

DISCLAIMER

THIS ENGLISH VERSION OF NOTICE OF 16 TH ORDINARY GENERAL MEETING OF SHAREHOLDERS WAS CREATED AS A REFERENCE MATERIAL FOR THE ORIGINAL JAPANESE VERSION.

THE ORIGINAL JAPANESE VERSION IS THE ONLY LEGALLY VALID DOCUMENTATION.

NET ONE SYSTEMS CO., LTD. MAKES NO WARRANTIES WHATSOEVER WITH REGARDS TO THE ACCURACY OF TRANSLATION OR CONTENTS OF THIS ENGLISH DOCUMENTATION.

May 28, 2003

Net One Systems Co., Ltd.
2-8, Higashi-Shinagawa 2-Chome,
Shinagawa, Tokyo

NOTICE OF THE 16TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

To: Our Shareholders:

This is to notify you that the 16th Ordinary General Meeting of Shareholders of Net One Systems Co., Ltd. (hereinafter referred to as “We” or the “Company”) will be held as indicated below. Your attendance is cordially requested.

IN THE EVENT THAT YOU ARE UNABLE TO ATTEND THE MEETING IN PERSON, PLEASE CAREFULLY READ “REFERENCE DOCUMENT REGARDING EXERCICE OF VOTING RIGHT” ATTACED HERETO, INDICATE YOUR APPROVAL OR DISAPPROVAL ON THE ENCLOSED EXERCISE OF VOTING RIGHT FORM, IMPRESS YOUR SEAL THEREON AND RETURN IT TO REACH US NO LATER THAN JUNE 25, 2003.

Truly yours,

Kazuo Sato
President & CEO
Net One Systems Co., Ltd

1. Date/Time: June 26, 2003 (Thursday) at 10:00 a.m.
2. Place: JAL Building 2F (Wing Hall)
4-11, Higashi-Shinagawa 2-Chome, Shinagawa-Ku, Tokyo Japan
3. Agenda of the meeting:

Matter to be Reported: Balance Sheet as of March 31, 2003, and Business Report and Statement of Income for the 16th fiscal year (April 1, 2002 to March 31, 2003)

Matters to be Resolved:

Proposal 1: Appropriation of profit for 16th fiscal year

Proposal 2: amendment to the Articles of Incorporation

The details of proposals are as written in "Reference document regarding exercise of voting right." (please see Pages 27-28)

Proposal 3: Election of one (1) Statutory Auditor

Proposal 4: Payment of retirement bonus for retiring Statutory Auditor

If you plan to attend the meeting, please present the enclosed Exercise of Voting Right Form to the receptionist at the meeting.

(attachments)

Business Report for the 16th fiscal year (April 1, 2002 – March 31, 2003)

1. Business condition

(1) Business Activities and Results

Our country's economic condition for this fiscal year showed declining trend in corporate facility investment and consumer spending and economic slowdown continued. The deteriorating economy has impacted the overall networking market by way of intensified competition.

At the same time, in relation to development in network technology, there was a shift in the Internet usage and the deployment of large scale high speed communication network have become imperative. Establishment of regional communications network that serve as social infrastructure represented by broadbandization, and willingness to make facility investment with a view on reducing total cost by way of using VOIP and VPN, etc continue to be strong. Accordingly, in the private sector, total amount of investment in network facilities has increased steadily. Furthermore, in the public sector, the proactive decisions relating to e-government investment have shifted to local government thereby further increasing the demand for network equipment.

Under this environment, current business performance for orders accepted was 102,236M yen (19.9% increase from previous FY), sales was 92,926M yen (15.1% increase from previous FY) and end of the term backlog of unfilled orders was 34,380M yen (37.1% increase from previous FY). For sales based on Product Category, Network Integration Products and Networking Computing Products (NI and NC) accounted for 71,342M yen (14.4% increase from previous FY), Media Integration Products (MI) accounted for 5,066M yen (12.5% decrease from previous FY), and Service Integration Products (SI) accounted for 16,517M yen (31.4% increase from previous FY.) With regard to profit, although there was a nominal change in gross profit margin (current FY was 20.6%, previous FY was 21.4% indicating a 0.8% decrease) operating profit was 7,434M yen (5.1% increase from previous FY) owing to increased sales expense and administrative expense resulting from depreciation cost and increase in hired personnel. Due to gain from currency exchange, there was an increase in extraordinary gain and as a result, ordinary profit was 7,535M yen (9.6% increase from previous FY.) With regard to extraordinary gain or loss, as 1,264M yen was accrued as gain from sales of investment securities, 450M yen was accrued as loss from revaluation of securities, and 195M yen was accrued as loss from sales of investment securities; as a result, current income was 4,383M yen (13.1% increase fro previous

FY.)

(2) Capital Investment Status

With regard to the capital investment for this FY, a total of 914M yen was invested on pioneering new products and increasing equipment to improve product evaluation and customer support.

(3) Financial Status

No special events to report.

(4) Problems that remain for the Company

Our company has developed Mid-term Business Plan (April 2002 to March 2007) and has implemented it from 16th FY. Mid-Term Business Plan calls for timely response to change in internet usage and evolving technology and indicates that our company aims to reform our business contents by becoming a network solution provider capable of providing integrative high value added services that meet customer needs rather than focusing on conventional business style that provides network deployment integration. In order to fulfill the goals of Mid-Term Business Plan, establishment of corporate basis that fosters market understanding, market creation, and profit making is imperative and to realize this, understanding high end technology and creating new advanced products and new services are essential. We distributed to all employees, a vision book containing action plan indicating management concept, future projection, and scope of responsibility to ensure clear understanding of our corporate management concept; we further emphasized human resource development consisting of continual education program commencing immediately after recruitment to create a solid foundation of human resources.

