MEITEC

THE ENGINEERING OUTSOURCING® COMPANY

MEITEC CORPORATION

ANNUAL REPORT 2001

PROFILE

Based on the concept "Mutual Growth and Prosperity," Meitec Corporation has supported the engineering development of more than 4,000 companies through our Engineering Outsourcing (EO) services in Japan.

Meitec is the leader in the outsourcing industry, and plays a major role as our clients' alternate engineering division and personnel office. And to continue to develop alongside the industrial society, we launched "New VISION 21," our new consolidated management plan in April 2000.

As the only EO company listed on the First Section of the Tokyo Stock Exchange, Meitec works to realize mutual growth and prosperity for our shareholders, clients and employees. While drawing on our history of creativity and challenge, we will continue to provide our clients with cutting-edge technologies.

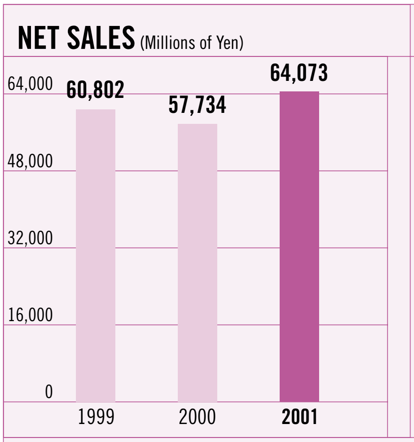
CONTENTS

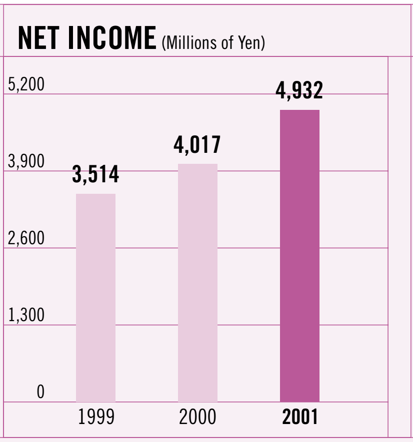
CONSOLIDATED FINANCIAL HIGHLIGHTS

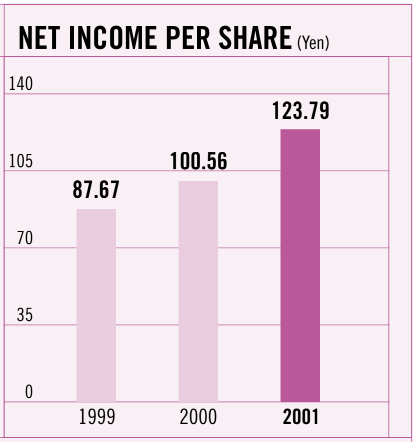
	Millions of Yen			Thousands of U.S. Dollars (Note 1)
Years ended March 31	**2001**	2000	1999	**2001**
Net Sales	**¥64,073**	¥57,734	¥60,802	**$516,718**
Operating Income	**11,299**	8,242	10,118	**91,121**
Net Income	**4,932**	4,017	3,514	**39,774**
Total Assets	**69,778**	59,821	62,138	**562,726**
Total Shareholders' Equity	**49,764**	46,940	44,960	**401,323**
	Yen			U.S. Dollars
Per Share of Common Stock:				
Shareholders' Equity	**¥1,249.98**	¥1,175.47	¥1,124.87	**$10.08**
Cash Dividend	**38.00**	23.00	23.00	**0.31**
Net Income (Note 2)	**123.79**	100.56	87.67	**1.00**
	%			
Return on Average Equity	**10.20**	8.74	8.01	

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥124 to $1, the approximate exchange rate prevailing as of March 31, 2001.

2. Net income per share is computed based on the weighted average number of shares outstanding during each year.







I would like to express my sincere appreciation for your continuing support of Meitec Corporation. I am pleased to present our business report for the fiscal year ended March 31, 2001.

During the fiscal year under review, the Japanese economy showed signs of an upswing in capital investment in the manufacturing industry, centered on the IT sector. In the second half of the fiscal year, however, capital investment declined sharply in the semiconductor manufacturing equipment industry, owing to a slowdown in the U.S. economy and the collapse of the Internet bubble.

Cost awareness became even more pronounced throughout the manufacturing sector due to uncertainty for the future of the domestic economy and spiraling deflation. Consumer spending remained sluggish, contributing to the perception of an economic downturn in the second half of the fiscal year.

However, the manufacturing industry—Meitec's core client base—is in the midst of extensive restructuring. Manufacturing companies are bolstering market competitiveness to prosper amid competition in global markets. Accordingly, demand for Meitec's Engineering Outsourcing (EO) business and the outsourcing business of the Meitec Group as a whole expanded sharply at the outset of the period under review. Orders remained firm not only in the growth fields of IT, electronics and semiconductors, but also in the core automotive field.

In adapting to these economic conditions, the Meitec Group is working to position its clients as globally competitive companies and is aggressively moving forward with client-specific business strategies. In addition, we increased the ratio of clients with whom we enjoy stable transactions over the medium and long terms.

With expanding orders at the outset of the fiscal year under review, the largest factor behind the Meitec Group's performance was its success in addressing demand, which exceeded initial forecasts, in the aforementioned fields for newly graduated engineering staff.

Exceeding initial forecasts by a large margin, Meitec was able to achieve a 100% assignment of staff by the end of August 2000. As a result, the Company achieved a 98% engineer's utilization ratio, surpassing the initial forecast of 95%.

As part of Meitec's medium- and long-term strategic efforts to distinguish itself from the competition, the Company acquired ISO 9001 certification in May 2000—a first in the EO industry. This achievement clearly communicates to clients Meitec's commitment to quality assurance in services, and further distinguishes the Company from the competition.

As a result of these developments, the Meitec Group's key divisions reported consolidated net sales of ¥61,934 million in the EO business, and consolidated net sales of ¥2,138 million were posted in general outsourcing businesses.

Consequently, total consolidated net sales rose 11.0% to ¥64,073 million, compared with the previous fiscal year. On a consolidated basis, operating income climbed 37.1% to ¥11,299 million, recurring income grew 35.8% to ¥11,398 million, and net income advanced 22.8% to ¥4,932 million. Return on equity (ROE) improved 1.5 percentage points to 10.2%.

Based on its basic policy of providing more than 30% of consolidated net income as dividends, Meitec has determined dividends of ¥38 per share, which include interim dividends of ¥18 per share.

Again, we thank our shareholders and look forward to their continued understanding and support.

June 2001

Kosuke Nishimoto
President and Chief Executive Officer

The core business of the Meitec Group, comprising Meitec and its four subsidiaries, centers on Engineering Outsourcing services* and general outsourcing services primarily for the manufacturing industry.

From the fiscal year under review, the Meitec Group began pursuing a business development strategy aimed at meeting the needs of manufacturing companies for complete outsourcing operations in design and development by integrating the Group's marketing structure.

As a result of Group marketing efforts, subsidiaries Japan Outsourcing Inc. and Japan Cast Inc. received approximately 600 orders from Meitec clients. In December 2000, the Company established Three D Tec Inc. (3D Tec). The Meitec Group will continue pursuing business strategies that maximize management resources.

*** Engineering Outsourcing is a registered trademark of Meitec Corporation and refers to an engineering service that provides design and development in such areas as machinery, electricity, electronics and computer software.**

Engineering Outsourcing Services

Meitec is chiefly responsible for managing Engineering Outsourcing services. Japan Outsourcing and 3D Tec provide support for Meitec's business areas. Established in December 2000, 3D Tec began operations in April 2001.

General Outsourcing Services

General outsourcing services refer to administrative outsourcing service handled by Japan Cast, and insurance agency and building management outsourcing service handled by MeiService Co., Ltd.

The Meitec Group's Complete Outsourcing Business Structure for the Manufacturing Industry

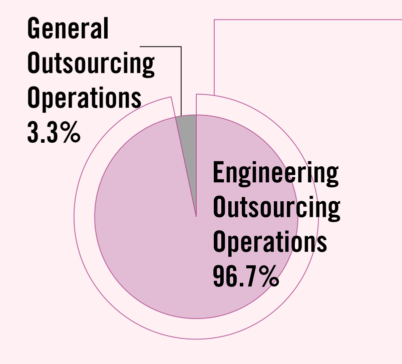
<table>
<tr><th colspan="5">MEITEC GROUP</th></tr>
<tr><td colspan="3">Engineering Outsourcing</td><td colspan="2">General Outsourcing</td></tr>
<tr><td rowspan="2">Meitec</td><td colspan="4">Subsidiaries</td></tr>
<tr><td>JO</td><td>3DT</td><td>JC</td><td>MS</td></tr>
</table>

JO = Japan Outsourcing; 3DT = 3D Tec; JC = Japan Cast; MS = MeiService

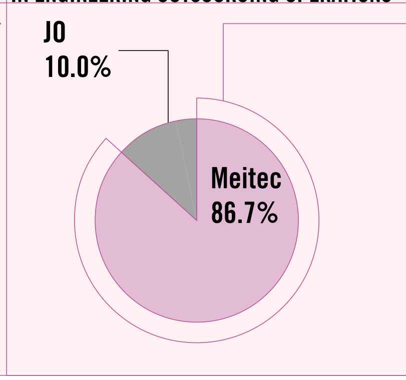
Note: Meitec considers the affiliate IPTC Corporation to be a strategic link in its business plan, as demonstrated by Meitec's investment in IPTC's business of circulating semiconductor design information over the Internet.

