Q&A Regarding the Downward Revision to FY3/07 Earnings

Meitec Corporation announced yesterday a downward revision to its earnings forecast for FY3/07. Answers to the most representative questions received form shareholders and investors in regard to this revision are provided as follows.

Q1. What were the reasons for the downward revision?

A1. Main reasons:

1) We were unable to achieve our hiring plans for engineers in the mainstay outsourcing business.
   a. Recruitment (mid-career) at Meitec and Meitec Fielders was behind plan.
      - Meitec FY3/07 H2 Plan: 176 engineers; Forecast: 107
      - Meitec Fielders FY3/07 H2: Plan: 59 engineers; Forecast: 57
   b. Increase in number of retiring engineers at Meitec Fielders
      FY3/07 H2 Plan: 110 engineers; Forecast: 140
2) Placement of Chinese engineers has been slower than expected.
   FY3/07 H2 Plan: 84 engineers; Forecast: 69

Q2: What is the status of recruitment for FY3/07?

A2: Our expectations are as follows:

1) New graduates expected to join Meitec in April 2007
   - Meitec: 229 engineers (282 in April 2006)
   - Meitec Fielders: 125 engineers (167 in April 2006)
2) Mid-career recruitment (April 1, 2006 to March 31, 2007)
   - Meitec: 151 engineers (61 in FY3/06)
   - Meitec Fielders: 98 engineers (20 in FY3/06)

Q3: What is the status of the Chinese engineer staff business?

A3: The business is slightly behind plan (see A1), but our four training centers in China will be operating at full capacity from FY3/08, and we expect to graduate over 100 engineers during the next fiscal year. Within three years we expect to have a structure in place that will provide 300 engineers each year.

Q4: What are the main reasons for the decline in consolidated operating income?

A4: In the mainstay outsourcing business, Meitec raised salaries as a means of retiring engineers, which increased costs. (Cost to sales ratio for FY3/07 is forecast to be 69.7 %.) The cost ratio at Meitec Fielders and Meitec Cast has not risen, but SG&A expenses were up following investments to strengthen marketing (increase in number of sales personnel and offices). The global and career support businesses are new, and investment to establish them has pushed up costs by around ¥200 million annually. New businesses will make add to revenue going forward, but we expect it will be two years before they start contributing to earnings (FY3/09).

Q5: What is the basis for your forecasts for FY3/08 (rises in both revenue and earnings)?

A5: As follows:

1) Factors for rise in revenue
   a. Of the four group businesses, revenue in the mainstay outsourcing business, along with the engineering solutions and global businesses is expected to increase year on year in FY3/07, and we expect this rising revenue trend to continue.
   b. In the mainstay outsourcing business, Meitec and Meitec Fielders expect a decline in the number of new graduate hires, but that this will be covered by mid-career recruitment (see A2).
   c. Orders in the mainstay outsourcing business have remained steady for both general engineers and new graduates.

2) Factors for rise in earnings
   a. Earnings are expected to rise along with the revenue increase.
   b. Sale of Novations Group Inc. was completed during FY3/07. This subsidiary generated an operating loss of ¥66 million during FY3/07, which will not be incurred from FY3/08 or after.

Q6: What are your expectations for dividends in FY3/07?

A6: There is no change in our dividend plan of a year-end dividend of ¥45 per share, for a full-year dividend of ¥89 per share.