

MEITEC CORPORATION

SEMIANNUAL REPORT 2005

Six months ended September 30, 2004

PROFILE

Following the concept of “Mutual Growth and Prosperity,” Meitec Corporation’s Engineering Outsourcing (EO) services have supported the technological development of more than 4,000 companies throughout Japan. As the leading company in the industry, Meitec launched its new consolidated management plan, Global Vision 21, in April 2004 to ensure that it continues to play a vital role as an alternate personnel office and engineering division for the entire manufacturing industry, and contribute to society by utilizing the full potential of engineers, an invaluable management resource.

CONTENTS

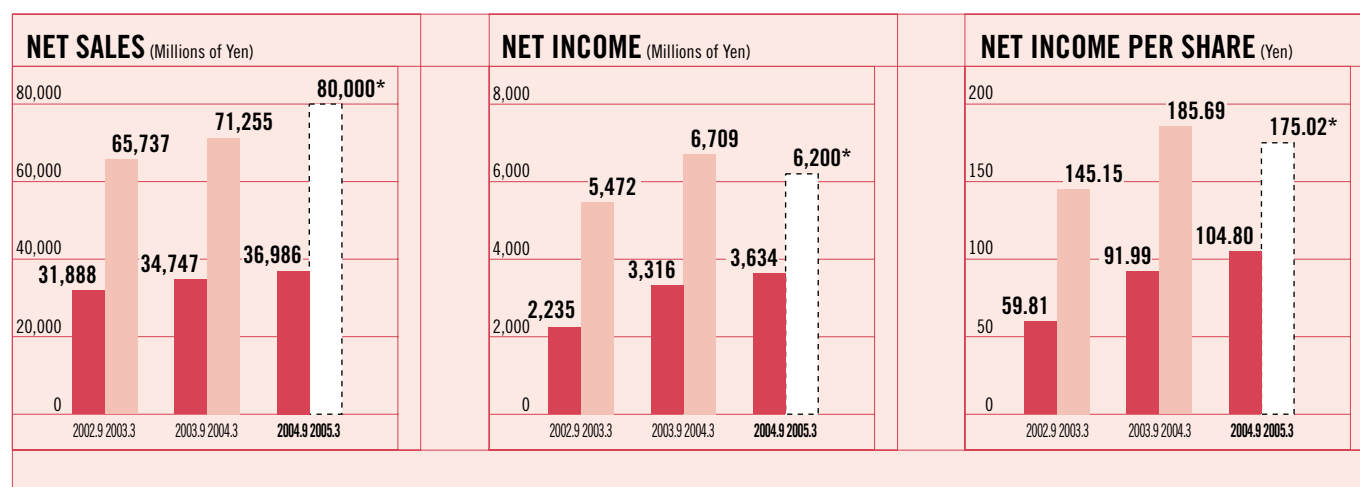
CONSOLIDATED FINANCIAL HIGHLIGHTS	1
TO OUR SHAREHOLDERS	2
GROUP STRATEGY	4
OPERATIONAL REVIEW	5
SEMI-ANNUAL CONSOLIDATED BALANCE SHEETS	6
SEMI-ANNUAL CONSOLIDATED STATEMENTS OF INCOME	8
SEMI-ANNUAL CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY	9
SEMI-ANNUAL CONSOLIDATED STATEMENTS OF CASH FLOWS	10
NOTES TO SEMI-ANNUAL CONSOLIDATED FINANCIAL STATEMENTS	11
SUPPLEMENTAL SEMI-ANNUAL NON-CONSOLIDATED BALANCE SHEETS	18
SUPPLEMENTAL SEMI-ANNUAL NON-CONSOLIDATED STATEMENTS OF INCOME	20
CORPORATE DATA	21

CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	Six Months Ended September 30	2003	Year Ended March 31	Six Months Ended September 30
	2004	2003	2004	2004
Net Sales	¥ 36,986	¥ 34,747	¥ 71,255	\$333,058
Operating Income	6,260	5,906	12,267	56,373
Net Income	3,634	3,316	6,709	32,723
Total Assets	60,434	58,396	60,882	544,205
Total Shareholders' Equity	44,686	42,085	42,686	402,398
	Yen		U.S. Dollars	
Per Share of Common Stock:				
Shareholders' Equity	¥1,287.20	¥1,199.32	¥1,228.41	\$11.59
Cash Dividend	32.00	29.00	78.00	0.29
Net Income (Note 2)	104.80	91.99	185.69	0.94

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥111 to \$1, the approximate exchange rate prevailing as of September 30, 2004.

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



*Forecasts are for the period ending March 31, 2005 and include forecasts for Drake Beam Morin-Japan, Inc., which became a wholly owned subsidiary on October 1, 2004.



I would like to express my sincere appreciation for your continuing support of Meitec Corporation. I am pleased to present our semiannual report for the six-month period ended September 30, 2004.

Although there were differences among industries and among firms, the improvement in overall corporate performance that began in the previous term became gradually clearer. In the manufacturing industry, which includes the Meitec Group's principal clients, firms sought to position for future business expansion and to strengthen market competitiveness through renewed R&D investment. Likewise, measures to strengthen and expand were again prominent in all industrial sectors. As a result of this expanded R&D, investment across all manufacturing industries, Meitec's business in the three principal fields of automotive technology, electronics, and semiconductor design, has been expanding since last fiscal year. However, Meitec has been striving for business growth in the fields of industrial machinery and IT hardware and devices in a strategic drive to hedge market risks and to win new clients in growth industries.