OPERATIONAL REVIEW

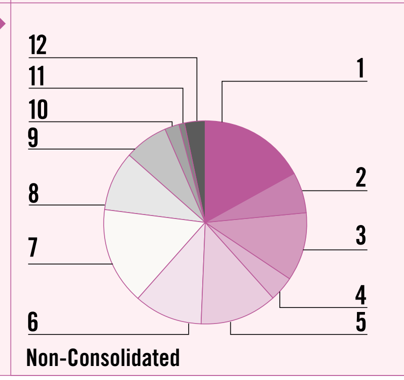
CONSOLIDATED REVENUES



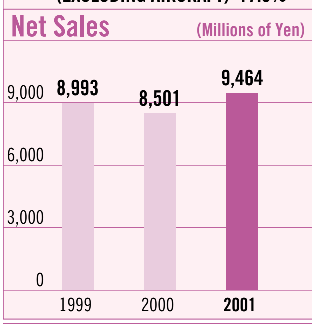
REVENUES BY GROUP COMPANY IN ENGINEERING OUTSOURCING OPERATIONS



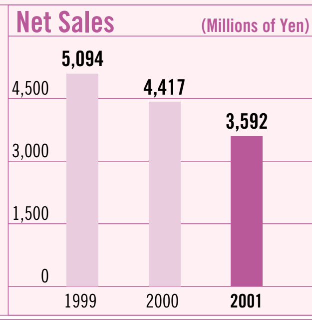
MEITEC REVENUES BY CUSTOMER



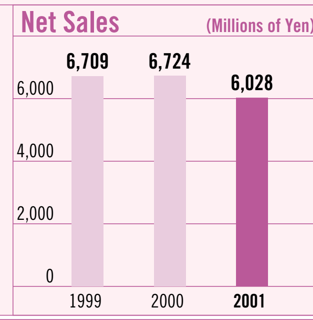
1 AUTOMOBILE/TRANSPORTATION EQUIPMENT (EXCLUDING AIRCRAFT) 17.0%



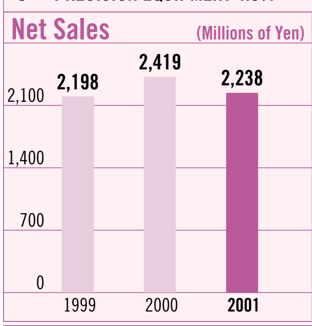
2 AIRCRAFT/ROCKETRY 6.5%



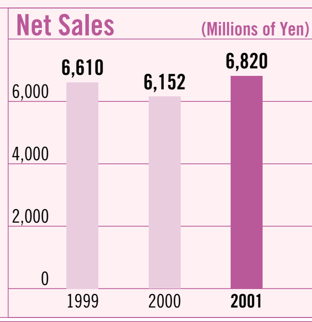
3 INDUSTRIAL MACHINERY/MACHINERY, EQUIPMENT AND SYSTEMS 10.9%



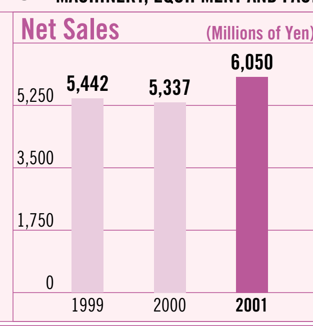
4 PRECISION EQUIPMENT 4.0%



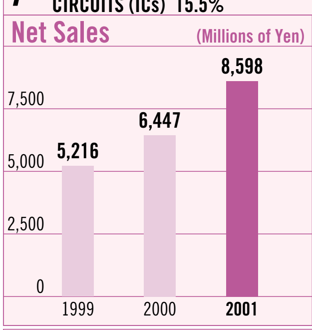
5 IT RELATED HARDWARE AND DEVICES 12.3%



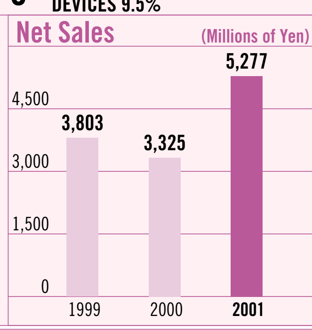
6 ELECTRIC AND ELECTRONIC/ELECTRIC MACHINERY, EQUIPMENT AND FACILITIES 10.9%



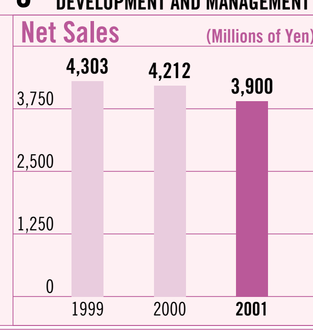
7 SEMICONDUCTORS AND INTEGRATED CIRCUITS (ICs) 15.5%



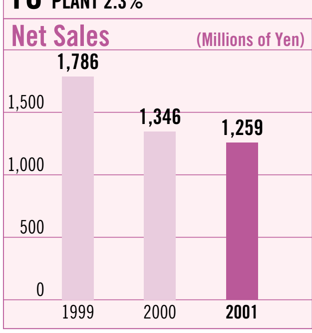
8 SEMICONDUCTOR EQUIPMENT AND DEVICES 9.5%



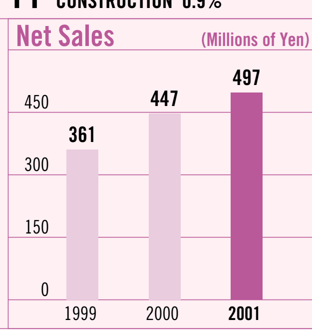
9 INFORMATION PROCESSING/SOFTWARE DEVELOPMENT AND MANAGEMENT 7.0%



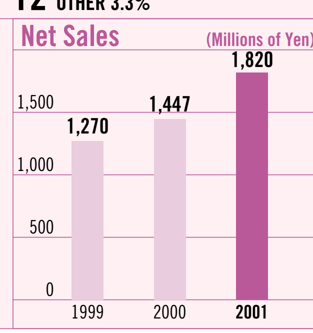
10 PLANT 2.3%



11 CONSTRUCTION 0.9%



12 OTHER 3.3%



Basic Management Policy

The Meitec Group's basic management policy is to operate its outsourcing businesses and realize mutual growth and prosperity for shareholders, customers and employees, while contributing to development of the advanced information society.

As a leading company in the industry, Meitec created the following specific concept in New VISION 21, a new consolidated management plan started from the fiscal year ended March 31, 2001, to grow with advancements in society:

1) THE MEITEC GROUP SHALL TRY TO MAXIMIZE VALUE OF THE COMPANY FOR ITS SHAREHOLDERS.
2) THE MEITEC GROUP SHALL BECOME A STRATEGIC PARTNER FOR ITS CLIENTS AND ACHIEVE BUSINESS ADVANCEMENT TOGETHER BY SHARING SUCH MANAGEMENT RESOURCES AS ENGINEERS AND INFORMATION.
3) THE MEITEC GROUP SHALL SUPPORT THE EFFORTS OF EACH AND EVERY EMPLOYEE FOR THEIR ADVANCEMENT IN MARKET VALUE AND THEIR CAREERS.

In addition to the above, we are focusing on those in the manufacturing industry as clients for the entire Meitec Group to maximize the efficiency of our management resources and advantages in the market. To do so, we are concentrating our business direction on the manufacturing industry, which we have established as our core customer group.

Dividend Policy

Meitec maintains a basic policy of providing returns to shareholders through a performance-based dividend. Starting in the fiscal year ended March 31, 2001, management began to pay more than 30% of consolidated net income as dividends. Directors' bonuses are less than 2% of net income. This amount is determined according to the percentage change in net income from the previous fiscal year.

The Company uses retained earnings not only to strengthen its financial base, but also to aggressively expand its business through tie-ups with other companies and by aiming to enhance the quality of services provided to clients through capital investment, including training facilities and information systems. Meitec also uses retained earnings to make investments that will raise the added value of its operations. We plan to continue pursuing earnings growth that satisfies the expectations of our shareholders.

