MEITEC

THE ENGINEERING OUTSOURCING® COMPANY

MEITEC CORPORATION

ANNUAL REPORT 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 2003 to ensure that it continues to play a vital role as an alternate personnel office and engineering division for the entire manufacturing industry, and contributes to society by utilizing the full potential of engineers, an invaluable management resource.

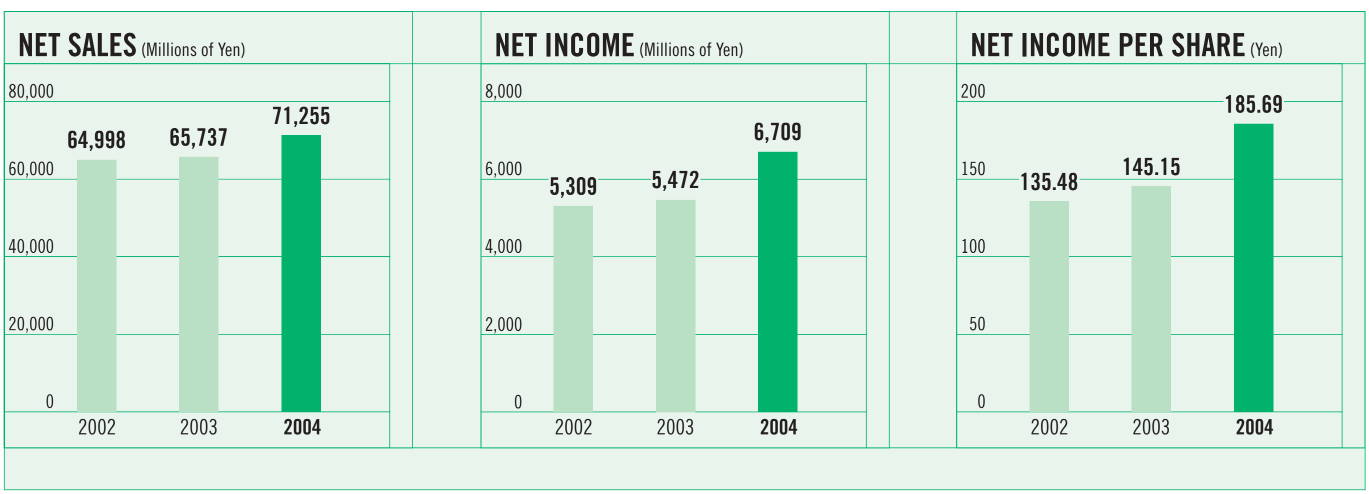
CONTENTS

CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended March 31	2004	2003	2002	2004
	Millions of Yen			Thousands of U.S. Dollars (Note 1)
Net Sales	**¥ 71,255**	¥ 65,737	¥ 64,998	**$672,217**
Operating Income	**12,267**	9,149	10,193	**115,726**
Net Income	**6,709**	5,472	5,309	**63,292**
Total Assets	**60,882**	59,831	61,927	**574,349**
Total Shareholders' Equity	**42,686**	45,437	44,877	**402,698**
	Yen			U.S. Dollars
Per Share of Common Stock:				
Shareholders' Equity	**¥1,228.41**	¥1,244.88	¥1,194.86	**$ 11.59**
Cash Dividend	**78.00**	47.50	42.50	**0.74**
Net Income (Note 2)	**185.69**	145.15	135.48	**1.75**
	%			
Return on Average Equity	**15.2**	12.1	11.2	

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥106 to $1, the approximate exchange rate prevailing as of March 31, 2004.

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



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, 2004.

During the period under review, the Japanese economy was marked by performance disparities between industries and between companies, but began gradually to display an energetic recovery. In the manufacturing industry, where the Meitec Group's primary customers are found, some companies showed their strength by undertaking energetic structural reforms. Renewed R&D investment was prominent, as companies engaged in forward-looking business expansion, sought to enhance their market competitiveness, and strengthened their operations. Meitec's quick response to this positive corporate activity allowed the Company to expand its business in fiscal 2003 in the three areas in which it is most active, the automobile-related, electronics-related, and semiconductor design sectors. In fiscal 2004, orders from the industrial machinery and precision equipment sectors also recovered.

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.

In this market, Meitec's engineer utilization ratio has exceeded the target of 96.0% set at the beginning of the term, rising to 97.2%. The 271 new graduates the Company employed had achieved 100% utilization by the end of September.

Our consolidated subsidiary Japan Outsourcing, fulfilling the role of coordinating requests for cost reductions from Meitec's clients in line with the Group collaboration system introduced in fiscal 2001, achieved rising income and operating profit continuing from the previous fiscal year. Japan Cast also posted year-on-year increases in revenues and operating profit as a result of collaboration with Group companies and management efforts to curb selling and administration costs. 3D Tec and IMS turned profitable for the first time during the fiscal year under review. Consequently, all consolidated subsidiaries were in the black for fiscal 2004, with the exception of those that commenced operations during this period.

As a result of the foregoing, the Meitec Group's engineering outsourcing business posted consolidated net sales of ¥68,610 million (US$647,264 thousand), an increase of 8.3% over the same period of the preceding fiscal year, and general outsourcing business turned in consolidated net sales of ¥2,644 million (US$24,943 thousand), a year-on-year increase of 10.1%.

Consequently, total net sales rose 8.4% to ¥71,255 million (US$672,217 thousand). At the profit and loss level, operating income increased 34.1% to ¥12,267 million (US$115,726 thousand), ordinary income increased 33.8% to ¥12,283 million (US$115,877 thousand), and net income rose 22.6% to ¥6,709 million (US$63,292 thousand). Return on equity (ROE) was up 3.1 percentage points to 15.2% 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 ¥29.0 (US$0.27) per share, and a special dividend of ¥20.0 (US$0.19) per share was declared to commemorate the Company's 30th anniversary, for total dividends of ¥78.0 (US$0.74) per share for the fiscal year.

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

June 2004

Kosuke Nishimoto
President, CEO & COO

The core businesses of the Meitec Group, comprising Meitec and its seven subsidiaries, 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), 3D Tec (engineering outsourcing specializing in three-dimensional computer-aided design (3-D CAD) for such objects as experimental molds and dies), and IMS (engineering outsourcing focused on mount designs for printed circuit boards).

The Company also established the wholly owned subsidiary Meitec Shanghai to handle engineering outsourcing services in China. The new company began operating on October 1, 2003.

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.

Outplacement Business

On January 15, 2004, Meitec acquired 28% of the stock of Drake Beam Morin-Japan, Inc., and that firm became an equity method subsidiary. Drake Beam Morin-Japan operates the Meitec Group's outplacement business, and will become a wholly owned subsidiary of Meitec through a stock swap on October 1, 2004.