(5) Significant Corporate Alliance

Status of Significant Subsidiaries

| Corporate Name | Paid-in Capital | Percentage of Voting Rights | Principal business |
|--|-----------------|-----------------------------|---|
| Media Communication Systems K.K. | 210M yen | 100.0% | Network design and installation construction |
| Network Service And Technologies Co., Ltd. | 104M yen | 55.3% | Networking products and software installation and deployment as well as service and operational service |
| ProStorage Co., Ltd. (Note 1) | 200M yen | 65.0% | Sales of storage equipment, network equipment and |

| | | | |
|---------------------------|----------|--------|--|
| | | | their related products |
| e Japan K. K. (Note 2) | 150M yen | 100.0% | Planning, development and sales, and service of computer systems |

Result of Corporate Alliance

(Note 1) In September 2002, we established ProStorage Co., Ltd. and holds 65% of its issued and outstanding shares.

(Note 2) e Japan K.K. became a consolidated subsidiary after acquiring additional shares in March 2003.

Result of Corporate Alliance

Consolidated Sales including the above significant subsidiaries, was 92,880M yen and consolidated net profit for this FY was 4,294M yen.

(6) Changes in Status of Business Results and Assets

| Segment | 13 th FY (April 1, 1999 to March 31, 2000) | 14 th FY (April 1, 2000 to March 31, 2001) | 15 th FY (April 1, 2001 to March 31, 2002) | 16 th FY (April 1, 2002 to March 31, 2003) |
|-----------------------------------|---|---|---|---|
| Sales (thousand yen) | 34,327,375 | 57,484,382 | 80,735,599 | 92,926,585 |
| net income (thousand yen) | 1,338,223 | 3,089,649 | 3,874,928 | 4,383,141 |
| net income per share (yen) | 16,401.85 (16,894.20) | 25,364.63 (25,761.25) | 31,182.70 (31,573.82) | 15,899.55 |
| Combined Assets (thousand yen) | 26,948,518 | 51,484,572 | 57,116,016 | 73,884,167 |
| Net Assets (thousand yen) | 15,312,908 | 18,713,315 | 41,766,572 | 46,067,350 |
| Net Assets per share (yen) | 191,854.35 (192,344.22) | 155,067.25 (155,537.31) | 306,283.53 (306,635.93) | 107,988.69 |

Note 1.

From 16th FY, accounting policy for current net income per share and net assets per share are calculated by using "Accounting Standard Regarding Current Net Income Per Share" (Corporate Accounting Standard, Chapter 2) and accepted accounting policy for current net income per share (Accepted corporate accounting standard Guideline Chapter 4.) In accordance with this revision, current net income per share and net assets per share for 13th to 15th FY have been recalculated using the new guideline and the figures prior to the application of new guidelines is indicated in the parenthesis.

In 13th FY, there was an increase of 1,001 shares as a result of exercise of subscription rights of Corporate Bond with Subscription Right

(shinkabu-hikiukeken-tsuki-shasai) issued on July 12, 1996.

In 14th FY, stock split (1.5 for 1 stock split) on May 22, 2000 resulted in increase of 39,806 shares, exercise of subscription rights of Corporate Bond with Subscription Rights issued on July 12, 1996 resulted in increase of 108 shares, and exercise of stock options granted through the resolution of shareholders' meeting on June 26, 1998 under Article 280-19, Section 2 of the Former Commercial Code ("Former Commercial Code" hereinafter refers to the Commercial Code before the amendment in 2001 pursuant to the "Law Concerning the Partial Amendments to the Commercial Code (2001, Law No. 128) resulted in increase of 788 shares.

In 15th FY, there were an increase of 12,263 shares from public offering on February 8, 2002, an increase of 3,282 through issuance of new share to a third party, and an increase of 403 shares through exercise of the stock options granted through the resolution of shareholders' meeting on June 26, 1998 under Article 280-19, Section 2 of the Former Commercial Code.

In 16th FY, due to stock split (2.0 for 1 stock split) dated May 20, 2002 and exercise of the stock options granted through the resolution of shareholders' meeting on June 26, 1998 under Article 280-19, Section 2 of the Former Commercial Code, there were an increase of 136,262 shares and 1,568 shares respectively.

Note 2. Business result

With regard to net income for 13th FY, despite the accrual of loss from revaluation of securities and loss from exchange as extraordinary loss of 342M yen, as the sales increased by 42.0% in comparison to the previous period, a large increase of 223.6% in comparison to the previous period was recorded.

With regard to current income for 14th FY, as sales increased by 67.5% in comparison to previous FY, gain from exchange of investment securities was 3,038 M yen and sell-off of investment securities was loss of 2,104 M yen, there was an increase of 130.9% in comparison to the previous FY.

With regard to 15th FY, although gross profit margin decreased by 2.9% due to increased competition of the market, as sales increased by 40.4% in comparison to the previous FY, current net income increased by 25.4% in comparison to the previous FY.

With regard to 16th FY business, please view 1. Business condition (1) Business Activities and Results.

2. Corporate Status (As of March 31, 2003)

(1) Major Business Activities

Procurement / sales / lease / manufacturing and research and development for Computer peripherals and related softwares.

Consultation, education, wiring construction design as well as such works done on contract basis and support services.