Mid- and Long-Term Management Strategy

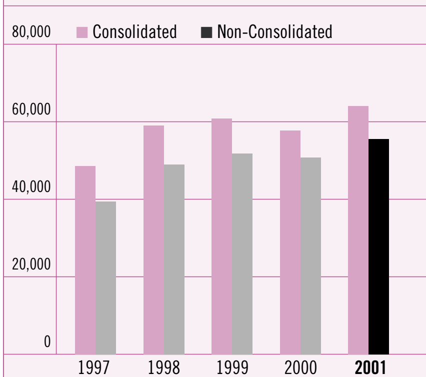
Meitec began its New VISION 21 consolidated management plan in the fiscal year ended March 31, 2001. The plan is designed to respond to the age of consolidated management and to spur growth and development in the Meitec Group. Marshalling the comprehensive powers of Meitec, Japan Outsourcing, Japan Cast and 3D Tec, the plan aims to establish a system for providing the manufacturing industry with outsourcing operations in design and development, from high-level engineering development to a variety of less advanced technical tasks. The Company believes that pursuing a business strategy that meets the needs of the manufacturing industry for complete outsourcing operations in design and development will allow the Group to strengthen its position as number one in the outsourcing industry.

Management Goals

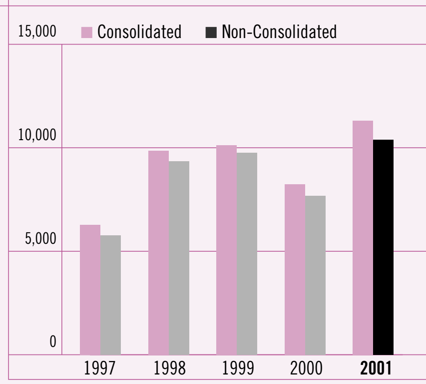
Our management policy is to meet the expectations of our shareholders by achieving higher earnings and returns on equity capital, targeting a return on equity (ROE) of more than 10%. Management aims to achieve a ROE of more than 13% in the fiscal year ending March 31, 2003, the final year of the New VISION 21 consolidated management plan.

Performance and Ratios

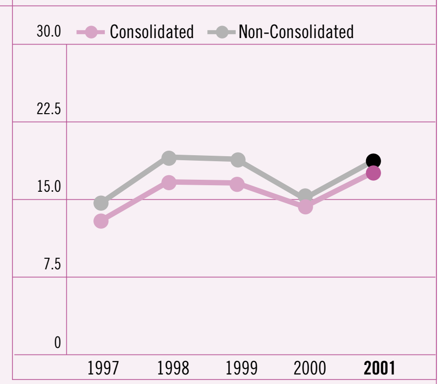
NET SALES (Millions of Yen)



OPERATING INCOME (Millions of Yen)



OPERATING INCOME MARGIN (%)



Net Sales (Millions of Yen)

Consolidated

1997	1998	1999	2000	**2001**
¥48,517	¥59,054	¥60,801	¥57,734	**¥64,073**

Non-Consolidated

1997	1998	1999	2000	**2001**
¥39,454	¥48,905	¥51,784	¥50,773	**¥55,543**

Operating Income (Millions of Yen)

Consolidated

1997	1998	1999	2000	**2001**
¥6,279	¥9,864	¥10,118	¥8,242	**¥11,299**

Non-Consolidated

1997	1998	1999	2000	**2001**
¥5,773	¥9,350	¥9,755	¥7,689	**¥10,389**

Operating Income Margin (%)

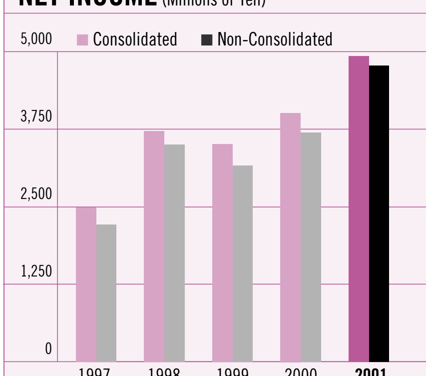
Consolidated

1997	1998	1999	2000	**2001**
12.9	16.7	16.6	14.3	**17.6**

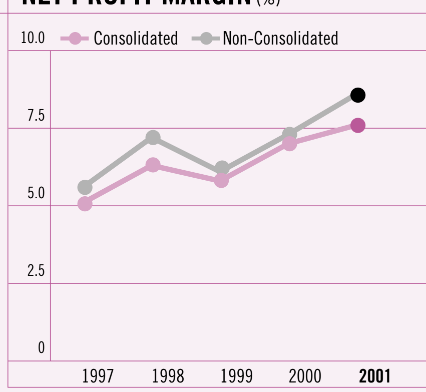
Non-Consolidated

1997	1998	1999	2000	**2001**
14.6	19.1	18.9	15.1	**18.7**

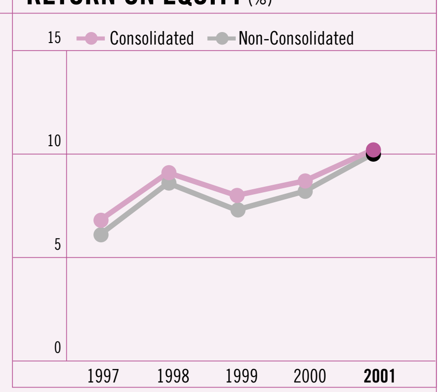
NET INCOME (Millions of Yen)



NET PROFIT MARGIN (%)



RETURN ON EQUITY (%)



Net Income (Millions of Yen)

Consolidated

1997	1998	1999	2000	**2001**
¥2,487	¥3,723	¥3,513	¥4,016	**¥4,932**

Non-Consolidated

1997	1998	1999	2000	**2001**
¥2,216	¥3,504	¥3,164	¥3,701	**¥4,781**

Net Profit Margin (%)

Consolidated

1997	1998	1999	2000	**2001**
5.1	6.3	5.8	7.0	**7.6**

Non-Consolidated

1997	1998	1999	2000	**2001**
5.6	7.2	6.1	7.3	**8.6**

Return on Equity (%)

Consolidated

1997	1998	1999	2000	**2001**
6.8	9.1	8.0	8.7	**10.2**

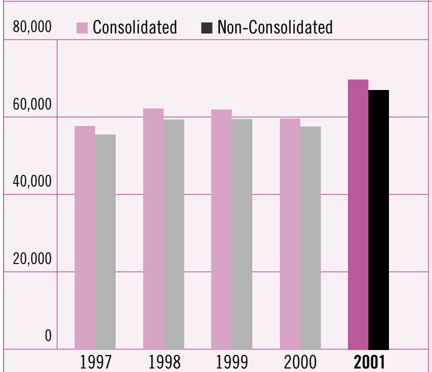
Non-Consolidated

1997	1998	1999	2000	**2001**
6.1	8.6	7.3	8.2	**10.0**

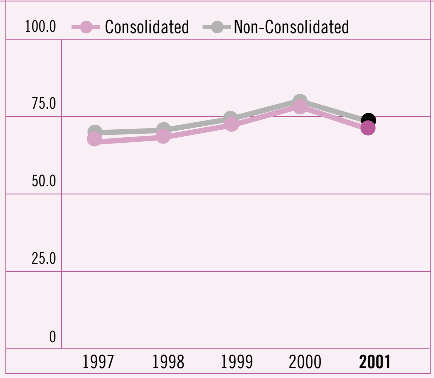
Capital Safety

Capital Efficiency

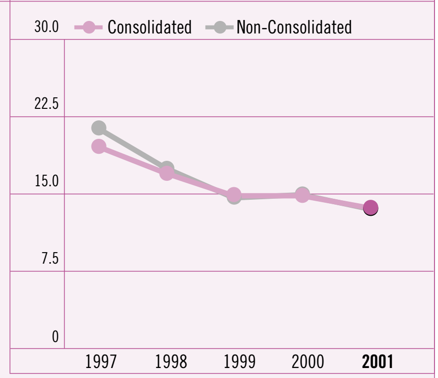
TOTAL ASSETS (Millions of Yen)



RATIO OF SHAREHOLDERS' EQUITY TO TOTAL ASSETS (%)



RATIO OF NET SALES TO SG&A EXPENSES (%)



Total Assets (Millions of Yen)

Consolidated

1997	1998	1999	2000	**2001**
¥57,806	¥62,330	¥62,138	¥59,820	**¥69,778**

Non-Consolidated

1997	1998	1999	2000	**2001**
¥55,641	¥59,525	¥59,635	¥57,672	**¥67,133**

Ratio of Shareholders' Equity to Total Assets (%)

