



Financial Report for FY 2004 (ending March 2005) (Consolidated Report)

May 11, 2005

Name of registered company Net One Systems Co., Ltd.
 Location of stock listing: Tokyo Stock Exchange
 Stock Code Number: 7518
 Location of headquarters: Tokyo
 (U R L <http://www.netone.co.jp>)

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 of Operation
 Department
 Date of board meeting May 11, 2005
 for the FY
 Applicability of U.S. No
 accounting standard

1 . Business Results for FY 2004 (April 1, 2004 to March 31, 2005)

(1) Consolidated Financial Results

(unit: figures are rounded down to the nearest million yen)

	Sales		Operating Profit		Ordinary Profit	
	Million Yen	%	Million Yen	%	Million Yen	%
FY ended March 2005	134,739	(10.8)	10,687	(0.7)	10,648	(0.4)
FY ended March 2004	121,637	(31.0)	10,608	(41.1)	10,608	(39.5)

	Net Income		Net Income per Share		Net income per share assuming full dilution		Return of Stockholder's Equity Ratio	Ordinary Profit Ratio of Total Capital	Ordinary Profit Ratio of Sales
	Million Yen	%	Yen	Sen	Yen	Sen	%	%	%
FY ended March 2005	6,214	(2.0)	11,183	12	—	—	11.3	13.7	7.9
FY ended March 2004	6,093	(41.9)	21,929	32	21,909	28	12.4	14.2	8.7

- (note)
- Equity in net earnings of affiliated companies
 FY ended March 2005: (9) Million Yen
 FY ended March 2004: (5) Million Yen
 - Average number of outstanding shares (consolidated):
 FY ended March 2005: 551,687 shares
 FY ended March 2004: 275,479 shares
 - Changes in principle accounting policies: No
 - Percentage: Increase/Decrease against previous year on sales, operating profit, ordinary profit, and net income

(2) Financial position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio to total assets	Shareholders' Equity Per Share	
	Million Yen	Million Yen	%	Yen	Sen
FY ended March 2005	80,822	57,999	71.8	105,049	57
FY ended March 2004	74,108	52,125	70.3	188,779	31

Note: Number of outstanding shares at the end of the period

FY ended March 2005 551,688 shares

FY ended March 2004 275,842 shares

(3) Cash flow

	Net cash provided by Operating Activities	Net cash used in investing activities	Net cash provided by financing activities	Cash and cash equivalents at end of the year
	Million Yen	Million Yen	Million Yen	Million Yen
FY ended March 2005	18,714	(1,708)	(238)	20,429
FY ended March 2004	(2,814)	(2,956)	257	3,661

(4) Scope of consolidation and equity method

Consolidated subsidiaries: 4 subsidiaries

Unconsolidated subsidiaries (equity method is applied): -

Affiliated companies (equity method is applied): 1

(5) Change in scope of consolidation and equity method

Consolidation: increase -, decrease -

Equity method: increase -, decrease -

2 . Forecast for the consolidated FY ending March 31, 2006 (April 1, 2005 to March 31, 2006)

	Sales	Ordinary Profit	Current Net Income
	Million yen	Million yen	Million yen
Interim period for FY ending March 2006	59,000	4,300	2,400
FY ending March 2006	147,000	13,000	7,200

(Reference) forecast net income per share for FY ending March 31, 2006: 13,050.85 yen

(Note) Forecast net income per share is calculated based on 551,684 shares subsequent to factoring in 2 for 1 stock split as of March 20, 2004.

The above forecast is based on currently available information and the actual business performance may differ in relation to various factors. With regards to particulars related to above forecast, please refer to Operating Results and Financial Status (d) Forecast for the next term Operating Results on page 15.

Reference information regarding current period net income per share, current period net income per share assuming full dilution and shareholders' equity per share

On May 20, 2004, the Company provided 2 share for 1 share stock split.
In order to make comparisons over period of time, following chart indicates the per share values after applying retroactive adjustments for the stock split.

	Current FY April 1, 2004 to March 31, 2005		Previous FY April 1, 2003 to March 31, 2004	
	yen	sen	yen	sen
Current FY net income per share	11,183	12	10,964	66
Current net income per share assuming full dilution	—————		10,954	64
Shareholders' equity per share	105,049	57	94,389	66

(Note) With regard to current FY period net income per share assuming full dilution, no figures are indicated because there were no diluted shares.

Status of Net One Systems Group

Net One Systems Group is comprised of Net One Systems Co., Ltd., five subsidiaries (From May 2005, three subsidiaries. Refer to Note 2, Note 4 in Business Organization Diagram) and one affiliated company. The core business of Net One Systems Group is to deploy network computing system using most advanced technologies and offer related operation and management services. Although our group is involved in one business field, based on product selection and service types, business domain is categorized into network equipment products group (NI), Network Computing Products (NC), Media Integration Products (MI), and Service Integration Products (SI). (refer to below chart)

Our Group's business predominantly deals with sales of integrated packages that combine various products groups.

With regards to the varying roles within our group companies, Net One Systems Co., Ltd. is responsible for NI and NC, and MI, and Network Service And Technologies Co., Ltd. is responsible for SI. Net One Systems Co., Ltd. and U.S. subsidiary, (Tennoz Initiative Inc.) perform US network market research and search for most advanced technologies and products.

(Product classification)

Product Category	Description	Major products
Network Integration products (NI)	Network design Project management Product installation	Router Switch
Network Computing products (NC)	Policy analysis, Planning, Deployment	Security device/ Authentication Load balancing device Storage
Media Integration products (MI)	Wiring design, layout management Deployment process (selection, procurement, cabling)	Cable material DSL Wireless
Service Integration products (SI)	Operation support, Installation Integrated service, Remote monitoring Integrated education, Management outsourcing	Service/ Operation management Installation SLM

Note:

Network Integration Products (NI)

The realization of smooth traffic environment and stable performance are essential in creating computer networks. Network Integration provides efficient network infrastructure through high end routers and switches. Network Equipment Products Group is organized based on hardware categories as routers and switches that are required for deployment of networks.

Network Computing Products Group (NC)

Network Computing enables safe and prompt deployment of application infrastructure used in a rapidly evolving Internet environment. Network Computing is organized based on softwares and related equipment necessary for maintenance of evolving application platform including various security products and multimedia applications, as well as solutions using technically most advanced traffic management, QoS, server, and storage.

Media Products Group (MI)

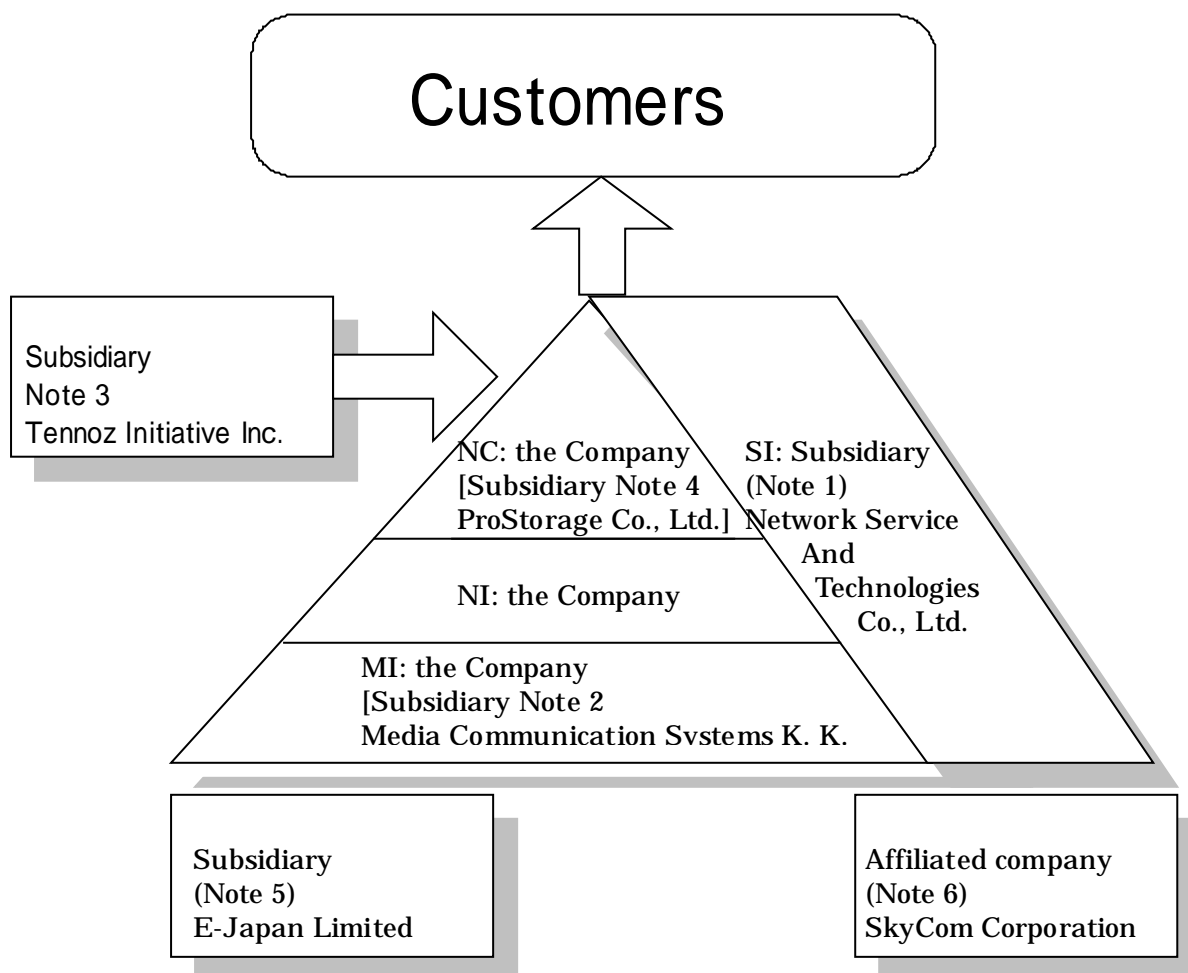
With the rapid increase of business environment using multimedia contents, in computer network deployment, selecting the transmission mode, the basis of networks that matches the usage objective becomes imperative. In order to answer to this need, Media Integration provides integration through design/ deployment process of physical transmission mode for diversifying high-speed networks including CATVs, mobile networks and wireless networks. Media Products Group is organized based on products related to physical transmission mode and wiring service.