On the other hand, new orders from client companies require increasing sophistication, specialization, and speed (faster placement); at the same time, demands for cost reductions are becoming stronger. However, through cooperation with the subsidiaries Japan Outsourcing and Japan Cast, we are able to optimize Group resources to meet customer needs, expanding the Group's business using our Consolidated Collaboration System to meet outsourcing needs ranging from high-end to low-end.

Operating within these market conditions, Meitec's non-consolidated interim results show growth in the engineer utilization ratio to 96.8% (target: 97.1%). Exemplifying this were the 339 new graduates the company employed who had achieved 100% utilization by the end of September. The targeted 1.5% increase in this rate was achieved. The hours of operation increased to 9.36 hours per day (target: 9.35 hours per day). The success of the Gateway Strategy (A Group marketing strategy involving the use of Meitec's marketing channels) set forth in our current consolidated management plan, Global Vision 21, allowed the Group to post ¥290 million in revenues from operations, excluding the engineer temporary staffing business. This was primarily the result of joint marketing by Three D Tec, Information Management System, and Meitec Global Solutions. As a result, Meitec was able to post the highest non-consolidated interim net sales and

operating income in the company's history.

Turning to consolidated subsidiaries, Japan Outsourcing is performing the function of absorbing the cost-reduction demands of the Group's customers, as the Group Consolidated Collaboration System introduced four years ago has taken root. As a result, Japan Outsourcing achieved increased revenues and earnings (operating income) in this half as it did in the previous term. Notably, 184 of Japan Outsourcing's new graduates, or approximately 30%, were placed through Meitec's marketing channels. Japan Cast also posted growth in revenues and earnings (operating income) in comparison to the previous term, through the success of the Consolidated Collaboration System and control of selling, general and administrative expenses. Three D Tec, which is engaged in the prototype model and mold business, and the printed circuit board design business of Information Management System, also achieved gains in revenues and earnings through the Gateway Strategy. In the Meitec Group's overseas business, Meitec Global Solutions posted a loss for the six-month period under review, but is expected to turn a profit for the fiscal year. Meitec (Shanghai) progressed to the point that it posted net sales for the current half under review, and is also expected to move into the black for the next fiscal year. Equity-method subsidiary Drake Beam Morin-Japan, showed declines in sales and earnings for this half.

As a result of the foregoing, the Meitec Group's engineering outsourcing business posted consolidated net sales of ¥35,463 million, an increase of 6.0% over the same period of the preceding fiscal year, and the general outsourcing business turned in consolidated net sales of ¥1,522 million, a year-on-year increase of 18.7%.

Consequently, total net sales rose 6.4% to ¥36,986 million. At the profit and loss level, operating income increased 6.0% to ¥6,260 million, ordinary income increased 4.0% to ¥6,156 million, and net income rose 9.6% to ¥3,634 million. Return on equity (ROE) was up 0.7 of a percentage point to 8.3% compared with the same period of the previous fiscal year.

Meitec's basic policy is to maintain a dividend payout ratio in excess of 30% of consolidated net income. The interim dividend was ¥32.0 (US\$0.29) per share.

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

November 2004



Kosuke Nishimoto
President, CEO & COO

The core businesses of the Meitec Group, comprising Meitec and its seven subsidiaries and affiliated companies, are outsourcing—engineering outsourcing (EO), which provides design and development in such areas as machinery, electricity, electronics and computer software, and general outsourcing, which primarily targets the manufacturing industry—and outplacement services. The Group's outplacement business is primarily handled by affiliates and subsidiaries.

Engineering Outsourcing Services

In addition to its own EO services, the companies that supplement Meitec's services are Japan Outsourcing (engineering outsourcing in technical fields different from Meitec's), Meitec Global Solutions (engineering outsourcing related to international trade in design development technologies and computer software), Three D Tec (engineering outsourcing specializing in three-dimensional computer-aided design (3-D CAD) for such objects as experimental molds and dies), and Information Management System (engineering outsourcing focused on mount designs for printed circuit boards).

Meitec (Shanghai) has responsibility for the engineering outsourcing business in China.

General Outsourcing Services

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

Zhejiang Mi High Technology was established in July 1, 2004 in a joint venture with Zhejiang Zheda Innovation Technology (Shanghai Stock Exchange Code 600797) of Hangzhou, Zhejiang Province, China. This firm's operations are centered on technical training for Chinese engineers.

Outplacement Business

Drake Beam Morin-Japan operates the Meitec Group's outplacement business.