Consolidated

1997	1998	1999	2000	**2001**
67.8	68.5	72.4	78.5	**71.3**

Non-Consolidated

1997	1998	1999	2000	**2001**
70.0	70.8	74.5	80.3	**73.8**

Ratio of Net Sales to SG&A Expenses (%)

Consolidated

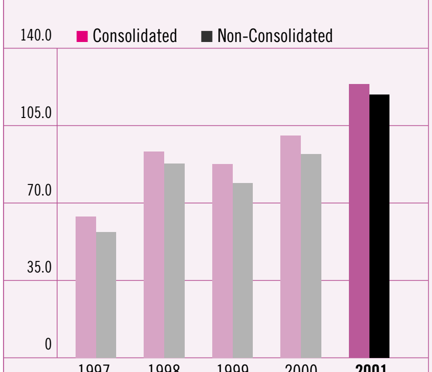
1997	1998	1999	2000	**2001**
19.7	17.1	14.9	14.9	**13.7**

Non-Consolidated

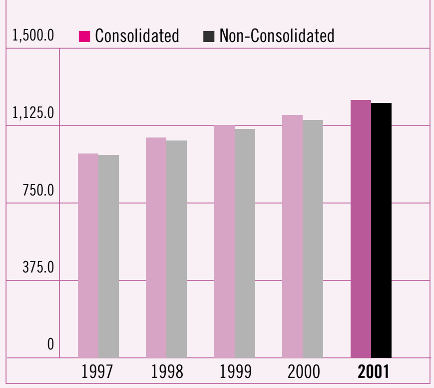
1997	1998	1999	2000	**2001**
21.5	17.6	14.7	15.0	**13.6**

Per Share Indicators

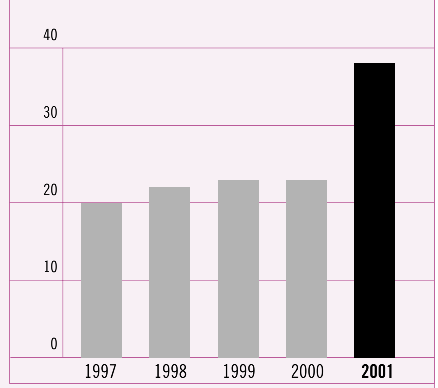
NET INCOME PER SHARE (Yen)



EQUITY PER SHARE (Yen)



CASH DIVIDENDS PER SHARE (Yen)



Net Income per Share (Yen)

Consolidated

1997	1998	1999	2000	**2001**
¥63.9	¥93.3	¥87.7	¥100.6	**¥123.8**

Non-Consolidated

1997	1998	1999	2000	**2001**
¥56.9	¥87.8	¥79.0	¥92.2	**¥119.0**

Equity per Share (Yen)

Consolidated

1997	1998	1999	2000	**2001**
¥989.6	¥1,067.1	¥1,124.9	¥1,175.5	**¥1,250.0**

Non-Consolidated

1997	1998	1999	2000	**2001**
¥981.9	¥1,052.3	¥1,108.1	¥1,153.2	**¥1,233.4**

Cash Dividends per Share (Yen)

Non-Consolidated

1997	1998	1999	2000	**2001**
¥20.0	¥22.0	¥23.0	¥23.0	**¥38.0**

Note: This message is a reprint of the president’s address to Meitec employees at the beginning of 2001.

Meitec and the New Century

1. Dawn of the 21st Century

The 21st century has finally arrived. Although the beginning of the new century itself will not bring rapid changes in the world, there is no doubt that the 21st century will be substantially different from the 20th century. Glimpses of the future already appeared in various forms near the end of the 20th century. With the end of the cold war, countries throughout the world made a clear transition toward a market economy. Mankind’s long history has proven that all countries and companies will prosper and eventually decline. Having completed a period of growth to catch up to the West in the second half of the 20th century, Japan has now arrived at a crossroads.

As Japan’s systems have revealed overburdened institutions and functional inadequacies in such varied areas as politics and economics, the country has entered the new century without any indication of how it will solve its problems. The vague sense of uneasiness and hopelessness among the younger generation seems to reflect the defeated mood throughout the country. Companies experiencing prosperity are those that have boldly set out to create new businesses and systems that transcend national borders to construct a globally competitive corporate structure. On the other hand, companies that cannot escape the spell of the so-called Japanese-style management, such as those dependent on public works investment, or companies that dwell solely on past successes, such as those lagging behind market changes, are gradually losing their corporate strength.

Several major patterns of change are appearing in the 21st century. One involves an increasing exchange of global information and growing similarity in values as a result of economic globalization and progress in the IT revolution. The only companies that will remain prosperous are those that can compete in the vast world market. This means that companies able to transcend the confines of nationality to provide an ever greater number of people with valuable products and services will thrive, while all others will quickly disappear. In addition, the speed of this already fast-paced, competitive game of survival will accelerate, with today’s victors becoming tomorrow’s losers. Companies will have to be flexible enough to adapt to constantly changing rules. Mergers and reorganization among Japan’s traditional megacorporations, now a commonplace occurrence, and tie-ups with foreign companies are merely indications of the future. Whether we like it or not, we must realize that this is the era we live in. It is an age where neither companies nor employees can afford to stand still.

2. Relations Between Companies and Employees

The 21st century will be a difficult age for companies. One could even say that it is the beginning of an age of all-out competition. Naturally, this landmark change will directly impact the way companies and employees interact. Although overused as an example, the implied contractual relationship between companies and employees through the lifetime employment system, one of the many traditional Japanese-style management systems, is slowing being phased out. Examples of the lifetime employment system include the give-and-take relationship wherein assured lifetime employment is provided in exchange for complete loyalty to the company, as well as the method of curbing young workers' salaries only to raise them as the employee advances in seniority. This system's obsolescence is a result of questions being raised by both companies and employees about the validity of assumptions that these businesses could continue to thrive throughout the working life of employees.

However, I do not think it is accurate to claim an end to the lifetime employment system. It was not a system to begin with, but rather the result of employees working at companies until retirement. At any point in time, companies will try to employ the required personnel for as long as possible, and there will be employees who will try to maximize their potential through work, while formulating life plans as a result of this long-term employment. The duration over which both companies and employees rely on one another (or choose one another) is determined on a case-by-case basis. If anything, the lifetime employment system was merely a fantasy. Even in the golden age of this system, there were employees who changed jobs, and companies that went out of business. Therefore, this should not be viewed as the end of the system itself, but rather as an end to the implied contract that assumed the presence of it.

This transition will result in greater emphasis on self-reliance and responsibility in individuals. Accordingly, the way we view employment itself will change as well. While employees continue to be subordinate to the company during employment, reassessment of the relationship wherein one gains the implied assurance of long-term employment—or the superior versus subordinate relationship between companies and employees—will create a new mindset of equality between companies and employees. Consequently, as individuals work toward their self-actualization and companies work to achieve profits in this age of extreme change, it has been necessary to switch from a model in which the rules shaping the company-employee relationship is explicitly defined. This can be achieved through such measures as shifting from implied contracts to stipulated ones. At the same time, from the perspective of equality between companies and employees, the very structure of employment is also bound to change. This does not just reflect the trends of companies, but also a newfound desire on the part of employees to work in a variety of styles. Meitec and industry as a whole are currently reassessing personnel and wage systems a result of these factors.

While employees work to maximize their potential, Meitec must revise its personnel system to respond to a variety of value systems in accommodating the new age. As a result, I have recently told Meitec employees on several occasions that I would prefer they concentrate on how best to use the Company and its business systems to become professional engineers, rather than simply consider themselves as employees of the Company. This statement stems from the aforementioned factors.

3. Meitec's DNA

Although the current age is one of considerable transition, I do not believe that humans will change drastically. In short, I do not think that the basic principles of good and bad or the foundations of the human psyche will change in the next 10 to 20 years. Despite current changes, there will always be certain elements that remain constant within companies and individuals. In this way, Meitec firmly believes that it is based on a form of DNA, if you will.

The DNA that Meitec will pass on to future generations will be its presence as a professional engineering company. As long as there is a manufacturing industry, and as long as technological innovation makes people's lives richer, engineers will always be required. It should be evident that society will only tolerate those things that are both essential and that contribute to a richer life for mankind. Furthermore, the direction of change in the Japanese manufacturing sector will create an ever-greater need for such companies as Meitec. Industry is moving toward the sharing of management resources and the creation of more open management systems. Companies are shifting from a stock-based style of management that utilized management resources as they always had done, to a flow-based style that concentrates management resources in the company's strongest areas and makes optimum use of outside funds in other useful areas to flexibly adapt to the management and market environments. This new style values opening the management system and optimizing management resources from one moment to the next, and employs outsourcing as a strategic tool. Companies with remarkable employee resources and that use outsourcing as a managerial strategy will gradually shift from a business style that distinguishes between company and outside labor. Rather, they will work toward constructing a suitable human resources system through a combination of the two. Among Meitec's clients, those considered to be long-term winners in the global marketplace have already begun the transition to this style, and are relying increasingly on Meitec's services.