Procurement, sales, lease, manufacturing and research and development for computer / communications products and office automation products

Business providing data communications service

Second tier telecommunications business

Design of electric wiring, wiring installation as well as such works performed on contract basis and support services and management business

Agency for damage insurance

Personnel dispatch service

Businesses related to all preceding items

(2) Main Offices

| | |
|------------------------|----------------------|
| Headquarters | Shinagawa-Ku, Tokyo |
| Kansai Branch | Yodogawa-Ku, Osaka |
| Chubu Office | Naka-Ku, Nagoya |
| Kyushu Office | Hakata-Ku, Fukuoka |
| Tsukuba Office | Tsukuba-shi, Ibaragi |
| Sapporo Office | Chuo-Ku, Sapporo |
| Tohoku Office | Miyagino-Ku, Sendai |
| Hiroshima Office | Naka-Ku, Hiroshima |
| Takamatsu Office | Takamatsu, Kagawa |
| Quality Control Center | Shinagawa-Ku, Tokyo |
| Technical Center | Shinagawa-Ku, Tokyo |

(3) Status of Shares

Total number of Authorized Shares 400,000

Total number of issued and outstanding shares 274,092 shares

Note 1: Due to stock split dated May 20, 2002 (2 for 1 split), and exercise of the stock options granted through the resolution of shareholders' meeting on June 26, 1998 under Article 280-19, Section 2 of the Former Commercial Code , there were respective increases of 136,262 shares and 1,568 shares in comparison to the previous FY.

number of shareholders 13,210

Major shareholders (Top 7 shareholders)

| Name | Investment in the Company | | Investment by the Company in each Shareholders | |
|--|---------------------------|---------------------------------|--|---------------------------------|
| | Number of shares owned | Percentage of Voting Rights (%) | Number of shares owned | Percentage of Voting Rights (%) |
| Japan Trustee Services Bank, Ltd. (account in trust) | 33,923 | 12.4 | - | - |
| Mitsubishi Corporation | 27,618 | 10.1 | - | - |
| The Master Trust Bank of Japan, Ltd. (account in trust for retirement benefit, trust for Mitsubishi Corporation) | 27,600 | 10.1 | - | - |
| The Master Trust Bank of Japan, Ltd. (account in trust) | 19,597 | 7.2 | - | - |
| The Bank of Tokyo-Mitsubishi Ltd. | 8,280 | 3.0 | - | - |
| UFJ Trust Bank Ltd. (account in trust A) | 7,934 | 2.9 | - | - |
| Trust & Custody Services Bank, Ltd. (account in trust for pension fund) | 7,902 | 2.9 | - | - |

Note:

Number of shares owned for the purpose of trust services are as follows.

Japan Trustee Services Bank, Ltd. (account in trust) 33,923 shares

The Master Trust Bank of Japan, Ltd.

(account in trust for retirement benefit, trust for Mitsubishi Corporation)

27,600 shares

The Master Trust Bank of Japan, Ltd. (account in trust)

19,597 shares

UFJ Trust Bank Ltd. (account in trust A)

7,934 shares

Trust & Custody Services Bank, Ltd. (account in trust for pension fund)

7,902 shares

With regard to The Master Trust Bank of Japan, Ltd., (account in trust for retirement benefit, trust for Mitsubishi Corporation) all shares indicated are retirement benefit trust fund entrusted by Mitsubishi Corporation. Voting rights for aforementioned shares are to be exercised as designated by Mitsubishi Corporation.

Acquisition, disposal, and holding of corporate shares

Acquisition, disposal, and holding of corporate shares from purchase settlement of

Note 2. Statutory Auditors, Hirokuni Higashitani, Tatsuro Natsume, and Susumu Asano are outside auditors in accordance with laws on Chapter 18, Section 1 regarding special conditions of commercial law related to corporate audit.

(6) Remuneration paid to Directors and Statutory Auditors

| Segment | Number of applicable individuals | Amount | Remarks |
|-----------|----------------------------------|---------------------|---|
| Directors | 4 | 68,003 thousand yen | maximum amount (annually) Directors 200,000 thousand yen (in accordance with shareholders' meeting dated June 26, 1996) Statutory Auditors 50,000 thousand yen (in accordance with shareholders' meeting dated June 25, 1996) |
| Auditors | 4 | 29,400 thousand yen | |
| Total | 8 | 97,403 thousand yen | |

Note 1: In addition to above amount, for those holding titles of both employee and director, employee compensation amount (including bonus) of 58,764 thousand yen and director bonus for profit appropriation amounting to 48,000 thousand yen were provided.

Note 2: As of the end of the FY, there were 8 directors and 4 statutory auditors. The difference between the number of those having posts and actual number of individuals receiving compensation was due to not having to provide for compensation for certain members; among the 4 part time directors, 3 members were not applicable and 1 member was seconded to a subsidiary and therefore were not provided with compensation from our company.

(7) Status of Stock Option

Status of stock option under Article 280-19

1. Class and number of shares to be issued as a result of the exercise of the stock option for subscription rights (unexercised shares as of March 31, 2003)
1,890 shares
2. Exercise price for exercise of stock options
157,500 yen per share (As a result of the stock split (2 shares for 1 share) dated May 20,2002, exercise price adjusted from 315,000 yen to 157,500 yen)
3. Conditions for exercise of Stock Option
 - (a) If a beneficiary loses the title as a corporate director or an employee of the Company (including consultant and advisor) for reasons of death or retirement or for

any other reasons, the unexercised portions of stock options previously granted to the relevant beneficiary shall extinguish as of the date of loss of title and the beneficiary shall not be able to exercise stock options thereafter. Provided, however, that, such provisions shall not apply if beneficiary who is a Company's director loses his title and concurrently becomes a statutory auditor or employee of the Company or if beneficiary who is an employee of the Company loses his title and concurrently becomes a director or statutory auditor of the Company.

(b) Beneficiary shall exercise stock options during each following terms so that aggregate number of exercised stock options will not exceed the stipulated number of stock options.