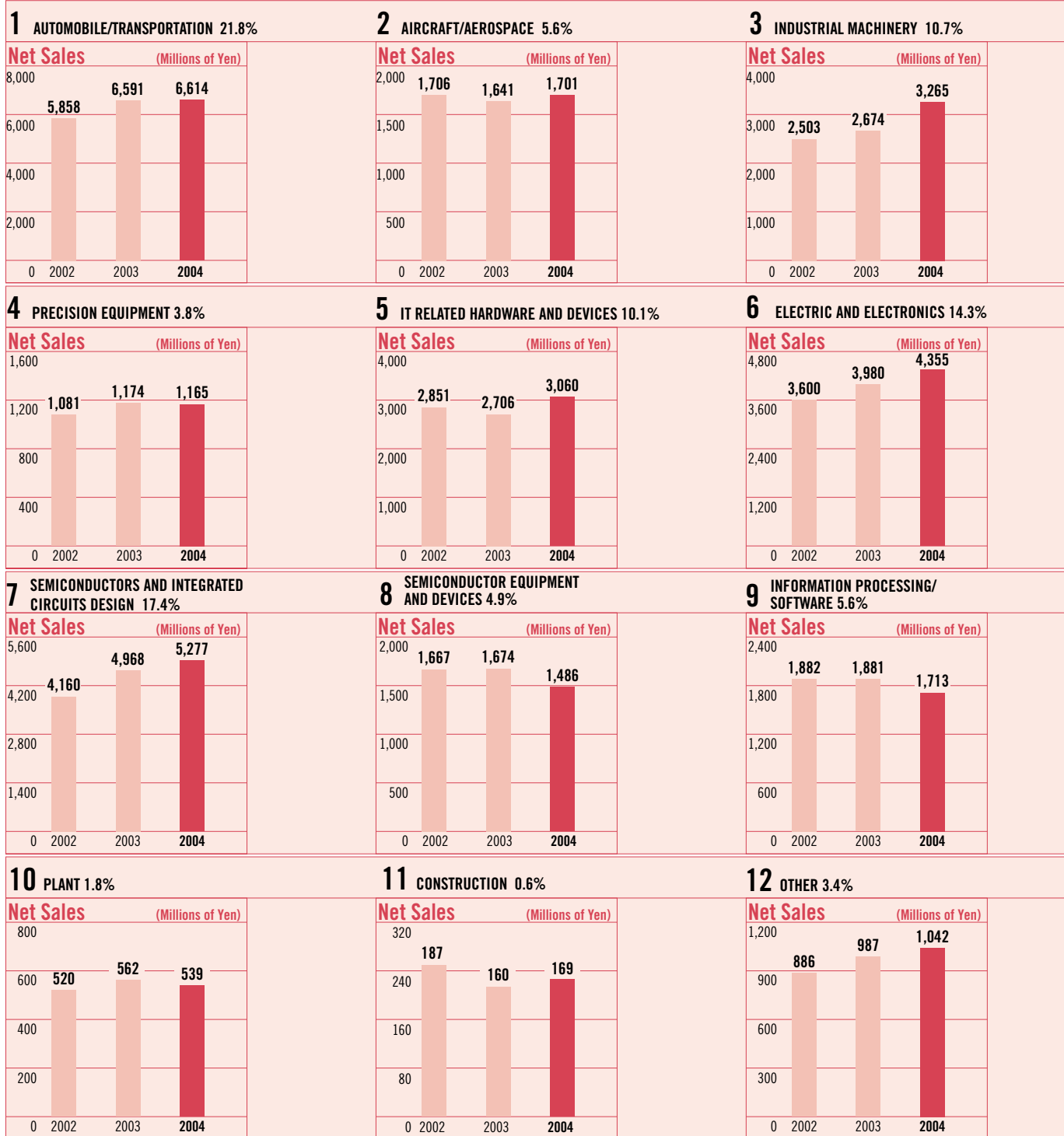
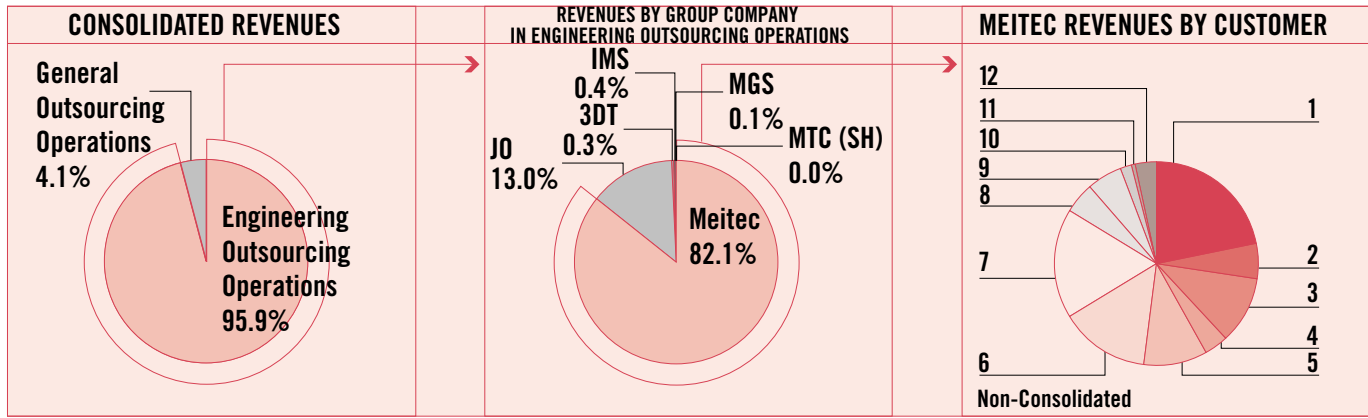
The Meitec Group's Complete Outsourcing Business Structure for the Manufacturing Industry