While this may be a major change in management style, since labor markets will become more fluid and workplaces and work styles will become more diverse, workers will have greater choice in how they want to best advance their careers. For that very reason, the aforementioned relationship of equality between companies and employees will take on greater significance, as will employee self-reliance and responsibility.

4. Meitec Pursues "Mutual Growth and Prosperity"

I believe the most pressing issue for Meitec to continue as a professional engineering company is determining how best to tie in the career advancement of Meitec employees with structural changes occurring in the management systems and labor market of the manufacturing sector. That is, how best to create an environment and workplace where employees can easily maximize their potential. Viewed from a different angle, the role of encouraging Meitec employees to realize their full potential as professional engineers by using Meitec as both a Company and a business system is itself the realization of that very environment and workplace for employees to flourish. In addition, the trend toward outsourcing and the changes occurring in industry will increasingly enable the creation of such an environment and workplace. By using Meitec as a vehicle, Meitec employees will raise their market value as professional employees, creating more opportunities to test their skills at more advanced levels and in new fields. This in turn, raises Meitec's brand value and provides the Company with greater opportunities, making it more worthwhile for employees to hone their skills at Meitec. This whole relationship represents a kind of positive feedback loop.

Many examples of this relationship can be found. For example, IPTC Corporation established a project in December 2000 to circulate semiconductor design information over the Internet in cooperation with the majority of Japan's principal semiconductor companies. The Company was granted the opportunity to participate in this project through investment of capital, owing to the respect its engineering staff has won from industry for accumulated expertise in the semiconductor design field. The trust that Meitec has gained from its proven performance has created a need in industry for Meitec to analyze design information on the Internet site and customize it to each particular user. While this new project is still in the initial stages, its success will expand the range of opportunities for Meitec employees who are active in the semiconductor design field to advance their careers through daily interaction with clients. Additionally, the catalyst for establishing a joint venture company with ARRK Corporation, the leading manufacturer of prototypes, was the considerable respect given to both the technological capabilities of Meitec's 3-D CAD engineers and the Company's marketing channels within the manufacturing industry. Although basic examples, these events are occurring in a variety of technological fields and among Meitec clients. The combined efforts of Meitec and its employees to raise their market values and create a framework and direction to pursue mutual profit is a manifestation of the Company's basic philosophy of achieving mutual growth and prosperity.

The 21st century is an era of increasingly accelerated change, in which the degree of flexibility and speed of companies and employees to adapt to change determines success or failure. Even at Meitec, there are occasions when a variety of difficult issues must be overcome. However, from a larger perspective, current societal changes are a blessing for the Company. I believe that the current era will create numerous opportunities for Meitec as long as management and employees earnestly reflect on the concept "Mutual Growth and Prosperity" and face change directly, instead of running from it. Meitec's efforts to increasingly support the growth of its employees will be a considerable factor in building a 21st century professional engineering company. I intend to work together with employees so that Meitec can make its mark on the 21st century.

January 2001

Kosuke Nishimoto
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2001 AND 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2001**	2000	**2001**
CURRENT ASSETS:			
Cash and cash equivalents	**¥22,080**	¥13,892	**$178,064**
Short-term investments (Note 3)	**1,604**	3,095	**12,935**
Notes and accounts receivable:			
Trade notes and accounts	**11,393**	10,620	**91,879**
Allowance for doubtful accounts	**(38)**	(45)	**(306)**
Inventories (Note 4)	**136**	182	**1,097**
Deferred tax assets (Note 9)	**1,592**	718	**12,839**
Prepaid expenses and other current assets	**848**	756	**6,839**
Total current assets	**37,615**	29,218	**303,347**
PROPERTY AND EQUIPMENT (Note 5):			
Land	**5,551**	5,551	**44,766**
Buildings and structures	**21,979**	21,977	**177,250**
Machinery and equipment	**185**	185	**1,492**
Furniture and fixtures	**6,245**	6,195	**50,363**
Total	**33,960**	33,908	**273,871**
Accumulated depreciation	**(10,524)**	(9,391)	**(84,871)**
Net property and equipment	**23,436**	24,517	**189,000**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**2,377**	1,530	**19,169**
Leasehold deposits	**907**	838	**7,315**
Deferred tax assets (Note 9)	**2,374**	908	**19,145**
Deferred tax asset for land revaluation	**1,629**	1,629	**13,137**
Other	**1,440**	1,181	**11,613**
Total investments and other assets	**8,727**	6,086	**70,379**
TOTAL	**¥69,778**	¥59,821	**$562,726**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars (Note 1) 2001
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 910	¥ 1,198	$ 7,339
Current portion of long-term debt (Note 5)	247	837	1,992
Notes and accounts payable:			
Trade notes and accounts	66	58	532
Income taxes payable	4,216	890	34,000
Accrued expenses	6,286	5,579	50,694
Other	2,283	1,143	18,411
Total current liabilities	14,008	9,705	112,968
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	79	175	637
Liability for retirement benefits (Note 6)	5,012	2,452	40,419
Other	843	549	6,798
Total long-term liabilities	5,934	3,176	47,854
MINORITY INTERESTS	72	—	581
SHAREHOLDERS' EQUITY (Note 7):			
Common stock, ¥50 par value:			
Authorized: 80,000 thousand shares in 2001 and 2000			
Issued and outstanding:			
40,165 thousand shares in 2001			
40,159 thousand shares in 2000	16,810	16,806	135,564
Additional paid-in capital	16,645	16,641	134,234
Land revaluation difference	(2,249)	(2,249)	(18,137)
Retained earnings	20,196	16,557	162,871
Unrealized loss on available-for-sale securities	(271)	—	(2,185)
Total	51,131	47,755	412,347
Treasury stock—at cost	(1,367)	(815)	(11,024)
Total shareholders' equity	49,764	46,940	401,323
TOTAL	¥69,778	¥59,821	$562,726

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2001 AND 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
NET SALES	**¥64,073**	¥57,734	**$516,718**
COST OF SALES	**43,992**	40,881	**354,774**
Gross profit	**20,081**	16,853	**161,944**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**8,782**	8,611	**70,823**
Operating income	**11,299**	8,242	**91,121**
OTHER INCOME (EXPENSES):			
Interest and dividends	**48**	40	**387**
Interest expense	**(25)**	(66)	**(202)**
Gain on sales of marketable and investment securities	**161**	200	**1,298**
Write-down of marketable and investment securities	**—**	(248)	**—**
Loss on sales and disposal of fixed assets	**(117)**	(517)	**(944)**
Charge for full amount of transition obligation for employees' retirement benefits	**(1,962)**	—	**(15,822)**
Other—net	**(691)**	(452)	**(5,572)**
Other expenses—net	**(2,586)**	(1,043)	**(20,855)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**8,713**	7,199	**70,266**
INCOME TAXES (Note 9):			
Current	**5,932**	3,421	**47,839**
Deferred	**(2,143)**	(239)	**(17,282)**
Total income taxes	**3,789**	3,182	**30,557**
MINORITY INTERESTS IN NET LOSS OF SUBSIDIARY	**8**	—	**65**
NET INCOME	**¥ 4,932**	¥ 4,017	**$ 39,774**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2(o)):			
Net income	**¥123.79**	¥100.56	**$1.00**
Diluted net income	**123.72**	100.44	**1.00**
Cash dividends applicable to the year	**38.00**	23.00	**0.31**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED MARCH 31, 2001 AND 2000