Service Products Group (SI)

Service Integration provides total support ranging from network planning and deployment, to operation service/management. 24 hours, 365 days network security is the basis for ensuring secure environment provided through transaction monitoring and management of traffic and trouble products. Furthermore, services including reduction of operational cost by traffic analysis/ billing management support, as well as education on management methods and newest technologies are provided.

[Business Organization Diagram]

The following diagram outlines the business organization explained above.



- Note 1: Network Service And Technologies Co., Ltd. is a company providing Service Integration and is a consolidated subsidiary.
- Note 2: Media Communication System K.K. is a company providing Media Integration and is a consolidated subsidiary. The Company absorbed (simplified merger) Media Communication Systems K. K as of April 2005.
- Note 3: Tennoz Initiative Inc. is a company that researches on U.S. computer network market, and advanced technologies and searches for new products. It is an unconsolidated subsidiary that does not apply equity method.
- Note 4: ProStorage Co., Ltd. is a company that expands into network storage market and is a consolidated subsidiary. In February 2005, ProStorage resolved to dissolve the company and the liquidation of the company is expected to be finalized in May 2005.
- Note 5: E-Japan is a company that provides planning, development, sales, and maintenance for softwares that use electric transaction technology including electric authentication and data exchange that use Internet, etc. as the mode of transmission. E-Japan is a consolidated subsidiary.
- Note 6: SkyCom Corporation's core business is to develop and offer computer network related software and equity method is applied.

Basic Management Policies

(a) Basic Policies for Management

Since establishment, our management ideology was based on emphasis on customer satisfaction, emphasis on shareholders, contribution to the society, and employee satisfaction. Our basic management policies are, 1) acquiring most advanced technology and aim to become the leading computer networking company in Japan, 2) flexibly adjust in a timely manner to the rapidly changing market and actively promote establishment of new businesses and expansion of business scope, and 3) focus on nurturing challenging spirit and providing exciting working environment to the employees to create rapidly expanding, high profit company.

Through above basic management policies, our goal is to maximize the corporate value by improving the profit structure and capital efficiency; this will be achieved through highly advanced technical skills, offering business model that answers to the needs of the society and demand of the time, and expanding into new market.

With the rapid diversification and sophistication of Internet usage in both governmental and non-governmental sectors, there is an increasing demand for advanced technical skill and knowledge of network configuration/usage including 1) consulting and proposal skills that meet to the customer needs, 2) technical support capability, comprehensive after-service system, and timely and precise technical trouble shooting, 3) availability of most advanced and reliable products/services, 4) technology leadership, 5) provision of one-stop end-to-end solution.

In order to answer to the demand of the expanding market in a comprehensive and pertinent manner, the basic management policy common to all group companies is to increase expertise in core business segments and to collaboratively provide comprehensive and customized value added network services.

Network Integration (NI) business	core business:	Net One Systems Co., Ltd.
Network Computing (NC) business	core business:	Net One Systems Co., Ltd.
Media Integration (MI) business	core business:	Net One Systems Co., Ltd.
Service Integration (SI) business	core business:	Network Service And Technologies Co., Ltd.

(b) Basic Policies for Profit Sharing

While we strive to establish management basis with competitive advantage and increase profit, we intend to determine the dividend on profit through consideration of balance between return of profit to shareholders and internal reservation for business expansion.

Common dividend of 1,000 yen per share will be provided as dividend for current FY. As a result, dividend pay out ratio was 9.8%, ratio of dividends to shareholder's equity was 1.0%, and shareholder's equity ratio to current net income (unconsolidated) was 10.4%.

In the future, profit payout will place greater emphasis on dividend payout. While aiming for a 20% profit payout by FY ending March 2008, the Company will gradually increase the dividend payout to be decided through considering the business performance for each year. In addition from current FY, the Company plans on providing mid-term dividend. The Company plans on providing mid-term dividend of 750 yen per share, end of the FY dividend of 750 yen per share for a total annual dividend of 1,500 yen per share.

(c) Ideology and Policy for Reduction of Investment Unit

As one way to return profit to shareholders, two for one share stock split (in effect) took place on May 20, 2002, and May 20, 2004.

In regards to the decreasing the size of investment per share, the company will continue to take into consideration, business performance and stock trends, etc. to implement reduction of investment unit in the future.

(d) Company's Mid to Long-term Business Strategy and Challenges

The corporate group aims to shift the business scope from business structure focusing on network integration to become a network solution provider capable of addressing the needs of the users by providing a highly value added comprehensive network service. To this end, we announced a mid-term business strategy targeting March 2007 and now through reconsidering market trends and business trends, we developed a revised 3 year mid-term business strategy starting April 2005 and aiming for March 2008.

Overview of the medium term business plan

With the development of IP, broadband and outsourcing, the differentiating line between conventional LAN-WAN environments is becoming vague and centralization of operation from distributed system to centralized system is becoming more prevalent. As the speed of business increases, the demand for large scale and complex network configuration increases and diversified professional skills are in demand.

With regard to business outlook, with network, platform, security, IP communication and service as the key words, the corporate group is committed to developing solutions to gain market share and create new market and searching for new products and vendors.

Based on proven network technologies, the company aims to increase the business as network solution provider by strengthening new business areas as storage and server fields that create added values.

Specific aims for FY ending March 2008 (consolidated base) are 220,000M in sales and 21,000M yen in operating profit.

Issues to consider for successful implementation of mid-term business plan

The achievement of mid-term business plan requires assessment of most advanced networking technologies, while adding high quality technical services to provide network solutions to customers. To this end, the corporate group will actively invest in personnel and new technologies to create a system capable of answering the more detailed needs of the customer and promote ongoing growth and increase corporate value.

(unit: rounded down to the nearest million yen)

Company name	Details of facility	Amount	Paid amount
Net One Systems Co., Ltd.	Research and development	7,000	3,920
	Investment on development of new business		
	Expand quality control facility, etc. and evaluation facility	2,000	486
	Expansion and relocation of headquarters and branch offices	2,000	412
Network Service And Technologies Co., Ltd. And others	Maintenance products and expansion of branch offices	9,000	7,482
Total		20,000	12,302

(e) Basic principles regarding corporate governance and implementation status

Basic principles of corporate governance

Our company's goal is to gain high evaluation (high level of satisfaction) and trust from stakeholders by establishing favorable relationships with customers, shareholders, partner companies, employees, and local community through our various corporate activities and being a socially responsible corporate citizen.

Implementation status regarding corporate governance

Our company employs auditing system comprised of seven directors (of whom one is an outside director), four auditors (of whom two are outside auditors.) There are no special interests between the Company and each outside directors and outside auditors. (Subsequent to General Meeting of Shareholders, numbers of directors and statutory auditors are scheduled to be eight (one outside director) and four (of whom two are outside auditors,) respectively.

A management committee consisting of board of directors, directors and full time statutory auditors has traditionally managed our company. In order to increase the operational efficiency, 1) the scope of responsibility was clarified, 2) the level of authority was clarified, 3) corporate rules and regulations were enforced, and 4) the chain of command was clarified and a flat organizational operation under headquarters system was implemented.