MEITEC GROUP									(as of September 30, 2004)
Engineering Outsourcing						General Outsourcing		Outplacement	
Meitec	Subsidiaries							Affiliates	
	Japan			Overseas		Japan			
	JO	MGS	3DT	IMS	MTC (SH)	JC	MS	DBM	

JO = Japan Outsourcing; MGS = Meitec Global Solutions; 3DT = Three D Tec; IMS = Information Management System; MTC (SH) = Meitec (Shanghai); JC = Japan Cast; MS = MeiService; DBM = Drake Beam Morin-Japan

- In July 2004, Zhejiang Mi High Technology Co., Ltd. became an affiliate of Meitec.
- In October 2004, Drake Beam Morin-Japan, Inc. became a wholly owned subsidiary of Meitec with the result that the following five firms also became Meitec subsidiaries: Career Masters Japan, Inc., Novations Group, Inc. (holding company), Novations Group, Inc. (Delaware), American Media Inc., and Novations Performance Solutions, Ltd.

OPERATIONAL REVIEW



SEMI-ANNUAL CONSOLIDATED BALANCE SHEETS <UNAUDITED>

SEPTEMBER 30, 2004 AND 2003

ASSETS	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars (Note 1)
CURRENT ASSETS:			
Cash and cash equivalents	¥11,101	¥16,197	\$100,006
Short-term investments (Note 3)	3,194	3,737	28,774
Notes and accounts receivable:			
Trade notes and accounts	12,032	10,277	108,393
Allowance for doubtful accounts	(5)	(7)	(42)
Inventories (Note 4)	196	186	1,769
Deferred tax assets	2,559	2,570	23,055
Prepaid expenses and other	637	609	5,741
Total current assets	29,714	33,569	267,696
PROPERTY AND EQUIPMENT:			
Land	3,906	4,184	35,192
Buildings and structures	21,036	21,189	189,513
Machinery and equipment	184	185	1,660
Furniture and fixtures	4,345	4,849	39,145
Total	29,471	30,407	265,510
Accumulated depreciation	(12,468)	(12,264)	(112,328)
Net property and equipment	17,003	18,143	153,182
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	875	1,029	7,887
Investment in and advances to associated companies	7,156	—	64,472
Leasehold deposits	906	896	8,159
Deferred tax assets	2,349	2,084	21,159
Deferred tax asset for land revaluation (Note 2 (g))	630	758	5,672
Other	1,801	1,917	16,223
Total investments and other assets	13,717	6,684	123,572
TOTAL	¥60,434	¥58,396	\$544,450

See notes to semi-annual consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 5)	—	¥ 12	—
Trade accounts payable	¥ 2	6	\$ 21
Income taxes payable	2,726	3,207	24,559
Accrued expenses	7,312	6,876	65,870
Other	1,247	1,681	11,238
Total current liabilities	11,287	11,782	101,688
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 6)	4,342	4,167	39,121
Other	55	306	496
Total long-term liabilities	4,397	4,473	39,617
MINORITY INTERESTS	63	56	566
SHAREHOLDERS' EQUITY (Note 7):			
Common stock:			
Authorized:			
145,192 thousand shares in 2004			
146,952 thousand shares in 2003			
Issued:			
35,380 thousand shares in 2004			
37,132 thousand shares in 2003	16,826	16,821	151,585
Capital surplus	8,661	8,660	78,027
Retained earnings	22,647	25,701	204,031
Land revaluation difference	(944)	(1,137)	(8,508)
Unrealized gain on available-for-sale securities	92	15	829
Foreign currency translation adjustments	(20)	—	(182)
Treasury stock— at cost:			
664 thousand shares in 2004 and 2,041 thousand shares in 2003	(2,575)	(7,975)	(23,203)
Total shareholders' equity	44,687	42,085	402,579
TOTAL	¥60,434	¥58,396	\$544,450

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF INCOME <UNAUDITED>

SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
NET SALES	¥ 36,986	¥34,747	\$333,208
COST OF SALES	25,939	24,490	233,688
Gross profit	11,047	10,257	99,520
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,787	4,351	43,121
Operating income	6,260	5,906	56,399
OTHER INCOME (EXPENSES):			
Interest and dividend income	10	41	87
Gain on sales of marketable and investment securities—net	8	4	71
Gain (Loss) on sale and disposal of fixed assets—net	219	(9)	1,971
Write-down of investment securities	(15)	—	(133)
Write-down of fixed assets	—	(79)	—
Equity in losses of associated companies	(108)	—	(972)
Other—net	(22)	(24)	(200)
Other (expenses) income—net	92	(67)	824
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	6,352	5,839	57,223
INCOME TAXES (Note 9):			
Current	2,716	3,252	24,464
Deferred	(2)	(729)	(18)
Total income taxes	2,714	2,523	24,446
MINORITY INTERESTS IN NET INCOME	4	0	39
NET INCOME	¥ 3,634	¥ 3,316	\$ 32,738
PER SHARE OF COMMON STOCK (Notes 2 (n) and 11):			
Basic net income	¥ 104.80	¥ 91.99	\$ 0.94
Diluted net income	104.65	91.91	0.94
Cash dividends applicable to the six months	32.00	29.00	0.29