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

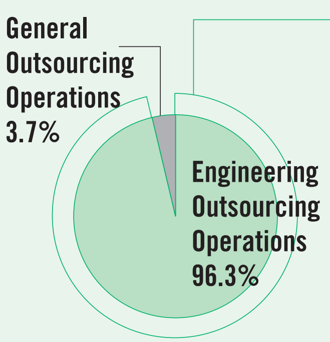
<table>
<tr><th colspan="9">MEITEC GROUP</th></tr>
<tr><td colspan="6">Engineering Outsourcing</td><td colspan="2">General Outsourcing</td><td>Outplacement</td></tr>
<tr><td rowspan="3">Meitec</td><td colspan="7">Subsidiaries</td><td>Affiliates</td></tr>
<tr><td colspan="4">Japan</td><td>Overseas</td><td colspan="2">Japan</td><td></td></tr>
<tr><td>JO</td><td>MGS</td><td>3DT</td><td>IMS</td><td>MTC (SH)</td><td>JC</td><td>MS</td><td>DBM</td></tr>
</table>

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

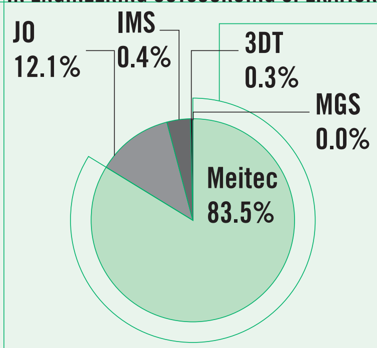
The following four companies will become Meitec affiliates as a consequence of the Company's acquisition of stock in Drake Beam Morin-Japan: Career Masters Japan, Inc., Novations Group, Inc. (holding company), Novations Group, Inc. (Delaware), American Media Inc., Novations Performance Solutions, Ltd.

OPERATIONAL REVIEW

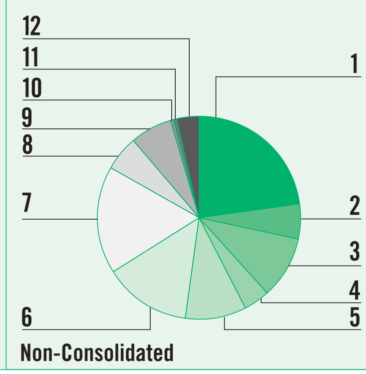
CONSOLIDATED REVENUES



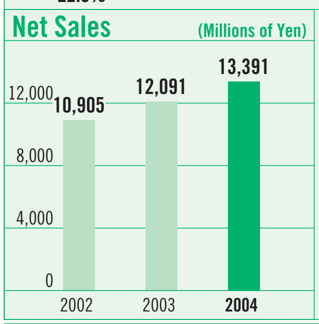
REVENUES BY GROUP COMPANY IN ENGINEERING OUTSOURCING OPERATIONS



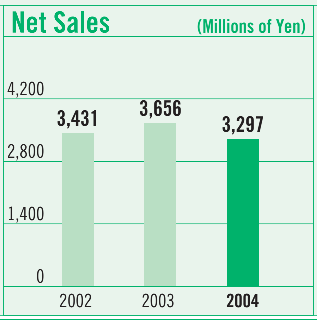
MEITEC REVENUES BY CUSTOMER



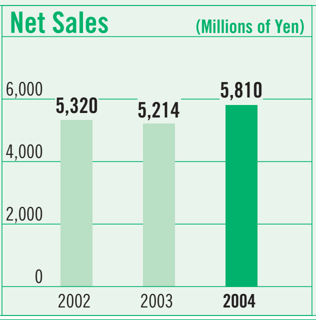
1 AUTOMOBILE/TRANSPORTATION 22.5%



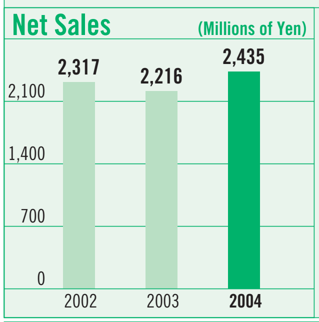
2 AIRCRAFT/AEROSPACE 5.5%



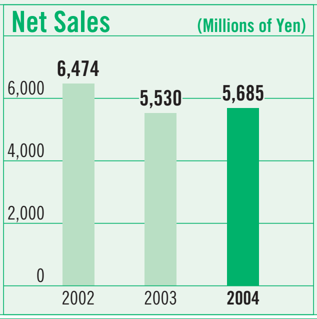
3 INDUSTRIAL MACHINERY 9.8%



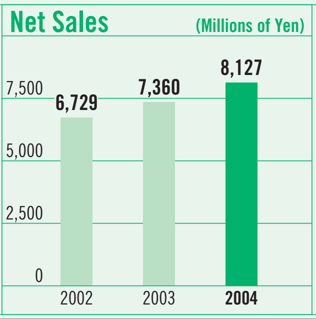
4 PRECISION EQUIPMENT 4.1%



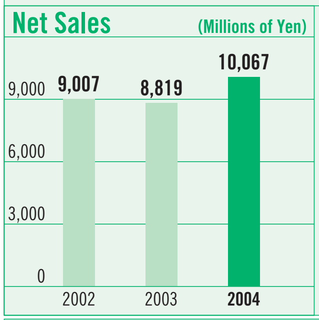
5 IT RELATED HARDWARE AND DEVICES 9.6%



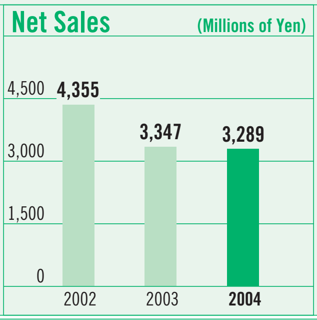
6 ELECTRIC AND ELECTRONICS 13.7%



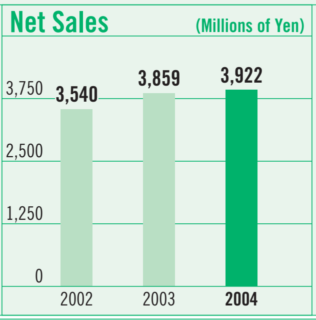
7 SEMICONDUCTORS AND INTEGRATED CIRCUIT DESIGN 16.9%



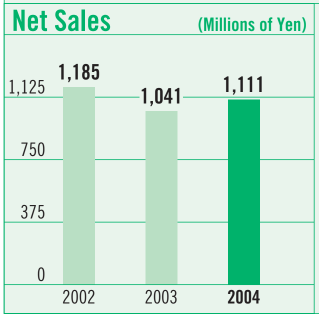
8 SEMICONDUCTOR EQUIPMENT AND DEVICES 5.5%



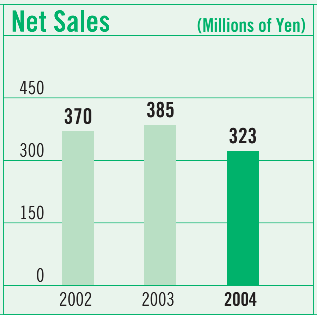
9 INFORMATION PROCESSING/ SOFTWARE 6.6%



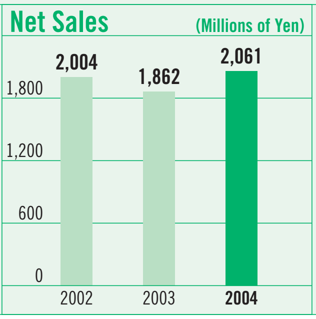
10 PLANT 0.5%



11 CONSTRUCTION 0.5%



12 OTHER 3.5%



Basic Management Policy

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

As the leading group of companies in this industry, we have adopted the following policies to ensure that we grow in step with society.

1) SHAREHOLDER SATISFACTION
THE MEITEC GROUP SHALL TRY TO MAXIMIZE THE VALUE OF THE COMPANY TO BENEFIT ITS SHAREHOLDERS.
2) CUSTOMER SATISFACTION
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) EMPLOYEE SATISFACTION
THE MEITEC GROUP SHALL SUPPORT THE EFFORTS OF EACH AND EVERY EMPLOYEE FOR THEIR ADVANCEMENT IN MARKET VALUE AND THEIR CAREERS.