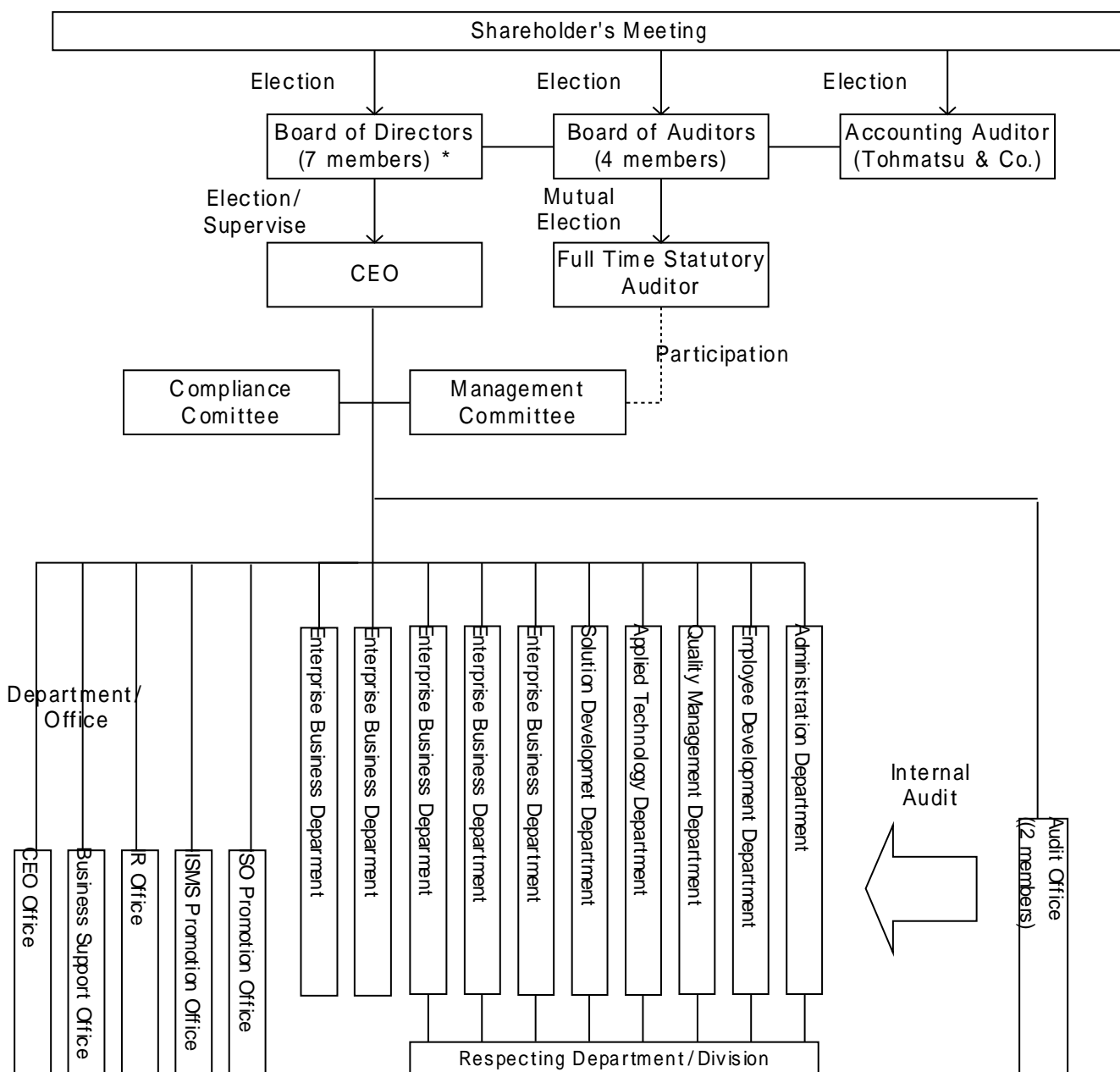
With regard to the internal control, through collaboration of audit room and board of auditors, the Company continually audits to confirm the legality, adequacy and efficiency of corporate operation from various perspectives.

In order to ensure strict enforcement of statute/rules, compliance committee headed by compliance officer (director) was established. A compliance manual, which establishes integrity and trust as corporate values, and promotes the policies for establishing positive relationships with the stakeholders and proper communications, was distributed and enforced on all employees.

The Company is being audited by Tohmatsu & Co. The following indicates the names of CPAs who provided the accounting and auditing services, respective numbers of fiscal terms consecutively involved in auditing, and the number of assistants.

Applicable personnel	Personnel performing the tasks	Saburo Katsumata (5 fiscal terms)
Applicable personnel	Personnel performing the tasks	Masanobu Nishioka (4 fiscal terms)
Number of assistants	5	

A diagram is provided to support the former information.



Subsequent to ordinary general meeting of shareholders, there will be changes to 8 members.

Directors' remunerations and auditors' remunerations

This year's remunerations for directors and auditors and remunerations for independent auditors for certification of audit are as follows.

Directors' remunerations:

Internal director remunerations	143 million yen
Outside director remunerations	-
Internal auditor remunerations	23
Outside auditor remunerations	6

Audit remunerations:

Remunerations for certification of audit	18 million yen
Other remunerations	-

(f) Items relating to parent companies

The Company does not have parent companies.

Operating results and financial status

(a) Operating results

Conditions of current FY period

During this consolidated FY, creating and enhancing LAN systems aiming to make efficient use of information by large scale private companies centered on relatively minor business opportunities. On the other hand, for telecommunication companies, enhancements to create high speed large scale telecom web continued strong. For public works, although the corporate group has taken bold initiatives to address the businesses opportunities to local governments, the business remained slow and recovery of drive for investment was pushed back until the latter half of the FY due to the end of a round of LG-WAN sales in 2003 and government and research institutions' shift to independent organizations from this current consolidated FY.

Under this environment, consolidated fiscal year current business performance for orders accepted was 126,373M yen (1.9% increase from previous FY,) sales was 134,739M yen (10.8% increase from previous FY,) and end of the term backlog of unfilled orders was 29,016M yen (22.4% decrease from previous FY.) For sales based on Product Category, Network Integration Products and Network Computing Products (NI and NC) accounted for 92,188M yen (0.8% decrease from previous FY,) Media Integration (MI) accounted for 18,941M yen (162.5% increase from previous FY,) and Service Integration (SI) accounted for 23,609M yen (9.8% increase from previous FY.) With regard to profit, due to price decline pressure, etc., gross profit margin decreased (current consolidated FY was 18.8%, previous consolidated FY was 19.7%, indicating 0.9% decrease) and operating profit was 10,687M yen (0.7% increase from previous FY,) and ordinary profit was 10,648M yen (0.4% increase from previous FY.) With regard to extraordinary gain or loss, as 1,047M yen was accrued as gain from sales of investment securities, 421M yen was accrued as loss from elimination of inventory assets, and 168M yen was accrued as loss from revaluation of securities, current net income was 6,214M yen (2.0% increase from previous FY.)

(b) Financial status

Financial status as of the end of current FY period

In comparison to the previous consolidated FY, total assets at the end of this consolidated FY increased by 9.1% and ended at 80,822M yen.

Current assets increased by 6,539M yen as cash and deposits and marketable securities (negotiable deposits and commercial paper) increased by 16,768M yen, note receivable and account receivable decreased by 6,094M yen, and inventories decreased by 4,410M yen. Due to increase in intangible fixed assets and deferred income tax assets, fixed assets increased by 174M yen.

Due to increase in account payable, etc., liabilities was 22,309M yen. Due to increase of earned surplus, etc., shareholders' equity was 57,999M yen.

Current consolidated FY's cash flow from operating activities increased by 21,529M yen and there was an 18,714M yen income; significant attributable factors for this included 8,370M yen increase from increased purchase liabilities, 8,348M yen increase from decreased accounts receivable and 6,988M yen increase from decreased inventories. For cash flow based on investing activities, expense decreased by 1,248M yen and 1,708M yen was accrued as expense; this was mainly due to decrease of 582M yen as expense for acquisition of intangible fixed assets. For cash flow based on financing activities, there was a 495M yen decrease in income and accrued 238M yen as expense. This was mainly due to factors as a 288M yen decrease in income compared to previous consolidated FY from issuing shares and previous consolidated FY's 240M yen income from short term loan and repayment of loan did not take place during current consolidated FY.

As a result, end of consolidated FY balance of cash and cash equivalents was 20,429M yen.

Cash Flow reference trend

	FY2001 (ending March 2002)	FY2002 (ending March 2003)	FY2003 (ending March 2004)	FY2004 (ending March 2005)
Shareholder's equity ratio	72.8%	61.3%	70.3%	71.8%
Shareholder's equity ratio for shares based on market value	330.8%	182.1%	316.4%	187.7%
Number of years for liability depreciation	year	0.1 year	year	0.0 year
Interest coverage ratio	91.5			3,888.8

Note:

1. Shareholder's equity ratio: Shareholder's equity/ Total assets
Shareholder's equity ratio for shares based on market value: Total market value of shares/ Total assets
Number of years for depreciation: interest bearing liabilities/ operating cash flow
Interest coverage ratio: Operating cash flow/ interest payment.
2. Each calculation is based on financial value from consolidated statement.
3. Total value of stocks at market value has been calculated using FY end value * end balance of number of stocks issued (excluding repurchased shares.) When there was a stock split, calculation is based on ex-rights price after adjustments.
4. For operating cash flow, operating cash flow from consolidated cash flow statement was used. Interest bearing liabilities cover all liabilities with interest included in balance sheet. With regards to interest payment, interest payment amount in consolidated cash flow statement is used.
5. For FY with negative operating cash flow, or FY with no interest bearing liabilities or interest payment, no calculations were made to number of years for liability depreciation and Interest coverage ratio.

(c) Analysis of Operating Results and Financial Status

Analysis of Operating Results

(Sales)

With regard to Sales, there was a 13,101M yen increase compared to previous consolidated FY and ended at 134,739M yen. Total sales increased by 10.8% compared to previous FY as a result of 162.5% increase in sales compared to previous FY for media integration products including optical transmission device, slow sales in the Company's core products as routers and switches relative to cautious approaches taken by private companies in spite of strong interests shown in IT investments, and 9.8% increase in sales compared to previous FY for service integration products including maintenance services.