(i) from July 7, 2000 to July 6, 2001

1/3 of the subscribed stock options

(ii) from July 7, 2001 to July 6, 2002

2/3 of the subscribed stock options

(iii) from July 7, 2002 to July 7, 2003

3/3 of the subscribed stock options

(c) Stock options may not be pledged, negatively pledged or disposed, and is not heritable.

Status of issuance of Stock Options at favorable terms to non-shareholders

1. Number of stock options

6,995 (1 share per stock option)

2. Class and number of shares issued for stock options

Common stocks 6,926 shares (excluding 69 extinguishing shares)

3. Issuance price of stock options

Free of charge

4. Exercise price of stock options

857,850 yen (per stock option)

5. Conditions for exercise of stock options

(a) The beneficiary must be a director, auditor or an employee (including consultant and advisor) of the

Company or its subsidiaries at the time of exercise of stock option.

- (b) In the event of occurrence of following circumstances as a result of which the exercise of stock options by relevant beneficiary does not meet the purpose of issuance of stock options to the beneficiary, the applicable beneficiary shall not exercise the stockoptions.
- (i) The beneficiary is sentenced to imprisonment or given greater penalty under law.
 - (ii) In a judicial trial where the beneficiary is the defendant of a shareholder derivative action, when either judgment has been made to award damage against beneficiary or when Board of Directors determines that with regards to the trial against the beneficiary, the defendant's position is comparable to being a defeated party.
 - (iii) The beneficiary is penalized by Net One Systems for violating statue, article of incorporation or corporate regulations.
 - (iv) The beneficiary becomes a board member, auditor, hired worker, contract employee, advisor or consultant to a competitor of Net One Systems.
 - (v) The Board of Directors reach a resolution to disallow exercise of stock option by beneficiary due to special circumstances that make it inappropriate for beneficiary to exercise the stock option.
- (c) During each following terms, exercise of stock options shall be restricted so that within each following terms, aggregate number of exercised stock options will not exceed the stipulated number of stock options. Provided however that, for both terms, (i) and (ii), fractional number of stock options shall be carried forward to the proceeding terms.

- (i) from August 1, 2004 to July 31, 2005
1/3 of the subscribed stock options
 - (ii) from August 1, 2005 to July 31, 2006
2/3 of the subscribed stock options
 - (iii) from August 1, 2006 to July 31, 2007
3/3 of the subscribed stock options
- (d) Stock options may not be pledged, negatively pledged or disposed, and is not heritable.
- (e) Partial exercise of stock options is not permissible.
- (f) Other details of exercise of stock options shall be indicated in a stock options contract to be signed between the Company and the beneficiary.

6. Causes and conditions for retirement of stock options

- (a) Stock options may be retired without consideration when conditions regarding eligible beneficiaries as stipulated in above 5. (a) for exercise of stock options are no longer applicable, any conditions stipulated in 5. (b) which inhibit the beneficiary from exercising stock options, such stock options are disposed with the result of violation of above 5. (d), or when exercise of such stock options is not approved for any other reasons.
- (b) If the beneficiary waives all or a portion of the stock options, the Company may retire the applicable stock options without consideration.
- (c) If there is a merger to the Company or a consolidation of the Company and other company(companies) and the surviving company or the newly established company does not assume the obligation with respect to stock options, the Company may retire the stock options without any consideration.
- (d) If the Company becomes a wholly owned subsidiary of another company ("Parent Company") as a result of transfer or exchange of shares, obligations to the Company's beneficiaries for stock options shall either be assumed to the Parent Company through exchange of shares or to the newly established

Parent Company through transfer of shares on condition that such assumption of the obligations is agreed between the Company and the Parent Company based upon the agreement with respect to the share exchange or approved upon resolution for share transfer of shareholders' meeting. However if above conditions are not achieved, the Company may retire the stock options without any consideration.

(e) All other matters regarding retirement of stock options shall be indicated in the stock options contract to be signed between the Company and the beneficiary.

7. Details of providing shares at favorable terms

Stock options have been provided without consideration to directors and certain employees of the Company.

8. Name of persons receiving allocations and number of stock options received

Directors

| Name | Number of stock options |
|--------------------|-------------------------|
| Kazuo Sato | 500 |
| Isao Nakamura | 200 |
| Yoshiaki Kobayashi | 200 |
| Masahiko Oishi | 200 |
| Akiyoshi Sasaki | 200 |
| Toru Ishikawa | 100 |

Employees

| Name | Number of stock options |
|--------------------|-------------------------|
| Shingo Saito | 75 |
| Toyoki Kasahara | 75 |
| Tadashi Ishikawa | 75 |
| Toru Arai | 75 |
| Yoichi Isozaki | 75 |
| Yasuhito Yamasaki | 75 |
| Shunichi Yanase | 75 |
| Tsutomu Shiomi | 60 |
| Norito Mizuno | 60 |
| Hideo Watanabe | 60 |
| Shunichi Suemitsu | 60 |
| Akihiro Shirahashi | 60 |

(Note: Stock options issued during this FY are limited to aforementioned Status of issuance of stock options at favorable terms to non-shareholders.)

3. Significant events related to corporate events subsequent to fiscal year end

No special events to report.