In addition, the Meitec Group is focusing its business operations primarily on the manufacturing industries, which allows the maximum utilization of management resources and the fullest expression of the Group's strengths. At the same time, our policy also calls for expanding our business into fields peripheral to the manufacturing industries from March 2004.

Dividend Policy

Meitec maintains a basic policy of providing returns to shareholders based on its operating performance. The dividend payout ratio was set at more than 30% of consolidated net income beginning in fiscal 2001.

In addition to the ordinary dividend declared for fiscal 2004, a commemorative dividend of 20 yen per share was declared to mark the 30th anniversary of the Company's founding. From fiscal 2004, bonuses for directors will be set at 2% of consolidated net income.

In conformity with consolidated management and to provide an incentive for increasing shareholder return, stock options are vested in directors and key employees of the Meitec Group.

From fiscal 2005, subsidiaries will offer stock options to directors and key employees of subsidiaries to enhance performance incentives.

Internal reserves serve not only to strengthen the Company's financial position, but also fund investments in training facilities, information systems and improvements to the quality of services provided to customers, as well as to fund the investments required for increasing the value added in our core business, where we are expanding our business domain through alliances with other firms. These investments are directed at increasing the Company's earnings, and are therefore in the best interests of shareholders.

As per its financial policy, Meitec has fixed its cash position on a consolidated basis at ¥12 billion (two months' sales for the Group), and return profits for shareholders through cash dividends and retirement of stock.

Long-Term Management Strategy

In response to the era of consolidated management, Meitec inaugurated its New VISION 21 three-year consolidated management plan in fiscal 2001. This plan had the objective of stimulating the expansion and development of the Meitec Group.

The overall strategy of the Meitec Group (consisting of Meitec, Japan Outsourcing Inc., Japan Cast Inc., 3D Tec Inc., IMS Co., Ltd., and MeiService Co., Ltd., as of March 31, 2003) is oriented toward strengthening its position at the top of the engineering outsourcing industry. To achieve this, the strategy calls for the building of a business structure that provides complete design and development outsourcing, orchestrating the combined strengths of the Group companies to meet the needs of the manufacturing industries for high-level engineering development, as well as a variety of mid- to low-level technical functions.

Beginning in fiscal 2004, we have started to implement the Global Vision 21 consolidated management plan. The chief goal set forth in this plan is our development into a ¥100 billion group within five years, through the expansion of Group businesses on the strength of Meitec's name recognition. One specific measure of the plan will be the expansion of Japan Outsourcing and Japan Cast into Meitec's core field through cooperation with the Company. Also, in April 2003 we established Meitec Global Solutions, Inc., followed in October 2003 by a Chinese subsidiary, Meitec Shanghai, in connection with our commencement of global operations and our entry into the outplacement business. In the area of global business, we have adopted a new business model under which a portion of the Meitec Group's engineering design services will be subcontracted to affiliates in China, beginning in fiscal 2004. The cost reductions achieved will enhance our cost competitiveness in the market for low-end engineering work, allowing us to increase our share of the domestic market. In the outplacement business, Meitec will undertake to find new employment for the mismatched engineering personnel of the Meitec Group's client companies, employing the Group's marketing network. To get this business up and running quickly, we plan to make Drake Beam Morin-Japan, Inc. a wholly owned subsidiary in fiscal 2005. Through these businesses, using a cost-reduction business model and expanding our range of services to including human resource solutions, Meitec is building a total engineering solution services business structure. This strategy promotes the further strengthening of partnerships with clients as well as the expansion of Meitec's business.

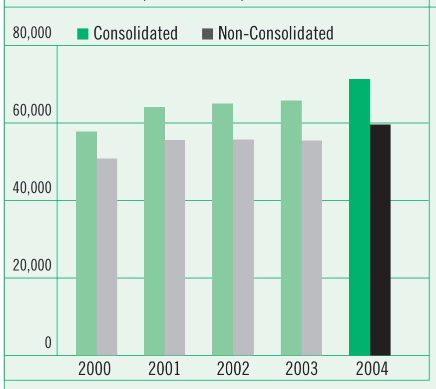
The Meitec Group plans to become a ¥100 billion group of companies on the strength of its functions as an auxiliary human resources division and an auxiliary engineering division for the industrial world.

Management Goals

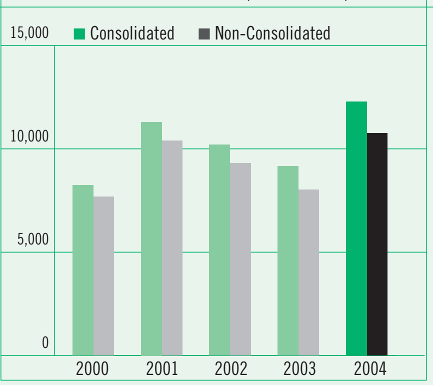
In the interests of shareholders, Meitec pursues a management policy of increasing its earnings and improving its capital efficiency. The Company has set a minimum target for ROE of 10% or more. Meitec's Global Vision 21 consolidated management plan, which was implemented in fiscal 2004, established an ROE goal of 15%. It is our goal to maintain consolidated ROE at that level.

Performance and Ratios

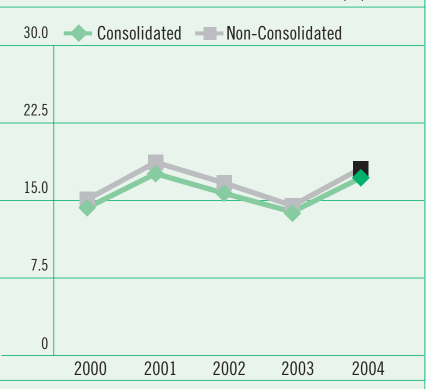
NET SALES (Millions of Yen)



OPERATING INCOME (Millions of Yen)



OPERATING INCOME MARGIN (%)



Net Sales (Millions of Yen)

Consolidated

2000	2001	2002	2003	**2004**
¥57,734	¥64,073	¥64,998	¥65,737	**¥71,255**

Non-Consolidated

2000	2001	2002	2003	**2004**
¥50,773	¥55,543	¥55,638	¥55,379	**¥59,519**

Operating Income (Millions of Yen)

Consolidated

2000	2001	2002	2003	**2004**
¥8,242	¥11,299	¥10,193	¥9,149	**¥12,283**

Non-Consolidated

2000	2001	2002	2003	**2004**
¥7,689	¥10,389	¥9,311	¥8,027	**¥10,758**

Operating Income Margin (%)

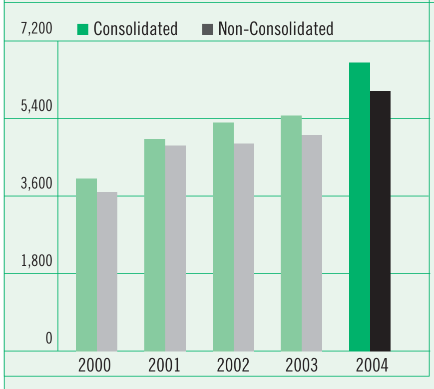
Consolidated

2000	2001	2002	2003	**2004**
14.3	17.6	15.7	13.9	**17.2**

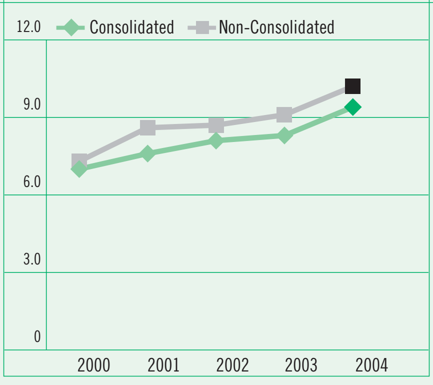
Non-Consolidated

2000	2001	2002	2003	**2004**
15.1	18.7	16.7	14.5	**18.1**

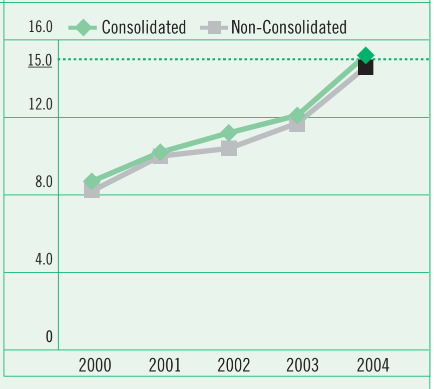
NET INCOME (Millions of Yen)