(Cost of Goods Sold and Gross Profit on Sales)

During current consolidated FY, sales cost ratio increased by 0.9 points and gross profit margin decreased to 18.8% due to a trend in decreasing product sales prices and increase in outsourcing fee.

(Selling, general and administrative expense, operating profit)

Relative to the increase in number of personnel, personnel expense and recruitment expense increased. In addition to this, as pro forma standard taxation system was imposed on corporate tax value added basis tax and capital basis tax were accrued under selling, general and administrative expense. As a result, selling general and administrative expense increased by 1,377M yen (10.3% increase from previous FY) and operating profit increased by 0.7% and ended at 10,687M yen.

(Non-operating income and expense, ordinary income)

Non-operating income decreased by 22M yen from previous FY and significant contributory factors include 8M yen decrease in exchange gain on foreign currencies and 12M yen decrease in dividend on group insurance. On the other hand, non-operating expense increased by 17M yen from previous FY and significant contributory factors include 15M yen increase in issuing new shares expense. As a result, ordinary income increased by 0.4% from previous FY and ended at 10,648M yen.

(Extraordinary profit and loss, income before income taxes)

As a result of sales of investment securities, 1,047M yen was accrued as gain on sales of investment securities, and 106M yen was accrued as loss on sales of investment securities. Through deduction process, 168M yen was accrued as loss on revaluation of investment securities. In addition, due to the Company's termination of approved retirement annuity system, 137M yen was accrued as gain on termination of approved retirement annuity system and due to adjustment to retirement allowance plan of certain subsidiaries, 118M yen was accrued as retirement allowance plan adjustment fee. Furthermore, relative to the Company and certain subsidiaries' termination of retirement benefit system for executives, 77M yen was accrued as additional service fee and relative to disposal of unmarketable and unresellable products developed for special market, 421M yen was accrued as loss on disposal of inventories. As a result, income before income taxes increased by 1.0% from previous FY and ended at 10,839M yen.

(Tax expense, current net profit)

Tax cost including corporate tax, residence tax, business tax and adjustment to corporate tax was 4,435M yen and contribution percentage of corporate tax, etc. after applying tax effect accounting decreased from 42.6% to 40.9%. Significant contributory factors for this included implementation of pro forma standard taxation system to corporate tax leading to decrease in income basis tax. 190M yen was accrued as minor shareholders' income and current net profit increased by 2.0% from previous FY and ended at 6,214M yen.

Analysis of financial status

(Current assets)

Current assets increased by 6,539M yen compared to the end of previous FY. Significant factors for the increase are 9,768M yen increase in cash and deposits, 6,999M yen increase in securities relative to surplus fund management. (negotiable deposits 2,000M yen and 4,999M yen commercial paper) Significant factors for decrease are 6,094M yen decrease in notes receivable and account receivable relative to increase in recovery of account receivables, 4,410M yen decrease in inventory assets relative to decrease in backlog of unfilled orders.

(Fixed assets)

Fixed assets increased by 174M yen compared to previous FY. Significant factors for the increase are 349M yen (acquisition cost increased by 2,147M yen and accumulated depreciation increased by 1,798M yen) in book value for tools, fixtures and equipment to enhance maintenance network equipment and testing equipment, 135M yen increase in intangible fixed assets from increase in software development fee, etc., and 252M yen increase in long term prepaid expense to cover for Cisco Systems K.K.'s support fee. On the other hand, significant factors for decrease are 646M yen decrease due to sales of investment securities and deduction process.

(Liabilities)

Total liabilities for this FY increased by 588M yen compared to previous FY. Significant contributory factors include 1,029M yen increase in account payable due to increase in purchase at the end of the FY compared to previous FY, and 513M yen decrease in allowance for retirement benefits due to the Company's termination of approved retirement annuity system and certain subsidiaries' adjustments to retirement allowance plan.

(Capital)

Total capital for this FY increased by 5,873M yen compared to previous FY.

Main contributory factor to this is increase in earned surplus from increase in current net income. As a result, total capital was 57,999M yen and shareholders' equity ratio to total assets increased by 1.5 points and ended at 71.8%.

(d) Forecast for the next FY term

Operating results

During this FY, the demand for low cost, efficient network was strong even in private sector that showed reservations in making large investments and willingness to make capital investment is gradually recovering. With the growth of network usage, the telecom companies' demand for development of high speed broadband, large scale network telecommunication web is expected to continue strong. For public sector, until now, sales forces were dispersed to a wide range of users from central government offices to local government offices. In the future, sales forces will concentrate on business opportunities requiring the Company's specialized skills to more efficiently generate profits. Although competition including in terms of pricing is expected to persist, the Company aims to increase performance by taking initiatives to focus on high value added high end network sector.

Under this environment, with regard to consolidated business performance forecast for FY ending 2006 (April 1, 2005 to March 31, 2006) expected sales, ordinary profit and current net income are 147,000M yen, 13,000M yen and 7,200M yen respectively.

(Note) The above business forecast is based on conditions our company determines to be reasonable and may vary significantly from the actual business result. Factors that may significantly affect the actual business result include, but are not limited to 1) changes in economic conditions and market demand surrounding our company, and 2) sharp fluctuation in currency exchange rate.

Financial Status

Although the Company plans to use cash on hand for necessary cash, to prepare for cash needs, loan commitment contract totaling 8,000M yen and overdraft contract totaling 21,200M yen have been signed with the financial institutions.

(e) Business risks

Business transactions with Cisco Systems K.K.

While technology rapidly evolves in IT industry and market environment is dynamically changing at an incessant pace, as a way to respond to the wide-ranging needs of the customers through emphasizing market research and technical research and development, the Company policy is to offer multi-vendor lineup rather than provide products from a single vendor. There are no contracts that place restrictions on the Company's procurement for the Company's products line up. Presently, products of Cisco Systems K.K. make up for 40th percentile of the sales ratio; in the future, the Company aims to continue offering competitive products in multi-vendor environment.

Business transactions with top 10 customers

With regard to breakdown of sales based on customers (FY ending March 2005,) sales amount (FY ending March 2005) to group companies of NTT (Nippon Telegraph and Telephone Corporation) totaled 30th percentile of the total sales. As transactions with these companies involve multiple transactions for various projects by the customers, the Company considers it improbable for all the business transactions to be concurrently terminated with the customers; in spite of this, if there is a decrease in orders accepted relative to economic slowdown, there may be detrimental effects on the business performance of the Company.

Effect of change in currency exchange

Overseas vendors manufacture a large share of the Company's products and as most of the procurement transaction is dollar based, the Company must take on the currency exchange risks for purchase liabilities. Although to mitigate the effect of fluctuation of currency exchange, exchange contract has been signed, this cannot eliminate all risks related to currency exchange. For currency

exchange rate, if Japanese yen became weak against the American dollars, purchase cost in Japanese yen will rise. Considering the status of network related market, if increase in purchase cost could not be reflected onto the sales price, the profit ratio of the Company's business performance may become lower.

Seasonal fluctuation of business performance with concentrated sales in September and March
The Company's significant customers include public organizations and telecom companies and for these companies, due to budget plans of the companies, sales concentrate in end of first half of the FY (September) and end of the last half of the FY (March.) Although the Company attempts to average out the sales on a quarterly basis, there is a tendency for September and March sales to be greater than other months.

Obsolete products and securing adequate inventories

The rapidly evolving technologies in the network related market have shortened the life cycles of our products and services. As a result, the Company must take on the risks of negative impact on business performance from obsolescence of products in inventories. As a measure against these risks, the Company applies a routine quarterly write-down or a disposition based on experience and actual results.

Among the network related products that the Company offers, the demand for certain products may suddenly boost relative to market trend and in increasing instances, the purchase must be within a short delivery period. Although the Company aims to keep an adequate level of inventories for main line of products to comply with the change in demand, shortage of products due to change in market demand that go beyond the Company's capacity may lead to business opportunities loss and negatively affect the business performance of the Company.

Competition

Relative to rapid expansion of network related market, in the future, competition may start with competing companies. As a result, price competition in network related market and services may start and relative to the company's competitiveness and market status, there may be negative impacts on the business performance of the Company.

In addition, in order to offer most advanced and high level network systems, securing professional human resources including system engineers is imperative. To survive the price competition, the Company will recruit and foster highly professional human resources and enhance the Company's technical skills and thereby differentiate the Company from other competitors.

Responsibility when a product is found to be defective

As a network solution provider, the Company's main line of business is to deploy the total network system in response to the customers' requests. Network related products including routers, etc. for use in customers' system deployment are procured from product vendors. The Company systematically performs screenings at product acceptance and tests before shipments for each product for quality verification purposes to ensure that delivered products are not defective. In spite of this system, any defects arising after the delivery of the products to the customers may cause the loss of customer loyalty. For system troubles, according to contracts signed between the Company, the customers and the vendor, based on the actual trouble and causes, either i) customer (inappropriate usage, etc.) ii) vendor of the applicable products, or iii) the Company as a network solution provider takes the responsibility. Most cases in the past have fallen under (ii) and the Company has never been in a position to provide indemnification for damages to the customers.

Need for operating fund

As the Company's business is to procure networking products, create a networking web, and sell the products, for cash receipts and payments purposes, after capital is applied for purchase liabilities, account receivables are collected. Relative to expansion of the business, there is an increased tendency for the need for operating fund.