4. All written amount indicate values that are rounded down.

Balance Sheet

(as of March 31, 2003)

(unit: rounded down to the nearest 1,000 yen)

| | Amount | | Amount |
|-------------------------------------|-------------------|--|-------------------|
| ASSETS | | LIABILITIES | |
| Current Assets | 66,138,873 | Current Liabilities | 27,411,128 |
| Cash and Deposits | 7,654,885 | Account Payables | 20,973,618 |
| Note Receivables | 1,214,210 | Miscellaneous Account payables | 1,377,007 |
| Account Receivables | 40,757,774 | Accrued Corporation Taxes | 2,481,966 |
| Commercial Goods | 11,015,826 | Accrued Consumption Taxes | 98,329 |
| Goods in Transit | 950,329 | Accrued Expenses | 407,286 |
| Uncompleted Works | 1,225,838 | Advances from Customers | 1,457,617 |
| Inventory Goods | 2,482 | Deposit Received | 45,835 |
| Advanced Payment | 14,966 | Allowance for Bonuses | 340,000 |
| Prepaid Expense | 121,464 | Others | 229,466 |
| Deferred Income Taxes | 400,549 | Fixed Liabilities | 405,689 |
| Short Term Loans | 2,304,296 | Allowance for Retirement Benefits | 239,559 |
| Others | 563,249 | Allowance for Bonus for Retiring Directors | 165,980 |
| Allowance for Doubtful Receivables | 87,000 | Others | 150 |
| Fixed Assets | 7,745,293 | Total Liabilities | 27,816,817 |
| Tangible Fixed Assets | 2,769,444 | | |
| Buildings | 315,531 | | |
| Buildings and Structures | 1,387 | | |
| Tools, Fixtures, and Equipment | 2,235,134 | | |
| Land | 215,080 | | |
| Lease Asset | 2,310 | | |
| Intangible Fixed Assets | 1,198,576 | | |
| Telephone Subscription Right | 4,477 | | |
| Software | 1,194,098 | | |
| Investment and other Assets | 3,777,273 | | |
| Investment Securities | 1,392,396 | | |
| Stocks of affiliated companies | 641,375 | | |
| Investments in capital | 48,511 | | |
| Long term loan | 57,983 | | |
| Receivable from insolvent companies | 273,732 | | |
| Long term Prepaid Expense | 3,503 | | |
| Deferred Income Tax | 977,851 | | |
| Security Deposit Amount | 547,184 | | |
| Others | 104,910 | | |
| Allowance for Doubtful Receivables | 270,177 | | |
| Total Assets | 73,884,167 | SHAREHOLDER'S EQUITY | |
| | | Capital Stock | 12,132,452 |
| | | Additional Paid-in Capital | 19,306,839 |
| | | Capital Reserve | 19,306,839 |
| | | Retained Earnings | 14,741,531 |
| | | Appropriated for legal reserve | 85,963 |
| | | Unappropriated Reserve | 10,126,172 |
| | | Reserve for extraordinary depreciation of IT equipment | 26,172 |
| | | Other Reserve | 10,100,000 |
| | | Unappropriated Net Income for the year | 4,529,396 |
| | | Net unrealized gain on Securities | 18,615 |
| | | Treasury Stock | 94,858 |
| | | Total Shareholders' Equity | 46,067,350 |
| | | Total Liabilities, Shareholders' Equity | 73,884,167 |

| | Amount | |
|---|------------------|-------------------|
| RESULTS OF ORDINARY OPERATIONS | | |
| Operating Section | | |
| Sales | | 92,926,585 |
| Cost of Goods Sold | | <u>73,785,701</u> |
| Gross Profit on Sales | | 19,140,884 |
| Selling General and Administrative Expense | | <u>11,706,201</u> |
| Operating Income | | 7,434,682 |
| Non-Operating Section | | |
| Non-operating Income | | |
| Interest Income | 15,312 | |
| Dividends | 1,356 | |
| Service Fee from Subsidiories | 14,178 | |
| Exchange Gain on Foreign Currencies | 86,675 | |
| Other Income | <u>11,145</u> | 128,669 |
| Non-operating Expense | | |
| Issuing New Shares Expense | 9,381 | |
| Other Loss | <u>18,079</u> | 27,460 |
| Ordinary Profit | | 7,535,890 |
| RESULTS OF EXTRAORDINARY OPERATIONS | | |
| Extraordinary Profit | | |
| Gain on Sales of Investment Securities | <u>1,264,021</u> | 1,264,021 |
| Extraordinary Loss | | |
| Loss on Removal of Fixed Assets | 52,508 | |
| Loss on Sales of Investment Securities | 195,103 | |
| Loss on Revaluation of Investment Securities | 450,087 | |
| Write-off of Advance Payment | 144,918 | |
| Accrued Allowance for Doubtful Receivables | 226,415 | |
| Others | <u>15,000</u> | 1,084,033 |
| Income Before Income Taxes | | 7,715,878 |
| Income Taxes Current | 3,923,000 | |
| Income Taxes Deferred | <u>590,262</u> | 3,332,737 |
| Net Income | | 4,383,141 |
| Unappropriated Retained Earnings at the beginning of the period | | 146,255 |
| Unappropriated Net Income for the Year | | <u>4,529,396</u> |

. Significant Accounting policies

1.Valuation Standard and Valuation Method for Marketable Securities

(1) Securities

Securities of Affiliated Companies Cost accounting method using moving average method

Other Securities

Securities with market Value Market value method based on market value on closing date (Accounting for difference in valuation is total direct casting equity method and for cost of products sold, moving average method is applied)

Securities without market value Cost accounting method using moving average method

(2) Derivatives

Market Value

(3) Inventories

Merchandises

Cost accounting method using moving average method

Uncompleted Works

Cost accounting method using individual method

9. Accounting method for depreciation of fixed assets

(1) Tangible Fixed Assets

Fixed percentage method in corporate tax law, with an exception of lease assets which employs straight line method. Below are the major lives of machinery

Building 3-26 years

Machinery, Tool, and Equipment 3-15 years

Asset Lease 6 years

(2) Intangible Fixed Assets

Software for internal use

Straight line method based on corporate usability period (5 years)

Software for sale

Straight line method based on useful life (3 years)

(3) Long Term Prepaid Expense

Average depreciation method

10. Accounting method for accrued assets

Expense relating to issuance of new stocks When making the payment, all amount is accrued under expense

11. Exchange standard for foreign currency assets and liabilities

With regards to debts and credits in foreign currencies, the amount will be calculated to yet using spot exchange rate as of the closing date of FY and converted difference is accrued as gain or loss.