See notes to semi-annual consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY <UNAUDITED>

SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

	Thousands		Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Difference	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock at Cost
BALANCE, APRIL 1, 2003	36,499	¥ 16,815	¥ 8,650	¥ 23,518	¥ (1,137)	¥ (51)	—	¥ (2,358)
Net income	—	—	—	3,316	—	—	—	—
Cash dividends, ¥28.5 per share ...	—	—	—	(1,040)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(93)	—	—	—	—
Conversion of convertible bonds	9	6	6	—	—	—	—	—
Repurchase of treasury stock	(1,417)	—	—	—	—	—	—	(5,617)
Gain on sales of treasury stock	—	—	4	—	—	—	—	—
Net change in unrealized loss on available-for-sale securities	—	—	—	—	—	66	—	—
BALANCE, SEPTEMBER 30, 2003 ...	35,091	¥ 16,821	¥ 8,660	¥ 25,701	¥ (1,137)	¥ 15	—	¥ (7,975)
BALANCE, APRIL 1, 2004	34,637	¥ 16,826	¥ 8,664	¥ 20,880	¥ (944)	¥ 118	¥ (5)	¥ (2,853)
Net income	—	—	—	3,634	—	—	—	—
Cash dividends, ¥49.0 per share ...	—	—	—	(1,698)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(138)	—	—	—	—
Repurchase of treasury stock	(1)	—	—	—	—	—	—	(6)
Disposal of treasury stock	80	—	—	—	—	—	—	284
Loss on disposal of treasury stock ..	—	—	(3)	(31)	—	—	—	—
Net change in unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	(26)	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	—	(15)	—
BALANCE, SEPTEMBER 30, 2004 ...	34,716	¥16,826	¥8,661	¥22,647	¥ (944)	¥ 92	¥(20)	¥(2,575)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Difference	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock at Cost
BALANCE, APRIL 1, 2004	\$ 151,585	\$ 78,054	\$ 188,109	\$ (8,508)	\$ 1,063	\$ (46)	\$ (25,706)
Net income	—	—	32,738	—	—	—	—
Cash dividends, \$0.44 per share ...	—	—	(15,296)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	(1,242)	—	—	—	—
Repurchase of treasury stock	—	—	—	—	—	—	(55)
Disposal of treasury stock	—	—	—	—	—	—	2,558
Loss on disposal of treasury stock ..	—	(27)	(278)	—	—	—	—
Net change in unrealized gain (loss) on available-for-sale securities	—	—	—	—	(234)	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	(136)	—
BALANCE, SEPTEMBER 30, 2004 ...	\$151,585	\$78,027	\$204,031	\$(8,508)	\$ 829	\$(182)	\$(23,203)

See notes to semi-annual consolidated financial statements.

SEMI-ANNUAL CONSOLIDATED STATEMENTS OF CASH FLOWS <UNAUDITED>

SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars (Note 1)
			2004
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 6,352	¥ 5,839	\$ 57,223
Adjustments for:			
Income taxes—paid	(4,323)	(1,549)	(38,945)
Depreciation and amortization	508	528	4,574
Write-down of fixed assets		79	
(Gain) loss on sales and disposal of fixed assets-net	(219)	9	(1,971)
Equity in loss of associated companies	108		972
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	(563)	278	(5,068)
Increase in inventories	(131)	(108)	(1,179)
Decrease in consumption taxes payables	(364)	(12)	(3,283)
Increase in accrued expenses	77	34	697
Increase in liability for retirement benefits	372	377	3,355
Decrease in other liabilities	(346)	(52)	(3,114)
Other—net	119	(81)	1,065
Total adjustments	(4,762)	(497)	(42,897)
Net cash provided by operating activities	1,590	5,342	14,326
INVESTING ACTIVITIES:			
Purchases of short-term investments	(801)	(2,755)	(7,215)
Proceeds from sales of short-term investments	1,200	1,817	10,811
Proceeds from sale of property and equipment	296	6	2,668
Purchases of property and equipment	(155)	(138)	(1,393)
Purchases of investment securities		(100)	
Purchases of other investments and assets	(517)	(133)	(4,658)
Other—net	53	560	473
Net cash provided by (used in) investing activities	76	(743)	686
FINANCING ACTIVITIES:			
Repurchases of treasury stock	(6)	(5,657)	(55)
Proceeds from disposal of treasury stock	249	45	2,239
Dividends paid	(1,696)	(1,040)	(15,277)
Other—net	(339)	(33)	(3,056)
Net cash used in financing activities	(1,792)	(6,685)	(16,149)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	1		5
NET DECREASE IN CASH AND CASH EQUIVALENTS	(125)	(2,086)	(1,132)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,226	18,283	101,138
CASH AND CASH EQUIVALENTS, END OF PERIOD	¥11,101	¥16,197	\$100,006
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common stock and capital surplus		¥ 12	

See notes to semi-annual consolidated financial statements.

1. BASIS OF PRESENTING SEMI-ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The accompanying semi-annual 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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these semi-annual consolidated financial statements, certain reclassifications and rearrangements have been made to the semi-annual consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2003 semi-annual consolidated financial statements to conform to the classifications used in 2004.