Effect of casualties, etc.

Although the Company routinely performs disaster prevention tests and equipment inspections, this ensures neither complete nor partial prevention of disasters. For example, headquarters, Quality Control Center and Technical Center are located at Shinagawa, Tokyo and in an event of a disasters such as large earthquakes, headquarter functions, technology verification functions

and logistics systems are likely to be severely impaired.

Comparative consolidated balance sheet

(unit: figures are rounded down to the nearest million yen)

	End of previous FY (as of March 31, 2004)		End of current FY (as of March 31, 2005)		Variance
	Amount	Ratio %	Amount	Ratio %	
ASSETS					
Current assets	63,662	85.9	70,202	86.9	6,539
Cash and deposits	3,661		13,429		9,768
Note receivables and account receivables	43,168		37,073		(6,094)
Securities	-		6,999		6,999
Inventories	15,714		11,303		(4,410)
Deferred income taxes	632		472		(159)
Others	625		1,023		397
Allowance for doubtful receivables	(138)		(100)		38
Fixed assets	10,445	14.1	10,619	13.1	174
Tangible fixed assets	4,943	6.7	5,254	6.5	311
Buildings and structures	563		582		
Total depreciation	(308)	255	(364)	217	(37)
Tools, fixtures and equipment	11,757		13,905		
Total depreciation	(7,284)	4,473	(9,083)	4,822	349
Land	211		211		-
Lease assets	139		139		
Total depreciation	(135)	3	(136)	2	(0)
Intangible fixed assets	1,683	2.3	1,818	2.2	135
Consolidation adjustment account	-		21		21
Others	1,683		1,797		113
Investment and other assets	3,818	5.1	3,546	4.4	(272)
Investment securities	980		334		(646)
Long term loans	58		31		(27)
Deferred income taxes	2,063		2,147		83
Others	961		1,268		306
Allowance for doubtful receivables	(246)		(234)		12
Total assets	74,108	100.0	80,822	100.0	6,713

Comparative consolidated balance sheet

(unit: figures are rounded down to the nearest million yen)

	End of current FY (as of March 31, 2004)		End of current FY (as of March 31, 2005)		Variance
	Amount	Ratio	Amount	Ratio	
LIABILITIES		%		%	
Current Liabilities	21,003	28.3	22,099	27.3	1,095
Account payable	13,766		14,795		1,029
Short term loans	350		350		-
Miscellaneous account	830		1,032		202
Accrued corporation taxes	3,066		1,995		(1,071)
Allowance for bonuses	538		494		(44)
Others	2,451		3,431		979
Fixed Liabilities	718	1.0	210	0.3	(507)
Long term account payable	-		202		202
Allowance for retirement benefits	513		-		(513)
Allowance for retirement benefit for executives	201		-		(201)
Consolidation adjustment account	2		-		(2)
Others	0		8		7
Total Liabilities	21,721	29.3	22,309	27.6	588
MINOR SHAREHOLDERS' EQUITY					
Minor Shareholders' Equity	261	0.4	513	0.6	251
SHAREHOLDERS EQUITY					
Capital stock	12,278	16.6	12,279	15.2	0
Additional paid-in capital	19,452	26.2	19,453	24.1	0
Retained earnings	20,482	27.6	26,368	32.6	5,886
Net unrealized gain or loss on securities	5	0.0	(8)	(0.0)	(14)
Treasury shares	(94)	(0.1)	(94)	(0.1)	-
Total shareholders' equity	52,125	70.3	57,999	71.8	5,873
Total liabilities, minor shareholders' equity, shareholders' equity	74,108	100.0	80,822	100.0	6,713

Comparative consolidated income statement

(unit: figures are rounded down to the nearest million yen)

	End of previous FY (April 1, 2003 to March 31, 2004)		End of current FY (April 1, 2004 to March 31, 2005)		Variance
	Amount	Ratio	Amount	Ratio	
		%		%	
Sales	121,637	100.0	134,739	100.0	13,101
Cost of Goods Sold	97,709	80.3	109,355	81.2	11,645
Gross Profit on Sales	23,928	19.7	25,384	18.8	1,456
Selling, General and Administrative Expense	13,319	11.0	14,697	10.9	1,377
Operating Income	10,608	8.7	10,687	7.9	78
Non-Operating Income	44	0.0	21	0.0	(22)
Interest Income	1		3		2
Dividends	1		0		(1)
Amortization of Consolidation Adjustment Account	-		0		0
Exchange gain on foreign currencies	8		-		(8)
Dividend on group insurance	15		3		(12)
Sales incentives	8		-		(8)
Other Income	8		13		5
Non-Operating Expense	44	0.0	61	0.0	17
Interest Expense	8		4		(3)
Investment Loss on Equity Method	5		9		4
Issuing New Shares Expense	2		17		15
Exchange Loss on Foreign Currencies	-		11		11
Commitment Fee	9		9		0
Operational spending loss	11		4		(6)
Other Loss	7		3		(4)
Ordinary Profit	10,608	8.7	10,648	7.9	39
Extraordinary Profit	821	0.7	1,225	0.9	403
Reversal of Allowance for Doubtful Receivables	1		38		36
Gain on Sales of Investment	673		1,047		373
Gain on exchange of investment securities	146		-		(146)
Gain on Termination of Approved Retirement Annuity System	-		137		137
Others	-		2		2
Extraordinary Loss	699	0.6	1,034	0.8	335
Loss from Removal of Fixed Assets	177		27		(150)
Loss from Sales of Investment Securities	-		106		106
Loss from Revaluation of Investment Securities	505		168		(337)
Loss from Disposal of Inventories	-		421		421
Loss from termination of welfare facility contract	8		-		(8)
Additional Service Fee					
Relative to Termination of Allowance for Retirement Benefits for Executives	-		77		77
Retirement Allowance Plan Adjustment Fee	-		118		118

Others	6		113		106
Income before Income Taxes	10,731	8.8	10,839	8.0	108
Income Taxes Current	5,287	4.3	4,349	3.2	(938)
Income Taxes Deferred	(711)	(0.6)	86	0.1	797
Minority Shareholders' Income	61	0.1	190	0.1	128
Net Income	6,093	5.0	6,214	4.6	121

Comparative Consolidated Surplus Statement

(unit: figures are rounded down to nearest million yen)

	Previous FY April 1, 2003 to March 31, 2004	Current FY April 1, 2004 to March 31, 2005	Variance
	Amount	Amount	
CAPITAL SURPLUS			
Beginning balance of capital surplus	19,306	19,452	146
Capital surplus increase	146	0	(145)
Increase due to exercise of stock options	146	0	(145)
End balance of capital surplus at the end of FY	19,452	19,453	0
EARNED SURPLUS			
Beginning balance of earned surplus	14,706	20,482	5,775
Earned surplus increase	6,093	6,214	121
Net income	6,093	6,214	121
Earned surplus decrease	317	327	10
Dividend	273	275	1
Executives' bonuses	43	51	8
End balance of earned surplus at the end of FY	20,482	26,368	5,886

Comparative Consolidated Cash Flow Statement

(unit: figures are rounded down to nearest million yen)

	Previous FY April 1, 2003 to March 31, 2004 Amount	Current FY April 1, 2004 to March 31, 2005 Amount	Variance Amount
Operating Activities:			
Current net income before taxes	10,731	10,839	108
Depreciation expense	2,556	2,569	12
Depreciation amount for consolidation adjustment account	4	(0)	(5)
Change in allowance for employee retirement benefits	250	(513)	(764)
Change in allowance bonus for executives	12	(201)	(213)
Change in allowance for bonus	77	(44)	(121)
Change in allowance for doubtful receivables	31	(50)	(81)
Interest received and dividends received	(3)	(4)	(1)
Investment loss on equity method	5	9	4
Interest payment	8	4	(3)
Gain from sales of investment securities	(673)	(1,047)	(373)
Gain from exchange of investment securities	(146)	-	146
Loss from removal of fixed assets	177	27	(150)
Loss from sales of investment securities	-	106	106
Loss from revaluation of investment securities	505	168	(337)
Change in account receivable	(1,363)	6,984	8,348
Change in inventories	(2,467)	4,521	6,988
Decrease in accrued consumption tax	48	2	(46)
Increase in other current assets	(179)	(313)	(133)
Change in purchase liabilities	(7,357)	1,013	8,370
Change in accrued consumption tax	239	75	(164)
Change in other current liabilities	(112)	44	157
Payment for executives' bonuses	(45)	(53)	(8)
Others	68	175	107
Sub-Total	2,369	24,314	21,945
Amount received for interests and dividends	3	4	0
Amount paid for interest	(8)	(4)	3
Amount paid for corporation tax	(5,208)	(5,599)	(391)
Others	29	0	(29)
Operating Activities	(2,814)	18,714	21,529
Investing Activities:			
Expenditure from loan on short term loan	-	(0)	(0)
Income from recovery of short term loan	0	-	(0)
Expenditure from acquisition of tangible fixed assets	(2,897)	(2,709)	188
Expenditure from acquisition of intangible fixed assets	(885)	(302)	582
Expenditure from acquisition of investment securities	(213)	-	213
Income from sell-off of investment securities	1,069	1,197	128
Expenditure from loan on long term loan	(34)	(8)	26
Income from recovery of long term loan	5	6	0
Expenditure from payment of initial investment	(19)	(27)	(7)
Income from recovery of initial investment	2	8	6
Others	17	127	110
Investing Activities	(2,956)	(1,708)	1,248
Financing Activities:			
Income from short term debt	350	-	(350)
Expenditure from redemption of short term debts payable	(110)	-	110
Income from issuing corporate shares	290	1	(288)
Income from issuing corporate shares to minority shareholders	-	35	35
Payment of dividends	(272)	(275)	(2)
Financing Activities	257	(238)	(495)
Change in cash and cash equivalents	(5,513)	16,768	22,282
Beginning balance of cash and cash equivalents	9,174	3,661	(5,513)
Ending balance of cash and cash equivalents	3,661	20,429	16,768