12. Accounting method for accrual of allowance

(1) Allowance for doubtful receivables

To prepare for loss from uncollectable credits, calculations based on actual uncollectable rate is budged and for special receivables with higher uncertainty, probability of collectivity is

- considered on individual cases and prospective uncollectable amount is budgeted.
- (2) Allowance for bonus Expenditure from payment of bonus to employees is recorded based on payment prospect.
- (3) Allowance for retirement benefits To prepare for employee retirement benefits, the amount expected to be accrued by the end of the current accounting term is budgeted based on prospective employee retirement benefits and pension assets. Difference due to calculation will be accrued in the proceeding FY using straight line method determined through applying average number of employment (5 years) at the time of such incident.
- (4) Allowance for bonus for retiring directors To prepare for allowance for bonus for retiring directors, FY payment amount is budgeted based on policy for bonus for retiring directors. Applicable allowance is allowance based on regulations of Commercial Code Chapter 43 (enacted on April 1, 2003)
13. Accounting method for significant lease transactions
Except for lease products where ownerships is expected to transfer to the debtor, the accounting method for lease transactions in conformance with accounting policy of general lease transactions is applied.
14. Hedge Accounting
- (1) Hedge accounting method Carry over hedge accounting is applied, except for exchange contract when requirements for allocations procedure are met, allocation procedure is applied
- (2) Hedge procedure and subject Hedge Procedure: Exchange Contract
Subject to Hedge: Planned foreign currency transactions
- (3) Hedge policy In accordance with limitation on transactions and transaction authority in corporate administrative provisions, risk hedge for currency fluctuation of foreign liabilities relating to business assets is applied.
- (4) Hedge efficiency valuation policy For exchange contract which is considered to have high hedge efficiency, efficiency valuation has been omitted.
8. Accounting Policy for consumption tax, etc. Accounting policy for consumption tax and local consumption tax

employs pre-tax method

9. Changes to accounting policy for repurchased shares and reversal of legal reserve

From current FY, accounting policy for repurchased stocks and reversal of legal reserve (Corporate accounting standard Chapter 1) has been applied. The effect of this change on current profit or loss is nominal.

Shareholders' equity of balance sheet has been prepared based on Commercial Code enforcement regulation (effective April 1, 2003)

10. Values indicated have been rounded down to the nearest 1,000 yen

. Other remarks

(Matters related to Balance Sheet)

1. Securities and credit to related companies

Short term monetary receivables 3,718,368 thousand yen

Short term monetary credit 2,014,328 thousand yen

2. Significant fixed assets using lease agreement

Besides fixed assets included in balance sheet, automotive equipment, office appliance, and testing machines are used through lease agreement.

3. Total depreciation amount of tangible fixed assets 4,820,952 thousand yen

4. Status of stock subscription right

With regards to status of stock subscription right (stock option) based on former Commercial Code Chapter 280-19, please refer to Business Report 2. Corporate Status (7) Status of stock options and subscription rights.

5. Early application of new commercial code guideline

From this FY, early application of partial amendment to Commercial Code (Ministry of Justice 7th degree dated February 28, 2003) has been applied.

(Matters related to Income Statement)

1. Volume of transaction with related companies

Volume of business operation

Sales 2,164,710 thousand yen

Amount of goods purchased 8,729,002 thousand yen

Sales expense and administrative expense

279,160 thousand yen

Volume of business excluding business operation

184,556 thousand yen

2. Current net income per share

15,899.55 yen

As indicated in Business Report (6) Status of business results and assets (Note 1.) Accounting standard regarding current net income per share (Corporate Accounting Standard Chapter 2) and accounting standard application guideline for current net income per share (Corporate Accounting Standard Application Guideline Chapter 4) have been applied.

(Matters related to tax effect accounting)

Breakdown based on basis for accrual for deferred income tax asset and deferred income tax liability

Deferred Income Tax Asset (Current)

Business Tax Payable 229,288 thousand yen

Amount in excess of the Allowance for

Bonus

108,698 thousand yen

Others

62,561 thousand yen

Total Deferred Income Tax Assets (Current)

400,549 thousand yen

Deferred Income Tax Assets (Fixed)

Amount in excess of the allowance

for tools, fixtures, and equipment 435,729 thousand yen

| | |
|---|----------------------------|
| Amount in excess of the allowance for doubtful receivables | 106,949 thousand yen |
| Loss from revaluation of securities | 211,954 thousand yen |
| Allowance for Retirement Benefits | 97,021 thousand yen |
| Allowance for Bonus for Retiring Directors | 67,221 thousand yen |
| Others | <u>73,964 thousand yen</u> |
| Total Deferred Income Tax Assets (Fixed) | 992,841 thousand yen |

| | |
|---|-----------------------------|
| Deferred Income Tax Liabilities (Fixed) | |
| Reserve for extraordinary depreciation | <u>14,989 thousand yen</u> |
| Total Deferred Income Tax Liabilities (Fixed) | <u>14,989 thousand yen</u> |
| Total net Deferred Income Tax Liabilities (Fixed) | <u>977,851 thousand yen</u> |

(Note) In relation to the amending law to partially revise local tax law (2003 legislation, Chapter 9,) promulgated on March 31, 2003, legally effective tax rate for calculating current deferred income tax assets and deferred income tax liabilities changed from previous FY's 42.05% to 40.50% (limited to those expected to be eliminated subsequent to April 1, 2004.) As a result, amount of deferred income tax assets (after offsetting deferred income tax liabilities) decreased by 37,423 thousand yen ,and adjustment amount for corporate tax and difference due to revaluation of stocks increased by 36,939 thousand yen and 484 thousand yen respectively.