The semi-annual consolidated financial statements are stated in Japanese yen, the currency of the country in which MEITEC CORPORATION (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥111 to \$1, the approximate rate of exchange at September 30, 2004. 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 semi-annual consolidated financial statements for the six-month periods ended September 30, 2004 and 2003 include the accounts of the Company and its seven subsidiaries (together the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in seven (zero in 2003) associated companies are accounted for by the equity method.

The six associated companies were included in the scope of equity method from the 2003 fiscal year due to the Company acquired 28% of the total number of issued shares with voting rights of Drake Beam Morin-Japan, Inc. on January 15, 2004. And the one associated company was included in the scope of equity method in the current year due to the Company acquired 49% of the total number of issued shares of ZHEJIANG MI High Technology CO., LTD. on July 1, 2004.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired associated company at the date of acquisition is amortized by using the straight-line method over a period of 20 years, effective April 1, 2004.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Cash Equivalents

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

(c) Inventories

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

(d) Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

- 1) Held-to-maturity debt securities, which are expected to be held to maturity, with the positive intent and ability to hold to maturity are reported at amortized cost.
- 2) Available-for-sale securities, which include debt securities 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.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(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 for furniture and fixtures.

(f) Long-lived Assets

In August 2002, the Business Accounting Council issued a Statement of Opinion, *Accounting for Impairment of Fixed Assets*, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, *Guidance for Accounting Standard for Impairment of Fixed Assets*. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company adopted the new accounting standard for impairment of fixed assets from the year ended March 31, 2004.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(g) Land Revaluation

Under the "Law of Land Revaluation," the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of 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 was no effect on the statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference account.

At September 30, 2004, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥1,380 million (\$12,430 thousand).

(h) Retirement and Pension Plans

The Company and its subsidiaries have unfunded retirement benefit plans. The Company also has a contributory funded pension plan covering substantially all of its employees.

The liability for retirement benefits is accounted for based on the projected benefit obligations and plan assets at the balance sheet date.

(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) Income Taxes

The provision for current 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.

(k) Appropriations of Retained Earnings

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

(l) Foreign Currency Transactions

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 consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

(m) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

(n) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if stock options and securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the six-months period (or at the time of issuance, if later) with an applicable adjustment for related interest expense, net of tax and full exercise of outstanding stock options or warrants.

Cash dividends per share presented in the accompanying semi-annual consolidated statements of income are dividends applicable to the respective periods including dividends to be paid after the end of the period.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at September 30, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Short-term investments:			
Time deposits	¥1,500	¥1,700	\$13,513
Debt securities		100	
Other	1,694	1,937	15,261
Total	¥3,194	¥3,737	\$28,774
Investment securities:			
Equity securities	¥ 678	¥ 759	\$ 6,110
Debt securities	197	200	1,777
Other		70	
Total	¥ 875	¥1,029	\$ 7,887

Information regarding each category of securities classified as available-for-sale and held-to-maturity at September 30, 2004 and 2003 was as follows:

September 30, 2004

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 470	¥133	¥ (7)	¥ 596
Debt securities	199	—	(2)	197
Other	1,648	8	(12)	1,644

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	\$ 4,235	\$ 1,196	\$ (62)	\$ 5,369
Debt securities	1,792	—	(15)	1,777
Other	14,847	74	(111)	14,810

September 30, 2003

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 482	¥ 81	¥ (36)	¥ 527
Debt securities	201	1	(2)	200
Other	1,155	13	(42)	1,126
Held-to-maturity:				
Debt securities	100	—	(0)	100

Available-for-sale securities and held-to-maturity whose fair value was not readily determinable at September 30, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Equity securities	¥ 82	¥ 232	\$ 740
Debt securities	—	780	—
Other	150	100	1,352
Total	¥ 232	¥ 1,112	¥ 2,092

4. INVENTORIES

Inventories at September 30, 2004 and 2003 consisted mainly of work in process related to engineering outsourcing.

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

At September 30, 2004 and 2003, the Company had loan commitments from seven banks and two insurance companies in an aggregate amount of ¥6,000 million (\$54,054 thousand). There were no loans utilized and outstanding under these arrangements at September 30, 2004 and 2003.

Long-term debt at September 30, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Unsecured 3.2% yen convertible bonds, due on March 31, 2004	¥ —	¥ 12	\$ —
Total	—	12	—
Less current portion	—	(12)	—
Long-term debt, less current portion	—	—	—

6. RETIREMENT AND PENSION PLAN

The Group has severance payment plans for employees, which include contributory funded defined benefit pension plan for the Company.

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. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, or by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

All shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of the common stock amount. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock amount may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to common stock by resolution of the Board of Directors.