Significant matters related to the basis of creation of consolidated financial statements

1. Matters related to the scope of consolidation

- (1) Number of consolidated subsidiaries 4 companies
Names of major consolidated subsidiaries Media Communication Systems K. K.
Network Service And Technologies, Co., Ltd.
ProStorage Co., Ltd.
E-Japan Limited

(2) Names, etc. of major non-consolidated subsidiary

Name of major consolidated subsidiary Tennoz Initiative Inc.
(reason for not including in the consolidation)

Non-consolidated subsidiary is a small scale company and does not significantly affect total assets, sales, net profit/loss, (amount comparable to equity) and surplus (amount comparable to equity) of consolidated financial statements.

2. Matters related to application of equity method

- (1) Number of affiliated company applying equity method 1
Name of company SkyCom Corporation

(2) Equity method is not applied for non-consolidated subsidiary (Tennoz Initiative Inc.) because even if it is excluded, in terms of consolidated financial statements, the company has little impact on the current FY net income (amount comparable to equity) and surplus (amount comparable to equity) and the company has little overall impact.

3. Matters related to accounting period of consolidated subsidiaries

Accounting period of all consolidated subsidiaries coincide with consolidated accounting period.

4. Matters related to accounting policies

(1) Valuation standard and valuation method for significant assets

Securities

Other securities

Securities with market value Market value method based on market value on closing date (Accounting for differences in valuation is total direct casting equity method and for selling cost of securities, moving average method is applied.)

Securities without market value Cost accounting method using moving average method or amortized cost method (fixed amount method)

Derivatives

Market value

Inventories

Merchandises

Cost accounting method using moving average method

Uncompleted works

Cost accounting method using individual method

(2) Accounting method for significant depreciation of depreciable assets

Tangible fixed assets

Declining balance method is applied, with an exception of lease assets which employs straight line method. Significant assets lives are:

Buildings and structures	3-26 years
Tools, fixtures and equipment	2-20 years
Lease assets	6 years

Intangible fixed assets

Software for own use	Straight line method based on corporate usability period (5 years)
Software for sale	Straight line method based on useful life (3 years)

(3) Accounting method for accrual of significant allowance

Allowance for doubtful receivables

To prepare for loss from uncollectible credits, allowance is made against ordinary assets using calculations based on historical uncollectible rate, and for special receivables with higher uncertainty, probability of collectivity is considered on individual cases and prospective uncollectible amount is accrued.

Allowance for bonus

Expenditure from payment of bonus to employees is recorded based on payment prospect.

Allowance for retirement benefits

(Additional Information)

In accordance with law of defined contribution pension plan, the Company has terminated the retirement benefits system for executives as of September 30, 2004 and from October 1, 2004 onward, defined contribution pension plan and prepaid retirement benefit plan have been in effect. To shift to the new plans, accounting policy on changes within retirement benefit plans (No. 1 of Application Guidelines in Accounting Standards for Business Enterprises) has been applied.

The effect of this shift to the new plans created 137M yen gain on termination of retirement benefits system under extraordinary gain.

In addition, certain consolidated subsidiaries likewise terminated the defined benefit type retirement allowance system as of December 31, 2004 and January 1, 2005 onward, defined contribution pension plan and prepaid retirement benefit plan have been in effect.

As the shift in plan was settled as the Company's voluntary termination of retirement allowance plan, the difference of 63M yen resulting from previously applied simplified calculation of retirement allowance (amount calculated based on employee voluntary retirement) was accrued as extraordinary loss under retirement allowance plan adjustment fee.

In addition, with regard to absorption (simplified merger) of consolidated subsidiaries into the Company as of April 1, 2005, as the shift in plan was settled as the Company's voluntary termination of retirement allowance plan, the difference of 54M yen resulting from previously applied simplified calculation of retirement allowance (amount calculated based on employee voluntary retirement) was accrued as extraordinary loss under retirement allowance plan adjustment fee.

Allowance for bonus for retiring directors

(Additional Information)

Although the company as well as some consolidated subsidiaries have been accruing FY payment amount based on retirement benefit system for executives, June 25, 2004 general meeting of shareholders for the Company, and June 24, 2004 general meeting for

the some of the consolidated subsidiaries resolved to terminate the retirement benefit system for executives (including the regulations) and to provide executives with their entitled retirement benefits based on the term of service until the termination of retirement benefit system (as of the end of relevant general meeting of shareholders).

In addition, for some of the consolidated subsidiaries, December 22, 2004 board of directors' meeting resolved to terminate the retirement benefit system for executives (including the regulations) and March 15, 2005 extraordinary meeting of shareholders resolved to provide executives with their entitled retirement benefits based on the term of service until the termination of retirement benefit system (December 31, 2004).

As a result, retirement benefit for executives (includes additional service fee) calculated based on respective terms of service until the termination of retirement benefit system amounting to 202M yen was accrued as a long-term miscellaneous account.

(4) Policy on conversion of significant assets and liabilities in foreign currency to local currency
Account receivable and account payable in foreign currencies are converted to yen at spot exchange rate on FY closing date and exchange difference is processed as gain or loss.

(5) Significant lease transaction accounting method

Except for lease products where ownership is expected to transfer to the debtor, the accounting method for lease transactions in conformance with accounting policy of general lease transactions is applied.

(6) Significant hedge accounting method

Hedge accounting method

Carry over hedge accounting is applied. Provided that, for Exchange Contract when requirements for allocation procedure are met, allocation procedure is applied.

Hedge procedure and subject

Procedure : Exchange Contract

Subject to hedge : Planned foreign currency transactions

Hedge policy

In accordance with limitation on transactions amount and transaction authority in corporate administrative provisions, risk hedge for currency fluctuation of foreign liabilities relating to business assets is applied.

Hedge efficiency valuation policy

For Exchange Contract, which is considered to have high hedge efficiency, efficiency valuation has been omitted.

(7) Other significant items for creating consolidated financial statements

Accounting policy for consumption tax, etc.

Pre-tax method is applied for consumption tax and local consumption tax.

5. Items relating to evaluation of assets and liabilities of consolidated subsidiaries

Market value method is applied to all evaluation of assets and liabilities for consolidated subsidiaries.

6. Items relating to amortization of consolidation adjustment account

Consolidation adjustment account is amortized over 5 years using the straight line method.

7. Items under appropriation of surplus

Appropriation of earnings of Consolidated Surplus Statement has been made based on appropriation of earnings established during consolidated accounting period.

8. Scope of funds in consolidated cash flow statement

Funds in current consolidated cash flow statement are cash on hand, deposits that may be withdrawn on a temporary basis, and short term investment expected to be redeemed within 3 months of acquisition and which may be swiftly converted to cash and imposes minimal price fluctuation.

Change in classification method

(Matters related to income statement)

Sales incentives (current FY is 0M yen) which was independently classified until previous FY, was not over 10/100 of total non-operating income during current FY and it has been included under Others in non-operating income.

Notable Matters

(Consolidated Balance Sheet)

(unit: figures are rounded down to nearest million yen)

Previous FY (as of March 31, 2004)	Current FY (as of March 31, 2005)																																				
<p>(1) Items regarding unconsolidated subsidiary and affiliated companies Investment securities (stocks) 104</p> <p>(2) Overdraft contract and loan commitment contract</p> <p>In order to efficiently procure operating fund, overdraft contract and loan commitment has been signed with 6 company banks. End of term balance for unused credit is as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Maximum amount of the overdraft and loan commitment</td> <td style="text-align: right;">29,200</td> </tr> <tr> <td style="padding-left: 20px;">Amount loaned</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="border-top: 1px solid black;">End balance</td> <td style="text-align: right; border-top: 1px solid black;">29,200</td> </tr> </table> <p>(3) Type and number of outstanding shares</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Type of outstanding shares</td> <td style="width: 30%;">Common Shares</td> <td style="width: 40%;"></td> </tr> <tr> <td>Number of outstanding shares</td> <td>275,948 shares</td> <td></td> </tr> </table> <p>(4) Type and number of repurchased shares</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Type of Repurchased Shares</td> <td style="width: 30%;">Common Shares</td> <td style="width: 40%;"></td> </tr> <tr> <td>Repurchased Shares</td> <td>105 shares</td> <td></td> </tr> </table>	Maximum amount of the overdraft and loan commitment	29,200	Amount loaned	-	End balance	29,200	Type of outstanding shares	Common Shares		Number of outstanding shares	275,948 shares		Type of Repurchased Shares	Common Shares		Repurchased Shares	105 shares		<p>(1) Items regarding unconsolidated subsidiary and affiliated companies Investment securities (stocks) 94</p> <p>(3) Overdraft contract and loan commitment contract</p> <p>In order to efficiently procure operating fund, overdraft contract and loan commitment has been signed with 6 company banks. End of term balance for unused credit is as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Maximum amount of the overdraft and loan commitment</td> <td style="text-align: right;">29,200</td> </tr> <tr> <td style="padding-left: 20px;">Amount loaned</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="border-top: 1px solid black;">End balance</td> <td style="text-align: right; border-top: 1px solid black;">29,200</td> </tr> </table> <p>(3) Type and number of outstanding shares</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Type of outstanding shares</td> <td style="width: 30%;">Common Shares</td> <td style="width: 40%;"></td> </tr> <tr> <td>Number of outstanding shares</td> <td>551,900 shares</td> <td></td> </tr> </table> <p>(4) Type and number of repurchased shares</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Type of Repurchased Shares</td> <td style="width: 30%;">Common Shares</td> <td style="width: 40%;"></td> </tr> <tr> <td>Repurchased Shares</td> <td>211 shares</td> <td></td> </tr> </table>	Maximum amount of the overdraft and loan commitment	29,200	Amount loaned	-	End balance	29,200	Type of outstanding shares	Common Shares		Number of outstanding shares	551,900 shares		Type of Repurchased Shares	Common Shares		Repurchased Shares	211 shares	
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(Matters related to Consolidated Statement)