(Matters related to allowance for Retirement Benefits)

1. Summary of the allowance for retirement benefits

Our company offered defined benefit plan by approved retirement annuity system and termination allowance plans. Our company is a member of comprehensively established pension fund comprised of multiple companies.

2. Items under retirement benefits (as of March 31, 2003) (unit:1,000 yen)

| | |
|---|----------------|
| Retirement Benefit Liability | 1,564,495 |
| Pension Asset | <u>717,488</u> |
| Deficit on reserve for Retirement Benefit Liability (+) | 847,006 |
| Unrecognized net assets at transition | 607,447 |
| Unrecognized prior serve cost (decrease in liabilities) | <u>-</u> |
| Accrued retirement benefit cost recognized in the current balance sheet (+ +) | 239,559 |
| Prepaid Pension Expense | <u>-</u> |
| Allowance for Retirement Benefits (-) | <u>239,559</u> |

Note: Difference due to change in accounting standard is processed as a one time expense in the first year of application of retirement benefit accounting.

3. Items for Retirement Benefit Expense (April 1, 2002 to March 31, 2003)
(unit:1,000 yen)

| | |
|---|----------------|
| Service Expense | 195,897 |
| Interest Expense | 22,425 |
| Expected return on plan assets | 12,866 |
| Amortization of net actuarial loss | 73,619 |
| Amortization of prior service expense | <u>-</u> |
| Net retirement benefits expense (+ + + +) | <u>279,075</u> |

In addition to above, 102,863 thousand yen is accrued as installment fee for comprehensively established pension fund.

4. Items regarding prospective basis for calculation of retirement benefits liabilities

Allocation method of prospective retirement benefits Flat rate basis per term

| | |
|--|---------|
| Rate of discount | 2.0% |
| Rate of expected return on plan assets | 2.0% |
| Number of years for amortization of prior service expense | - |
| Number of years for amortization of net actuarial loss | 5 years |
| (Fixed amount method is applied to predetermined number of years within the average number of years of employment at the time of the event and the amount is expensed from proceeding FY.) | |

5. Of the pension asset required for joint established pension fund, the amount of pension asset balance at the end of the current FY calculated based on contributory amount of premium by our company.

1,356,834 thousand yen

Plan for Appropriation of Earnings

(unit: yen)

| Items | Amount |
|---|---------------|
| Unappropriated Net Income for the FY | 4,529,396,515 |
| Appropriation of Reserve for extraordinary depreciation of certain IT equipment | 4,149,844 |
| Total | 4,533,546,359 |
| The above items will be appropriated as indicated below. | |
| Dividends | 273,986,400 |
| Common Dividend Per Share 1,000 yen | |
| Bonus to Directors | 40,800,000 |
| Other Reserve | 3,940,000,000 |
| Earned Surplus carried forward to the following FY | 278,759,959 |

Independent Auditors' Report

No translation was made for the Auditors' Report because the original was only available in Japanese, however a clean opinion was expressed in the Report.

.

Copy of Auditor's Report by Board of Statutory Auditors

Audit Report

We, the board of statutory auditors received a report on 16th FY, April 1, 2002 to March 31, 2003 from each auditor with regard to methods and results of audits. We examined it and made this Audit Report and we report to you as follows.

1. Summary of auditing procedures

Auditors received reports and explanations on status of company's operation and assets through attending Board of Directors meeting and other notable meetings in addition to attending hearings by Board of Directors regarding business status, examined documents regarding significant decisions, researched on the status of operation and assets for headquarters and other major offices, requested information from subsidiaries and visited the subsidiaries as necessary to receive information regarding status of operation and asset. Also, we received reports and explanations from independent auditors as needed to create accounting statement and supplemental papers.

With regard to transactions involving Directors to perform competitive work, transactions involving conflict of interest between Director and Company, Company's profit sharing without consideration, and uncustomary transactions between the company and subsidiary or shareholders, as well as reacquisition of stocks and sale of such stocks, besides auditing procedures stated above, reports were requested as necessary from Directors to examine the matters in detail.

2. Results of Audit

- (1) We confirm that Tohmatsu & Co.'s procedures and results are correct.
- (2) We confirm that business report is in accordance with the Japanese law and Article of Incorporation and correctly indicate the corporate status.
- (3) With regard to measure for appropriation of profit, there are no noteworthy events in light of corporate status.
- (4) Supplemental papers correctly show items to be indicated, and there are no noteworthy events.
- (5) There were no fraudulent acts or breach of Japanese law or article of incorporation relating to work including work for subsidiaries performed by directors.

Also, with regard to transactions involving Directors to perform competitive work, transactions involving conflict of interest between Director and Company, Company's profit sharing without consideration, and uncustomary transactions between the company and subsidiary or shareholders, as well as reacquisition of stocks and sale of such stocks, we did not confirm any violations of duties.

May 14, 2003

Board of Statutory Auditors

Net One Systems Co., Ltd.

| | |
|----------------------|-----------------------------|
| Shojiro Takagaki | Full time Statutory Auditor |
| Hirokuni Higashitani | Statutory Auditor |
| Tatsuro Natsume | Statutory Auditor |
| Susumu Asano | Statutory Auditor |

Note: Pursuant to Article 18, Section 1 of the "Law Concerning Special Measures under the Commercial Code with respect to audit, etc. of Corporations (Kabushiki-Kaisha)" of Japan, Hirokuni Higashitani, Tatsuro Natsume, and Susumu Asano are outside statutory auditors.