NET PROFIT MARGIN (%)



RETURN ON EQUITY (%)



Net Income (Millions of Yen)

Consolidated

2000	2001	2002	2003	**2004**
¥4,016	¥4,932	¥5,309	¥5,472	**¥6,709**

Non-Consolidated

2000	2001	2002	2003	**2004**
¥3,701	¥4,781	¥4,822	¥5,018	**¥6,044**

Net Profit Margin (%)

Consolidated

2000	2001	2002	2003	**2004**
7.0	7.6	8.1	8.3	**9.4**

Non-Consolidated

2000	2001	2002	2003	**2004**
7.3	8.6	8.7	9.1	**10.2**

Return on Equity (%)

Consolidated

2000	2001	2002	2003	**2004**
8.7	10.2	11.2	12.1	**15.2**

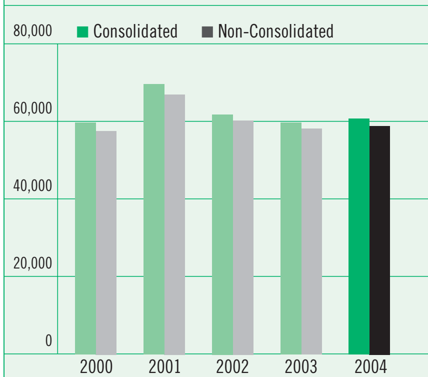
Non-Consolidated

2000	2001	2002	2003	**2004**
8.2	10.0	10.4	11.7	**14.6**

Capital Safety

Capital Efficiency

TOTAL ASSETS (Millions of Yen)



Total Assets (Millions of Yen)

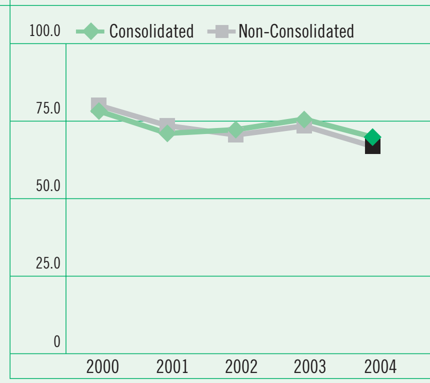
Consolidated

2000	2001	2002	2003	**2004**
¥59,820	¥69,778	¥61,927	¥59,831	**¥60,882**

Non-Consolidated

2000	2001	2002	2003	**2004**
¥57,672	¥67,133	¥60,443	¥58,297	**¥58,994**

RATIO OF SHAREHOLDERS' EQUITY TO TOTAL ASSETS (%)



Ratio of Shareholders' Equity to Total Assets (%)

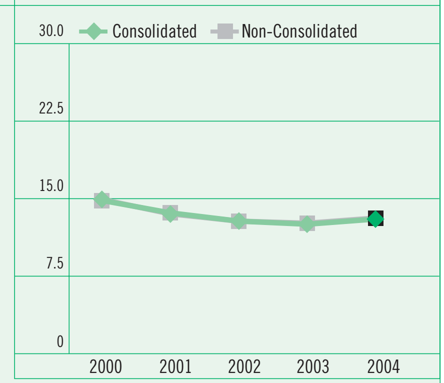
Consolidated

2000	2001	2002	2003	**2004**
78.5	71.3	72.5	75.9	**70.1**

Non-Consolidated

2000	2001	2002	2003	**2004**
80.3	73.8	70.8	73.7	**67.1**

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



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

Consolidated

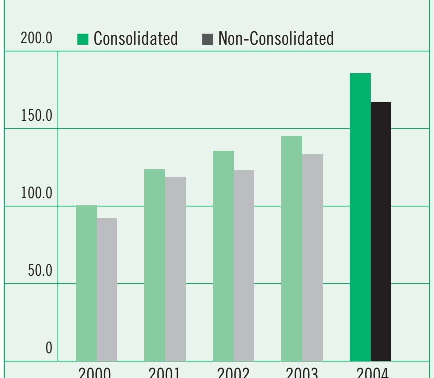
2000	2001	2002	2003	**2004**
14.9	13.7	12.9	12.6	**13.1**

Non-Consolidated

2000	2001	2002	2003	**2004**
15.0	13.6	12.9	12.7	**13.2**

Per Share Indicators

NET INCOME PER SHARE (Yen)



Net Income per Share (Yen)

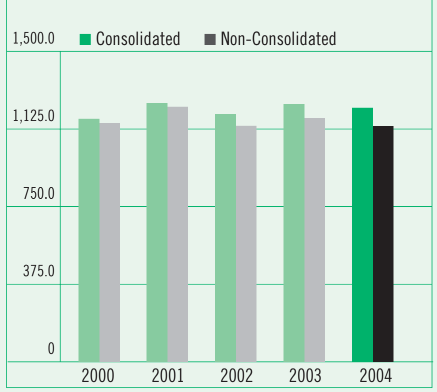
Consolidated

2000	2001	2002	2003	**2004**
¥100.6	¥123.8	¥135.5	¥145.2	**¥185.7**

Non-Consolidated

2000	2001	2002	2003	**2004**
¥92.2	¥119.0	¥123.1	¥133.2	**¥167.0**

EQUITY PER SHARE (Yen)



Equity per Share (Yen)

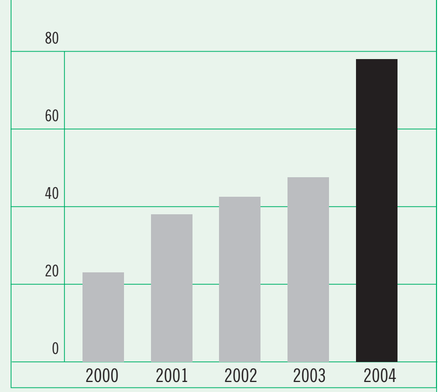
Consolidated

2000	2001	2002	2003	**2004**
¥1,175.5	¥1,250.0	¥1,194.9	¥1,244.9	**¥1,228.4**

Non-Consolidated

2000	2001	2002	2003	**2004**
¥1,153.2	¥1,233.4	¥1,139.8	¥1,177.6	**¥1,138.8**

CASH DIVIDENDS PER SHARE (Yen)



Cash Dividends per Share (Yen)

