. The cost of available-for-sale securities sold is principally based on the moving average cost method.

(10) Property and Equipment

Property and equipment is recorded at cost, net of accumulated depreciation of ¥4,327 million and ¥5,072 million ($46,775 thousand) at June 30, 2003 and 2004, respectively. Depreciation of property and equipment is computed principally using the declining-balance method at rates based on the estimated useful lives of the assets. However, depreciation of buildings (except for building improvements) acquired on or after April 1, 1998, is computed using the straight-line method.

Copyright 2004 by NS Solutions, All rights reserved.

The Company launched a new business of leasing property and equipment to clients from October 1, 2003. Depreciation of these leased assets is computed using the straight-line method over the period of the lease contract term, with no residual value.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(11) Intangible fixed assets and long-term prepaid expenses

Amortization of intangible fixed assets and long-term prepaid expenses is computed using the straight-line method over the estimated useful lives of the assets. Software costs for internal use are amortized over their estimated useful lives (less than 5 years) on a straight-line basis.

(12) Goodwill

Goodwill arising from mergers, which represents the excess of the purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over five years unless a more appropriate period of amortization can be identified.

(13) Deferred charges

New stock issuing expenses are charged to income as incurred.

(14) Income taxes

Income taxes consist of corporate income taxes, local inhabitants taxes and enterprise taxes. The Company calculates and records income taxes by using expected tax rates based on statutory effective tax rates.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

(15) Allowance for retirement benefits

(a) Retirement benefits for employees

The employees of the Company are generally covered by retirement benefit plans under which retiring employees are entitled to lump-sum payments determined by reference to current rates of pay, length of service and conditions under which the termination occurs.

An allowance for retirement benefits to employees of the Company and its major consolidated subsidiaries is provided based on the estimated present value of projected benefit obligations. The allowance amount at the end of the three-month period is

Copyright 2004 by NS Solutions, All rights reserved.

calculated based on the estimated amount at the end of the relevant fiscal year. For some minor consolidated subsidiaries, an allowance for retirement benefits to employees is provided using a simple method, as permitted by "Opinion Concerning Establishment of Accounting Standard for Retirement Benefits", based on the estimated amount which would be payable if all employees voluntarily retired at the relevant balance sheet date.

Actuarial gains (losses) are charged as income or expense in the year they arise.

(b) Retirement benefits for directors

An allowance for retirement benefits to directors and corporate auditors of the Company and its consolidated subsidiaries is provided based on the Companies' internal rules and is based on the estimated amount which would be payable if all directors and corporate auditors retired at the relevant balance sheet date.

(16) Accrued bonuses to employees

Accrued bonuses to employees are provided at the estimated amount which the Company is obliged to pay to employees after the respective period-ends, based on their service for the three-month period ended on the relevant balance sheet date.

(17) Accounting for finance lease transactions

Finance lease transactions, except for those which are deemed to transfer ownership of the leased assets to lessees, are accounted for using a method similar to that used for regular operating lease transactions.

(18) Net income per share

Net income per share of common stock is computed based on the weighted average number of outstanding shares of common stock during the respective periods. Since no convertible bonds or warrants were issued and outstanding, there was no dilutive effect on net income per share during these periods.

The average number of shares used in the computation was 26,500 thousand and 26,499 thousand for the three-month periods ended June 30, 2003 and 2004, respectively. Each of the Company's shares was divided into 4 shares on June 29, 2002, and the weighted average number of outstanding shares adjusted retroactively for the stock splits to the beginning of the year was used in computing net income per share.

Effective from the year ended March 31, 2003, the Company adopted the Statement of Financial Accounting Standard No. 2 "Net income per Share" issued by the Accounting Standards Board of Japan. Prior to adopting the new statement, net income per share was computed based on the net income shown on

Copyright 2004 by NS Solutions, All rights reserved.

the statement of income. The net income per share computation therefore excluded bonuses to directors and statutory auditors, since under the Japanese Commercial Code, these are recognized as an appropriation of retained earnings, in the statement of shareholders' equity, rather than as expenses in the statement of income. However, the new statement requires that net income should be adjusted by deducting bonuses paid to directors and statutory auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the statement of income, and the computation of net income per share be made on that adjusted net income basis. The accounting change did not have a material effect on the net income per share computation.

(19) Accounting for consumption tax

Consumption tax withheld by the Company on revenues and consumption tax paid by the Company on the purchase of goods and on expenses is recorded as an asset or a liability and is not included in the respective account items on the consolidated statements of income.

(20) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, any appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting which must be held within three months of the end of each fiscal year. Therefore the appropriations of retained earnings reflected in the accompanying unaudited condensed consolidated financial statements include the results of such appropriations applicable to the immediately preceding fiscal year, as approved at the shareholders' meeting and effected during the relevant year. Dividends are paid to shareholders whose names appear on the shareholders' register as at the end of each fiscal year. As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings through an appropriation, instead of being charged to the income for the relevant fiscal year.

The Japanese Commercial Code provides that interim cash dividends may be paid as part of the annual dividend, following approval by the Board of Directors. The Company pays such interim dividends to those shareholders who are listed on the shareholders' register at September 30 of the relevant fiscal year.