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Land Revaluation Difference	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Treasury Stock—at Cost
BALANCE, APRIL 1, 1999	40,083	¥ 16,753	¥ 16,588	—	¥ 12,015	—	¥ (396)
Adjustment of retained earnings for the adoption of deferred tax accounting method	—	—	—	—	1,387	—	—
Net income	—	—	—	—	4,017	—	—
Cash dividends, ¥23 per share	—	—	—	—	(919)	—	—
Bonuses to directors and corporate auditors	—	—	—	—	(63)	—	—
Acquisition of treasury stock—net	—	—	—	—	—	—	(419)
Conversion of convertible bonds	76	53	53	—	—	—	—
Land revaluation difference	—	—	—	¥ (2,249)	—	—	—
Adjustment due to change in scope of consolidation	—	—	—	—	120	—	—
BALANCE, MARCH 31, 2000	40,159	16,806	16,641	(2,249)	16,557	—	(815)
Net income	—	—	—	—	4,932	—	—
Cash dividends, ¥23 per share	—	—	—	—	(1,235)	—	—
Bonuses to directors and corporate auditors	—	—	—	—	(58)	—	—
Acquisition of treasury stock—net	—	—	—	—	—	—	(552)
Conversion of convertible bonds	6	4	4	—	—	—	—
Revaluation of available-for-sale securities	—	—	—	—	—	¥ (271)	—
BALANCE, MARCH 31, 2001	**40,165**	**¥16,810**	**¥16,645**	**¥(2,249)**	**¥20,196**	**¥(271)**	**¥(1,367)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Land Revaluation Difference	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Treasury Stock—at Cost
BALANCE, MARCH 31, 2000	$ 135,532	$ 134,202	$ (18,137)	$ 133,524	—	$ (6,572)
Net income	—	—	—	39,774	—	—
Cash dividends, $0.19 per share	—	—	—	(9,959)	—	—
Bonuses to directors and corporate auditors	—	—	—	(468)	—	—
Acquisition of treasury stock—net	—	—	—	—	—	(4,452)
Conversion of convertible bonds	32	32	—	—	—	—
Revaluation of available-for-sale securities	—	—	—	—	$ (2,185)	—
BALANCE, MARCH 31, 2001	**$135,564**	**$134,234**	**$(18,137)**	**$162,871**	**$(2,185)**	**$(11,024)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2001 AND 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	**2001**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 8,713**	¥ 7,199	**$ 70,266**
Adjustments for:			
Income taxes—paid	**(2,606)**	(5,425)	**(21,016)**
Depreciation and amortization	**1,296**	1,302	**10,451**
Provision for retirement benefits	**2,560**	337	**20,645**
Provision for loss on sales of real estate	**366**	—	**2,952**
Provision for pending litigation	**321**	142	**2,589**
Loss on sales and disposal of fixed assets	**116**	503	**935**
Gain on sales of marketable and investment securities	**(161)**	(200)	**(1,298)**
Write-down of marketable and investment securities	**—**	248	**—**
Loss on revaluation of memberships	**80**	414	**645**
Changes in assets and liabilities:			
Increase in trade receivables	**(759)**	(402)	**(6,121)**
Increase in accrued expenses	**706**	26	**5,693**
Increase (Decrease) in consumption taxes payable	**366**	(172)	**2,952**
Other—net	**235**	18	**1,895**
Total adjustments	**2,520**	(3,209)	**20,322**
Net cash provided by operating activities	**11,233**	3,990	**90,588**
INVESTING ACTIVITIES:			
Purchase of short-term investments	**(9,883)**	(9,232)	**(79,701)**
Proceeds from sales of short-term investments	**10,285**	11,123	**82,944**
Acquisition of investment securities	**(888)**	(1)	**(7,161)**
Proceeds from sales of investment securities	**812**	2	**6,548**
Acquisition of property and equipment	**(180)**	(526)	**(1,452)**
Acquisition of subsidiary stock from minority shareholders	**—**	(218)	**—**
Acquisition of investments and other assets	**(554)**	(560)	**(4,468)**
Other—net	**78**	131	**629**
Net cash (used in) provided by investing activities	**(330)**	719	**(2,661)**
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	**(288)**	(247)	**(2,323)**
Proceeds from long-term debt	**200**	260	**1,613**
Repayments of long-term debt	**(878)**	(2,613)	**(7,081)**
Acquisition of treasury stock	**(626)**	(508)	**(5,048)**
Dividends paid	**(1,235)**	(916)	**(9,959)**
Other—net	**112**	17	**903**
Net cash used in financing activities	**(2,715)**	(4,007)	**(21,895)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**—**	(4)	**—**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,188**	698	**66,032**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**—**	66	**—**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**13,892**	13,128	**112,032**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥22,080**	¥13,892	**$178,064**
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Conversion of convertible bonds into common stock	**¥ 8**	¥ 106	**$ 64**
Assets acquired and liabilities assumed by finance leases:			
Assets acquired	**—**	462	**—**
Liabilities assumed	**—**	462	**—**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be and have not been presented herein.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which MEITEC CORPORATION (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥124 to $1, the approximate rate of exchange at March 30, 2001. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements as of March 31, 2001 include the accounts of the Company and its four subsidiaries (together the "Group"). The accounts of MEITEC AMERICA INCORPORATED ("MAI") have been included on the basis of a fiscal year ending on December 31. MAI was liquidated as of August 31, 1999, and the consolidated financial statements include its operating results through August 31, 1999. Three D Tec Inc., a new subsidiary, was incorporated on December 12, 2000.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is charged to income when incurred. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

(c) Inventories

Inventories are stated at cost determined by the specific identification method.

(d) Marketable and Investment Securities

Prior to April 1, 2000, marketable and investment securities listed on a stock exchange were stated at the lower of cost, determined by the moving-average method, or market. Marketable securities were included in short-term investments. Other securities were stated at cost which was determined by the moving-average method.

Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments, including marketable and investment securities. Under this standard, securities are classified and accounted for depending on management's intent, as follows: 1) held-to-maturity debt securities, securities that management has the positive intent and ability to hold to maturity, are reported at amortized cost, and 2) available-for-sale securities, which are not classified as held-to-maturity, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

The effect of this change was to increase income before income taxes and minority interests by ¥249 million ($2,008 thousand) for the year ended March 31, 2001. Marketable securities classified as short-term investments in current assets decreased by ¥1,089 million ($8,782 thousand) and investment securities increased by the same amount at April 1, 2000.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation is principally computed by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to certain buildings. The range of useful lives is principally from 7 to 50 years for buildings and structures, from 3 to 6 years for machinery and equipment, and from 3 to 15 years (from 2 to 15 years in 2000) for furniture and fixtures.

(f) Land Revaluation

Under the "Law of Land Revaluation", promulgated on March 31, 1998 and revised on March 31, 1999 and 2001, respectively, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information at March 31, 2000. The resulting land revaluation difference represents an unrealized devaluation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the statement of income. The details of the one-time revaluation at March 31, 2000 were as follows:

Land before revaluation:	¥8,787 million
Land after revaluation:	¥4,909 million
Land revaluation difference:	¥2,249 million (net of deferred tax assets of ¥1,629 million)

At March 31, 2001, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥407 million ($3,282 thousand).

(g) Retirement and Pension Plans

Under the employees' retirement plans for the Group, prior to April 1, 2000, the annual provision for retirement benefits was calculated to state the liability at the amount that would be required if all employees voluntarily terminated their employment at each balance sheet date.

The Company also has a contributory funded pension plan covering substantially all of its employees. Prior to April 1, 2000, the amounts contributed to the fund were charged to income when incurred.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The full amount of the transition obligation of ¥1,962 million ($15,822 thousand) at the beginning of the year was charged to income and presented as other expenses in the statement of income for the year ended March 31, 2001. As a result, net periodic retirement benefit costs, as compared with the prior method, increased by ¥201 million ($1,621 thousand) and income before income taxes and minority interests decreased by ¥2,163 million ($17,443 thousand).

Retirement benefits for directors and corporate auditors are recorded to state the liability at the amount that would be paid if all directors and corporate auditors retired at each balance sheet date.

(h) Other Assets

Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 to 15 years.

(i) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(j) Allowance for Pending Litigation

An allowance for pending litigation is provided based on the details of the judicial decisions or other aspects of the claim. The former director of the Company has filed a claim against the Company for payment of remuneration. The amount of the allowance for pending litigation included in other long-term liabilities is ¥463 million ($3,734 thousand) and ¥141 million, at March 31, 2001 and 2000, respectively.

(k) Allowance for Loss on Sales of Real Estate

An allowance is provided to cover losses that the Group expects to incur on future sales of real estate.

(l) Income Taxes

The current provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(m) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

(n) Foreign Currency Transactions

Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Group adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts. This change had no impact on the statement of income for the year ended March 31, 2001.

(o) Per Share Information

The computation of net income per share is based on the weighted-average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The average number of common shares used in the computation was 40,162 thousand shares for 2001 and 40,134 thousand shares for 2000.

Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance, if later) with an applicable adjustment for related interest expense, net of tax.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Short-term investments:			
Time deposits	**¥1,205**	¥2,006	**$ 9,718**
Equity securities	**—**	589	**—**
Bank bonds	**399**	—	**3,217**
Other	**—**	500	**—**
Total	**¥1,604**	¥3,095	**$12,935**
Investment securities:			
Equity securities	**¥1,544**	¥1,530	**$12,451**
Other	**833**	—	**6,718**
Total	**¥2,377**	¥1,530	**$19,169**

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2001 is as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥1,548**	**¥49**	**¥(249)**	**¥1,348**
Other	**1,100**	**—**	**(267)**	**833**
Held-to-maturity:				
Bank bonds	**399**	**0**	**0**	**399**

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$12,484**	**$395**	**$(2,008)**	**$10,871**
Other	**8,871**	**—**	**(2,153)**	**6,718**
Held-to-maturity:				
Bank bonds	**3,217**	**0**	**0**	**3,217**

Available-for-sale securities whose fair value is not readily determinable at March 31, 2001 were as follows:

Carrying amount

	Millions of Yen	Thousands of U.S. Dollars
Equity securities	**¥196**	**$1,580**
Total	**¥196**	**$1,580**

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001 were ¥812 million ($6,548 thousand). Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥177 million ($1,427 thousand) and ¥16 million ($129 thousand), respectively.

Contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due in one year or less	**—**	**¥399**	**—**	**$3,217**
Due after one year through five years	**¥ 360**	**—**	**$2,903**	**—**
Due after five years through ten years	**39**	**—**	**315**	**—**
Due after ten years	**434**	**—**	**3,500**	**—**
Total	**¥ 833**	**¥399**	**$6,718**	**$3,217**

The carrying amounts and aggregate market values of marketable equity securities and other securities included in short-term investments and investment securities at March 31, 2000 were as follows:

	Millions of Yen		
	Carrying Amount	Aggregate Market Value	Unrealized Gain
Current	¥1,089	¥1,273	¥184
Non-current	1,401	1,456	55
	¥2,490	¥2,729	¥239

The difference between the above carrying amounts and the amounts shown in the accompanying consolidated balance sheet at March 31, 2000, consists of non-marketable securities, except for over-the-counter shares, for which there is no readily-available market from which to obtain or calculate the market value thereof.

4. INVENTORIES

Inventories at March 31, 2001 and 2000 consisted mainly of work in process related to engineering outsourcing.

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2001 and 2000 consisted mainly of loan agreements with banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.45% to 0.93% and 0.49% to 1.38% at March 31, 2001 and 2000, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Unsecured 3.2% yen convertible bonds, due fiscal year ending March 31, 2004	**¥ 33**	¥ 42	**$ 266**
Loans from banks and other financial institutions, due serially to fiscal year ending March 31, 2003 with interest rates ranging from 1.01% to 1.68% (2001) and 1.66% to 2.21% (2000)	**293**	970	**2,363**
Total	**326**	1,012	**2,629**
Less current portion	**(247)**	(837)	**(1,992)**
Long-term debt, less current portion	**¥ 79**	¥ 175	**$ 637**

Additional information with respect to the Company's convertible bonds is as follows:

	3.2% Yen Convertible Bonds
Issued on	March 15, 1995
Initial principal	¥8,000 million
Maturity	March 31, 2004
Term of conversion	From April 3, 1995 to March 30, 2004
Conversion price (per share*) at March 31, 2001	¥1,394
Balance of debt securities at March 31, 2001	¥33 million
Accumulated number of shares issued upon conversion through March 31, 2001	5,715,096 shares
Number of additional shares that would be issued upon conversion at March 31, 2001	23,672 shares

(*) Subject to adjustment for subsequent stock splits and other circumstances.

The unsecured 3.2% yen convertible bond agreements contain restrictions with respect to payments of dividends. The details are described in Note 7.

Annual maturities of long-term debt at March 31, 2001, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2002	**¥247**	**$1,992**
2003	**79**	**637**
Total	**¥326**	**$2,629**

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥240 million ($1,935 thousand) at March 31, 2001, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property and equipment—net of accumulated depreciation	**¥349**	**$2,814**
Land	**489**	**3,944**
Total	**¥838**	**$6,758**

6. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, or certain other causes, the employee is entitled to greater payment than in the case of voluntary termination.

Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits (see Note 2).

The liability for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	**¥14,509**	**$117,008**
Fair value of plan assets	**(7,837)**	**(63,201)**
Unrecognized actuarial loss	**(1,823)**	**(14,702)**
Net liability	**¥ 4,849**	**$ 39,105**

The components of net periodic retirement benefit costs for the year ended March 31, 2001 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	**¥1,307**	**$10,540**
Interest cost	**365**	**2,944**
Expected return on plan assets	**(395)**	**(3,185)**
Amortization of transition obligation	**1,962**	**15,822**
Recognized actuarial loss	**203**	**1,637**
Net periodic retirement benefit costs	**¥3,442**	**$27,758**

Assumptions used for the year ended March 31, 2001 are set forth as follows:

Discount rate	3.0 %
Expected rate of return on plan assets	5.0 %
Recognition period of actuarial gain/loss	10 years
Amortization period of transition obligation	1 year

The total provision for retirement and pension costs charged to income for the year ended March 31, 2000 was ¥812 million.

Retirement benefits for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code"). The Group recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The retirement benefits for directors and corporate auditors at March 31, 2001 and 2000 were included in liability for retirement benefits in the amount of ¥163 million ($1,315 thousand) and ¥139 million, respectively.

7. SHAREHOLDERS' EQUITY

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. The Company's legal reserve amount, which is included in retained earnings, totals ¥4,203 million ($33,895 thousand) and ¥1,078 million at March 31, 2001 and 2000, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company permits to transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits to transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. Companies may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split cannot be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

During the year ended March 31, 2001, ¥9 million ($73 thousand) of the unsecured 3.2% yen convertible bonds due March 31, 2004 were converted into 6,454 shares of the Company's common stock. The effect of the conversion of the bonds was to increase both common stock and additional paid-in capital by ¥4 million ($32 thousand).

Under the terms of unsecured 3.2% yen convertible bonds, the Company's cash dividend payments (including interim cash dividends) are restricted. The amount available for dividends is calculated on a cumulative basis to an amount not to exceed the accumulated net income earned since March 31, 1995, excluding certain other income and expenses and corporate and inhabitant taxes, plus ¥500 million ($4,032 thousand). Under these terms, retained earnings allowed to be distributed as dividends at March 31, 2001, would be ¥22,408 million ($180,710 thousand). However, under the Code, the maximum amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2001, the amount available for future dividends subject to the approval of the shareholders and legal reserve and other requirements is ¥10,517 million ($84,815 thousand).

8. STOCK OPTION PLANS

Under certain stock option plans approved by the Company's shareholders, the Company has granted stock options to directors and key employees to provide an added incentive to achieve good business growth. Each option permits the holder to purchase one share of the Company's common stock at a specified exercise price, during a specified period. Information about the outstanding stock option plans is as follows:

Date of Approval	Option Holder	Total Number of Options Granted	Exercise Period	Exercise Price
June 26, 1998	Directors	77,500	From June 27, 2000	¥5,530
	Key employees	44,000	to June 26, 2008	
June 29, 1999	Directors	72,500	From June 30, 2001	¥3,997
	Key employees	46,000	to June 29, 2009	
June 29, 2000	Directors	70,000	From June 30, 2002	¥4,280
	Key employees	71,000	to June 29, 2010	

The balance of treasury stock recorded in the shareholders' equity section at March 31, 2001 includes treasury stock purchased for the purpose of reissuance in connection with the expected stock option exercised under the above plans.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2001 and 2000.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Deferred tax assets:			
Accrued bonuses	**¥1,018**	¥ 547	**$ 8,210**
Retirement benefits	**1,699**	651	**13,702**
Enterprise taxes payable	**377**	78	**3,040**
Loss on revaluation of memberships	**180**	174	**1,452**
Allowance for pending litigation	**195**	60	**1,572**
Other	**306**	122	**2,468**
Unrealized loss on available-for-sale securities	**217**	—	**1,750**
Total	**¥3,992**	¥1,632	**$32,194**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 20**	—	**$ 161**
Deferred gain on sales of property and equipment	**6**	¥ 6	**49**
Total	**¥ 26**	¥ 6	**$ 210**
Net deferred tax assets	**¥3,966**	¥1,626	**$31,984**

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2001 and the actual effective tax rates reflected in the accompanying consolidated statements of income is omitted, since the difference between the rates is immaterial. The reconciliation for the year ended March 31, 2000 was as follows:

Normal effective statutory tax rate	**42.0%**
Expenses not deductible for income tax purposes	**0.5**
Revenues not recognized for income tax purposes	**(0.2)**
Per capita tax	**1.8**
Other—net	**0.1**
Actual effective tax rate	**44.2%**

10. LEASES

The Group leases certain furniture and fixtures and other assets.

Total rental expenses for the years ended March 31, 2001 and 2000 were ¥43 million ($347 thousand) and ¥73 million, respectively.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis at March 31, 2001 and 2000 is as follows:

	Millions of Yen					
	2001			2000		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	**¥196**	**¥13**	**¥209**	¥329	¥28	¥357
Accumulated depreciation	**160**	**7**	**167**	235	17	252
Net leased property	**¥ 36**	**¥ 6**	**¥ 42**	¥ 94	¥11	¥105

	Thousands of U.S. Dollars		
	2001		
	Furniture and Fixtures	Other	Total
Acquisition cost	**$1,580**	**$105**	**$1,685**
Accumulated depreciation	**1,290**	**56**	**1,346**
Net leased property	**$ 290**	**$ 49**	**$ 339**

Obligations under finance leases at March 31, 2001 and 2000 were:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥28**	¥ 67	**$226**
Due after one year	**14**	38	**113**
Total	**¥42**	¥105	**$339**

The amount of acquisition cost and obligations under finance leases include the imputed interest expense portion.