(unit: figures are rounded down to the nearest million yen)

Previous FY April 1, 2003 to March 31, 2004	Current FY April 1, 2004 to March 31, 2005
<p>(1) Expenses and amounts for significant items under selling, general and administrative expenses</p> <p style="padding-left: 40px;">Allowance for Compensation 5,602</p> <p style="padding-left: 40px;">Allocation of allowance for bonus 464</p> <p style="padding-left: 40px;">Allocation of allowance for employee retirement benefits 424</p> <p style="padding-left: 40px;">Allocation of allowance for retirement benefits for executives 21</p> <p style="padding-left: 40px;">Allocation of allowance for doubtful receivables 55</p> <p style="padding-left: 40px;">Rental expense 1,280</p> <p style="padding-left: 40px;">Expense for depreciation 706</p> <p style="padding-left: 40px;">Amount for consolidation adjustment depreciation 4</p> <p>(2) Total research and development expense included in general and administrative expenses.</p> <p style="padding-left: 40px;">Research and development expense 1,635</p> <p>(3) Items under loss from removal of fixed assets</p> <p style="padding-left: 40px;">Tools, fixtures, and equipment 177</p>	<p>(1) Expenses and amounts for significant items under selling, general and administrative expenses</p> <p style="padding-left: 40px;">Allowance for Compensation 6,058</p> <p style="padding-left: 40px;">Allocation of allowance for bonus 345</p> <p style="padding-left: 40px;">Allocation of allowance for employee retirement benefits 226</p> <p style="padding-left: 40px;">Allocation of allowance for retirement benefits for executives 11</p> <p style="padding-left: 40px;">Rental expense 1,377</p> <p style="padding-left: 40px;">Expense for depreciation 753</p> <p>(2) Total research and development expense included in general and administrative expenses.</p> <p style="padding-left: 40px;">Research and development expense 1,632</p> <p>(3) Items under loss from removal of fixed assets</p> <p style="padding-left: 40px;">Buildings and Structures 5</p> <p style="padding-left: 40px;">Tools, fixtures, and equipment 17</p> <p style="padding-left: 40px;">Intangible fixed assets (others) 4</p> <hr style="width: 100%;"/> <p style="padding-left: 40px;">Total 27</p>

(Matters related to consolidated cash flow)

(unit: figures are rounded down to nearest million yen)

Previous FY April 1, 2003 to March 31, 2004	Current FY April 1, 2004 to March 31, 2005
The relationship between cash and cash equivalents in balance at the end of FY and amounts indicated in items in consolidated balance sheet. (as of March 31, 2004)	The relationship between cash and cash equivalents in balance at the end of FY and amounts indicated in items in consolidated balance sheet. (as of March 31, 2005)
Cash and deposit account <hr/> Cash and cash equivalents	Cash and deposit account Short term investment expected to be redeemed within 3 months of acquisition (securities) <hr/> Cash and cash equivalents
3,661 3,661	13,429 6,999 20,429

(Segment Information)

1. Segment information by business category
Previous consolidated FY (April 1, 2003 to March 31, 2004) and current consolidated FY (April 1, 2004 to March 31, 2005.)
Net One Systems Group's business focuses on network computing system deployment and related operation/management service and as they fall on the same segment category, segment information by business category is not provided.
2. Segment information by location
Previous consolidated FY (April 1, 2003 to March 31, 2004) and current consolidated FY (April 1, 2004 to March 31, 2005.)
As there are no significant subsidiaries or foreign office outside Japan, there are no comments that fall in this category.
3. Oversea sales
Previous consolidated FY (April 1, 2003 to March 31, 2004) and current consolidated FY (April 1, 2004 to March 31, 2005.)
Oversea sales have been abbreviated as overseas sales account for less than 10% of the consolidated sales.

(Matters related to lease transactions)

As our company employs electronic disclosure system based on Securities Exchange Law Section 27, 30-6, description has been abbreviated.

(Transactions with related companies)

Current consolidated FY (April 1, 2004 to March 31, 2005)
There are no comments that fall in this category.

(Matters related to tax effect accounting)

1. Breakdown based on basis for accrual for deferred income tax assets and deferred income tax liabilities.

(unit: figures are rounded down to nearest million yen)

	Previous FY	Current FY
Deferred income tax assets (current)		
Business tax payable	283	153
Allowance for bonus	291	201
Others	137	120
Sub-total deferred income tax assets (current)	640	474
Allowance amount	(4)	-
Total deferred income tax assets (current)	636	474
Deferred income tax liabilities (current)		
Others	(3)	(2)
Total deferred income tax liabilities (Current)	(3)	(2)
Net deferred income tax assets (current)	632	472
Deferred income tax assets (fixed)		
Amount in excess of the allowance for		
Tools, fixtures, and equipment	1,141	1,364
Software fee	-	157
Amount in excess of allowance for		
Doubtful Receivables	77	59
Allowance for retirement benefits	208	-
Allowance for retiring executives	81	-
Outstanding retiring benefits for executives	-	82
Loss from revaluation of investment securities	378	354
Usage of operating loss carryforwards for tax purposes	169	-
Difference from revaluation of other investment securities	-	5
Others	206	132
Sub-total of deferred income tax assets (fixed)	2,264	2,155
Allowance amount	(184)	-
Total deferred income tax assets (fixed)	2,079	2,155
Deferred income tax liabilities (fixed)		
Difference from revaluation of other investment securities	(4)	-
Reserve for extraordinary depreciation	(11)	(8)
Total deferred income tax Liabilities (fixed)	(15)	(8)
Net deferred income tax assets (fixed)	2,063	2,147

2. Significant causes for differences between statutory tax rate and corporate tax after tax effect accounting.

Previous FY	Current FY
As the difference between contribution percentage for statutory effective tax rate and corporation tax after applying tax effect accounting was not more than 5/100 explanatory note has been omitted.	Same as on the left

(Matters related to Marketable Securities)

(Previous FY) (as of March 31, 2004)

1. Marketable securities intended for sales.
There are no applicable shares.
2. Bonds with marketable value intended to be held until maturity date.
There are no applicable shares.
3. Other securities with market value

(unit: figures are rounded down to nearest million yen)

	Type	Acquisition value	Amount accrued in consolidated balance sheet	Difference
Items with acquisition value that exceeds the amount accrued in consolidated balance sheet	(1) Stocks	80	194	114
	(2) Bonds	-	-	-
	Government/local government bonds, etc.	-	-	-
	Corporate bond	-	-	-
	Others	-	-	-
	(3) Others	-	-	-
	Subtotal	80	194	114
Items with acquisition value that does not exceed the amount accrued in consolidated balance sheet	(1) Stocks	283	194	(88)
	(2) Bonds	-	-	-
	Government/local government bonds, etc.	-	-	-
	Corporate bond	-	-	-
	Others	-	-	-
	(3) Others	-	-	-
	Subtotal	283	194	(88)
Total		363	389	25

4. Bonds intended to be held until maturity and sold during current FY
There are no applicable shares.

5. Other securities sold during current consolidated FY

(unit: figures are rounded down to the nearest million yen)

Sales amount	Total gain on sales	Total loss on sales
1,069	673	-

6. Breakdown of significant securities without market value

(unit: figures are rounded down to the nearest million yen)

Type	Amount accrued in consolidated balance sheet
(1) Bonds intended to be held for full term Unlisted overseas shares	-
(2) Other marketable securities Unlisted stocks (excluding over-the counter stocks)	486

Note: With regards to accrual of other marketable securities, for unlisted stocks (excluding over-the-counter stocks) in consolidated balance sheet, as detraction process (505M yen) has been applied, acquisition values after detraction process is indicated. For those shares where net assets per share decreased 30% or more in comparison to acquisition value, taking into consideration, the number of years after investment and possibility of recovery of financial status of the applicable company, detraction process was applied. .

7. Expected redemption value for other marketable securities having maturity date and bonds intended to be held for full term
There are no applicable shares.