The Code allows companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

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

8. STOCK OPTION PLAN

Under certain stock option plans approved by the Company's shareholders, the Company has granted stock options to directors and key employees. 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 to June 26, 2008	¥5,530
	Key employees	44,000		
June 29, 1999	Directors	72,500	From June 30, 2001 to June 29, 2009	¥3,997
	Key employees	46,000		
June 29, 2000	Directors	70,000	From June 30, 2002 to June 29, 2010	¥4,280
	Key employees	71,000		
June 26, 2001	Directors	60,000	From June 27, 2003 to June 26, 2011	¥4,280
	Key employees	79,000		
June 25, 2002	Directors	129,000	From June 27, 2004 to June 26, 2012	¥3,066
	Key employees			
June 24, 2003	Directors and	128,000	From June 25, 2005 to June 24, 2013	¥4,166
	Key employees			
June 24, 2004	Directors and	114,000	From June 25, 2006 to June 24, 2014	¥4,370
	Key employees			

The stock options outstanding at September 30, 2004 were less than the above granted numbers due to forfeiture of rights.

The balance of treasury stock recorded in shareholders' equity at September 30, 2004 and 2003 included treasury stock purchased for the purpose of reissuance in connection with the expected stock options 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 40% and 42% for the six-month periods ended September 30, 2004 and 2003, respectively.

10. LEASES

The Group leases certain furniture and fixtures and other assets.

Total rental expenses under the above leases for the six-month periods ended September 30, 2004 and 2003 were ¥2 million (\$15 thousand) and ¥2 million, respectively.

Pro forma information for leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis at September 30, 2004 and 2003 was as follows:

	Millions of Yen					
	2004			2003		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	¥13	¥4	¥17	¥ 16	¥ 4	¥ 20
Accumulated depreciation	11	3	14	12	2	14
Net leased property	¥ 2	¥1	¥ 3	¥ 4	¥ 2	¥ 6

	Thousands of U.S. Dollars		
	2004		
	Furniture and Fixtures	Other	Total
Acquisition cost	\$118	\$39	\$157
Accumulated depreciation	99	29	128
Net leased property	\$ 19	\$10	\$ 29

Obligations under finance leases at September 30, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
	Due within one year	¥ 2	¥ 4
Due after one year	1	2	6
Total	¥ 3	¥ 6	\$ 29

Depreciation expense, which was not reflected in the accompanying semi-annual consolidated statements of income computed by the straight-line method, was ¥2 million (\$15 thousand) and ¥2 million for the six-month periods ended September 30, 2004 and 2003, respectively.

11. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the six-month periods ended September 30, 2004 and 2003 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted Average Shares	EPS	
Six-month period ended September 30, 2004:				
Basic EPS				
Net income available to common shareholders	¥3,634	34,672	¥104.80	\$0.94
Effect of dilutive securities				
Warrants	—	52		
Diluted EPS				
Net income for computation	¥3,634	34,724	¥104.65	\$0.94
Six-month period ended September 30, 2003:				
Basic EPS				
Net income available to common shareholders	¥ 3,316	36,049	¥ 91.99	
Effect of dilutive securities				
Warrants	—	18		
Convertible bonds	—	15		
Diluted EPS				
Net income for computation	¥ 3,316	36,082	¥ 91.91	

12. SUBSEQUENT EVENTS

Exchange of Shares

On October 1, 2004, the Company acquired 72% of the total number of issued shares with voting rights of Drake Beam Morin-Japan, Inc. by exchanging its own shares based on the share exchange contract, which was approved at the Company's general shareholders' meeting held on June 24, 2004. As a result, Drake Beam Morin-Japan, Inc. became a wholly owned subsidiary of the Company.

For the purpose of this share exchange transaction, the Company newly issued 3,800 thousand shares and allocated them to the shareholders of Drake Beam Morin-Japan, Inc., excluding the Company by 0.75 of a share, of the Company, for each one share of Drake Beam Morin-Japan, Inc. Consequently, capital surplus and goodwill (assets) of the Company increased by ¥6,820 million (\$61,438 thousand) and ¥630 million (\$5,673 thousand), respectively.

SUPPLEMENTAL SEMI-ANNUAL NON-CONSOLIDATED BALANCE SHEETS <UNAUDITED>

SEPTEMBER 30, 2004 AND 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
CURRENT ASSETS:			
Cash and cash equivalents	¥10,418	¥15,666	\$ 93,859
Short-term investments	3,194	3,737	28,774
Notes and accounts receivable:			
Trade notes and accounts	10,418	8,890	93,854
Allowance for doubtful accounts	(2)	(2)	(19)
Inventories	175	183	1,579
Deferred tax assets	2,141	2,195	19,288
Prepaid expenses and other	595	582	5,355
Total current assets	26,939	31,251	242,690
PROPERTY AND EQUIPMENT:			
Land	3,906	4,184	35,192
Buildings and structures	20,996	21,159	189,152
Machinery and equipment	184	185	1,660
Furniture and fixtures	4,270	4,737	38,470
Total	29,356	30,265	264,474
Accumulated depreciation	(12,397)	(12,185)	(111,689)
Net property and equipment	16,959	18,080	152,785
INVESTMENTS AND OTHER ASSETS:			
Investment securities	875	1,026	7,887
Investments in and advances to subsidiaries and associated companies	8,460	1,025	76,218
Prepaid pension cost	91	396	816
Leasehold deposits	800	803	7,206
Deferred tax assets	2,274	1,940	20,484
Deferred tax asset for land revaluation	630	758	5,672
Other	1,620	1,428	14,598
Total investments and other assets	14,750	7,376	132,881
TOTAL	¥58,648	¥56,707	\$528,356