Depreciation expense, which was not reflected in the accompanying consolidated statements of income computed by the straight-line method, was ¥43 million ($347 thousand) and ¥73 million for the years ended March 31, 2001 and 2000, respectively.

11. SUBSEQUENT EVENTS

The following matters were approved at the Company's shareholders' meeting held on June 26, 2001:

(a) Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥38 ($0.31) per share	**¥796**	**$6,419**
Bonuses to directors and corporate auditors	**83**	**669**

(b) Stock Option Plan

This plan provides for granting options to directors and key employees to purchase up to 60,000 shares and 79,000 shares, respectively, of the Company's common stock during the period from June 27, 2003 to June 26, 2011. The options will be granted at an exercise price of 103% of the average closing price of the Company's common stock, according to the Tokyo Stock Exchange, for the month prior to the month in which the options are granted. The Company plans to issue acquired treasury stock upon exercise of the stock options.

(c) Purchase of Treasury Stock

The Company is authorized to repurchase its treasury stock at management's discretion. The details are as follows:

Purpose	Number of Shares (Thousand)	Total Amounts (Millions of Yen)
Granting to directors and key employees	**139**	**¥ 695**
Canceling the shares by charging such amount to retained earnings	**3,700**	**—**
Canceling the shares by charging such amount to additional paid-in capital	**2,200**	**8,000**

SUPPLEMENTAL NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2001 AND 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
NET SALES	**¥55,543**	¥50,774	**$447,928**
COST OF SALES	**37,612**	35,492	**303,323**
Gross profit	**17,931**	15,282	**144,605**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**7,542**	7,592	**60,823**
Operating income	**10,389**	7,690	**83,782**
OTHER INCOME (EXPENSES):			
Interest and dividends	**160**	69	**1,290**
Interest expense	**(19)**	(57)	**(153)**
Gain on sales of marketable and investment securities	**175**	147	**1,411**
Write-down of marketable and investment securities	**—**	(248)	**—**
Loss on sales and disposal of fixed assets	**(98)**	(511)	**(790)**
Charge for full amount of transition obligation for employees' retirement benefits	**(1,908)**	—	**(15,387)**
Other—net	**(350)**	(487)	**(2,823)**
Other expenses—net	**(2,040)**	(1,087)	**(16,452)**
INCOME BEFORE INCOME TAXES	**8,349**	6,603	**67,330**
INCOME TAXES			
Current	**5,458**	3,086	**44,016**
Deferred	**(1,890)**	(185)	**(15,242)**
Total income taxes	**3,568**	2,901	**28,774**
NET INCOME	**¥ 4,781**	¥ 3,702	**$ 38,556**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Net income	**¥119.03**	¥92.23	**$0.96**
Diluted net income	**118.97**	92.13	**0.96**
Cash dividends applicable to the year	**38.00**	23.00	**0.31**

The translation of Japanese yen amounts into U.S. dollar amounts have been made at the rate of ¥124 to $1, the approximate rate of exchange at March 30, 2001.

SUPPLEMENTAL NON-CONSOLIDATED BALANCE SHEETS

MARCH 31, 2001 AND 2000

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	**2001**	2000	**2001**
CURRENT ASSETS:			
Cash and cash equivalents	**¥20,045**	¥12,683	**$161,653**
Short-term investments	**1,503**	2,989	**12,121**
Notes and accounts receivable:			
Trade notes and accounts	**10,189**	9,609	**82,170**
Subsidiaries	**98**	7	**790**
Allowance for doubtful accounts	**(32)**	(40)	**(258)**
Inventories	**136**	182	**1,097**
Deferred tax assets	**1,287**	639	**10,379**
Prepaid expenses and other current assets	**806**	715	**6,500**
Total current assets	**34,032**	26,784	**274,452**
PROPERTY AND EQUIPMENT:			
Land	**4,910**	4,910	**39,597**
Buildings and structures	**21,825**	21,805	**176,008**
Machinery and equipment	**185**	184	**1,492**
Furniture and fixtures	**6,147**	6,098	**49,572**
Total	**33,067**	32,997	**266,669**
Accumulated depreciation	**(10,414)**	(9,282)	**(83,984)**
Net property and equipment	**22,653**	23,715	**182,685**
INVESTMENTS AND OTHER ASSETS:			
Investment securities	**2,372**	1,525	**19,129**
Investments in subsidiaries	**680**	560	**5,484**
Treasury stock	**1,363**	815	**10,992**
Leasehold deposits	**754**	687	**6,081**
Deferred tax assets	**2,298**	861	**18,532**
Deferred tax asset for land revaluation	**1,629**	1,629	**13,137**
Other assets	**1,352**	1,097	**10,903**
Total investments and other assets	**10,448**	7,174	**84,258**
TOTAL	**¥67,133**	¥57,673	**$541,395**

The translation of Japanese yen amount into U.S. dollar amounts have been made at the rate of ¥124 to $1,the approximate rate of exchange at March 30, 2001.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
CURRENT LIABILITIES:			
Short-term bank loans	¥ 910	¥ 1,060	$ 7,339
Current portion of long-term debt	—	753	—
Notes and accounts payable:			
Trade notes	—	42	—
Subsidiaries	47	32	379
Income taxes payable	3,916	700	31,581
Accrued expenses	5,440	4,903	43,871
Other current liabilities	1,585	947	12,782
Total current liabilities	11,898	8,437	95,952
LONG-TERM LIABILITIES:			
Long-term debt	33	42	266
Liability for retirement benefits	4,820	2,334	38,871
Other	843	549	6,798
Total long-term liabilities	5,696	2,925	45,935
SHAREHOLDERS' EQUITY:			
Common stock, ¥50 par value:			
Authorized: 80,000 thousand shares in 2001 and 2000			
Issued and outstanding:			
40,165 thousand shares in 2001			
40,159 thousand shares in 2000	16,810	16,806	135,564
Additional paid-in capital	16,645	16,641	134,234
Legal reserve	4,203	1,078	33,895
Land revaluation difference	(2,249)	(2,249)	(18,137)
Retained earnings	14,401	14,035	116,137
Unrealized loss on available-for-sale securities	(271)	—	(2,185)
Total shareholders' equity	49,539	46,311	399,508
TOTAL	¥67,133	¥57,673	$541,395

Deloitte
Touche
Tohmatsu

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
MEITEC CORPORATION:

We have examined the consolidated balance sheets of MEITEC CORPORATION and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of MEITEC CORPORATION and consolidated subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As discussed in Note 2, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 26, 2001

MEITEC CORPORATION

Corporate Headquarters	8-5-26, Akasaka, Minato-ku, Tokyo 107-0052, Japan Tel.: (03) 5413-2600
Registered Corporate Headquarters	2-20-1, Kousei Dori, Nishi-ku, Nagoya, Aichi 451-0075, Japan Tel.: (052) 532-1811
Establishment	July 17, 1974
Common Stock	Par value: ¥50 per share Authorized: 80,000,000 shares *Note: Authorized common stock will be increased to 150,000,000 shares as of July 1, 2001.* Issued: 40,165,273 shares
Shareholders	6,245
Employees (consolidated)	6,518
Lines of Business	Providing engineering services to major Japanese manufacturing companies in the fields of high-technology research and development
Consolidated Subsidiaries	Japan Outsourcing Incorporated Japan Cast Inc. MeiService Co., Ltd. Three D Tec Inc.

(March 31, 2001)

Board of Directors and Auditors

President and Chief Executive Officer	Kosuke Nishimoto
Executive Managing Director	Hiroshi Kousaka
Senior Managing Directors	Toru Takahashi Takashi Yamori
Directors	Yoshinori Takamine Toyoki Terao Kanji Fukuda
Auditors	Toshio Saikusa Masatoshi Saito* Kiyoshi Mamizu*

Note: Auditors with an asterisk are external auditors required by the Japanese Commercial Code's Special Law, Article 18, Section 1.

(June 26, 2001)

WEB SITE INFORMATION

Meitec Corporation has developed an Internet Web site to disclose its most current corporate information, including materials on such key management indicators as monthly operating rates, as well as financial reports, interim reports, quarterly reports and performance-adjustment announcements.

MAIN CONTENTS

- Business Performance
- Stock Price
- Financial Results and Announcements
- Annual Report

URL: http://www.meitec.co.jp/

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