Non-Consolidated

2000	2001	2002	2003	**2004**
¥23.0	¥38.0	¥42.5	¥47.5	**¥78.0**

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2004**	2003	**2004**
CURRENT ASSETS:			
Cash and cash equivalents	**¥11,226**	¥18,283	**$105,906**
Short-term investments (Note 3)	**3,611**	2,705	**34,066**
Notes and accounts receivable:			
Trade notes and accounts	**11,469**	10,555	**108,198**
Allowance for doubtful accounts	**(8)**	(10)	**(75)**
Inventories (Note 4)	**65**	78	**613**
Deferred tax assets (Note 9)	**2,656**	2,031	**25,057**
Prepaid expenses and other	**678**	630	**6,386**
Total current assets	**29,697**	34,272	**280,151**
PROPERTY AND EQUIPMENT:			
Land	**3,906**	4,184	**36,849**
Buildings and structures	**21,036**	21,175	**198,453**
Machinery and equipment	**185**	185	**1,745**
Furniture and fixtures	**4,863**	4,896	**45,877**
Total	**29,990**	30,440	**282,924**
Accumulated depreciation	**(12,577)**	(11,876)	**(118,651)**
Net property and equipment	**17,413**	18,564	**164,273**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**939**	1,133	**8,860**
Investments in associated companies	**7,397**	—	**69,778**
Leasehold deposits	**904**	875	**8,528**
Deferred tax assets (Note 9)	**2,232**	1,940	**21,057**
Deferred tax asset for land revaluation (Note 2. g)	**630**	758	**5,943**
Other	**1,670**	2,289	**15,759**
Total investments and other assets	**13,772**	6,995	**129,925**
TOTAL	**¥60,882**	¥59,831	**$574,349**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 5)	**—**	¥ 24	**—**
Accounts payable	**¥ 4**	17	**$ 28**
Income taxes payable	**4,333**	1,504	**40,877**
Accrued expenses	**7,234**	6,845	**68,245**
Other	**2,088**	1,677	**19,699**
Total current liabilities	**13,659**	10,067	**128,849**
LONG-TERM LIABILITIES:			
Liability for retirement benefits (Note 6)	**4,116**	3,937	**38,830**
Other	**362**	334	**3,415**
Total long-term liabilities	**4,478**	4,271	**42,245**
MINORITY INTERESTS	**59**	56	**557**
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			
37,123 thousand shares in 2003	**16,826**	16,815	**158,736**
Capital surplus	**8,664**	8,650	**81,736**
Retained earnings	**20,880**	23,518	**196,981**
Land revaluation difference	**(944)**	(1,137)	**(8,906)**
Unrealized gain (loss) on available-for-sale securities	**118**	(51)	**1,113**
Foreign currency translation adjustments	**(5)**	—	**(47)**
Treasury stock—at cost			
743 thousand shares in 2004 and 624 thousand shares in 2003	**(2,853)**	(2,358)	**(26,915)**
Total shareholders' equity	**42,686**	45,437	**402,698**
TOTAL	**¥60,882**	¥59,831	**$574,349**

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
NET SALES	**¥71,255**	¥65,737	**$672,217**
COST OF SALES	**49,649**	48,292	**468,387**
Gross profit	**21,606**	17,445	**203,830**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**9,339**	8,296	**88,104**
Operating income	**12,267**	9,149	**115,726**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**73**	40	**689**
Interest expense	**(0)**	(6)	**(0)**
Loss on sales of marketable and investment securities—net	**(24)**	(484)	**(230)**
Loss on sales and disposals of property and equipment—net	**(162)**	(711)	**(1,528)**
Loss on write-down of investment securities	**(62)**	(228)	**(585)**
Loss on write-down of property and equipment (Note 2. e)	**—**	(1,262)	**—**
Impairment loss (Note 2. f)	**(139)**	—	**(1,311)**
Gain on exemption from future pension obligation of the governmental program (Note 6)	**—**	3,409	**—**
Reversal of liability for retirement benefits (Note 6)	**85**	—	**800**
Other—net	**(83)**	(25)	**(778)**
Other income (expenses)—net	**(312)**	733	**(2,943)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**11,955**	9,882	**112,783**
INCOME TAXES (Note 9):			
Current	**6,147**	3,557	**57,991**
Deferred	**(904)**	854	**(8,528)**
Total income taxes	**5,243**	4,411	**49,463**
MINORITY INTERESTS IN NET (INCOME) LOSS OF SUBSIDIARY	**(3)**	1	**(28)**
NET INCOME	**¥ 6,709**	¥ 5,472	**$ 63,292**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2. n and 11):			
Basic net income	**¥185.69**	¥145.15	**$ 1.75**
Diluted net income	**185.52**	144.93	**1.75**
Cash dividends applicable to the year	**78.00**	47.50	**0.74**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED MARCH 31, 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, 2002	37,558	¥ 16,810	¥ 8,645	¥ 23,662	¥ (2,021)	¥ (289)	—	¥ (1,930)
Net income	—	—	—	5,472	—	—	—	—
Cash dividends, ¥42.5 per share	—	—	—	(1,583)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(90)	—	—	—	—
Decrease due to newly consolidated subsidiary	—	—	—	(58)	—	—	—	—
Conversion of convertible bonds	6	5	5	—	—	—	—	—
Repurchase of treasury stock	(1,065)	—	—	—	—	—	—	(3,391)
Retirement of treasury stock	—	—	—	(2,963)	—	—	—	2,963
Effect of tax rate reduction	—	—	—	—	(38)	(0)	—	—
Reversal of land revaluation difference	—	—	—	(922)	922	—	—	—
Net change in unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	238	—	—
BALANCE, MARCH 31, 2003	36,499	16,815	8,650	23,518	(1,137)	(51)	—	(2,358)
Net income	—	—	—	6,709	—	—	—	—
Cash dividends, ¥57.5 per share	—	—	—	(2,058)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(92)	—	—	—	—
Conversion of convertible bonds	16	11	11	—	—	—	—	—
Repurchase of treasury stock	(1,890)	—	—	—	—	—	—	(7,540)
Disposal of treasury stock	12	—	—	—	—	—	—	41
Gain on disposal of treasury stock	—	—	3	—	—	—	—	—
Retirement of treasury stock	—	—	—	(7,004)	—	—	—	7,004
Reversal of land revaluation difference	—	—	—	(193)	193	—	—	—
Net change in unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	169	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	—	¥ (5)	—
BALANCE, MARCH 31, 2004	**34,637**	**¥16,826**	**¥8,664**	**¥20,880**	**¥ (944)**	**¥ 118**	**¥(5)**	**¥(2,853)**