(21) Recent pronouncement

Copyright 2004 by NS Solutions, All rights reserved.

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Non-current Assets". The standard requires that non-current assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the statement of income by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use. The standard shall be effective for fiscal years beginning April 1, 2005 or thereafter, with possible early adoption for fiscal years ended March 31, 2004 or thereafter. The Company did not adopt this standard both for the fiscal year ended March 31, 2004 and for the three-month period ended June 30, 2005. The Company's management does not believe that this standard will have a material effect on the Companys' consolidated financial statements.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers. The rate of ¥108.43=U.S. $1, the effective rate of exchange prevailing at June 30, 2004, has been used in translation of yen amounts to U.S. dollar amounts. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

4. Leases

Leased assets, and related expenses in respect of the Company's finance leases, other than those which transfer ownership of the leased assets, are accounted for using a method similar to that used for regular operating leases. Finance lease charges of the Companies for the three-month periods ended June 30, 2003 and 2004 were ¥350 million and ¥259 million ($2,393 thousand), respectively. Had they been capitalized, the following items would have been recognized on the unaudited condensed consolidated balance sheets and the unaudited condensed consolidated statements of income as at and for the three-month periods ended June 30, 2003 and 2004:

	Millions of yen		
June 30, 2003	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment	¥ 80	¥ 39	¥ 42
Tools, furniture and fixtures	4,894	3,292	1,602
Others	1,329	873	455

Copyright 2004 by NS Solutions, All rights reserved.

Total	¥6,303	¥4,204	¥2,099

Copyright 2004 by NS Solutions, All rights reserved.

	Millions of yen		
March 31, 2004	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment	¥ 97	¥ 54	¥ 43
Tools, furniture and fixtures	4,808	3,587	1,221
Others	1,247	880	367
Total	¥6,152	¥4,521	¥1,631

	Millions of yen		
June 30, 2004	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment	¥ 97	¥ 60	¥ 38
Tools, furniture and fixtures	3,515	2,395	1,120
Others	1,026	672	353
Total	¥4,638	¥3,127	¥1,511

	Thousands of U.S. dollars (Note 3)		
June 30, 2004	Acquisition Cost	Accumulated Depreciation	Net balance
Machinery and equipment	$ 898	$ 550	$ 348
Tools, furniture and fixtures	32,413	22,088	10,325
Others	9,466	6,205	3,261
Total	$42,777	$28,843	$13,934

	Millions of yen			Thousands of U.S. dollars (Note 3)
	June 30, 2003	March 31, 2004	June 30, 2004	2004
Depreciation expense	¥330	¥1,159	¥241	$2,222
Interest expense	15	50	11	101

Depreciation is computed using the straight-line method over the lease period of leased assets, with no residual value at the end of the lease period. The interest expense portion

Copyright 2004 by NS Solutions, All rights reserved.

is determined by subtracting an amount equivalent to the acquisition cost from the total lease fee. Total interest payments over the lease period are allocated to each period using the interest method.

The present values of future lease payments at June 30, 2003 and 2004, and March 31, 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	June 30, 2003	March 31, 2004	June 30, 2004	2004
Within one year	¥1,083	¥817	¥702	$6,478
Over one year	1,146	915	768	7,081
Total	¥2,230	¥1,732	¥1,470	$13,559

Future operating lease payments under non-cancelable lease contracts at June 30, 2003 and 2004, and March 31, 2004 are as follows;

	Millions of yen			Thousands of U.S. dollars (Note 3)
	June 30, 2003	March 31, 2004	June 30, 2004	2004
Within one year	¥4	¥2	¥2	$19
Over one year	6	4	4	34
Total	¥10	¥6	¥6	$54

5. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the three-month periods ended June 30, 2003 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	June 30, 2003	June 30, 2004	2004
Payroll and bonuses	¥1,923	¥1,779	$16,410
Allowance for employees' retirement benefits	94	72	664
Allowance for directors' retirement benefits	17	16	151
Depreciation expense	49	35	322
Operating expense for acceptance of orders	805	672	6,195

Copyright 2004 by NS Solutions, All rights reserved.

6. Research and Development Costs

Research and development costs charged to income for the three-month periods ended June 30, 2003 and 2004 were ¥136 million and ¥226 million ($2,085 thousand), respectively.

7. Contingent Liabilities

The Company's loss contingencies for guaranteeing the indebtedness of other parties, excluding the portion for which a related allowance is provided as a liability on the unaudited condensed consolidated balance sheets, were ¥78 million and ¥51 million ($468 thousand) at June 30, 2003 and 2004, respectively, both of which are Guarantees for bank loans to Hokkaido High Information Technology Center Co., Ltd.

8. Subsequent Events

(1) Stock Split

Based on the resolution of the Board of Directors held on April 27, 2004, the Company plans to split its share into two shares, effective on August 19, 2004. As a result, the number of the issued shares will increase to 52,998,786.

Copyright 2004 by NS Solutions, All rights reserved.