Reference document regarding exercise of voting right

I. Total number of voting rights granted to all shareholders

273,972

II. Agenda and Reference Materials

Proposal 1 16th FY appropriation of profit

For details of this agendum are indicated in the attached document (page 23.)

Through comprehensive consideration of the current FY business performance and future operational environment, we propose the current FY dividend to be 1,000 yen per share.

Proposal 2 Amendment of the Articles of Incorporation

1. Reason for Amendment

We propose to amend Article 6 (Share Handling Regulation), Article 7 (Transfer Agent), Article 11 (Quorum for Ordinary Resolutions) of the Articles of Incorporation because of the amendment in the Commercial Code concerning invalidation of share certificate and quorum for special resolution in the shareholders' meeting under the "Law Concerning Partial Amendments to the Commercial Code" (Law No. 44, 2002).

2. Details of amendments

The details of amendments are as follows.

(Underlined parts indicate amendments.)

| Current Article of Incorporation | Proposed amendments to the Article of Incorporation |
|---|--|
| <p>Article 6 (Share Handling Regulations) The regulations concerning handling of shares and fractional shares, such as the class of shares to be issued, and handlings upon transfer of shares, acceptance of notice regarding beneficiary shareholders, and purchase request of fractional shares, etc. shall be governed by statute, Articles of Incorporation and Share Handling Regulations regulated by board of directors.</p> <p>Chapter 7 Transfer Agent 1. The Company shall appoint a transfer agent for shares and fractional shares. 2. Transfer agent and its place of</p> | <p>Article 6 (Share Handling Regulations) The regulations concerning handling of shares and fractional shares, such as the class of shares to be issued, and handlings upon transfer of shares, acceptance of notice regarding beneficiary shareholders, <u>registration of lost share certificate</u> and purchase request of fractional shares, etc. shall be governed by statute, Articles of Incorporation and Share Handling Regulations regulated by board of directors.</p> <p>Chapter 7 Transfer Agent <1. No Change> <2. No Change></p> |

| | |
|--|---|
| <p>business shall be determined through resolution of board of directors and shall be announced by way of public announcement set out hereunder.</p> <p>3. The Company's <u>share</u> list, list of beneficiary shareholders <u>and</u> original fractional share list shall be kept at office of the transfer agent. Clerical work for shares and fractional shares including changes to the title of the shareholders' list, acceptance of notice of beneficiary shareholder, <u>register of pledge, indication of asset in trust, issuance of share certificate, acceptance of filing,</u> handling of request for purchasing fractional shares, <u>etc.</u> shall be conducted by transfer agent and will not be handled by the Company.</p> <p>Chapter 11 (Requirements for <u>ordinary</u> resolution) Unless otherwise specified in statute or in the Articles of Incorporation, resolution of shareholders' meeting shall be adopted by majority of voting rights held by the shareholders attending in the shareholders' meeting.</p> | <p>4. The Company's <u>shareholders'</u> list, list of beneficiary shareholders, original fractional share list, <u>and list of lost share certificates</u> shall be kept at office of the transfer agent. Clerical work for shares and fractional shares including changes to the title of the shares, acceptance of notice of beneficiary shareholder, <u>register of lost share certificate,</u> handling of request for purchasing fractional shares, <u>etc.</u> shall be conducted by transfer agent will not be handled by the Company.</p> <p>Chapter 11 (Requirements for resolution)</p> <p>1. Unless otherwise specified in statute or in the Articles of Incorporation, resolution of shareholders' meeting shall be adopted by majority of voting rights held by the shareholders attending in the shareholders' meeting.</p> <p>2. <u>Resolution of shareholders meeting under Article 343 of the Commercial Code shall be adopted in the shareholders' meeting where shareholders who hold one third or more of the voting rights are present by two third or more of the voting rights held by the shareholders attending in the shareholders' meeting.</u></p> |
|--|---|

Proposal 3 Election of one (1) statutory auditor

As the Hirokuni Higashitani will leave his office because of expiration of his term of office, we would like to elect one (1) statutory auditor. Board of statutory auditors has already approved this proposal.

Following is the candidate for a statutory auditor.

| Name | Career summary and representative status of other companies | Number of Net One Systems shares owned |
|----------------------------------|--|--|
| Hiromu Yoshida (May 21, 1945) | Apr. 1969 enter Mitsubishi Corporation Feb. 1995 Mitsubishi Corporation | NA |

| | | |
|--|---|--|
| | Information planning Director Apr. 1997 Mitsubishi Corporation Information Technology and Information Technology Business Director Jun. 1997 the Company Director Oct. 1997 Mitsubishi Corporation Assistant Information Technology Director and Information Technology Business Director Apr. 2000 Mitsubishi Office Machinery Co., Ltd. Managing Director Apr. 2001 Mitsubishi Corporation Information Technology Group Auditor May 2003 Net Mitsubishi Corporation New Business Initiative Group General Manager of Audit | |
|--|---|--|

Proposal 4 Payment of Retirement Bonus for retiring statutory auditor

We would like to provide Hirokuni Higashitani, who will leave his office as the statutory auditor because of expiration of term of office at the end of this shareholders' meeting, with retirement bonus to compensate for his service during his years in office. We ask your approval to entrust statutory auditors with decisions regarding actual amount, term and method of bonus, which shall be in accordance with and within the bounds set forth by corporate guidelines.

Following table is a summary of retiring statutory auditor.

| Name | Career summary |
|-----------------------------|--|
| Hirokuni Higashitani | June 1997 Full time statutory auditor June 2001 Statutory auditor (currently) |