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Difference	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock at Cost
BALANCE, MARCH 31, 2003	$ 158,632	$ 81,604	$ 221,868	$ (10,726)	$ (481)	—	$ (22,245)
Net income	—	—	63,292	—	—	—	—
Cash dividends, $0.54 per share	—	—	(19,415)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	(869)	—	—	—	—
Conversion of convertible bonds	104	104	—	—	—	—	—
Repurchase of treasury stock	—	—	—	—	—	—	(71,132)
Disposal of treasury stock	—	—	—	—	—	—	387
Gain on disposal of treasury stock	—	28	—	—	—	—	—
Retirement of treasury stock	—	—	(66,075)	—	—	—	66,075
Reversal of land revaluation difference	—	—	(1,820)	1,820	—	—	—
Net change in unrealized gain (loss) on available-for-sale securities	—	—	—	—	1,594	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	$ (47)	—
BALANCE, MARCH 31, 2004	**$158,736**	**$81,736**	**$196,981**	**$ (8,906)**	**$1,113**	**$(47)**	**$(26,915)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥11,955**	¥9,882	**$112,783**
Adjustments for:			
Income taxes—paid	**(3,318)**	(3,578)	**(31,302)**
Depreciation and amortization	**1,074**	1,050	**10,132**
Loss on sales of marketable and investment securities—net	**27**	484	**255**
Loss on sales and disposals of property and equipment—net	**160**	710	**1,509**
Loss on write-down of investment securities	**62**	228	**585**
Loss on write-down of property and equipment	**—**	1,262	**—**
Impairment loss	**139**	—	**1,311**
Changes in assets and liabilities:			
Increase in trade receivables	**(914)**	(201)	**(8,623)**
Increase in accrued expenses	**391**	538	**3,689**
Increase in consumption taxes payable	**137**	114	**1,292**
Increase (decrease) in liability for retirement benefits	**653**	(2,530)	**6,160**
Other—net	**133**	(200)	**1,256**
Total adjustments	**(1,456)**	(2,123)	**(13,736)**
Net cash provided by operating activities	**10,499**	7,759	**99,047**
INVESTING ACTIVITIES:			
Purchase of short-term investments	**(5,202)**	(4,590)	**(49,075)**
Proceeds from sales of short-term investments	**4,503**	5,636	**42,481**
Purchases of investment securities	**(7,603)**	(161)	**(71,726)**
Proceeds from sales of investment securities	**371**	685	**3,500**
Purchases of property and equipment	**(239)**	(152)	**(2,255)**
Proceeds from sales of property and equipment	**323**	277	**3,047**
Purchases of other investments and assets	**(474)**	(715)	**(4,472)**
Proceeds from sales of other investment and assets	**384**	414	**3,623**
Net cash provided by (used in) investing activities	**(7,937)**	1,394	**(74,877)**
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	**—**	(798)	**—**
Repayments of long-term debt	**—**	(79)	**—**
Acquisition of treasury stock	**(7,540)**	(3,391)	**(71,132)**
Dividends paid	**(2,058)**	(1,584)	**(19,415)**
Proceeds from sales of treasury stock	**45**	—	**425**
Other—net	**(61)**	(9)	**(576)**
Net cash used in financing activities	**(9,614)**	(5,861)	**(90,698)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(5)**	—	**(47)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(7,057)**	3,292	**(66,575)**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARY, BEGINNING OF YEAR	**—**	11	**—**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**18,283**	14,980	**172,481**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥11,226**	¥18,283	**$105,906**
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common stock	**¥22**	¥9	**$208**

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 Financial Reporting Standards.

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 addition, certain reclassifications have been made in 2003 financial statements to conform to the classifications used in 2004.

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 ¥106 to $1, the approximate rate of exchange at March 31, 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 consolidated financial statements as of March 31, 2004 include the accounts of the Company and all of seven (six in 2003) 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 six (zero in 2003) associated companies are accounted for by the equity method.

The above six associated companies were included in the scope of equity method in the current 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.

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 scheduled to be 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 and 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.

When certain assets are determined to be sold, the Company evaluates the recoverability of those assets and recognizes loss in the event the book value significantly exceeds the estimated sale price of such assets. During the year ended March 31, 2003, the Company recorded a loss on write-down of property and equipment in the amount of ¥1,262 million.

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.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2004 by ¥139 million ($1,311 thousand).

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 March 31, 2004, the carrying amount of the land after the one-time revaluation exceeded the market value by ¥1,185 million ($11,172 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 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 subsidiary 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 subsidiary is translated into 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 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 year (or at the time of issuance, if later) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying 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 March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Short-term investments:			
Time deposits	**¥2,000**	¥1,011	**$18,868**
Debt securities	**312**	480	**2,940**
Other	**1,299**	1,214	**12,258**
Total	**¥3,611**	¥2,705	**$34,066**
Investment securities:			
Equity securities	**¥ 743**	¥ 676	**$ 7,008**
Debt securities	**196**	303	**1,852**
Other	**—**	154	**—**
Total	**¥ 939**	¥1,133	**$ 8,860**

Information regarding each category of securities classified as available-for-sale and held-to-maturity at March 31, 2004 and 2003 was as follows:

March 31, 2004	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥ 478**	**¥168**	**¥(0)**	**¥ 646**
Debt securities	**199**	**—**	**(3)**	**196**
Other	**1,447**	**20**	**(6)**	**1,461**

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$ 4,507**	**$1,588**	**$ (2)**	**$ 6,093**
Debt securities	**1,876**	**—**	**(25)**	**1,851**
Other	**13,652**	**186**	**(51)**	**13,787**

March 31, 2003	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 494	¥ 8	¥(58)	¥ 444
Debt securities	202	0	(0)	202
Other	1,404	15	(51)	1,368
Held-to-maturity:				
Debt securities	201	—	(1)	200

Available-for-sale securities whose fair value is not readily determinable at March 31, 2004 and 2003 were as follows:

Carrying amount	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Equity securities	**¥ 97**	¥232	**$ 915**
Debt securities	—	380	**—**
Other	**150**	—	**1,415**
Total	**¥247**	¥612	**$2,330**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥3,364 million ($31,735 thousand) and ¥2,231 million, respectively. Gross realized gains and losses on these sales, were ¥10 million ($93 thousand) and ¥34 million ($323 thousand), respectively for the year ended March 31, 2004 and ¥3 million and ¥487 million, respectively for the year ended March 31, 2003.

Contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2004 and 2003 were as follows:

	Millions of Yen			
	2004		2003	
	Available-for-Sale	Held-to-Maturity	Available-for-Sale	Held-to-Maturity
Due in one year or less	**¥ 100**	**¥—**	¥ 99	¥581
Due after one year through five years	**847**	**—**	1,116	—
Due after five years through ten years	**100**	**—**	201	—
Total	**¥1,047**	**¥—**	¥1,416	¥581

March 31, 2004	Thousands of U.S. Dollars	
	Available-for-Sale	Held-to-Maturity
Due in one year or less	**$ 943**	**$—**
Due after one year through five years	**7,992**	**—**
Due after five years through ten years	**943**	**—**
Total	**$9,878**	**$—**

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted mainly of work in process related to Engineering Outsourcing.

5. LONG-TERM DEBT

At March 31, 2004 and 2003, the Company had loan commitments from 7 banks and 2 insurance companies in an aggregate amount of ¥6,000 million ($56,604 thousand). There were no loans utilized and outstanding under these arrangements at March 31, 2004 and 2003.

Long-term debt at March 31, 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	**¥—**	¥ 24	**$—**
Total	**—**	24	**—**
Less current portion	**—**	(24)	**—**
Long-term debt, less current portion	**¥—**	¥ —	**$—**

Unsecured 3.2% yen convertible bonds of ¥24 million as at March 31, 2003 were fully converted into common shares through March 31, 2004, which resulted in 16 thousand common shares issued and increases of common stock and capital surplus by ¥11 million ($104 thousand), respectively.

6. RETIREMENT AND PENSION PLAN

The Group has severance payment plans for employees, which include a 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, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company's contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labour and Welfare on January 1, 2003 and recognized a gain on exemption from the future pension obligation of the governmental program in the amount of ¥3,409 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003. In the current year, the Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare on January 1, 2004.

The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on March 30, 2004 and the difference between the balance of the retirement benefit liabilities brought forward and the amount actually transferred for the year ended March 31, 2004 was included in unrecognized actuarial loss due to its immateriality.