(Current FY) (as of March 31, 2005)

1. Marketable securities intended for sales.
There are no applicable shares.
2. Bonds with marketable value intended to be held until maturity date.
There are no applicable shares
3. Other securities with market value

(unit: figures below million have been rounded down)

	Type	Acquisition value	Amount accrued in consolidated balance sheet	Difference
Items with acquisition value that exceeds the amount accrued in consolidated balance sheet	(1) Stocks	-	-	-
	(2) Bonds	-	-	-
	Government/local government bonds, etc.	-	-	-
	Corporate bond	-	-	-
	Others	-	-	-
	(3) Others	-	-	-
	Subtotal	-	-	-
Items with acquisition value that does not exceed the amount accrued in consolidated balance sheet	(1) Stocks	1	1	-
	(2) Bonds	-	-	-
	Government/local government bonds, etc.	-	-	-
	Corporate bond	-	-	-
	Others	-	-	-
	(3) Others	-	-	-
	Subtotal	1	1	-
Total		1	1	-

As detraction process (158M yen) was applied to acquisition value to shares with acquisition value (1M yen) that does not exceed the amount accrued in consolidated balance sheet, acquisition value after detraction process is indicated.

With regard to shares for detraction, for shares with acquisition value that dropped 50% or more than market value, detraction process was applied and for shares with acquisition value that dropped approximately 30% to 50%, detraction process was applied after considering the possibility of market value recovery.

4. Bonds intended to be held until maturity and sold during current FY
There are no applicable shares.

5. Other securities sold during current consolidated FY
(unit: figures rounded down to the nearest million yen)

Sales amount	Total gain on sales	Total loss on sales
1,199	1,047	106

6. Breakdown of significant securities without market value

(unit: figures rounded down to the nearest million yen)

Type	Amount accrued in consolidated balance sheet
(1) Bonds intended to be held for full term	
Unlisted overseas shares	-
(2) Other marketable securities	
Unlisted stocks	238
Commercial paper	4,999
Negotiable deposit	2,000

(Note) During current consolidated interim period, for other securities, unlisted securities, deduction process (10M yen) was applied for calculation of consolidated balance sheet.

For shares where net assets per share according to the latest financial reports, dropped 30% or more in comparison to acquisition costs per share, deduction process was applied through considering factors as the number of years after equity financing and the probability of recovery of financial status of applicable companies.

7. Expected redemption value for other marketable securities having maturity date and bonds intended to be held for full term

(unit: figures rounded down to the nearest million yen)

	Within 1 year	Over 1 year and less than 5 years	Over 5 years and less than 10 years	Over 10 years
1. Bonds				
(1) Government/local government bonds, etc.	-	-	-	-
(2) Bonds	-	-	-	-
(3) Others	-	-	-	-
2. Others	6,999			
Total	6,999	-	-	-

(Matters related to derivative transactions)

As our company employs electronic disclosure system based on Securities Exchange Law Section 27, 30-6, description has been abbreviated.

(Matters related to allowance for retirement benefits)

Previous consolidated FY (April 1, 2003 to March 31, 2004)

1. Summary of the allowance for retirement benefits

Our company offers defined benefit plan by approved retirement annuity system and some consolidated subsidiaries offer termination allowance plans. Our company and some subsidiaries are a member of comprehensively established pension fund comprised of multiple companies.

2. Items under retirement allowance payment (as of March 31, 2004)

(unit: figures are rounded down to nearest million yen)

Benefit obligation	(1,864)
Pension asset	938
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Deficit on reserve for retirement benefit liability (+)	(925)
Unrecognized actuarial gain or loss	411
Unrecognized prior service cost (decrease in liabilities)	-
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Accrued retirement benefit cost recognized in the current balance (+ +)	(513)
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Prepaid pension expense	-
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Allowance for retirement benefits (-)	(513)
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Note

1. For benefit obligation of some consolidated subsidiaries, simplified method was applied.
2. 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 cost (April 1, 2003 to March 31, 2004)

(unit: figures are rounded down to nearest million yen)

Service cost	302
Interest cost	23
Expected return on plan assets	(10)
Amortization of net actuarial loss	141
Amortization of prior service cost	-
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Net retirement benefit cost (+ + + +)	456
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(Note)1. Installation fee for comprehensively established pension fund

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2. Net retirement benefit cost for consolidated subsidiaries applying simplified method has been included under Service cost.

4. Items regarding prospective basis for calculation of retirement benefits (as of March 31, 2004)

Allocation method of prospective retirement benefits	Flat rate basis per term
Rate of discount	1.5%
Rate of expected return on plan assets	1.5%
Number of years for amortization of prior service cost	-
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 calculation and the proportional amount is expensed from subsequent consolidated FY.)

5. Of the plan assets required for jointly established pension fund, the amount of plan assets balance at the end of this FY calculated based on contributory amount of premium by the Company and some consolidated subsidiaries (as of March 31, 2004)

2,328M yen

(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 but from October 2004, the Company shifted to defined contribution pension plan and prepaid retirement benefit plan. Of the consolidated subsidiaries, two companies had retirement allowance plan, but as of January 2005, one company shifted to defined contribution pension plan and prepaid retirement benefit plan and as the other company will merge by absorption with the Company in April 2005, retirement allowance plan for both companies have been adjusted. Our Company and some consolidated subsidiaries are members of comprehensively established pension fund comprised of multiple companies.

2. Items under retirement allowance payment (as of March 31, 2005)

The effect of shift from approved retirement annuity system to defined contribution pension plan and prepaid retirement benefit plan and adjustment to retirement allowance plan is as follows.

	(unit: rounded down to the nearest million yen)
Decrease in benefit obligation	2,044
Decrease in plan assets	(992)
<u>Unrecognized actuarial loss</u>	<u>(346)</u>
<u>Decrease in allowance for retirement benefits(+ +)</u>	<u>705</u>

(Note) Asset transfer amount relative to shifting to defined contribution pension plan was 1,922M yen and the transfer has been completed during current consolidated FY.

3. Items for retirement benefit cost (April 1, 2004 to March 31, 2005)

	(unit: rounded down to nearest million yen)
Service cost	178
Interest cost	13
Expected return on plan assets	(7)
Amortization of net actuarial loss	65
<u>Amortization of prior service cost</u>	<u>-</u>
<u>Net retirement benefits cost(+ + + +)</u>	<u>250</u>
Gain or loss relative to termination of approved retirement annuity system and adjustment to retirement allowance plan	(19)
<u>Defined contribution pension plan installment and prepaid retirement fee</u>	<u>122</u>
<u>Total (+ +)</u>	<u>353</u>

(Note) 1. In addition to above, installation fee for comprehensively established pension fund.

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2. Net retirement benefit cost for consolidated subsidiaries applying simplified method has been included under Service cost.

4. Items regarding prospective basis for calculation of retirement benefits (April 1, 2004 to September 30, 2004)

Allocation method of prospective retirement benefits	Flat rate basis per term
Rate of discount	1.5%
Rate of expected return on plan assets	1.5%
Number of years for amortization of prior service cost	-

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 calculation and the proportional amount is expensed from subsequent consolidated FY.)

5. Of the plan assets required for jointly established pension fund, the amount of plan assets balance at the end of this FY calculated based on contributory amount of premium by the Company and some consolidated subsidiaries (as of March 31, 2005)
- 2,878M yen

As Net One Systems Group segment information is unitary, sales, amount of orders accepted, and backlog of unfilled orders are indicated by their product category.

Sales by product category

(unit: figures are rounded down to nearest million yen)

	Previous FY April 1, 2003 to March 31, 2004		Current FY April 1, 2004 to March 31, 2005		Variance	
	Amount	Ratio	Amount	Amount	Ratio	Amount
Network Integration Products	90,767	% 74.6	90,282	% 67.0	(484)	(0.5)
Network Computing Products	2,157	1.8	1,905	1.4	(251)	(11.7)
Media Integration Products	7,216	5.9	18,941	14.1	11,724	162.5
Service Integration Products	21,496	17.7	23,609	17.5	2,113	9.8
Total	121,637	100.0	134,739	100.0	13,101	10.8

Orders accepted by product category

(unit: figures below million yen have been rounded down)

	Previous FY April 1, 2003 to March 31, 2004		Current FY April 1, 2004 to March 31, 2005		Variance	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Network Integration Products	89,905	% 72.5	83,015	% 65.7	(6,890)	(7.7)
Network Computing Products	2,350	1.9	1,471	1.2	(879)	(37.4)
Media Integration Products	7,471	6.0	18,649	14.7	11,177	149.6
Service Integration Products	24,313	19.6	23,236	18.4	(1,076)	(4.4)
Total	124,041	100.0	126,373	100.0	2,331	1.9

Backlog of unfilled orders by product category

(unit: figures below million yen have been rounded down)

	Current FY (as of March 31, 2004)		Current FY (as of March 31, 2005)		Variance	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Network Integration Products	18,759	% 50.2	11,492	% 39.6	(7,267)	(38.7)
Network Computing Products	858	2.3	424	1.5	(434)	(50.6)
Media Integration Products	2,317	6.2	2,025	7.0	(291)	(12.6)
Service Integration Products	15,447	41.3	15,074	51.9	(373)	(2.4)
Total	37,382	100.0	29,016	100.0	(8,366)	(22.4)