The translations of Japanese yen amounts into U.S. dollar amounts have been made at the rate of ¥111 to \$1, the approximate rate of exchange at September 30, 2004.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
CURRENT LIABILITIES:			
Current portion of long-term debt	—	¥ 12	—
Income taxes payable	¥ 2,404	2,828	\$ 21,655
Deposits from subsidiaries	3,278	3,089	29,533
Accrued expenses	5,950	5,701	53,602
Other	992	1,445	8,944
Total current liabilities	12,624	13,075	113,734
LONG-TERM LIABILITIES:			
Liability for retirement benefits	4,316	3,890	38,878
Other	—	306	—
Total long-term liabilities	4,316	4,196	38,878
SHAREHOLDERS' EQUITY:			
Common stock:			
Authorized:			
145,192 thousand shares in 2004			
146,952 thousand shares in 2003			
Issued:			
35,380 thousand shares in 2004			
37,132 thousand shares in 2003	16,826	16,821	151,585
Capital surplus			
Additional paid-in capital	8,661	8,656	78,027
Other capital surplus	—	4	—
Retained earnings			
Legal reserve	4,203	4,203	37,861
Unappropriated	15,448	18,849	139,171
Land revaluation difference	(944)	(1,137)	(8,508)
Unrealized gain on available-for-sale securities	89	15	810
Total shareholders' equity	44,283	47,411	398,946
Treasury stock—at cost:			
664 thousand shares in 2004 and 2,041 thousand shares in 2003	(2,575)	(7,975)	(23,202)
Total shareholders' equity	41,708	39,436	375,744
TOTAL	¥58,648	¥56,707	\$528,356

SUPPLEMENTAL SEMI-ANNUAL NON-CONSOLIDATED STATEMENTS OF INCOME <UNAUDITED>

SIX-MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
NET SALES	¥30,384	¥29,005	\$273,731
COST OF SALES	20,938	20,138	188,632
Gross profit	9,446	8,867	85,099
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,940	3,654	35,495
Operating income	5,506	5,213	49,604
OTHER INCOME (EXPENSES):			
Interest and dividend income	424	231	3,820
Interest expense	(0)	(1)	(4)
Gain on sale of marketable and investment securities—net	8	—	71
Gain (Loss) on sale and disposal of fixed assets—net	219	(7)	1,972
Write-down of investment securities	(15)	—	(133)
Write-down of fixed assets	—	(79)	—
Other—net	1	(7)	14
Other income (expenses)—net	637	137	5,740
INCOME BEFORE INCOME TAXES	6,143	5,350	55,344
INCOME TAXES:			
Current	2,401	2,873	21,634
Deferred	(4)	(639)	(34)
Total income taxes	2,397	2,234	21,600
NET INCOME	¥ 3,746	¥ 3,116	\$ 33,744
		Yen	U.S. Dollars
PER SHARE OF COMMON STOCK:			
Basic net income	¥ 108.03	¥ 86.43	\$ 0.97
Diluted net income	107.87	86.36	0.97
Cash dividends applicable to the six months	32.00	29.00	0.29

Note:

1. The translations of Japanese yen amounts into U.S. dollar amounts have been made at the rate of ¥111 to \$1, the approximate rate of exchange at September 30, 2004.
2. The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each period. The weighted average number of common shares used in the computation of basic net income was 34,672 thousand shares for 2004 and 36,049 thousand shares for 2003.

CORPORATE DATA

(AS OF SEPTEMBER 30, 2004)

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	Authorized: 145,192,000 shares Issued: 35,379,505 shares	
Shareholders	4,886	
Employees (consolidated)	7,573	
Lines of Business	Providing engineering services to major Japanese manufacturing companies in the fields of high-technology research and development	
Consolidated Subsidiaries	Japan Outsourcing Inc. Japan Cast Inc. Meitec Global Solutions Inc. Three D Tec Inc. Information Management System Co., Ltd. MeiService Co., Ltd. Meitec (Shanghai)	
Executive Officers, Directors and Auditors	CEO & COO	Kosuke Nishimoto
	Executive Officers	Yoshinori Takamine Toyoki Terao Kanji Fukuda Hideyo Kokubun Toshio Saikusa Hidenori Nagasaka Noboru Miyake Yukio Ueyama Shigeo Kamezawa Yoshiteru Kido
	President and Representative Director	Kosuke Nishimoto
	Directors	Yoshinori Takamine Toyoki Terao Kanji Fukuda Hideyo Kokubun Toshihiko Murayama Toshio Saikusa Atsuhiko Umeda ¹ Tadao Otsuki ¹
	Auditors	Hiroshi Kosaka Masatoshi Saito ² Kiyoshi Mamizu ²

Notes:

- 1. Outside director as provided for in Article 188, 2-7-2 of the Commercial Code of Japan.*
- 2. External auditors as provided for in Article 18, 1 of the Law Concerning Corporate Auditors.*

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 ratios, as well as financial reports, interim reports, quarterly reports and performance-adjustment announcements.

MAIN CONTENTS

- Business Performance (monthly operating ratio of Meitec and Japan Outsourcing, and other information)
- Stock Price
- Financial Results and Announcements
- Annual Report

Meitec offers a service that provides registered users of its mailing list with e-mail notification when new information is added to the Company's Web site.

Please see the URL below for details.

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