According to the enactment of the Defined Contribution Pension Plan Law in October 2001, certain domestic subsidiary implemented a defined contribution pension plan as of the end of March 2004 by which the severance lump-sum payment plan was terminated. As a result, a part of liability for retirement benefits of ¥85 million ($ 800 thousand) was reversed to income and was recorded as reversal of liability for retirement benefits in the consolidated statements of income for the year ended March 31, 2004.

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Projected benefit obligation	**¥10,022**	¥ 9,309	**$ 94,545**
Fair value of plan assets	**(3,738)**	(3,567)	**(35,265)**
Unrecognized actuarial loss	**(2,431)**	(2,377)	**(22,932)**
Unrecognized prior service cost	**26**	30	**249**
Net liability	**3,879**	3,395	**36,597**
Prepaid pension cost	**237**	542	**2,233**
Liability for retirement benefits	**¥ 4,116**	¥ 3,937	**$ 38,830**

The components of net periodic retirement benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Service cost	**¥ 899**	¥ 1,311	**$ 8,479**
Interest cost	**185**	359	**1,752**
Expected return on plan assets	**(89)**	(293)	**(841)**
Recognized actuarial loss	**334**	534	**3,151**
Amortization of prior service cost	**(3)**	(180)	**(31)**
Net periodic retirement benefit costs	**1,326**	1,731	**12,510**
Gain on exemption from future pension obligation of the governmental program	**—**	(3,409)	**—**
Reversal of liability for retirement benefits	**(85)**	—	**(800)**
Total	**¥1,241**	¥(1,678)	**$11,710**

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.5%**	4.0%
Amortization period of prior service cost	**10 years**	10 years
Recognition period of actuarial gain/loss	**10 years**	10 years

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being 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 revised Code also 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 common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock 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 the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting 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 dividend plus 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.

During the year ended March 31, 2004, ¥24 million ($226 thousand) of the unsecured 3.2% yen convertible bonds due March 31, 2004 were converted into 15,778 shares of the Company's common stock. The effect of the conversion of the convertible bonds was to increase both common stock and capital surplus by ¥11 million ($104 thousand), respectively.

The amount of retained earnings available for dividends under the Code was ¥9,771 million ($92,182 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

During the year ended March 31, 2003, the Company retired its treasury stock by decreasing retained earnings by ¥2,963 million and the number of shares authorized and issued by 932 thousand shares.

During the year ended March 31, 2004, the Company retired its treasury stock by decreasing retained earnings by ¥7,004 million ($66,075 thousand) and the number of shares authorized and issued by 1,759 thousand shares.

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	¥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	
June 26, 2001	Directors	60,000	From June 27, 2003	¥4,280
	Key employees	79,000	to June 26, 2011	
June 25, 2002	Directors	129,000	From June 27, 2004	¥3,066
	Key employees		to June 26, 2012	
June 24, 2003	Directors	133,000	From June 25, 2005	¥4,166
	Key employees		to June 24, 2013	

The stock options outstanding at March 31, 2004 were less than the above granted numbers due to forfeiture of rights.

The balance of treasury stock recorded in shareholders' equity at March 31, 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 years ended March 31, 2004 and 2003, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax assets:			
Accrued bonuses	**¥2,008**	¥1,609	**$18,940**
Accrued social security on accrued bonuses	**215**	254	**2,031**
Retirement benefits	**1,522**	1,347	**14,359**
Enterprise taxes payable	**375**	135	**3,541**
Write-down of fixed assets	**505**	530	**4,762**
Impairment loss	**56**	—	**525**
Write-down of investment securities	**67**	92	**633**
Loss on revaluation of memberships	**68**	57	**642**
Other	**245**	132	**2,315**
Unrealized loss on available-for-sale securities	**3**	41	**32**
Total	**¥5,064**	¥4,197	**$47,780**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 82**	¥ 4	**$ 774**
Prepaid pension cost	**94**	217	**892**
Deferred gain on sales of property and equipment	**—**	5	**—**
Total	**¥ 176**	¥ 226	**$ 1,666**
Net deferred tax assets	**¥4,888**	¥3,971	**$46,114**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2004 and 2003 is as follows:

	2004	2003
Normal effective statutory tax rate	**42.0%**	42.0%
Expenses not deductible for income tax purposes	**0.1**	0.3
Revenues not recognized for income tax purposes	**(0.1)**	(0.4)
Per capita tax	**1.1**	1.3
Effect of tax rate reduction	**—**	0.7
Other—net	**0.7**	0.7
Actual effective tax rate	**43.8%**	44.6%

10. LEASES

The Group leases certain furniture and fixtures and other assets.

Total rental expenses under the above leases for the years ended March 31, 2004 and 2003 were ¥4 million ($42 thousand) and ¥7 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 March 31, 2004 and 2003 was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2004			2003			**2004**		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	**¥16**	**¥ 4**	**¥20**	¥ 32	¥ 4	¥ 36	**$152**	**$41**	**$193**
Accumulated depreciation	**14**	**3**	**17**	26	1	27	**133**	**24**	**157**
Net leased property	**¥ 2**	**¥ 1**	**¥ 3**	¥ 6	¥ 3	¥ 9	**$ 19**	**$17**	**$ 36**

Obligations under finance leases at March 31, 2004 and 2003 were:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥ 3**	¥ 5	**$ 31**
Due after one year	**1**	4	**5**
Total	**¥ 4**	¥ 9	**$ 36**

Depreciation expense, which was not reflected in the accompanying consolidated statements of income computed by the straight-line method, was ¥4 million ($42 thousand) and ¥7 million for the years ended March 31, 2004 and 2003, respectively.

11. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2004 and 2003 is as follows:

	Millions of Yen	Thousands of shares	Yen	U.S. Dollars
	Net income	Weighted average shares	EPS	
Year ended March 31, 2004:				
Basic EPS				
Net income available to common shareholders	**¥6,571**	**35,384**	**¥185.69**	**$1.75**
Effect of Dilutive Securities				
Warrants	**—**	**23**		
Convertible bonds	**0**	**9**		
Diluted EPS				
Net income for computation	**¥6,571**	**35,416**	**¥185.52**	**$1.75**
Year ended March 31, 2003:				
Basic EPS				
Net income available to common shareholders	¥ 5,380	37,064	¥145.15	
Effect of Dilutive Securities				
Warrants	—	35		
Convertible bonds	0	24		
Diluted EPS				
Net income for computation	¥ 5,380	37,123	¥144.93	

12. SUBSEQUENT EVENTS

The following matters were approved at the Company's shareholders meeting held on June 24, 2004:

a. Share Exchange Agreement

The Company contracted the share exchange agreement with Drake Beam Morin-Japan, Inc. on May 17, 2004, to make Drake Beam Morin-Japan, Inc. a wholly owned subsidiary of the Company, and the agreement was approved at the Company's general shareholders meeting held on June 24, 2004.

Outline of the share exchange agreement is as follows:

(1) Purpose of the share exchange

The purpose of the share exchange is to accelerate the establishment of an outplacement and outsourcing business by sharing the management resources. The Company is well placed to deliver to its corporate clients a broad range of services from outsourcing to outplacement.

(2) Date of the share exchange

October 1, 2004

(3) The method and outline of the share exchange

The Company will allocate newly issued shares to shareholders of Drake Beam Morin-Japan, Inc. excluding the Company, recorded on the list of shareholders of Drake Beam Morin-Japan, Inc. at the end of the day before the date of share exchange, at a ratio of 0.75 share in the Company to 1 share in Drake Beam Morin-Japan, Inc.

The Company will not increase its common stock. Additional paid-in capital will be increased by the amount pursuant to Clause 1-2 of Article 288-2 of the Code.

Outline of Drake Beam Morin-Japan, Inc. is as follows:

Representative: Tadao Otsuki
Capital: ¥3,137 million ($29,595 thousand)
Head office: Shinagawa-ku, Tokyo

(a) Business: Outplacement and support services
(b) Sales and net income for the year ended March 31, 2004
Sales: ¥8,906 million ($84,021 thousand)
Net income: ¥1,340 million ($12,642 thousand)
(c) Assets, liabilities and shareholders' equity as at March 31, 2004
Total assets: ¥15,151 million ($142,934 thousand)
Total liabilities: ¥5,222 million ($49,266 thousand)
Shareholders' equity: ¥9,929 million ($93,668 thousand)

b. Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥49 ($0.46) per share	**¥1,697**	**$16,011**
Bonuses to directors	**134**	**1,264**

c. Stock Option Plan

This plan provides for granting stock options to directors and key employees. The options entitle the holders to purchase up to 114,000 shares of the Company's common stock 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 30 business days starting from 45 business days before the issue date and are exercisable during the period from June 25, 2006 to June 24, 2014.

Tohmatsu & Co.
Nagoya Daiya Building 3-goukan
13-5, Meieki 3-chome, Nakamura-ku,
Nagoya, Aichi 450-8530, Japan

Tel:+81-52-565-5511
Fax:+81-52-569-1394
www.tohmatsu.co.jp

Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
MEITEC CORPORATION:

We have audited the accompanying consolidated balance sheets of MEITEC CORPORATION and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MEITEC CORPORATION and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2. f to the consolidated financial statements, the Company adopted the new accounting standard for impairment of fixed assets from the year ended March 31, 2004.

As discussed in Note 12. a to the consolidated financial statements, the Company contracted the share exchange agreement with Drake Beam Morin-Japan, Inc. on May 17, 2004, and the agreement was approved at the Company's general shareholders meeting held on June 24, 2004.

Our audits 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 24, 2004

SUPPLEMENTAL NON-CONSOLIDATED BALANCE SHEETS

MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	**2004**	2003	**2004**
CURRENT ASSETS:			
Cash and cash equivalents	**¥10,622**	¥17,743	**$100,208**
Short-term investments	**3,611**	2,694	**34,066**
Notes and accounts receivable:			
Trade notes and accounts	**9,961**	9,285	**93,971**
Subsidiaries	**1**	40	**9**
Allowance for doubtful accounts	**(2)**	(2)	**(19)**
Inventories	**57**	74	**538**
Deferred tax assets	**2,286**	1,732	**21,566**
Prepaid expenses and other	**627**	585	**5,915**
Total current assets	**27,163**	32,151	**256,254**
PROPERTY AND EQUIPMENT:			
Land	**3,906**	4,184	**36,849**
Buildings and structures	**21,002**	21,141	**198,132**
Machinery and equipment	**185**	185	**1,745**
Furniture and fixtures	**4,788**	4,784	**45,170**
Total	**29,881**	30,294	**281,896**
Accumulated depreciation	**(12,519)**	(11,800)	**(118,103)**
Net property and equipment	**17,362**	18,494	**163,793**
INVESTMENTS AND OTHER ASSETS:			
Investment securities	**939**	1,131	**8,858**
Investments in and advances to subsidiaries and associated companies	**8,421**	966	**79,443**
Prepaid pension cost	**237**	542	**2,236**
Leasehold deposits	**810**	784	**7,642**
Deferred tax assets	**2,107**	1,809	**19,878**
Deferred tax asset for land revaluation	**630**	758	**5,943**
Other	**1,325**	1,662	**12,500**
Total investments and other assets	**14,469**	7,652	**136,500**
TOTAL	**¥58,994**	¥58,297	**$556,547**

Note: The translation of Japanese yen amounts into U.S. dollar amounts has been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars 2004
CURRENT LIABILITIES:			
Current portion of long-term debt	**—**	¥ 24	**—**
Notes and accounts payable:			
Subsidiaries	**—**	52	**—**
Income taxes payable	**¥ 3,933**	1,035	**$ 37,104**
Deposits from subsidiaries	**3,409**	3,083	**32,160**
Accrued expenses	**6,015**	5,789	**56,745**
Other	**1,689**	1,321	**15,934**
Total current liabilities	**15,046**	11,304	**141,943**
LONG-TERM LIABILITIES:			
Liability for retirement benefits	**4,091**	3,680	**38,594**
Other	**279**	334	**2,633**
Total long-term liabilities	**4,370**	4,014	**41,227**
SHAREHOLDERS' EQUITY:			
Common stock,			
Authorized:			
145,192 thousand shares in 2004			
146,952 thousand shares in 2003			
Issued:			
35,380 thousand shares in 2004			
37,123 thousand shares in 2003	**16,826**	16,815	**158,736**
Capital surplus			
Additional paid-in capital	**8,661**	8,650	**81,708**
Other capital surplus	**3**	—	**28**
Retained earnings:			
Legal reserve	**4,203**	4,203	**39,651**
Unappropriated	**13,564**	16,856	**127,962**
Land revaluation difference	**(944)**	(1,137)	**(8,906)**
Unrealized gain (loss) on available-for-sale securities	**118**	(50)	**1,113**
Treasury stock—at cost			
743 thousand shares in 2004 and 624 thousand shares in 2003	**(2,853)**	(2,358)	**(26,915)**
Total shareholders' equity	**39,578**	42,979	**373,377**
TOTAL	**¥58,994**	¥58,297	**$556,547**

SUPPLEMENTAL NON-CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
NET SALES	**¥59,519**	¥55,379	**$561,500**
COST OF SALES	**40,928**	40,332	**386,113**
Gross profit	**18,591**	15,047	**175,387**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**7,833**	7,020	**73,896**
Operating income	**10,758**	8,027	**101,491**
OTHER INCOME (EXPENSES):			
Interest and dividends	**263**	219	**2,481**
Interest expense	**(1)**	(6)	**(9)**
Loss on sales of marketable and investment securities—net	**(24)**	(487)	**(226)**
Loss on sales and disposals of property and equipment—net	**(141)**	(706)	**(1,330)**
Loss on write-down of investment securities	**(62)**	(228)	**(585)**
Loss on write-down of property and equipment	**—**	(1,262)	**—**
Impairment loss	**(121)**	—	**(1,143)**
Gain on exemption from future pension obligation of the governmental program	**—**	3,409	**—**
Other—net	**(30)**	(10)	**(283)**
Other income (expenses)—net	**(116)**	929	**(1,095)**
INCOME BEFORE INCOME TAXES	**10,642**	8,956	**100,396**
INCOME TAXES			
Current	**5,436**	2,936	**51,283**
Deferred	**(838)**	1,002	**(7,906)**
Total income taxes	**4,598**	3,938	**43,377**
NET INCOME	**¥ 6,044**	¥ 5,018	**$ 57,019**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Basic net income	**¥167.03**	¥133.16	**$ 1.58**
Diluted net income	**166.88**	132.96	**1.57**
Cash dividends applicable to the year	**78.00**	47.50	**0.74**

Notes: 1. The translation of Japanese yen amounts into U.S. dollar amounts has been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004.

2. The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The weighted average number of common shares used in the computation of basic net income was 35,384 thousand shares for 2004 and 37,064 thousand shares for 2003.

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	5,582
Employees (consolidated)	7,268
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

(March 31, 2004)

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.

(June 24, 2004)

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/

Printed on recycled paper PRINTED IN JAPAN